Report on the State Fiscal Year 2013-14 Executive Budget

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New York State Comptroller

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Executive Summary

The State Fiscal Year (SFY) 2013-14 Executive Budget continues the State's effort to move toward long-term structural balance. The proposed Budget would restrain spending, limiting the increase in disbursements from State Operating Funds to 1.6 percent. It addresses infrastructure needs, including recovery from Hurricane Sandy, projecting $5.1 billion in spending to support the rebuilding of transportation and utility infrastructure as well as other projects.

The proposed Budget includes new measures to expand Executive authority over State resources. Such steps will likely enhance efforts to maintain budget balance, but raise significant concerns regarding transparency and accountability for the use of public dollars and public assets, concerns which should be carefully weighed by the Legislature and the public. Certain broadly defined proposals have the potential to eliminate established checks and balances over spending and procurement, and remove important areas of spending from the purview of the Legislature.

The proposed Budget also raises critical issues regarding the State's debt burden and its dwindling debt capacity. Undoubtedly, the State must address pressing needs for capital investment, including projects that are essential to recovery from Superstorm Sandy. Taken as a whole, however, Executive Budget proposals would increase the State's debt load and its reliance on "backdoor borrowing." The Executive would, in effect, create additional capacity under the State's statutory debt cap – while actually enlarging its real debt burden – by the technical means of placing certain new debt off-budget and therefore outside the coverage of the legal limit.

In the context of lingering economic and fiscal challenges, the Executive Budget is projected by the Division of the Budget (DOB) to achieve balance with continued spending restraint, more than $1.4 billion in new, temporary resources, and expanded Executive flexibility and reliance on public authorities to manage and enhance resources during the coming year.

Figure 1

SFY 2013-14 Projected Executive Budget Growth

(in millions of dollars)

Proposed

Receipts

	2012-13	**2013-14**	**$ Change**	**% Change**
General Fund (Including Transfers)	58,841	61,173	2,332	4.0%
State Operating Funds	84,930	87,301	2,371	2.8%
All Governmental Funds	134,826	142,463	7,637	5.7%

Disbursements

	2012-13	**2013-14**	**$ Change**	**% Change**
General Fund (Including Transfers)	59,154	61,006	1,852	3.1%
State Operating Funds	89,431	90,841	1,410	1.6%
All Governmental Funds	135,452	142,594	7,142	5.3%

Source: Division of the Budget

Note: Spending and revenue figures do not include off-budget spending. They **do** include All Funds spending associated with Superstorm Sandy and the Affordable Care Act.

Overall economic activity is expected to slow in 2013, compared to 2012, both nationally and in New York. Even with projections of strong growth in Personal Income Tax (PIT) revenues, total State Operating Funds revenues are expected to increase by a modest 2.8 percent. Before proposed expenditure and revenue actions, the projected budget gap for SFY 2013-14 is $1.35 billion, according to DOB.

Budgets enacted in 2011 and 2012 made significant progress in reducing New York State's structural gaps. Major steps toward structural balance included the imposition of statutory limits on annual growth in school aid and State-funded Medicaid spending, two of the largest components of State spending. Recent budgets have imposed particular restraint on State agency operations. The proposed budget continues that trend by reducing agency operations within State Operating Funds disbursements by 2.7 percent in the coming fiscal year, while inflation is projected at slightly over 2.0 percent.

The proposed Budget illustrates that further progress toward long-term structural balance may be increasingly difficult. The State could lose hundreds of millions of dollars in federal Medicaid assistance for developmental centers in SFY 2013-14, and Congressional action to reduce federal deficits may limit other aid programs in coming years. Disciplined limitations on spending may reduce the breadth and quality of services unless the State identifies and implements significant new steps to make essential programs more cost-effective.

The State's fiscal challenges are expected to remain significant over the foreseeable future. The Executive Budget projects General Fund gaps of approximately $2.0 billion, $3.6 billion and $4.5 billion in SFYs 2014-15, 2015-16 and 2016-17, respectively.

In addressing the projected gap for the coming year, the proposed budget's measures to enhance Executive authority and to increase use of State-related resources that would not be available to the Financial Plan under existing law include:

- A $1.75 billion multi-year transfer of resources (including $750 million in the coming year – $250 million to the General Fund and $500 million for capital purposes) from the New York State Insurance Fund (SIF), the State-owned workers' compensation carrier of last resort, with authorization for DOB to use any additional SIF assets that are not needed to offset SIF liabilities in the future.

- New authority for all State agencies and authorities, excluding the State University of the State of New York (SUNY) and the City University of the State of New York (CUNY), to engage in public-private partnerships (P3s) and to use private financing for public infrastructure by adding "financing" to the design-build authorization enacted in December 2011.

- A $3.3 billion increase in bonding authorization for State public authorities, along with $273 million in authority funds for budget relief and support for State purposes, and expanded opportunity for authority borrowing for any State-Supported purpose (excluding General Obligation Bonds).

- New borrowing provisions for SUNY dormitories that would have the effect of removing some future debt from the State's Financial Plan and statutory debt limit, thus creating additional capacity under that limit.

- Consolidation of 89 Department of Health (DOH) grant programs for HIV and AIDS treatment, environmental health and infectious disease control, maternal and child health, and other programs into six broad funding pools totaling $355 million, with overall spending reduced by $40 million and allocations to be determined by DOH.

- Authority for DOB to sweep up to $100 million from any State non-General Fund account to support the consolidation of technology procurement and services.

- Broad Executive authority to allocate funding for capital projects and determine the source of funding for such projects, including more than $700 million in New York Works appropriations as well as $1.17 billion in appropriations for the Transformative Capital Fund.

- Industrial Development Agency (IDA) changes to prohibit the use of State tax incentives unless an IDA's grant of such benefits is approved by the Department of Economic Development after consultation with the Regional Economic Development Councils.

The transfer of $750 million from SIF in the coming year would be followed by additional sweeps in succeeding years totaling at least $1.0 billion. This transfer or "sweep" of SIF funds is paired with other changes that are intended to offset, at least in part, the loss of resources that could otherwise be used to reduce employers' premiums. The Financial Plan indicates an intention to apply the $750 million to capital investments and debt reduction, but retains flexibility for the funds to be used for General Fund budget relief instead, in part by providing additional bonding authority for the capital investments. While the proposed Capital Plan currently anticipates $500 million from SIF, proposed bonding authority would allow the $500 million deposit into the Transformative Fund to instead be transferred to the General Fund for budget relief, and to be replaced with bond proceeds.

Other fund sweeps include $150 million to be transferred from the Mortgage Insurance Fund within the State of New York Mortgage Agency to the General Fund for budget relief ($100 million) and to pay for affordable housing programs ($50 million). The Executive proposes to shift these housing programs off-budget. In addition, the Executive Budget authorizes $173 million in other fund transfers and the use of miscellaneous receipts from public authorities to provide support for State purposes. While such temporary and non-recurring resources can help achieve budget balance in the short term and meet immediate spending needs, they also demonstrate that the State has not yet resolved its structural imbalance between recurring revenues and spending.

The Legislature has previously granted the Executive certain authority to move funds within the budget and otherwise manage the budget after enactment. The proposed 2013-14 Budget continues or extends several such provisions. These include: authority for the Health Commissioner to reduce Medicaid expenditures if they appear to be exceeding allowable amounts; flexibility to transfer funds from public authorities to the General Fund; and authority to move State Operations funding among agencies.

Other legislation accompanying the proposed budget would provide authority for State agencies, authorities, and other entities to engage in P3s. Future contracts based on this authority could bypass traditional public financing procedures and limitations and could lead to the creation of full P3s, potentially giving private entities the ability to set tolls, fares, and other charges and to make broad decisions regarding the use of assets that have traditionally been considered public. While some other states have enacted P3 legislation in recent years, the Executive Budget proposal appears to be unique in its scope and flexibility. The breadth of the proposal raises concerns regarding the adequate safeguarding of the public interest, the balance between public and private control, the assurance of sufficient compensating value to the public, the potential use of P3 agreements to circumvent statutory limitations and restrictions, and other issues. The proposal would expand the previously enacted design-build legislation, originally restricted to five agencies and authorities, to include a wide range of State-related entities and a broader scope of purposes.

As the Office of the State Comptroller has reported, the State's available debt capacity under limitations in the State Finance Law is shrinking to levels that will constrain capital planning in coming years.[1] The Executive Budget recognizes this troubling reality, projecting that available capacity for new borrowing will decline to $120 million at the end of SFY 2015-16 and to just $82 million at the end of SFY 2016-17. Actual debt capacity, which is linked to the level of Personal Income in New York, could decline more rapidly if economic performance in the next few years is weaker than projected.

The Budget expands the State's use of "backdoor borrowing" – issuance of debt through public authorities that does not require voter approval – by creating a new bond financing program backed by sales tax revenues. The proposed new sales tax bonds would likely be attractive in the municipal bond marketplace, as have been the bonds backed by the State's PIT revenues. However, the issuance of such bonds would also reinforce the State's dependence on backdoor borrowing through public authorities, rather than presenting proposed bond acts for consideration by the citizens of the State. The Executive Budget couples this proposal with an expansion of the use of PIT revenue bonds and the shift of a current State bond financing program for SUNY dormitories off-budget.

While every budget contains uncertainties, the SFY 2013-14 Executive Budget and the related forecasts for the out-years include more significant risks related to federal aid than other recent State budgets. In response to a request from the federal Centers for Medicare and Medicaid Services (CMS), $800 million in reduced federal reimbursements for New York's developmental centers in SFY 2013-14 has been identified. CMS has requested further reductions of $300 million. The State is preparing a "contingency budget reduction plan" to address the potential loss of $1.1 billion in federal aid during the coming year, but such changes are not included in the Executive Budget. Further

[1] See the Office of the State Comptroller's *Debt Impact Study: An Analysis of New York State's Debt Burden*, January 2013.

reductions in federal aid are possible as a result of deficit-reduction negotiations currently under way in Washington. The Executive Budget assumes $6.6 billion in federally reimbursable spending to support rebuilding after Superstorm Sandy. While a $50 billion federal aid package was recently enacted, the timing of the payment of the funds remains uncertain.

The proposed Financial Plan projects that PIT collections will rise 6.6 percent in the coming year, and that the State will collect $175 million in proceeds from a not-for-profit health insurance company conversion and $133 million from Native American casinos. The Office of the State Comptroller believes each of these revenue projections presents certain risks in the coming year, and may not materialize as expected.

Key economic projections reflected in the Executive Budget include growth of 4.6 percent in New York State wages and salaries during 2013, and total employment growth of 1.3 percent. While some other economists' forecasts are similar to DOB's, there is continued uncertainty over a variety of factors at the global, national, and State levels. IHS Global Insight projects lower growth for wages and employment in New York for 2013 than DOB has estimated.[2] If growth in such key indicators is lower than DOB projects, tax collections could be lower and spending on certain programs higher than expected.

Although unrestricted State aid for municipalities would remain flat in SFY 2013-14, the Executive Budget includes several proposals intended to address concerns about the increasing fiscal stress affecting local governments and school districts across the State. Initiatives in this area include an optional fixed rate employer contribution plan for public pension funds and a change to binding arbitration rules. The Executive has also expressed an intention to create a Financial Restructuring Assistance Task Force to assist local jurisdictions that are confronted with extreme fiscal stress. Details of that proposal are not yet available.

Other mandate relief proposals include authority for counties to renew current additional sales tax rates with a majority vote of the county legislature – rather than action by the State Legislature – every two years. Proposed changes to preschool special education and the early intervention program for children under the age of three are also intended to provide local savings.

The Executive proposes to eliminate all State reporting requirements for local governments and school districts as of April 1, 2014, except any reports approved for continuation by the Mandate Relief Council. The Office of the State Comptroller has concerns about this proposal, which would include elimination of currently required annual reports on the financial condition of local governments and school districts filed with the Comptroller. Such reports are essential to the Office of the State Comptroller's monitoring of potential fiscal stress in more than 3,000 taxing jurisdictions across the State. The changes to binding arbitration proposed elsewhere in the Executive Budget would not be possible without a determination of fiscal conditions in cities, counties,

[2] IHS Global Insight is an econometric forecasting service that is used by many private and public sector entities as the basis for their own forecasts.

towns and villages – a determination that is currently based on required reports to the Comptroller.

The Executive proposes to give the Comptroller and the Board of the New York State Teachers' Retirement System (NYSTRS) the option to implement a new Stable Rate Employer Contribution Plan for counties, cities, towns, villages and school districts. It is intended to provide cash relief for local governments by utilizing future projected cost savings from Tiers V and VI. The program then relies on such projected cost savings to pay down deferred employer contributions. Such changes in timing of payments may result in intergenerational inequities, as operational costs incurred in the near term could be borne by taxpayers in the future. The Office of the State Comptroller has expressed concerns with this proposal and is reviewing its potential impact on the actuarial soundness of the New York State Common Retirement Fund, its immediate and long-term effects on the balance sheets of local governments, and other issues.

The Executive Budget projects approximately $6.6 billion in spending from federal disaster assistance funding associated with the ongoing recovery from Superstorm Sandy, including $1.5 billion in SFY 2012-13 and $5.1 billion in SFY 2013-14. As part of the proposed new Transformative Capital Fund, a Storm Recovery Account would be created with a $450 million bondable capital appropriation in the budget for the Division of Homeland Security and Emergency Services to cover costs associated with storm rebuilding. Much of this amount is expected to be reimbursed with federal funds.

Additional noteworthy aspects of the Executive Budget include:

- Projections of All Funds tax collections for the current year and SFY 2013-14 are reduced by a combined $1.2 billion. These reductions from previous estimates reflect both the challenging economic environment, and the difficulty of accurately projecting revenues – particularly New York State's comparatively volatile Personal Income Tax – in such an environment.

- Various revenue extenders, loophole-closing actions, tax enforcement actions, and other revenue actions, partially offset by expanded tax credits and exemptions, are proposed. Overall, these actions are expected to increase All Funds revenue by $403 million in SFY 2013 14 and $780 million in SFY 2014-15.

- Approximately $10 billion in resources that are either temporary (more than one year but not permanent) or non-recurring (one year) are anticipated. However, more than half of this amount is attributable to federally supported disaster assistance, reflecting funding for non-recurring, extraordinary expenses. Revenues from these short-term provisions are projected to decline to $1.8 billion by SFY 2016-17, meaning additional actions will be needed to replace the resources that are no longer available.

- Steps to address almost 40 percent of the projected cumulative out-year current services gap of $16.2 billion, including more than $4.0 billion in recurring actions, are included in the proposed Budget. However, more than $3.0 billion of the multi-year gap-closing proposal relies on temporary or non-recurring resources. As temporary measures end, additional actions will be needed to maintain budget balance.

- The release of a 10-year capital plan for the New York Works Program, including projects of both State agencies and public authorities, is intended to take place in February. This more comprehensive and expanded approach to planning for the State's infrastructure projects may improve coordination among agencies as well as increasing transparency in the expenditure of billions of dollars.

- The financing of an estimated $5.1 billion in capital projects using public authority bond proceeds is anticipated in SFY 2013-14. The Executive Budget increases bonding caps for 14 programs using State-Supported debt, and adds two new bonding caps on State-Supported debt for the Transformative Capital Fund and the Office of Information Technology Services.

- A net increase of $3.3 billion in bonding authorizations for public authorities is proposed. These increases include $1.2 billion in State support for "transformative projects" and another $446 million for various economic development initiatives. The proposed Capital Plan projects that State-Supported debt will increase by approximately $6.3 billion, or 11.8 percent, from SFY 2013-14 through SFY 2017-18.

- Workers' compensation changes that includes a $900 million bonding program to be established through the Dormitory Authority of the State of New York (DASNY) to cover defaults of group self-insured trusts is incorporated in the proposed budget. The bonds would purchase liabilities resulting from the default of self-insurance trusts, backed by a Workers' Compensation Assessment on employers. The bonds would be the obligation of employers.

Note: This report does not reflect changes made in Executive Budget amendments released on February 12, 2013 by the Division of the Budget.

Financial Overview

The SFY 2013-14 Executive Budget reduces projections of All Funds tax collections by a combined $1.2 billion for SFYs 2012-13 and 2013-14. Even after reduced projections, collections in the final three months of the current fiscal year would have to increase over the previous year's collections by 4.6 percent, to meet the revised estimates. Before actions proposed in the Executive Budget, the General Fund faces a current services gap estimated at $1.4 billion for SFY 2013-14. Gap-closing actions include transfer of resources from the State Insurance Fund to the General Fund; reductions in State agency operations relative to baseline projections; elimination of cost-of-living adjustments for certain nonprofit service providers; and extension of certain tax provisions that would otherwise expire. After the proposed actions, the Executive Budget projects average annual budget gaps of $3.3 billion in the next three fiscal years (SFY 2014-15 through SFY 2016-17). Certain actions proposed in the Budget – including new use of off-budget resources, and the transfer of certain functions to public authorities – raise concerns related to reduced transparency and accountability.

State Fiscal Year 2012-13

General Fund[3]

Actions taken in the December 2011 extraordinary session of the State Legislature and in the SFY 2012-13 Enacted Budget closed a projected $3.5 billion General Fund deficit primarily with recurring actions, and continued progress begun in the previous year in addressing the chronic structural gap between recurring revenue and recurring spending. The SFY 2012-13 Enacted Budget included actions first enacted in SFY 2011-12 that were intended to limit future growth in State-funded Medicaid and school aid spending, which together account for approximately half of all spending from the General Fund.

Within a few months of enactment of the SFY 2012-13 budget, actual tax collections were below projected levels. The Office of the State Comptroller reported that All Funds tax collections were $213 million below projections six months into the fiscal year.[4]

In the SFY 2013-14 Executive Budget Financial Plan, the Division of the Budget (DOB) reduces projected SFY 2012-13 General Fund tax collections (including transfers from other funds) by $220 million from the Mid-Year Update released in November and by $450 million from the Enacted Budget Financial Plan. However, primarily because of legal settlements received from Standard Chartered Bank in September ($340 million) and ING Bank in June ($150 million), year-end General Fund receipts, including transfers from other funds, are projected to be only $59 million below initial projections.

[3] The State's finances are generally broken down into three main categories: General Fund, State Operating Funds and All Governmental Funds (All Funds). The General Fund is the major operating fund of the State and accounts for all receipts that are not required by law to be deposited into another fund. State Operating Funds includes the General Fund, State Special Revenue Operating funds and Debt Service funds. All Funds includes General, Special Revenue, Debt Service and Capital Projects funds, as well as funds from the federal government.

[4] See the Office of the State Comptroller report, *Comptroller's Fiscal Update: Revenue Trends through the Mid-Year of State Fiscal Year 2012-13*, October 2012.

General Fund spending has been below Plan projections in seven of the first nine months of the fiscal year for a variety of reasons, but primarily due to the timing of payments and the implementation of the State's new Statewide Financial System (SFS).[5] DOB projects General Fund spending, including transfers to other funds, will total $59.2 billion by the end of SFY 2012-13, $286 million higher than initial projections, primarily due to increases in spending on State Operations. To accommodate this higher spending and avoid a deficit, DOB intends to use unrestricted General Fund reserves.

DOB currently projects a closing balance of $1.5 billion in the General Fund at the end of SFY 2012-13, $345 million less than originally projected at the start of the fiscal year.

Figure 2

SFY 2012-13 Financial Plan Evolution – General Fund

(in millions of dollars)

	SFY 2012-13 Enacted Financial Plan (May)	SFY 2012-13 Mid-Year Financial Plan Update (November)	SFY 2012-13 - 3rd Quarter Financial Plan Update (January)	Difference in Year End Projections - 3rd Quarter Update less Enacted Plan	Difference in Year End Projections and Results - 3rd Quarter Update less Mid-Year Plan
Receipts:					
Taxes	43,369	43,213	42,953	(416)	(260)
Personal Income Tax	26,916	26,844	26,649	(267)	(195)
Consumer Taxes	9,271	9,188	9,127	(144)	(61)
Business Taxes	6,038	6,035	6,083	45	48
Other Taxes	1,144	1,146	1,094	(50)	(52)
Miscellaneous Receipts	3,229	3,741	3,724	495	(17)
Federal Grants	60	60	60	-	-
Subtotal	**46,658**	**47,014**	**46,737**	**79**	**(277)**
Transfers from Other Funds	12,242	12,055	12,104	(138)	49
Total Receipts	**58,900**	**59,069**	**58,841**	**(59)**	**(228)**
Disbursements:					
Grants to Local Governments	39,645	39,816	39,776	131	(40)
State Operations	7,736	7,951	8,094	358	143
General State Charges	4,403	4,623	4,589	186	(34)
Subtotal	**51,784**	**52,390**	**52,459**	**675**	**69**
Transfers to Other Funds	7,084	6,992	6,695	(389)	(297)
Total Disbursements	**58,868**	**59,382**	**59,154**	**286**	**(228)**
Operating Surplus/(Gap)	**32**	**(313)**	**(313)**		
Reserves					
Tax Stabilization Reserve	1,131	1,131	1,131	-	-
Rainy Day Fund	175	175	175	-	-
Contingency Reserve	21	21	21	-	-
Community Projects Fund	57	57	57	-	-
Debt Reduction Reserve	-	-	-	-	-
				-	-
Unrestricted Refund Reserve	435	90	90	(345)	-
Total Reserves (Closing Balance)	**1,819**	**1,474**	**1,474**	**(345)**	**-**

Source: Division of the Budget

[5] The Statewide Financial System (SFS) is New York State's new government accounting and financial management system that was implemented on April 1, 2012 to facilitate the management and flow of information among State agencies, State control agencies (DOB and the Office of the State Comptroller), the State Legislature, vendors doing business with New York State, and the general public.

State Operating Funds

The SFY 2012-13 Financial Plan Update included in the Executive Budget reduces projections for State Operating Funds revenue by $111 million from the Enacted Budget Financial Plan and $260 million from the Mid-Year Update. The lower projection is primarily due to lower-than-anticipated tax collections, which were reduced by $627 million from projections in the Enacted Budget Financial Plan and by $399 million from Mid-Year projections, primarily in Personal Income Tax (PIT) receipts.

Projections for State Operating Funds spending are increased by $512 million from Enacted projections and $11 million from Mid-Year projections.

All Funds

All Funds tax collections have trailed projections much of the last nine months and are again, for the sixth consecutive year, not expected to reach initial projections used to build the Enacted Budget. DOB reduces projections for tax collections by $675 million from the Enacted Budget Financial Plan and by $445 million from Mid-Year Update projections. In both cases, changes are primarily in PIT, although projections for sales tax collections have also been reduced.

After reduced projections, tax collections in the last three months of the fiscal year will have to increase by 4.6 percent over the previous year to meet revised estimates, despite having increased only 1.2 percent over the first nine months of the fiscal year. PIT collections in late December and January indicate some improvement, but this is likely associated with the timing of federal tax law changes rather than indicative of a new, more positive trend.

Miscellaneous receipts are expected to end this fiscal year $731 million higher than initial projections, largely because of the receipt of various non-recurring settlements. Federal receipts are expected to be $1.5 billion higher than initially estimated, primarily because of federal disaster assistance associated with Superstorm Sandy.

SFY 2012-13 All Funds spending is projected to total $135.5 billion, an increase of $2.1 billion over original projections included in the SFY 2012-13 Enacted Budget Financial Plan and $1.6 billion higher than projections included in the Mid-Year Update. The increase is primarily due to the receipt of federal disaster assistance funding as well as the aforementioned increases in State Operations spending.

Figure 3

SFY 2012-13 Financial Plan Evolution – All Funds
(in millions of dollars)

	SFY 2012-13 Enacted Financial Plan (May)	SFY 2012-13 Mid-Year Financial Plan Update (November)	SFY 2012-13 3rd Quarter Financial Plan Update (January)	Difference in Year End Projections - 3rd Quarter Update less Enacted Plan	Difference in Year End Projections and Results - 3rd Quarter Update less Mid-Year Plan
Receipts:					
Taxes	66,370	66,140	65,695	(675)	(445)
Personal Income Tax	40,256	40,160	39,900	(356)	(260)
Consumption and Use Taxes	14,921	14,784	14,630	(291)	(154)
Business Taxes	8,229	8,210	8,226	(3)	16
Other Taxes	2,964	2,986	2,939	(25)	(47)
Miscellaneous Receipts	24,269	24,708	25,000	731	292
Federal Grants	42,633	42,503	44,131	1,498	1,628
Total Receipts	**133,272**	**133,351**	**134,826**	**1,554**	**1,475**
Disbursements:					
Grants to Local Governments	95,530	95,320	96,897	1,367	1,577
State Operations	19,229	19,572	19,825	596	253
General State Charges	6,698	6,903	6,866	168	(37)
Debt Service	6,064	6,100	5,949	(115)	(151)
Capital Projects	5,872	5,962	5,915	43	(47)
Total Disbursements	**133,393**	**133,857**	**135,452**	**2,059**	**1,595**

Source: Division of the Budget

State Fiscal Year 2013-14

According to the SFY 2013-14 Executive Budget Financial Plan, the General Fund faces a current services funding gap (meaning the difference between projected receipts and disbursements based on existing law) of approximately $1.4 billion. This represents an increase of $370 million from the last projection included in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan. The increase is primarily due to a reduction in projected General Fund tax receipts ($843 million) and Miscellaneous Receipts ($22 million). These reductions are offset by lowered projections for General Fund spending ($295 million) as well as anticipated federal reimbursement for expenditures associated with Superstorm Sandy made in SFY 2012-13 ($200 million).

DOB projects General Fund current services gaps (before proposed actions) of $4.0 billion for SFY 2014-15 and $5.2 billion for SFY 2015-16, representing an increase of $389 million and $831 million, respectively, from Mid-Year projections. DOB projects a gap of $5.7 billion in SFY 2016-17. If the Executive's proposal is enacted in full, DOB projects the gaps will decline to just under $2.0 billion, $3.6 billion and $4.5 billion for State Fiscal Years 2014-15, 2015-16 and 2016-17, respectively.

General Fund

The SFY 2013-14 Executive Budget Financial Plan projects that total General Fund receipts (including transfers from other funds) will increase 4.0 percent, or $2.3 billion, compared to updated SFY 2012-13 estimates. This is primarily due to expected growth in PIT collections, which are projected to increase by $1.8 billion, or 6.8 percent, not including an additional $509 million in PIT receipts expected to be transferred back to the General Fund from the Revenue Bond Tax Fund. Overall, General Fund tax collections are projected to increase 5.6 percent or $2.4 billion. Miscellaneous receipts are projected to decline by $623 million, primarily due to the loss of non-recurring receipts received in SFY 2012-13. Excluding such one-time resources, miscellaneous receipts are projected to remain essentially flat.

The SFY 2013-14 Executive Budget Financial Plan projects General Fund disbursements will grow $1.9 billion, or 3.1 percent, primarily in local assistance and transfers to other funds. Local assistance is expected to grow by almost $1.1 billion, largely due to school aid, Medicaid, and “other” spending. State Operations is projected to decline $639 million, or 7.9 percent. This reflects, in part, the move of SUNY operations to another fund, which results in such spending being reflected in “transfers to other funds” rather than in disbursements. It also reflects reductions in public protection and criminal justice, including personal service cuts in the Department of Corrections and Community Supervision as well as lower non-personal service spending for disaster assistance.

Transfers to other funds are projected to increase slightly more than $1.1 billion, primarily due to: the movement of SUNY operating costs from the General Fund to a special revenue fund; the State’s reimbursement to the Metropolitan Transportation Authority (MTA) for the recent payroll tax reduction; increased capital spending (including an additional $49 million for the General Fund subsidy of the Dedicated Highway and Bridge Trust Fund); and increased debt service.

General State Charges paid from the General Fund are projected to increase $367 million in SFY 2013-14, reflecting, in part, the planned prepayment of pension costs in SFY 2011-12, which had the effect of lowering SFY 2012-13 spending.

Proposed General Fund Gap-Closing Plan

The SFY 2013-14 Executive Budget projects a current services deficit or gap of $1.4 billion in SFY 2013-14. In the SFY 2012-13 Mid-Year Update, DOB projected a SFY 2013-14 current services deficit of $982 million. Between the Mid-Year Update released November 28, 2012 and the Executive proposal, DOB revised receipt projections downward by $865 million, $843 million of which is attributable to lower tax receipts (primarily in PIT). General Fund spending projections for SFY 2013-14 are reduced by $495 million from a variety of sources, including lower debt service and school aid, in the Executive Budget. The reductions in school aid reflect, in part, a higher projection of Lottery receipts, which reduces General Fund spending requirements.

While many actions proposed by the Executive to close the projected SFY 2013-14 deficit are considered recurring by DOB, some recur over the course of the five-year Financial

Plan, but are temporary. For example, $1.25 billion in State Insurance Fund (SIF) resources are proposed to be transferred to the General Fund (including the $250 million expected to be transferred in SFY 2013-14), but are only expected to be available through SFY 2016-17. Language is proposed to give DOB the discretion to use any additional SIF funds that may be available after that time.[6] In addition, the largest of the extended tax provisions, the temporary 18-a utility assessment, provides significant funding through SFY 2017-18. Provisions limiting tax deductions for charitable contributions for high-income earners are also extended for five years. Nonetheless, 67 percent of the gap-closing plan, including certain new initiatives and revenue reductions, is recurring and helps reduce the State's long-standing structural imbalance.

State Operating Funds

The SFY 2013-14 Executive Budget Financial Plan projects that State Operating Funds revenue will increase $2.4 billion, or 2.8 percent, from estimated SFY 2012-13 receipts to $87.3 billion. The increase is primarily due to higher tax collections, which are expected to rise nearly $3.5 billion or 5.4 percent, primarily in PIT.

State Operating Funds spending is projected to increase 1.6 percent, or $1.4 billion, with most of the increase occurring in Local Assistance payments, primarily in transportation and Medicaid from the Department of Health. State Operations spending is projected to decline 2.7 percent, or $492 million, primarily in public protection and criminal justice. General State Charges is projected to increase 7.5 percent or $496 million, primarily because of increased costs for employee and retiree pension and health benefits.

All Funds

The SFY 2013-14 Executive Budget Financial Plan projects All Funds receipts will increase $7.6 billion, or 5.7 percent, to $142.5 billion, primarily from increased federal receipts largely associated with disaster relief from Superstorm Sandy. Tax receipts are expected to increase $3.5 billion, or 5.4 percent, about half of which is expected from PIT withholding collections. Total PIT collections are projected to increase $2.6 billion, or 6.6 percent. A portion of PIT receipts, likely less than 5.0 percent based on previous assumptions from SFY 2012-13, would be associated with the high income provisions enacted in the December 2011 extraordinary session.

All Funds spending is projected to increase $7.1 billion, or 5.3 percent, including disaster assistance. DOB expects the State will spend $5.1 billion from federal disaster funds in SFY 2013-14. If extraordinary disaster spending is not included, then All Funds spending is projected to increase 2.9 percent or $3.8 billion.[7]

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[6] The State Insurance Fund includes the operations of the Workers' Compensation Fund and Disability Benefits Fund. It is an agency of the State of New York, and maintains separate records for the Workers' Compensation Fund and Disability Benefits Fund. The Workers' Compensation Fund was established in 1914 to provide workers' compensation insurance for employers in the State of New York. As an agency of the State, all liabilities of the Workers' Compensation Fund are guaranteed by the State should the Workers' Compensation Fund become insolvent. See the report, *New York State Insurance Fund, Annual Report 2011,* for more information.

[7] DOB expects the State will spend $1.8 billion from All Funds for disaster assistance in SFY 2012-13. See SFY 2013-14 Executive Budget Financial Plan, page T-161.

Local Assistance is projected to increase $6.6 billion, or 6.8 percent, including disaster assistance. Absent the disaster spending, local assistance is projected to increase $3.3 billion, or 3.5 percent, primarily due to a projected increase in Medicaid spending. Spending for capital projects is projected to increase $216 million or 3.6 percent.[8]

Figure 4

All Funds Comparison of SFY 2012-13 Estimate vs. SFY 2013-14 Proposed
SFY 2013-14 Executive Budget Financial Plan

(in millions of dollars)

	SFY 2012-13 Estimate	SFY 2013-14 Proposed	Dollar Change	Percentage Change	Percentage of Total Growth
Receipts:					
Taxes	**65,695**	**69,225**	**3,530**	**5.4%**	**46.2%**
Personal Income Tax	39,900	42,520	2,620	6.6%	34.3%
Consumer Taxes and Fees	14,630	15,167	537	3.7%	7.0%
Business Taxes	8,226	8,460	234	2.8%	3.1%
Other Taxes	2,939	3,078	139	4.7%	1.8%
Miscellaneous Receipts	25,000	23,880	(1,120)	-4.5%	-14.7%
Federal Grants	44,131	49,358	5,227	11.8%	68.4%
Total Receipts	**134,826**	**142,463**	**7,637**	**5.7%**	**100.0%**
Disbursements:					
Local Assistance	**96,897**	**103,519**	**6,622**	**6.8%**	**92.7%**
Economic Development Government Oversight	763	857	95	12.4%	1.3%
Parks and Environment	275	192	(83)	-30.1%	-1.2%
Transportation	5,177	5,568	391	7.6%	5.5%
DOH Medicaid	39,919	42,400	2,481	6.2%	34.7%
Other Health	3,809	3,802	(7)	-0.2%	-0.1%
Social Welfare	7,995	7,664	(331)	-4.1%	-4.6%
Mental Hygiene	3,930	3,942	12	0.3%	0.2%
Public Protection/Criminal Justice	2,422	5,791	3,369	139.1%	47.2%
Higher Education	2,672	2,806	133	5.0%	1.9%
School Aid	23,062	23,258	196	0.8%	2.7%
Other Education	6,190	6,597	407	6.6%	5.7%
General Government	225	222	(3)	-1.2%	0.0%
Local Government Assistance	763	767	4	0.5%	0.0%
Other	(305)	(348)	(43)	14.2%	-0.6%
State Operations	**19,823**	**19,533**	**(293)**	**-1.5%**	**-4.1%**
Economic Development Government Oversight	375	365	(10)	-2.6%	-0.1%
Parks and Environment	458	453	(5)	-1.1%	-0.1%
Transportation	105	134	29	27.4%	0.4%
Health	913	946	33	3.6%	0.5%
Social Welfare	1,366	1,319	(47)	-3.5%	-0.7%
Mental Hygiene	3,018	2,942	(76)	-2.5%	-1.1%
Public Protection/Criminal Justice	3,877	3,443	(433)	-11.2%	-6.1%
Higher Education	5,959	6,011	51	0.9%	0.7%
Education	321	405	85	26.4%	1.2%
General Government	3,370	3,471	101	3.0%	1.4%
Other	61	44	(17)	-27.5%	-0.2%
General State Charges	6,866	7,398	532	7.7%	7.4%
Debt Service	5,949	6,016	67	1.1%	0.9%
Capital	5,915	6,129	214	3.6%	3.0%
Total Disbursements	**135,452**	**142,594**	**7,142**	**5.3%**	**100.0%**

Source: Division of the Budget

[8] Capital Projects spending, as detailed in the All Funds Financial Plan, primarily occurs within Capital Projects Funds but does not include local assistance payments made from Capital Projects Funds.

All Funds Debt Service spending is projected to increase $67 million or 1.1 percent. However, a significant portion of the State's debt service costs has previously been associated with bonds issued for SUNY dormitories. The Executive proposes to restructure the way this debt will be issued, thus taking the debt service costs off-budget, making debt service growth appear smaller. For the current fiscal year, DOB projects the debt service for SUNY dormitories will total $208.7 million (which reflects a double payment). If that amount is adjusted out of the projected level of Debt Service spending for SFY 2012-13, making it more comparable to proposed SFY 2013-14 projections, Debt Service in SFY 2013-14 would be increasing $275.7 million, or 4.8 percent, over the prior year.

Structural Imbalance

Over the past two decades, the State's chronic General Fund budget gaps had been exacerbated by successive budgets in which recurring spending was projected to grow significantly faster than recurring revenue, and annual budget gaps were filled largely through the use of short-term solutions. The SFY 2011-12 Enacted Budget made significant progress in reversing that trend, with more than 80 percent of the total amount made up through gap-closing initiatives arising from recurring sources. As a result, the gap-closing measures that eliminated the $10 billion SFY 2011-12 deficit also reduced projected out-year gaps from $53.3 billion to $9.8 billion, according to the SFY 2011-12 Enacted Budget Financial Plan.

While gap projections have increased since then, even updated gap projections remain below the out-year projections made before the SFY 2011-12 Enacted Budget. General Fund spending for SFY 2013-14 as estimated in the SFY 2010-11 Enacted Budget was projected to top $76.5 billion. The Executive Budget now projects SFY 2013-14 General Fund spending to total $61.0 billion, if all budget provisions are enacted as proposed. This decline does not solely reflect enacted State spending reductions. The change has also been affected by other factors such as economic fluctuations, federal actions, and growth patterns in formula-driven programs. Nonetheless, significant cuts from baseline spending levels have been implemented to accomplish this. Over the same period, projected General Fund receipts for SFY 2013-14 have risen modestly, from the SFY 2010-11 estimate of $60.9 billion to $61.2 billion in the SFY 2013-14 Executive Budget.

As shown in Figure 5, the proposed SFY 2013-14 gap-closing plan addresses a projected four-year cumulative deficit of $16.2 billion, and includes approximately 23.7 percent in recurring actions. While this estimated accumulated gap is larger than the estimate from the SFY 2012-13 Enacted Budget Financial Plan, it is of a smaller magnitude than projections from prior years. The SFY 2013-14 Executive Budget proposal addresses almost 40 percent of the projected out-year cumulative current services gap, including the use of more than $4.0 billion in recurring actions. However, more than $3.0 billion of the gap-closing proposal relies on temporary or non-recurring resources. As temporary measures end, additional actions will be needed to maintain budget balance.

Figure 5

Composition of Gap-Closing Plans

(in millions of dollars)

	Enacted SFY 2012-13 through SFY 2015-16	Proposed SFY 2013-14 through SFY 2016-17
Total Cumulative Gap to be Closed	**(12,321)**	**(16,195)**
Additions to Gap		
Recurring Additions/Restorations/Initiatives	**(3,096)**	**(812)**
Recurring Revenue Reductions	**(158)**	**-**
Other	**-**	**(286)**
Total After Gap Additions	**(15,575)**	**(17,293)**
% of Total	*3.8%*	*0.0%*
Re-estimates	**589**	**-**
% of Total	*38.0%*	*17.3%*
Recurring Spending Reductions	**5,915**	**2,987**
% of Total	*0.0%*	*6.4%*
Recurring Revenue Enhancements	**-**	**1,112**
% of Total	*2.2%*	*18.6%*
Temporary or Non-Recurring Recources/Cost	**342**	**3,218**
% of Total	*1.5%*	*0.0%*
Other Actions	**234**	**-**
% of Total	*54.5%*	*57.7%*
Remaining Gap	**(8,495)**	**(9,976)**

Sources: Division of the Budget and Office of the State Comptroller

Despite this progress, projected spending growth still outpaces projected revenue growth in the out-years, as shown in Figure 6. In the General Fund, revenue is projected to increase 13.6 percent between SFY 2012-13 and SFY 2016-17, or 3.2 percent annually on average. Over the same period, General Fund spending is projected to increase 20.5 percent, or 4.8 percent annually on average.

Figure 6

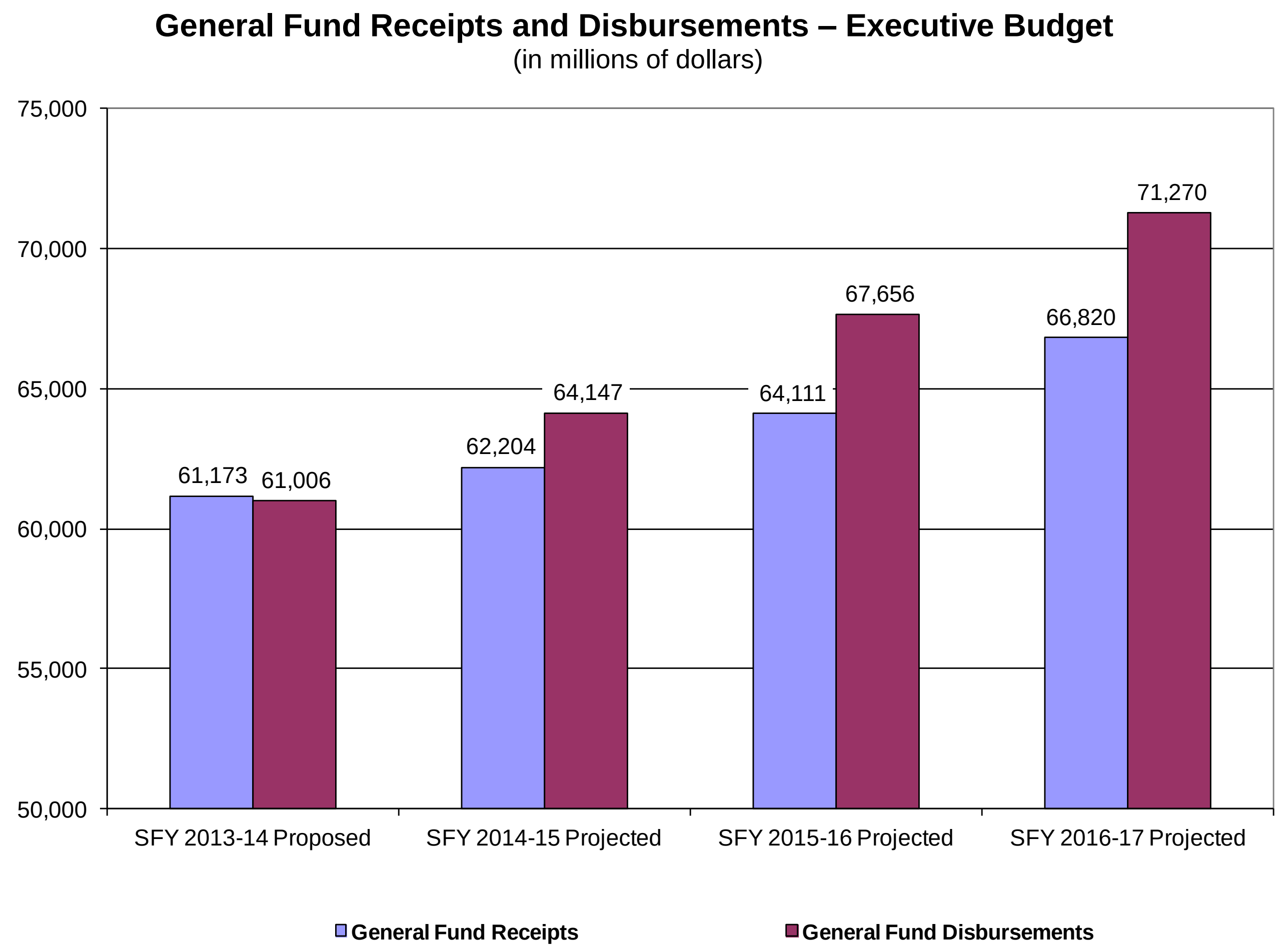
Projected Growth in Receipts and Disbursements

Percentage Growth	SFY 2013-14 Proposed	SFY 2014-15 Projected	SFY 2015-16 Projected	SFY 2016-17 Projected	Total Growth 2013-14 through 2015-16	Average Annual Growth 2013-14 through 2016-17
General Fund Receipts	4.0%	1.7%	3.1%	4.2%	13.6%	3.2%
General Fund Disbursements	3.1%	5.1%	5.5%	5.3%	20.5%	4.8%
State Operating Funds Receipts	2.8%	2.4%	3.0%	3.8%	12.6%	3.0%
State Operating Funds Disbursements	1.6%	3.8%	3.8%	3.7%	13.5%	3.2%
All Funds Receipts	5.7%	1.0%	2.2%	3.6%	13.0%	3.1%
All Funds Disbursements	5.3%	2.5%	3.6%	4.0%	16.2%	3.8%

Source: Division of the Budget

Figure 7 shows the SFY 2013-14 Executive Budget estimates for General Fund receipts and disbursements, assuming enactment of all proposed actions. Growth in disbursements exceeds growth in receipts, and the cumulative gap widens, particularly in the later years of the Financial Plan.

Figure 7



Source: Division of the Budget

Temporary and Non-Recurring Resources

The Executive Budget includes approximately $10 billion in resources that are either temporary (more than one year but not permanent) or non-recurring (one year). It is important to note that more than half of this amount represents federally supported disaster assistance. However, there are a number of temporary provisions that are either continued (such as the PIT surcharge on high incomes enacted in December 2011) or are newly proposed in the Executive Budget (such as the sweep of funds from SIF and the temporary 18-a utility surcharge). Revenue from these temporary provisions is projected to decline more than 82 percent, to $1.8 billion by SFY 2016-17.

Figure 8

Temporary and Non-Recurring Resources
(in millions of dollars)

	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17
Proposed				
State Insurance Fund (including capital in SFY 2013-14)	750	500	250	250
Insurance Conversion Proceeds	175	300	300	300
Abandoned Property	120	125	125	125
Debt Service Savings	128	66	-	-
Mortgage Insurance Reserves	100	-	-	-
Use of Reserves	83	-	-	-
Dormitory Authority of New York State	22	-	-	-
Power Authority of New York State	20	-	-	-
Environmental Protection Fund	15	-	-	-
Regional Greenhouse Gas Initiative	15	-	-	-
MMTOA for debt service	20	-	-	-
Subtotal	*1,448*	*991*	*675*	*675*
Currently in Law But Temporary				
Temporary PIT Changes (1)	1,998	1,318	78	-
Deferred Tax Credits	870	-	-	-
Temporary Utility Assessment	509	509	509	509
Extension of High Income Charitable Contribution Limit	70	140	140	70
Subtotal	*3,447*	*1,967*	*727*	*579*
Extraordinary Temporary Funding				
Temporary Federal Disaster Assistance	*5,140*	*2,075*	*1,015*	*500*
Total Temporary and Non-Recurring Resources	**10,035**	**5,033**	**2,417**	**1,754**

(1) Projections for the temporary PIT surcharge were not updated in the Proposed Financial Plan. These amounts are the same share of updated PIT projections.

Source: Division of the Budget

On December 11, 2012 the Executive appointed members to the new Tax Reform and Fairness Commission to recommend long-term changes to the tax system. The Executive has charged the Commission with conducting a comprehensive and objective review of the State's tax policy, including corporate, sales, and personal income taxation. The Commission is to consider elimination of tax loopholes, promotion of administrative efficiency, and enhancement of tax collection and enforcement. Such recommendations are to be "revenue-neutral," although it is not clear whether the basis for comparison is tax policy currently in effect or the current tax law, which will reduce revenue in coming years barring further legislative changes.

Transparency and Accountability Issues

A new approach to budgeting in recent years has led to significant progress in reducing the gap between recurring revenue and recurring spending. Results of these reductions in the State's structural deficit include dramatically smaller out-year projected gaps and the ability to absorb lower-than-expected revenues – such as occurred during the current fiscal year – without the need for mid-year deficit reduction actions.

However, certain language that is proposed in appropriation and Article VII budget bills to provide additional budget-balancing authority and flexibility would reduce transparency, accountability, and oversight of major areas of State spending and related activities. Checks and balances exist in the law to help ensure that taxpayer dollars are protected from waste and abuse. Examples of previously enacted provisions or new proposals that raise potential concerns regarding transparency and accountability include:

- **Increased Use of Off-Budget Actions for Important Programs.** In SFY 2012-13, all on-budget spending for the Environmental Facilities Corporation was moved off-budget and the requirement that administrative moneys for the Sewage Treatment Program and the Drinking Water Program flow through State funds was eliminated. These changes have reduced transparency and oversight regarding such programs.

  The Executive Budget proposes similar actions for several new categories of spending that have traditionally been part of the annual budget process and subject to appropriation. For example, the Executive proposes that SUNY dormitory debt service costs would no longer be paid through a State appropriation. Instead, the Dormitory Authority of the State of New York (DASNY) would issue bonds under a new credit backed solely by dorm fees with no State appropriations required. This would take debt service spending for SUNY dormitories off-budget and allow new debt to be excluded from the State's statutory debt caps. The Executive would, in effect, increase the State's capacity under its debt cap by placing this debt outside the legal limit.

  The Executive also proposes to move several affordable housing programs off-budget to be administered by the Housing Trust Fund Corporation, and uses a fund sweep of $50 million from the Mortgage Insurance Fund to pay for these programs.

- **Discretion to Move Funding for State Operations Among Agencies.** The Executive Budget contains language first authorized in the SFY 2012-13 Enacted Budget in appropriation bills that gives DOB significant power to reallocate (or "interchange") spending among agencies. These transfers are related to the movement of information technology staff from agencies across the State to a new agency, the Office of Information Technology Services, as well as businesses services staff to the Office of General Services. This reallocation could occur without regard to the appropriated amounts approved by the Legislature in the enacted budget, provided DOB determines such interchanges improve the efficiency and effectiveness of government operations.

  The language is included in proposed State Operations appropriations for most agencies. While the stated purpose of the language involves the Executive's shared services and agency redesign initiative, the breadth of such legislative language may be greater than required. Information provided with the Executive Budget does not outline expected programmatic and staff impacts. Additional reporting by DOB regarding the impact, by agency, of these fund shifts would clarify the effects of this authorization and improve transparency.

- **Expanded Use of Public Authorities.** Public authorities are not subject to the same oversight and controls as State agencies. Audits by the Office of the State Comptroller have routinely identified problems that have resulted, in part, from this lack of oversight. While recent legislation, including the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009 were designed to improve the transparency and accountability of public authorities, much of their spending still occurs off-budget and with little public scrutiny.

  Despite such concerns, the Executive Budget includes language that would allow any public authority to transfer any funds to the General Fund, as long as the transfer is approved by the Authority's governing board. This broad transfer authorization raises the possibility that an authority may use revenue generated for one program or purpose, such as tolls intended to be used for highway or bridge maintenance, for an entirely unrelated purpose. The proposed language appears unduly broad. If such authorization is necessary to achieve savings, it could be accomplished on a case-by-case basis, subject to specific Legislative review and approval.

  Broad authorization is also proposed for the Urban Development Corporation (doing business as the Empire State Development Corporation) to award grants. Such broad authority would circumvent the need for any programmatic parameters to be defined in law by the Legislature in the awarding of economic development grants.

  The Executive Budget broadens the scope of the design-build legislation enacted in December 2011 to include financing and extends the overall authorization to State agencies, authorities, and other entities (excluding SUNY and CUNY). While the scope of the use of this authorization has yet to be clearly defined, it is likely that public authorities or private entities could be used as financing vehicles for construction projects, thereby sidestepping the need to seek approval from the voters to issue debt for new purposes, or for the debt to be counted against the State's debt limits. Greater transparency and accountability over the use of this authorization could be achieved by defining specific eligible projects, building in public notification processes and taxpayer protections, and making any project to be implemented under this legislation subject to appropriation, ensuring proper oversight and control over project-related spending. See the section on Public-Private Partnerships for further discussion.

Spending Trends by Programmatic Area

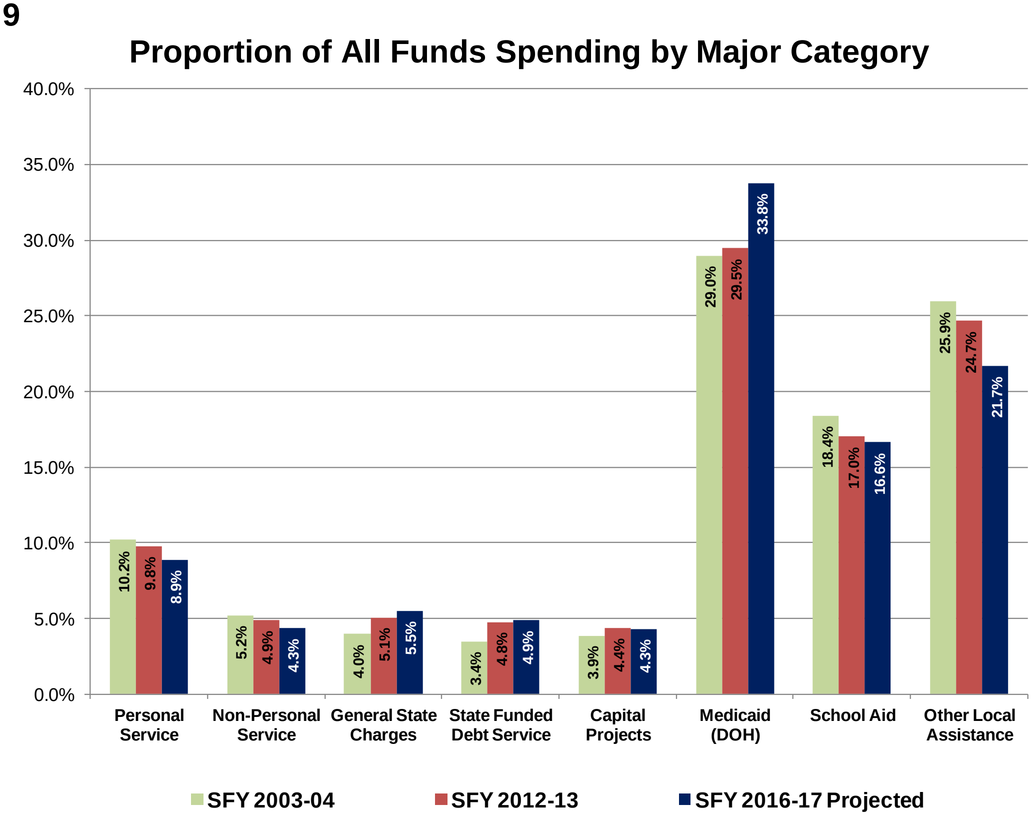
For the third consecutive year, the Executive has proposed spending limits on both Medicaid and school aid. Spending limits are based on economic indicators (in the case of Medicaid, a rolling ten-year average of the medical component of the Consumer Price Index and for school aid, growth in Personal Income within New York State). However, not all spending is limited. In the case of Medicaid, only spending from State Operating Funds by the Department of Health is limited. Federal funding and Medicaid spending in State-run facilities is not included in the cap. Likewise, the limit on school aid spending does not include federal funding, and only State Operating Funds school aid spending on a school year basis, instead of State Fiscal Year, is limited.

In the Executive proposal, approximately $6.6 billion in spending is projected from federal disaster assistance associated with Superstorm Sandy. These revenues and expenditures flow outside the General Fund and State Operating Funds, but have an impact on All Funds figures when comparing the current and next fiscal years. All Governmental Funds spending increased $38.1 billion, or 39.2 percent, between SFY 2003-04 and what is expected for SFY 2012-13, reflecting an average annual increase of 3.7 percent. The largest elements of such growth are Medicaid (30.7 percent of the total growth and 3.9 percent average annual growth) and school aid (13.5 percent of the total growth and 2.8 percent average annual growth). As a share of total spending, Medicaid increased from 29.0 percent of All Funds spending in SFY 2003-04 to 29.5 percent in SFY 2012-13 and is projected to increase to 33.8 percent of total spending in SFY 2016-17. School aid's share of spending declined from 18.4 percent in SFY 2003-04 to 17.0 percent in SFY 2012-13, and is projected to decline to 16.6 percent in SFY 2016-17.

The Executive Budget proposes significant reductions in out-year growth for both school aid and Medicaid. The proportion (or share) of the total budget declines in the case of school aid and State Operations. Medicaid continues to represent an increasing share of the total budget, primarily because of the Affordable Care Act and increased federal funding.

State Operations, which includes personal service and non-personal service costs, has declined from 15.4 percent of total spending in SFY 2003-04 to 14.6 percent in SFY 2012-13, and is projected to decline further to 13.2 percent by SFY 2016-17.

Figure 9



Source: Division of Budget

Risks to the Financial Plan

In the case of several proposals included in the SFY 2013-14 Executive Budget, achieving the anticipated level of revenue or savings may be challenging and expectations may not be realistic. These proposals include optimistic revenue assumptions and savings targets that lack specificity. Any shortfalls that occur could create a deficit for SFY 2013-14 and increase out-year gap projections. The following provides an overview of the larger risks and assumptions which the Office of the State Comptroller has identified in the Executive Budget:

- **The Pace of Economic Recovery –** While the economy is improving, not all areas are showing growth. For example, the unemployment rate is expected to remain high and the housing market weak, and although consumer spending has increased recently, consumer confidence is expected to remain comparatively low over the next two years.

  Key economic projections reflected in the Executive Budget include growth of 4.6 percent in New York State wages and salaries during 2013, and total employment growth of 1.3 percent. While some other economists' forecasts are similar to DOB's, there is continued uncertainty over a variety of factors at the global, national, and State level, as detailed later in this report. IHS Global Insight projects lower growth for wages and employment in New York for 2013 than DOB has estimated. If growth in such key indicators is lower than DOB projects, tax collections could be lower and spending on certain programs higher than expected.

- **Optimistic Tax Receipts Projections –** DOB now projects that All Funds tax collections will end the year $675 million below the original SFY 2012-13 Enacted Budget forecast. Tax collections have increased only 1.2 percent through the first nine months and must grow 4.6 percent in the last three months to reach revised projections. Personal Income Tax collections are the State's largest revenue source outside of federal receipts, accounting for approximately 30 percent of All Funds revenue. All Funds PIT final collections have been below initial projections in each of the last five years. In SFY 2012-13, PIT projections have been lowered $356 million from projections included with the Enacted Budget.

  In the SFY 2012-13 Enacted Budget Financial Plan, All Funds PIT collections were projected to grow 3.8 percent. Now, after nine months, the growth projection for All Funds PIT collections for the year has been reduced to 2.9 percent. However, through this period, PIT has increased only 1.7 percent, meaning that it needs to grow 5.7 percent in the last three months of the fiscal year to meet year-end projections.

  The SFY 2013-14 Executive Budget Financial Plan projects All Funds PIT collections will grow 6.6 percent from the SFY 2012-13 estimates. Such strong growth may be difficult to achieve, given uncertainties about trends in the economy.

- **Other Uncertain Revenues -** The Executive Budget contains a number of projections that should be considered uncertain because of a vulnerable economy or other variables. These include the following:

  - *Insurance Conversion Proceeds* – The proposed budget anticipates $175 million in SFY 2013-14, increasing to $300 million annually through SFY 2016-17, in funds related to the conversion of HIP and GHI, which are not-for-profit insurance companies, to for-profit status. In the past, the conversion process has proven lengthy, and funds often have not been realized as expected.

  - *Public Authority Transfers* – The Executive Budget relies on nearly $273 million in non-recurring and other revenue from various public authorities to support the proposed spending plan. The Executive Budget also includes blanket transfer language to allow unspecified other authorities to make "voluntary contributions" to the General Fund. Generally speaking, public authorities are created with specific statutory purposes, and their boards have a fiduciary obligation to safeguard the resources of the authority and to ensure that such resources are used for appropriate purposes. In addition to issues of accountability and transparency raised by such transfers, it is unclear whether public authority resources will be available for State purposes as planned.

  - *Unspecified Fund Sweeps* – The Executive Budget proposes an authorization for $500 million in unspecified transfers from dedicated funds to the General Fund for budget relief, as has been provided since SFY 2007-08, although the Financial Plan does not indicate that DOB plans to use this authorization. This budget language authorizes DOB to transfer or "sweep," at its discretion, available, unencumbered resources from other State funds to the General Fund. These are generally programs that have dedicated revenue streams – for example, funds for the Parks and Recreation Patron Services Fund and veterans' programs. After several years of these blanket sweeps, it is unclear whether resources will continue to be available for budget relief. There is a new additional blanket sweep that allows DOB to transfer up to $100 million from any available special revenue fund to a special revenue technology financing account for the purpose of consolidating technology procurement.

  - *Tribal State Compact* – The Executive Budget Financial Plan anticipates revenue from Native American casinos of $129.3 million in SFY 2012-13, with $97.5 million for the State and with the remainder directed to local governments, and $133.2 million in SFY 2013-14 for the State and local governments. As of January 1, 2013, the State had not received any payments since October 2010, although $43.6 million has since been transferred to the General Fund from a prior fund balance. It is not clear whether the State will receive any additional revenue from this source this year or next.

  - *Abandoned Property Transfer* – Pursuant to the State Finance Law, all moneys in the Abandoned Property Fund in excess of $750,000 are transferred to the General Fund by the end of each fiscal year. For SFY 2013-14, the Executive proposes a transfer of $650 million, which is approximately $120 million more than historical patterns suggest would be available for transfer. The number and value of abandoned property claims paid also continue to rise.

- **Broadly Defined Savings Actions**. The Executive Budget depends on flexibility provided to the Executive to preserve budget balance and to achieve savings. A lack of specificity regarding potential savings actions makes it difficult to determine whether the proposed savings can be achieved. The proposed actions include savings in the following areas:

    - *Medicaid* – The SFY 2011-12 Enacted Budget included reductions in General Fund Medicaid spending totaling $2.85 billion from projected levels in SFY 2011-12, and limited future Medicaid growth to the long-term average change of the medical component of the Consumer Price Index (approximately 3.9 percent), irrespective of enrollment. The Executive's proposal assumes spending constraints from the last two years will continue this year, although little detail is provided. This poses a particular risk in the out-years as the Commissioner of Health's authority to reduce spending is scheduled to expire.

      The Executive's proposal again includes a two-year appropriation for State-financed Medicaid that relies on actions included in the last budget, including unspecified savings from providers. In addition, the Executive's proposed Budget extends the Commissioner's unilateral ability to implement steps to achieve savings if necessary. Specific steps that the State must take in continuing to find such savings while remaining in compliance with current federal rules are unclear.

    - *State Operations* – The Executive Budget would reduce agency costs by $434 million to maintain balance in the General Fund on top of the $1.5 billion in agency and workforce savings from SFY 2011-12 and another $1.3 billion in the current year. There is a lack of specificity as to how these savings will be achieved, and the anticipated impact of these reductions on programs and services is unclear. The Executive includes interchange language first provided in SFY 2012-13 authorizing the transfer of funds between State agencies to continue the move of agency information technology and business services staff to the offices of Information Technology Services and General Services to achieve efficiency savings. While some efficiencies may be achieved, this approach diminishes transparency related to the expenditure of these funds and makes identifying where actual savings are being achieved difficult.

- **Significant Reliance on Federal Funding Which May Not be Fully Realized.** While the Executive Budget contains contingencies in the event anticipated federal funding does not materialize, the scope of federal dollars at risk is higher than usual, and could impose an unanticipated fiscal strain on the State. Areas of uncertain federal funding include the following:

- *Federal Reimbursement for Mental Hygiene.* DOB notes the State could lose up to $1.1 billion in federal Medicaid reimbursements, including $800 million related to lower Medicaid developmental center payment rates as well as $300 million related to lower rates for other State-provided services. Federal officials have said some reduction is likely, but there is no indication to date as to the scope of such reduction. DOB indicates a contingency budget reduction plan is being developed to keep the SFY 2013-14 budget in balance should such reductions occur.

- *Risk of Sequestration or Other Federal Aid Cuts.* The Financial Plan does not currently anticipate any substantial reductions in federal funding that could result from the Budget Control Act of 2011. The Act required reductions in federal spending and/or the imposition of automatic cuts in January 2013 (a trigger date subsequently delayed to March 2013), including significant cuts to federal assistance to the states.

  DOB estimates that if automatic cuts at the federal level occurred ("sequestration"), the cost to the State and its local governments would be approximately $5.0 billion over the next nine years, beginning in March 2013. According to Federal Funds Information for the States, New York State stands to lose roughly $609 million in aid in federal fiscal year 2013, including $210 million in education funding, $137 million for health and human services, and $128 million for housing programs.[9]

- *Federal Disaster Assistance.* The Executive's proposal projects approximately $6.6 billion in spending for disaster assistance that is expected to be reimbursed by the federal government. DOB projects that approximately $23 million of this spending will not be reimbursed and will constitute a State expense. The Executive also includes bonding capacity totaling $450 million specifically for disaster needs in the event that federal reimbursement is not timely. This authorization could also be used for future disaster needs, if necessary. While a $50 billion federal aid package was recently enacted, the timing of the payment of the funds remains uncertain.

[9] See the Office of the State Comptroller's report, *Impact of the 'Fiscal Cliff' on New York State*, December 2012.

Economy and Revenue

Economic Outlook

National Economy

The national economy continued to grow slowly in 2012, and while uncertainties concerning certain federal tax policy issues have been resolved, other risks remain. The economy is expected to slow again in early 2013 in response to reduced consumer spending following the expiration of the temporary payroll tax cut, as well as remaining uncertainty surrounding the federal debt ceiling and potential cuts to reduce the federal budget deficit. According to the January 2013 forecast from IHS Global Insight, annual GDP growth is expected to slow to a four-year low of 1.7 percent in 2013, down from 2.3 percent in 2012, before strengthening to 2.7 percent in 2014 and 3.4 percent in 2015. After release of the Executive Budget on January 21, the U.S. Bureau of Economic Analysis (BEA) released its preliminary estimate of GDP growth in the fourth quarter of 2012. BEA reported a decrease of 0.1 percent for the quarter, a weaker picture than many economists had expected.

Consumer expenditures have held up relatively well despite softness in the labor markets and uncertainty over fiscal issues. Spending on automobiles has been particularly strong as consumers replaced older cars they had held onto during the recession, with the number of new auto sales growing by 13.4 percent in 2012, the fastest rate of growth since 1984. Nevertheless, consumer spending is expected to be affected by the expiration of the temporary payroll tax cut, which is forecast to reduce the rate of growth in disposable income by one percentage point. IHS Global Insight forecasts total consumption spending to rise by 1.8 percent in 2013, after growing by 1.9 percent in 2012. Growth in consumption, however, is expected to improve to 2.6 percent by 2015.

Business investment (such as in office buildings, plants, equipment and software) began to soften in 2012, falling in the third quarter of 2012 for the first time in 18 months. According to IHS Global Insight, growth in business investment is projected to slow to 3.9 percent in 2013 from 7.5 percent in 2012, before rebounding to 6.9 percent and 7.6 percent in 2014 and 2015, respectively.

Since the recent recession ended, the nation has added 5.3 million private sector jobs (a gain of 5 percent), which represents 60 percent of the jobs lost during the recession. The pace of job growth, however, has been insufficient to substantially reduce the unemployment rate. IHS Global Insight projects that the growth in private sector employment will ease from 1.8 percent in 2012 to 1.7 percent in 2013, but then rise to at least 2.0 percent annually from 2014 through 2016. The unemployment rate is expected to gradually decline from 8.1 percent in 2012 to 6.1 percent in 2016.

The housing markets have begun to improve. In 2012, housing starts grew by 27.5 percent, a 29-year high (although starting from a depressed base), and existing home sales grew by 9.0 percent, the largest increase since 2003 (although the number of sales remained far below prerecession levels). IHS Global Insight expects that home sales will rise by 7.6 percent in 2013 and 11 percent in 2014, while median home prices will edge up by 0.9 percent in 2013 and 0.4 percent in 2014.

While the President and congressional leaders passed legislation on taxes to avoid one aspect of the “fiscal cliff,” they only delayed the automatic spending cuts and remain widely divided over fiscal policies to address the federal budget deficit. The financial markets and consumer confidence are expected to decline as the deadlines for resolving debates over the federal debt ceiling and scheduled budget cuts approach. Although the European sovereign debt crisis has eased, some countries remain at risk of default and of exiting the euro currency. Geopolitical tensions in the Middle East, especially in Syria and Iran, also carry the risk of a surge in energy prices.

New York State Economy

New York State’s economy has grown more strongly than the national economy since the end of the Great Recession. According to the U.S. Department of Commerce, New York’s inflation-adjusted Gross State Product (GSP) grew by 5.5 percent between 2009 and 2011, which exceeded the 4.2 percent gain for the nation and ranked 13th for GSP growth among the 50 states. Nevertheless, IHS Global Insight estimates that New York State’s economy will grow at a slightly slower rate than the national economy in 2012 and 2013 (rising by 1.8 percent and 1.6 percent, respectively).

Between December 2009 and December 2012, private employment in New York State increased by 369,000 jobs, which exceeded the number of jobs lost during the recession. In 2012, total employment in New York State rose by 1.4 percent to a record 8.8 million, nearly 15,000 jobs higher than the previous record set in 2008. This pace of job growth equaled the national rate and ranked 15th among the 50 states. Across the State’s major employment sectors, professional services and business grew the fastest (by 4.8 percent). Tourism-related sectors, such as leisure and hospitality (2.5 percent) and retail trade (2.2 percent), also showed good growth. By contrast, employment in construction, government, information and manufacturing continued to decline. IHS Global Insight forecasts that total employment in the State will grow by 0.9 percent in 2013 and by 1.1 percent in 2014, less than projected national gains.

In 2012, 12 of the State’s 14 metropolitan statistical areas (MSA) achieved net job creation. Total employment in Glens Falls grew the fastest at 2.8 percent, followed by Utica-Rome and New York City (both at 2.0 percent). New York City accounted for 60 percent of the job gains in the State. Only the Ithaca and Elmira MSAs lost jobs.

Wall Street is a major component of New York State’s economy, and securities industry-related activities generate a significant portion of the State’s tax revenues. The securities industry also remains in transition as it continues to work through the fallout from the financial crisis and adjusts to changes in its regulatory, technological and economic environment. Industry profits were weak in 2011 as a result of losses in the second half of the year, but profits rebounded in 2012. In the first three quarters of 2012, the industry earned a total of $17.6 billion, and the Office of the State Comptroller estimates that profits will exceed $20 billion for all of 2012 (about three times the profits earned in 2011).

According to IHS Global Insight, wages in the financial industry are estimated to have declined by an estimated 7.8 percent in 2012 (reflecting the reduction in bonuses for 2011 that were paid in the first quarter of 2012). The decline in financial wages will almost completely offset modest gains in most other sectors, with total wages expected to grow by only 0.5 percent in 2012. Total wage gains are projected to improve gradually, rising by 2.8 percent in 2013 and reaching nearly 4.0 percent by 2015.

The housing market in New York has held up better than in the nation, especially in upstate areas. According to the Federal Housing Finance Agency's House Price Index, home prices in New York in the third quarter of 2012 were 12.7 percent lower than the peak reached in the first quarter of 2007, compared to 16.5 percent lower in the nation. Among the State's metropolitan areas, home prices in some upstate areas have grown since the first quarter of 2007 (by 15.3 percent in Elmira, 11.3 percent in Ithaca and 7.1 percent in Buffalo), while downstate metropolitan areas such as Poughkeepsie, Long Island and New York City have experienced a net price decline (ranging from 16.9 percent to 26.3 percent) over these years. IHS Global Insight projects that median home prices in New York State will grow by 1.0 percent in 2013 and 1.1 percent in 2014, while home sales are projected to grow by 12.6 percent and by 7.0 percent, respectively.

Revenue

State Fiscal Year 2012-13

The SFY 2013-14 Executive Budget projects that total All Funds receipts will increase in SFY 2012-13 by $2.1 billion, or 1.6 percent, above the amount in SFY 2011-12, to $134.8 billion. The increase has been driven mainly by an increase in PIT and miscellaneous receipts, partially offset by a decline in federal receipts.

All Funds tax receipts are estimated to increase by $1.4 billion, or 2.2 percent, to $65.7 billion in SFY 2012-13. The modest growth in receipts is attributable to continuing slow growth in the national and State economies.

Personal Income Tax

All Funds PIT receipts in SFY 2012-13 are now forecast to increase by $1.1 billion, or 2.9 percent, over the prior year, reflecting slow growth in withholding, estimated payments, final returns and delinquencies, as well as a small decline in refunds. This is partially offset by a decline in extensions for tax year 2011. Current-year estimated payments are expected to increase by 7.1 percent as high-income taxpayers accelerated capital gains realizations into tax year 2012 to avoid the higher federal income tax rates that took effect in January 2013.

User Taxes and Fees

All Funds consumption tax receipts in SFY 2012-13 are virtually unchanged, rising by only $59 million, or 0.4 percent, over SFY 2011-12. Sales taxes are expected to increase by $118 million, or 1.0 percent, because of the improvement in the economy. This rise is partially offset by the return of the sales tax exemption for clothing and footwear for items that cost less than $110 as well as a decline in cigarette and tobacco taxes of $72 million or 4.4 percent.

Business Taxes

All Funds business tax receipts are forecast to increase from the prior year by $349 million, or 4.4 percent, in SFY 2012-13. The increase is attributable to a rise in bank tax receipts ($432 million, or 31.1 percent), primarily from higher audits and payments by commercial banks. The corporation and utilities taxes are expected to increase by $42 million, or 5.3 percent, due to a large telecommunications audit from April 2012. Insurance tax receipts are forecast to grow $35 million, or 2.5 percent.

Other Taxes

All Funds other tax receipts in SFY 2012-13, including the payroll tax, are forecast to decrease by $143 million, or 4.6 percent, from the prior year. This decrease is attributable to changes in the Metropolitan Commuter Transportation Mobility Tax that exempted public and private schools, and either reduced or eliminated the tax (depending on the size of the payroll) for businesses with a quarterly payroll of less than $437,500. This is partially offset by growth in the real estate transfer tax ($75 million, or 12.3 percent) as the real estate market continues to recover. Estate tax receipts are forecast to decline by $3.0 million, or 0.3 percent.

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by $1.2 billion, or 4.9 percent, in SFY 2012-13. The increase is due to one-time payments of: $340 million from a settlement with Standard Chartered Bank; $150 million in payments from the Manhattan District Attorney; and $100 million from the State of New York Mortgage Agency; as well as growth in SUNY income ($213 million), HCRA financing sources ($171 million), and bond proceeds for several capital improvement projects.

Federal Grants

Federal grants are expected to decrease by $480 million, or 1.1 percent, in SFY 2012-13, reflecting the loss of funding from temporary stimulus funds from the federal American Recovery and Reinvestment Act of 2009 (ARRA), partially offset by storm-related federal disaster aid.

State Fiscal Year 2013-14

The Executive Budget estimates that total All Funds receipts will increase in SFY 2013-14 by $7.6 billion, or 5.7 percent, over SFY 2012-13, to $142.5 billion. The estimate is based on an anticipated increase in All Funds tax receipts of $3.5 billion, or 5.4 percent, from continued growth in the economy. All Funds federal grants are expected to grow by $5.2 billion, or 11.8 percent. These increases are expected to be offset by a decline in miscellaneous receipts of $1.1 billion, or 4.5 percent.

Personal Income Tax

For SFY 2013-14, All Funds PIT receipts are forecast to increase over the prior year by $2.6 billion, or 6.6 percent. The increase is attributable to the continued growth in the economy. Withholding is expected to increase by $1.7 billion, or 5.4 percent, and total estimated taxes are forecast to grow by $846 million, or 7.1 percent. The large growth in total estimated taxes is also due to the 10.9 percent in extension (i.e., prior-year estimated) payments for tax year 2012 because of high-income taxpayers' acceleration of income into 2012 to avoid higher federal taxes in 2013.

User Taxes and Fees

For SFY 2013-14, All Funds consumption tax receipts are forecast to increase by $537 million, or 3.7 percent, over the prior year. The increase is mainly due to growth in the sales tax. Sales tax receipts are expected to increase by $539 million, or 4.5 percent, because of improvement in the economy, proposed base broadening ($21 million), and audit recoveries due to 2010 third-party reporting legislation ($83 million). Cigarette tax receipts are forecast to decrease by $26 million, or 1.7 percent.

Business Taxes

For SFY 2013-14, All Funds business tax receipts are forecast to increase by $234 million, or 2.8 percent. Corporate franchise tax receipts are expected to grow by $319 million, or 10.7 percent, mainly due to growth in audit receipts of $258 million. This will be partially offset by an anticipated decline in bank tax collections of $205 million, or 11.2 percent, as the unusually high collections in SFY 2012-13 are not expected to continue. Insurance tax receipts are expected to increase by $83 million, or 5.7 percent, while corporation and utility taxes are expected to decline by $28 million, or 3.3 percent.

Other Taxes

For SFY 2013-14, All Funds other tax receipts are forecast to increase by $139 million, or 4.7 percent, reflecting growth in the payroll tax ($139 million, or 4.7 percent), the estate tax ($60 million, or 5.6 percent) and the real estate transfer tax ($20 million, or 2.9 percent). The anticipated increases are attributable to continued job growth and improvement in the housing market.

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to decrease by $1.1 billion, or 4.5 percent, in SFY 2013-14, largely reflecting the loss of one-time payments received in SFY 2012-13 and the decline in debt service receipts associated with the proposed restructuring of the SUNY dormitory bonding program.

Federal Grants

For SFY 2013-14, All Funds federal grants are forecast to increase by $5.2 billion, or 11.8 percent, as a result of the payment of federal disaster aid for Superstorm Sandy.

New Revenue Actions

The Executive Budget proposes a variety of revenue extenders, loophole-closing actions, tax enforcement actions and other revenue actions, partially offset by expanded tax credits and exemptions. Overall, these actions are expected to increase All Funds revenue by $403 million in SFY 2013-14 and $780 million in SFY 2014-15.

Revenue Extenders

The Executive Budget projects the receipt of $312 million in SFY 2013-14 and $636 million in SFY 2014-15 from the following revenue extenders:

- Extend the temporary utility assessment on electric, gas, water and steam utilities for five years ($236 million in SFY 2013-14; $472 million in SFY 2014-15).
- Extend the limitation on high-income charitable contribution deductions for taxpayers with adjusted gross incomes above $10 million for three years ($70 million in SFY 2013-14; $140 million in SFY 2014-15).

- Make permanent the $2.50 new tire fee for waste management ($9.0 million in SFY 2013-14; $24 million in SFY 2014-15).
- Extend for one year the current distribution percentages for net machine income earned at the Monticello Video Lottery Terminal (VLT) facility (negative $3.0 million in SFY 2013-14; $0 in SFY 2014-15).
- Make permanent certain pari-mutuel tax rates and other racing-related provisions that have been extended numerous times ($0 in SFY 2013-14 and SFY 2014-15).
- Extend the MTA business tax surcharge for five years ($0 in SFY 2013-14 and SFY 2014-15).

Loophole-Closing Actions

The Executive Budget projects the receipt of $7.0 million in SFY 2013-14 and $41 million in SFY 2014-15 from the following loophole closures:

- Limit the industries to which industrial development agencies can offer State sales tax exemptions ($7.0 million in SFY 2013-14; $13 million in SFY 2014-15).
- Close the royalty income loophole ($0 in SFY 2013-14; $28 million in SFY 2014-15).

Tax Enforcement Actions

The Executive Budget projects the receipt of $47 million in SFY 2013-14 and $30 million in SFY 2014-15 from the following tax enforcement actions:

- Suspend delinquent taxpayers' driver's licenses when past-due taxes of more than $10,000 are owed ($26 million in SFY 2013-14; $6.0 million in SFY 2014-15).
- Allow the Department of Taxation and Finance (DTF) to garnish wages of delinquent taxpayers without filing warrants with the Department of State or County Clerks ($10 million in SFY 2013-14; $10 million in SFY 2014-15).
- Increase the civil penalty for possessing unstamped cigarettes from $150 to $600 per carton ($9.0 million in SFY 2013-14; $12 million in SFY 2014-15).
- Expand the cigarette and tobacco retailer registration process by allowing the DTF to refuse to issue certificates of registration to retailers with unpaid tax delinquencies ($1.0 million in SFY 2013-14; $1.0 million in SFY 2014-15).
- Update criteria for refusal and revocation of a sales tax certificate of authenticity ($1.0 million in SFY 2013-14; $1.0 million in SFY 2014-15).

Other Revenue Actions

The Executive Budget projects the receipt of $38 million in SFY 2013-14 and $74 million in SFY 2014-15 from the following other revenue actions:

- Recover State revenue lost through vehicle and traffic plea bargaining ($16 million in SFY 2013-14; $25.0 million in SFY 2014-15).
- Allow businesses that sell lottery tickets, occupy less than 2,500 square feet of space and have no license for on-premise alcohol consumption to offer Quick Draw ($12 million in SFY 2013-14; $24 million in SFY 2014-15).

- Require the racing industry to pay for safety reforms ($2.0 million in SFY 2013-14; $2.0 million in SFY 2014-15).
- Make tax modernization provisions permanent ($6.0 million in SFY 2013-14; $22 million in SFY 2014-15).
- Establish a statewide STAR antifraud protection program ($2.0 million in SFY 2013-14; $1.0 million in SFY 2014-15).

Expanded Tax Credits and Exemptions

According to the Executive, the following tax credits and exemptions are expected to have no fiscal impact in SFY 2013-14 and to result in a $1.0 million decline in revenue in SFY 2014-15:

- Establish the New York Innovation Hot Spots program.
- Establish tax-free sales at Taste-NY facilities.
- Extend, enhance and improve transparency for the New York film production tax credit.
- Extend and enhance the historic commercial properties rehabilitation credit.
- Establish the Charge New York electric vehicle recharging equipment credit (negative $1.0 million in SFY 2014-15).

Technical Corrections

- According to the Executive, technical corrections to the tax classification of uncompressed natural gas are expected to have no significant revenue impact.

Figure 12

Total Receipts
(in millions of dollars)

Category	Actual SFY 2011-12	Projected SFY 2012-13	Dollar Change	Percent Change	Proposed SFY 2013-14	Dollar Change	Percent Change
General Fund	56,900	58,841	2,683	4.7%	61,173	2,332	4.0%
Taxes	41,754	42,953	1,941	4.6%	45,361	2,408	5.6%
Personal Income Tax	25,843	26,649	806	3.1%	28,471	1,822	6.8%
User Taxes and Fees	9,055	9,127	72	0.8%	9,492	365	4.0%
Business Taxes	5,760	6,083	323	5.6%	6,244	161	2.6%
Other Taxes	1,096	1,094	(2)	-0.2%	1,154	60	5.5%
Miscellaneous Receipts	3,162	3,724	562	17.8%	3,101	(623)	-16.7%
Federal Receipts	60	60	0	0.0%	2	(58)	-96.7%
Transfers from Other Funds	11,924	12,104	180	1.5%	12,709	605	5.0%
All Funds	132,745	134,826	2,081	1.6%	142,463	7,637	5.7%
Taxes	64,297	65,695	1,398	2.2%	69,225	3,530	5.4%
Personal Income Tax	38,767	39,900	1,133	2.9%	42,520	2,620	6.6%
User Taxes and Fees	14,571	14,630	59	0.4%	15,167	537	3.7%
Business Taxes	7,877	8,226	349	4.4%	8,460	234	2.8%
Other Taxes	3,082	2,939	(143)	-4.6%	3,078	139	4.7%
Miscellaneous Receipts	23,837	25,000	1,163	4.9%	23,880	(1,120)	-4.5%
Federal Receipts	44,611	44,131	(480)	-1.1%	49,358	5,227	11.8%

Source: Division of the Budget

Program Area Highlights

Education

The SFY 2013-14 Executive Budget increases school aid by roughly $611 million, or 3.0 percent, from $20.2 billion to $20.8 billion in school year (SY) 2013-14. On a State Fiscal Year basis, projected school aid spending would total $20.3 billion, an increase of $261 million over SFY 2012-13 in State Operating Funds. Driven by a cap formula tied to Personal Income, this is less than the $711 million increase projected for SY 2013-14 in last year's Executive Budget, which assumed a Personal Income growth factor of 3.5 percent. The proposed changes on a SY basis are allocated as follows (with reductions in parenthesis):

- $289 million to fund growth in expense-driven and miscellaneous aids.
- $50 million for additional competitive grants, bringing the total recommended appropriation for the Governor's performance and efficiency grants under the school aid cap up to $100 million in SY 2013-14.
- $322 million in gap elimination adjustment (GEA) restoration aid, targeted to high need districts.
- ($50 million) in cuts in aid to highly taxed school districts (High Tax Aid). The formula for distributing High Tax Aid would be changed to redistribute aid to higher-need districts, and lower the cost of that aid category from $205 million in SY 2012-13 to $155 million in SY 2013-14.

Excluding building aids, changes in proposed distributions of school aid to particular districts would range from a 34.7 percent decrease to a 24.5 percent increase, with an overall statewide increase of 2.8 percent.

Once again, the SFY 2013-14 Budget continues the practice started in the SFY 2011-12 Enacted Budget of including a two-year appropriation for school aid. The SFY 2014-15 appropriation is consistent with a projected 3.3 percent increase for SY 2014-15 that would bring total school aid to $21.5 billion, although (as noted above) this appropriation does not actually guarantee or limit final growth under the cap formula.

In addition to school aid, however, the Executive Budget also proposes another one-time increase in "aid to education" of $203 million. Labeled "Fiscal Stabilization Funding," this money is not allocated by any formula, but would be appropriated "pursuant to a chapter" to be drafted by the Legislature, although the Governor has noted that it is to be used to alleviate stress from large increases in pension contributions and other fixed costs.

There is also a proposed agenda related to the Governor's New NY Education Reform Commission, also outside of the school aid cap, consisting of $75 million in assorted competitive grants, repurposed from competitive performance and management grant funds:

- $25 million for full-day pre-kindergarten education in lower-wealth school districts.
- $20 million for extended learning time (schools that apply must agree to expand learning time by 25 percent).
- $15 million for community schools (to turn schools into community hubs featuring social, health and other services, as well as after-school programming).
- $11 million for stipends to high-performing teachers, beginning with math and science teachers.
- $4.0 million to bolster early college high school programs, which would bring total funding to $6.0 million.

Together with the school aid funding, the fiscal stabilization funding and Reform Commission-related grants would bring SY 2013-14 aid for education increases to the $889 million, or 4.4 percent, over SY 2012-13.

The Executive's proposal continues to link districts' aid increases to implementation and renewal of their teacher evaluation plans. Most districts met the deadline for establishing teacher evaluation systems by January 17, 2013, with New York City being one notable exception. New York City will lose approximately $250 million in aid each year for missing this year's deadline.

The Budget also proposes a number of mandate reforms that would affect school districts. In addition to programs described in greater detail in the Local Governments section of this report, the Governor is also proposing to allow districts to apply to waive certain mandates, and to remove the internal auditor requirement (put in place as part of a set of school district accountability measures in the wake of discoveries of fraud in Roslyn and several other school districts) for districts under 1,000 students.

In addition, the Executive Budget attempts to help prevent fraud in preschool special education by increasing audit activity, including a $2.0 million appropriation for the State to contract with an independent auditor, helping counties monitor providers (and providing greater incentives for them to do so), and allowing New York City to implement a process to select providers for these services and set its own rates within State parameters.

The Office of the State Comptroller has also identified the need for better fiscal management and oversight of New York's special education providers. Most notably, the Comptroller's Office has issued 15 audit reports identifying over $13 million of disallowed costs in recent years. In a number of instances, these audits have identified fraud and have led to law enforcement referrals. Several additional audits are underway which may include similar findings.

In addition, a recent audit report cited the need for improved monitoring of special education providers by the State Education Department. While the Executive Budget calls for using certified public accounting firms to bolster fiscal oversight of special education provider programs, it should be noted that the provider programs have long relied on these firms to certify their financial statements and program costs. Nevertheless, the Comptroller's audits have found significant costs inappropriately charged to the programs and paid for by the State and the counties.

Although the Executive Budget does not make major changes to the School Tax Relief (STAR) program, it proposes tightening enforcement for improperly received benefits, increasing the "look-back period" from three to five years for purposes of revocation of benefits, and assessing a $500 processing fee on anyone found to have improperly received a STAR benefit.

Higher Education

The SFY 2013-14 Executive Budget maintains General Fund operating support for the State University of New York (SUNY) and the City University of New York (CUNY) at the prior year levels. Overall, on an academic year basis, General Fund support for the operating budgets of SUNY and CUNY is proposed to total $1.5 billion, including $969 million for SUNY and $525 million for CUNY. Additional spending authority of $106 million for SUNY and $61 million for CUNY is provided to accommodate increased revenue from previously authorized tuition increases. General Fund support of $60 million is provided for SUNY's teaching hospitals.

The Executive proposes to increase General Fund support for community colleges by $1.0 million, or 0.2 percent, for a total of $652 million on an academic year basis. The Executive proposes to expand the enrollment-based funding criteria for workforce and vocational programs at community colleges to include performance measures, such as job placement, as well as partnership with local employers and the Regional Economic Development Councils. The Executive Budget includes $5.0 million for new grants associated with this proposal.

The Executive proposes capital funding of $55 million each for a new round of SUNY 2020 grants and a new CUNY 2020 grant program. These funds are proposed to be used for competitive grants to colleges and universities within both systems based on economic impact, advancement of economic goals, innovation, and collaboration. The Executive Budget also includes more than $1.8 billion in spending for capital projects in SFY 2013-14, including $1.3 billion for SUNY and $540 million for CUNY.

The Executive Budget proposal includes General Fund support of $1.0 billion for the Higher Education Services Corporation in SFY 2013-14, an increase of $17 million over the prior year primarily due to increased Tuition Assistance Program payments associated with tuition increases.

The Executive proposes Article VII legislation to allow DASNY to continue to finance the SUNY Residence Hall Program; however, debt service costs would no longer be paid through a State appropriation. Under the current program, debt service is paid from moneys received from the rental of dormitories with a general obligation pledge from SUNY as a back-stop. With the proposed legislation, DASNY would issue bonds under a new credit backed solely by dormitory fees with no State appropriations required, thus making debt service spending for SUNY dormitories off-budget and new debt not subject to the statutory debt limit. Capital spending for SUNY dormitories would continue to be off-budget.

Health/Medicaid

The Executive Budget proposes to increase State-funded Medicaid spending by $662.1 million, or 3.0 percent, to $22.4 billion in SFY 2013-14. From SFY 2012-13 through SFY 2016-17, the Executive Budget projects increased State-funded Medicaid spending of more than $3.5 billion. Department of Health (DOH) State Medicaid spending, which has been capped under law since SFY 2011-12 and excludes State payments not appropriated within DOH or for services provided at the Office of Mental Health (OMH), the Office for People with Developmental Disabilities (OPWDD), and the Office of Alcoholism and Substance Abuse Services (OASAS) facilities, would increase by $509.7 million, or 3.2 percent, to $16.4 billion in SFY 2013-14. This level of funding is consistent with budget provisions enacted in SFY 2011-12, which limit the annual growth rate of DOH State Medicaid spending to the 10-year rolling average of the medical component of the U.S. Consumer Price Index (CPI), currently 3.9 percent.

The Executive Budget proposes to increase All Governmental Funds Medicaid spending, reflecting the State and federal shares of Medicaid, by $2.9 billion, or 6.3 percent, to $48.7 billion in SFY 2013-14. Approximately $1.0 billion of this increase represents additional federal aid accruing to the State under federal health reform legislation known as the Affordable Care Act (ACA).

Overall Medicaid spending in New York, including approximately $8.9 billion in local government expenditures, is projected to total $57.6 billion in SFY 2013-14, an increase of $3.6 billion, or 6.7 percent, over SFY 2012-13. By SFY 2016-17, the Executive Budget estimates that total Medicaid spending, including local government expenditures, will exceed $68 billion.

Figure 13

Total Medicaid Disbursement Estimates
(in millions of dollars)

	2012-13	2013-14	2014-15	2015-16	2016-17
Department of Health	15,912	16,421	16,978	17,805	18,515
Mental Hygiene	5,785	5,924	6,157	6,601	6,725
Foster Care	87	89	92	96	100
Corrections	0	12	12	13	13
State Share Total	**21,784**	**22,446**	**23,239**	**24,515**	**25,352**
Federal Share	24,059	26,295	29,518	31,748	35,056
Local Share	8,153	8,886	8,309	8,136	7,983
Total Medicaid Spending	**53,996**	**57,627**	**61,066**	**64,399**	**68,391**

Source: Division of the Budget

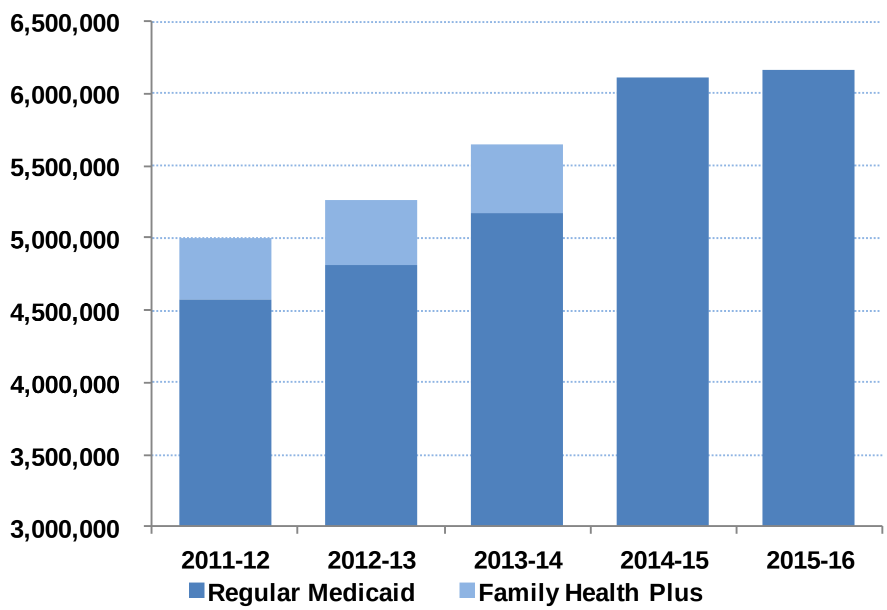
For SFY 2013-14, the Executive Budget proposes to limit appropriations for State-funded DOH Medicaid spending to $16.48 billion, which is $113.7 million, or 0.7 percent, less than the spending limit authorized in the SFY 2012-13 Enacted Budget. This reduction largely reflects the decision by Monroe County to participate in the local cap contribution program starting April 1, 2013. The result of this decision, by which the county will pay its share of Medicaid costs directly, rather than through State intercept of sales tax collections, is slightly lower State spending and receipts.

The Executive Budget proposes to extend the cap on State-funded DOH Medicaid spending for an additional year, through SFY 2014-15, limiting such spending to no more than $17.1 billion. The Executive Budget also proposes a similar extension of the State Health Commissioner's authority to develop a plan to reduce State DOH Medicaid expenditures if they are projected to exceed the spending cap in either SFY 2013-14 or SFY 2014-15. For SFY 2011-12, State DOH Medicaid spending came in $14 million below the $15.3 billion cap. Through November 2012, State DOH Medicaid spending was $46 million, or 0.4 percent, below SFY 2012-13 spending projections. The cap for SFY 2012-13 is $15.9 billion.

The Executive Budget projects Medicaid enrollment to reach 5.6 million recipients in SFY 2013-14, an increase of nearly 385,000 eligible individuals, or 7.3 percent, over SFY 2012-13. The Executive Budget projects average annual enrollment to exceed 6.1 million Medicaid recipients in SFY 2015-16.

Figure 14

Average Annual Medicaid Enrollment by State Fiscal Year



Source: Division of the Budget

Starting in January 2015, the Executive Budget proposes to eliminate Family Health Plus and provide most of the program's enrollees with health care benefits through Medicaid under new ACA eligibility thresholds.[10] Remaining enrollees who are not eligible for

[10] Family Health Plus is a Medicaid expansion program for adults whose income is too high for regular Medicaid. Unlike regular Medicaid, Family Health Plus does not cover long-term care.

Medicaid would be eligible for federal tax credits in the State Health Benefit Insurance Exchange, starting January 2014, pursuant to ACA requirements. The Executive Budget proposes to pay all additional out–of-pocket costs for these individuals.

The Medicaid enrollment projections in the Executive Budget are higher than enrollment estimates published in November 2012 in the Executive's Mid-Year Update to the Financial Plan for SFY 2012-13, largely as a result of data refinements related to expanded eligibility under the ACA.

Figure 15

Medicaid Enrollment Growth Projection Changes November 2012 Compared to January 2013

	SFY 2012-13 Mid-Year Update	SFY 2013-14 Executive Budget Proposal	Percentage Change
2011-12	4,962,529	5,002,820	0.8%
2012-13	5,081,860	5,258,974	3.5%
2013-14	5,336,209	5,643,330	5.8%
2014-15	5,830,476	6,110,639	4.8%
2015-16	5,927,226	6,169,418	4.1%

Source: Division of the Budget

The Executive Budget proposal reflects approximately $265.8 million in higher State and federal costs associated with the continued phase-in of the State takeover of local government Medicaid administration responsibilities in SFY 2013-14. Last year's budget capped State costs of reimbursing local governments for Medicaid administration, which are projected to decrease by $16.5 million, or 2.9 percent, to $552.3 million in SFY 2013-14 and to continue to decrease through SFY 2015-16. Federal reimbursement costs are projected to increase by $7.4 million, or 1.3 percent, to $599.2 million in SFY 2013-14, but are expected to decrease in subsequent years.

However, overall Medicaid administration disbursements, reflecting in part the State and federal costs of 250 new State Health Department full-time equivalent (FTE) employees to perform local Medicaid administration tasks, are projected to increase by $308.0 million, or 26.5 percent, to nearly $1.5 billion in SFY 2013-14. A small portion of this increase reflects a plan to move existing Medicaid program spending into administration in SFY 2013-14. After peaking in SFY 2013-14, Medicaid administration disbursements are projected to decrease by $170.6 million, or 11.6 percent, to slightly less than $1.3 billion in SFY 2015-16, according to Executive Budget documents. Last year's budget required the State takeover of local Medicaid administration responsibilities to be completed by March 31, 2018.

The Executive Budget proposal also reflects the phase-in of a hard cap on local Medicaid spending. Last year's budget reduces local Medicaid spending growth from 3.0 percent to 2.0 percent in SFY 2013-14, to 1.0 percent in SFY 2014-15, and eliminates it entirely in SFY 2015-16, yielding local savings as well as additional State costs of over $600 million.

The Executive Budget proposes to reduce funding for the Office of the Medicaid Inspector General (OMIG) by $2.5 million, or 3.9 percent, to $63.4 million in SFY 2013-14, but also to increase its workforce by 10 FTEs, or 2.1 percent, to 486 by March 31, 2014. The Executive Budget would pay for the new hires with savings in OMIG equipment and contract costs. The Executive Budget Financial Plan expects the OMIG to achieve $1.1 billion in annual State share Medicaid cash recoveries and cost avoidance in SFYs 2013-14 and 2014-15.

Receipts and disbursements of Health Care Reform Act (HCRA) funds, which finance many State health care programs, remain in balance through SFY 2016-17 under the Executive Budget proposal. However, the Executive Budget's proposed HCRA Financial Plan reflects lower receipts and disbursements than previously projected, primarily due to a delay in the accrual of proceeds from the conversion of not-for-profit health insurers HIP and GHI to for-profit status in SFYs 2012-13 and 2013-14. The conversion process has in the past proven lengthy, and proceeds have not been realized as expected in prior financial plans.

Figure 16

HCRA General Fund Off-Loads Estimates

(in millions of dollars)

	2012-13	2013-14	2014-15	2015-16	2016-17
Medicaid	3,228	3,529	3,863	3,957	4,131
Public Health	129	0	0	0	0
EPIC	127	209	230	250	271
Roswell Park Cancer Institute	78	78	0	0	0
Total Off-Loads	**3,562**	**3,816**	**4,093**	**4,207**	**4,402**
As a Share of Total HCRA Spending	65.5%	67.6%	69.5%	70.3%	72.4%
Total HCRA Spending	**5,441**	**5,644**	**5,886**	**5,981**	**6,081**

Source: Division of the Budget

The primary effect of the downward revision in HCRA receipts is a decrease in the level of HCRA support for, or off-loading of, General Fund Medicaid spending, which accounts for the largest portion of annual HCRA disbursements. Under the Executive Budget proposal, HCRA funding of Medicaid spending still increases by $301 million, or 9.3 percent, to $3.5 billion in SFY 2013-14. However, the Executive Budget also reflects reductions in HCRA Medicaid disbursement estimates of $245 million in SFY 2012-13 and $70 million in SFY 2013-14 from the estimates in the Mid-Year Update. Last year's budget required the Roswell Park Cancer Institute to seek approvals by January 1, 2014 to implement a plan to merge or affiliate with other entities, in order to achieve fiscal independence from the State. The Executive Budget proposes to continue HCRA support for Roswell in SFY 2013-14, but subsequent funding depends on implementation of the merger or affiliation plan.

The Executive Budget reduces All Funds spending on public health programs, such as tobacco control, early intervention services for children under three with disabilities or developmental delays, and local health departments, by $232 million, or 5.2 percent, to $4.2 billion in SFY 2013-14. The Executive Budget proposes to achieve $40 million in public health savings by replacing individual appropriations for a wide variety of State-funded public health programs worth $395 million in SFY 2012-13 with six new pools of funding worth $355.2 million in SFY 2013-14. Disbursements from these pools – in programmatic areas such as chronic disease prevention and treatment, environmental health and infectious disease control, maternal and child health outcomes, and HIV, AIDS, Hepatitis C and STDs – would be made at the sole discretion of the State Commissioner of Health under an outcome-based contracting and health planning process the Executive Budget proposes to establish within DOH. All Funds expenditures on programs for elderly New Yorkers administered by the State Office for the Aging, including in-home services and nutrition assistance, would decrease by $3.0 million, or 1.4 percent, to nearly $215.4 million in SFY 2013-14.

In addition, the Executive Budget advances a series of proposals to bypass the competitive bidding process and procurement review by the Office of the State Comptroller on several major health-related contracts, including hiring managed care plans to provide services to the developmentally disabled and to Medicaid recipients who are also eligible for the Medicare program.

Mental Hygiene

The SFY 2013-14 Executive Budget proposes to increase State-funded mental hygiene spending by $17.6 million, or 0.2 percent, to approximately $7.8 billion in SFY 2013-14. All Funds spending, including federal funds and capital projects, is proposed to total $8.3 billion in SFY 2013-14, an increase of $25.0 million, or 0.3 percent, over SFY 2012-13. This funding supports the operations of six State agencies:

- $4.3 billion, or a 1.6 percent decrease, for OPWDD.
- $3.3 billion, or a 1.8 percent increase, for OMH.
- $616.1 million, or a 1.2 percent increase, for OASAS.
- $37.3 million for the new Justice Center for the Protection of People with Special Needs, established by Chapter 501 of the Laws of 2012. The Justice Center will have primary responsibility for tracking, investigating and pursuing abuse and neglect complaints at State- and provider-operated facilities certified or licensed by OMH, OPWDD, OASAS, DOH, the Office of Children and Family Services (OCFS) and the State Education Department (SED), when it becomes operational, by the end of June 2013.
- $9.4 million, or a 44.6 percent decrease, for the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQCAPD). This decrease reflects the Commission’s transition to the new Justice Center. Under this transition, Commission activities, as well as 80 FTEs, would be transferred to the Justice Center when it becomes operational. The Executive Budget recommends a total of 280 FTEs for the Justice Center, which would receive additional funding from some of the State agencies it will be monitoring.

- $4.2 million, or no increase, for the Developmental Disabilities Planning Council (DDPC).

The Executive Budget proposes $152.3 million in various mental hygiene spending reductions, the largest of which would save $53.4 million by deferring for one year a planned 1.4 percent cost-of-living-adjustment for OASAS, OMH and OPWDD providers and maintaining existing rates for other programs. The Executive Budget also scales back existing plans for the development of mental health housing capacity, as well as new residential, day program and other support services for the developmentally disabled. The Executive Budget Financial Plan identifies reductions to total projected mental hygiene community residences (or "beds") of 949 beds in SFY 2012-13, 2,967 beds in SFY 2013-14, and 2,993 beds in SFY 2014-15, compared to projections contained in the Mid-Year Update. OMH accounts for nearly three-quarters of the projected bed development reductions through SFY 2014-15.

The Executive Budget reflects the closures announced last year of OPWDD's Finger Lakes and Taconic campuses. These closures are expected to be completed by December 2013.

The Executive proposes to make permanent SFY 2012-13 budget provisions that required the Commissioner of Mental Health to provide 75 days notice of OMH facility closures and 45 days notice of ward closures or conversions. The Executive Budget proposal reflects $25 million in savings from regionalizing and restructuring OMH's system of State psychiatric centers, but does not indicate which facilities would be closed or downsized. However, in an effort to ensure the availability of adequate inpatient mental health treatment capacity despite closures and/or downsizing, the Executive Budget proposes creation of regional centers of excellence for the diagnosis and treatment of individuals with mental illness.

Annual salaried positions in the six State Mental Hygiene agencies would decrease by a total of 922 FTEs, or 2.6 percent, to 34,209 positions in SFY 2013-14. Staffing in OPWDD facilities and programs would decrease by 1,249, or 6.3 percent, most of it occurring in the agency's developmental centers. According to the Executive, this is expected to be accomplished through attrition of current employees.

Figure 17

State Mental Hygiene Agency Staff Level Estimates

Agency	2012-13	2013-14	Change	Percentage Change
OPWDD	19,816	18,567	(1,249)	-6.3%
OMH	14,453	14,580	127	0.9%
OASAS	764	764	0	0.0%
CQCAPD	80	0	(80)	-100.0%
JUSTICE CENTER	0	280	280	
DDPC	18	18	0	0.0%
Total	**35,131**	**34,209**	**(922)**	**-2.6%**

Source: Division of the Budget

The Executive Budget identifies as a significant risk to the SFY 2013-14 Financial Plan the potential loss of $1.1 billion in federal funding related to Medicaid payment rates for New York's OPWDD developmental centers and other State-provided services for the developmentally disabled. The State is in discussions with the federal Centers for Medicare & Medicaid Services on alternative funding approaches to avoid this loss in funding. However, the State is preparing a contingency budget reduction plan to maintain budget balance in SFY 2013-14 in the event this funding reduction occurs.

Human Services

The Executive Budget proposes nearly $3.5 billion in State funding for human services programs provided by the Office of Temporary and Disability Assistance (OTDA) and OCFS, which is $88.9 million, or 2.5 percent, lower than in SFY 2012-13. All Funds spending, including federal funds, capital projects and General State Charges, is proposed to total approximately $8.1 billion in SFY 2013-14, which is $352.3 million, or 4.2 percent, lower than in SFY 2012-13.

Overall funding for OCFS, which has responsibilities including maintaining a system of secure, limited-secure, and non-secure residential facilities for juvenile delinquents and offenders, would increase by $37.7 million, or 1.3 percent, to $3.0 billion in SFY 2013-14. This increase largely reflects the costs of annualizing last year's Close to Home initiative, which moves New York City youth placed in OCFS limited-secure and non-secure settings outside of the City to residential settings administered by the City of New York. The Executive proposes to extend this initiative to include youth from counties outside of New York City, at a cost of $3.0 million in SFY 2013-14.

The Executive Budget proposal would reduce OCFS's juvenile justice system by 88 beds and 15 after-care slots, and reduce agency FTEs by 575, or 17.6 percent, to 2,688; most of these reductions are related to the closing and downsizing of youth facilities associated with this initiative. Executive Budget documents indicate that expansion of the Close to Home initiative would result in $1.9 million net costs in SFY 2013-14, but would achieve

$1.4 million net savings when fully implemented in SFY 2014-15. Executive Budget documents also indicate that State employees affected by this proposal would be placed in other vacant State positions or receive retraining assistance.

Overall funding for OTDA, with responsibilities that include providing temporary cash and other assistance for needy families and individuals, would decrease by $390 million, or 7.2 percent, to approximately $5.1 billion in SFY 2013-14. Much of this decrease reflects the proposed transfer of staff who work in the Homeless Housing and Assistance Program to the State Division of Housing and Community Renewal, as well as lower public assistance caseloads. The Executive Budget projects caseloads to decrease by 12,177, or 2.2 percent, to approximately 554,000 cases in SFY 2013-14.

The Executive Budget also proposes to increase State funding for the Department of Labor (DOL) by $2.1 million, or 3.1 percent, to $70.5 million in SFY 2013-14. All Funds DOL spending would increase $15.5 million, or 2.2 percent, to $713.4 million. One of DOL's principal responsibilities is administration of the State's unemployment insurance (UI) system, the costs of which are not included in Executive Budget Financial Plan disbursement tables. The Executive Budget proposes to decrease funding for the UI system by $1.2 billion, or 17.2 percent, to $5.55 billion in SFY 2013-14, reflecting reductions in projected UI claims as a result of improving economic conditions. The Executive also proposes to change the UI system's tax and benefit structure in order to eliminate its current $3.5 billion deficit (financed with money borrowed from the federal government), decrease costs to employers and increase benefits for workers. Executive Budget documents indicate the State may be liable for interest payments on the money borrowed from the federal government or face federal sanctions if it does not implement such reforms.

Economic Development

The Executive Budget seeks to expand the "design-build" authorization in the Infrastructure Investment Act of December 2011.[11] This Act contained provisions to authorize the Thruway Authority, Bridge Authority, Department of Transportation, Office of Parks, Recreation and Historic Preservation, and the Department of Environmental Conservation to use a design-build approach to infrastructure projects. This approach eliminates the initial design stage used in conventional procurement, permitting bidders to offer a complete package of design and construction costs in one bid.

The new proposal would extend this authorization to all State public authorities, State agencies and any State department division, board, commission, bureau, office, committee, or council (excluding SUNY and CUNY). In addition, the proposal adds authorization to use a design-build-finance approach which combines design, construction, and financing. The financing may come from public or private funds. The Executive proposal also expands the eligible capital projects to include buildings. See the Public-Private Partnership section of this report for further discussion. The Executive indicates that the changes are necessary to expedite the recovery from Superstorm Sandy.

[11] See Chapter 56 of the Laws of 2011.

The Executive Budget proposes granting permanent general loan powers to the New York State Urban Development Corporation (UDC). This modification has been proposed in prior years; including the SFY 2012-13 Executive Budget, however, the Legislature has only provided annual extensions that sunset at the end of each fiscal year. The proposal also seeks to grant permanent general grant-making powers to UDC. Currently, UDC has the ability to make grants only when they are tied to specific, statutory programs. There is no programmatic legislation establishing and defining certain recent economic development programs. While economic development programs are important, transparency and accountability for these and other major spending programs must be maintained.

The Executive Budget proposes to establish the New York Innovation Hot Spots Program. The “hot spots” would be operated by colleges or universities or not-for-profit entities affiliated with post-secondary educational institutions, and would provide support services to fledgling businesses within the designated “hot spot” location. In addition, these businesses would be eligible for State tax benefits, as well as sales and use tax credits or refunds for their purchases, for a period of five years. The Executive estimates that the program would have no fiscal impact in SFY 2013-14, would result in nominal sales tax receipts reductions in each year of the Financial Plan, and would result in a $5.0 million All Funds revenue loss in the Corporate Franchise Tax in 2017-18.

Five Innovation Hot Spots would be designated by the Department of Economic Development (DED), based on recommendations from the Regional Economic Development Councils (REDCs), in SFY 2013-14. Another five would be chosen in SFY 2014-15 based on criteria established by the Commissioner of Economic Development (Commissioner). While the criteria would be developed by the Commissioner, the proposal does provide that certain criteria must be met for an institution or entity to be designated as an operator. The criteria include:

- Plans to establish clear policies for the participating new businesses.
- A robust package of business mentoring services.
- The ability to obtain additional funding from non-governmental sources.
- The capability and desire to work cooperatively with other economic development organizations, business entities and financing sources.

The proposal includes a $1.25 million appropriation for DED in SFY 2013-14 to fund loans, grants and expenses related to the operation of the Innovation Hot Spots. Funding is expected to grow to $5.0 million as the program is fully implemented.

A proposal for a new marketing and tourism program, Market NY, includes a $5.0 million appropriation for competitive funding of tourism marketing plans though DED. In addition, the Market NY plan proposes the establishment of Taste-NY facilities, which would promote the sale of goods produced in New York, including alcoholic beverages. The facilities would be located in high-traffic areas such as rest areas, train stations and airports. The proposal also exempts sales from sales and use taxes, and makes changes to the Alcoholic Beverage Control Law to permit the sale of alcoholic beverages at these facilities. A $2.0 million appropriation for DED to fund program implementation costs is included. The Executive estimates that there will be a minimal loss of sales and use tax receipts and alcoholic beverage license fee receipts in SFY 2013-14 and annually thereafter.

The Executive proposal includes IDA provisions related to the awarding of State sales tax exemptions and payments-in-lieu-of-taxes (PILOTs). These changes would require that: project operators must be certified or must be eligible to be certified participants in the Excelsior Jobs Program; IDAs must submit benefit plans in writing to the DED Commissioner; and the Commissioner must review and determine, in consultation with the REDCs, if the projects are consistent with the approach they have adopted. The proposal also grants the Commissioner the power to approve, deny or modify project benefit proposals submitted by the IDAs, prohibits IDAs from granting benefits greater than those approved by the Commissioner, and requires IDAs to remit funds received pursuant to a PILOT agreement for State sales and use tax to the Commissioner of Taxation and Finance within 30 days of receipt. In addition, State sales tax benefits could not be taken at the time of purchase, but rather must be paid and a refund or credit sought afterward from Tax and Finance. The proposal adds IDA reporting and notification requirements related to projects and benefits granted or revoked.

The Executive estimates that these provisions would increase All Funds sales and use tax receipts by $7.0 million in SFY 2013-14 and $13 million annually thereafter. The changes would be effective immediately and would apply to all projects or agreements entered into or amended, any State tax benefits recovered or recaptured or any PILOT payments received, on or after the effective date.

The Executive Budget proposes the establishment of a New York State Innovation Venture Capital Fund, which would be administered by the Empire State Development Corporation (ESDC). According to the Executive, the $50 million program would provide initial financial support for new business formation and development and would be funded by $40 million from the Power Authority of the State of New York (NYPA) and $10 million from underutilized ESDC programs. Some anticipated shifting of funds would require federal approval.

Also proposed is the Innovation NY Network, which would not require taxpayer support, but would build a collaborative network of academics, venture capitalists, business leaders and others to provide guidance and support to emerging entrepreneurs.

The Executive Budget provides a $56 million capital appropriation related to an agreement with the Buffalo Bills professional football franchise, $54 million of which would support an estimated $130 million in improvements to Ralph Wilson Stadium. An additional appropriation of $4.4 million is included through UDC to provide operating support. Furthermore, as part of the Executive's commitment to provide $1.0 billion in funding to support economic development in the City of Buffalo, the Executive Budget includes $75 million in capital appropriations and $25 million in Excelsior Jobs tax credits for the Buffalo Innovation Cluster.

The proposal also includes continued funding for the REDCs of $150 million, along with $70 million in Excelsior Jobs tax credits and $165 million for the New York Works Economic Development Fund Program. In addition, $50 million is proposed to be provided by NYPA for the Open for Business initiative and $78 million is proposed to support various ongoing economic development initiatives such as the New York State Economic Development Fund, the Minority and Women-Owned Business Development and Lending Program, the Entrepreneurial Assistance Program, and continued High Technology Funding.

Capital funding of $55 million for a new round of SUNY 2020 Challenge Grants is proposed in the Executive Budget, as well as an additional $55 million in capital funding for a new City University of New York (CUNY) 2020 Grants Program. Accompanying this is Article VII legislation to increase the bonding authorization for the Challenge Grant program by $110 million.

The Executive Budget proposes the establishment of a Transformative Capital Fund comprising two accounts, a Transformative Capital Account and a Storm Recovery Account. The Transformative Capital Account would be created with a $720 million capital appropriation for costs associated with transformative economic development and infrastructure initiatives. Half of these funds would be spent pursuant to a plan developed by ESDC and based in part on the competitive selection process of the REDCs. The remaining $360 million would fund projects consistent with the planning strategies established by the New York Works Task Force. The Storm Recovery Account would be created with a $450 million capital appropriation in the Division of Homeland Security and Emergency Services budget for costs associated with recovery from Superstorm Sandy. The Executive anticipates that a significant portion of these expenditures will be reimbursed with federal funds. The appropriations are accompanied by a new bond cap authorization of $1.17 billion.

Workers Compensation

The Executive Budget includes a package of workers' compensation changes that would impact both the State budget and private employer workers' compensation assessments. Assets held by SIF in what are deemed excess reserves would be transferred to the State. The initial Financial Plan impact for SFY 2013-14 includes $250 million for the General Fund and $500 million in Capital spending. Total transfers from SIF through SFY 2016-17 are projected to total $1.75 billion.

In addition, a $900 million bonding program would be established through DASNY to cover defaults of group self-insured trusts. These trusts were established by groups of employers in recent years in an attempt to pool their resources. Many of the trusts have failed, leaving employers with large unfunded workers' compensation obligations. The DASNY bonds would be used to purchase liabilities resulting from the default of self-insurance trusts and would be backed by the new Workers' Compensation Assessment on employers. The payment of the bonds would be the obligation of employers and would not constitute a debt of the State or a State-supported obligation. The minimum compensation benefit of disabled workers would increase from $100 per week to $150 per week. The amount has not increased since 2007 and is not indexed.

Lottery and Gambling

The SFY 2013-14 Executive Budget proposes the introduction of Phase I Casino Gambling and provides that the Legislature shall authorize up to three casinos in the State. The casino sites cannot be located in the City of New York or Nassau, Putnam, Rockland, Suffolk or Westchester counties, and would be selected by the New York State Gaming Commission (Gaming Commission) through a competitive process. The casino location and operator would be required to have significant support from both the local government and the local community. Elementary and secondary education would receive 90 percent of revenues from the casino facilities, while 10 percent would be allocated to local government property tax relief. In addition, the Gaming Commission would be directed to undertake a study in consultation with the REDCs to review licensing and regulation, rates of taxation and levels of capital investment for casino development. The proposal creates a separate office of casino gambling within the Gaming Commission, which is charged with regulation of the casinos. The Gaming Commission is also directed to issue a request for information from gaming operators interested in developing the casino sites.

On March 14, 2012, the Legislature passed Governor's Program Bill 30, a constitutional amendment which would provide authorization for casino gambling at no more than seven facilities in New York State. Constitutional amendments require the passage of a concurrent resolution by two separately elected legislatures and subsequent adoption by the voters. Therefore, the earliest this amendment could take effect would be after the November 2013 General Election; however, the amendment has not yet been introduced in the current legislative session.

The Executive Budget proposes lifting the remaining restrictions on the Lottery's Quick Draw game, which currently require that the premises where tickets are sold must be larger than 2,500 square feet and that no one under 21 years of age may participate in the game on premises where alcoholic beverages are sold. The Executive anticipates a $12 million increase in All Funds revenue in SFY 2013-14 and $24 million annually thereafter.

As a result of a series of racehorse injuries and fatalities at New York tracks, the Governor convened the Task Force on Racehorse Health and Safety in 2012. In order to fund the recommendations of the Task Force, the Executive Budget proposes allocating one percent of purse enhancements at Video Lottery Terminal (VLT) facilities to promoting and ensuring the health and safety of horses in New York. The Executive estimates this proposal would provide an additional $1.5 million for the racing regulation account annually. Any unused portion would be returned to be used for purse enhancements.

The Executive Budget seeks to create a new account to be used for the administration of the Gaming Commission. The Gaming Commission was established in the SFY 2012-13 Enacted Budget through the merger of the Division of the Lottery and the Racing and Wagering Board. The Executive indicates that the new account is required because administrative expenses cannot be paid from the State Lottery Fund or from racing regulation funds. The new commission will commence operations on February 1, 2013.

Transportation

According to the Executive, the Department of Transportation (DOT) will implement administrative efficiencies through attrition, restacking and shared services opportunities, as well as a reduction in prior estimates of needed Amtrak corridor subsidies, to save $32.2 million in SFY 2013-14. The SFY 2013-14 Executive Budget proposes funding the Consolidated Local Street and Highway Improvement Program (CHIPs) and Marchiselli Aid at the same levels as in SFY 2011-12, $363.1 million and $39.7 million, respectively. The CHIPS bond cap will remain at $7.1 billion.

Capital Projects

The DOT capital program is projected to total $3.7 billion in SFY 2013-14. DOB has indicated that it will no longer report overall letting levels, so this information is not currently available.

The Executive Budget includes a $300 billion capital funding “enhancement” related to the New York Works program; $100 million of this amount would be allocated through competitive grants administered by the REDCs. The remaining $200 million will be used for infrastructure improvements throughout the State. Nevertheless, the DOT contribution to the New York Works program is projected to experience a dramatic decline in comparison to SFY 2012-13, dropping from nearly $1.2 billion to just $300 million in the coming year. The principle reason is attributable to last year’s one-time acceleration of federal capital aid of $917 million for New York Works. The Executive Budget also eliminates from New York Works the SFY 2012-13 allocation of $232 million from the Dedicated Highway and Bridge Trust Fund (DHBTF).

Dedicated Highway and Bridge Trust Fund

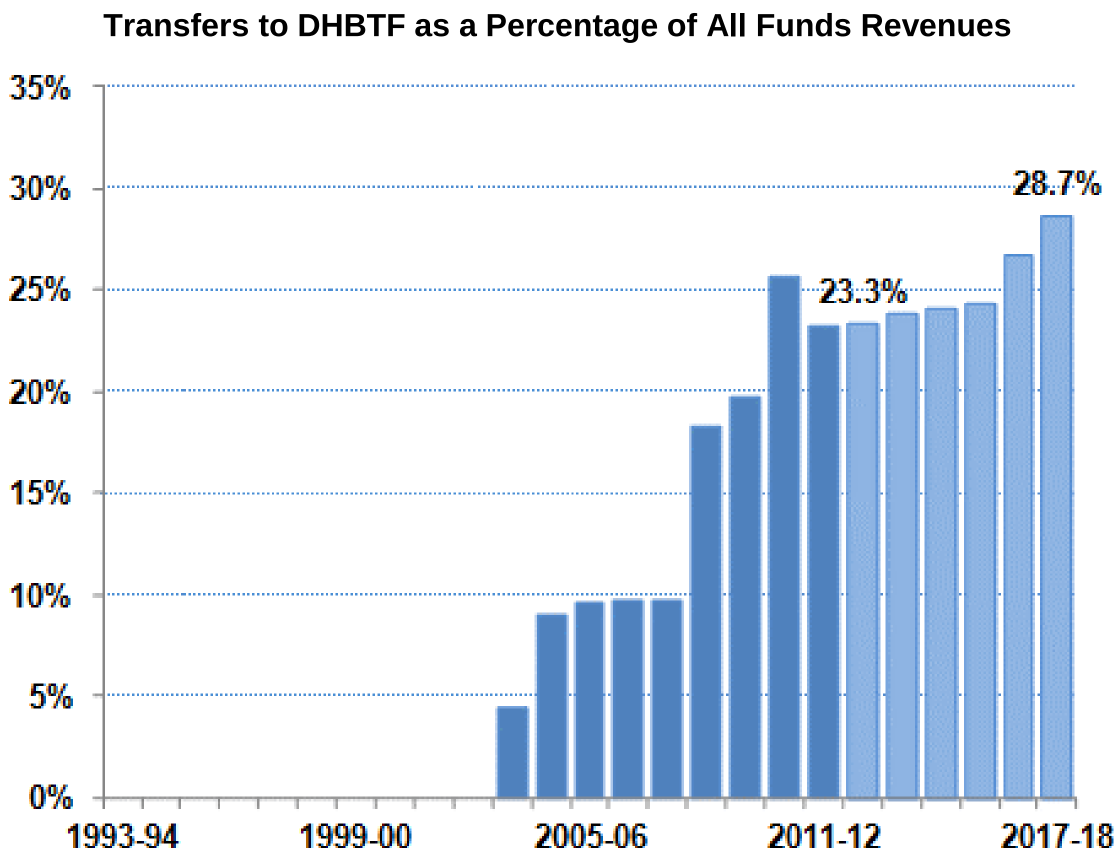
The DHBTF, established in 1991, was intended to be the primary funding source for the construction and rehabilitation of State-owned roads and bridges. Initially, it was anticipated that the DHBTF would rely primarily on pay-as-you-go financing to support its capital programs and purposes, using revenue from highway taxes, motor vehicle taxes and fees, petroleum business taxes and a number of smaller resources. Despite this intention, a growing portion of the DHBTF has been diverted to pay for State operating costs, as well as debt service.

Last year, as part of the New York Works program, the Executive Budget allocated $232 million from the DHBTF to be used as “seed money” to attract private investment in the State’s infrastructure. As mentioned above, no DHBTF resources will be used to fund New York Works incentive programs in SFY 2013-14.

The Executive Budget proposes to increase the General Fund subsidy for the DHBTF by $48.7 million, from $519.2 million in SFY 2012-13 to $567.9 million in SFY 2013-14. Annual increases in the General Fund subsidy are expected to continue over the next five years, reaching $787.5 million in SFY 2017-18. The projected total amount of General

Fund transfers for the period from SFY 2004-05 through SFY 2012-13 is nearly $2.2 billion. The total for the period from SFY 2013-14 through SFY 2017-18 is anticipated to be an additional $3.2 billion.

Figure 18



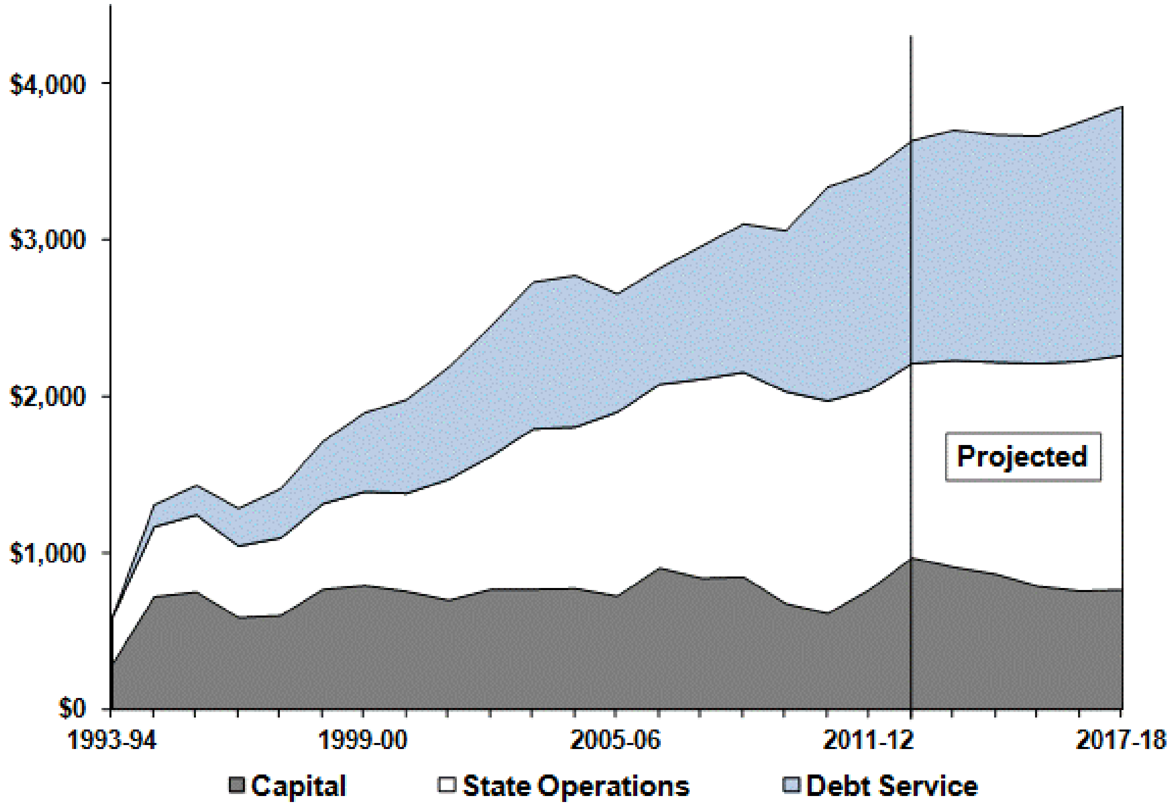
Source: Division of the Budget
Note: DOB estimates in lighter shade.

Overall, the DHBTF has become increasingly reliant on transfers, both from the General Fund and from the Federal Capital Fund. As Figure 18 shows, the percentage of Fund revenues that is comprised of transfers from other funds has grown steadily over the years. This trend improved after a sharp spike in SFY 2010-11, but it is growing again and is projected to jump to record high levels in SFY 2016-17 and beyond.

Capital disbursements, the ostensible reason for the existence of the DHBTF, are projected to total $912.6 million in SFY 2013-14, or just 24.6 percent of total DHBTF spending, 0.2 percent lower than last year.

Figure 19

Dedicated Highway and Bridge Trust Fund Disbursements
(annual disbursements in millions)



Sources: Actual Results - Office of the State Comptroller; Projected Results - Division of the Budget

Total debt service disbursements from the DHBTF for SFY 2013-14 will be nearly $1.5 billion, or 39.7 percent of all DHBTF disbursements, a slight reduction from SFY 2012-13's 40.2 percent. However, debt service is expected to remain the largest component of DHBTF disbursements in SFY 2013-14. This is due in part to the fact that the DHBTF is also used to pay for debt service on CHIPS and Marchiselli Aid bonds issued by the New York State Thruway Authority.

State Operations is expected to account for $1.3 billion, or 35.6 percent, of DHBTF disbursements, a 0.6 percent increase over last year. The DHBTF bond cap remains at $16.5 billion, with nearly $4.9 billion in unissued bonding authority.

Figure 19 shows that a short-term jump in capital spending will soon be followed by a quick decline. Furthermore, debt service and State Operations are projected to continue to consume the majority of DHBTF resources in the years ahead.

Mass Transit

The Executive Budget proposes $4.7 billion in funding for mass transit aid, including nearly $4.5 billion for the MTA and other downstate systems. This represents an increase of $382 million over SFY 2012-13, with the entire amount allocated downstate. Upstate systems would receive $173.5 million, unchanged from SFY 2012-13. The Executive's proposal also includes language to extend the MTA business tax surcharge for five years.

Thruway Authority

The Executive Budget provides a General Fund appropriation of $24 million for the New York State Thruway Authority, with the stated intention of avoiding the need to raise tolls on the system. This marks a departure from the past policy, which required the Thruway to be financially independent of the State. For many years, starting in 1993, the Thruway paid for a number of non-Thruway-related activities, including the New York State Barge Canal system, and the maintenance of a number of freeways in the State, as well as for various economic development projects. The cost of these activities has been over $1.0 billion in operating and capital expenses, borne up to this time almost exclusively by Thruway toll payers.

The Thruway also acts as the State's agent, issuing bonds for the DHBTF and for the CHIPS and Marchiselli programs, a practice known as backdoor borrowing because it bypasses the provision found in the State Constitution that requires all debt issuances to be approved by the voters. In addition, the Thruway Authority is also required to pay the State what are known as cost recovery charges for certain services, including personal service costs, maintenance and operation of State equipment and facilities, and contractual services that are provided by the State to public authorities that are not otherwise reimbursed. However, this year's Executive Budget proposes exempting the Thruway Authority from such charges.

Housing

The Executive Budget proposes to reduce Division of Housing and Community Renewal (DHCR) spending by $11.1 million, to $258.5 million, from SFY 2012-13. The decrease in funding is attributed to the final spend-down of the American Recovery and Reinvestment Act funds for weatherization in SFY 2012-13, and a proposal to modify the Neighborhood Preservation and Rural Preservation Programs and shift these programs, along with the Rural Rental Assistance Program, off-budget.

The Neighborhood Preservation and Rural Preservation Programs are proposed to be combined into a new Community Preservation Program which would be administered by the Housing Trust Fund Corporation (HTFC) and funded off-budget at a level of $12 million, reflecting a $2.3 million reduction in funding from SFY 2012-13. The Rural Rental Assistance Program would also be funded off-budget at a level of $20.4 million, an increase of $800,000 over funding for this program in SFY 2012-13.

The Executive Budget proposes to sweep $150 million in funds from the State of New York Mortgage Agency's Mortgage Insurance Fund (MIF), including: $100 million to be transferred to the General Fund (the Executive has expressed an intention to allocate transferred funds to rebuilding homes damaged by Superstorm Sandy); $20.4 million to be transferred to the HTFC for the Rural Rental Assistance Program; $17.6 million to be transferred to HTFC for rehabilitation of Mitchell-Lama properties; and $12 million to be transferred to HTFC to fund the newly formed Community Preservation Program.

The $100 million in Superstorm Sandy rebuilding assistance is the first installment in what is proposed to be a $1.0 billion House NY program. Over the next five State fiscal years, $336 million in MIF sweeps and $601 million in bonded funds will be used to support refinancing and rehabilitation of Mitchell Lama properties and to increase support for DHCR's affordable housing programs.

In addition, the Executive Budget proposes to transfer the Homeless Housing and Assistance Program from OTDA to DHCR. This program will continue to be funded at $30 million.

Environment and Parks

Department of Environmental Conservation

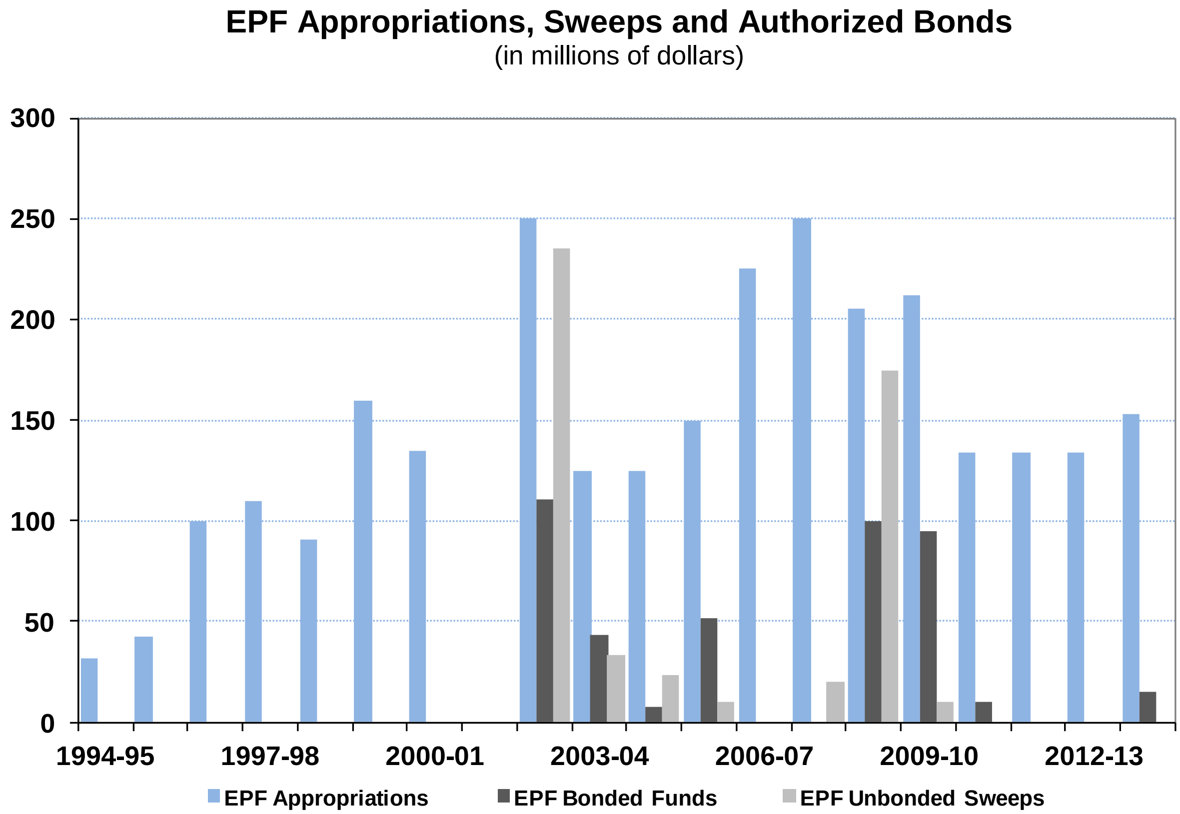
The Executive Budget proposes to reduce Department of Environmental Conservation (DEC) spending by $55.1 million, to $915.8 million, from SFY 2012-13. The reduction in funding is attributed to a reduced rate of capital spending and the elimination of local assistance projects.

The Executive Budget reappropriates $632.6 million in prior year DEC capital appropriations to the State Hazardous Waste Remedial Fund in support of the State Superfund program, but contains no new appropriations for this purpose. In addition, $6.0 million in funds are appropriated to support the activities of the Brownfield Cleanup Program, and $10 million in funding is appropriated in the Department of State's Capital Budget to support Brownfield Opportunity Area grants.

The Executive Budget increases appropriations to the Environmental Protection Fund (EPF) by $19 million, to $153 million, from SFY 2012-13. The Executive Budget would authorize the transfer of $15 million annually in unclaimed container deposit funding previously deposited to the General Fund to the EPF. The Executive Budget also requires the deposit to the EPF of unclaimed deposits in excess of the amount collected by the State during SFY 2012-13. This figure is projected to be $4.0 million in SFY 2013-14 and $8.0 million in future fiscal years.

The Executive Budget proposes to increase penalties for violations of the container deposit law and to change requirements related to the number of containers that can be redeemed at certain retail establishments. A sweep of $15 million from the EPF to the General Fund for budget relief is also proposed. These funds will be replaced with bond proceeds from the Environmental Facilities Corporation (EFC).

Figure 20



Sources: Division of the Budget, Office of the State Comptroller
Note: There were no EPF appropriations in SFY 2001-02 and two EPF appropriations in SFY 2002-03

The Executive Budget appropriates $40 million in capital spending through the New York Works Program for the following purposes: $12 million to repair DEC facilities; $2.0 million to finance e-business initiatives; $2.0 million to cap abandoned oil and gas wells; $12 million to fund municipal remediation of contaminated properties through the Environmental Restoration Program; and $12 million to make grants to repair or upgrade waste water infrastructure.

The Executive Budget proposes to make permanent the Waste Tire Fee and directs the revenues raised by the fee to support solid and hazardous waste program activities. The fee is $2.50 per new tire and is projected to generate $24 million in SFY 2013-14.

Parks

The Executive Budget proposes to reduce funding for State Parks by $8.8 million, to $275.9 million, from SFY 2012-13. The reduction is attributed to reductions in local assistance grants to municipal parks and reductions in overtime at the State Park Police.

The Executive Budget appropriates $50 million in new capital spending for Parks through the New York Works Program. This funding will support ongoing efforts to address a backlog in maintenance for critical infrastructure at State Parks. In addition to funding for parks infrastructure, this funding will support $2.5 million in capital spending at the

Olympic Regional Development Authority and $2.5 million for State Fairground improvements.

The Executive Budget proposes to extend for five years the Historic Commercial Buildings Restoration Tax Credit at the existing $5.0 million per project level, and proposes to make the tax credit refundable.

Agriculture

The Executive Budget reduces Department of Agriculture and Markets spending by $10.3 million, to $97.1 million, from SFY 2012-13. This reduction is attributed to the elimination of local assistance projects. The Executive Budget includes $40,000 in funding to support a program to test new varieties of hops for use by the craft brewing industry.

Energy

The Executive Budget reduces New York State Energy Research and Development Authority (NYSERDA) spending by $400,000, to $28.2 million, from SFY 2012-13. The Executive Budget proposes the appropriation of $25 million in support of grants made under the Cleaner, Greener Communities Program to finance energy efficiency and renewable energy projects. The Executive Budget authorizes the EFC to issue bonds to finance grants made under this program. An additional $75 million in revenues from the auction of allowances to emit greenhouse gases under the Regional Greenhouse Gas Initiative (RGGI) will be allocated to support Cleaner, Greener Communities Program grants off-budget in SFY 2013-14. A sweep to the General Fund of $15 million in RGGI funds is authorized. These funds will be replaced with bond proceeds from EFC.

The Executive Budget proposes to extend the Temporary Utility assessment for 5 years. The extension of this assessment is expected to provide $255 million in additional General Fund revenues in SFY 2013-14, for a total of $509 million in SFY 2013-14.

The Executive Budget includes a proposal to enact the recommendations of the Moreland Act Commission report on the performance of utilities in the aftermath of Superstorm Sandy. The Public Service Commission (PSC) would be authorized to initiate proceedings and recover more robust civil penalties. The PSC would be also granted authority to review annual utility emergency response plans and to revoke or modify previously granted utility charters.

The NY-Sun Initiative to encourage the installation of photovoltaic electric generating systems would be extended by the Executive Budget for an additional ten years at its currently funding level of $150 million annually. This program is financed with revenues generated by assessments authorized by the Renewable Portfolio Standard.

The Executive Budget also proposes to create a tax credit program called Charge NY, which is designed to promote the installation of electric vehicle charging stations. Under this program, parties who install charging stations would be eligible to receive a tax credit equal to 50 percent of the cost of equipment, up to a cap of $5,000 per station.

Public Protection

The Executive proposes to increase All Funds support for the Division of Homeland Security and Emergency Services to $5.5 billion, an increase of 136 percent, primarily reflecting federal disaster aid for the State and its local governments related to recovery from Superstorm Sandy, Hurricane Irene, and Tropical Storm Lee. The Executive estimates the total statewide public and private response and recovery costs associated with Superstorm Sandy to be $32 billion.

The Executive Budget includes $75 million for grants to counties for statewide interoperable communications grants, to facilitate the development of a single public safety communications network in the State. This is intended to improve communication among emergency responders and expand cooperation within regions.

The Executive Budget reduces All Funds spending by the Department of Corrections and Community Supervision (DOCCS) by $180 million, or 5.7 percent, to $2.96 billion, reflecting, in part, savings from the prior year prison closures and the proposed closure of two additional prisons in SFY 2013-14. The Executive proposes to reduce the one-year notification requirement for correctional facility closures to 60 days, and to close the Bayview prison in Manhattan and the Beacon prison in Dutchess County, to reduce bed capacity by approximately 432 and save $18.7 million in SFY 2013-14. The Executive proposes to restructure $11.4 million in funding for Alternative to Incarceration programs to a competitive grant program. The Executive proposes to reduce All Funds support for the Division of Criminal Justice Services (DCJS) by $33 million, or 11.7 percent, to $249 million in SFY 2013-14.

The Division of State Police's All Funds budget would be reduced by $5.0 million to $698 million. The Division plans to hold two training classes in SFY 2013-14 to bring in up to 330 recruits, and seeks to maintain 4,657 officers (up 5.2 percent from the prior year, but down 5.7 percent from the 2009 peak of 4,939).

The Executive Budget includes additional funding to implement the New York Secure Ammunition and Firearms Enforcement (NY SAFE) Act of 2013, including $32.7 million to fund the creation of an electronic database of all current gun licenses and $3.2 million for new enforcement activities, school safety improvement teams, and pistol license recertification oversight.

The Executive proposes Article VII legislation intended to limit plea bargaining of certain violations of the Vehicle and Traffic Law, such as speeding tickets, with certain exceptions. The Executive also proposes an $80 surcharge on the violations to which speeding tickets are commonly pled. The Executive proposes to establish a minimum first-offense fine of $50 for using a cell phone or texting while driving, and increased fines for subsequent violations. These actions are expected to generate $16 million in SFY 2013-14 and $25 million in SFY 2014-15.

Local Governments

The SFY 2013-14 Executive Budget maintains level funding for a number of aid programs that benefit local governments outside of New York City and provides increases in aid to certain school districts. In addition, the Governor has advanced two major proposals, described as mandate relief, related to binding arbitration and local pension contributions. DOB estimates a net positive impact of $944 million for local fiscal years ending in 2014. The bulk of this benefit – 94 percent, or $889 million – is directed toward school districts in the form of school aid increases and other education-related funding. The balance is generated through a variety of local revenue actions, primarily associated with tax enforcement actions and extenders and mostly benefiting New York City ($27.4 million), several health and human services program changes ($6.2 million), and increases in downstate transit assistance aid ($21.1 million).

Notably, of the estimated $889 million benefit to school districts, $203 million is offered in the form of "Fiscal Stabilization Funds." How these funds will be distributed among districts remains unclear. Another $75 million of the school district benefit is linked to initiatives proposed in the Executive's January 2013 State of the State address and $50 million is tied to school district performance grants.

DOB estimates that counties would experience a net positive impact of $20.2 million (2.1 percent). All other cities, towns and villages combined would see a net positive impact of less than $1 million.

The specific Executive Budget proposals and DOB's estimates of their respective fiscal impacts for local fiscal years ending in 2014 include the following:

- School Aid and other education-related funding increases $889 million to $20.8 billion. Of this amount, $561 million (including $224 million for New York City schools and $337 million for all other school districts) is driven by the cap formula that links growth in aid to growth in Personal Income; $203 million appears in the form of Fiscal Stabilization Funds; $75 million in funding is related to State of the State initiatives; and $50 million is provided in the form of performance grant funding.
- Aid and Incentives to Municipalities (AIM) funding will continue at SFY 2012-13 levels ($715 million) for cities, towns and villages outside of New York City. New York City continues to be excluded from receiving AIM allocations.
- Video Lottery Terminal (VLT) Impact Aid is also maintained at SFY 2012-13 levels ($25.9 million), as is funding for Small Local Government Assistance ($0.2 million directed to Essex, Franklin and Hamilton Counties), and Miscellaneous Financial Assistance Programs ($2.0 million directed to Madison and Oneida counties)
- Local transportation funding for the CHIPs ($363.1 million) and the Marchiselli Program ($39.7 million) is also held to SFY 2012-13 funding levels, while additional downstate transit assistance aid is provided at $21.1 million. The counties of Westchester, Rockland, Suffolk, and Nassau would receive $11.7 million, while the balance of $9.4 million would benefit New York City.

- Programmatic changes that would expand insurance coverage and streamline eligibility determinations in the Early Intervention program are estimated to drive $60 million in savings to counties over the next five years. Similarly, proposed performance incentives and administrative relief slated for the General Public Health Work program is projected to drive $16 million in local savings, over the next five years.
- Preschool Special Education changes would encourage local governments to monitor spending by providers and find and recover inappropriate payments by increasing the percentage of recoveries they are able to retain from 40.5 percent to 75 percent.
- Although funding for grant programs that promote local government efficiency and consolidations is maintained at $79 million, programmatic changes are proposed. For programs that support planning projects, the local match would be increased (from 10 percent to 50 percent) but refunded at a later date if the project was implemented. Maximum award allocations are also reduced.

Medicaid

The Executive Budget continues the phased State takeover of *growth* in local Medicaid costs. As planned, the local share of growth in Medicaid costs is reduced from 3.0 percent to 2.0 percent for SFY 2013-14. In SFY 2014-15, that share will be reduced to 1.0 percent. By SFY 2015-16, the local responsibility for growth in local Medicaid costs will be fully phased out.

Pension Reform

As noted in the Public Pension section of this report, the Executive introduces a Stable Rate Pension Contribution Option which, if implemented, would be made available to local governments and school districts.

Collective Bargaining

The Executive Budget advances Article VII language that would define “ability to pay” – a concept that arbitrators are required to consider when determining awards and settlements when there is an impasse in police or fire contract negotiations. In so doing, the Executive establishes criteria by which a local government could be deemed “fiscally distressed,” thus limiting future arbitration awards involving such a “distressed” local government. A local government would be considered to be “fiscally distressed” if one of the following two fiscal tests is met:

> (1) The local government's average full value property tax rate is above the 75th percentile of all municipalities statewide, as averaged over the most recent five fiscal years; or
> (2) The local government's five-year average general fund balance equals less than five percent of its budget.

For any fiscally distressed local government entering interest arbitration, the arbitration panel would be barred from increasing the cost of the employees’ collectively bargained compensation package by more than 2.0 percent per year. Within the context of this computation, the arbitration panel must also take into account the rising costs of health insurance for distressed local government employers and further reduce the amount awarded by the value of the increasing health insurance costs which exceeds 2.0 percent growth.

As part of this proposal, the State Comptroller would be required to determine and publish a list of counties, cities, towns and villages that meet the Executive proposed criteria for fiscal distress in every local fiscal year.[12]

Sales Tax Renewals

The Executive Budget proposes to amend the Tax Law to make permanent the authority for counties to impose their current additional rates of sales and compensating use taxes for two-year periods and to renew those additional rates via a majority vote of the county legislative body. Under this proposal, counties would no longer be required to petition the State every two years to renew their current sales tax authority. Counties would continue to be required to receive approval through the State legislative process before they may increase sales and compensating use taxes above their current rates.

Required Reporting

The Executive proposes the elimination of all reporting requirements placed on local governments and school districts by State agencies or authorities as of April 1, 2014 unless the Governor's Mandate Relief Council approves continuing the reporting requirement. Every State agency or authority would be required to refer all reporting requirements to the Mandate Relief Council by September 1, 2013. They would also report whether they believe a reporting requirement is necessary and should be continued. The Council would review such requests and may approve the continuation of such reports.

The Office of the State Comptroller has concerns about this proposal, which would include elimination of currently required annual reports on the financial condition of local governments and school districts. Such reports are essential to the Office of the State Comptroller's monitoring of potential fiscal stress in more than 3,000 taxing jurisdictions across the State.

New York City

According to DOB, the SFY 2013-14 Executive Budget benefits New York City by a total of $258 million in City Fiscal Year (CFY) 2014, $298 million in CFY 2015 and $422 million in CFY 2016, mostly as a result of planned increases in education aid (see Figure 21).

[12] The Office of the State Comptroller recently unveiled its statewide, early warning Fiscal Stress Monitoring System which is unrelated to this Executive proposal. The system uses nine financial and 14 environmental indicators to determine stress levels, identifies local governments in various stages of fiscal stress, thus enabling local officials to implement a plan of action in order to avert fiscal crisis. The report is available here: www.osc.state.ny.us/localgov/pubs/fiscalmonitoring/pdf/fiscalstressmonitoring2013.pdf.

The increases in education aid, however, are contingent upon the full implementation of a new teacher evaluation program. The City and the union that represents its teachers were unable to reach such an agreement by January 17, 2013, as required in last year's Enacted Budget, in order for the City to receive $250 million in annual State aid beginning in CFY 2013. As a result, the Governor has announced that the aid will be withheld from the City.

On January 29, 2013, the City released a revised four-year financial plan, which includes cuts in educational services to offset the loss of State education aid. The Governor has indicated that he would propose legislation authorizing the State Education Department and the Board of Regents to develop an evaluation program if the City and the teachers' union fail to reach agreement by the next deadline.

Figure 21

Impact of the SFY 2013-14 Executive Budget on New York City
(in millions of dollars)

	CFY 2014	CFY 2015	CFY 2016
Education Aid	224.0	255.0	376.0
All Other Actions	33.5	42.5	46.1
Total Impact	**257.5**	**297.5**	**422.1**

Sources: Division of the Budget; Office of the State Comptroller

Metropolitan Transportation Authority

The SFY 2013-14 Executive Budget provides the MTA with an increase of $295 million in State assistance over SFY 2012-13. The increase reflects improving economic conditions that are expected to boost dedicated transit tax revenues. The level of assistance is consistent with the MTA's current Financial Plan. In December 2011, the MTA Payroll Mobility Tax (PMT) was eliminated for most small businesses, all private schools and all public school districts. The Executive Budget includes $307 million for the MTA to offset the revenue lost from changes to the PMT.

The MTA projects a balanced budget in the current calendar year and manageable budget gaps in subsequent years. These forecasts, however, assume that the MTA’s unionized employees agree to no-cost labor agreements for the first three years of the contract period and that the MTA achieves its cost-reduction targets. The MTA's estimates also assume biennial fare and toll increases, including a 7.0 percent increase scheduled to take effect on March 1, 2013. The MTA incurred an estimated $5.0 billion in losses associated with Superstorm Sandy (mostly in the form of damage to its infrastructure), but the budgetary impact is expected to be relatively small assuming the receipt of federal aid at anticipated levels.

General State Charges

The Executive Budget's presentation of costs associated with fringe benefits and other State expenses is known collectively as General State Charges (GSC). However, the GSC program that appears in the State Operations appropriations bill – which totals just $3.0 billion – accounts for only 60.7 percent of General Fund appropriations for GSC and only 41.1 percent of All Funds GSC spending. Excluded from this presentation are all the fringe benefits paid from non-General Fund sources, as well as GSC spending for employees of the Courts, SUNY, and a number of other adjustments.

Figure 22

SFY 2013-14 General State Charges
(in millions of dollars)

Program	General Fund		Other Funds		All Funds	Y-T-Y % Change
State Employee Fringe Benefits						
Health Insurance	$1,879	61.7%	$1,164	38.3%	**$3,043**	2.1%
Social Security	$531	62.0%	$325	38.0%	**$856**	3.4%
Workers' Compensation	$299	67.8%	$142	32.2%	**$441**	26.0%
Pension Contributions	$900	58.0%	$652	42.0%	**$1,552**	26.1%
Employee Benefit Funds	$35	42.2%	$49	57.8%	**$84**	-1.6%
Dental Insurance	$41	63.1%	$24	36.9%	**$65**	-7.6%
Unemployment Benefits	$16	63.8%	$9	36.2%	**$25**	-10.6%
Miscellaneous Benefits	$15	63.6%	$9	36.4%	**$24**	30.6%
Subtotal Fringe Benefits	**$3,716**	**61.0%**	**$2,374**	**39.0%**	**$6,090**	**8.8%**
Other State Expenses						
Taxes on Public Lands	$233	100.0%	$0	0.0%	**$233**	9.9%
Court of Claims Judgments	$151	100.0%	$0	0.0%	**$151**	42.8%
Public Officers' Indemnification	$31	100.0%	$0	0.0%	**$31**	21.8%
Miscellaneous Expenses	$51	100.0%	$0	0.0%	**$51**	-14.1%
Subtotal State Expenses	**$467**	**100.0%**	**$0**	**0.0%**	**$467**	**15.7%**
Court Employee Benefits	$634	100.0%	$0	0.0%	**$634**	13.2%
SUNY & other minus cash deduction	$154	100.0%	$0	0.0%	**$154**	-14.0%
Total GSC Spending	**$4,971**	**67.7%**	**$2,374**	**32.3%**	**$7,344**	**9.2%**
Adjustments*	(15.5)		($11)		($27)	
MEMO: Financial Plan Total	**$4,956**	**70.0%**	**$2,120**	**30.0%**	**$7,076**	**7.5%**

Source: Division of the Budget
Note: Totals may not add due to rounding.
* General Fund adjustment: Financial Plan Total does not include $15.5 million for MTA payroll tax allocations to General State Charges. Special Revenue Fund adjustment: Financial Plan does not include General State Charges spending of $11 million from the Dedicated Highway and Bridge Trust Fund, which is classified as Capital in the Financial Plan. The remaining difference between the Financial Plan total and the appropriation total is not available.

State Workforce

The Executive Budget projects that the overall size of the State workforce will remain essentially unchanged during SFY 2013-14, with a net decrease of 127 FTEs. Total FTEs at the end of SFY 2013-14 are projected to be 180,438, as compared to 180,565 estimated at the end of SFY 2012-13 (these figures do not include members or staff of the Legislature or the Judiciary.) Figure 23 presents all agencies expected to show any changes in the size of their workforce.

Figure 23

SFY 2013-14 Estimated Agency Workforce Changes	March 2013	March 2014	Change
AGENCIES WITH INCREASES			
HEALTH	4,635	5,020	385
JUSTICE CENTER	0	280	280
TAXATION AND FINANCE, DEPARTMENT OF	4,175	4,379	204
STATE POLICE	5,232	5,408	176
CORRECTIONS AND COMMUNITY SUPERVISION	29,337	29,471	134
MENTAL HEALTH	14,453	14,580	127
EDUCATION DEPARTMENT	2,664	2,765	101
FINANCIAL SERVICES	1,243	1,337	94
GENERAL SERVICES	1,352	1,439	87
INFORMATION TECHNOLOGY SERVICES	3,835	3,890	55
TEMPORARY AND DISABILITY ASSISTANCE	1,860	1,890	30
STATE, DEPARTMENT OF	537	567	30
STATEWIDE FINANCIAL SYSTEM	115	145	30
CIVIL SERVICE	324	350	26
WORKERS' COMPENSATION BOARD	1,195	1,220	25
CRIMINAL JUSTICE SERVICES	423	443	20
MEDICAID INSPECTOR GENERAL	476	486	10
PUBLIC ETHICS	45	53	8
HOUSING AND COMMUNITY RENEWAL	688	692	4
INSPECTOR GENERAL	68	72	4
VICTIMS' SERVICES	70	74	4
JUDICIAL CONDUCT	49	50	1
AGENCIES WITH DECREASES			
PEOPLE WITH DEVELOPMENTAL DISABILITIES	19,834	18,585	(1,249)
CHILDREN AND FAMILY SERVICES	3,263	2,688	(575)
QUALITY OF CARE AND ADVOCACY FOR DISABLED	80	0	(80)
TRANSPORTATION	8,359	8,337	(22)
HIGHER EDUCATION SERVICE	460	447	(13)
LABOR	3,621	3,612	(9)
MOTOR VEHICLES	2,219	2,215	(4)
HUMAN RIGHTS	168	164	(4)
WELFARE INSPECTOR GENERAL	4	0	(4)
ECONOMIC DEVELOPMENT	152	151	(1)
HOMELAND SECURITY AND EMERGENCY SERVICES	388	387	(1)
NET CHANGE			**(127)**

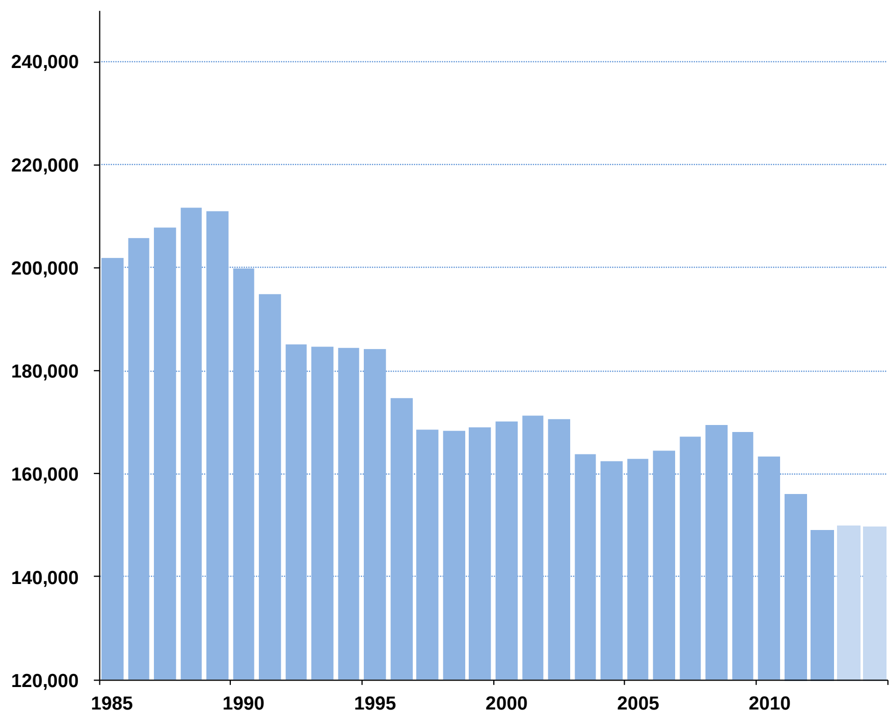
Source: Division of the Budget

Last year, upon enactment of the SFY 2012-13 Budget, DOB estimated that by March 31, 2013 FTEs would total 185,919. Most of the difference between this and the Executive Budget estimate is related to the fact that two large agencies have been removed from DOB's workforce impact summary. These agencies are the State Insurance Fund, with 2,536 FTEs, and Roswell Park Cancer Institute, with 2,025 FTEs. DOB's June 2012 estimate for March 31, 2013, after removing those two agencies, becomes 181,358, which is 793 more than DOB's new estimate for March 31, 2013 given above.

The size of the State workforce is projected to remain fairly stable in the next few years, but it has declined significantly over the past two decades. Figure 24 shows the change in State employee workforce totals since SFY 1984-85. The State historically has not attempted to determine the potential impacts on public services and agency performances from such declines in staffing.

Figure 24

State Agency Full-Time Equivalents, SFY 1984-85 through SFY 2013-14
(excluding SUNY/CUNY but including the State Insurance Fund)



Source: SFY 1984-85 through SFY 2011-12: OSC Payroll Records;
Note: Shaded bars are SFY 2012-13 and SFY 2013-14, based on adjusted DOB estimates.

These totals are based on actual payroll data maintained by the Office of the State Comptroller. Unlike DOB estimates, actual payroll data includes employees of the Legislature and Judiciary, the State Insurance Fund, and also a count of temporary and part-time employees who are not included in DOB figures.

Figure 24 does not include SUNY and CUNY employees because the manner of counting FTE positions at these institutions has not been consistent over the period considered, and because CUNY employees did not appear on the State payroll before 1990. Estimates for the final FTE counts for SFY 2012-13 and SFY 2013-14 are based on Office of the State Comptroller workforce figures, adjusted for DOB estimates of Executive agency workforce changes.

A number of State agency mergers are recommended in the proposed budget, but DOB does not anticipate savings from these consolidations in the coming State Fiscal Year. These include:

- Office of Children and Family Services (OCFS) and the Office of Mental Health (OMH) will cut 1,172 jobs.
- Closing two DOCCS facilities will impact 273 positions. The Executive indicates that these positions can be absorbed in the current system.

Other agency changes include:

- Merging the Office of the Welfare Inspector General with the Office of the Inspector General.
- Merging the Governor's Office of Employee Relations (GOER) and the Department of Civil Service into a State Employee Workforce Development Center.

Public Pensions

The Executive proposes to give the State Comptroller and the Board of the New York State Teachers' Retirement System (NYSTRS) the option to implement a new Stable Rate Employer Contribution Plan to be available to counties, cities, towns, villages and school districts. The Plan is intended to provide cash relief for local governments by frontloading projected cost savings from Tiers V and VI, which were incorporated in the retirement systems by legislation enacted in 2009 and 2012, respectively. (The proposal does not extend to the State, New York City, special districts, or public authorities.)

If the Plan is authorized by the Comptroller (for the Employees' Retirement System (ERS) and Police and Fire Retirement System (PFRS)) and the Board of NYSTRS, local governments could elect to participate. Participants would opt into the program for the invoice due in 2014 (February 1st for ERS and PFRS). The Executive proposes that employers who opt into the Plan would pay the following initial fixed rate as a percentage of their payrolls:

- 12 percent for ERS
- 18.5 percent for PFRS
- 12.5 percent for NYSTRS

Participants would pay that rate for a period estimated by DOB at 25 years, beginning with the 2014 bill. However, the Comptroller could extend or shorten the 25-year period in order to ensure adequate funding. The Comptroller would review the rates at the five and ten year marks and could increase or decrease rates by up to 2.0 percentage points of payroll, with a minimum set at the baseline rate and a maximum rate set at no more than 4.0 percentage points greater than the baseline rate. Participants could exit the program by paying amounts owed (accumulated at the rate of investment return) over no more than five years. Participants would not be permitted to amortize any additional amounts under the current Contribution Stabilization Program. However, those with ongoing amortizations would pay the required installments in addition to the new stable rate.

The ERS and PFRS rates of 12 percent and 18.5 percent are lower than the announced rates for 2014 of 20.6 percent and 28.9 percent, and lower than the mitigated rates under the existing Contribution Stabilization Program (12.5 percent for ERS and 20.5 percent PFRS in 2014).

The program would provide near-term cash savings. However, the balance between the fixed rate amount and the normal costs would accumulate with interest over the term of the program. The program exchanges the volatility in current contributions for volatility in deferred contributions. Whereas the existing Contribution Stabilization Program allows participants to elect to amortize a portion of any one year's bill, the proposed program is a onetime election in 2013 for an estimated 25-year period. DOB has projected first-year savings for various cities in the Executive Budget documents. These estimates appear to be based on the difference between the current system average normal rate and the proposed fixed rate. The difference (or year one cash savings) between the rates available under the current Contribution Stabilization Program and the new fixed rates is much smaller. In other words, a significant portion of the DOB's first year savings is currently optionally available to localities through the Contribution Stabilization Program.[13]

Figure 25

Stable Rate Employer Contribution Plan
(in millions of dollars)

City	1st Year Cash Savings Under Proposed Stable Contribution Program	1st Year Cash Savings Existing Rate Stabilization Program	Difference
Syracuse	11.5	9.6	1.9
Rochester	18.3	15.2	3.1
Buffalo	16.5	13.6	2.9
Yonkers	24.0	20.7	3.3
Albany	6.9	5.7	1.2

Source: Office of the State Comptroller

Participating employers would get near-term cash savings, but those savings would also increase their liabilities or amounts payable to the Retirement System. The proposed Stable Rate Employer Contribution Plan relies on projected cost savings from the implementation of Tier VI to return the System to the necessary funding level. The Plan

[13] Under the existing Contribution Stabilization Program, each year participants have the option of amortizing a portion of their retirement bill above a specified percentage of payroll over a period of ten years or less. The percentage of payroll above which a participating provider could amortize (mitigated rate) increases by one percentage point of payroll per year, thereby narrowing the difference between amount due and the amount paid. Moreover, when normal rates go below the mitigated rate, employers' rates will go down at a rate of one percentage point of payroll annually. Participants have a payment schedule with the Retirement System based on the amount owed and an interest rate established prior to each year's amortization decision. Under the new proposed program, the employer would pay 12 percent of payroll. The difference between the 12 percent and the actual rate (approximately 20.6 percent for ERS for 2014) likely becomes a payable to the Retirement System. That payable is to be paid off over a period that DOB estimates at 25 years. Under the proposed program, unpaid liabilities will not be paid off based on a fixed schedule, but rather based on projected market conditions and the projected turnover of current employees who have higher cost pensions.

would take the projected savings from Tier VI, which are backloaded proportionate to employee turnover, and frontload them. Such changes in timing of payments may result in intergenerational inequities, as operational costs incurred in the near term could be borne by taxpayers in the future. The Office of the State Comptroller has expressed concern about this proposal and is reviewing its potential impact on the actuarial soundness of the New York State Common Retirement Fund, its immediate and long-term effects on the balance sheets of local governments, and other issues.

Public Authorities

The Executive Budget estimates that $5.1 billion in capital projects will be financed using public authority bond proceeds in SFY 2013-14. The Executive Budget increases bonding caps for fourteen State-Supported programs, and adds two new State-Supported bonding caps for the Transformative Capital Fund and the Office of Information Technology Services. As shown in Figure 26, the proposed net increase in bonding authorizations for public authorities is $3.3 billion, an increase of 22 percent over the change enacted in SFY 2012-13. In addition, the proposal amends the bond cap language for the Division of State Police, allowing financing of capital projects not limited to facilities.

Figure 26

SFY 2013-14 Change in State-Supported Public Authority Bond Caps
(in millions of dollars)

Program	SFY 2012-13 Cap	SFY 2013-14 Executive Proposed Cap	Executive Change from Current Cap
SUNY Educational Facilities	10,304.0	10,422.0	118.0
SUNY Upstate Community Colleges	623.0	663.0	40.0
CUNY Education Facilities	6,843.2	6,853.2	10.0
Library Facilities	98.0	112.0	14.0
NY-SUNY 2020	110.0	220.0	110.0
Environmental Infrastructure Projects	1,118.8	1,265.8	147.0
Division of State Police	114.1	166.3	52.2
Division of Military & Naval Affairs	24.0	27.0	3.0
State Buildings and Other Facilities	205.8	220.8	15.0
Prison Facilities	6,816.9	7,133.1	316.2
Transformative Capital Fund	-	1,170.0	1,170.0
Office of Information Technology Services	-	60.0	60.0
Housing Capital Programs	2,740.7	2,844.9	104.2
Economic Development Initiatives	710.6	1,156.6	446.1
Consolidated Highway Improvement Program (CHIPs)	7,106.0	7,516.9	410.9
Transportation Initiatives	15.0	315.0	300.0
Total	**36,830.0**	**40,146.6**	**3,316.6**

Sources: Division of the Budget and the Office of the State Comptroller
Note: Totals may not add due to rounding.

The Executive Budget proposes to expand the authorization for the Dormitory Authority of the State of New York (DASNY) and the Empire State Development Corporation (ESDC) to finance not only Peace Bridge projects, but to cover transportation capital projects and increases the bond cap 2000 percent to reflect this expansion. This expansion, shown in Figure 26 under the title Transportation Initiatives, would authorize the financing of capital costs of State and local highways, parkways, bridges, the New York State Thruway, Indian reservation roads, and transportation infrastructure projects and facilities.

The Executive Budget authorizes $246.4 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. Additional General Fund relief is provided by transferring $20 million from the Metropolitan Mass Transportation Operating Assistance (MMTOA) account to the General Debt Service Fund to pay debt service typically paid from the State's General Fund. In addition, the proposal anticipates a $7.0 million transfer to the HCRA Resources Fund from DASNY.

Figure 27

SFY 2013-14 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
Housing Finance Agency	3.5
New York Power Authority	90.0 *
Dormitory Authority of the State of New York	22.0
New York State Energy Research Development Authority	0.9
State of New York Mortgage Agency	100.0
New York State Energy Research and Development Authority (RGGI funds)	15.0 **
Environmental Facilities Corporation	15.0 **
Subtotal to General Fund	**246.4**
Transfers to the General Debt Service Fund:	
MTA - Metropolitan Mass Transportation Operating Assistance Fund (MMTOA)	20.0
Transfers to the Health Care Reform Act (HCRA) Resources Fund:	
Dormitory Authority of the State of New York	7.0
Total from Public Authorities	**273.4**

Source: Division of the Budget
*Only $20 million is anticipated as a receipt to the General Fund and is, therefore, included in the Financial Plan. The remaining $70 million, to be used for the Open for Business initiative and the Innovation Venture Capital Fund, is not included in the Financial Plan and is considered off-budget.
**Bond proceeds will replace funds transferred from the Environmental Protection Fund (EPF) and the Regional Greenhouse Gas Initiative (RGGI). Bonds will be issued for eligible projects by EFC, or either DASNY or UDC, pursuant to the authorization that allows these authorities to issue PIT revenue bonds for any authorized purpose.

A sweep of up to $90 million in funds from NYPA is proposed with language allowing the funds to be transferred to the General Fund, "or as otherwise directed in writing by the director of the budget."[14] The Executive indicates that $50 million would be used to support the Open for Business initiative, $20 million for the new New York State Innovation Venture Capital Fund and the remaining $20 million for General Fund relief.

The Executive proposes a blanket authorization for any public benefit corporation to make voluntary contributions to the General Fund at any time as long as the transfers are approved by the corporations' governing boards. Language permitting public authorities to make voluntary contributions to the General Fund was first enacted in SFY 2011-12. (The provision enacted in SFY 2011-12 was similar in concept to the "blanket sweep" language first enacted in SFY 2007-08, which provides DOB discretion to sweep funds from any special revenue accounts to the General Fund.)

The Executive Budget proposes to move the administration of the Homeless Housing and Assistance Program from OTDA to DHCR, specifically the Homeless Housing Assistance Corporation (HHAC). The proposal expands the board membership of HHAC to include the Commissioners of OMH and OASAS.

The Executive Budget proposes expanding the investment authority of the State of New York Mortgage Agency (SONYMA), the Mortgage Insurance Fund (MIF) and the New York State Housing Finance Agency (HFA) to include investment securities and ancillary bond facilities. In addition, the proposal contains specific language to transfer excess SONYMA MIF reserves totaling $150 million, including $100 million to the General Fund, and $50 million to the Housing Trust Fund Corporation (HTFC) to fund the Community Preservation Program, the Rural Rental Assistance Program and rehabilitation of Mitchell Lama housing projects.

As part of the plan to avert a toll increase on the New York State Thruway, the Executive Budget proposes to provide financial assistance to the New York State Thruway Authority. As part of this assistance package, the State would assume the costs of the Division of State Police Troop T which patrols the Thruway, and would also provide a $24 million appropriation for additional costs of the Authority for goods and services. The Executive also proposes to exempt the Thruway Authority from the State cost recovery assessment imposed pursuant to Section 2975 of the Public Authorities Law.

In the SFY 2012-13 Enacted Budget, DASNY was authorized to enter into design and construction management agreements with DEC and the Office of Parks, Recreation and Historic Preservation (OPRHP.) The Executive Budget proposes extending the sunset date of these provisions by two years to allow current agreements to continue beyond April 1, 2013.

A capital appropriation of $25 million is included in NYSERDA's budget to fund grants for energy efficiency and renewable energy projects through the Cleaner, Greener Communities Program. The Executive Budget also provides authorization for the Environmental Facilities Corporation to issue bonds to fund these capital grants.

[14] See S.2605/A.3005 Public Protection and General Government, Part M, Section 17(i).

The Executive proposes extending the authorization for DASNY to issue Mental Health bonds under the existing PIT Revenue Bond Program. In addition, the proposal extends the authorization for DASNY and UDC to issue PIT bonds for any other authorized PIT Revenue Bond issuer. The Executive proposes creating a new borrowing program backed with sales tax revenues, similar to the PIT program. The bonds would be issued by DASNY, UDC or the Thruway Authority and would provide the State with another vehicle to bypass voter approval of borrowing.

Public-Private Partnerships

The Executive Budget includes Article VII legislation which would authorize all State agencies and public authorities to use private financing for public infrastructure projects. The proposed legislation would expand the State's existing design-build law, enacted in December 2011, to authorize the use of private financing for public capital projects in New York State by any department, division, board, commission, bureau, office, committee or council of any State department, any public benefit corporation, public authority, or commission, at least one of whose members is appointed by the Governor, excluding SUNY and CUNY. Authorized capital projects would include, but not be limited to, the State's highways, bridges, buildings, dams, flood control projects, canals, and parks. The current design-build authorization was provided to the Thruway Authority, DOT, OPRHP, DEC, and the New York State Bridge Authority

While the Executive describes this proposal as an expansion of design-build authority, this proposal would give the Executive authority to bypass traditional public financing procedures and limitations. By adding financing to the types of alternative project delivery methods allowed under law, the Executive would permit full public-private partnerships in New York. This would potentially give private entities the ability to set tolls, fares, and other charges and to make broad decisions regarding the use of assets that have traditionally been considered public. Furthermore, private entities could be used as financing vehicles for construction projects, thereby sidestepping the need to seek approval from the voters to issue debt for new purposes, or for the debt to be counted against the State's debt limits. To date, other states have not typically granted such wide-ranging and unilateral authority to pursue P3s.

The breadth of the proposal raises concerns regarding the adequate safeguarding of the public interest, the balance between public and private control, the assurance of sufficient compensating value to the public, and the potential use of P3 agreements to generate one-time, non-recurring budgetary resources for the State or to otherwise circumvent statutory limitations and restrictions. The proposal does not address the role of labor protections, such as whether Project Labor Agreements would be incorporated into projects undertaken using this authority. The Office of the State Comptroller has identified P3s as a potentially useful option. However, provisions must be built in to ensure taxpayers' interests are protected and that tolls, fares, and other charges imposed on users can be kept to the lowest possible level.[15]

[15] See the Office of the State Comptroller's report, *Controlling Risk Without Gimmicks: New York's Infrastructure Crisis and Public-Private Partnerships*, January 2011.

Debt and Capital

The SFY 2013-14 Executive Budget includes several new proposals related to debt and capital, including: the expansion of the PIT Revenue Bond credit to cover any purpose for which State-Supported debt can be issued with the exception of General Obligation Bonds; the creation of a new revenue bond financing program to be supported by the dedication of one percent (currently one cent) of the State sales tax; and the creation of a new SUNY dormitory credit, to be financed with the issuance of bonds by DASNY. The debt service on these bonds will be paid by DASNY from revenues received from rentals of SUNY dorms. Debt service payments will be made by DASNY off-budget and without a State appropriation or a SUNY pledge of its general revenues. The Executive Budget also introduces a new ten-year capital planning process, expected to be released in February 2013.

The significant growth in debt and debt service anticipated in the Executive Budget is due primarily to the expansion in the use of public authority debt, both on- and off-budget, which continues the State's longstanding practice of bypassing voter control over the State's ever-expanding debt burden.[16]

Debt Outstanding and Debt Service

In the SFY 2013-14 Executive Budget Five-Year Capital Program and Financing Plan (proposed Capital Plan), DOB projects that $25.5 billion in new debt will be issued over the life of the Capital Plan, compared to $22.2 billion over the life of the current Capital Plan. Nearly all of the $3.3 billion increase is associated with economic development, most of which DOB expects to be appropriated in future years. The average annual State-Supported debt issuance of $5.1 billion over the life of the proposed Capital Plan is higher than the average annual State-Supported debt issuance of $4.4 billion in the current Five-Year Capital Program and Financing Plan.

Significant borrowing over the past decades, coupled with current weak economic conditions, has depleted much of the State's debt capacity. Over the last five years, projected debt capacity under the statutory cap on State-Supported debt outstanding, as established in the Debt Reform Act of 2000, has declined significantly, both because of increased issuance of new State-Supported debt, and because the sluggish economy has negatively impacted Personal Income projections.

In November 2012, DOB projected that by the end of SFY 2013-14, there would be only $509 million in available capacity for additional State-Supported debt. These projections have been updated in the Executive's proposal, with available capacity projected to be approximately $1.6 billion at the end of SFY 2013-14. However, available capacity is projected to decline to $120 million at the end of SFY 2015-16 and to dwindle further to just $82 million at the end of SFY 2016-17.

[16] For more information, see Office of the State Comptroller, *Debt Impact Study*, released in January 2013.

The revised estimates are based on current projections for Personal Income in New York State (which were lowered slightly from November), as well as projected issuance and retirement of State-Supported debt.

Given the State's limited resources, its shrunken debt capacity and significant unmet capital needs, it is critical that the State prioritize its use of debt and capital resources to ensure that they are used as effectively as possible.

The statutory cap on outstanding debt does not include approximately $11.5 billion in additional debt projected to be outstanding at the end of SFY 2012-13. This debt was authorized outside the narrow definition of State-Supported debt included in the Debt Reform Act, and was mostly issued to finance non-capital costs, including deficit financing and budget relief. These obligations are included in the Office of the State Comptroller's more comprehensive definition of State-Funded debt.

The Comptroller's definition includes obligations that are not counted under the Debt Reform Act cap on State-Supported debt outstanding, such as bonds issued by the Sales Tax Asset Receivable Corporation (STARC) and the Tobacco Settlement Financing Corporation (TSFC).[17] If these additional obligations are included, as well as all the remaining debt that was outstanding when the Debt Reform Act of 2000 was enacted (because the cap only applies to State-Supported debt issued *after* April 1, 2000), the State would be $26.7 billion over the cap and additional debt could not be issued absent corrective action.

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by approximately $3.3 billion, including $1.2 billion in State support for "transformative projects" and another $446 million for various economic development initiatives. Further, although the proposed Budget does not include a bond cap authorization, the proposed Capital Plan assumes an additional $959 million in bond issuances for "transformative projects" over the life of the plan. The Executive's proposed Capital Plan does not include any new General Obligation Bond Act proposals which would be subject to voter approval.

The proposed Capital Plan projects that State-Supported debt will increase by approximately $6.3 billion, or 11.8 percent, from SFY 2013-14 through SFY 2017-18. State-Funded debt is projected to increase $7.3 billion or 11.2 percent over the same time frame, as indicated in the following table.

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[17] State-Funded debt was defined by the Office of the State Comptroller in its February 2005 report, *New York State's Debt Policy, a Need for Change*. State-Funded debt represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include bonds issued by the Sales Tax Asset Receivable Corporation to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation to finance deficits in SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency (MBBA); and Building Aid Revenue Bonds issued by New York City's Transitional Finance Agency (TFA BARBs). Not all State-Funded debt appears in the Capital Program and Financing Plan and is, therefore, illustrated separately in the tables of this section. See the Comptroller's *Debt Impact Study* for more information on State-Funded debt.

Figure 28

Projected State-Funded Debt Outstanding – SFY 2012-13 through SFY 2017-18
(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2013-14 through SFY 2017-18	SFY 2013-14 through SFY 2017-18
General Obligation	3,584,854	3,628,805	3,600,835	3,397,717	3,165,142	2,963,530	-17.3%	(621,324)
Other State-Supported Public Authority	49,848,968	51,201,486	52,590,087	54,985,288	56,360,945	56,785,726	13.9%	6,936,758
State-Supported	**53,433,822**	**54,830,291**	**56,190,922**	**58,383,005**	**59,526,087**	**59,749,256**	**11.8%**	**6,315,434**
TSFC	2,411,205	2,080,095	1,733,550	1,369,130	985,765	583,055	-75.8%	(1,828,150)
TFA BARBs (1)	6,648,780	7,740,105	8,608,744	9,394,654	10,112,913	9,907,899	49.0%	3,259,119
STARC	2,127,005	2,063,315	1,996,545	1,926,475	1,853,680	1,776,525	-16.5%	(350,480)
MBBA	294,260	281,315	262,650	233,670	203,375	171,605	-41.7%	(122,655)
Total Other State Funded	**11,481,250**	**12,164,830**	**12,601,489**	**12,923,929**	**13,155,733**	**12,439,084**	**8.3%**	**957,834**
Projected Outstanding (State-Funded)	**64,915,072**	**66,995,121**	**68,792,411**	**71,306,934**	**72,681,820**	**72,188,340**	**11.2%**	**7,273,268**

Sources: Division of the Budget; New York City Office of Management and Budget
Note: These projections incorporate issuance projections from the New York City FY 2013 Preliminary Budget released January 29, 2013. The planned issuance schedule will require additional legislation increasing the cap from $9.4 billion, or other actions to stay within the statutory cap on debt outstanding.

New York City's Transitional Finance Authority (TFA) is expected to issue approximately $4.0 billion in new Building Aid Revenue Bonds (BARBs) through SFY 2016-17, bringing the projected five-year issuance level of State-Funded debt to $29.6 billion, representing an increase of $3.0 billion from the current Capital Plan. The average annual level of State-Funded debt issuance is projected to be $5.9 billion over the next five years, as compared to $5.3 billion in the previous five-year Plan.

Figure 29

Projected State-Funded Debt Issuance – SFY 2012-13 through SFY 2017-18
(in thousands of dollars)

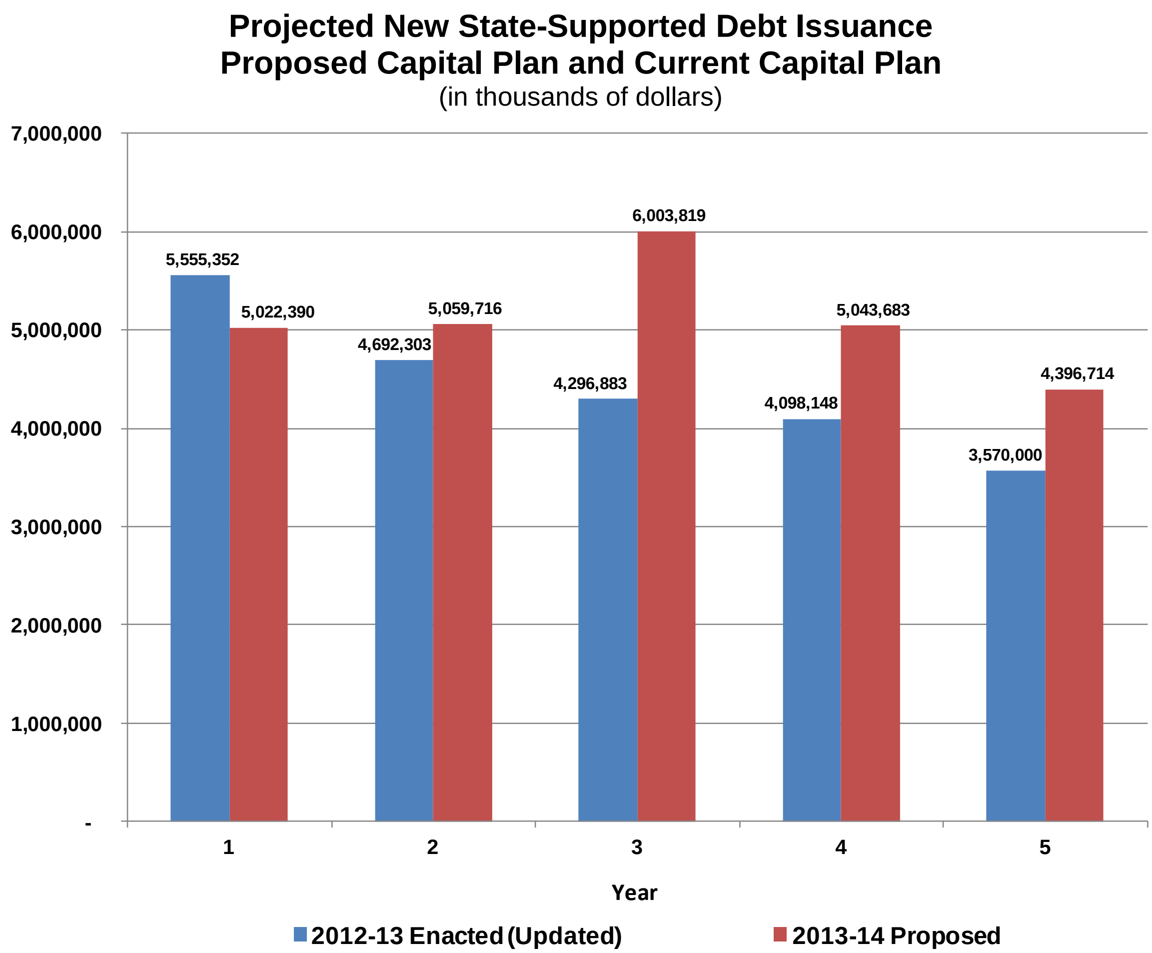
		Proposed Capital Plan					Total Capital Plan
	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2013-14 through SFY 2017-18
General Obligation	436,234	379,044	298,722	110,981	65,731	65,731	920,209
Other State-Supported Public Authority	4,050,224	4,643,346	4,760,994	5,892,838	4,977,952	4,330,983	24,606,113
Total State-Supported Issuances	**4,486,458**	**5,022,390**	**5,059,716**	**6,003,819**	**5,043,683**	**4,396,714**	**25,526,322**
TFA BARBs	1,350,000	1,200,000	1,000,000	942,000	898,000	-	4,040,000
Total State-Funded Issuances	**5,836,458**	**6,222,390**	**6,059,716**	**6,945,819**	**5,941,683**	**4,396,714**	**29,566,322**

Sources: Division of the Budget; New York City Office of Management and Budget
Note: Issuance projections for Transitional Finance Authority Building Aid Revenue Bonds are only available through SFY 2016-17.

Although DOB has increased its Personal Income projections for SFY 2013-14, projections for SFY 2014-15 through SFY 2016-17 were lowered. The projection for SFY 2017-18 is new. DOB projects that the State will remain within the statutory cap on State-Supported debt outstanding. DOB further projects that there will be approximately $2.7 billion of available debt capacity at the end of SFY 2012-13, but capacity will drop to approximately $1.0 billion at the end of SFY 2014-15. The State's debt capacity is expected to fall further to just $120 million and $82 million, respectively, at the end of SFY 2015-16 and SFY 2016-17, before rising to approximately $984 million in available State-Supported debt capacity at the end of SFY 2017-18.

The proposed Capital Plan includes significant new debt issuance throughout the life of the plan. Figure 30 illustrates annual planned debt issuances in the proposed Capital Plan compared to planned issuances as anticipated in the current Plan. With the exception of the first year of the plan, planned debt issuances under the proposed Capital Plan outpace planned debt issuances under the current Capital Plan.

Figure 30



Source: Division of the Budget

Currently, more than 94 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the five-year life of the proposed Capital Plan, public authorities are projected to issue nearly $28.6 billion in debt, as compared to projected issuances of $920.2 million in voter-approved General Obligation bonds.

Under the proposed Capital Plan, State-Funded debt service is expected to exceed $8.4 billion by SFY 2017-18. State-Funded debt service is anticipated to grow approximately 23 percent between SFY 2012-13 and SFY 2017-18, or 5.3 percent annually on average. State-Supported debt issued by public authorities makes up approximately 80 percent of the total growth in State-Funded debt service.

Figure 31

Projected State-Funded Debt Service – SFY 2012-13 through SFY 2017-18
(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2016-17	SFY 2012-13 through SFY 2017-18	SFY 2011-12 through SFY 2016-17
General Obligation	487,321	477,416	472,822	465,920	444,644	405,834	-16.72%	(81,487)
Other State-Supported Public Authority	5,461,284	5,525,435	5,631,571	5,970,151	6,342,546	6,727,267	23.18%	1,265,983
2011-12 Capital Plan (State-Supported)	**5,948,605**	**6,002,851**	**6,104,393**	**6,436,071**	**6,787,190**	**7,133,101**	**19.9%**	**1,184,496**
TSFC	408,163	446,293	444,942	444,562	444,401	443,624	8.7%	35,461
TFA BARBs	282,496	458,400	543,941	615,909	636,141	640,262	126.6%	357,766
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	45,192	43,891	41,265	41,266	41,265	41,265	-8.7%	(3,927)
Total Other State Funded	**905,851**	**1,118,584**	**1,200,148**	**1,271,737**	**1,291,807**	**1,295,151**	**43.0%**	**389,300**
Projected Debt Service (State-Funded)	**6,854,456**	**7,121,435**	**7,304,541**	**7,707,808**	**8,078,997**	**8,428,252**	**23.0%**	**1,573,796**

Sources: Division of the Budget; New York City Office of Management and Budget
Note: These projections incorporate issuance projections from the New York City FY 2013 Preliminary Budget released January 29, 2013. Totals may not add up due to rounding.

Capital Program and Financing Plan[18]

The Executive Budget's proposed SFY 2013-14 Five-Year Capital Program and Financing Plan includes $47.4 billion in projected capital spending, of which $7.2 billion would be spent off-budget (whereby bond proceeds are expended directly by public authorities and outside the Financial Plan and the State's central accounting system).

Total spending in the proposed Capital Plan is higher ($3.4 billion over the five-year Capital Plan) than in the current Capital Plan. Overall, capital spending is projected to

[18] The Capital Program and Financing Plan reflects all spending from Capital Projects Funds, one of the four fund groups that make up All Governmental Funds, including local assistance disbursements made from Capital Projects Funds such as payments to local governments to help finance their capital programs. The Capital Program and Financing Plan also includes capital spending that is considered "off-budget" in that it represents direct spending by public authorities from bond proceeds.

increase from SFY 2012-13 to SFY 2015-16 and then decline annually through SFY 2017-18. The vast majority (79.4 percent) of the increase is categorized as "other," and is primarily made up of spending for the new Transformative Projects Program. The proposed Capital Plan projects spending under this new Program to be just over $2.6 billion over the five-year Plan. The Executive Budget includes an initial appropriation of $720 million for this purpose. The proposed Capital Plan anticipates that $500 million in current resources will be made available for the Transformative Projects Program from a sweep of revenues from the State Insurance Fund in SFY 2013-14, with spending from this revenue source projected to occur between SFY 2013-14 and SFY 2015-16. The proposed budget also includes a new bond cap for this Program and as a result, spending could also be supported with bond proceeds. The remaining $2.1 billion of planned spending is expected to be financed through the issuance of bonds.

Appendix B illustrates the differences between annual spending anticipated in the proposed Capital Plan and the current Capital Plan. Transportation declines as a share of total spending over the proposed Plan, as does the second largest area of capital spending, education and higher education. The "Other" category of spending increases to 6.5 percent of total spending from less than 1.0 percent in the current Capital Plan.

Transformative Projects Program and Transformative Capital Fund

The Executive Budget proposes statutory language that creates the Transformative Capital Fund in the State Finance Law with two distinct accounts: the Storm Recovery Account and the Transformative Capital Account. The proposal includes appropriation authority of $720 million for the Transformative Projects Program (including $360 million in unidentified economic development projects) and $450 million for the Disaster Assistance Program from the Storm Recovery Account. The Executive proposal includes bonding authorization for $1.17 billion for the Fund to cover both appropriations.

The funding for the Disaster Assistance Program is included as a vehicle for spending in anticipation of federal reimbursement for Superstorm Sandy or any future natural disaster. DOB currently projects spending of just $23 million from the Strom Recovery Account, the amount it anticipates will not be eligible for reimbursement from the federal government.

Language authorizing the Transformative Capital Account and the $720 million appropriation for the Transformative Projects Program provides very broad authorization for the use of this funding. The authorization is as follows: to "finance projects or activities necessary to promote transformative economic development and infrastructure initiatives. Nothing contained in this section shall be construed to limit in any way the projects, works, activities or purposes that can be financed from this fund."[19]

While $720 million is proposed for SFY 2013-14, the proposed Capital Plan indicates that a total of $2.8 billion will be appropriated over the five-year Plan, with total spending exceeding $2.6 billion over the next five years.

[19] See Part M, Section 46 of the Public Protection and General Government Article VII legislation (S.2605 / A.3005) submitted as part of the SFY 2013-14 Executive Budget.

While the Executive proposal includes bonding authority of $1.17 billion for this Program, DOB indicates that bonding is not anticipated for the $450 million in spending for Storm Recovery or for $500 million of the $720 million in spending for projects under the Transformative Capital account. The Executive anticipates that the $500 million in cash to be swept from SIF will pay for capital spending from the Transformative Projects Fund between SFY 2013-14 and SFY 2015-16. The remaining $2.1 billion is expected to be bonded.

However, the Executive's proposed language for the Fund includes broad transfer authority that states the Director of the Budget can authorize the "transfer of any moneys into or from the new york state transformative capital fund accounts into or from the general fund in an amount to be determined by the director of the budget, to the extent moneys are available in the fund accounts."[20]

While the proposed Capital Plan currently anticipates $500 million from SIF, proposed language would allow the $500 million deposit into the Transformative Fund to instead be transferred to the General Fund for budget relief, and to be replaced with bond proceeds.

New Debt Authorizations

New debt authorizations totaling $446.1 million are proposed for various economic development initiatives, as well as $110 million for SUNY 2020 and CUNY 2020 initiatives. The Executive proposes amending the existing bond cap for the State Police by removing the word "facilities" and increasing the cap by $52.2 million for new helicopters ($12.5 million), a pistol permit database ($32.7 million), and miscellaneous facilities ($7.0 million). The Executive also proposes to expand the authorization for DASNY and ESDC to finance not only Peace Bridge projects, but also transportation capital projects, to allow the financing of State and local highways, parkways, bridges, the New York State Thruway, Indian reservation roads, and transportation infrastructure projects and facilities. See the Public Authorities section of this Report for a full listing of bond cap changes.

While the proposed Capital Plan includes $1.17 billion in new bonding authority for the Transformative Capital Fund, more than $2.6 billion is anticipated to be spent from the Fund. DOB expects to use $500 million in cash from a SIF sweep for the Fund and to finance the remaining $2.1 billion with bonds, meaning additional debt authorization of at least $959 million will be needed in future years.

Debt Management and New Initiatives

The Executive Budget anticipates savings of $128 million to the General Fund related to debt management initiatives. In addition, the proposal includes the following significant changes to the State debt and capital projects planning processes:

[20] Ibid.

- **New York Works Task Force and 10-Year Capital Planning.** It is anticipated that the New York Works Task Force will issue a 10-year Capital Plan in February 2013 that incorporates the Executive's Proposed Capital Program and Financing Plan, as well as other capital activities that utilize State resources and other public authority capital spending. At the same time, DOB has begun to expand its capital planning process for agencies to 10 years, thus providing a longer time frame to anticipate needs.

  This longer horizon is consistent with recommendations included in Comptroller DiNapoli's comprehensive fiscal reform package, which addresses the need for improvements to the State's budget, debt, and capital planning processes, and advocates a longer planning window with a more coordinated approach, so that all the State's capital needs are considered together.[21]

- **Creation of a New Sales Tax Revenue Bond Credit.** The Executive proposes the creation of a Sales Tax Revenue Bond financing program which would be backed by one cent of the State's share of sales tax. (Note that the proposal is for the amount attributable to a one percent rate of taxation, and the State sales tax is 4.0 percent. The amount collected in the Sales Tax Revenue Bond Fund would increase if the State sales tax increased). This new credit is meant to complement the current PIT Revenue Bond financing program, which is currently the primary mechanism used to finance the State's capital program. These bonds, which are issued by certain authorized State public authorities, are not voter-approved. The Sales Tax Revenue Bond financing program would follow this model of issuance and would also not be approved by the voters. DOB expects that approximately $1.0 billion in debt will be issued annually under this authorization.

- **Creation of a New Self-Supporting SUNY Dorms Credit.** The Executive proposes to shift rental revenue received from SUNY dorms from the State to a fund held by the Commissioner of Tax and Finance for the sole purpose of paying debt service on SUNY Dormitory bonds issued by DASNY. This fund would be off-budget and outside of the State's central accounting system, and as a result would eliminate the need for a State appropriation for debt service. This proposal includes a new bond cap of $944 million. New bonds issued would no longer be considered State-Supported debt and would not be counted under the existing caps on State-Supported debt outstanding or debt service.

  By moving new debt associated with SUNY dorms off-budget, and not categorizing it as State-Supported, debt capacity under the bond caps on State-Supported debt outstanding and State-Supported debt service is increased.

[21] An overall prioritization of the State's infrastructure needs is long overdue, as demonstrated in the Office of the State Comptroller's various reports on the topic, including: *The Dedicated Highway and Bridge Trust Fund: Where Did the Money Go?* (October 2009); *Cracks in the Foundation: Local Government Infrastructure and Capital Planning Needs (*August 2010); *Planning for the Long Term: Capital Spending Reform in New York* (October 2010); *Controlling Risks Without Gimmicks: New York's Infrastructure Crisis and Public-Private Partnerships* (January 2011); *Assessment of the Thruway Authority's Finances and Proposed Toll Increases* (August 2012); *Growing Cracks in the Foundation* (December 2012); *and Debt Impact Study, An Analysis of New York State's Debt Burden* (January 2013).

- **Expansion of the Use of PIT Revenue Bonds for Any State Purpose.** The Executive proposes to authorize the use of debt issued under the PIT Revenue Bond Financing Program for any purpose for which State-Supported debt can be issued, with the exception of General Obligation Bonds. The Executive also proposes to permanently extend the authorization for DASNY and ESDC to issue PIT revenue bonds for any authorized purpose.

- **Deposits to the Debt Reduction Reserve Fund.** The SFY 2013-14 Executive Budget includes an authorization to transfer $1.0 billion into the Debt Reduction Reserve Fund, including a $250 million from the General Fund reflecting resources swept from SIF. However, the Financial Plan only includes cash for a transfer of $250 million to the Debt Reduction Reserve Fund. The higher authorization amount would be available if other funds become available. There is no spending anticipated in the Financial Plan or the Capital Plan from the Debt Reduction Reserve Fund.

- **Use of Competitive Sales.** The Capital Plan assumes that 50 percent, or $2.5 billion, of proposed new bond issuances will be sold competitively in SFY 2013-14. The remaining 50 percent will be sold through negotiated sales.

- **Workers' Compensation Provisions.** The Executive Budget proposes changes to workers' compensation that includes a $900 million bonding program to be established through DASNY to cover defaults of group self-insured trusts. The bonds would be used to purchase liabilities resulting from the default of self-insurance trusts, and would be backed by the new Workers' Compensation Assessment on employers.

- **Design-Build-Finance Authorization**. The Executive proposes that all State agencies and public authorities (excluding SUNY and CUNY) be authorized to use private financing for public infrastructure projects. The State's existing design-build law would be expanded to authorize the use of private financing for public capital projects in New York State, potentially bypassing traditional public financing procedures and limitations, and reducing oversight. See the Public-Private Partnership section of this report for further discussion.

Appendix A: Gap-Closing Plan

SFY 2013-14 Executive Budget General Fund Gap-Closing Plan
SFY 2013-14 through SFY 2016-17
(in millions of dollars)

	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17
Current Services Gap Reported in Mid-Year Update	**(982)**	**(3,590)**	**(4,370)**	**-**
Receipt Revisions	(865)	(599)	(630)	-
Disbursement Revisions	495	210	(201)	-
Current Services Gap After Revisions	**(1,352)**	**(3,979)**	**(5,201)**	**(5,663)**
Non-Recurring and Temporary Resources and Costs	**497**	**1,186**	**899**	**636**
State Insurance Fund	250	500	250	250
Utility Assessment	255	509	509	509
High Income Charitable Contributions	70	140	140	70
Film Credit	-	-	-	(173)
Historic Properties Credit	-	-	-	(20)
Debt Management	128	66	-	-
Social Services and Housing	104	32	-	-
Deposit to Debt Reduction Reserve Fund	(250)	-	-	-
Education - Fiscal Stabilization Aid	(143)	(61)	-	-
Reserves	83	-	-	-
Recurring Revenue	**281**	**277**	**277**	**277**
Tax Modernization Made Permanent	6	22	22	22
Education Annual Professional Performance Review	240	240	240	240
Delinquent Tax Collection - Wage Garnishment/Driver License Suspension	35	15	15	15
State Operations Reductions	**434**	**434**	**443**	**541**
Executive and Independent Agencies	265	308	315	409
Health Insurance Rate Renewal	89	89	89	89
Other Benefits and Costs	80	37	39	43
Local Assistance Reductions	**293**	**263**	**289**	**290**
Cost of Living Adjustments and Trend Factors - Human Services	71	85	88	95
Various Public Health and Aging	161	126	149	143
Education/Lottery	61	52	52	52
New Spending	**(89)**	**(111)**	**(210)**	**(402)**
Thruway Authority	(84)	(86)	(87)	(89)
Capital - Imapct on Debt Service	(5)	(25)	(87)	(277)
Empire State Development Housing	-	-	(36)	(36)
All Other	(64)	(23)	(56)	(143)
Remaining Gap In Enacted Budget Financial Plan	**-**	**(1,953)**	**(3,559)**	**(4,464)**

Source: Division of the Budget

Appendix B: Capital Spending Plan Comparison

Comparison of Capital Spending
SFY 2013-14 Proposed Capital Plan vs. Current Capital Plan
(in millions of dollars)

		Proposed Capital Plan - SFY 2013-14 through SFY 2017-18					Average	Total Dollar	Total Percentage
	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	2013-14 through 2017-18	2013-14 through 2017-18	2013-14 through 2017-18
Transportation	4,655	4,617	4,479	4,344	4,325	4,144	4,382	21,910	46.2%
Education/Higher Education	2,102	1,995	2,004	1,855	1,705	1,336	1,779	8,894	18.8%
Economic Development/ Government Oversight	568	736	875	962	643	638	771	3,854	8.1%
Mental Hygiene	552	519	639	622	589	615	597	2,984	6.3%
Parks and Environment	726	672	643	634	602	546	619	3,097	6.5%
Health and Social Welfare	618	546	220	235	235	250	297	1,485	3.1%
Public Protection	307	371	347	334	322	303	335	1,676	3.5%
General Government	66	97	110	72	80	70	86	428	0.9%
Other	88	208	438	1,030	847	540	613	3,063	6.5%
Total	**9,682**	**9,761**	**9,754**	**10,087**	**9,347**	**8,441**	**9,478**	**47,390**	**100.0%**

		Enacted Capital Plan - SFY 2012-13 through SFY 2016-17					Average	Total Dollar	Total Percentage
	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	2012-13 through 2016-17	2012-13 through 2016-17	2012-13 through 2016-17
Transportation	4,363	4,549	4,563	4,370	4,128	4,016	4,325	21,626	49.2%
Education/Higher Education	1,854	2,144	1,946	1,969	1,816	1,597	1,894	9,471	21.5%
Economic Development/ Government Oversight	1,126	650	799	780	609	273	622	3,110	7.1%
Mental Hygiene	363	552	528	747	697	672	639	3,197	7.3%
Parks and Environment	685	744	632	531	483	438	566	2,828	6.4%
Health and Social Welfare	396	523	470	140	139	139	282	1,412	3.2%
Public Protection	309	334	318	329	328	318	325	1,627	3.7%
General Government	75	67	59	70	70	70	67	336	0.8%
Other	141	99	113	101	40	40	79	393	0.9%
Total	**9,312**	**9,660**	**9,428**	**9,037**	**8,310**	**7,564**	**8,800**	**43,999**	**100.0%**

Source: Division of the Budget