



Report on the State Fiscal Year 2014-15 Executive Budget

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Executive Summary

The State Fiscal Year (SFY) 2014-15 Executive Budget holds the promise that New York State can achieve ongoing budgetary balance after decades of nearly continuous structural gaps. Such balance is proposed by the Executive to be attained in the coming years largely through spending restraint, a contrast to recent years' budgets which have relied more on a combination of expenditure and revenue actions.

The proposed Budget includes continued efforts to control costs and identify opportunities for efficiencies, steps to reduce the tax burden on individuals and businesses, and certain improvements with respect to transparency and accountability. It also provides ongoing support, largely federally funded, for important rebuilding initiatives after the devastation caused by Superstorm Sandy.

Figure 1
SFY 2014-15 Executive Budget Projected Growth
 (in millions of dollars)

Receipts				
	2013-14	2014-15	\$ Change	% Change
General Fund (including Transfers)	61,653	63,503	1,850	3.0%
State Operating Funds	87,567	89,841	2,274	2.6%
All Governmental Funds	140,770	141,901	1,131	0.8%
Disbursements				
	2013-14	2014-15	\$ Change	% Change
General Fund (including Transfers)	61,460	63,563	2,103	3.4%
State Operating Funds	90,498	92,027	1,529	1.7%
All Governmental Funds	140,865	142,141	1,276	0.9%

Source: Division of the Budget
 Note: Spending and revenue figures include All Funds spending associated with Superstorm Sandy and the Affordable Care Act.

The Division of the Budget (DOB) estimates that the State will end the current fiscal year with a \$310 million surplus, and plans to use these resources for budget-balancing purposes in State Fiscal Year (SFY) 2014-15. The surplus is a positive reflection on the State's success in establishing a stronger fiscal foundation than was the case during and immediately after the last recession.

The Executive Budget projects receipts and disbursements based on current law and services, as well as economic forecasts, and makes adjustments to reflect proposed actions. The Office of the State Comptroller estimates that such projections would result in General Fund gaps in SFYs 2015-16 through SFY 2017-18 of \$1.5 billion, \$2.2 billion and \$3.4 billion, respectively. The Financial Plan further assumes a 2 percent limit on State Operating Funds spending growth, without providing specific proposals to meet such a goal, resulting in projections of General Fund surpluses in the out-years. DOB's assumption of 2 percent spending growth reflects plans to reduce expenditures from baseline growth levels by an annual average of \$2.5 billion in the three State fiscal years starting in 2015, 2016 and 2017.

Achieving such restraint represents a significant challenge. Expenditures for programs totaling more than half of State Operating Funds spending are projected by DOB to increase at well above 2 percent, and may be difficult to adjust. School aid and Medicaid, which are subject to statutory limits that would accommodate growth well above 2 percent, represent 41.5 percent of the \$92 billion total State Operating Funds disbursements projected for SFY 2014-15. Debt Service and General State Charges (which largely reflect employee and retiree health insurance and pension costs) together represent another 14.8 percent of projected State Operating Funds spending; both are difficult to reduce in the short term. Debt Service is projected to grow by an annual average of more than 7 percent in the three out-years of the Financial Plan. Given these figures, funding for State agency operations, and for local assistance programs including transportation, mental hygiene, social services and higher education, may be expected to bear a disproportionate share of future spending restraint.

Other major findings of this report include the following:

- The Executive Budget projects All Funds tax receipts will rise by a relatively modest 2.0 percent in SFY 2014-15. Personal Income Tax (PIT) withholding, projected at just over \$35 billion, is the largest single element of overall tax receipts and is expected to grow strongly, at 5.7 percent. Offsetting much of that growth, however, is a projected \$1 billion decline in prior-year estimated payments, reflecting a reduction from the current year's high level that was driven by timing of federal tax payments. A new tax credit intended as the first step of a proposed two-year property tax "freeze" for certain homeowners outside New York City would reduce PIT receipts by an estimated \$400 million in the coming year. All Funds Sales Tax receipts are projected to increase by 3.1 percent, and business tax collections to fall by 4.1 percent. Miscellaneous receipts are forecast to increase by \$1.5 billion, or 6.1 percent. Half of this growth reflects a larger transfer from the State Insurance Fund (SIF). As a result of legislation enacted in the SFY 2013-14 Budget, the SIF transfer will increase from \$250 million in the current year to \$1 billion in SFY 2014-15.
- All Funds disbursements would rise 0.9 percent, to \$142.1 billion, including federally funded spending associated with Superstorm Sandy and the Affordable Care Act. State Operating Funds spending would increase by 1.7 percent, to just over \$92 billion. State Operating Funds school aid would rise by more than \$1 billion or 5.1 percent on a State fiscal year basis, while Department of Health Medicaid spending would increase by \$540 million or 3.3 percent.
- Risks to the proposed Financial Plan include uncertainty regarding the pace of growth in the economy and certain revenue projections. For example, the Executive Budget's projection that PIT withholding receipts will rise by 5.7 percent compares to an estimated 3.8 percent in the current year.
- The SFY 2014-15 Financial Plan includes \$180 million in newly proposed sweeps from various funds. The proposed Budget includes a total of approximately \$7.3 billion in resources that are limited to the coming year or otherwise temporary in nature, primarily reflecting prior year actions. Some \$2.7 billion of this figure

represents federally supported disaster assistance. The expected \$1 billion transfer from SIF is the largest in a series of four such annual transfers approved as part of the SFY 2013-14 Enacted Budget. The SFY 2014-15 Executive Budget also relies on \$2.1 billion in additional revenue from PIT provisions scheduled to expire at the end of 2017, and benefits from \$628 million in prepayments planned to be made before the end of the current fiscal year rather than in SFY 2014-15.

- The proposed Budget raises certain issues regarding transparency and accountability. As described above, the Budget assumes a 2 percent limit on State Operating Funds spending growth, which would allow for both new tax law changes and balanced budgets (or small surpluses) in the coming years. More detail regarding the proposals envisioned to reach this stated goal, with specific estimates of their fiscal impacts, would provide greater assurance that actions based on such an assumed limit are realistic. It would also allow local governments and other entities dependent on State assistance to plan more effectively.
- The Executive Budget proposes to extend 2011 legislative provisions that authorized the use of design-build contracts and several other alternative methods of procurement for certain projects and certain specified State agencies and authorities. As amended, the proposed Budget would extend such provisions to December 9, 2017. The Executive Budget released in January would have expanded such authority to all counties and certain other municipalities; amended language deletes this proposal.
- The 30-day amendments to the Budget include a proposal that would authorize the creation of a privately-financed public-private partnership involving a New York State agency and a public authority. The proposal would permit the Department of Health to negotiate a contract for the design, building, financing, operation and maintenance, or any combination of these functions, for a new consolidated laboratory that could serve State or local departments, agencies, institutions and public authorities, as well as, potentially, private entities. The proposal authorizes the development of the facility to proceed with limited oversight by the Office of the State Comptroller and other agencies.
- The Executive Budget includes certain health-related proposals that would bypass traditional procurement provisions such as contract review by the Office of the State Comptroller, competitive bidding or other requirements. Such existing provisions protect the State against waste, fraud and abuse.
- The Executive Budget Capital Program and Financing Plan provides less detail on debt outstanding and debt service by program for PIT and Sales Tax Bonds than has been available in the past. These changes reduce the level of information regarding the State's use of borrowing, its current debt burden, and payment of costs for essential capital projects. The changes in DOB's presentation of debt-related information follow the State's consolidation of bond issuances under fewer bonding programs in recent years. While such consolidation may make the State's

debt issuance process more efficient, transparency in the use of taxpayer-funded borrowing is also essential.

- The Executive Budget includes new proposals to provide property tax relief to homeowners and renters and to reduce business taxes, particularly for manufacturers. As proposed, the State would rebate eligible homeowners for the 2014 increase in their annual property tax payments to school districts and municipalities, provided those jurisdictions were in compliance with the statutory property tax cap enacted in 2011. In 2015, similar limitations would apply, along with a requirement that participating jurisdictions achieve defined savings from shared services, consolidations or certain other measures.
- Starting in SFY 2015-16, the Executive Budget would create an enhanced property tax circuit breaker, also in the form of a PIT credit for eligible homeowners and renters. A credit for renters would be available throughout the State. These new property-tax-related credits are projected to reduce PIT revenues by a combined \$1.4 billion in SFY 2017-18.
- The proposed Budget includes \$3.4 billion for the School Tax Relief (STAR) program, an increase of 1.2 percent from the current-year estimate. The State's creation of STAR in 1997 represented a policy decision that billions of dollars each year would be directed to residential property tax relief at the same time other resources continued to flow to school districts. The proposed Budget expands this focus on property tax relief. The combination of STAR payments and newly enhanced residential property tax credits is projected to total more than \$5 billion in SFY 2017-18, compared to \$24.8 billion in school aid that year.
- Business tax changes in the proposed Budget include combining the corporate franchise and bank taxes, reducing the rate on the combined tax from the current 7.1 to 6.5 percent, eliminating the net income tax on manufacturers in upstate New York, and providing a real property tax credit for certain manufacturing property. These changes would reduce revenues by a projected \$507 million in SFY 2017-18. Revenue increases from new corporate tax audit procedures and changes to the State's investment tax credits would offset an estimated \$237 million of the proposed business tax reductions.
- The Executive Budget projects that State-share Medicaid spending from all agencies will rise by 15.0 percent from SFY 2013-14 to SFY 2017-18, reaching \$24.6 billion in the latter year. Federal Medicaid funding to the State is expected to rise by more than a third, or \$8.6 billion, over the same period, excluding any impact of the revised federal Medicaid waiver. DOB projects overall Medicaid spending, including federal, State and local shares, at \$58.2 billion in the coming year and nearly \$67 billion three years later. Medicaid enrollment is estimated at 5,485,400 for the current year and is expected to rise 9.1 percent by SFY 2017-18.
- The Executive has announced an "agreement in principle" with the federal Centers for Medicare & Medicaid Services (CMS) on a Medicaid waiver that will allow the State to reinvest \$8 billion in federal savings expected to be generated by New

York's Medicaid redesign initiatives, to support vital services and further changes in the State's health care system. Such resources are expected to be spread over five years; the impact on the SFY 2014-15 Financial Plan is currently unclear.

- Aid to public schools would rise by \$807 million, to \$21.9 billion, on a school year (SY) basis, for the first time reaching and surpassing the previous historical high of \$21.7 billion in 2009-10. This increase includes a modest reduction in the gap elimination adjustment (GEA), from \$1.6 billion in SY 2013-14 to \$1.3 billion in SY 2014-15. The GEA reduces all districts' aid from the amount otherwise driven by aid formulas. On a SFY basis, school aid would increase \$1.1 billion or 5.1 percent. The Executive Budget also proposes certain reforms to preschool special education funding. Such reforms are intended to address serious issues identified in a series of audits by the Office of the State Comptroller over the past three years and in legislation enacted in 2013.
- The proposed Budget would establish a public campaign finance system modeled after the New York City system. Public financing of State legislative elections would start in 2016, and statewide elections in 2018. Such a step would encourage more small contributors to participate in the electoral process and help to reduce the influence of larger donors on elections in the State, similar to the intention of a plan that Comptroller DiNapoli has proposed for elections to the office of State Comptroller. The proposed Budget includes language authorizing the use of Abandoned Property revenue for this purpose, and proposes to create a new tax check-off program to support a new Campaign Finance Fund.
- The Executive Budget proposes increased bonding authorization totaling approximately \$6.9 billion, including a \$2 billion Smart Schools Bond Act that would fund school technology and prekindergarten building costs. The proposed Bond Act would require voter approval, giving taxpayers a voice in major borrowing decisions that will affect them financially. State-Funded debt outstanding is projected to total \$67.9 billion in the coming year, and rise to \$72.8 billion by SFY 2018-19. State-Funded debt service is projected at \$6.9 billion in SFY 2014-15, and is expected to rise to \$8.7 billion four years later.
- The Executive Budget proposes significant amendments to the Brownfield Cleanup Program, incorporating some suggestions raised in a report by the Office of the State Comptroller. Such proposals include extending by 10 years the date by which cleanups under the program must be completed to qualify a project for tax credits. The proposed amendments would continue to allow cleanup tax credits for all sites, but reserve redevelopment credits for properties that have been vacant for more than 10 years, that are worth less than the cleanup costs, or that are priority economic development projects as determined by Empire State Development Corporation within defined criteria.
- The overall size of the State Executive branch workforce would remain essentially unchanged in the coming fiscal year. DOB projects a full-time equivalent (FTE) workforce of 180,766 at the end of SFY 2014-15, a net decrease of 191. Staffing at the Office for People With Developmental Disabilities would decline by a

projected 720 FTEs, and at the Office of Children and Family Services by 234. Agencies with increased staffing include DOH, with a gain of 323 FTE positions; the Justice Center (72); Corrections and Community Supervision (66); the Office of Temporary and Disability Assistance (59); and Education (58).

- The General Fund subsidy for the Dedicated Highway and Bridge Trust Fund would increase by more than two-thirds, from \$402 million in the current year to \$673.3 million in SFY 2014-15.

Appendices to this report provide: detailed figures on the State's General Fund SFY 2013-14 projections, as adjusted from the Enacted Budget to the Third Quarter Update issued with the SFY 2014-15 Executive Budget; the Multiyear Gap-Closing Plan as presented in the SFY 2014-15 Executive Budget; and a comparison of the SFY 2013-14 Enacted Capital Plan with the proposed SFY 2014-15 Capital Plan.

Note: This report includes a summary of the changes made in the Executive Budget amendments released on February 11, 2014, and February 20, 2014, by the Division of the Budget (see page 73). However, because updates to the Financial Plan and the Capital Program and Financing Plan were not submitted with such amendments, this report does not reflect any such revisions.

Financial Overview

The SFY 2014-15 Executive Budget holds out the promise that multiyear budget balance is possible. Based on current DOB revenue projections, including proposed tax changes, if spending from State Operating Funds is held to 2 percent, the State will realize small surpluses annually beginning in SFY 2015-16. The Executive Budget details how spending from State Operating Funds is held to 1.7 percent in the upcoming fiscal year, but does not provide such detail for out-years. As detailed in this section, the Office of the State Comptroller estimates that, based on DOB estimates, projected General Fund out-year gaps would total \$1.5 billion in SFY 2015-16, \$2.2 billion in SFY 2016-17, and \$3.4 billion in SFY 2017-18 if savings from the unspecified 2 percent spending limit are excluded.

While the planned out-year spending limitations are not binding, the Executive Budget's broadly stated approach to multiyear budget balance builds on a forward-looking trend begun in the SFY 2011-12 Enacted Budget. That Enacted Budget included two-year appropriations for school aid and State-funded Medicaid, as well as statutory limitations on annual growth in those programs. Spending in the last three enacted budgets generally has been held to the benchmarks first established in 2011, albeit with some changes. As a result, the State is in a significantly improved fiscal position.

Achieving budget balance in SFY 2014-15 will require several revenue and spending actions. The Executive's proposal includes recurring actions that are intended to reduce the growth in spending and increase revenue. However, the proposed Budget does not eliminate the State's structural imbalance. Absent the 2 percent adjustment, the SFY 2014-15 Executive Budget shows a three-year cumulative \$7.2 billion out-year gap. The projected out-year gaps are smaller than in previous years, and compare somewhat favorably with out-year gap projections ranging from \$2.0 billion to \$4.5 billion that were estimated in the SFY 2013-14 Executive Budget. However, annual budget balancing actions will still be necessary in the years immediately ahead.

State Fiscal Year 2013-14

General Fund

For the first time in six years, it appears that year-end tax collections in SFY 2013-14 will exceed projections made when the Budget was enacted. In addition, the State's General Fund has received a number of unanticipated, non-recurring, non-tax revenues, including \$260 million in various litigation settlements and another \$204 million from back payments owed by Native American casinos.

As a result of these higher revenues, along with lower-than-anticipated spending (primarily in transfers to capital projects funds), DOB currently projects a General Fund operating surplus of \$310 million in SFY 2013-14. The Executive plans to use this surplus to increase revenue in SFY 2014-15 by prepaying Personal Income Tax (PIT) refunds in SFY 2013-14 that would otherwise be paid in SFY 2014-15, thus providing non-recurring budget relief next year. In addition, DOB announced in the First Quarter

Update to the SFY 2013-14 Enacted Budget Financial Plan that the State planned to prepay \$318 million in debt service in SFY 2013-14. Absent these prepayments, the use of these resources would be subject to the budget process.

Figure 2 illustrates how the General Fund Financial Plan has changed between May 2013, with the Enacted Budget Financial Plan and January 2014, with the Third Quarter Financial Plan Update included in the Executive's SFY 2014-15 Budget Proposal.

Figure 2

**SFY 2013-14 General Fund Receipts and Disbursements – Unadjusted
Enacted Budget Compared to Third Quarter Update**

(in millions of dollars)

	SFY 2013-14 Enacted	SFY 2013-14 3rd Quarter	Dollar Change
Opening Fund Balance	1,610	1,610	-
Receipts:			
Personal Income Tax	28,488	28,745	257
Consumption and Use Taxes	6,548	6,525	(23)
Business Taxes	6,375	5,988	(387)
Other Taxes	1,069	1,238	169
<i>Total Taxes</i>	<i>42,480</i>	<i>42,496</i>	<i>16</i>
Miscellaneous Receipts	3,096	3,251	155
Federal Funds	2	2	-
PIT Excess from RBTF	8,840	8,795	(45)
Sales Tax Excess from LGAC/STRBF	5,440	5,487	47
Real Estate Transfer Tax Excess	532	608	76
Other Transfers from Other Funds	866	1,014	148
Total Receipts	61,256	61,653	397
Disbursements:			
Grants to Local Governments	40,258	40,383	125
State Operations	7,564	7,654	90
General State Charges	4,953	4,904	(49)
Transfers to Other Funds:			
Debt Service	1,328	1,628	300
Capital Projects	1,227	1,078	(149)
Other	5,827	5,813	(14)
Total Disbursements	61,157	61,460	303
Closing Fund Balance	1,709	1,803	94

Source: Division of the Budget

Notes: RBTF – Revenue Bond Tax Fund; LGAC – Local Government Assistance Corporation; STRBF – Sales Tax Revenue Bond Fund.

With no adjustments and all prepayments from SFY 2014-15 included, the General Fund closing balance is now expected to end the year \$94 million higher than initially anticipated.

However, a clearer picture emerges after adjusting for prepayments for SFY 2014-15. Adjustments include \$311 million in school aid and debt service payments originally scheduled for SFY 2013-14 but actually made in SFY 2012-13, as well as the \$464 million in unanticipated non-recurring settlements and Native American casino revenue. After such adjustments, the General Fund closing balance is \$258 million higher than initially anticipated. This variance reflects better-than-anticipated PIT receipts, offset by lower-than-anticipated collections in miscellaneous receipts. Overall General Fund spending projections, after adjustments, remain roughly the same, at \$61.5 billion. See Appendix A for more information.

State Operating Funds

The SFY 2013-14 Enacted Budget Financial Plan assumed revenue growth in State Operating Funds (including the General Fund) of approximately 2.6 percent. The majority of this projected growth was expected in tax collections (projected to increase 4.6 percent or \$3 billion), partly offset by an anticipated decline in miscellaneous receipts (projected to decline \$759 million or 3.8 percent).

The projected increase in tax collections included a significant increase from prior year estimated PIT payments. Annually, roughly 97 to 98 percent of these payments are made in April from quarterly taxpayers that are settling their prior year's liability. The settlement of 2012 PIT liabilities was significantly larger than the previous year, primarily due to federal tax increases which had led many people to realize income in December 2012 in order to avoid the federal increase. April PIT collections were more than \$70 million higher than projections included in the Enacted Budget and more than 25 percent higher than collections from the previous April. Since April, estimated payments on current year liabilities have been significantly stronger than initially anticipated, causing DOB to increase its projection for such payments by \$830 million since the Enacted Budget.

Withholding collections were strong throughout the first half of the fiscal year. Since then, such growth has slowed. Through January 31, 2014, withholding collections were \$211.5 million, or 0.8 percent, higher than the same period last year. The updated Financial Plan projects withholding receipts will increase 3.8 percent by year-end. While withholding receipts were significantly lower than anticipated in January, the variance appears to be due to the timing of certain withholding collections from bonus payments. Nonetheless, higher growth in the remaining two months will be needed to achieve year-end projections.

While PIT collections have been strong throughout the year, business tax collections have fallen below projections throughout the year, and projections were again reduced in the SFY 2014-15 Executive Budget Financial Plan, with current projections \$450 million below the initial projections included in the Enacted Budget. The current year's Financial Plan also benefitted from a number of revenues that were unanticipated at the time the Budget was enacted. For instance, the State received settlements totaling \$250 million from Bank of Tokyo Mitsubishi UFJ and \$10 million from Deloitte Financial Advisory Services, as well as more than \$200 million in back payments from Native American casinos.

Spending from State Operating Funds was initially anticipated to increase 1.6 percent, or \$1.4 billion, in SFY 2013-14 (unadjusted for timing changes). DOB currently projects spending from State Operating Funds will total just under \$90.5 billion, representing a projected increase of \$1.7 billion, or 1.9 percent, from SFY 2012-13. This includes a \$318 million prepayment of debt service in SFY 2013-14 that was initially planned for SFY 2014-15. However, when adjusted to reflect non-recurring timing actions, projected spending growth increases to 2.4 percent. Figure 3 illustrates spending adjusted for the following timing measures: \$107 million prepayment for school aid in SFY 2012-13; \$204 million prepayment of debt service in SFY 2012-13; prepayment of debt service in SFY 2013-14; and the elimination of debt service associated with SUNY dormitories in SFY 2013-14.

Figure 3

State Operating Funds Disbursements, Adjusted for Timing
SFY 2012-13 and SFY 2013-14
(in millions of dollars)

Adjusted State Operating Funds Disbursements	SFY 2012-13	SFY 2013-14 Third Quarter Update	Dollar Growth	Percentage Growth
Local Assistance				
Economic Development/Government Oversight	395	401	6	1.5%
Parks and Environment	9	13	4	41.1%
Transportation	4,303	4,737	434	10.1%
DOH Medicaid (incl. Admin.)	15,878	16,232	354	2.2%
Other Health	2,040	2,172	132	6.5%
Social Welfare	3,088	2,987	(102)	-3.3%
Mental Hygiene	3,602	2,833	(769)	-21.3%
Public Protection/Criminal Justice	357	354	(3)	-0.8%
Higher Education	2,629	2,813	184	7.0%
School Aid	20,056	20,527	471	2.3%
Other Education	5,232	5,460	228	4.4%
General Government	161	161	-	0.0%
Local Government Assistance	754	764	9	1.2%
Other	(35)	149	184	-525.7%
<i>Total Local Assistance</i>	<i>58,471</i>	<i>59,602</i>	<i>1,131</i>	<i>1.9%</i>
State Operations				
Personal Service	12,403	12,376	(27)	-0.2%
Non-Personal Service	5,280	5,579	299	5.7%
<i>Total State Operations</i>	<i>17,683</i>	<i>17,955</i>	<i>272</i>	<i>1.5%</i>
General State Charges	6,437	6,976	539	8.4%
Debt Service	5,732	5,947	215	3.8%
Capital Projects	11	11	-	0.0%
Total Disbursements	88,331	90,491	2,160	2.4%

Note: See text for discussion of adjustments. These amounts do not reflect actual receipts or disbursements or Financial Plan projections. Unless otherwise noted, the figures provided throughout the remainder of this report reflect unadjusted amounts.

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

All Funds

All Funds receipts are projected to increase 5.7 percent in SFY 2013-14, including the effects of federal receipts associated with Superstorm Sandy. Miscellaneous receipts are projected to decline 0.7 percent, and All Funds tax collections are projected to increase 4.7 percent.

All Funds disbursements are projected to increase 5.8 percent, primarily due to spending associated with Superstorm Sandy. Local assistance grants are projected to increase 6.8 percent, or \$6.5 billion, while federally funded grants are projected to decline \$5.4 billion (9.9 percent).

Federal Receipts

The SFY 2013-14 Enacted Budget Financial Plan projected federal receipts would increase 10.7 percent, or nearly \$5 billion, with nearly all the growth attributable to disaster assistance associated with Superstorm Sandy. DOB has reduced this projected increase to \$4.7 billion in the latest Financial Plan Update included in the Executive Budget. Almost the entire increase is associated with disaster assistance.

Capital Projects

The SFY 2013-14 Enacted Budget Financial Plan projected capital spending would increase 4.0 percent, or \$225 million, to approximately \$5.9 billion (not including off-budget spending through public authorities directly from State-Supported bond proceeds). The most recent update of the Financial Plan does not change that projection appreciably. See the Debt and Capital section of this report for additional analysis of the proposed SFY 2014-15 Proposed Five-Year Capital Program and Financing Plan.

State Fiscal Year 2014-15

The presentation of the SFY 2014-15 Executive Budget represents a departure from previous presentations in that it does not directly project out-year gaps that result from the State's structural imbalance. As other budgets in recent years have done, it provides projections for both receipts and disbursements based on current economic projections and current service levels, and proposed actions that would change baseline expectations.

Unlike past Executive budgets, this year's proposal also provides a figure that illustrates potential savings associated with limiting the growth in spending from State Operating Funds to 2 percent annually through SFY 2017-18. The Office of the State Comptroller estimates that, without this adjustment, which occurs "below-the-line" of the gap-closing plan, current law and services as revised by the Executive's various proposals are projected to result in out-year gaps of \$1.5 billion in SFY 2015-16 to just under \$3.5 billion in SFY 2017-18. By including the 2 percent spending adjustment, DOB projects

small but not insignificant surpluses beginning in SFY 2015-16 (\$155 million) through SFY 2017-18 (\$173 million).

Cumulative out-year budget gaps totaling \$7.2 billion (reflecting projections before the 2 percent spending limit adjustments) are considerably less than the gaps projected four years ago. The proposed Budget still utilizes approximately \$4.6 billion in non-recurring or temporary resources to support ongoing spending needs, \$3.7 billion of which were enacted in previous budgets. The Executive's proposal does include approximately \$558 million in new non-recurring resources in the SFY 2014-15 gap-closing plan (as well as \$318 million in a debt service prepayment), but does not add any new actions to the out-years. See Figure 8 on page 20 for more information.

Nonetheless, holding spending growth to 2 percent through SFY 2017-18 will be challenging. Annual gap closing measures will be required to address these gaps with recurring actions.

General Fund

The SFY 2014-15 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will total \$63.5 billion, an increase of 3.0 percent, or \$1.85 billion, compared to updated SFY 2013-14 estimates. This is primarily due to expected growth in PIT collections, which are projected to increase by \$924 million, or 3.2 percent, not including an additional \$367 million in PIT receipts expected to be transferred back to the General Fund from the Revenue Bond Tax Fund. This includes a prepayment of refunds in SFY 2013-14, which artificially reduces receipts in SFY 2013-14 and increases receipts in SFY 2014-15. Without this timing related change, General Fund PIT collections are projected to increase only \$304 million or 1 percent (or 2.5 percent if PIT receipts in excess of Revenue Bond debt service are included).

Important factors in these PIT projections include a significant decrease in estimated taxes from the unusually high 2013 level, which was driven by taxpayer responses to federal tax changes. The SFY 2014-15 projections also reflect the first year of tax credits associated with the Executive's real property tax proposals.

Overall, General Fund tax collections are projected to increase 1.7 percent or \$709 million. Miscellaneous receipts are projected to increase by \$606 million, primarily due to the \$750 million increase in non-recurring receipts from the State Insurance Fund (SIF), for a total of \$1 billion anticipated by the Financial Plan from SIF in SFY 2014-15.

General Fund disbursements are projected to total \$63.6 billion, an increase of \$2.1 billion, or 3.4 percent, over SFY 2013-14, primarily in local assistance and transfers to other funds. Local assistance is expected to grow by \$1.4 billion, including increases to school aid and Medicaid. State Operations spending is projected to increase \$186 million or 2.4 percent. The Executive Budget includes spending 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 associated with disaster assistance.

General State Charges paid from the General Fund are projected to increase \$361 million, or 7.4 percent, in SFY 2014-15, largely reflecting increased costs associated with the State's pension contribution and current and retired employee health insurance.

Proposed General Fund Gap-Closing Plan

The SFY 2014-15 Executive Budget projects a current services deficit or gap, before proposed new actions, of \$1.4 billion in SFY 2014-15 (including the \$310 million PIT refund prepayment, or \$1.7 billion without). The Executive proposal revises receipt projections from the Mid-Year Update (released on November 12, 2013) upward by \$320 million, with \$432 million in higher tax receipts (primarily PIT) partly offset by lower projections for certain other receipts. General Fund spending projections for SFY 2013-14 are reduced by \$10 million from November estimates. The net effect of these revised projections is \$310 million. The Executive has indicated this amount will be used to prepay PIT refunds in SFY 2013-14, thus providing non-recurring gap-closing relief in SFY 2014-15.

The Executive's gap-closing plan for SFY 2014-15 includes an additional \$180 million in various sweeps and transfers and \$68 million from the use of unrestricted reserves such as the Community Projects Fund. In all, 79 percent of the gap-closing plan in SFY 2014-15 is recurring in nature. Appendix B provides an outline of the projected gap-closing plan through SFY 2017-18.

State Operating Funds

The SFY 2014-15 Executive Budget Financial Plan projects that State Operating Funds revenue will total \$89.8 billion, an increase of \$2.3 billion, or 2.6 percent, from estimated SFY 2013-14 receipts. The increase is primarily due to projected higher tax collections, which are expected to rise nearly \$1.4 billion or 2.0 percent, primarily in PIT.

For SFY 2014-15, State Operating Funds spending is projected to total \$92.0 billion, an increase of 1.7 percent, or \$1.5 billion, over SFY 2013-14. Most of the increase is projected to occur in Local Assistance payments, primarily in Medicaid from the Department of Health and in school aid.

State Operations spending (a category within State Operating Funds that primarily reflects spending on State agencies and universities) is projected to increase 1.2 percent, or \$212 million, primarily in higher education and the Office for Technology. Spending on General State Charges is projected to increase 5.6 percent, or \$391 million, primarily because of increased costs for employee and retiree pension and health benefits as well as the State's pension contribution.

Figure 4 illustrates how timing-related actions change year-to-year growth – in this case, the prepayments of \$310 million in PIT refunds and \$318 million in debt service in SFY 2013-14 that were initially planned for SFY 2014-15. When a prepayment is made on the spending side, growth is artificially lowered because the base year is higher and the upcoming year is lower. On the receipts side, since PIT refunds are planned to be pre-

paid, overall receipt growth appears higher than it would absent the non-recurring prepayment.

Figure 4

**Adjusted Growth in State Operating Funds Receipts and Disbursements
SFY 2013-14 Estimate and SFY 2014-15 Proposed**
(in millions of dollars)

	SFY 2013-14 Estimate	SFY 2014-15 Proposed	Dollar Growth	Percentage Growth
Receipts:				
Personal Income Tax	43,156	43,821	665	1.5%
Consumption and Use Taxes	14,501	14,868	367	2.5%
Business Taxes	7,513	7,189	(324)	-4.3%
Other Taxes	3,156	3,211	55	1.7%
<i>Total Taxes</i>	<i>68,326</i>	<i>69,089</i>	<i>763</i>	<i>1.1%</i>
Miscellaneous Receipts	19,476	20,368	892	4.6%
Federal Grants	75	74	(1)	-1.3%
Total Receipts	87,877	89,531	1,654	1.9%
Local Assistance				
Economic Development/Government Oversight	401	390	(11)	-2.6%
Parks and Environment	13	11	(1)	-10.2%
Transportation	4,737	4,833	96	2.0%
DOH Medicaid (incl. Admin.)	16,232	16,759	527	3.2%
Other Health	2,172	1,827	(344)	-15.9%
Social Welfare	2,986	2,882	(104)	-3.5%
Mental Hygiene	2,833	2,910	77	2.7%
Public Protection/Criminal Justice	354	254	(100)	-28.2%
Higher Education	2,813	2,874	61	2.2%
School Aid	20,420	21,469	1,049	5.1%
Other Education	5,460	5,517	57	1.0%
General Government	161	167	6	3.4%
Local Government Assistance	764	764	0	0.0%
Other	149	142	(7)	-4.6%
<i>Total Local Assistance</i>	<i>59,495</i>	<i>60,799</i>	<i>1,305</i>	<i>2.2%</i>
State Operations				
Personal Service	12,376	12,584	208	1.7%
Non-Personal Service	5,579	5,583	4	0.1%
<i>Total State Operations</i>	<i>17,955</i>	<i>18,167</i>	<i>212</i>	<i>1.2%</i>
General State Charges	6,976	7,367	391	5.6%
Debt Service	5,743	6,006	263	4.6%
Capital Projects	11	5	(6)	-54.5%
Total Disbursements	90,180	92,344	2,165	2.4%

Note: See text for discussion of adjustments. These amounts do not reflect actual receipts or disbursements or Financial Plan projections. Unless otherwise noted, the figures provided throughout the remainder of this report reflect unadjusted amounts.

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

All Funds

The SFY 2014-15 Executive Budget Financial Plan projects All Funds receipts will increase \$1.1 billion, or 0.8 percent, to \$141.9 billion. This estimate largely reflects projected increases in miscellaneous receipts and tax collections, partly offset by a reduction in federal receipts primarily due to lower reimbursed spending for Superstorm Sandy. Tax receipts are expected to increase \$1.4 billion, or 2.0 percent, almost all of which is expected from PIT collections. Total PIT collections are projected to increase \$1.3 billion, or 3.0 percent. PIT growth also reflects an anticipated \$325 million reduction associated with proposed tax actions as well as, as previously discussed, the prepayment of refunds.

All Funds spending is projected to total \$142.1 billion, an increase of \$1.3 billion, or 0.9 percent, including disaster assistance and new federally funded Medicaid spending associated with the Affordable Care Act. While the disaster assistance is non-recurring in nature, the new Medicaid spending is not. The latter increase represents almost \$2.2 billion in new, federally supported spending. DOB expects the State will spend \$2.4 billion from federal disaster funds in SFY 2014-15 compared to \$5.1 billion in SFY 2013-14, a reduction that more than offsets the projected increase in Medicaid.

Local Assistance is projected to increase \$960 million, or 0.9 percent, including disaster assistance. Absent the disaster-related spending, Local Assistance is projected to increase \$3.7 billion, or 3.8 percent, primarily due to a projected increase in Medicaid spending. Spending for Capital Projects is projected to increase \$213 million or 3.6 percent.

All Funds Debt Service spending is projected to decline \$373 million or 6.2 percent. However, this reflects a prepayment of \$318 million in SFY 2013-14. If that amount is adjusted out of the projected level of Debt Service spending for SFY 2013-14, making it more comparable to proposed SFY 2014-15 projections, Debt Service in SFY 2014-15 would actually increase by an estimated \$263 million, or 4.6 percent, over the prior year.

Structural Imbalance

In recent decades, the State's annual budgets have typically included provisions that have driven projections for recurring spending to rise at a faster pace than projected recurring revenue, creating a structural imbalance and continual annual budget gaps. Such gaps traditionally were closed largely through the use of short-term solutions that often addressed a single year, exacerbating the problem for subsequent years. The SFY 2011-12 Enacted Budget made progress in reversing that trend, with more than 80 percent of total gap-closing initiatives arising from recurring sources. As a result, the gap-closing measures that eliminated the \$10 billion SFY 2011-12 projected deficit also reduced projected, cumulative out-year gaps from \$53.3 billion to \$9.8 billion, according to the SFY 2011-12 Enacted Budget Financial Plan.

¹ 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.

The Executive proposal aspires to continue the State's progress toward structural budget balance. Like other proposed budgets over the past decade or more, and as required by State Finance Law, the SFY 2014-15 Executive Budget's out-year presentation includes estimates of receipts, disbursements and projected deficits or surpluses.² The SFY 2014-15 proposal departs from practice in recent years by including a new element labeled "Adherence to 2% State Operating Funds Spending Benchmark." This line reflects savings that would result from limiting spending growth to 2 percent. As a result, the bottom-line projection reflects this general savings target, rather than the effects of higher growth levels otherwise expected to result from existing and proposed law.

The savings associated with the 2 percent target are estimated at \$1.7 billion, \$2.4 billion and \$3.6 billion, or a cumulative total of \$7.7 billion, for the three fiscal years starting in SFY 2015-16. Budget documents do not indicate how such savings would be realized. Rather, the Financial Plan states: "Savings estimated from limiting annual spending growth in future years to 2 percent. The Governor is expected to propose, and negotiate with the Legislature to enact, budgets that hold State Operating Funds spending growth to 2 percent. Assumes all savings from holding spending growth are made available to the General Fund."³ Based on those projected savings as well as specifically outlined proposals to change certain expenditures and revenues, the Executive Budget Financial Plan projects modest surpluses, ranging from \$155 million to \$173 million, in SFY 2015-16 through SFY 2017-18.

The Office of the State Comptroller estimates that DOB's General Fund projections, excluding the unspecified savings from the 2 percent spending limitation, show out-year gaps of \$1.5 billion in SFY 2015-16, \$2.2 billion in SFY 2016-17, and \$3.4 billion in SFY 2017-18. These estimates reflect the State's lingering structural imbalance and the proposed gap-closing plan that definitively addresses a single year.

While the 2 percent savings target represents an effort to move toward structural balance, additional actions, beyond those specifically proposed in the Executive Budget, would be necessary to meet this target and eliminate gaps in future years. The Comptroller has advanced a fiscal reform package that would require the Executive to provide a detailed gap-closing plan for any projected out-year deficit.⁴ More specificity with respect to plans for meeting the 2 percent savings target could provide greater clarity and assurance that such a target could be met, and would provide local governments and others that depend on State assistance the ability to better plan for the future.

DOB estimates the four-year cumulative deficit for the period starting April 2014 at \$11.4 billion, before the proposals outlined in the Executive Budget are included. As shown in Figure 5, approximately 60.9 percent of the value of actions proposed to close these gaps is recurring in nature. Almost 37 percent of the projected out-year cumulative current services gap remains, before factoring in the potential savings from the assumed 2 percent limit on State Operating Funds spending growth.

² State Finance Law, Section 22, subsection 4a.

³ *FY 2015 Executive Budget Financial Plan*, p. 57.

⁴For more information regarding the Comptroller's Strategy for Fiscal Reform, see www.osc.state.ny.us/legislation/2013-14/oscb1.htm.

Figure 5**Composition of Gap-Closing Plans**

(in millions of dollars)

	Enacted SFY 2013-14 through SFY 2016-17	Proposed SFY 2014-15 through SFY 2017-18
Total Cumulative Gap to be Closed	(16,195)	(11,466)
Additions to Gap		
Recurring Additions/Restorations/Initiatives	(3,236)	(1,194)
Recurring Revenue Reductions	-	(6,413)
Other	(339)	(411)
Total After Gap Additions	(19,770)	(19,484)
Re-estimates	868	(122)
<i>% of Total After Gap Additions</i>	4.4%	-0.6%
Recurring Spending Actions	3,166	11,871
<i>% of Total After Gap Additions</i>	16.0%	60.9%
Recurring Revenue Enhancements	(147)	-
<i>% of Total After Gap Additions</i>	-0.7%	0.0%
Temporary or Non-Recurring Resources/Cost	8,093	558
<i>% of Total After Gap Additions</i>	40.9%	2.9%
Remaining Gap	(7,790)	(7,177)
<i>% of Total After Gap Additions</i>	39.4%	36.8%

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

The Executive Budget Financial Plan includes \$558 million in new non-recurring resources over the course of the four-year Plan, a lower level than in recent years, although most of the temporary and non-recurring resources enacted last year are still supporting the Financial Plan.

Projected Surpluses

Before assumed savings from the 2 percent limit on State Operating Funds expenditures, projected spending growth outpaces projected revenue growth in the out-years, as shown in Figure 6. In the General Fund, revenue (adjusted for timing-related changes) is projected to increase 11.6 percent between SFY 2013-14 and SFY 2017-18, or 2.8 percent annually on average. In the out-years (excluding SFY 2014-15), revenue is projected to grow 9.4 percent or 3.0 percent annually.

The proposed Financial Plan indicates that surpluses will emerge primarily through spending restraint, rather than stronger revenue projections. Through SFY 2017-18, spending from State Operating Funds (adjusted for timing-related changes and before the 2 percent spending limit) is projected to increase 12.6 percent, or 3.0 percent annually on average. In the out-years (SFY 2015-16 through SFY 2017-18), spending is

projected to increase 10.0 percent or 3.2 percent annually. Figure 6 illustrates how this would change the gap projections.

Figure 6

**Calculated General Fund Out-Year Results
With and Without the 2 Percent Spending Limit**
(in millions of dollars)

	<u>SFY 2014-15</u>	<u>SFY 2015-16</u>	<u>SFY 2016-17</u>	<u>SFY 2017-18</u>
Receipts:				
Taxes	43,205	45,408	47,296	48,893
Miscellaneous Receipts	3,857	3,072	2,646	2,149
Federal Grants	-	-	-	-
Transfers from Other Funds	16,441	16,859	17,484	18,094
Total Receipts	<u>63,503</u>	<u>65,339</u>	<u>67,426</u>	<u>69,136</u>
Disbursements:				
Grants to Local Governments	41,786	44,047	46,005	48,348
State Operations	7,840	8,007	8,013	8,012
General State Charges	5,265	5,433	5,542	5,655
Transfers to Other Funds	8,672	9,371	10,056	10,555
Total Disbursements	<u>63,563</u>	<u>66,858</u>	<u>69,616</u>	<u>72,570</u>
Operating Surplus/(Gap)	(60)	(1,519)	(2,190)	(3,434)
Reserve Actions	60	(11)	(12)	(11)
Current Services Gap (including Executive proposals)	-	(1,530)	(2,202)	(3,445)
Adherence to 2% State Operating Funds Spending Limit	-	1,685	2,367	3,618
Potential Surplus Resulting From Spending Limit	-	155	165	173

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

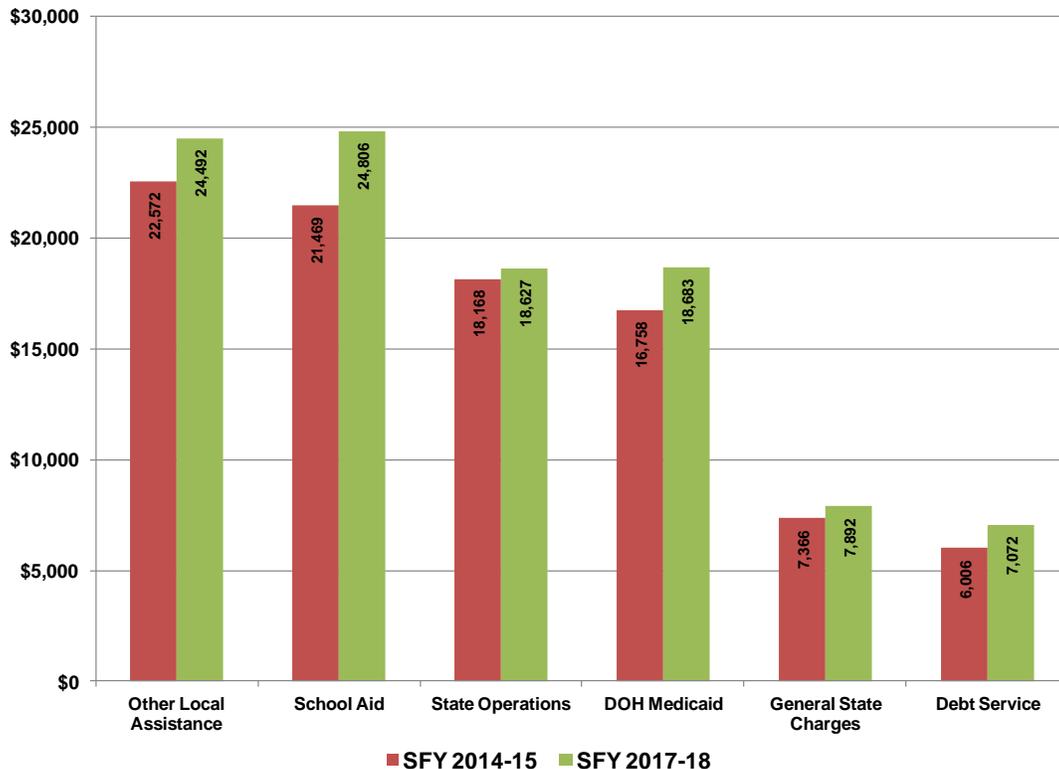
Figure 7 illustrates adjusted disbursements in major areas proposed for SFY 2014-15 and projected for SFY 2017-18, before application of the assumed 2 percent spending limitation. Certain areas, such as General State Charges and Debt Service, are difficult to change significantly, other than to modify the timing of payments (an approach used in SFY 2012-13 through SFY 2014-15 which changes the year-over-year growth but does not materially change spending obligations).

Spending from State Operating Funds, adjusted for timing issues and based on current projections excluding the 2 percent growth target outlined by the Executive, is projected to increase 2.4 percent in SFY 2014-15, and an average of 3.0 percent annually through SFY 2017-18. Spending for Medicaid from the Department of Health from State Operating Funds (not including federal or local spending) is statutorily limited to the 10-year rolling average of the medical component of the Consumer Price Index (CPI). This figure currently is approximately 3.8 percent, nearly twice the Executive's target limit of 2

percent for overall State Operating Funds spending growth. School aid is limited to the annual growth in New York State Personal Income.⁵ For the next four State fiscal years, DOB projects this growth at well over twice the assumed 2 percent limitation on overall State Operating Funds increases.

Figure 7

**Projected Disbursements from State Operating Funds
Adjusted for Timing Changes**
(in millions of dollars)



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

While the Executive Budget Financial Plan assumes future surpluses will result from new spending restraint, better-than-anticipated revenues could also help close potential gaps. The proposed Financial Plan eliminates certain revenue risks that have characterized budgets in recent years. For instance, the Plan does not include revenue associated with insurance conversions that had been projected previously but did not materialize. The Mid-Year Update to the SFY 2013-14 Enacted Budget Financial Plan included nearly \$1.1 billion from insurance conversions through SFY 2016-17.

As has been the case in the last two years in particular, litigation settlements could provide higher-than-anticipated revenue, as could unexpectedly higher tax collections. Conversely, any unanticipated downturn in the economy or changes in major revenue

⁵ For this purpose, growth in school aid is measured on a school-year rather than on a State fiscal year basis. Over multiple years, the measures would produce similar results. Growth in New York State Personal Income is measured on a State Fiscal Year basis.

sources or spending needs could have the opposite effect on budget balance and projected gaps.

Temporary and Non-Recurring Resources

The Executive Budget includes approximately \$7.3 billion in resources that are either temporary (more than one year but not permanent) or non-recurring (one year). Some \$2.7 billion of this amount represents federally supported disaster assistance, while another \$3.7 billion results from temporary actions in previous budgets. A \$1 billion transfer from the State Insurance Fund – the largest in a series of four such transfers approved as part of the SFY 2013-14 Enacted Budget – is expected to occur in the coming fiscal year. The proposed Budget also relies on \$2.1 billion in additional revenue from changes in the Personal Income Tax enacted in 2009 and extended in 2011.

The Executive Budget amends current provisions relating to the temporary 18-a utility surcharge as well as the New York State Job Growth Act. Revenue from all the State temporary provisions is projected to decline more than 64 percent, from \$4.6 billion in SFY 2014-15 to \$1.6 billion in SFY 2017-18. Figure 8 shows the Office of the State Comptroller’s projections for temporary and non-recurring resources.

Figure 8

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

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	Total
Proposed					
Debt Service Prepayment	318	-	-	-	318
Tax Refund Prepayments	310	-	-	-	310
Fund Sweeps	180	50	-	-	230
Reserves	68	-	-	-	68
<i>Subtotal</i>	<i>876</i>	<i>50</i>	<i>-</i>	<i>-</i>	<i>926</i>
Currently in Law But Temporary					
Temporary Utility Assessment	232	160	126	-	518
State Insurance Fund	1,000	250	250	-	1,500
Abandoned Property	155	155	155	155	620
Dormitory Authority of the State of New York	22	-	-	-	22
New York Power Authority	23	-	-	-	23
MMTOA for Debt Service (1)	20	-	-	-	20
PIT Surcharge Extension (2)	2,149	2,341	2,499	1,900	8,889
Job Growth Package	(65)	(115)	(196)	(95)	(471)
Extension of High Income Charitable Contribution Limit	140	140	70	-	350
Tax Modernization	22	22	17	-	61
Middle Class Family Tax Credit	-	410	(410)	(410)	(410)
<i>Subtotal</i>	<i>3,698</i>	<i>3,363</i>	<i>2,511</i>	<i>1,550</i>	<i>11,122</i>
Total State	4,574	3,413	2,511	1,550	21,726
Extraordinary Temporary Funding					
<i>Temporary Federal Disaster Assistance</i>	<i>2,740</i>	<i>1,274</i>	<i>879</i>	<i>879</i>	<i>5,772</i>
Total Temporary and Non-Recurring Resources	7,314	4,687	3,390	2,429	17,820

(1) Metropolitan Mass Transportation Operating Assistance Account with the Mass Transportation Operating Assistance Fund.

(2) Projections for the existing temporary PIT surcharge were not updated in the Proposed Financial Plan. This projection is based on actual collections versus plan.

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

Transparency and Accountability Issues

The SFY 2014-15 Executive Budget includes positive elements with respect to improving transparency and accountability. These include bringing the local highway funding programs back “on-budget” and a new Bond Act proposal to give voters a say in the State’s decisions regarding its use of debt.

However, there are aspects of the proposed Budget that could benefit from greater transparency and accountability. Furthermore, checks and balances exist in the law to help ensure that taxpayer dollars are protected from waste and abuse, and there are opportunities to strengthen these provisions in the Budget. In addition, certain elements of the Financial Plan that are key components of the Executive’s efforts to improve the State’s fiscal picture could benefit from more specificity. Examples of provisions that raise potential concerns regarding transparency and accountability include:

- **The Executive Budget projects a 2 percent out-year spending growth limit without specificity.** The resources necessary to fund the Executive’s proposed tax plan and close projected gaps depend on holding State Operating Funds spending growth to 2 percent. However, no specificity is provided as to how this would be achieved. Absent this below-the-line adjustment, the proposed Budget creates potential gaps averaging more than \$2.3 billion annually in SFY 2015-16 through SFY 2017-18. Additional specificity with respect to proposals to limit spending would provide greater assurance to taxpayers that the stated goal is realistic, and would help local governments and other entities dependent upon State assistance to plan more effectively and adjust their future expectations appropriately.
- **Reduced procurement oversight and transparency.** The Executive Budget issued in January 2014 included several proposals that would bypass traditional provisions that exist to ensure procurement integrity. In certain instances, the Office of the State Comptroller’s contract review authority would be eliminated, and/or the competitive bidding process and notice provisions would be eliminated. The 30-day amendments restored the Comptroller’s oversight for some, but not all, of these proposals.

Under Section 112 of the State Finance Law, the Office of the State Comptroller conducts an independent review of most State agency contracts. This review reduces the risk that the State will encounter waste, fraud or abuse. Pre-audit has an important deterrent effect. Although the Comptroller’s constitutional authority allows withholding or recovery of moneys arising from fraud or illegality, the Comptroller’s review and approval before contract execution is a critical step in preventing flawed agreements which could waste taxpayer money, and diminish the quality of essential services for residents of the State.

- **Expansion of non-traditional procurement mechanisms.** The Executive Budget issued in January 2014 proposed to eliminate the sunset on the Infrastructure Investment Act enacted in December 2011, which authorized design-build contracts and several other alternative methods of procurement for certain projects and certain specified State agencies and authorities. In addition, the Executive Budget initially

proposed to expand these authorizations for certain projects to all counties, as well as to cities, towns and villages with populations greater than 50,000. This would have represented a major change in how municipalities would be permitted to award certain construction contracts. The 30-day amendments remove the proposed authorization for local governments to use design-build contracts, while extending the authorization for certain State projects and agencies to December 9, 2017.

While this procurement mechanism may provide opportunities for budget savings and construction efficiency, greater transparency and accountability should also be required to ensure that the use of these alternative procurement methods is justified, to provide greater clarity with respect to eligible projects, to establish more robust public notification and participation processes before projects could move forward, and to introduce greater taxpayer protections, such as cost-benefit analyses. In addition, the 30-day amendments to the Budget include a proposal that would authorize the creation of a privately-financed public-private partnership involving a New York State agency and a public authority. The proposed language appears to limit oversight by other State agencies with respect to the project agreement and agreements between non-State parties, thus limiting accountability and important checks and balances.

- **Reduced transparency with respect to certain debt-related reporting.** In recent years, the Executive has moved to consolidate the issuance of bonds under fewer bonding programs including the PIT Revenue Bond Program (authorized in 2001), the Sales Tax Revenue Bond Program (authorized in 2013) and State General Obligation (G.O.) Bonds. PIT Bonds, Sales Tax Bonds and G.O. Bonds are now the primary mechanisms used to finance the State's capital program. The Dormitory Authority of the State of New York (DASNY) and the Empire State Development Corporation (ESDC) are authorized to issue both PIT and Sales Tax Revenue Bonds for any purpose (except any G.O. bond act purposes) through March 31, 2015. This change facilitated the consolidation of bond sales under fewer issuers and bonding programs.

Following the consolidation of debt issuance however, has been a change in the presentation of debt outstanding, issuance, retirement and debt service within the Capital Program and Financing Plan. This presentation was initially revised in the SFY 2013-14 Enacted Budget Capital Program and Financing Plan. Debt is no longer reported in detail by program, but rather by bond type – G.O., revenue and service contract and broad programmatic area. These changes reduce the level of information regarding the State's use of borrowing, its current debt burden, and payment of costs for essential capital projects. While debt consolidation may make the State's process more efficient, transparency in the use of taxpayer-funded borrowing is also essential.

- **Continued Use of Off-Budget Actions for Important Programs.** The Executive Budget continues the practice of keeping "off-budget" certain spending programs that had traditionally been part of the annual budget process and subject to appropriation. For example, in SFY 2013-14, SUNY dormitory debt service costs were restructured so that they would no longer be paid through a State appropriation. This took debt service spending for SUNY dormitories off-budget and allowed new debt to be

excluded from the State’s statutory debt caps. This action increased the State’s capacity under its debt cap by placing this debt outside the legal limit.

Several affordable housing programs are continued off-budget, and are proposed to be paid for in SFY 2014-15 using a fund sweep of \$75.4 million in mortgage insurance funds held in the State of New York Mortgage Insurance Pool to the Housing Trust Fund Corporation (HTFC) and the Housing Finance Agency (HFA).

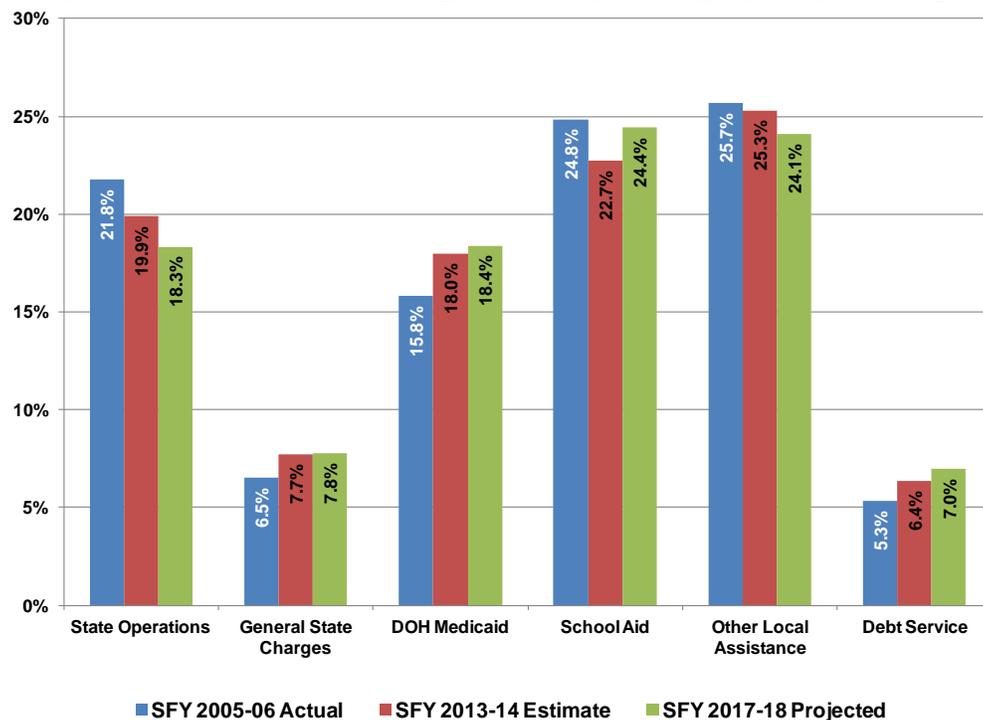
The Capital Plan identifies \$932 million in off-budget capital spending for SFY 2014-15. (This does not include the SUNY dormitory debt service, capital spending for SUNY dormitories, or other non-capital off-budget spending). Off-budget spending artificially makes spending for State-related purposes appear lower, and eliminates important oversight, transparency and accountability measures for this spending.

Spending Trends by Programmatic Area

The Executive proposal continues two spending growth limits enacted in previous budgets – one for Department of Health Medicaid spending from State Operating Funds, and one for school aid. Figure 9 illustrates how allocation of resources in the State’s budget has changed and is expected to change through SFY 2017-18. Over the coming four years, school aid, Medicaid and debt service are projected to receive increasing proportions of State Operating Funds disbursements, while State Operations and other Local Assistance will decline in relative terms.

Figure 9

Proportion of State Operating Funds Spending by Major Category



Source: Division of the Budget

Risks to the Financial Plan

Anticipated revenue and spending targets for several proposals included in the SFY 2014-15 Executive Budget may be challenging to meet. Any shortfalls that occur could create a deficit for SFY 2014-15 and increase out-year gap projections. The larger risks and assumptions in the Executive Budget identified by the Office of the State Comptroller include the following:

- **The Pace of Economic Recovery** – While the economy is improving, certain weaknesses remain. For example, unemployment rates are expected to remain high by historical standards, and although consumer spending is continuing to strengthen, 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 2015, and total employment growth of 1.2 percent. While some other economists' forecasts are similar to those of DOB, 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 could be higher than expected.

- **Tax Receipts Projections** – DOB now projects that All Funds tax collections will end the year \$63 million higher than the original SFY 2013-14 Enacted Budget forecast. While estimated payments within Personal Income Tax have been stronger than initially anticipated, certain other areas such as bank taxes have fallen well below expectations. If SFY 2013-14 collections meet the latest projections, this will be the first time in six years that year-end collections have exceeded initial projections. In SFY 2014-15, PIT withholding receipts are projected to rise 5.7 percent, a noticeable increase from the 3.8 percent estimated for the current fiscal year.
- **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:
 - *Public Authority Transfers* – The Executive Budget relies on nearly \$240 million in 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. After several years of these blanket sweeps, it is unclear whether resources will continue to be available for budget relief. There is additional blanket sweep language 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.
- *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. In SFY 2013-14, the Enacted Budget Financial Plan included \$650 million from the Abandoned Property Fund. This expectation has since been reduced to \$525 million. Annually for SFY 2014-15 through SFY 2017-18, the Executive proposes a transfer of \$655 million, which is approximately \$155 million more than historical patterns suggest would be available for transfer. The number and value of abandoned property claims paid also continue to rise. Furthermore, the Executive Budget proposes to redirect certain Abandoned Property revenue to a new Campaign Finance Fund. It is unclear what impact this proposal would have on the availability of these resources for the General Fund in the future.
- **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:
 - *State Operations* – The Executive Budget would reduce projected agency costs by \$358 million, with this reduction from baseline spending rising to \$1.3 billion in SFY 2017-18, in order to maintain balance in the General Fund. These changes would follow \$1.5 billion in agency and workforce savings (relative to previous baseline projections) in SFY 2011-12, \$1.3 billion in SFY 2012-13 and \$325 million in SFY 2013-14. The proposed Budget does not detail how future savings will be achieved, and the potential impact of these reductions on programs and services is unclear.

Planned funding levels for State agencies do not include additional resources to offset new personal service costs resulting from previous contract negotiations. The Financial Plan includes the following statement: “Beginning in FY 2015, the majority of state agencies will be expected to hold personal service and non-personal service spending either at or below FY 2014 levels. As appropriate, agencies will need to establish new spending guidelines as well as maintain existing cost-control efforts to offset costs related to increasing operational expenses, including collective bargaining agreements which

include 2 percent salary increases in FY 2015 and FY 2016 (for some unions), applicable lump sum payments of \$225, and repayment of a portion of the deficit reduction adjustment made to employee salaries.” Agencies may find it difficult to maintain spending levels or current services given the combination of previous reductions as well as cost increases from previous agreements.

- The Executive Budget includes interchange language first provided in SFY 2012-13 authorizing the transfer of funds between State agencies to continue the movement 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.** The scope of federal dollars at risk is higher than usual, and could impose a fiscal strain on the State if federal aid does not reach anticipated levels. Recent Congressional action on the Federal Fiscal Year 2013-14 omnibus appropriations package eliminated a significant portion of the potential domestic funding reductions that could have resulted under prior federal legislation. While this development has reduced some risk associated with the near-term loss of federal funding due to sequestration, areas of uncertainty regarding federal funding remain. These include the following:
 - *Federal Reimbursement for Mental Hygiene.* DOB notes the federal reimbursement for mental-hygiene-related Medicaid costs was reduced by \$1.1 billion beginning in 2014. The U.S. Department of Health and Human Services has begun a review that could retroactively recover additional federal reimbursements associated with State-operated facilities for the developmentally disabled. DOB has indicated it does not expect such additional recovery in SFY 2014-15.
 - *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.
 - *Federal Medicaid Waiver* – On February 13, 2014, the Executive announced an “agreement in principle” with the federal Centers for Medicare & Medicaid Services (CMS) on a federal Medicaid waiver that will allow the State to reinvest \$8 billion in federal savings expected to be generated by New York’s Medicaid redesign initiatives, to support further changes in the State’s health care system. The Executive Budget includes a two-year appropriation authorizing \$4 billion in additional federal Medicaid spending in anticipation of

the waiver's approval. The Executive Budget Financial Plan issued in January assumed no Financial Plan benefit from the waiver. This pending agreement is not yet finalized, and details of such are still largely unknown. While there are no direct Financial Plan implications in SFY 2014-15, DOH considers the waiver amendment essential to fully implementing a plan to improve health outcomes for the five million-plus New Yorkers on Medicaid, to slow the growth of Medicaid spending, and to implement the Affordable Care Act.

Economy and Revenue

Economic Outlook

National Economy

The national economic recovery has become more sustainable, withstanding the impact of the recent government shutdown. In addition, the labor market continues to improve, and consumption continues to be lifted by increasing household wealth and improving credit conditions. As a result, the Federal Reserve began shifting its monetary strategy in December 2013 as it started to gradually withdraw from its bond purchase programs. According to the January 2014 forecast from IHS Global Insight, annual growth in the U.S. gross domestic product (GDP) will improve to 2.7 percent and 3.2 percent in 2014 and 2015, respectively (up from 1.9 percent in 2013).

Consumers continue to spend on home remodeling and automobile replacement, which had been delayed during the recession (for example, light vehicle sales in 2013 were the highest since 2007). IHS Global Insight projects that total consumption spending will grow to 2.8 percent in 2014 from an estimated 2 percent in 2013.

Businesses have accumulated large levels of cash as corporate profits have risen. Nevertheless, the pace of both business investment and job creation has been mild as a result of many uncertainties, both domestically and abroad. As these circumstances improve (e.g., as the Eurozone finally emerges from recession), business investment (in office buildings, plants, equipment and software, and intellectual property) is expected to expand further, reaching 4.9 percent in 2014 (compared to an estimated gain of 2.7 percent in 2013).

Since the end of the recent recession, the nation has created 8.2 million private sector jobs (a gain of 7.7 percent), which represents more than 90 percent of the jobs lost during the recession. Although the unemployment rate had fallen to 6.7 percent in December 2013 from a recessionary peak of 10 percent in October 2009, it still remains higher than it was before the recession. In addition, the drop in the unemployment rate is partially due to the fact that increasing numbers of job seekers are discouraged from returning to the market (less than 63 percent of the population is either employed or seeking a job, which represents the lowest rate in more than three decades).

Recent employment reports show that the pace of private employment gains accelerated somewhat in the final quarter of 2013. IHS Global Insight projects that growth in private sector employment will remain at 2.0 percent in 2014, the same pace as in 2013. The annual unemployment rate is not expected to fall below 6.5 percent until 2015, at which point most economists expect the Federal Reserve to begin considering increases in short-term interest rates.

The housing markets continue to recover, as the levels of new home construction, new home sales and existing home sales all reached their highest points since the recession

(although they are still substantially below pre-recession levels). The S&P/Case-Shiller Home Price Index, for example, indicates that home prices have grown by 21 percent since January 2012. Nevertheless, the pace of the housing recovery is expected to ease somewhat as mortgage rates gradually rise.

IHS Global Insight estimates that federal government spending declined by 4.6 percent in 2013, which would be the largest decline since 1971, as a result of the sequester and other efforts to reduce the federal budget deficit. Defense spending, which accounts for about two-thirds of federal expenditures, is estimated to have declined by 6.3 percent, potentially its largest drop in 41 years. While IHS Global Insight projects that federal government spending will decline for the rest of the Financial Plan period, state and local government spending is expected to resume growing as early as 2014.

New York State Economy

According to the most recent data available from the U.S. Department of Commerce, New York's inflation-adjusted Gross State Product (GSP) grew by 1.3 percent in 2012. IHS Global Insight estimates that New York's GSP rose by 2.1 percent in 2013, and projects a 1.9 percent increase in 2014.

Between October 2009 and December 2013, private employment in New York State increased by 516,000 jobs, which exceeded the number of jobs lost during the recession. The State's private sector job growth averaged 1.1 percent in 2013 and is projected to increase to 1.3 percent in 2014. Job growth is expected to be led by the service-centered sectors of leisure and hospitality, professional and business services, and education and health services, but to remain weak in manufacturing and financial activities.

Wall Street is a major component of New York State's economy, and activities related to the securities industry generate a significant portion of the State's tax revenues. The industry has been adapting to regulatory reforms and other challenges since the onset of the recent financial crisis. Nevertheless, Wall Street has been profitable for five consecutive years (including the three best years on record), helped by the Federal Reserve's low-interest-rate policies. Wall Street profitability is expected to be constrained in the coming years as the industry continues to face litigation expenses related to the financial crisis, the Federal Reserve begins to raise interest rates, and additional regulatory changes are implemented.

Despite its return to profitability, the industry is smaller than it was before the financial crisis. In 2013, securities employment in New York City, which accounts for about 89 percent of the industry's employment across the State, remained 12 percent below its level before the financial crisis.

IHS Global Insight forecasts that wages in the financial sector declined by 1 percent in 2013. Overall wage growth has also been constrained (increases in the current recovery have been less than half the pace of the recoveries during the late 1990s and the mid-2000s), as the wage base has diversified away from the financial industry toward lower-paying industries such as leisure and hospitality, retail trade, and education and health

services. Coupled with downsizing in government, total wages in the State were estimated to have grown by only 1.9 percent in 2013, the weakest pace since the end of the recent recession.

Overall, economic growth in New York State is projected to strengthen somewhat with improvements in the national economy. While the number of jobs created in lower-paying industries have more than offset job losses in the financial industry, these gains will continue to constrain increases in total wages and tax revenues. Major risks to the forecast include the pace of the Federal Reserve's unwinding of its accommodative monetary policy, developments in federal fiscal policy such as the resolution of the upcoming debt ceiling debate and further reductions in the budget deficit, and the pace of overseas economic growth.

Revenue

State Fiscal Year 2013-14

The SFY 2014-15 Executive Budget Financial Plan projects that total All Funds receipts will increase in SFY 2013-14 by \$7.6 billion, or 5.7 percent, above the amount in SFY 2012-13, to \$140.8 billion. The increase was driven mainly by an increase in PIT collections and federal receipts, partially offset by a decline in miscellaneous receipts and business taxes.

All Funds tax receipts are estimated to increase by \$3.1 billion, or 4.7 percent, to \$69.4 billion in SFY 2013-14. The growth in receipts can be attributed mainly to the increase in PIT.

Personal Income Tax

All Funds PIT receipts in SFY 2013-14 are now forecast to increase by \$2.6 billion, or 6.5 percent, over the prior year, reflecting strong growth in settlement payments (\$2 billion, or 62.2 percent) as taxpayers shifted income from 2013 and other future years into 2012 with the expectation that federal tax rates would increase in 2013. This shift generated tax payments that were received in final payments made in April 2013.

In addition, withholding (\$1.2 billion, or 3.8 percent), current year estimated payments (\$547 million, or 6.1 percent), final returns (\$230 million, or 10.7 percent), and delinquencies (\$73 million, or 6.4 percent) are expected to rise. This increase is partially offset by a projected increase in refunds of \$1.4 billion, or 19.6 percent. DOB has indicated an intent to prepay \$310 million in PIT refunds initially intended for SFY 2014-15 as a means to roll a projected surplus into the next fiscal year.

User Taxes and Fees

All Funds consumption tax receipts in SFY 2013-14 are forecast to grow by \$492 million, or 3.4 percent, over SFY 2012-13. Sales Taxes are expected to increase by \$606 million, or 5.1 percent, largely because of the improvement in the economy as well as the increase in spending from reconstruction efforts for Superstorm Sandy. This is partially offset by a decline in Cigarette and Tobacco Taxes of \$130 million, or 8.4 percent, as cigarette consumption continues to decline and refunds increased due to a change in the administration of the wholesale cigar tax.

Business Taxes

All Funds business tax receipts are forecast to decline from the prior year by \$279 million, or 3.3 percent, in SFY 2013-14. The decrease is attributable to a large drop in Bank Tax receipts (\$723 million, or 37.8 percent), primarily from lower audit receipts and payments by commercial banks, a decline in the Corporation and Utilities Taxes (\$101 million, or 11.3 percent), mainly due to a large telecommunications refund paid in October 2013 and reduced audit receipts, and a drop in Insurance Tax receipts (\$52 million, or 3.4 percent).

These declines were partially offset by higher Corporate Franchise Tax receipts (\$552 million, or 18.3 percent), mainly due to higher audit receipts, and increased Petroleum Business Tax receipts (\$45 million, or 3.9 percent).

Other Taxes

All Funds other tax receipts in SFY 2013-14, including the Payroll Tax, are forecast to increase \$280 million, or 9.3 percent, over the prior year. This increase is mainly attributable to the Estate Tax (\$206 million, or 20.3 percent), due to an increase in the number of large payments, and the Real Estate Transfer Tax (\$59 million, or 7.8 percent), primarily due to the growth in the New York City real estate market.

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to decrease by \$180 million, or 0.7 percent, in SFY 2013-14. The decline is due, in part, to lower receipts from the Abandoned Property Fund. Also, the State received approximately \$600 million in unanticipated All Fund miscellaneous receipts from Native American casinos (\$341 million more than planned) and settlements (\$260 million).

Federal Grants

Federal grants are expected to increase by \$4.7 billion in SFY 2013-14, largely reflecting the timing of payments from federal disaster aid for Superstorm Sandy.

State Fiscal Year 2014-15

The Executive Budget estimates that total All Funds receipts will increase in SFY 2014-15 by \$1.1 billion, or 0.8 percent, over SFY 2013-14, to \$141.9 billion. The increase can be attributed to a projected increase in All Funds tax receipts of \$1.4 billion, or 2.0 percent, derived from continued growth in the economy, and in All Funds miscellaneous receipts (\$1.5 billion, or 6.1 percent). This growth is expected to be partly offset by the decline in All Funds federal grants, which are expected to decrease by \$1.7 billion, or 3.6 percent, primarily due to lower federally funded disaster assistance spending.

Personal Income Tax

For SFY 2014-15, All Funds PIT receipts are forecast to increase over the prior year by \$1.3 billion, or 3.0 percent. The increase is attributable to the continued growth in the economy, as withholding is expected to increase by \$1.9 billion, or 5.7 percent, and current year estimated taxes are forecast to grow by \$567 million, or 5.9 percent. This will be partially offset by a decline in prior year estimated payments of \$1 billion, or 19.7 percent, due to the fall-off after the federal-tax-induced income shift for tax year 2012 payments and increased refunds of \$133 million, or 1.5 percent. The increase in refunds reflects the first year of credits associated with the Executive's proposed tax reduction package totaling \$810 million.

User Taxes and Fees

For SFY 2014-15, All Funds consumption tax receipts are forecast to increase by \$373 million, or 2.5 percent, over the prior year. The increase is mainly due to growth in the Sales Tax. Sales Taxes are expected to increase by \$393 million, or 3.1 percent, largely because of the continued improvement in the economy, and taxicab surcharge collections are forecast to increase by \$14 million, or 16.3 percent, as New York City increases the number of available taxicab medallions. Cigarette Taxes are forecast to decrease by \$47 million, or 3.3 percent, as consumption is expected to continue to decline.

Business Taxes

For SFY 2014-15, All Funds business tax receipts are forecast to decrease by \$333 million, or 4.1 percent. The Corporate Franchise Tax is expected to decline by \$615 million, or 18.3 percent, due mainly to increased refunds attributable to the phase-in of deferred credits from prior years to business taxpayers and a decline in audit receipts of \$178 million. The Petroleum Business Tax is also expected to decline by \$16 million, or 1.4 percent. This will be partially offset by an expected increase of \$229 million, or 19.3 percent, in Bank Tax collections as the unusually low collections in 2013 are not expected to continue. Insurance Tax collections are expected to increase by \$84 million, or 5.8 percent, while the Corporation and Utility Tax collections are expected to increase by \$20 million, or 2.5 percent.

Other Taxes

For SFY 2014-15, All Funds other tax receipts, including the Payroll Tax, are forecast to increase by \$55 million, or 1.7 percent, reflecting growth in the Payroll Tax (\$61 million, or 5.0 percent), and the Real Estate Transfer Tax (\$40 million, or 4.9 percent). The projected increases are due to the continued job growth in the downstate region and improvement in the housing market. This will be partially offset by a decline in the Estate Tax of \$45 million, or 3.7 percent, due mainly to proposed Executive Budget legislation.

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by \$1.5 billion, or 6.1 percent, in SFY 2014-15, largely reflecting the expected deposit of \$1 billion from the State Insurance Fund, an increase of \$750 million from SFY 2013-14, as well as an increase of \$130 million in receipts from the Abandoned Property Fund.

Federal Grants

For SFY 2014-15, All Funds federal grants are forecast to decrease by \$1.7 billion, or 3.6 percent, primarily due to the timing of the payment of funds for federal disaster aid related to Superstorm Sandy.

New Revenue Actions

The Executive Budget proposes a tax reform package with an estimated All Funds cost of almost \$500 million in SFY 2014-15, and reaching its full impact exceeding \$2.5 billion by SFY 2017-18.

Tax Actions

The following provisions would reduce revenue to New York (DOB's estimated impact in parenthesis):

- Combine the bank tax and corporate franchise tax, eliminate corporate license fees and lower the tax rate from the current 7.1 percent to 6.5 percent (\$0 in SFY 2014-15 and \$346 million in SFY 2017-18).
- Establish a 20 percent real property tax credit for manufacturers (\$0 in SFY 2014-15 and \$136 million in SFY 2017-18).
- Eliminate the net income tax on upstate manufacturers (\$24 million in SFY 2014-15 and \$25 million in SFY 2017-18).
- Accelerate the elimination of the 18-a temporary utility assessment for industrial customers. This proposal would immediately eliminate this assessment, which is otherwise scheduled to phase-out and expire in March, 2017 (\$200 million in SFY 2014-15 and \$0 in SFY 2017-18).
- Provide a two-year property tax freeze through a refundable PIT credit for homeowners with primary residences outside of New York City and annual incomes below \$500,000. In 2014, the State will only give rebates to homeowners living in jurisdictions that stay within the 2 percent property tax cap. In 2015, the State will only give rebates to homeowners in jurisdictions that achieve defined savings from shared services or consolidations (\$400 million in SFY 2014-15, \$976 million in SFY 2015-16, and \$0 in SFY 2017-18).
- Create an enhanced property tax circuit breaker credit for low and middle income homeowners. This proposal will begin in 2016 after the property tax freeze expires. This proposal provides a refundable tax credit against the PIT for taxpayers in jurisdictions outside New York City that stay within the property tax cap. The credit is available only for homeowners with incomes less than \$200,000 and whose property tax burden exceeds 35 percent of income. (\$0 in SFY 2014-15 and \$1 billion in SFY 2017-18).
- Establish a renter's refundable PIT credit. This proposal applies to renters with income less than \$100,000 for married households with dependents, taxpayers filing as head of households, and married seniors filing jointly, as well as for single seniors with income less than \$50,000. (\$0 in SFY 2014-15 and \$400 million in SFY 2017-18).

- Modify the Estate Tax by raising the exclusion threshold from \$1 million to \$5.25 million over 4 years to coincide with the federal exemption by January 2019. The top rate will be lowered from 16 to 10 percent. (\$33 million in SFY 2014-15 and \$612 million in SFY 2017-18).

The following provisions would increase revenue to New York:

- Administratively streamline corporate audit procedures (\$0 in SFY 2014-15 and \$172 million in SFY 2017-18).
- Reform the investment tax credit. This proposal would limit the investment tax credit to manufacturing, agricultural and mining businesses that purchase property used to produce goods for sale, or purchase research and development property (\$65 million in SFY 2014-15 and \$65 million in SFY 2017-18).
- Repeal the financial services investment tax credit (\$30 million in SFY 2014-15 and \$30 million in SFY 2017-18).
- Close the resident trust loophole (\$75 million in SFY 2014-15 and \$150 million in SFY 2017-18).

The following provisions would have no fiscal impact on New York according to DOB:

- Increase the PIT filing threshold to the current standard deduction level.
- Repeal the PIT add-on minimum tax.
- Repeal the franchise tax on agricultural cooperatives.
- Repeal Article 12 of the tax law (Stock Transfer Tax).
- Modify signature requirements on e-filed returns prepared by tax professionals.
- Align Mobility and PIT filings for the self-employed.
- Repeal the boxing and wrestling exhibitions tax.

Tax Enforcement Actions

- Authorize tax clearance before applicants are able to receive or renew professional or business licenses (\$3 million revenue increase in SFY 2014-15 and SFY 2017-18).

Other Revenue Actions

- Expand the low income housing credit from \$48 million to \$56 million in SFY 2014 and to \$64 million in SFY 2015-16 (\$0 in SFY 2014-15 and \$16 million in SFY 2017-18).
- Enhance the New York Youth Works tax credit by allowing employers to hire employees who work at least 10 hours per week while enrolled full time in high school to receive the credit. Currently employees must work at least 20 hours for employers to receive the credit (\$0 in SFY 2014-15 and \$4 million in SFY 2017-18).

- Modify the prepayment structure of the family tax relief credit beginning on January 1, 2015 (\$0 in SFY 2014-15 and \$410 million in SFY 2017-18). This action provides \$410 million in Financial Plan relief in SFY 2015-16 at a cost of \$410 million in SFY 2017-18.

Tax Law Extenders

The following provisions would reduce revenue to New York according to DOB:

- Extend the alternative fuels tax exemption from September 1, 2014 to September 1, 2016 (\$8 million in SFY 2014-15 and \$0 in SFY 2017-18).
- Extend the noncustodial earned income tax credit for two years through 2016. (\$0 in SFY 2014-15 and \$4 million in SFY 2017-18).
- Extend the Empire State commercial production tax credit for two years (\$0 in SFY 2014-15 and \$7 million in SFY 2017-18).
- Extend Monticello Raceway video lottery terminal rates for one year (\$3 million in SFY 2014-15 and \$0 in SFY 2017-18).

The following provisions would have no fiscal impact on New York according to DOB:

- Extend the Brownfield Cleanup Program and tax credits for 10 years and reform the Program.
- Extend certain tax rates and certain simulcasting provisions from June 30, 2014 to June 30, 2015.
- Extend the video lottery gaming vendor's capital awards program until April 1, 2017.
- Extend the fees for the establishment of oil and gas unit of production values until 2018.

In addition, in the 30-day amendments, the Executive proposes to extend for two years the temporary exemption from sales and use taxes for commercial office space as well as the New York City property tax abatement program for certain commercial properties in lower Manhattan.

School Tax Relief (STAR) Program Actions

- Eliminate the income threshold inflation adjustment for enhanced STAR benefits beginning with the 2015-16 school year (\$0 in SFY 2014-15 and \$3 million in SFY 2017-18).

Figure 10

Total Receipts
(in millions of dollars)

Category	Actual SFY 2012-13	Projected SFY 2013-14	Dollar Change	Percent Change	Proposed SFY 2014-15	Dollar Change	Percent Change
General Fund	58,783	61,653	2,683	4.6%	63,503	1,850	3.0%
Taxes	43,283	42,496	1,941	4.5%	43,205	709	1.7%
Personal Income Tax	26,884	28,745	806	3.1%	29,669	924	3.2%
User Taxes and Fees	9,112	6,525	72	0.8%	6,714	189	2.9%
Business Taxes	6,253	5,988	323	5.6%	5,630	(358)	-6.0%
Other Taxes	1,034	1,238	(2)	-0.2%	1,192	(46)	-3.7%
Miscellaneous Receipts	3,504	3,251	562	17.8%	3,857	606	18.6%
Federal Receipts	62	2	0	0.0%	0	(2)	-100.0%
Transfers from Other Funds	11,934	15,904	180	1.5%	16,441	537	3.4%
All Funds	133,177	140,770	7,593	5.7%	141,901	1,131	0.8%
Taxes	66,302	69,414	3,112	4.7%	70,794	1,380	2.0%
Personal Income Tax	40,227	42,846	2,619	6.5%	44,131	1,285	3.0%
User Taxes and Fees	14,615	15,107	492	3.4%	15,480	373	2.5%
Business Taxes	8,465	8,186	(279)	-3.3%	7,853	(333)	-4.1%
Other Taxes	2,995	3,275	280	9.3%	3,330	55	1.7%
Miscellaneous Receipts	24,036	23,850	(186)	-0.8%	25,315	1,465	6.1%
Federal Receipts	42,839	47,506	4,667	10.9%	45,792	(1,714)	-3.6%

Source: Division of the Budget

Note: Figures are unadjusted for timing delays.

Program Area Highlights

Education

The SFY 2014-15 Executive Budget proposes to increase total education aid from \$21.1 billion to \$21.9 billion in school year (SY) 2014-15. The increase of \$807 million, or 3.8 percent, exceeds the 3.1 percent allowed under the statutory school aid cap passed in the SFY 2011-12 Enacted Budget. On a State fiscal year basis, projected school aid spending would total \$21.5 billion, an increase of \$1.049 billion, or 5.1 percent, over SFY 2013-14 in State Operating Funds.

The proposed education aid increase for SY 2014-15 is allocated as follows:

- \$323 million in gap elimination adjustment (GEA) restoration, for a total net GEA of \$1.3 billion in SY 2014-15. This is the third consecutive year that the GEA has been reduced. (The GEA reduces aid from levels otherwise determined by statute, so a reduction in GEA means an increase in aid.)
- \$285 million to fund changes in expense-driven aids and various categorical grants typically listed as “school aid,” including an expected decrease in full-day kindergarten aid.
- \$100 million in the first year of a five-year, \$1.5 billion initiative to implement statewide universal full-day prekindergarten.
- \$74 million in “fiscal stabilization” funding (not specifically allocated to districts), similar to the \$203 million proposed in last year’s Executive Budget. Unlike last year’s fiscal stabilization funding, however, this amount is not specifically delineated as being for one-time use.
- \$50 million in additional funding for competitive performance grants which were first authorized as part of the SFY 2011-12 Enacted Budget, bringing the total recommended appropriation for the Governor’s performance and efficiency grants to \$150 million for SY 2014-15.
- No increase for foundation aid, which would remain flat for a total of \$15.2 billion. This lack of increase in foundation aid has been consistent with the Governor’s past Executive Budget proposals. However, the Legislature has increased this aid in each of the last two school years.

The Executive Budget continues the practice started in SFY 2011-12 Enacted Budget of including a two-year school aid appropriation. The SFY 2015-16 school aid appropriation would support a school year education aid increase of \$853 million (3.9 percent) over SY 2014-15, for a total of \$22.7 billion. By SY 2017-18, the Financial Plan projects that education aid would amount to \$25.0 billion.

Excluding building aids, changes in proposed distributions of school aid to particular districts would range from a 10.3 percent decrease to an 18.2 percent increase, with an overall statewide average increase of 2.7 percent.

In addition to the proposed increase in operating aid, the Executive Budget proposes a \$2.0 billion Smart Schools Bond Act which would have to be passed by a voter

referendum in November 2014. If passed, the Bond Act's proceeds would fund technology investments and new space for full-day prekindergarten programs, if needed. Schools would need to have Smart School Investment Plans approved by a new Smart School Review Board comprising the Commissioner of Education, the Director of the Budget and the Chancellor of the State University of New York, and would be reimbursed for any approved spending up to an allocation based on their current share of State aid. The SFY 2014-15 Capital Program and Financing Plan projects that bond proceeds would be disbursed beginning in SFY 2015-16, and would be drawn down over four years.

In addition, the Executive Budget advances the following proposals:

- \$720 million from expected casino licensing revenues for after-school programs. This funding would be over a five-year period, beginning with \$160 million for SY 2015-16.
- Two new categories of competitive grant funding:
 - \$20 million to establish a Teacher Excellence Fund to reward eligible teachers rated as “highly effective” on their most recent annual professional performance review with bonuses of up to \$20,000 in any given year.
 - \$5 million to expand the Pathways in Technology and Early College High School (P-Tech) program to several locations statewide. The pilot school uses a “grades 9-14” model, partnering with high-tech companies to provide high-performing at-risk students with both a high school diploma and an associate’s degree, followed by job opportunities when they graduate.

Last year, after a number of audits identified serious issues in pre-school special education reimbursements, the Office of the State Comptroller proposed legislation including a requirement that the State Education Department (SED) recommend changes to methodologies for such reimbursement. The legislation signed into law in December 2013. A report of SED’s findings is due in December 2014. The SFY 2014-15 Executive Budget proposes several reforms to preschool special education funding, which it estimates will save school districts \$5.1 million in SY 2014-15. These proposals include:

- Paying program operators only for services that are actually provided. According to Executive Budget documents, program operators are currently paid regardless of whether the service is actually provided to the student.
- Establishing reimbursement rates by region.
- Empowering New York City to establish reimbursement rates for providers within maximum rates set by the State. A similar proposal in last year’s Executive Budget was not enacted by the Legislature.

School Tax Relief (STAR)

The Executive Budget proposes eliminating the cost-of-living-adjustment (COLA) to the income requirement for eligible homeowners who receive the enhanced School Tax Relief (STAR) benefits, which has been in place since SFY 2003-04. Under the plan, the eligible income threshold in future years would be set at the SFY 2014-15 level of

\$81,900. Over time, this change would reduce the number of eligible homeowners compared to current law.

The Executive Budget Financial Plan identifies savings of \$172 million for STAR payments in the SFY 2014-15 gap-closing plan. Audit reports by the Office of the State Comptroller found numerous instances where property owners were inappropriately receiving STAR exemptions, generally because they were receiving benefits on second homes as well as primary residences, or because they had improperly claimed the exemption.⁶ The SFY 2013-14 Enacted Budget required STAR recipients to re-register for the program by December 31, 2013 or lose the exemption. The \$172 million reduction is based on lower-than-projected re-filings for the program.

Higher Education

The SFY 2014-15 Executive Budget provides \$1.5 billion in General Fund Operating support for the State University of New York (SUNY) and the City University of New York (CUNY), slightly below the prior academic year levels (-0.2 percent). On an academic year basis, General Fund support for the operating budget of SUNY is \$970 million and of CUNY is \$525 million.

Proposed tuition revenue appropriations are \$1.67 billion at SUNY and \$1.02 billion at CUNY. This represents additional spending authority of \$95 million for SUNY and \$61 million for CUNY. Base operating aid for community colleges totals \$650 million, with \$448.6 million allocated to SUNY Community Colleges and \$201.4 to CUNY Community Colleges. Proposed General Fund support for SUNY hospitals is \$69 million.

The Executive Budget includes \$110 million of capital funding for a new round of SUNY 2020 and CUNY 2020 grants, reflecting \$55 million for each university system. These funds are to be awarded based on campuses submitting development plans to improve academic outcomes and efficiencies and to promote innovation and economic development. Priority will be given to plans using technology, online learning, and using START-UP NY to leverage economic and academic opportunities.

In the Executive Budget, new capital funding of \$767 million for SUNY is proposed for SFY 2014-15. The projects include:

- \$500 million for critical maintenance projects at SUNY campuses;
- \$150 million in appropriations for campus-funded projects.;
- \$50 million for SUNY's Residence Hall Rehabilitation Fund;
- \$32 million for projects at SUNY community colleges;
- \$25 million for the SUNY Construction Fund; and
- \$10 million for the new School of Pharmacy at SUNY Binghamton.

⁶ See the Office of the State Comptroller audit, "School Tax Relief (STAR) Program 2012-MS-6," for more information at www.osc.state.ny.us/localgov/audits/swr/2013/star/global.pdf.

In the 30-day amendments, the Executive adds \$19 million in appropriations for critical maintenance projects, bringing the total funding to \$519 million and the new capital funding to \$786 million.

The Executive Budget contains \$311 million in capital funding for CUNY in SFY 2014-15. The projects include:

- \$258 million for critical maintenance projects at CUNY campuses;
- \$21 million to fund the Dormitory Authority of the State of New York (DASNY) services for CUNY;
- \$16 million for projects at CUNY community colleges; and
- \$16 million to fund the CUNY Construction Fund.

The Executive Budget five-year Capital Plan also includes more than \$1.8 billion in disbursements for capital expenses in SFY 2014-15, including \$1.2 billion for SUNY and \$566 million for CUNY.

The Executive Budget proposal includes General Fund Support of \$1.14 billion for the Higher Education Services Corporation (HESC) in SFY 2014-15. This is an increase of \$9.97 million over last year due to increased Tuition Assistance Program payments and the proposed implementation of the New York State Science, Technology, Engineering, & Mathematics (STEM) Incentive Program. This scholarship program will cover the tuition of the top 10 percent of New York high school graduates who enroll in and graduate from STEM programs at New York State public institutions of higher education, provided they live and work in the State for five years.

The Executive Budget includes \$10 million of capital funding to cover planning and development costs for a new School of Pharmacy at Binghamton University. Additionally, capital funding of \$15 million provided under the Division of Homeland Security and Emergency Services is proposed for the planning and development of a new college, the College of Emergency Preparedness, Homeland Security and Cybersecurity, within SUNY.

Other proposed economic development initiatives for higher education include:

- \$180 million to purchase new equipment for the State's second major center of nanotechnology research and development, Nano Utica;
- \$55.8 million for the construction of the New York Genome Center for genomic research;
- \$50 million to the SUNY College of Nanoscale and Science Engineering;
- \$10 million to support the Clarkson-Trudeau Partnership to form a world-class biotech enterprise in the North Country Region; and
- \$5 million to expand the Cornell University College of Veterinary Medicine.

The Executive Budget expresses intent to administratively establish a Student Protection Unit within the Department of Financial Services (DFS). The unit will be responsible for

investigating student loan abuses, monitoring student health insurance plans, and other student financial projects.

Health/Medicaid

The Executive Budget proposes to increase State-funded Medicaid spending by \$612.7 million, or 2.9 percent, to \$22.0 billion in SFY 2014-15. From SFY 2013-14 through SFY 2017-18, the Executive Budget projects State-funded Medicaid spending to grow by more than \$3.2 billion, or 15.0 percent, to \$24.6 billion in SFY 2017-18.

Department of Health (DOH) State Medicaid spending would increase by \$540.3 million, or 3.3 percent, to nearly \$17.0 billion in SFY 2014-15. Such spending, which has been capped under law since SFY 2011-12, excludes State payments not appropriated within DOH as well as most 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. This level of funding is consistent with Budget provisions enacted in SFY 2011-12, which limited 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). In SFY 2014-15, the Executive Budget identifies \$16 million in Financial Plan savings by revising this annual growth rate downward from 3.9 to 3.8 percent.

The Executive Budget proposal reflects an increase in All Governmental Funds Medicaid spending, including the State and federal shares of Medicaid, of \$2.8 billion, or 6.0 percent, to \$49.6 billion in SFY 2014-15. Approximately \$2.2 billion of this increase represents higher federal Medicaid funds, much of it resulting from enhanced matching rates for single, childless adults authorized by the federal Affordable Care Act (ACA). The Executive Budget estimates that the State will receive \$400 million in additional federal aid under the ACA in SFY 2013-14 and \$2.6 billion in SFY 2014-15.

On February 13, 2014, the Executive announced an “agreement in principle” with the federal Centers for Medicare & Medicaid Services (CMS) on a federal Medicaid waiver that would allow the State to reinvest \$8 billion in federal savings expected to be generated by New York’s Medicaid redesign initiatives, to support further changes in the State’s health care system. Such resources would be expected to be spread over five years. The Executive said the agreement will help “preserve vital health services” in Brooklyn and other unspecified parts of the State. While the State’s Medicaid waiver application emphasized the need to reduce reliance on institutional care and enhance community-based and primary care, it also called for performance-based payments to major public general hospitals and other safety net providers, including hospitals, nursing homes, clinics, behavioral health providers and home care agencies. The U.S. Department of Health and Human Services, of which CMS is a part, informed the State that waiver proceeds should not “determine the future path for particular New York hospitals.” The Executive Budget includes a two-year appropriation authorizing \$4 billion in additional federal Medicaid spending in case of the waiver’s approval. The Executive Budget Financial Plan issued in January assumed no Financial Plan benefit from the waiver.

Overall Medicaid spending in New York, including approximately \$8.5 billion in local government expenditures, is projected to total \$58.2 billion in SFY 2014-15, an increase of \$2.6 billion, or 4.6 percent, over SFY 2013-14. By SFY 2017-18, the Executive Budget Financial Plan estimates that total Medicaid spending, including local government expenditures, will exceed \$66 billion.

Figure 11

Total Medicaid Disbursement Estimates

(in millions of dollars)

	2013-14	2014-15	2015-16	2016-17	2017-18
Department of Health	16,421	16,961	17,740	18,329	18,915
Mental Hygiene	4,875	4,935	5,197	5,155	5,560
Foster Care	87	88	92	95	99
Corrections	0	12	13	13	13
State Share Total	21,383	21,996	23,042	23,592	24,587
Federal Share	25,445	27,653	30,546	32,428	34,069
Local Share	8,779	8,544	8,419	8,334	8,306
Total Medicaid Spending	55,607	58,193	62,007	64,354	66,962

Source: Division of the Budget

The Executive Budget proposes to extend the cap on State-funded DOH Medicaid spending for an additional year, through SFY 2015-16, and to limit such spending to no more than \$17.9 billion in that year, with actual disbursements projected to total \$17.7 billion. The Executive Budget also proposes a one-year 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 2014-15 or SFY 2015-16. (Such authority for the Commissioner was first enacted in SFY 2011-12 and has not been exercised to date.) In addition, the Executive Budget proposes a methodology to allow DOH to distribute future savings under the cap: half of available savings would go to financially distressed providers; the rest would be made available to all other Medicaid providers.

In SFY 2011-12, State DOH Medicaid spending came in \$14 million below the \$15.3 billion cap. In SFY 2012-13, State DOH Medicaid spending was \$2 million below the \$15.9 billion cap, after the Executive applied approximately \$200 million in additional under spending to help fill a \$1.1 billion revenue shortfall in financing for developmental disability services. Through November 2013, State DOH Medicaid spending was \$59 million, or 0.5 percent, below SFY 2013-14 spending projections; the cap for SFY 2013-14 is \$16.4 billion. Like last year, the Executive Budget Financial Plan anticipates applying cap-related under spending in SFY 2013-14 to help address the ongoing revenue shortfall in financing for the developmentally disabled in SFY 2014-15.

The Executive Budget proposes to restore \$323.8 million that would eliminate a 2 percent, across-the-board Medicaid provider payment reduction in effect since 2011. The Executive Budget also advances a series of Medicaid savings (State impact of \$458.3 million and federal impact of \$679.7 million) and investment initiatives (State cost of \$458.3 million and federal impact of \$402.8 million) that would have no net financial

impact on State funds in SFY 2014-15 or SFY 2015-16, but would drive approximately \$277 million in net federal savings over the next two years.

For SFY 2014-15, the savings initiatives include: \$600 million in federal and State savings achieved by re-estimating projected Medicaid spending; \$30 million through Office of Medicaid Inspector General (OMIG) fraud and abuse integrity projects; \$27.6 million by accessing additional federal matching funds for home and community-based care; and \$20 million by requiring the spouse of a Medicaid recipient to contribute to the recipient's cost of care.

The Executive Budget would also authorize DOH to implement an ACA coverage option known as the Basic Health Program, if it is in the State's financial interest to do so. The Basic Health program would give states 95 percent of what the federal government would spend on tax credits and out-of-pocket subsidies for adults with income between 133 and 200 percent of poverty, and legal immigrants with income below 133 percent of poverty whose immigration status disqualifies them for federal Medicaid matching funds. DOH is studying the potential impacts of such a program on State costs, enrollment and premium costs in the New York State of Health insurance benefit exchange, and on the number of uninsured people in the State. The Executive Budget assumes no Financial Plan impact from the program in SFY 2014-15, but estimates \$300 million in State-share Medicaid savings in SFY 2015-16 if DOH decides to implement it.

The new Medicaid investment initiatives that would offset these savings include: \$120 million to begin to transition behavioral health services from fee-for-service to managed care; \$40 million to increase funding for at-risk hospitals, nursing homes, clinics and home care providers; \$37 million for regional health planning, a statewide health information network and the building and maintenance of the State's all-payer database; and an \$18.4 million increase in State-only funding for Medicaid supportive housing. This latter initiative would bring total supportive housing funding to \$100 million in SFY 2014-15.

The Executive Budget projects Medicaid enrollment to reach 5.83 million recipients in SFY 2014-15, an increase of 345,480 eligible individuals, or 6.3 percent, over SFY 2013-14. The Budget projects Medicaid enrollment to reach 5.98 million, or roughly 30 percent of all State residents, in SFY 2017-18.

Among other factors, these enrollment numbers reflect the phasing out of the Family Health Plus (FHP) program in SFY 2013-14. Under last year's Enacted Budget, DOH stopped accepting new FHP applications after December 31, 2013 and began transitioning most FHP recipients to the regular Medicaid program starting in January 2014, under the Medicaid eligibility expansion authorized by the ACA. Remaining FHP enrollees who are not eligible for Medicaid are eligible for federal tax credits, as well as State premium assistance, when they enroll in coverage through the New York State of Health insurance benefit exchange also authorized by the ACA.

The Medicaid enrollment projections in the Executive Budget are lower than enrollment estimates published in November 2013 in the Executive's Mid-Year Update to the Financial Plan for SFY 2013-14, as shown in Figure 12.

Figure 12**Medicaid Enrollment Growth Projection Changes –
November 2013 Compared to January 2014**

	SFY 2013-14 Mid-Year Update	SFY 2014-15 Executive Budget Proposal	Percentage Change
2012-13	5,258,974	5,213,139	-0.9%
2013-14	5,643,330	5,485,400	-2.8%
2014-15	6,110,639	5,830,880	-4.6%
2015-16	6,169,418	5,950,473	-3.5%
2016-17	6,198,080	5,973,720	-3.6%
2017-18	N/A	5,985,344	N/A

Source: Division of the Budget

The Executive Budget recommends decreasing State and federal spending for administering the New York Medicaid program by \$46.3 million, or 3.4 percent, to \$1.3 billion in SFY 2014-15. This decrease reflects the continued, six-year phase-in of the State takeover of local government Medicaid administration responsibilities to be completed by March 31, 2018. The SFY 2012-13 Enacted Budget capped State costs of reimbursing local governments for Medicaid administration. These costs are projected to decrease by \$65.5 million, or 12.6 percent, to \$452.6 million in SFY 2014-15 and continue to decrease through March 2017, leveling off at \$364.4 million. Federal reimbursement costs are projected to decrease by \$24.7 million, or 4.7 percent, to \$505.5 million in SFY 2014-15 and continue to decrease through March 2016, leveling off at \$445.9 million.

The Executive Budget proposal assumes no change in the number of new employees DOH expects to hire to perform local Medicaid administration tasks, or in the State and federal costs of hiring them. By April 1, 2015, DOH expects to fill a total of 600 full-time equivalent positions at a total cost of \$40 million, split evenly between the State and the federal government. Another 600 positions are expected to be filled in SFY 2015-16, bringing total hiring to 1,200 employees and associated costs to \$72 million.

The Executive Budget recommendation also reflects the continued phase-in of a hard cap on local Medicaid spending. The SFY 2012-13 Enacted Budget authorized the reduction of local Medicaid spending growth from 3.0 percent to 2.0 percent in SFY 2013-14 and by an additional percentage point a year over the next two years, so that county and New York City Medicaid expenses will no longer grow, starting in January 2015. According to Executive Budget documents, local Medicaid spending is projected to decrease by \$473.3 million, or 5.4 percent, from \$8.8 billion in SFY 2013-14 to \$8.3 billion in SFY 2017-18. In SFY 2014-15, the State takeover of local Medicaid growth is expected to save counties and New York City \$187.0 million. From SFY 2013-14 through SFY 2017-18, the State will assume approximately \$1.9 billion in county and New York City Medicaid expenses. Counties and the City are expected to save an additional \$1.9 billion through SFY 2017-18 due to enhanced federal Medicaid funding under the ACA.

The Executive Budget proposes to reduce funding for the Office of the Medicaid Inspector General (OMIG) by \$6.6 million, or 10.5 percent, to \$56.7 million in SFY 2014-15. This reflects, in part, a revised projection of potential federal funding that is more in

line with anticipated spending. The number of OMIG employees is projected to remain the same in SFY 2014-15, at 484 FTEs. However, the Executive Budget proposes a Medicaid Redesign Team fraud and abuse integrity initiative that would create 5 new positions within DOH and increase State-share Medicaid cash recoveries and cost avoidance by \$15 million, or 1.3 percent, to \$1.147 billion in SFY 2014-15. This initiative involves improving oversight and coordination of nursing home audits and reviews, crossover claims denied by Medicare but inappropriately paid in full by Medicaid, and the payment of health home claims for recipients who are dually eligible for Medicare and Medicaid.

The Executive Budget proposes to extend the Health Care Reform Act (HCRA) for three years through SFY 2016-17. Receipts and disbursements of HCRA funds, which finance many State health care programs, including a significant portion of State-share Medicaid spending, remain in balance through SFY 2017-18 under the Executive Budget's proposed HCRA Financial Plan. However, this plan reflects significantly lower receipts and disbursements than previously projected, primarily because it no longer counts on proceeds from the conversion of a not-for-profit health insurer, HIP/GHI, to a for-profit corporation.

Previous HCRA Financial Plans anticipated \$175 million in conversion proceeds in SFY 2013-14 and \$300 million a year through SFY 2016-17. In the past, the conversion process has proven lengthy and proceeds often have not been realized as expected in prior financial plans. Higher receipts from the health care surcharge, covered lives assessment and hospital assessments, reflecting greater numbers of New Yorkers gaining and using health insurance coverage under the ACA, partially offset the exclusion of conversion proceeds, but overall receipts for SFY 2014-15 are projected to be \$332 million, or 5.7 percent, lower than in the SFY 2013-14 Mid-Year Update.

Figure 13

HCRA General Fund Off-Loads Estimates

(in millions of dollars)

	2013-14	2014-15	2015-16	2016-17	2017-18
Medicaid	3,181	3,538	3,582	3,711	3,771
Public Health	29	0	0	0	0
EPIC	139	127	126	131	135
Roswell Park Cancer Institute	103	103	103	103	103
Total Off-Loads	3,452	3,768	3,811	3,945	4,009
As a Share of Total HCRA Spending	64.5%	68.2%	67.2%	69.0%	70.2%
Total HCRA Spending	5,349	5,522	5,672	5,715	5,714

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, as Figure 13 shows, HCRA funding of Medicaid spending still increases by \$357 million, or 11.2 percent, to \$3.5 billion in SFY 2014-15. However, this level of spending is \$274 million, or 7.2 percent, less than the \$3.8 billion in projected HCRA Medicaid disbursements included in the Mid-Year Update.

Previous Budget legislation 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. Because Roswell is in the final stages of review as a National Cancer Institute-designated cancer center, which could be affected by a funding shortfall, the Executive Budget proposes to maintain HCRA support for Roswell at \$103 million in SFY 2014-15. This funding level includes \$25 million in funding to replace an expiring capital grant. Other notable HCRA initiatives include \$28.6 million to support the operations of the New York State of Health insurance benefit exchange. The Department of Financial Services would contribute an additional \$25.7 million to the exchange, which employs a staff of 98 State workers at DOH. Total funding for the exchange in SFY 2014-15 is \$54.3 million.

The Executive Budget proposes to reduce All Funds spending on various public health programs, including the Elderly Pharmaceutical Insurance Coverage (EPIC) program, the Child Health Plus (CHP) program, and local health departments, by \$519.1 million, or 11.3 percent, to \$4.1 billion in SFY 2014-15. Much of the decrease appears to reflect the expiration of HEAL NY capital funding for various health care-related projects. Other reductions include lower spending for EPIC and a rate freeze for health insurers participating in CHP, offset, in part, by reestimates reflecting higher general spending for the General Public Health Works program.

Like last year, the Executive again proposes to consolidate 36 separate health awareness and prevention programs into 10 pools of programs serving similar functions in order to promote DOH efficiencies. Unlike last year, this initiative proposes no reductions in program funding levels. All Funds expenditures on programs for elderly New Yorkers administered by the State Office for the Aging (SOFA), including in-home services and nutrition assistance, would decrease by \$859,000, or 0.4 percent, to \$215.7 million in SFY 2014-15, primarily because of the one-year deferral of a 2 percent cost-of-living-adjustment for certain SOFA providers.

The Executive Budget contains certain proposals relating to State health programs that would eliminate Office of the State Comptroller contract review authority under State Finance Law (SFL) Section 112, competitive bidding and other requirements of SFL Section 163, or other longstanding procurement provisions. Exemptions are related to the proposed \$1.2 billion Capital restructuring financing program, as well as DOH contracts related to the expected federal Medicaid waiver. The Executive proposes changes to the Prostate Cancer Research, Detection and Education Fund to create a new process to administer the funds. The proposal authorizes DOH to distribute such funds without a competitive bid or RFP process, but rather through a simplified bidding process administered by DOH.

In the 30-day amendments, the Executive restores the Comptroller's contract review authority that had been proposed to be eliminated for an organ donor registry, as well as for an integrated eligibility system for various health and human services programs such as Medicaid, food stamps and public assistance. The 30-day amendments also modify the proposal relating to a contract to analyze the accuracy of Medicaid eligibility determinations, as well as implementation of the recently approved federal Medicaid

waiver, by prohibiting such contracts from being extended beyond March 2017 and March 2019, respectively. However, the Office of the State Comptroller's contract review authority would still be bypassed for these procurements.

Mental Hygiene

The SFY 2014-15 Executive Budget proposes to increase State-funded mental hygiene spending, including General State Charges, by \$57.8 million, or 0.8 percent, to \$7.0 billion in SFY 2014-15. All Funds spending, including federal funds and capital projects, is proposed to total \$7.4 billion in SFY 2014-15, an increase of \$62.4 million, or 0.9 percent, over SFY 2013-14. This funding supports the operations of five State agencies:

- \$3.5 billion, an increase of \$11.2 million or 0.3 percent, for the Office for People With Developmental Disabilities (OPWDD).
- \$3.3 billion, an increase of \$52.2 million or 1.6 percent, for the Office of Mental Health (OMH).
- \$579.4 million, or no change, for the Office of Alcoholism and Substance Abuse Services (OASAS).
- \$41.6 million, an increase of \$3.7 million or 9.7 percent, for the Justice Center for the Protection of People with Special Needs, reflecting the full annualization of agency operations. The Justice Center absorbed core responsibilities of the former Commission on Quality of Care and Advocacy for Persons with Disabilities (CQCAPD) in SFY 2013-14. The Executive Budget reduces \$4.7 million in remaining CQCAPD disbursements in SFY 2013-14 to zero in SFY 2014-15.
- \$4.2 million, or no change, for the Developmental Disabilities Planning Council.

Funding for OPWDD reflects the shift of \$745 million in State-share Medicaid costs (an increase of \$15 million over SFY 2013-14) for the developmentally disabled to the State Health Department under the Medicaid global cap. This cost shift is part of the State's continuing plan to mitigate the impact of a \$1.1 billion reduction in federal Medicaid revenue for State-operated facilities for the developmentally disabled imposed on the State by the federal government last year. The cost shift also reflects an increase of \$300 million over the level of global cap support, \$445 million, included in the SFY 2013-14 Enacted Budget Financial Plan. The Executive Budget expects DOH to assume these additional costs without any State Financial Plan impact through savings from continued Medicaid Redesign Team initiatives, cash management actions and use of additional federal resources associated with the Affordable Care Act.

The Executive Budget proposes to reduce OPWDD State Operations funding by \$28.2 million, or 1.4 percent, to just under \$2.0 billion in SFY 2014-15. This decrease reflects savings of \$59 million from State facility bed closures begun in prior years and \$10.6 million from bed closures anticipated in SFY 2014-15, offset by \$21.4 million in higher costs for fringe benefits, collective bargaining changes and various other programs, and \$20 million related to the timing of federal grants.

OPWDD recently closed the Taconic and Monroe developmental centers. The Executive Budget proposes to downsize the agency's remaining State facilities by 300 beds in SFY

2014-15 and close the O.D. Heck Developmental Center in Schenectady by March 31, 2015. All Funds staffing levels at OPWDD would be reduced by 720 positions, or 3.8 percent, to 18,311 full-time equivalent positions (FTEs) by the end of SFY 2014-15. No layoffs are anticipated by the Executive; employees affected by staffing reductions would be given other opportunities, including preference in filling open positions at other State agencies.

The Executive Budget recommends increasing OPWDD Local Assistance spending by \$39.5 million, or 2.8 percent, to approximately \$1.5 billion in SFY 2014-15. This increase reflects additional spending of \$49 million for community-based services begun in prior years and \$9.1 million in new community-based services for approximately 300 individuals transitioning from State developmental centers. This spending is offset by projected savings of \$9.8 million by moving roughly 6,000 individuals into employment settings where they work with people without developmental disabilities, \$7.7 million by returning individuals back to New York from out-of-state placements and no longer making tuition payments for individuals who have aged out of school-based settings, and \$1.1 million by ending new admissions to sheltered workshops and transitioning individuals in segregated employment to integrated settings where they work with people without disabilities.

The Executive Budget anticipates increasing the number of OPWDD community beds by 623, or 1.5 percent, to 41,957 in SFY 2014-15. The Executive Budget proposal also recommends increasing spending on OPWDD capital projects by \$5 million, or 6.4 percent, to \$83.1 million in SFY 2014-15 to pay for statewide fire safety projects in residential settings for people with developmental disabilities.

The Executive Budget proposes to increase OMH State Operations funding by \$32.6 million, or 1.6 percent, to \$2.1 billion in SFY 2014-15. This increase reflects higher costs of \$28.2 million for fringe benefits, \$18.8 million for collective bargaining agreements and \$8.2 million for growth in the program that places dangerous sex offenders in OMH secure treatment facilities, offset in part by \$22.6 million in savings from closing 399 beds in State psychiatric centers in SFY 2014-15 as part of the agency's multiyear plan to restructure the public mental health system in New York.

Figure 14

State Mental Hygiene Agency Staff Level Estimates

	2013-14	2014-15	Change	% Change
OPWDD	19,031	18,311	(720)	-3.8%
OMH	14,616	14,616	-	0.0%
OASAS	762	762	-	0.0%
JUSTICE CENTER	280	352	72	
DDPC	18	18	-	0.0%
TOTAL	34,707	34,059	(648)	-1.9%

Source: Division of the Budget

Under the Executive Budget proposal, staffing levels at OMH would remain unchanged at 14,616 FTEs, but would reflect the hiring of 291 new staff to reduce agency overtime spending and 140 new positions to accommodate growth in the program for dangerous

sex offenders, offset by reductions of 431 positions from bed closures at State psychiatric centers. No layoffs are anticipated; employees affected by the bed closures would be given other opportunities, including preference in filling open positions at other State agencies. Annual salaried positions in the five State Mental Hygiene agencies would decrease by a total of 648 FTEs, or 1.9 percent, to 34,059 positions in SFY 2014-15.

OMH Local Assistance spending would increase by \$19.6 million, or 1.6 percent, to \$1.2 billion in SFY 2014-15, reflecting higher costs of \$25 million from expanding community services resulting from the bed closures at State psychiatric centers, \$8 million from development of additional community adult residential programs, \$7 million from adding 500 new adult home beds and 200 new nursing home beds, and \$2.1 million in capital bed development growth, offset by reductions of \$20 million in timing-related federal spending and \$2.5 million from prior year actions and eliminating legislative budget additions. Under the Executive Budget proposal, the total number of OMH community beds would grow by 1,151, or 2.9 percent, to 41,399 beds in SFY 2014-15.

As noted, funding and staffing levels for OASAS remain unchanged in the Executive Budget proposal, but reflect a \$3.0 million, or 6.4 percent, increase in Capital disbursements for ongoing bed development, as well as health and safety projects in community-based and institutional programs, offset by a \$3.0 million reduction in State Operations spending from SFY 2013-14 to SFY 2014-15.

The State Operations reductions reflect \$1.7 million in higher spending for fringe benefits and rate adjustments for existing federal programs, which are more than offset by \$4.7 million in lower personal service and non-personal costs, and the shifting of the agency's information technology staff to the Office of Information Technology Services. Local Assistance spending remains unchanged from SFY 2013-14 to SFY 2014-15, but reflects \$4.6 million in savings associated with ongoing agency program evaluations offset by \$4.6 million in costs for 129 additional supportive housing and treatment beds for adults and veterans in New York City.

Human Services

The Executive Budget proposes approximately \$3.3 billion in State funding for human services programs operated by the Office of Temporary and Disability Assistance (OTDA) and the Office for Children and Family Services (OCFS), which is \$108.5 million or 3.2 percent lower than SFY 2013-14. All Funds spending of \$8.1 billion for the two agencies, including federal funds, capital projects and General State Charges, would be \$306.9 million or 3.7 percent lower than SFY 2013-14.

All Funds spending for OCFS, whose responsibilities include maintaining a system of secure, limited-secure, and non-secure residential facilities for juvenile delinquents and offenders would increase by a net \$40.3 million, or 1.4 percent, to about \$3.0 billion in SFY 2014-15 under the Executive Budget proposal. This spending level reflects an increase of \$85 million in State-funded community child care subsidies, necessitated in part by a projected \$64 million reduction in federal funding, and \$21 million for higher child care costs incurred by local social services districts. The Executive Budget

proposal also reflects a \$22 million increase in spending on youth programs associated with implementing the Close to Home initiative.

The Close to Home program, which started in SFY 2012-13, is moving New York City youth who had been placed in OCFS non-secure and limited-secure settings outside of the City to residential settings run by the City of New York. OCFS has so far closed three non-secure State facilities and made corresponding reductions in State staff and services. Much of the higher spending for the Close to Home program in SFY 2014-15 reflects the annualization of State payments to the City to help support the provision of community and residential services for youth already moved from OCFS settings. Higher spending also results from longer-than-anticipated preparations for transitioning limited-secure youth to New York City, which delays the closure of OCFS limited-secure facilities and associated savings. Despite this delay, the Executive Budget expects the continued closing and downsizing of youth facilities associated with the Close to Home initiative to reduce State employment in OCFS facilities by 275 positions, or 16.3 percent, to 1,417 FTEs in SFY 2014-15.

Proposed increases in OCFS spending are offset in part by a \$45 million decrease in child welfare costs due to lower projected service claims since the end of the economic downturn, \$19 million in savings from a one-year delay in a 2 percent cost-of-living adjustment for OCFS programs, and various other savings actions such as discontinuing prior year legislative budget additions.

All Funds spending for OTDA, whose responsibilities include providing temporary cash and other assistance for needy families and individuals, would decrease by \$347.2 million or 6.4 percent to approximately \$5.1 billion in SFY 2014-15 under the Executive Budget proposal. This reduction includes \$98 million in net savings associated with the State takeover of federal administrative responsibilities for New York's Supplemental Security Income (SSI) supplementation program in October 2014; OTDA will be hiring 54 FTEs in connection with the takeover at a cost of \$2.4 million. Lower OTDA spending also reflects \$43 million in savings resulting from revisions to projected costs for public assistance. Under the Executive Budget proposal, public assistance caseloads are expected to drop by 16,093 or 2.8 percent to 564,167 in SFY 2014-15, as the economy improves.

The Executive Budget proposes to recoup from local social services districts a portion of the costs the State pays for administering hearings for recipients appealing denials for various benefit programs such as Medicaid and public assistance. The Executive contends that 60 percent of hearing requests are withdrawn due to lack of evidence or other factors, creating additional costs for the State and inconvenience for recipients. The Executive Budget proposal would establish a performance-based "chargeback" on local districts failing to improve their efforts to resolve outstanding issues before a recipient requests a hearing. The Executive expects this proposal to generate \$10 million in State savings in SFY 2014-15.

The Executive proposes legislation to bring the State into compliance with federal law (the Middle Class Tax Relief and Job Creation Act of 2012) requiring states that receive temporary assistance for needy families (TANF) grants to prevent the electronic benefit

transfer of TANF funds at automated teller machines in liquor stores, casinos, gaming establishments and adult-oriented entertainment venues. State failure to implement a plan to comply with the law by February 2014 would cost the State 5 percent of its TANF funding, approximately \$120 million in SFY 2014-15, for each year it is out of compliance.

The Executive Budget also proposes \$63 million in additional capital funding for OTDA's Homeless Housing Assistance Program, including up to \$5 million to develop housing for people with HIV or AIDS. This funding, an increase of \$33 million over SFY 2013-14, is expected to provide approximately 1,030 new units of housing when fully implemented. Because of the time it takes to develop new housing units, no cash disbursements are expected for these additional units in SFY 2014-15.

The Executive Budget proposes All Funds appropriations of \$4.6 billion for the State Department of Labor, which reflects a decrease of \$1.79 billion, or 28.1 percent, from SFY 2013-14. The lion's share of the decrease is a \$1.75 billion reduction in projected unemployment insurance claims due to improvement in the economy.

Economic Development

The Executive Budget seeks to expand certain economic development programs, including START-UP NY. START-UP NY was created in 2013 to allow eligible academic institutions to attract new businesses and locate them in vacant buildings, space or land at or near their campuses. Businesses that would locate in those zones are exempt from State taxes, including personal income tax, sales tax, business taxes and property taxes, for a period of 10 years. Eligible businesses would include new companies, companies relocating to New York, or current New York State companies that are expanding. There are several types of businesses that are ineligible to participate including retail stores, restaurants, law firms, medical practices, and real estate offices.

The Executive proposes Launch Global NY, which would link START-UP NY with the State's 10 Regional Economic Development Councils (REDCs), with the goal of attracting international investors through an international marketing campaign.

New funding is proposed in the Executive Budget for several economic development projects, including \$180 million to support a project known as Nano Utica, which is proposed to be the State's secondary hub for nanotechnology research and development. As part of the Executive's commitment to provide \$1.0 billion in funding to support economic development in the City of Buffalo and surrounding areas (the "Buffalo Billion"), the proposed Budget includes \$680 million in new capital appropriations through the Urban Development Corporation (UDC) for the Buffalo Regional Innovation Cluster. The SFY 2012-13 and SFY 2013-14 Enacted Budgets provided \$75 million each in capital appropriations for this initiative, in addition to Excelsior Jobs tax credits. A capital appropriation of \$2.2 million through UDC is included in the proposed Budget for expenses related to the retention of professional football in western New York.

In addition, \$105 million is being sought to support a partnership between downstate's New York Genome Center and the University of Buffalo's Center for Computational Research, in order to advance biomedical research. Of that \$105 million, \$55.8 million is appropriated to UDC for the Genome Center, with the remaining \$50 million coming from

the Buffalo Billion initiative, according to DOB. The Executive Budget's original appropriation for the Genome Center stipulated that no more than \$27.9 million could be disbursed until a private funding match of \$55.8 million was met. The 30-day amendments reduce this private funding match requirement to \$27.9 million.

Other proposals include providing \$30 million in capital appropriations to stimulate the revitalization of Onondaga Lake and its surrounding communities. The Executive Budget also includes \$24 million in capital appropriations for the Economic Transformation Program to aid communities affected by the pending closure of four correctional facilities in July 2014 or areas affected by any shutdown of juvenile facilities in SFY 2014-15. The Executive Budget originally proposed that funding would be provided pursuant to plans developed by UDC in consultation with the REDCs. The 30-day amendments remove this requirement.

The Executive also proposes several North Country initiatives, including \$10 million to support a partnership among the State, Clarkson University, and the Trudeau Institute to further develop biotechnology research. In addition, according to the Executive, \$12 million in reappropriations to refurbish and repair the Veteran's Memorial Highway on Whiteface Mountain are proposed. The proposal would also fund projects to repair the castle, elevator and tollhouse. The Executive Budget also proposes \$9.4 million in new capital funds for the Olympic Regional Development Authority (ORDA). Of this funding, \$6.9 million would be used for maintenance and energy efficiency upgrades to the Olympic and ski facilities. An additional \$2.5 million in capital appropriations would come from the OPRHP, as part of the New York Works initiative.

The Executive Budget includes \$55 million in new funding for both the NY-SUNY 2020 and NY-CUNY 2020 programs. Also included in the proposal is a \$50 million capital appropriation through UDC for the State University of New York College for Nanoscale Science and Engineering in Albany.

The Executive proposes continuing and expanding several programs, including providing \$50 million in funding from the New York Power Authority (NYPA) to support the Open for Business initiative and funding of \$5 million through the Department of Economic Development (DED) to continue Market NY, which provides competitive funding to support tourism marketing plans. The Executive Budget also seeks to provide \$1.1 million for the Taste NY program which was created in the SFY 2013-14 Enacted Budget. Continued funding for the REDCs is proposed with \$150 million in capital funding, along with \$70 million in Excelsior Jobs tax credits.

The Executive Budget proposal continues funding for various economic development initiatives, including almost \$46 million for initiatives such as the Empire State Economic Development Fund, Urban and Community Development Program, Entrepreneurial Assistance Program, and tourism marketing initiatives. In addition, the Executive Budget includes nearly \$31 million to support the High Technology Program administered by the Department of Economic Development (DED), which supports ongoing university-based matching grants, and other high technology research at various institutions.

The Executive proposal continues the New York State Innovation Hot Spots and Incubator Programs, with \$3.75 million in new DED appropriations. This program was created as part of the SFY 2013-14 Enacted Budget, and seeks to foster innovation by offering startup companies business support services. Under the program, Innovation Hot spots are designated by UDC and must have an affiliation with at least one college, university, or independent research institution. Businesses that participate in the program are also eligible for State tax benefits, as well as sales and use tax credits or refunds for their purchases, for a period of five years.

Several public authority provisions related to economic development are extended for one year. These include the authority of DASNY to enter into design and construction management agreements with DEC and OPRHP, UDC's authorization to administer the Empire State Economic Development Fund, and UDC's power to grant general loans.

The Executive Budget also seeks to strengthen consumer protections through the Department of Financial Services (DFS). The proposal adds two health-care-related provisions intended to protect consumers from costly out-of-network medical bills and reduce no-fault auto insurance fraud. The proposal also seeks to establish licensure requirements for real estate industry title insurance agents, closers and solicitors.

Lottery and Gambling

In November 2013, New York State voters approved an amendment to the State Constitution to authorize up to seven commercial casinos in the State. The Upstate New York Gaming Economic Development Act, approved by the Legislature in June 2013, allows the first four commercial casinos to be located in three upstate regions. The State Gaming Commission will appoint a Gaming Facility Location Board to select locations before issuance of casino licenses. The Executive expects requests for applications will be received in March, bids will be due by June, selection will be completed by early fall, and the first casinos could be operating by January 2015.

The Executive Budget recommends an increase in the All Funds appropriations for the Gaming Commission of 7.9 percent or a total of \$114.6 million to account for costs resulting from the implementation of the Gaming Act. The Executive Budget also provides an addition of 10 positions for a total staff of 430 FTEs. The proposed Budget refers to additional miscellaneous receipts revenue from new casino license fees in SFY 2014-15, but does not provide specific projections. DOB indicates that no gaming revenue from newly authorized casinos is projected during the State fiscal year.

The Executive Budget provides Video Lottery Terminal (VLT) operators an additional year to earn capital rewards, or additional support for capital projects such as new buildings. Furthermore, the Monticello Raceway Video Lottery Terminal rates are extended for one year. The proposed Budget amends the Casino legislation to allow commercial gaming receipts to be distributed for education in the year received (current law provides for such distribution in the following year), and to provide that payments of regional county aid shall equal 10 percent of the exclusivity payments received by the State.

The Executive Budget proposes \$111.4 million of the State's estimated revenue from Native American casinos be provided to the host communities and local counties within the exclusivity regions as required by State Finance Law. The proposed Budget would increase the racing regulatory fee on thoroughbred, harness, off-track parimutuel betting and simulcast racing from 0.5 percent to 0.6 percent of the handle.

Transportation

Capital Projects

The State's transportation capital program is projected to reach \$4.44 billion in SFY 2014-15, of which nearly \$4.1 billion is related to the DOT capital program. The Department of Motor Vehicles will receive \$183.2 million in "capital" appropriations, although all of these funds will be used for day-to-day Departmental operations. The Thruway Authority will receive \$1.8 million in capital support for its canal capital program. The remaining \$190 million will be allocated to the Metropolitan Transportation Authority.

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.

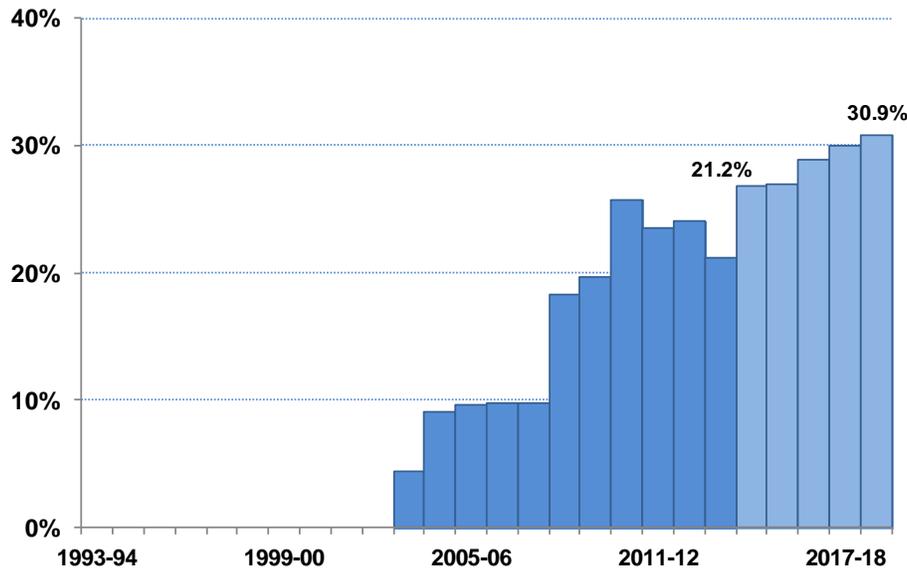
The Executive Budget proposes to consolidate the Rail Safety Inspection Account and the Transportation Regulation Account and associated revenue into the Trust Fund to pay for rail and truck inspections. The stated intent of this consolidation is to provide programmatic flexibility and maintenance of the Trust Fund's debt service coverage ratio.

The Executive Budget proposes to increase the General Fund subsidy for the DHBTF by \$271.2 million, from \$402 million in SFY 2013-14 to \$673.3 million in SFY 2014-15. However, since the current year's Enacted Budget called for \$551.1 million in General Fund support for SFY 2013-14, the new figures appear to be related to a shift in the timing of a part of the subsidy between the current and the coming fiscal year.

Thereafter, the General Fund subsidy is expected to grow annually, reaching \$849.6 million in SFY 2018-19. The projected total amount of General Fund transfers for the ten-year period from SFY 2004-05 through SFY 2013-14 is nearly \$2.6 billion. The total for the five-year period from SFY 2014-15 through SFY 2018-19 is anticipated to be an additional \$3.7 billion.

Figure 15

Transfers as a Percentage of All Funds DHBTF Revenues



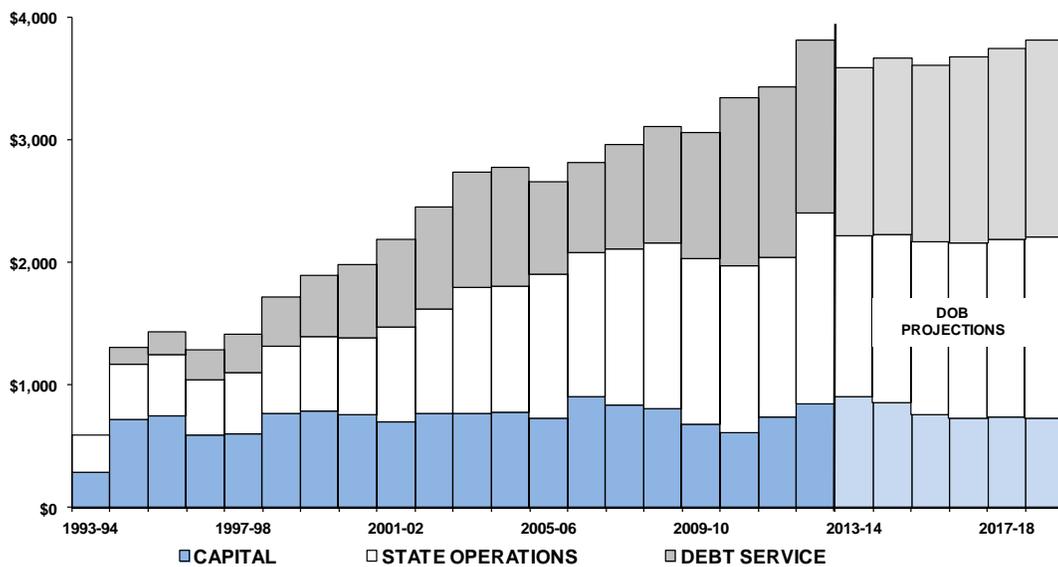
Source: Division of the Budget
 Note: DOB estimates in lighter shade.

Overall, the DHBTF continues to rely on transfers, both from the General Fund and from the Federal Capital Fund. As Figure 15 shows, the percentage of Fund revenues comprising transfers from other funds has grown steadily over the years. This trend moderated slightly after a sharp spike in SFY 2010-11, but projections now show that this dependence will again be growing.

Figure 16

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

Capital disbursements, the ostensible purpose for the existence of the DHBTF, are projected to total \$862.9 million in SFY 2014-15, or just 23.5 percent of total Fund spending. Total debt service disbursements from the DHBTF for SFY 2014-15 will be nearly \$1.4 billion, or 39.1 percent of all DHBTF disbursements, an increase of \$56.4 million from SFY 2013-14. 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. State Operations is expected to account for \$1.4 billion, or 39.1 percent, of DHBTF disbursements.

Mass Transit

The Executive Budget proposes \$4.8 billion in funding for mass transit aid, an increase of \$93 million over SFY 2013-14. Of the total, \$4.35 billion is allocated for the MTA, \$286 million for non-MTA downstate systems (approximately \$6 million more than the current year) and \$176 million for upstate systems (about \$2.5 million over current year totals).

Thruway Authority

The Executive Budget provides All Funds appropriations of \$26 million for the New York State Thruway Authority, including \$24 million in General Fund support for Thruway operations, as was provided for the first time in SFY 2013-14, as well as \$2 million in Capital Projects support for the New York State Canal Corporation. In addition, personnel expenses associated with the Division of State Police Troop T will continue to be supported by the Division of State Police.

Housing

The Executive Budget for SFY 2014-15 proposes to decrease All Funds spending at the Division of Housing and Community Renewal by \$3.6 million compared to projected spending levels for SFY 2013-14. The decrease can be explained in part by the Executive Budget proposal to replace expenditures of appropriated funds with funding transferred from the State of New York Mortgage Insurance Pool. The Executive Budget contains no new appropriations for programs such as the Neighborhood Preservation, or Rural Preservation Programs, which are typically funded in the Local Assistance budget.

The Executive Budget proposes to increase the aggregate dollar amount of tax credits that may be allocated to eligible low income housing projects by \$8 million, to \$56 million, in SFY 2014-15 and by an additional \$8 million, to \$64 million, in SFY 2015-16.

The Budget proposes to transfer a total of \$75.4 million in mortgage insurance funds held in the State of New York Mortgage Insurance Pool to the Housing Trust Fund Corporation (HTFC) and the Housing Finance Agency (HFA). Of these funds, \$32 million transferred to the HFA would be used to rehabilitate Mitchell-Lama housing projects. Remaining funds would be transferred to the HTFC to fund the Rural Rental Assistance Program (\$20.4 million), the Neighborhood Preservation Program (\$8.5 million), the Rural Preservation Program (\$3.5 million), the Rural and Urban Community Investment Fund Program (\$6.8 million), the Low Income Housing Trust Fund Program (\$2.5 million) and

the Homes for Working Families Program (\$1.8 million). Funding transferred to HTFC is in addition to funds appropriated in the Executive Budget for these programs.

The Executive Budget proposes to use \$100 million in Federal funding for Superstorm Sandy recovery to support the creation or preservation of affordable housing units in multifamily developments. In addition, the Budget appropriates additional funding of \$10 million for the House NY Program created in the SFY 2013-14 Enacted Budget.

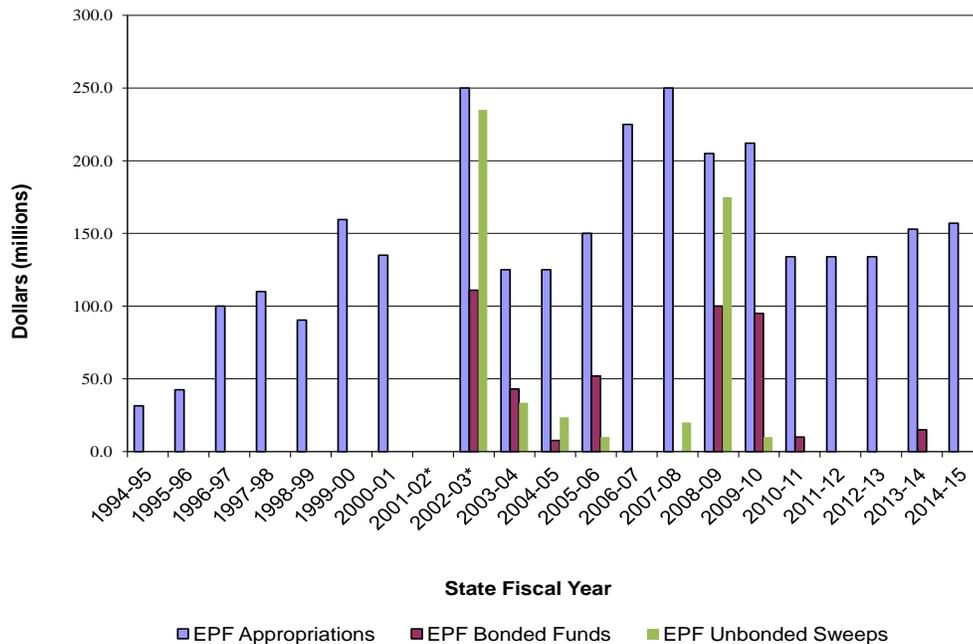
Environment and Parks

Department of Environmental Conservation

The Executive Budget proposes to decrease All Funds spending for the New York State Department of Environmental Conservation (DEC) by \$43.5 million below projected spending for SFY 2013-14. This decrease is accounted for by the completion of local assistance grant programs supported by the American Reinvestment and Recovery Act. The Executive Budget provides \$157 million in appropriations for the Environmental Protection Fund (EPF), an increase of \$4 million over appropriations in the SFY 2013-14 Enacted Budget. The Budget proposes two new EPF-supported programs, support for a resiliency planting program (intended to mitigate flooding during extreme weather events) and a research program to protect groundwater quality in Suffolk County.

Figure 17

EPF Appropriations, Sweeps and Authorized Bonds
(in millions of dollars)



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

The Executive Budget provides \$40 million in appropriations through the New York Works program in support of developing new public access sites on State-owned lands, new air monitoring infrastructure, fish hatchery infrastructure improvements and other projects.

The Executive Budget proposes a new \$100 million appropriation in support of programs to clean up legacy hazardous waste sites. Of this funding, \$90 million is proposed in support of the New York State Superfund and \$10 million is proposed in support of the Environmental Restoration Program (ERP). A proposed amendment to the ERP would allow the DEC to conduct ERP projects on behalf of municipalities.

The Executive Budget proposes to make the fee charged for registration of pesticides permanent, and also proposes changes to New York State's laws governing the reporting of pesticide use to eliminate required reporting by commercial pesticide applicators on the type and amount of pesticides used, and the location of pesticide use. DEC's reporting requirements associated with this information would also be eliminated. Reporting of pesticide sales data would be expanded to include all retail sales with certain exceptions. The Executive's 21-day amendments would change the composition and duties of the Health Research Science Board. The Executive's 30-day amendments would delay the effective date for changes to the reporting provisions of the pesticide reporting law by eight months, from April 1, 2014 to January 1, 2015.

The Executive Budget proposes to allow hunting with crossbows and to make new three- and five-year hunting and fishing licenses available. The amendments reduce some license fees, but due to projected increases in sales, the changes are assumed to be revenue neutral. The Executive Budget also proposes to amend the State General Obligations Law to reduce the liability of landowners who allow recreational uses of their property.

The Executive Budget proposes significant amendments to the New York State Brownfield Cleanup Program (BCP). The date by which site cleanup must be completed to qualify for tax credits is extended by 10 years to December 31, 2025. Under the new program, all project sponsors that complete site cleanup will be eligible to receive tax credits based on the cost of cleanup. Eligibility for tax credits based on site redevelopment costs would be restricted to properties that have been vacant for more than 10 years, properties where the cost of cleanup exceeds the site's appraised value after remediation, and projects determined by the Department of Economic Development to be economic development priorities based on specific proposed criteria.

New eligibility standards would restrict admission to the program to those sites where contamination violates BCP soil cleanup objectives, or other health or environmental based standards. Under proposed amendments, sites on the State Superfund list would be eligible for the BCP if no responsible party that is able to pay for site cleanup is identified. A new "BCP EZ" program is proposed for parties that waive their right to tax credits. Under this program, the DEC would be authorized to exempt parties that are not associated with past contamination from BCP procedural requirements.

The Executive Budget contains no new appropriations for Brownfield Opportunity Area (BOA) program grants. BOA grants assist impacted communities with planning for remediation and redevelopment of brownfield sites. Reappropriations in support of the program totaling \$13.1 million are proposed in the Department of State Capital Budget for SFY 2014-15.

Parks

The Executive Budget proposes to increase All Funds spending for the Office of Parks, Recreation and Historic Preservation (Parks) by \$10.1 million over projected spending levels for SFY 2013-14. This increase is explained by projected increases in capital project spending to repair and upgrade critical infrastructure at State Parks. The Executive Budget also contains an appropriation of \$92.5 million in capital funding from the New York Works program. This funding is intended to address deferred maintenance and needed upgrades of infrastructure in State Parks. Of this funding, \$2.5 million is allocated to the Olympic Regional Development Authority.

Agriculture

The Executive Budget increases All Funds spending for the Department of Agriculture and Markets by \$2.4 million over projected spending for SFY 2013-14. The increase is accounted for by spending associated with the creation of a viticulture center at the Finger Lakes Community College approved in the SFY 2013-14 Enacted Budget. The proposed Budget provides \$1.1 million in appropriations to promote New York State Agricultural Products through the Taste NY program.

Energy

The Executive Budget increases All Funds spending at the New York State Energy Research and Development Authority (NYSERDA) by \$15.7 million. This increase is accounted for by an increase in capital project spending in support of the Cleaner, Greener Communities grant program.

The Executive Budget for SFY 2014-15 proposes several new programs that NYSERDA will implement with off-budget funds. Federal funding for Superstorm Sandy recovery will support grant programs to assist upstate gas stations that are located next to strategic highways in developing backup electrical systems to power fuel pumps in the event of a large scale power outage. In addition, Sandy funding in combination with funding from a settlement between the Federal Energy Regulatory Commission and Constellation Energy will support a program to assist in the development of distributed electric generation capacity with micro-grids to provide emergency power to critical facilities and surrounding neighborhoods. Programs supported by the System Benefits Charge and revenues realized from the Regional Greenhouse Gas Initiative will be expanded to include a program to encourage the use of efficient biomass boilers to heat buildings.

The Executive Budget also includes a proposal to amend the Temporary State Energy and Utility Service Conservation Assessment. Under the proposal, charges to utilities

associated with large users of electricity and natural gas would end immediately. Charges to all other customers would be reduced over the life of the program. The last payment required under the assessment would occur in March 2017. These changes to the program would reduce State revenues by a projected \$200 million annually.

The Executive Budget proposes to require gas stations within one-half mile of designated strategic highways to install wiring and switches to allow fuel pumps to be powered with backup electric generation. The Budget also proposes \$2 million to support the repowering of coal fired boilers at the Dunkirk Generating Station to burn natural gas.

The proposed NYSERDA budget for SFY 2014-15 includes \$624.3 million in revenues from the New York State Systems Benefits Charge, the Energy Efficiency Portfolio Standard and the Renewable Portfolio Standard. These revenues are raised through a New York State Public Service Commission (PSC) authorized surcharge on consumer purchase of electricity and natural gas. NYSERDA expenditure of these funds – subject to Orders of the PSC – is authorized for programs to encourage the efficient use of energy, promote the development and use of clean energy technologies, support the development of renewable energy generation facilities and reduce emissions of greenhouse gases and other pollutants. In a December 2013 Order, the PSC authorized NYSERDA to use \$165.6 million of these funds to develop and operate the New York Green Bank. The purpose of the Green Bank is to provide financial products that encourage private investment in energy efficiency and clean energy.

In addition, the NYSERDA budget includes \$67.2 million in revenues generated through the auction of allowances under the Regional Greenhouse Gas Initiative. NYSERDA is authorized to expend these funds on programs that increase the efficient use of energy, support renewable energy use and development and reduce emissions of greenhouse gases

Homeland Security / Public Protection

The SFY 2014-15 Executive Budget includes several proposals related to improving the State's storm preparedness and response, including:

- \$75 million for statewide interoperable communications to allow State and local emergency responders to communicate seamlessly during emergencies;
- \$15 million for a state-of-the-art weather detection system;
- \$15 million for a SUNY College of Emergency Preparedness;
- \$10 million for expanded fuel reserves, to be funded by NYPA; and
- \$3.1 million for back-up power for gas stations.

The Executive Budget proposes to use \$15.2 million for a new initiative called Gun-Involved Violence Elimination (GIVE) for communities currently participating in Operation IMPACT to implement strategies to prevent gun violence. The Budget proposes to increase fines and penalties for multiple drunk driving convictions and for texting while driving. The Executive Budget proposes to create a commission on Youth, Public Safety

and Justice to make recommendations on issues related to juvenile crime and incarceration.

State Workforce

The Executive Budget projects that the overall size of the State workforce will remain essentially unchanged during SFY 2014-15, with a net decrease of 191 Full Time Equivalents (FTEs). Total FTEs at the end of SFY 2014-15 are projected to be 180,766, as compared to 180,957 estimated at the end of SFY 2013-14 (these figures do not include members or staff of the Legislature or the Judiciary.) Figure 18 presents all agencies expected to show any changes in the size of their workforce.

Figure 18

SFY 2014-15 Estimated Agency Workforce Changes			
	March 2014	March 2015	Change
AGENCIES WITH INCREASES			
HEALTH	4,890	5,213	323
JUSTICE CENTER	280	352	72
CORRECTIONS AND COMMUNITY SUPERVISION	29,001	29,067	66
TEMPORARY AND DISABILITY ASSISTANCE	1,859	1,918	59
EDUCATION DEPARTMENT	2,663	2,721	58
INFORMATION TECHNOLOGY SERVICES	3,778	3,819	41
LAW, DEPARTMENT OF - ATTORNEY GENERAL	1,798	1,833	35
OFFICE OF THE STATE COMPTROLLER	2,609	2,643	34
STATE POLICE	5,419	5,439	20
CRIMINAL JUSTICE SERVICES	435	455	20
PARKS, RECREATION AND HISTORIC PRESERVATION	1,719	1,737	18
HOMELAND SECURITY AND EMERGENCY SERVICES	396	413	17
ELECTIONS, STATE BOARD OF	58	70	12
GAMING COMMISSION	420	430	10
GENERAL SERVICES	1,553	1,561	8
AGING, OFFICE FOR THE	90	95	5
PUBLIC SERVICE	523	527	4
ENVIRONMENTAL CONSERVATION	2,916	2,917	1
PUBLIC ETHICS	44	45	1
AGENCIES WITH DECREASES			
PEOPLE WITH DEVELOPMENTAL DISABILITIES	19,031	18,311	-720
CHILDREN AND FAMILY SERVICES	3,030	2,796	-234
STATE, DEPARTMENT OF	564	545	-19
HIGHER EDUCATION SERVICE	304	292	-12
MOTOR VEHICLES	2,215	2,205	-10

Source: Division of the Budget

The size of the State workforce is projected to remain fairly stable in the next few years, after having declined significantly over the past two decades. Figure 19 shows the change in State employee workforce totals since SFY 1984-85. The State historically

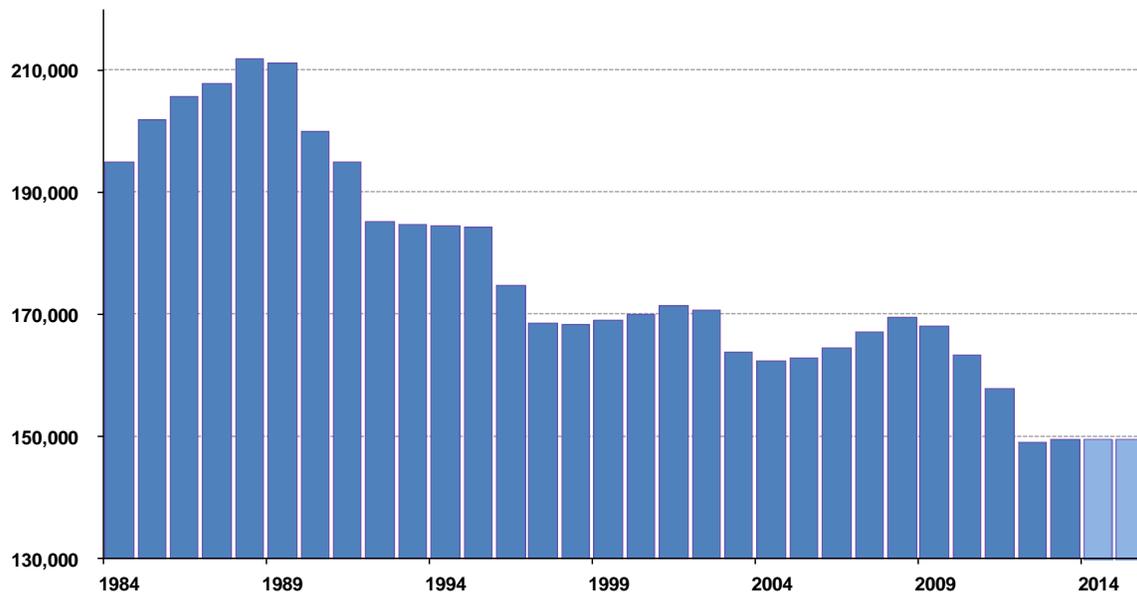
has not attempted to determine the potential impacts on public services and agency performances from such declines in staffing.

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 may not be included in DOB figures.

Figure 19 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 2013-14 and SFY 2014-15 are based on Office of the State Comptroller workforce figures, adjusted for DOB estimates of Executive agency workforce changes. While this measure of the State agency workforce differs from DOB's, both measures show marked declines over the past two decades.

Figure 19

State Agency Full-Time Equivalents, SFY 1984-85 through SFY 2014-15
(excludes SUNY/CUNY but includes the State Insurance Fund)



Source: SFY 1984-85 through SFY 2012-13: Office of the State Comptroller Payroll Records;
Note: Shaded bars are SFY 2013-14 and SFY 2014-15, based on adjusted DOB estimates.

General State Charges

The Executive Budget's presentation of costs associated with employee fringe benefits and certain other State expenses is known collectively as General State Charges (GSC). However, the General Fund appropriation of \$3.15 billion that appears in the State Operations appropriations bill accounts for only 60 percent of all General Fund appropriations for GSC and only 41.2 percent of All Funds GSC spending.

Excluded from the Executive Budget 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. The table presented in Figure 20 provides a comprehensive illustration of all the components of GSC spending that is not available elsewhere.

Figure 20

SFY 2014-15 General State Charges
(in millions of dollars)

Program	General Fund		Other Funds		All Funds	Y-T-Y % Change
State Employee Fringe Benefits						
Health Insurance	2,066.5	64.9%	1,117.1	35.1%	3,183.6	4.63%
Social Security	568.1	64.0%	319.9	36.0%	888.0	3.71%
Workers' Compensation	286.8	63.9%	162.1	36.1%	448.9	1.71%
Pension Contributions	1,058.5	59.5%	721.7	40.5%	1,780.3	14.72%
Employee Benefit Funds	41.4	47.4%	46.1	52.6%	87.5	4.15%
Dental Insurance	38.4	66.2%	19.6	33.8%	58.0	-10.08%
Unemployment Benefits	14.3	66.3%	7.3	33.7%	21.5	-14.31%
Miscellaneous Benefits	25.0	76.5%	7.7	23.5%	32.7	37.16%
Subtotal Fringe Benefits	4,099.0	63.1%	2,401.4	36.9%	6,500.4	6.75%
Other State Expenses						
Taxes on Public Lands	236.2	100.0%	0.0	0.0%	236.2	1.34%
Court of Claims Judgments	126.7	100.0%	0.0	0.0%	126.7	-16.31%
Public Officers' Indemnification	31.9	100.0%	0.0	0.0%	31.9	1.92%
Miscellaneous Expenses	52.4	100.0%	0.0	0.0%	52.4	0.77%
Subtotal State Expenses	447.1	100.0%	0.0	0.0%	447.1	-4.41%
Court Employee Benefits	642.1	100.0%	0.0	0.0%	642.1	1.28%
SUNY	210.1	100.0%	0.0	0.0%	210.1	0.00%
Adjustments*	-133.7	100.0%	0.0	0.0%	-133.7	122.76%
Total GSC Spending	5,264.6	68.7%	2,401.4	31.3%	7,666.1	4.55%
MEMO: Financial Plan Total	5,265.0	68.7%	2,402.4	31.3%	7,667.0	5.00%

Source: Division of the Budget

Note: Totals may not add due to rounding. Health insurance figures include State retirees.

* Adjustments include \$121.5 million in fringe benefit "dry contingency appropriations" savings and \$16.1 million in MTA payroll tax adjustments, offset by \$4.4 million in "other" spending.

Design-Build and Public-Private Partnerships

The Infrastructure Investment Act passed by the Legislature in December 2011 authorized the New York State Thruway Authority, the New York State Bridge Authority, Department of Transportation, the Office of Parks, Recreation and Historic Preservation (OPRHP) and the Department of Environmental Conservation (DEC) to use design-build contracts and alternative methods of procurement, including "best value," "cost plus," and "lump sum" awards for construction contracts, as well as incentive clauses, for certain infrastructure projects.

The Executive Budget originally proposed to eliminate the sunset on these provisions. The Budget also originally extended the authorization to use design-build and alternative methods of procurement for certain projects to all counties, and to cities, towns and villages with populations greater than 50,000. However, this expansion is removed in the 30-day amendments. The amendments also revise the provision related to the existing sunset of such provisions; rather than being eliminated, the sunset would be extended to December 9, 2017. The amendments also include a requirement that Project Labor Agreements (PLAs) be included in the Requests For Proposals for capital projects using design-build contracts estimated to cost in excess of \$10 million. However, the amendments also provide an exemption if the State entity can determine, based on a feasibility study, that a PLA would not result in savings of at least 5 percent and that a PLA would not provide any other benefits, such as ensuring the best work at the lowest possible price or preventing fraud and favoritism.

The Executive's 30-day amendments include a proposal that would authorize the creation of a privately-financed public-private partnership involving a New York State agency and a public authority. The proposal would permit DOH to negotiate a contract for the design, construction, financing, operation and maintenance, or any combination of these functions, for a new consolidated laboratory that could serve a number of different State or local departments, agencies, institutions and public authorities, as well as, potentially, private entities.

The proposal is similar in some ways to the design-build authorization that was enacted in 2011 for the State's transportation and environmental agencies, but breaks new ground in certain areas. The State might not directly finance the new facility. Instead, the private sector could be responsible for project financing. Any debt issued by the contractor pursuant to the agreement would not be considered State-Supported debt. As a result, such debt would not be subject to the State's statutory debt cap or certain other provisions of the State Finance Law, including provisions that place a maximum term of 30 years on State-Supported debt and the requirement that debt be issued for capital purposes only.

DASNY is authorized to act as agent and project advisor for DOH. The proposed language appears to limit oversight by the Office of the State Comptroller and other State agencies with respect to the project agreement and agreements between non-State parties, thus limiting accountability and important checks and balances. The project-related agreements will need to include measures to protect the public's interest that have been recommended by the Office of the State Comptroller in previous reports on public-private partnerships.⁷ The proposal does not appear to impose any financial limits on the size or scope of the project.

⁷ Details of the Comptroller's recommendations regarding P3s are contained in *Controlling Risk Without Gimmicks: New York's Infrastructure Crisis and Public-Private Partnerships* and *Private Financing of Public Infrastructure: Risks and Options for New York State*, released by the Office of the State Comptroller in January 2011 and June 2013, respectively, which are available at www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf and www.osc.state.ny.us/reports/infrastructure/p3_report_2013.pdf, respectively.

Campaign Finance Reform

The Executive Budget includes a public campaign finance system modeled after New York City's, where contributions up to \$175 are matched 6 to 1, beginning with the 2016 elections. The proposed Budget includes language authorizing the transfer of Abandoned Property revenue to a new Campaign Finance special revenue fund (though the Financial Plan does not show any receipts or disbursements from the Fund in SFY 2014-15). The Budget also proposes the creation of a new tax check-off program for the Campaign Finance Fund, proposes to reduce the annual limit on certain aggregate campaign contributions, and restricts the personal use of campaign funds. Many organizations focused on reforming New York's electoral process point to a public campaign finance system as a key step forward.

Ethics

The Executive Budget includes a number of provisions related to bribery and corruption, including increasing or creating penalties for various instances of public officer misconduct. In addition, language is added to a number of appropriations and reappropriations related to several economic development, transportation and other programs to require certain attestations from Senate and Assembly members as to the use of such funds. The Executive Budget also provides \$5.3 million for 11 new positions in the State Board of Elections for Election Law enforcement.

Local Governments

According to DOB, local governments including New York City would benefit from \$35 million from various sales tax and income tax proposals, \$5.0 million from higher downstate transit assistance and \$5.1 million in savings from preschool special education reforms. Outside of school aid and unallocated competitive grants, the overall impact of the proposed Budget on counties, towns, villages and other cities is neutral or slightly negative.

Most local government aids are held constant from the SFY 2013-14 Budget allocations:

- Unrestricted Aid to Municipalities (AIM) funding to cities, towns and villages is continued at \$715 million, its level since SFY 2011-12. New York City will continue to receive no AIM allocation.
- Video Lottery Terminal (VLT) Impact Aid remains at \$27.2 million total, with \$19.6 million for Yonkers.
- Small Government Assistance Aid remains at a total of \$0.2 million for Essex, Franklin and Hamilton counties.

Decreases in funding include:

- Efficiency Incentive Grants for Erie County and the City of Buffalo (\$2.7 million) are reduced by 51 percent in local fiscal years ending in 2015.

- Prior year legislative additions of \$1.6 million in funding for villages, Miscellaneous Financial Assistance Aid and Village Per Capita Grants would be eliminated.

The Executive Budget proposes continued funding to support local government efficiency through grants and credits, including:

- Citizen Empowerment Tax Credits (\$35 million) and Local Government Efficiency Grants (\$4 million) to offset the costs of planning and implementing consolidations and shared service actions.
- Grants to be awarded by the Financial Restructuring Board through the Local Government Performance and Efficiency Program (\$80 million; \$40 million in new funds, coupled with \$40 million reappropriated from the current year).
- Continued investment in a single public safety communications network connecting all of the State's emergency responders (\$75 million in SFY 2014-15 for counties).

Other proposed changes with DOB's estimated fiscal impacts include the following:

- Madison and Oneida counties would each receive up to \$1.5 million to mitigate interim revenue shortfalls if the Oneida Indian Nation does not pay property taxes owed.
- Transit assistance is increased to New York City, Suffolk, Nassau, Rockland and Westchester counties (\$5.0 million).
- Reforms to preschool special education reimbursement policies, discussed in the Education section of this report, are projected to net counties and New York City a total of \$5.1 million.
- Various tax-related changes are proposed, including provisions that would increase sales taxes by less than \$1 million statewide and an extension of an existing exemption on alternative fuels.

DOB estimates that certain proposed reforms will have no fiscal impact on local governments, including:

- Extending previously authorized flexibility in local government procurement, such as the authority to "piggyback" on several federal contracts, county public works contracts, and State agency contracts other than Office of General Services contracts, for an additional six years. The Executive Budget initially extended previously State-approved procurement methods for infrastructure construction to certain municipalities, but this proposed authorization is removed in the 30-day amendments (see the Design-Build section of this report for more information).

Property Tax Proposals

The Executive Budget proposes a temporary, refundable "property tax freeze" credit in the amount of the annual increase in property taxes and a new expanded property tax circuit breaker phased in over three years. Both are tied to local government compliance with the statutory property tax cap on school districts and municipalities enacted in 2011.

Property Tax Freeze

In year one of the property tax freeze (SY 2014-15 for school districts and the Big 4 cities of Rochester, Syracuse, Yonkers and Buffalo; the fiscal year beginning in 2015 for all other local governments), the State would provide tax rebates to homeowners with qualifying incomes of \$500,000 or less living in a jurisdiction that stays within the property tax cap. Rebates would be intended to offset local property tax increases during the year.

For homeowners to get the tax credit in the second year (SY 2015-16 for school districts and the Big 4 cities; the fiscal year beginning in 2016 for all others), school districts and local governments must continue to stay within the tax cap and develop plans for sharing or consolidating services and eliminating duplication and overlap that result in a specified minimum savings. These efficiency plans may require cost savings analyses and related studies to develop, must be coordinated by either the county (or another lead unit, for municipalities within) or the largest school district in each BOCES district (for independent school districts), and be submitted to the Department of State (DOS). Although there is no new funding for municipalities and school districts tied to this initiative, existing funds from the Citizens Reorganization Empowerment Grants, Citizen Empowerment Tax Credits, and the Local Government Efficiency Grants provide for the study, creation and implementation of consolidations, dissolutions and shared service actions, and may provide additional annual aid to the participating municipalities.

There is no provision in the bill for formal review of the required, fully implemented plan (in SY 2016-17) to assess compliance with and success in achieving the planned savings, although failure to fully implement the plan could result in withholding of State aid to the local government or school district. New reporting requirements, however, would require local government and school district officials to make certifications as to the projected implementation of the efficiency plan to the DOS, to submit parcel-level tax bill information to the Department of Taxation and Finance, and to submit both proposed and enacted budgets to the Office of the State Comptroller.

The property tax freeze credit is expected to cost the State \$400 million in SFY 2014-15 (year one for school districts), \$976 million in SFY 2015-16 (year one for local governments and year two for school districts), and \$475 million in SFY 2016-17 (year two for local governments). New York City homeowners would not be eligible for this credit.

Property Tax Circuit Breaker

The Executive Budget proposes to create a new enhanced property tax circuit breaker, in the form of a refundable income tax credit, which is targeted to help low-income and middle-class homeowners who pay a relatively high portion of their income to property taxes. Homeowners would receive a percentage of property taxes paid, up to \$500 per home in taxable years beginning 2014, \$750 in 2015, and \$1,000 thereafter. The amount of credit is based on a sliding scale of income, phasing out between \$120,000 and \$200,000 in household gross income, and the percentage of income paid to real property taxes.

The credit would be available statewide. In areas outside of New York City, only residents of jurisdictions that adhere to the property tax cap will qualify for the enhanced credit. The existing State property tax circuit breaker will remain in place regardless of tax cap compliance. The Executive Budget estimates costs to the State of \$200 million in SFY 2015-16, \$525 million in SFY 2016-17, and \$1 billion annually thereafter.

New York City

According to DOB, the SFY 2014-15 Executive Budget benefits New York City by \$263 million in City Fiscal Year (CFY) 2015, \$624 million CFY 2016 and \$1 billion in CFY 2017 (see Figure 21). The benefit is largely the result of projected incremental increases in education aid, which are consistent with the City’s February Financial Plan.

Figure 21

Impact of the SFY 2014-15 Executive Budget on New York City
(in millions)

	CFY 2015	CFY 2016	CFY 2017
Education Aid	\$233.8	\$563.5	\$972.5
All Other Actions	29.3	60.5	42.5
Total Impact	\$263.1	\$624.0	\$1,015.0

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

Other Executive Budget proposals of particular interest to New York City include additional education aid in support of Universal Prekindergarten and the proposed Smart Schools Bond Act.

Metropolitan Transportation Authority

The SFY 2014-15 Executive Budget provides the Metropolitan Transportation Authority (MTA) with \$4.4 billion in operating assistance from the General Fund and dedicated taxes, \$85 million more than the current State fiscal year and \$13 million more than anticipated by the MTA.

The Executive Budget would use \$40 million from the Metropolitan Mass Transportation Operating Assistance account to fund debt service on bonds issued by the State for MTA projects, resources that could have otherwise gone to the MTA.

Public Authorities

The Executive Budget estimates that \$5.2 billion in capital projects will be financed using public authority bond proceeds in SFY 2014-15. The Budget increases bonding caps for 19 State-Supported programs, and adds a new State-Supported bonding cap for the

Capital Restructuring Financing Program, which would support capital projects for the State's health care system.

Figure 22

SFY 2014-15 Change in State-Supported Public Authority Bond Caps
(in millions of dollars)

Program	SFY 2013-14	SFY 2014-15	Executive
	Cap	Proposed Cap	Change from Current Cap
SUNY Educational Facilities	10,422.0	10,932.0	510.0
SUNY Upstate Community Colleges	663.0	695.1	32.1
CUNY Education Facilities	6,853.2	7,126.8	273.6
Library Facilities	112.0	126.0	14.0
NY-SUNY 2020	220.0	330.0	110.0
Environmental Infrastructure Projects	1,265.8	1,398.3	132.5
Hazardous Waste Remediation	1,200.0	1,300.0	100.0
Water Pollution Control	735.0	770.0	35.0
Division of State Police	133.6	149.6	16.0
State Buildings and Other Facilities	220.8	317.8	97.0
Prison Facilities	7,133.1	7,148.1	15.0
Homeland Security	67.0	204.0	137.0
Youth Facilities	429.5	465.4	35.9
Office of Information Technology Services	87.7	182.4	94.7
Housing Capital Programs	2,844.9	2,999.1	154.2
Economic Development Initiatives	1,003.6	2,195.3	1,191.7
Mental Health Facilities	7,366.6	7,435.8	69.2
Capital Restructuring Program	-	1,200.0	1,200.0
Consolidated Highway Improvement Program (CHIPs)	7,591.9	8,080.7	488.9
Transportation Initiatives	240.0	465.0	225.0
Total	48,589.7	53,521.4	4,931.7

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

As shown in Figure 22, the proposed net increase in bonding authorizations for public authorities is \$4.9 billion, an increase of 10 percent over the prior year and 36 percent over the change enacted in SFY 2013-14. In addition, the proposal amends the bond cap language for several existing caps, expanding the authorized projects eligible for funding under the cap.

As shown in Figure 23, the Executive Budget authorizes \$45.9 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. Additional General Fund relief is provided by transferring \$40 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.

Figure 23

SFY 2014-15 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
New York Power Authority	23.0 *
Dormitory Authority of the State of New York	22.0
New York State Energy Research Development Authority	0.9
Total to General Fund	45.9
Transfers to Various Housing Funds:	
State of New York Mortgage Agency	75.4
Transfers to the General Debt Service Fund:	
MTA - Metropolitan Mass Transportation Operating Assistance Fund (MMTOA)	40.0
Transfers to the Health Care Reform Act (HCRA) Resources Fund:	
Dormitory Authority of the State of New York	7.0
Total from Public Authorities	168.3

Source: Division of the Budget

* The total transfer amount proposed for the New York Power Authority is \$90 million, however, only \$23 million is anticipated as a receipt to the General Fund and is, therefore, included in the Financial Plan. The remaining \$67 million, to be used for the Open for Business initiative, the NYS Innovation Venture Capital Fund and the Dunkirk Power Plant repowering is not included in the Financial Plan and is considered off-budget.

The Executive Budget also includes the transfer of excess State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) reserves totaling \$75.4 million to the Housing Trust Fund Corporation (HTFC) or the Housing Finance Agency (HFA), to fund the Rural Rental Assistance program, rehabilitation of Mitchell-Lama housing projects, the Neighborhood Preservation Program, the Rural Preservation Program, the Rural and Urban Community Investment Fund Program, the Low Income Housing Trust Fund Program and the Homes for Working Families Program. In addition, the proposal anticipates a \$7.0 million transfer to the HCRA Resources Fund from DASNY.

A sweep of up to \$90 million in funds from the New York Power Authority (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."⁸ The Executive indicates that \$50 million would be used to support the Open for Business initiative, \$15 million for the New York State Innovation Venture Capital Fund, and \$2 million for the Dunkirk Power Plant repowering. A transfer of \$23 million is anticipated to benefit the General Fund

⁸ See S.6355/A.8555 Public Protection and General Government, Part I, Section 19(i).

directly. In addition, NYPA will provide \$10 million for the expansion of Strategic Fuel Reserves Statewide. Also, according to the Executive, NYPA funding is anticipated for the new Renewable Heat NY Program for eligible government buildings.

The Executive Budget proposes strengthening toll violation enforcement provisions for the New York State Thruway Authority, the New York State Bridge Authority, the Metropolitan Transportation Authority and the Port Authority of New York and New Jersey.

In the SFY 2012-13 Enacted Budget, DASNY was authorized to enter into design and construction management agreements with DEC and Parks. The Executive Budget proposes extending the sunset date of these provisions by one year to allow current agreements to continue beyond April 1, 2014.

In addition, in the 30-day amendments, the Executive adds authorization for DASNY to act as an agent and project advisor for the Department of Health to undertake a consolidated laboratory project.

Other proposals related to public authorities in the Executive Budget include:

- provisions to require retail gas outlets in upstate New York to have emergency back-up power, and authorization for NYSERDA to provide grants for wiring and purchasing alternate-generated power sources and to provide access to generators;
- a provision to extend for two years DASNY's ability to create subsidiaries for the purposes of limiting liability when a borrower has defaulted on a loan agreement or mortgage;
- extension for one year of UDC's authorization to administer the Empire State Economic Development Fund and UDC's power to grant general loans; and
- anticipation of \$200 million in federally funded projects for the Port Authority of New York and New Jersey.

21-Day and 30-Day Amendments

On February 11, 2014 DOB released preliminary amendments to the Executive Budget and on February 20, subsequent amendments were released. Revisions to the SFY 2014-15 Financial Plan and Capital Program and Financing Plan were not provided with either set of changes. However, the Division of the Budget has indicated that updates are likely.

21-Day Amendments

Appropriation changes include amendments that are mostly technical in nature. Appropriation changes in the Department of Health would separately identify non-personal service spending for each individual program from a single line of appropriation, to show spending for each program.

Article VII amendments propose to modify the composition of the Health Research Science Board. Other proposed amendments would require Senate confirmation of the Chief Enforcement Counsel in the State Board of Elections within 30 days of nomination by the Executive, and provide for a \$3.7 million transfer from the Medicaid Recoveries Account to the General Fund.

Changes in the Revenue bill include clarifying modifications to the Executive's proposal to amend the corporate tax law, the resident trust loophole, and the estate tax, as well as changes to the Brownfield Cleanup Program and the real property tax freeze proposal. The amendments also add qualified agricultural and mining businesses to the definition of qualified New York manufacturers with respect to eligibility for certain reduced tax rates, and revise the START-UP NY Program to limit the refundable credit for the excise tax on telecommunication services paid by participating companies to services provided within a tax-free New York area.

The Executive proposes new legislation to create a program to promote procurement opportunities for enterprises authorized to do business in New York State and at least 51 percent owned by a veteran or veterans who were disabled in military service. The bill creates the Division of Service-Disabled Veterans' Business Development in the Office of General Services, and requires the agency to develop a comprehensive statewide plan and operational guidelines to promote service-disabled veteran-owned businesses, including identifying and certifying eligible businesses and reaching a participation goal for service-disabled veterans of 5 percent of State contracts. The agency is also charged with assisting such businesses in obtaining opportunities to participate in the procurement of goods and services by the State. The bill would allow State agencies and certain public authorities to set aside a portion of their contracting business in order to achieve the objectives of the program.

30-Day Amendments

The Executive proposes Article VII amendments to establish a cap of 30 percent on the cost of rent that people with clinical or symptomatic HIV illness or AIDS living in the City of New York receiving public assistance would have a direct obligation to pay. The program would require New York City to submit a plan for approval by OTDA and DOB before any funds are expended for this program.

Proposed amendments restore the Office of the State Comptroller's contract review authority in certain cases where the original Executive Budget would have removed such authority. The 30-day amendments also modify the proposal relating to analysis of the accuracy of Medicaid eligibility determinations, as well as implementation of the recently approved federal Medicaid waiver, by prohibiting such contracts from being extended beyond March 2017 and March 2019, respectively. However, the Office of the State Comptroller's contract review authority would still be bypassed.

The 30-day amendments extend through March 2017 provisions that require hospitals to achieve a total of \$51 million annually in Medicaid savings by reducing avoidable admissions. Amendments also authorize the State to implement an Affordable Care Act program that provides additional federal funds to expand access to community-based Medicaid services, broaden the definition of provider participation in managed care programs for people with developmental disabilities, and authorize development of a training curriculum to teach home health aides how to administer medications to patients.

The Executive's 30-day amendments adjust the appropriation language associated with the New York Genome Center. The \$55.8 million appropriated to UDC for the Genome Center in the original Executive proposal stipulates that no more than \$27.9 million can be disbursed until a private funding match of \$55.8 million is met. However, the amount of this funding match is reduced to \$27.9 million in the 30-day amendments.

The Executive Budget includes \$24 million in capital appropriations for the Economic Transformation Program to aid communities affected by the pending closure of correctional and juvenile facilities in SFY 2014-15. However, the 30-day amendments remove the requirement that funding would be provided pursuant to plans developed by UDC in consultation with the REDCs.

A new provision is added to authorize a demonstration program for a speed violation monitoring system using cameras in school zones in the counties of Nassau and Suffolk.

Also included in the 30-day amendments is an extension of the temporary exemption from sales and use taxes for commercial office space, as well as the New York City property tax abatement program for certain commercial properties in lower Manhattan. Current eligibility requirements expired on September 1, 2013. The proposal would extend the eligibility date to September 1, 2015.

The 30-day amendments also extend eligibility for an energy services rebate for occupants of certain commercial buildings in New York City. Current eligibility requirements expired on July 1, 2013. The proposal would extend the eligibility date to

July 1, 2015. Occupants of residential space, manufacturers, hospitals, hotels and occupants of retail space are not eligible for the rebate.

The amendments also change the definition of an Upstate manufacturer for purposes of the zero tax rate on entire net income, so that receipts received from the Metropolitan Commuter Transportation District will not disqualify taxpayers as long as they do not own property or have payroll within the district. Qualified manufacturers who lease their property and directly pay the tax will be able to use the real property tax credit. In addition, there are a number of technical corrections to the proposal to combine the corporate franchise tax and the bank tax.

The 30-day amendments to the Budget include a proposal that would authorize the creation of a privately-financed public-private partnership involving a New York State agency and a public authority. The proposal would permit the Department of Health to negotiate a contract for the design, building, financing, operation and maintenance, or any combination of these functions, for a new consolidated laboratory that could serve State or local departments, agencies, institutions and public authorities, as well as, potentially, private entities. The proposal authorizes the development of the facility to proceed with limited oversight by the Office of the State Comptroller and other agencies.

Appropriation changes proposed in the 30-day amendments include the following:

- \$19 million for SUNY for critical maintenance projects.
- \$9 million for OTDA related to the proposed program to establish a cap of 30 percent on the rent costs for eligible people with clinical or symptomatic HIV illness or AIDs living in the City of New York.
- \$1.3 million for DOH for family planning providers.
- \$1.1 million for Homeland Security and Emergency Services for emergency preparedness and related costs.
- \$449,000 for DOH for cancer services providers.

Debt and Capital

The SFY 2014-15 Executive Budget proposes increased bonding authorization totaling approximately \$6.9 billion, including a \$2 billion Smart Schools Bond Act that will require voter approval. The Bond Act would provide voters with the opportunity to have input on major borrowing decisions that will impact them financially.

While the Executive Budget includes a proposal for new voter approved debt, the growth in debt and debt service anticipated from the Executive Budget is almost entirely due to the use of public authority debt, both on-budget and off-budget. Statutory debt capacity remains limited in the mid-years of the Five-Year Capital Program and Financing Plan, but is projected to begin to increase in the out-years. Expenditures for the CHIPs and Marchiselli transportation aid programs are proposed to be put back on-budget, making aid to local governments more transparent and accountable.

Debt Outstanding and Debt Service

In the SFY 2014-15 Executive Budget Five-Year Capital Program and Financing Plan (Capital Plan), DOB projects that \$25.9 billion in new State-Supported debt will be issued over the life of the Capital Plan. This compares to \$19.7 billion in retirements over the life of the Plan, resulting in a projected increase in State-Supported debt of \$6.2 billion or 11.7 percent. Approximately 82.8 percent of this increase is associated with education purposes, including the \$2 billion Smart Schools Bond Act proposal. Average annual State-Supported debt issuance is \$5.2 billion over the life of the proposed Capital Plan, compared to \$4.8 billion in the current Five-Year Capital Program and Financing Plan.

Significant borrowing over the past decades, coupled with recent weak economic conditions, has depleted much of the State's statutory 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 reduced Personal Income projections. The decline of Personal Income in 2009, the first decline since 1938, significantly affected current and future capacity.

In November 2013, DOB projected that by the end of SFY 2016-17, there would be only \$720 million in available capacity for additional State-Supported debt. These projections have been updated in the Executive's proposal, with projected available capacity declining to just \$106 million at the end of SFY 2016-17. 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 of new State-Supported debt and retirement of State-Supported debt issued after April 1, 2000.

Given the State's limited resources, shrunken statutory debt capacity and 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 definition of State-supported debt and the debt included within the statutory cap on outstanding debt do not include approximately \$12.6 billion in additional debt projected to be outstanding at the end of SFY 2013-14 that was issued after enactment of the Debt Reform Act of 2000. This debt was authorized outside the narrow definition of State-Supported debt included in the Debt Reform Act. Much of that borrowing was undertaken 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.⁹

The proposed Capital Plan projects that State-Supported debt outstanding will increase by approximately \$6.2 billion, or 11.7 percent, from SFY 2014-15 through SFY 2018-19. 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. Projections for new debt issuance for SUNY dormitories are only available through SFY 2017-18 and for the New York City Transitional Finance Authority (TFA) Building Aid Revenue Bonds (BARBs) through SFY 2017-18. Therefore, the growth figures cited above for State-Funded debt may be understated.

Figure 24

Projected State-Funded Debt Outstanding
(in thousands of dollars)

	SFY 2013-14	Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
		SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2014-15 through SFY 2018-19	SFY 2014-15 through SFY 2018-19
General Obligation	3,528,916	3,515,661	4,328,862	4,369,969	4,405,985	4,416,823	25.2%	887,907
Other State-Supported Public Authority	49,335,620	51,275,847	52,840,253	53,770,153	53,805,559	54,658,727	10.8%	5,323,107
State-Supported	52,864,536	54,791,508	57,169,115	58,140,122	58,211,544	59,075,550	11.7%	6,211,014
SUNY Dormitories	317,841	394,562	560,393	716,139	916,501	900,319	183.3%	582,478
TSFC	2,080,095	1,733,550	1,369,130	985,765	583,055	-	-100.0%	(2,080,095)
TFA BARBs	7,864,931	8,861,006	9,734,280	10,505,713	11,225,724	11,012,139	40.0%	3,147,208
STARC	2,063,315	1,996,545	1,926,475	1,853,680	1,776,525	1,695,365	-17.8%	(367,950)
MBBA	281,315	262,650	233,670	203,375	171,605	138,605	-50.7%	(142,710)
Total Other State-Funded	12,607,497	13,248,313	13,823,948	14,264,672	14,673,409	13,746,428	9.0%	1,138,931
Projected Outstanding (State-Funded)	65,472,033	68,039,821	70,993,063	72,404,794	72,884,953	72,821,978	11.2%	7,349,945

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
 Note: Figures reflect SFY 2013-14 end through SFY 2018-19 end. These projections incorporate issuance projections from the New York City Fiscal Year 2015 Preliminary Budget released on February 12, 2014. The planned issuance schedule will require either legislation to increase the current \$9.4 billion cap or other actions to stay within the cap. Totals may not add due to rounding.

⁹ 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); Building Aid Revenue Bonds issued by New York City's Transitional Finance Agency (TFA BARBs) and new debt issued by the Dormitory Authority of the State of New York (DASNY) under the new SUNY dorm financing program authorized in the SFY 2013-14 Enacted State Budget. Not all State-Funded debt appears in the Capital Program and Financing Plan; some is illustrated separately in the tables in this section of the report. See the Comptroller's January 2013 report, *Debt Impact Study*, for more information on State-Funded debt.

The New York City TFA plans to issue approximately \$3.9 billion in new Building Aid Revenue Bonds (BARBs) through SFY 2017-18 and DASNY is expected to issue nearly \$626 million for SUNY dormitories through SFY 2017-18, bringing the projected five-year issuance level of State-Funded debt to \$30.5 billion, representing an increase of \$269 million associated with the current Capital Plan. Bonds issued by the Tobacco Settlement Financing Corporation are scheduled to be fully retired in SFY 2017-18.

Figure 25

Projected State-Funded Debt Issuance – SFY 2013-14 through SFY 2018-19
(in thousands of dollars)

	SFY 2013-14	Proposed Capital Plan					Total Capital Plan
		SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2014-15 through SFY 2018-19
General Obligation	337,581	305,526	1,120,215	414,540	391,845	341,845	2,573,971
Other State-Supported Public Authority	3,812,915	5,268,372	5,042,272	4,492,255	3,907,978	4,662,232	23,373,109
Total State-Supported Issuances	4,150,496	5,573,898	6,162,487	4,906,795	4,299,823	5,004,077	25,947,080
SUNY Dormitories	317,841	78,774	170,494	164,368	212,297	-	625,933
TFA BARBs	1,800,000	1,100,000	1,000,000	928,000	907,000	-	3,935,000
Total State-Funded Issuances	6,268,337	6,752,672	7,332,981	5,999,163	5,419,120	5,004,077	30,508,013

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
Note: Issuance projections for Transitional Finance Authority Building Aid Revenue Bonds are only available through SFY 2017-18. Totals may not add due to rounding.

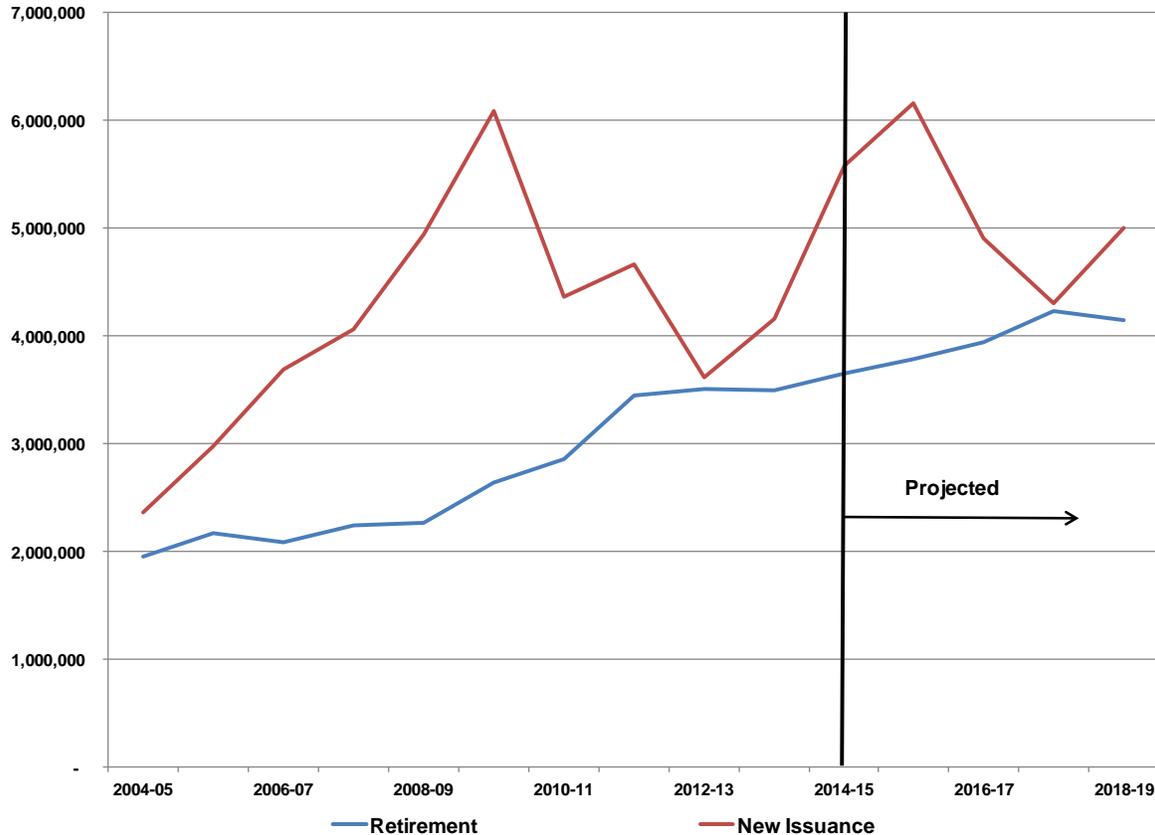
Figure 26 illustrates the actual and projected issuance and retirement of State-Supported debt over the last 10 years and the next five (the latter representing the life of the proposed Capital Plan). Average annual State-Supported debt issuance has been \$4.1 billion over the ten year period from SFY 2004-05 through SFY 2013-14, compared to average annual State-Supported debt retirement of \$2.7 billion over the same time frame.

Average annual State-Supported debt issuance is projected to be \$5.2 billion over the five year period from SFY 2014-15 through SFY 2018-19, compared to projected average annual State-Supported debt retirements of \$3.9 billion over the same time frame. As a result, the gap between issuance and retirement is projected to decline slightly over the proposed Capital Plan period, compared to the previous decade.

The significant decline in issuances from the high point of SFY 2009-10 through SFY 2012-13 reflects, in part, restraint associated with declining debt capacity. In the SFY 2012-13 Enacted Budget Capital Program and Financing Plan, DOB projected \$5.4 billion in new issuances for SFY 2012-13. Only \$3.6 billion was actually issued, thus preserving some available debt capacity.

Figure 26

**Actual and Projected Issuance and Retirement of State-Supported Debt
SFY 2004-05 through SFY 2018-19**
(in thousands of dollars)



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 \$27.9 billion in debt, or 91.6 percent of the total issuances, as compared to projected issuances of \$2.6 billion, or 8.4 percent of total issuances, in voter-approved General Obligation bonds, including the entire \$2 billion from the proposed Smart Schools Bond Act.

Under the proposed Capital Plan, State-Funded debt service is expected to exceed \$8.7 billion by SFY 2018-19. State-Funded debt service is anticipated to grow approximately 20.5 percent between SFY 2013-14 and SFY 2018-19, or 3.8 percent annually on average. (A sharp increase of 12.2 percent is projected for SFY 2015-16, followed by smaller increases in each of the remaining years of the plan.) State-Supported debt issued by public authorities makes up approximately 75 percent of the total growth in State-Funded debt service.

The proposed Capital Plan indicates that State-Supported debt service is projected to decline in SFY 2014-15 by 6.5 percent from SFY 2013-14. This is largely due to a \$318

million debt prepayment planned to be made in SFY 2013-14 that would otherwise be made in SFY 2014-15. Prepayments have the effect of making year-over-year changes in spending appear smaller because the base year is artificially inflated and the following year is artificially lowered. If this payment were made as initially anticipated in SFY 2014-15, State-Supported debt service would have increased by 4.3 percent, as opposed to the 6.5 percent decline as reported. A prepayment was also made in SFY 2012-13.

Figure 27

Projected State-Funded Debt Service – SFY 2013-14 through SFY 2018-19
(in thousands of dollars)

	Proposed Capital Plan						Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2013-14 through SFY 2018-19	SFY 2013-14 through SFY 2018-19
General Obligation	475,484	464,169	456,738	562,819	554,449	538,230	13.20%	62,746
Other State-Supported Public Authority	5,572,226	5,192,824	5,877,029	6,181,224	6,500,374	6,682,158	19.92%	1,109,932
2014-15 Capital Plan (State-Supported)	6,047,710	5,656,993	6,333,767	6,744,043	7,054,823	7,220,388	19.4%	1,172,678
SUNY Dorms (All)	134,409	146,865	153,814	158,882	160,938	175,251	30.4%	40,842
TSFC	396,581	400,423	447,488	399,294	398,022	247,909	-37.5%	(148,672)
TFA BARBs	410,785	496,440	598,506	675,748	743,520	808,912	96.9%	398,127
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	27,593	31,211	40,780	40,966	40,986	40,964	48.5%	13,371
Total Other State Funded	1,139,368	1,244,939	1,410,587	1,444,890	1,513,466	1,443,036	26.7%	303,668
Projected Debt Service (State-Funded)	7,187,078	6,901,932	7,744,354	8,188,933	8,568,289	8,663,424	20.5%	1,476,346

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
 Note: These projections incorporate issuance projections from the New York City Fiscal Year 2015 Preliminary Budget released on February 12, 2014. Totals may not add due to rounding.

Debt Caps Under the Debt Reform Act of 2000

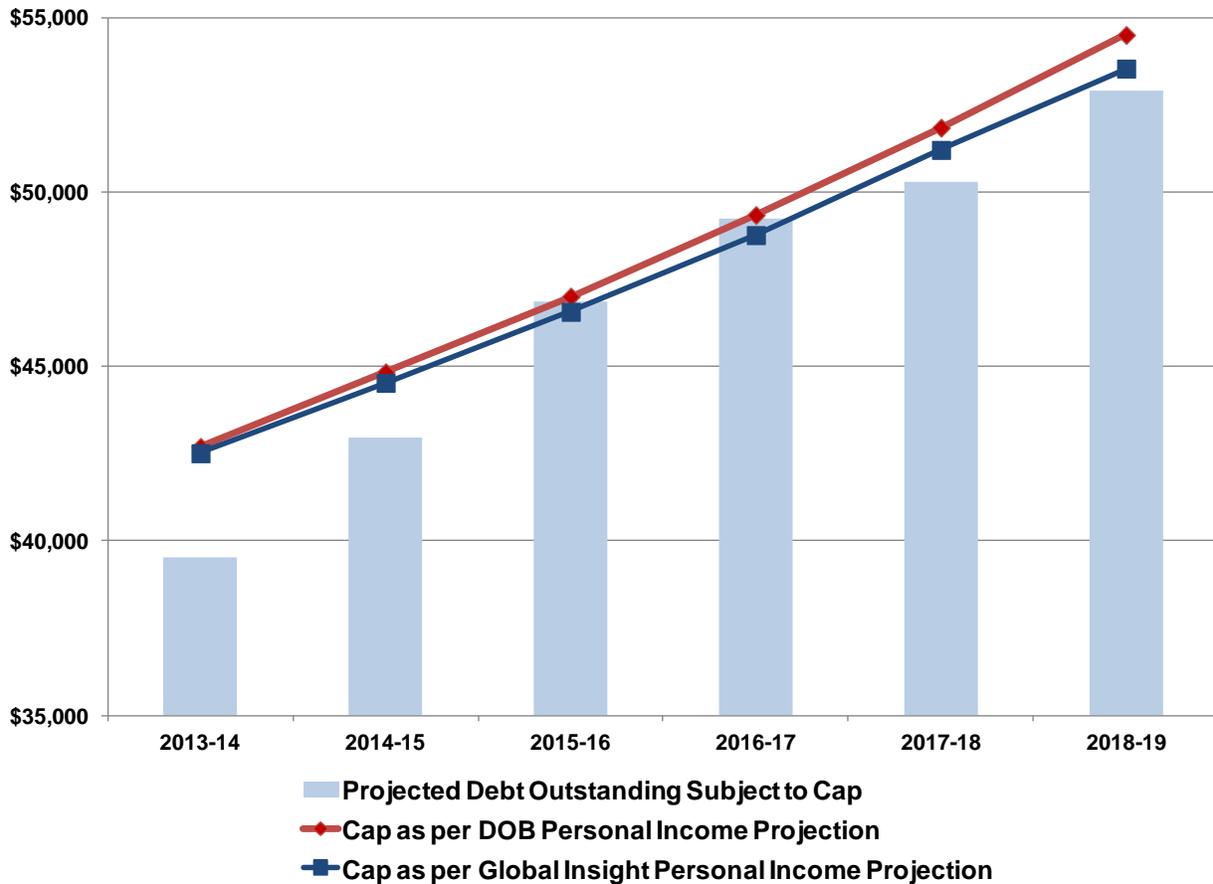
Although DOB has increased its Personal Income projections for SFY 2013-14 and SFY 2014-15, projections for SFY 2015-16 through SFY 2017-18 were lowered from previous projections. The projection for SFY 2018-19 is new. DOB projects that the State will remain within the statutory cap on State-Supported debt outstanding over the life of the Plan. DOB currently projects that there will be approximately \$3.2 billion of available debt capacity at the end of SFY 2013-14, approximately \$786 million higher than projected in November 2013. However, projected capacity will decline to approximately \$106 million at the end of SFY 2016-17 (as compared to \$720 million projected in November 2013), before rising to approximately \$1.6 billion at the end of SFY 2018-19.

DOB projects that Personal Income will increase annually at an average rate of 5 percent through 2018. With this projected growth, along with the projected issuance and retirement of State-Supported debt, DOB expects that the level of debt outstanding will remain within the statutory cap within the next five years. Figure 28 illustrates the impact

that different projections for Personal Income have on the level of statutory debt capacity. IHS Global Insight projects Personal Income will increase an average of 4.7 percent annually. If the IHS Global Insight projections are used, the cap on debt outstanding would be breached in SFY 2015-16 by \$281 million, absent other actions.

Figure 28

**Debt Subject to Cap:
Comparison of Projections and Impact on Debt Caps**
(in millions of dollars)



Sources: Division of the Budget; IHS Global Insight; Office of the State Comptroller

Capital Program and Financing Plan¹⁰

The Executive Budget’s proposed SFY 2014-15 Five-Year Capital Program and Financing Plan includes \$46.8 billion in projected capital spending, of which \$4.3 billion would be spent off-budget (whereby bond proceeds are expended directly by public authorities, outside the Financial Plan and the Statewide Financial System). The

¹⁰ 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.

Executive proposes moving the Consolidated Highway Improvement Program and the Marchiselli Program “on-budget” so that such capital spending will be counted within the Financial Plan. This reduces the amount of annual “off-budget” spending directly from bond proceeds by public authorities (approximately \$463 million is projected for SFY 2013-14 for these programs), and increases transparency and accountability.

Total spending in the proposed Capital Plan is \$1.1 billion higher than spending in the current Capital Plan. Overall, capital spending is projected to increase in SFY 2014-15 and SFY 2015-16, decline annually through SFY 2017-18, and then increase again in year five of the Plan. The Capital Plan includes \$1.2 billion in spending for “core capital investments,” although there are no appropriations or bonding authorizations in the Executive or Proposed Capital Plan for this purpose. The \$1.2 billion for “core capital investments” is approximately \$700 million lower than the amount included in the current Capital Plan for this purpose. This planned spending and bond issuance is counted under projected debt caps.

Appendix C illustrates the differences between annual spending anticipated in the proposed Capital Plan and the current Capital Plan.

Financing Sources

Figure 29 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years.

Figure 29

Financing Sources – SFY 2013-14 through SFY 2018-19 (in millions of dollars)

	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	Average 2014-15 through 2018-19
State Pay-as-You-Go (PAYGO)	2,228	2,313	2,381	2,389	2,331	2,353	2,353
Federal PAYGO	1,865	1,679	1,348	1,299	1,310	1,335	1,394
General Obligation Bonds	338	306	1,120	415	392	342	515
Authority Bonds	4,999	5,160	5,446	5,079	4,731	5,121	5,108
Total Capital Funding	9,430	9,458	10,296	9,181	8,764	9,150	9,370
Less Federal Funding	(1,865)	(1,679)	(1,348)	(1,299)	(1,310)	(1,335)	(1,394)
State Capital Funding	7,565	7,779	8,947	7,882	7,454	7,816	7,976
State PAYGO as Percentage of State Funding	29.45%	29.74%	26.61%	30.30%	31.27%	30.11%	29.6%
GO as Percentage of State Funding	4.46%	3.93%	12.52%	5.26%	5.26%	4.37%	6.3%
Authority Bonds as Percentage of State Funding	66.08%	66.34%	60.87%	64.44%	63.48%	65.52%	64.1%

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

PAYGO

Over the life of the Capital Plan, DOB projects that State pay-as-you-go (PAYGO) financing will average approximately 29.6 percent of total State-funded capital financing, not including federal funding. This is slightly lower than the average over the last ten years, of 31.1 percent.

New Debt Authorizations

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by approximately \$6.9 billion, including borrowing for new capital initiatives and ongoing capital programs.

Smart Schools Bond Act

The Executive proposes a \$2 billion Smart Schools Bond Act. This is the first bond act to be proposed by the Executive since the \$2.9 billion Rebuild and Renew Transportation Bond Act of 2005. The new funding would be used to finance enhanced technology in schools and communities including high speed broadband and other classroom technology. Funds could also be used to finance additional classroom space necessary for the proposed universal prekindergarten initiative. Disbursement of funds is planned over a four year period beginning in SFY 2015-16.

The proposal includes language requiring the use of “blended” periods of useful life for eligible projects when calculating debt service payments on bonds to be issued. The current legal framework provides flexibility to the Comptroller, as the issuer of the State’s G.O. bonds, to make the determination regarding which method to use when calculating debt service schedules and the final maturity for a given bond issuance. Depending on the mix of assets, the amount of bonds being financed in each asset class, and the range between short and long term interest rates at the time of issuance, mandating the use of the weighted average method could result in higher overall borrowing costs for the State’s taxpayers even though annual debt service payments in the early years may be less.

Other Debt Authorizations

New debt authorizations totaling \$4.9 billion are proposed in the Executive Budget, including the following:

- \$1.2 billion – Health Care Facility Restructuring – This funding will support capital projects that improve the efficiency of the State health care system;
- \$1.2 billion – Various economic development initiatives including:
 - \$680 million – remaining “Buffalo Billion” funding,
 - \$180 million – Nano Utica,
 - \$55.8 million – New York Genome Center,
 - \$30 million – Onondaga Lake Revitalization,
 - \$24 million – economic transformation, and

- \$222.2 million – for other initiatives.
- \$940 million – Higher education;
- \$713.9 million – Transportation;
- \$395.6 million – State facilities, including \$122 million for Homeland Security;
- \$267.5 million – Parks and Environmental including \$100 million for Superfund;
- \$154 million – housing capital, and
- \$214.8 million – Other.

Debt Management and New Initiatives

The Executive Budget anticipates savings of \$116 million to the General Fund related to debt management initiatives, including issuing 50 percent of its bonds through a competitive sale process. Competitive bond sales provide increased transparency in the bond sale process and generally result in lower borrowing costs than negotiated sales. In addition, the proposal includes the following changes to the State debt and capital projects planning processes:

- **Move the Consolidated Local Street and Highway Improvement Program (CHIPs) and the Marchiselli Program back “on-budget.”** Spending for this program has occurred directly from bond proceeds in recent years and has totaled more than \$400 million annually. This change will move the capital spending back “on-budget” and require that the proceeds of bonds issued for the program be deposited in the State Treasury. By doing so, capital spending will be appropriated in the State Budget and the bond proceeds and capital spending will be reported as part of All Funds receipts and disbursements, respectively.
- **New York Works Task Force and 10-Year Capital Planning.** The Executive’s Proposed Capital Program and Financing Plan again contains a section that provides a high level 10-year outlook for State capital spending. This is done in conjunction with the 10-year State of New York Statewide Capital Plan issued by the New York Works Task Force in June 2013. The Executive’s Proposed Five-Year Capital Program and Financing Plan provides five years of more detailed capital spending and financing projections.
- **Deposits to the Debt Reduction Reserve Fund.** The SFY 2014-15 Executive Budget includes an authorization to transfer \$500 million into the Debt Reduction Reserve Fund, although the Financial Plan and the Capital Plan do not include such a transfer. Also, there is no spending anticipated in the Financial Plan or the Capital Plan from the Debt Reduction Reserve Fund. Instead, the Financial Plan designates \$363 million in General Fund balance as available for “debt management”; however, without an actual deposit to the Debt Reduction Reserve Fund, the funds are unrestricted and available for any use.
- **Design-Build Extension.** As amended, the Executive Budget proposes to extend provisions of the Infrastructure Investment Act enacted in December 2011, which authorized design-build contracts and several other alternative methods of procurement for certain projects and certain specified State agencies and

authorities. The amended Budget extends the current authorization for such projects to December 2017, though the Executive proposal to expand these authorizations for certain projects to all counties, and to cities, towns and villages with populations greater than 50,000 is removed in the 30-day amendments.

As detailed elsewhere in this report, the 30-day amendments to the Budget propose to authorize the creation of a privately-financed public-private partnership involving a New York State agency and a public authority. The proposal would permit the Department of Health to negotiate a contract for the design, building, financing, operation and maintenance, or any combination of these functions, for a new consolidated laboratory that could serve both certain State agencies and private entities. The proposal authorizes development of the facility to proceed with limited oversight by the Office of the State Comptroller and other agencies.

Appendices

Appendix A: General Fund Adjustments

SFY 2013-14 General Fund – Unadjusted and Adjusted Enacted Budget Compared to Third Quarter Update (in millions of dollars)

	SFY 2013-14 Enacted	SFY 2013-14 3rd Quarter	Dollar Change
Opening Fund Balance	1,610	1,610	-
Receipts:			
Personal Income Tax	28,488	28,745	257
<i>Prepaid Refunds</i>	-	310	
<i>Adjusted PIT</i>	<i>28,488</i>	<i>29,055</i>	<i>567</i>
Consumption and Use Taxes	6,548	6,525	(23)
Business Taxes	6,375	5,988	(387)
Other Taxes	1,069	1,238	169
Total Taxes	42,480	42,496	16
<i>Total Taxes Adjusted</i>	<i>42,480</i>	<i>42,806</i>	<i>326</i>
Miscellaneous Receipts	3,096	3,251	155
<i>Casino Revenue</i>	-	<i>(204)</i>	
<i>Settlements</i>	-	<i>(260)</i>	
<i>Adjusted Miscellaneous Receipts</i>	<i>3,096</i>	<i>2,787</i>	<i>(309)</i>
Federal Funds	2	2	-
PIT Excess from RBTF	8,840	8,795	(45)
Sales Tax Excess from LGAC/STRBF	5,440	5,487	47
Real Estate Transfer Tax Excess	532	608	76
Other Transfers from Other Funds	866	1,014	148
Total Receipts	61,256	61,653	397
Total Adjusted Receipts	61,256	61,499	243
Disbursements:			
Grants to Local Governments	40,258	40,383	125
State Operations	7,564	7,654	90
General State Charges	4,953	4,904	(49)
Transfers to Other Funds:			
Debt Service	1,328	1,628	300
<i>Prepayment</i>	-	<i>(318)</i>	
<i>Adjusted Debt Service</i>	<i>1,328</i>	<i>1,310</i>	<i>(18)</i>
Capital Projects	1,227	1,078	(149)
Other	5,827	5,813	(14)
Total Disbursements	61,157	61,460	303
Total Adjusted Disbursements	61,157	61,142	(15)
Closing Fund Balance	1,709	1,803	94
Adjusted Closing Fund Balance	1,709	1,967	258

Source: Division of the Budget
 RBTF – Revenue Bond Tax Fund; LGAC – Local Government Assistance Corporation;
 STRBF – Sales Tax Revenue Bond Fund

Appendix B: Multiyear Gap-Closing Plan

SFY 2014-15 Executive Budget General Fund Gap-Closing Plan SFY 2014-15 through SFY 2017-18 (in millions of dollars)

	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18
Current Services Gap Reported in Mid-Year Update	-	(1,742)	(2,889)	(2,948)	-
Receipt Revisions	320	-	-	-	
Other Revisions	(10)	-	-	-	
Current Services Gap Before Revisions	310	(1,742)	(2,889)	(2,948)	(3,887)
Non-Recurring and Temporary Resources and Costs	(310)	558	-	-	-
Personal Income Tax Prepayment	(310)	310	-	-	-
Fund Sweeps and Transfers		180	-	-	-
Reserves		68	-	-	-
Recurring State Operations Reductions	-	358	708	990	1,342
Executive and Independent Agencies		312	579	691	810
Other Benefits and Costs		46	129	299	532
Debt Management and Capital		116	110	118	158
Recurring Local Assistance Reductions	-	1,624	1,976	2,267	2,104
Cost of Living Adjustments - Human Services		105	108	109	110
Mental Hygiene		164	333	331	(37)
Health Care		132	160	207	272
Moving Costs to Department of Health Global Cap		300	448	638	688
Education		457	335	405	525
STAR		172	230	237	296
Social Services/Housing		166	204	231	199
Other		128	158	109	51
Recurring Revenue/Resources/Re-Estimates	-	(581)	(1,155)	(2,192)	(2,607)
Revised Tax Projections		(125)	27	300	300
Revised Miscellaneous Receipt Projections		33	67	(379)	(345)
Miscellaneous Tax Actions		(3)	(15)	(31)	(28)
Tax Actions		(486)	(1,234)	(2,082)	(2,534)
New Spending Initiatives	-	(142)	(219)	(368)	(465)
School Aid/Education		(104)	(153)	(159)	(167)
Roswell Park		(25)	(25)	(25)	(25)
New Debt Service		(5)	(24)	(170)	(219)
STEM Scholarships		(8)	(17)	(14)	(54)
All Other		(191)	(61)	(69)	(90)
Remaining Gap In Enacted Budget Financial Plan	-	-	(1,530)	(2,202)	(3,445)

Source: Division of the Budget

Appendix C: Capital Spending Plan Comparison

Comparison of Capital Spending SFY 2013-14 Enacted Capital Plan vs. SFY 2014-15 Proposed Capital Plan (in millions of dollars)

	SFY 2013-14	Proposed Capital Plan - SFY 2014-15 through SFY 2018-19					Average	Total Dollar	Total Percentage
		SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	2014-15 through 2018-19	2014-15 through 2018-19	2014-15 through 2018-19
Transportation	4,678	4,443	4,213	4,176	3,990	4,034	4,171	20,857	44.5%
Education/Higher Education	2,003	1,911	2,740	1,939	1,881	1,782	2,051	10,253	21.9%
Economic Development/ Government Oversight	604	874	917	777	729	800	820	4,098	8.7%
Mental Hygiene	343	379	385	393	402	402	392	1,962	4.2%
Parks and Environment	673	636	632	616	602	558	609	3,044	6.5%
Health and Social Welfare	614	467	513	535	470	470	491	2,453	5.2%
Public Protection	285	408	377	303	272	272	326	1,632	3.5%
General Government	109	209	145	87	76	70	117	587	1.3%
Other	122	131	373	355	342	762	393	1,963	4.2%
Total	9,430	9,458	10,296	9,181	8,764	9,150	9,370	46,849	100.0%

	SFY 2012-13	Enacted Capital Plan - SFY 2013-14 through SFY 2017-18					Average	Total Dollar	Total Percentage
		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	4,432	4,700	4,478	4,299	4,284	4,107	4,374	21,869	47.8%
Education/Higher Education	2,126	2,019	1,924	1,937	1,734	1,336	1,790	8,950	19.5%
Economic Development/ Government Oversight	426	599	713	810	796	791	742	3,709	8.1%
Mental Hygiene	236	340	381	385	393	402	380	1,902	4.2%
Parks and Environment	738	666	636	632	616	551	620	3,101	6.8%
Health and Social Welfare	561	614	220	235	235	250	310	1,552	3.4%
Public Protection	244	333	309	303	295	278	304	1,519	3.3%
General Government	66	107	121	76	81	70	91	455	1.0%
Other	74	70	785	747	633	493	546	2,728	6.0%
Total	8,904	9,448	9,567	9,424	9,068	8,278	9,157	45,785	100.0%

Source: Division of the Budget