Report on the State Fiscal Year 2017-18 Executive Budget

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

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Message from the Comptroller

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This year's Executive Budget contains important new proposals including tuition-free access to higher education for thousands of additional students, and increased investment in clean water for New Yorkers. It would also boost investments for school aid, health care and capital projects. The Budget would reduce projected out-year budget gaps because of a proposed extension of the higher tax rate on upper-income earners and other actions, while also proposing significant new authorizations for borrowing.

The $162.2 billion proposal comes at a time of significant risk involving the federal budget. It would rely on $54.3 billion in federal assistance, or one of every three dollars in total. Those resources help the State pay for essential investments in human services, transportation, education, environment and especially in health care. Federal Medicaid support has increased by billions of dollars as a result of the Affordable Care Act and other policy changes, and is projected to rise another $3.3 billion over the next four years. The current budget debate in Washington threatens much of that funding.

Partly in response to such risk, proposed appropriations for school aid, Medicaid and numerous other local assistance programs would authorize the Director of the Budget to reduce available funds during the fiscal year if revenues – including but not only federal funds – are lower than projected. While the Executive historically has had certain powers to limit spending, this new proposal would extend such authority considerably. Other proposals would broadly authorize shifts of funds among State agencies and public authorities and between programs, further increasing the Executive's ability to change the Budget after it has been approved by the Legislature.

Such measures and certain others in the proposed Budget raise issues regarding checks and balances over key decisions on the use of the public's dollars, the level of transparency and independent oversight associated with those choices, and the State's accountability to taxpayers and stakeholders. As always, the level of funding provided for essential programs will be part of the budget debate in Albany this year. Each of these issues deserves close scrutiny and careful consideration.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

The State Fiscal Year (SFY) 2017-18 Executive Budget proposes new investments in education, higher education, Medicaid and certain other program areas while limiting growth in the costs of State agency operations. Capital investments in areas such as economic development, environmental protection and health would also increase.

The Budget projects total All Funds spending of $162.2 billion in SFY 2017-18, up 3.8 percent from the current year. These figures include federal aid associated with the Affordable Care Act and disaster-related assistance, which the Division of the Budget (DOB) excludes from its primary presentation of $152.3 billion in All Funds spending.

All Funds revenues in the coming year are projected at $160.4 billion, an increase of 4.4 percent. Although DOB has reduced its estimates of current-year tax receipts, it expects such revenues to rise by $4.2 billion or 5.6 percent in SFY 2017-18, in part because of the Executive's proposal to extend a higher personal income tax (PIT) rate for upper-income earners for three years. Federal aid is projected to rise by $1.4 billion or 2.6 percent in the coming year and by an additional $3 billion over the following two years.

Compared to DOB's November 2016 revenue estimates, the Executive Budget reduces projections of General Fund tax receipts, excluding new revenue proposals, by $415 million in SFY 2017-18, with that downward revision reaching nearly $700 million in SFY 2019-20. The Executive's proposed revenue actions are estimated to increase All Funds revenue by a net $930 million in SFY 2017-18, rising to $4.1 billion in SFY 2020-21.

DOB projects that spending will exceed revenues in the General Fund by an average of $2.1 billion in the three years starting in SFY 2018-19. Such projected gaps are substantially reduced from projections before the SFY 2017-18 Executive Budget, in large part because of the proposed extension of the top PIT rate and various spending shifts which change reported expenditure levels and growth. The Budget's projections of revenues, expenditures and gaps in future years assume no fiscal impact from potential policy changes by Congress and the new presidential administration.

Legislation submitted as part of the Budget includes several proposals that provide the Executive with major expansions of authority to reshape the Budget after it has been enacted by the Legislature, including increasing or decreasing the amount of spending and changing the planned use of spending. For example, numerous Local Assistance appropriations would authorize the Director of the Budget to reduce planned spending if receipts – including but not limited to federal aid – are lower than projected. Many State Operations appropriations and certain others provide unlimited authority for the Executive to increase or decrease appropriations by shifting them among departments, agencies and public authorities.

In addition to the issues cited above, certain other aspects of the Budget raise concerns with respect to transparency, accountability and oversight. These include a lack of clarity regarding spending levels and growth, continued use of lump-sum appropriations, and additional proposed limits on the Comptroller's independent oversight of the use of public resources.

General Fund reserves at the end of the current fiscal year are projected at $6.8 billion, down by $2.1 billion from a year earlier. Such reserves are projected to decline by another $1.2 billion by the end of SFY 2017-18. The proposed budget allocates nearly $1.4 billion in financial settlement resources that had not previously been appropriated or planned for use, from a total of $9.4 billion received since April 2014. DOB anticipates a $150 million deposit to the Rainy Day Reserve in SFY 2017-18, if fiscal conditions permit.

The Budget proposes increased bonding authorization for State-Supported debt of nearly $8.9 billion, or 6.8 percent, over existing State-Supported bond cap authorizations. None of these authorizations would require voter approval. Spending under the five-year Capital Program and Financing Plan is projected to total $66.2 billion, an increase of $2.8 billion or 4.4 percent from the current plan. Among programmatic categories, the largest planned dollar increase is in economic development, up nearly $1.5 billion or 21.6 percent over the life of the Capital Plan. Other planned increases of more than $1 billion relative to the current Plan are in parks and environment, primarily for expansion of initiatives to assure clean water across the State; and in health, where a 41 percent increase would support health care providers' capital projects.

The Budget would increase school aid by $961 million or 3.9 percent on a school year basis, including a $428 million increase in Foundation Aid. Proposed statutory language would update elements of the Foundation Aid formula to drive larger increases to the lowest-wealth communities, but would also repeal language to phase it in over a certain period of time. Instead, it sets School Year 2017-18 as a base and states that any future increases would be calculated from that starting point.

Other key aspects of the Executive Budget include:

- For both the nation and New York, DOB projects slower employment growth in 2017 and 2018 compared to the past year, but stronger gains in overall economic activity, wages and personal income.

- DOB anticipates that bonds first issued in 2003 to securitize the State's revenues from the 1998 Tobacco Master Settlement Agreement will be retired in SFY 2017-18, making an estimated $125 million available in the coming fiscal year and $400 million annually thereafter. The Executive proposes to spend those funds off-budget to pay certain Medicaid costs. This is one of numerous provisions in the Budget that obscure the overall picture of State revenue and spending, including several that would reduce the reported level of State Operating Funds expenditures in the coming year by more than $1.2 billion.

- State-funded Medicaid spending would rise by 5.1 percent to $23.4 billion in SFY 2017-18. The Budget projects federal support for the program at $33.5 billion in the coming year.

- A proposed Excelsior Scholarship program would make State University of New York (SUNY) and City University of New York (CUNY) tuition-free for certain full-time students, at a projected cost of $71 million in the coming fiscal year, and reaching $163 million in SFY 2020-21. SUNY and CUNY would be authorized to raise undergraduate tuition for State residents by up to $250 annually over five years, and a proposed

DREAM Act would make certain undocumented immigrants eligible for State financial assistance for higher education.

- A proposed Clean Water Infrastructure Act would appropriate $400 million annually over five years, with $75 million planned to be spent in SFY 2017-18. Spending under the Act, funded by borrowing, would support projects promoting clean drinking water, improved wastewater treatment, and source water protection. The Budget would also require periodic testing of residential wells and monitoring of public water systems for contaminants not previously identified as hazardous to human health, and establish State responses to findings of such contamination.

- Spending on State economic development programs would rise by $82 million, or 3.3 percent, to $2.6 billion, in the coming year. Major new capital funding authorizations would include $700 million for the Moynihan Station project in New York City, $400 million to expand the "Buffalo Billion" initiative, $300 million for research and development in the life sciences industry, and $207.5 million for a Strategic Projects Program intended, in part, to continue work on projects of the SUNY Polytechnic Institute. The Executive indicates an additional $100 million would be available for the "Buffalo Billion" through other unspecified agencies and programs.

- Initiatives related to criminal justice include proposals to raise the age of juvenile jurisdiction, reduce pre-trial detention of suspects, remove mandatory prison terms for certain low-level felonies, and provide funding to improve legal defense services for indigent defendants.

- The Budget proposes several changes to health coverage for retired State employees that would collectively reduce All Funds spending by $18.8 million in the coming fiscal year and would reduce the State's unfunded long-term liability for such costs.

Risks to the Budget's Financial Plan include the possibility of federal policy changes that could create significant, negative impacts on the flow of federal funds to the State. Among steps the Executive has identified as needed to address such risks is the proposed expansion of Executive authority to reduce planned expenditures during the fiscal year in the context of potential unplanned revenue shortfalls. While such authority could reduce financial risk in the State Budget, it may also increase the risk of harmful fiscal and programmatic repercussions for local governments, school districts, and nonprofit service providers, as well as for the New Yorkers who depend on State and local services. Uncertainty regarding these risks is likely to continue well into the State's new fiscal year.

II. Financial Plan Overview

State Fiscal Year 2016-17[1]

Through the first three quarters of State Fiscal Year (SFY) 2016-17, New York State's tax collections have fallen short of the previous year's level by more than $1.2 billion or 2.2 percent, almost entirely due to declining Personal Income Tax (PIT) collections. Through December 2016, monthly tax collections during the current fiscal year have exceeded prior year levels and initial projections only twice. As a result, the Division of the Budget (DOB) has reduced tax projections in every Financial Plan Update this fiscal year. Although monetary settlements this year have been at lower levels than last year, such receipts are higher than expected, partly offsetting the shortfall in PIT collections in each of the fund groups discussed below.

Federal funds disbursements have increased, primarily due to unanticipated higher spending associated with the implementation of federal health care changes. Lower projected spending from State Operating Funds, primarily reflecting General Fund local assistance grants, provides resources planned to be used to prepay an additional $220 million in debt service during the current fiscal year, rather than when due in SFY 2017-18. Prepayments are now expected to total $280 million; $60 million was originally planned. This cash management action also has the effect of limiting reported State Operating Funds disbursements growth for SFY 2017-18.

General Fund

General Fund tax receipts, not including transfers from other funds, are currently projected to total $46.3 billion by the end of the fiscal year, $345 million higher than in SFY 2015-16 but $1.4 billion below initial projections from the SFY 2016-17 Enacted Budget Financial Plan. The majority of the variance from initial projections is in PIT collections, which are nearly $1.4 billion below initial estimates through December 31.

The latest PIT estimates for SFY 2016-17 are $1.3 billion lower than originally projected with the SFY 2016-17 Enacted Budget, and reflect an increase of 1.8 percent from SFY 2015-16. Among other factors, this figure reflects the decision by DOB to increase the cap on PIT refunds to be paid in the fourth quarter of SFY 2015-16 by $800 million, thus reducing net PIT receipts in SFY 2015-16 and increasing net PIT receipts in SFY 2016-17. If the cap had not been increased, PIT receipts would currently be projected to decline over $1 billion or 3.2 percent from SFY 2015-16.

Receipts in the General Fund, including transfers from other funds as well as miscellaneous receipts, are expected to total $67.9 billion. This represents a decrease of $1.8 billion or 2.6 percent from the previous year, with unexpected settlement funds partly offsetting lower-than-expected tax receipts. By fiscal year end, the General Fund is expected to have received $1.3 billion in monetary settlements, primarily from financial institutions, about $2.3 billion less than was received in SFY 2015-16.[2]

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[1] The following section reflects the Executive Budget Financial Plan submitted to the Legislature on January 17, 2017.

[2] On January 30, 2017, the Department of Financial Services announced a settlement totaling $425 million with Deutsche Bank for money laundering activities. These funds are not currently included in the Executive Budget Financial Plan and are not included in figures throughout this report.

General Fund spending, including transfers to other funds, is now projected to total just over $70 billion in SFY 2016-17, approximately $1.8 billion less than initially anticipated, with the difference primarily in local assistance grants and transfers to other funds to support the State share of Medicaid costs for mental hygiene. General Fund spending is projected to increase nearly $2 billion from SFY 2015-16. The latest projection includes $280 million in debt service prepayments, $220 million higher than initially anticipated. The General Fund is now expected to end the year with a closing balance of $6.8 billion, $738 million higher than initial estimates and $2.1 billion below the SFY 2015-16 closing balance.

State Operating Funds

DOB projects SFY 2016-17 State Operating Funds receipts will decline approximately 2.1 percent from SFY 2015-16. Spending from such Funds in SFY 2016-17 is projected to total $96.2 billion, for a projected increase of just over $1.9 billion, or 2.0 percent, from SFY 2015-16. Projections for local assistance grants declined between the Enacted Budget Financial Plan and the Third Quarter Update, while debt service increased due to prepayments.

Figure 1

State Operating Funds Receipts and Disbursements – Adjusted for Timing
(in millions of dollars)

	SFY 2015-16 Actual	SFY 2016-17 Estimate	Dollar Growth	Percentage Change
Unadjusted State Operating Funds Receipts	**96,607**	**94,544**	**(2,063)**	**-2.1%**
Receipts:				
Total Taxes	73,279	73,945	666	0.9%
Adjustment for SFY 2015-16 PIT Refund Prepayment	800	(800)		
Total Adjusted Taxes	*74,079*	*73,145*	(934)	-1.3%
Miscellaneous Receipts	23,255	20,525	(2,730)	-11.7%
Federal Funds	73	74	1	1.4%
Adjusted State Operating Funds Receipts	**97,407**	**93,744**	**(3,663)**	**-3.8%**
Unadjusted State Operating Funds Disbursements	**94,288**	**96,200**	**1,912**	**2.0%**
Disbursements:				
Grants to Local Governments	62,653	64,465	1,812	2.9%
State Operations	18,583	18,792	209	1.1%
General State Charges	7,452	7,631	179	2.4%
Adjustment for 2016-17 Workers' Compensation Prepayment	(37)	37		
Adjusted General State Charges	*7,415*	*7,668*	*253*	*3.4%*
Debt Service	5,598	5,310	(288)	-5.1%
Adjustment for SFY 2016-17 Debt Service Prepayment	(710)	710		
Adjustment for SFY 2017-18 Debt Service Prepayment		(280)		
Adjusted Debt Service	*4,888*	*5,740*	*852*	*17.4%*
Capital Projects	1	2	1	100.0%
Adjusted State Operating Funds Disbursements	**93,540**	**96,667**	**3,127**	**3.3%**

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

Figure 1 shows how prepayments affect reported growth in spending in SFY 2016-17. If prepayments are adjusted out, spending growth from SFY 2015-16 to SFY 2016-17 would rise to 3.3 percent. A variety of other actions are also used by the Executive to manage growth in State Operating Funds spending without actually lowering costs. Examples of these actions include removing debt service from the Budget for SUNY dormitories in SFY 2013-14 and thereafter, and moving certain State Operating Funds spending to Capital Projects funds or off-budget. The Executive Budget proposes additional actions that would change reported levels of State Operating Funds spending growth for SFY 2017-18, and in some cases in future years. These additional proposed actions are discussed in more detail below.

State Funds

State Funds receipts are now projected to decline $1.2 billion, or 1.2 percent, primarily representing lower-than-expected tax collections offset by unanticipated monetary settlement revenues.

DOB initially projected spending from State Funds (which includes State-funded capital spending but not federal spending) would increase 5.1 percent or $5.1 billion. This was largely due to increased capital spending associated with settlement funds, as well as a $3.8 billion increase in local assistance, some of which reflects payments made from capital funds. The Third Quarter Update lowered spending projections by nearly $1 billion, reducing the projected increase to $4.1 billion or 4 percent. The majority of the change comes from lower-than-anticipated capital spending.

All Funds

The latest Financial Plan Update projects All Funds receipts will increase $362 million, or 0.2 percent, with higher-than-anticipated federal receipts and monetary settlements offsetting lower-than-anticipated tax collections. Tax receipts are projected to increase $630 million or 0.8 percent from SFY 2015-16 collections, to $75.3 billion.

Updated projections show All Funds spending increasing this year by nearly $5.5 billion, or 3.6 percent, with much of the growth occurring in the General Fund as well as in federally funded programs.

State Fiscal Year 2017-18

As outlined in more detail in the Economy and Revenue section of this Report, economic growth is projected to continue both nationally and in New York in the coming year, and DOB projects total tax receipts to increase 5.6 percent in SFY 2017-18, compared to just 0.8 percent currently estimated in SFY 2016-17. Factors influencing the projected growth in receipts include the Executive's proposal to extend the temporary 8.82 percent PIT rate on high incomes for another three years past the currently scheduled sunset of December 31, 2017, which impacts collections beginning in the final quarter of SFY 2017-18.

DOB projects the General Fund balance as of March 31, 2018 will reach just under $5.6 billion, down from a projected $6.8 billion at the end of the current fiscal year. The recent fiscal year-end high level for the General Fund balance was $8.9 billion in SFY 2015-16, primarily due to unanticipated one-time settlement funds and the timing of transfers of those moneys to other funds. DOB projects no settlement receipts in the coming fiscal year.

General Fund

The SFY 2017-18 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will total $71.1 billion, an increase of 4.7 percent or just less than $3.2 billion, compared to updated SFY 2016-17 estimates. If the $898 million in monetary settlement revenue received during the current year is excluded from SFY 2016-17 receipts, growth in the coming year would be 6.1 percent, or approximately $4.1 billion, primarily from projected growth of 8.9 percent in PIT collections.

Overall, General Fund tax collections are projected to increase 7.6 percent or $3.5 billion. Changes to the administrative cap on PIT refunds, which accelerated the payment of refunds from SFY 2016-17 into SFY 2015-16, obscure actual revenue growth. If this acceleration is adjusted out, tax revenue would be projected to increase 9.5 percent or $4.3 billion. Miscellaneous receipts are projected to decline nearly $1.1 billion, primarily because of the expected drop in settlement revenue.

General Fund disbursements are projected to total $72.3 billion, an increase of $2.3 billion, or 3.3 percent, from SFY 2016-17 estimated levels. The increase primarily reflects growth of that amount in local assistance grants, including increases to school aid and Medicaid. Spending on State Operations is projected to rise $52 million or 0.6 percent from $8.25 billion to $8.3 billion.

Proposed General Fund Gap-Closing Plan

The Executive Budget projects a General Fund current services deficit (or gap) of $3.5 billion in SFY 2017-18 before factoring in changes made since the Mid-Year Financial Plan Update and proposed new actions. As discussed earlier, DOB expects to prepay $280 million in debt service in SFY 2016-17, thus providing non-recurring gap-closing relief in SFY 2017-18. The Executive's gap-closing plan for SFY 2017-18 includes an additional $165 million in various sweeps and transfers from other funds.[3] Appendix A shows the projected gap-closing plan through SFY 2020-21.

State Operating Funds

The Financial Plan projects that State Operating Funds revenue will total just under $97.5 billion, an increase of $2.9 billion, or 3.1 percent, from estimated SFY 2016-17 receipts, primarily due to a projected $4.3 billion increase in tax receipts. Excluding settlements received in the current fiscal year, State Operating Fund receipts would be anticipated to increase $3.8 billion or 4.1 percent.

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[3] As in some past years, the Financial Plan includes a line called "reserve for transaction risks" in its accounting of transfers from other funds (in General Fund receipts – see page T-200 in the FY 2018 Executive Budget Financial Plan). This is not a formal reserve, but represents flexibility for transfers within the Financial Plan that could be changed if receipts or spending do not occur as planned. Since the adjustment is negative, it reduces otherwise projected transfers from other funds. If spending or receipts are lower than anticipated, this adjustment can be adjusted to increase projected General Fund receipts. At the end of the year, any remaining amount within this adjustment line is eliminated and transfers from other funds are increased by the same amount to show the actual figure reported in the General Fund. In SFY 2016-17, the adjustment was eliminated entirely in the First Quarter Update to the SFY 2016-17 Enacted Budget Financial Plan. In the SFY 2017-18 Executive Budget Financial Plan, the negative adjustment is reduced by $100 million. The $165 million cited includes the $100 million adjustment.

For SFY 2017-18, State Operating Funds spending is projected to total just under $98.1 billion, an increase of 1.9 percent, or $1.9 billion, over SFY 2016-17. Most of the increase is projected to occur in local assistance grants, primarily in Medicaid from the Department of Health and in school aid. Spending on State Operations (a category within State Operating Funds that primarily reflects spending for State agencies and universities) is projected to decline $193 million or 1 percent. General State Charges spending is projected to increase 4 percent, or $309 million, primarily because of increases related to pension costs and health benefits.

Timing-related actions and a number of other changes proposed in the Budget would affect the level of reported spending growth from the current fiscal year to the next. The SFY 2016-17 planned prepayment of $280 million in debt service would reduce reported spending in SFY 2017-18. Such prepayments reduce the appearance of growth because the base year is higher and the following year is lower, but total costs are not affected. After adjusting for the debt service prepayments, SFY 2017-18 State Operating Funds spending would increase by 2.4 percent.

Other mechanisms that are used to give the appearance of lower State Operating Funds spending growth include: shifting expenditures to the capital projects fund, which is outside the scope of State Operating Funds; moving expenditures off-budget to a public authority or an off-budget fund or account; specifically excluding certain spending from the calculated growth of State Operating Funds; restructuring programs such that the cost is reflected on the revenue side of the ledger rather than the spending side; using non-budgetary resources for what otherwise would be spending within State Operating Funds; deferring expenditures to future years; and others.

Examples of such actions in the SFY 2017-18 Executive Budget, along with their impact on State Operating Funds spending in the coming fiscal year as estimated by DOB, include:

- Shifting a portion of State employee workers' compensation costs off-budget, using the State Insurance Fund. (See the General State Charges section of this Report; $100 million.)
- Shifting the spending for approximately 3,200 full-time equivalent workforce positions to the capital projects fund. (See the Workforce section; $227 million.)
- Converting the STAR benefit for certain New York City personal income taxpayers from State spending to a State tax credit. (See the STAR portion of the Education section; $277 million.)
- Deferring a loan repayment to the New York Power Authority. (See the Public Authorities section; $193 million.)
- Using the State's share of revenue from the 1998 Master Settlement Agreement with participating cigarette manufacturers to pay certain State Medicaid costs off-budget. (See the Health/Medicaid section; $125 million in SFY 2017-18 and $400 million annually thereafter.)
- Offsetting what otherwise would be State funding for the City University of New York with sale of State-owned property used by CUNY (See the Higher Education section; $60 million, or an alternative amount as determined by the Director of the Budget.)

Together, the actions summarized above are expected to reduce SFY 2017-18 State Operating Funds expenditures by more than $1.2 billion, including the planned $280 million debt service prepayment. These examples do not include budget proposals or actions that are presented as reducing actual State costs (such as shifting of costs to localities).

In addition to the items highlighted above, the Executive Budget includes various proposals that would provide additional capacity to manage spending under the 2 percent State Operating Funds cap, although there is no specific corresponding spending identified in the proposed budget. One example is language, contained within appropriations throughout the State Operations Budget Bill, which provides the Executive with unlimited authority to increase or decrease such appropriations by interchange or transfer with any appropriation of any other department, agency or public authority or by transfer or suballocation to any department, agency or public authority. This wide-ranging proposal provides the Executive with extraordinarily broad authority to move spending outside State Operating Funds and out of the cap on spending growth, in addition to having other far-reaching implications discussed in the Transparency, Accountability and Oversight section of this Report.

Another example is a proposal providing that any amount disbursed from the Debt Reduction Reserve Fund (DRRF) would not count toward the 2 percent limit on annual spending growth within State Operating Funds. Although no disbursements are anticipated from this Fund during the Financial Plan period, the Budget provides for transfer of up to $1 billion from the General Fund to the DRRF. The Budget also increases the appropriation (overall spending authority) from the DRRF by $500 million to $1 billion. The appropriation language from the DRRF is drafted broadly enough to allow for the payment of routine debt service obligations, which would reduce amounts that would otherwise be paid during the year from State Operating Funds and lower reported growth. Further discussion of budget actions that change reported growth in State Operating Funds can be found in the Transparency, Accountability and Oversight Issues section of this Report.

State Funds

DOB projects State Funds receipts to increase by 5.4 percent or $5.4 billion, to just under $106 billion, primarily due to projected growth in tax collections. Miscellaneous receipts are expected to increase $1.2 billion, primarily due to an increase in projected bond proceeds, offset by the loss of one-time monetary settlements.

Spending from State Funds is anticipated to increase 4.6 percent, or $4.8 billion, in SFY 2017-18, largely because of capital spending (up $1.7 billion or 27.4 percent) and local assistance spending from capital funds (up $1.2 billion or nearly 34.5 percent). Other local assistance is projected to increase 2.3 percent or nearly $1.4 billion.

All Funds

The Financial Plan projects All Funds receipts to increase by $6.8 billion, or 4.4 percent, to $160.4 billion, with growth primarily in tax receipts. Miscellaneous receipts are expected to increase $1.2 billion, primarily because of bond proceeds deposited to the capital projects fund. Federal receipts totaling $54.3 billion reflect an increase of $1.4 billion, including a reduction in federal capital aid (down $68 million) and an increase in other special revenue funds (up nearly $1.5 billion). Tax receipts are projected to increase $4.2 billion, or 5.6 percent, mostly from a 6.4 percent projected increase in PIT collections.

All Funds spending is projected to total $162.2 billion, an increase of $6 billion, or 3.8 percent. These figures include disaster assistance and federally funded Medicaid spending associated with the Affordable Care Act (ACA), which DOB does not include in its presentation of a $152.3 billion spending total in All Funds. In both instances, the federal funds are part of the All Funds budget and spending of such funds is accounted for in the Statewide Financial System, the State's accounting system. DOB expects the State will spend $570 million from federal disaster funds in SFY 2017-18 compared to $1.2 billion in SFY 2016-17.

When these two elements are omitted, All Funds spending growth as reported by DOB shrinks to 3.4 percent or $5 billion. DOB projects inflation in SFY 2016-17, as measured by the Consumer Price Index, at 2.6 percent.

Local assistance is projected to increase nearly $4 billion, or 3.5 percent, primarily due to increased school aid spending (up $1.6 billion, or 5.9 percent, on an SFY basis) and spending for Medicaid (up $2.2 billion or 4.6 percent). Spending for capital projects is projected to increase $1.6 billion or 22.1 percent. All Funds debt service spending is projected to increase $256 million or 4.8 percent. This projection reflects prepayments of $280 million in SFY 2016-17. If prepayments are adjusted out of SFY 2016-17, debt service spending in SFY 2017-18 would increase by an estimated $816 million, or 16.2 percent, over the prior year.

Structural Imbalance

For decades, the State's annual budgets often included provisions that drove recurring spending to rise at a faster pace than recurring revenue, creating a structural imbalance and continual annual budget gaps. Such gaps were traditionally closed largely through the use of short-term solutions, frequently addressing a single year, a practice which exacerbated the problem for subsequent years. In recent years, the State has taken steps to reduce its structural budgetary imbalance. Such steps include statutory limits on growth in State Department of Health Medicaid spending and in certain education spending, both first enacted in 2011, and certain tax changes that are in permanent law.[4] Other budgetary actions in recent years have created revenues or spending reductions that are temporary, helping to balance annual budgets but leaving structural budget challenges unaddressed.

The presentation of the SFY 2017-18 Executive Budget Financial Plan projects potential out-year gaps, reflecting a structural imbalance between recurring spending and recurring revenue, of $1.8 billion, $2.7 billion and $1.8 billion, respectively, in SFY 2018-19, SFY 2019-20 and SFY 2020-21. Executive Budgets in recent years have not directly provided such information, and instead presented projections of future budget surpluses (or gaps) in part based on a single line illustrating potential savings associated with holding spending growth from State Operating Funds to 2 percent annually.

Each year's Executive Budget provides projections for receipts and disbursements based on current economic projections and current service levels, and proposed actions that would change baseline expectations. This year's Financial Plan, unlike those of recent years, also illustrates the projected out-year gaps associated with such receipt and disbursement projections (before any adjustment related to holding annual State Operating Funds spending

[4] Overall school aid spending has exceeded the cap in each of the last four enacted budgets. The SFY 2017-18 Executive Budget proposal holds school aid to within the cap.

growth to 2 percent), in addition to the figures that reflect unidentified savings associated with limiting annual growth in spending from State Operating Funds.

Such savings may include the timing of payments and the movement of dollars throughout the State's governmental funds structure or off-budget, in addition to spending reductions and re-estimates. The Executive Budget Financial Plan estimates the unspecified savings associated with limiting spending growth from State Operating Funds to 2 percent annually for the three out-years in the Plan at just under $2.5 billion, $4.8 billion and $6.7 billion, respectively, for the three fiscal years starting in SFY 2018-19, or a cumulative total of nearly $14 billion.

As has been the case in recent Executive Budgets, the proposed Financial Plan's savings estimates do not include any detail as to how such savings would be achieved. Rather, the estimated savings are labeled on a distinct line in the Executive Budget Financial Plan tables as "Adherence to 2 percent Spending Benchmark." The total disbursements in the Financial Plan tables do not assume these savings. As a result, the spending projections in the out-years of the Financial Plan for specific programmatic areas may or may not materialize, depending on whether and how the 2 percent State Operating Funds spending cap is achieved.

Based on the projected but unidentified savings, as well as specifically outlined revenue and spending proposals, the Executive Budget Financial Plan projects surpluses of $692 million in SFY 2018-19, $2.1 billion in SFY 2019-20 and $4.96 billion in SFY 2020-21.

The cumulative projected out-year budget gaps for current services total $26.4 billion, or an annual average of $8.8 billion. While significant, those projected gaps are considerably less than those anticipated several years ago in the immediate aftermath of the Great Recession. This is due in part to changes made to formula-driven programs that had previously contributed to larger out-year gap calculations as well as other budget management actions.

Nonetheless, the estimated $6.2 billion in cumulative gaps that remain after the proposed actions reflect the State's lingering structural imbalance and continued reliance on proposed gap-closing plans that only address a single year rather than multiple years. In addition, a significant portion of the overall gap-closing plan is temporary in nature – the extension of the top PIT rate – meaning that additional actions, beyond those specifically proposed in the Executive Budget as well as actions taken in previous budgets, would be necessary to eliminate gaps in future years.

As shown in Figure 2, approximately one-third of the value of the actions proposed to close these gaps is recurring in nature, including re-estimates, recurring spending actions and recurring revenue enhancements. However, nearly 45 percent of the projected out-year cumulative current services gaps is addressed with non-recurring actions, and more than another 21 percent is left unaddressed, before factoring in the unspecified planned savings from the 2 percent limit on State Operating Funds spending growth.

The Executive Budget Financial Plan's gap-closing plan for the General Fund includes over $13 billion in new temporary resources over the course of the four-year Plan, primarily from the extension of the top PIT rate.

Figure 2

Composition of Gap-Closing Plans
(in millions of dollars)

	Enacted SFY 2016-17 through SFY 2019-20	Proposed SFY 2017-18 through SFY 2020-21
Total Cumulative Gap to Be Closed	**(13,202)**	**(26,406)**
Additions to Gap		
Recurring New Additions/Restorations/Initiatives	**(3,936)**	**(1,346)**
Recurring New Revenue Reductions	**(4,435)**	**(1,063)**
Other	**(1,346)**	**(300)**
Total After Gap Additions	**(22,919)**	**(29,115)**
Re-Estimates	**(359)**	**(2,374)**
Share of Total After Gap Additions	*-1.6%*	*-8.2%*
Recurring Spending Actions (including Debt and Capital)	**5,945**	**11,156**
Share of Total After Gap Additions	*25.9%*	*38.3%*
Recurring Revenue Enhancements	**-**	**1,102**
Share of Total After Gap Additions	*0.0%*	*3.8%*
Temporary or Non-Recurring Resources/Cost	**2,360**	**13,021**
Share of Total After Gap Additions	*10.3%*	*44.7%*
Remaining Gap	**(14,973)**	**(6,210)**
Share of Total After Gap Additions	*65.3%*	*21.3%*

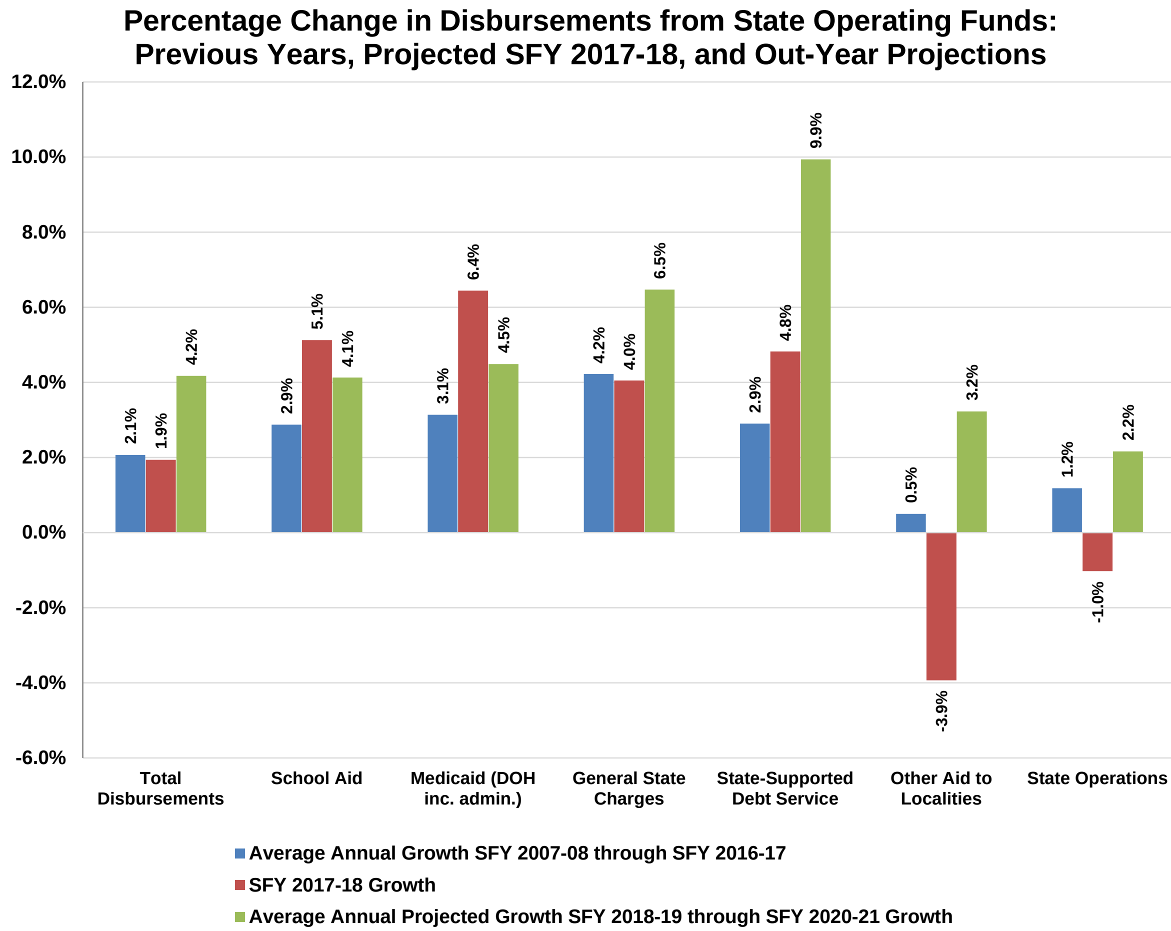
Sources: Division of the Budget and Office of the State Comptroller

Figure 3 illustrates the challenge of restraining State spending on a recurring basis. It summarizes disbursements in major areas for SFY 2007-08 through SFY 2016-17, projected spending for SFY 2017-18 and projected average annual spending in out-years – SFY 2018-19 through SFY 2020-21 – before actions to achieve the assumed 2 percent spending limitation. Projected average growth in total State Operating Funds spending (the group of bars on the left) is 4.2 percent over the three out-years, more than double the increase projected for the coming year, reflecting current law and certain assumptions. Projected growth in all the major categories that collectively make up State Operating Funds is above the 2 percent benchmark, and well above that level in most cases.

Because of legal, contractual or other commitments, spending in certain areas, such as general state charges and debt service, is more difficult to change significantly on a recurring basis, other than to modify the timing of payments or to shift payments to other funds or off-budget and outside the scope of reported spending. (Generally, such modifications used or planned each year affect the year-over-year growth but do not materially change actual spending requirements.)

The amounts for debt service in Figure 3 reflect the use of prepayments, which have helped ensure that overall State Operating Funds growth remains below 2 percent. The projected average annual growth of 9.9 percent in the out-years reflects a relatively low base year, in part the result of prepaying payments in the years before, as well as increases in planned borrowing.

Figure 3



Sources: Division of the Budget and Office of the State Comptroller
Note: Medicaid expenditures include State-funded administration costs as well as Medicaid spending that has been under the Global Cap from other agencies, but not costs associated with the Essential Plan.

In most of the spending categories shown, spending growth projected for SFY 2017-18 is lower than the average annual increase during the previous decade or the projected annual growth in the three out-years of the Executive Budget Financial Plan. Both historical growth levels and projected future spending growth reflect underlying factors that may provide a more complete picture of expenditure trends than projections for a single budget year.

Spending for Medicaid services 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. This figure currently is approximately 3.2 percent, higher than the Executive's target limit of 2 percent for overall State Operating Funds spending growth.

School aid growth is statutorily limited to the annual growth in New York State personal income. However, for the last four State fiscal years Enacted Budgets have exceeded these limitations, often by significant amounts. If this trend continues, school aid spending could significantly exceed current Financial Plan estimates and impact future budget balance.[5]

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[5] For the purpose of the cap, growth in school aid is measured on a school year basis rather than on a State Fiscal Year basis. Growth in New York State personal income is measured on a State Fiscal Year basis when calculating the cap.

Non-Recurring and Temporary Resources

The Executive Budget includes approximately $4.3 billion in SFY 2017-18 in resources that are either temporary (more than one year but not permanent) or non-recurring (one year), including $570 million in federal disaster relief spending. Figure 4 shows the Office of the State Comptroller's analysis of such resources. Of the $3.7 billion total in non-federal temporary resources, $2.1 billion results from temporary actions in previous budgets, and $280 million represents prepayments. Aside from prepayments, nearly $15.5 billion in resources projected over the life of the plan are one-time or temporary.

Figure 4

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

	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	Total
Prepayments and Use of Reserves					
SFY 2016-17 Debt Service Prepayment	280	-	-	-	**280**
Subtotal	*280*	-	-	-	*280*
Temporary or Non-Recurring Resources Proposed in SFY 2017-18					
Sweeps from Other Funds	165	-	-	-	**165**
Regional Greenhouse Gas Initiative	24	-	-	-	**24**
CUNY Asset Sales	60	-	-	-	**60**
NYPA Repayment Adjustment	193	(21)	(43)	(43)	**86**
STAR Conversion	277	-	-	-	**277**
Temporary PIT Brackets	683	3,375	4,505	4,029	**12,592**
Subtotal	*1,402*	*3,354*	*4,462*	*3,986*	***13,204***
Previously in Law or Outside Budget Process					
New York State Insurance Fund	100	-	-	-	**100**
Sales Tax Asset Receivable Corporation Refunding	200	200	-		**400**
Mortgage Insurance Fund	142	-	-	-	**142**
Temporary PIT Brackets (1)	1,620	-	-	-	**1,620**
Subtotal	*2,062*	*200*	-	-	***2,262***
Total State Temporary, Non-Recurring and Prepayments	**3,743**	**3,554**	**4,462**	**3,986**	**15,745**
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (2)	570	549	264	264	**1,647**
Total State and Federal Temporary and Non-Recurring Resources	**4,313**	**4,103**	**4,726**	**4,250**	**17,392**

Sources: Division of the Budget and Office of the State Comptroller
Note: (1) Projections for the existing PIT provisions were not updated in the Enacted Financial Plan. These projections are based on actual collections relative to Plan.
(2) The Financial Plan does not detail spending for Disaster Assistance, but the projected spending is included in the Division of Homeland Security and Emergency Services disbursement totals. These figures assume approximately $400 million annually for other federally funded Homeland Security costs.

Settlements

To date in SFY 2016-17, the State has received approximately $898 million in non-recurring and largely unanticipated settlements from various financial institutions and insurance companies, compared to $3.6 billion received in SFY 2015-16 and $4.9 billion in SFY 2014-15. DOB expects to use $102 million for General Fund costs in SFY 2016-17. Figure 5 illustrates settlement revenues that have been received along with a general summary of uses, both already enacted and proposed. The Executive Budget allocates all settlement receipts that have not previously been designated for use.[6]

Figure 5

Sources and Uses of Monetary Settlements Since SFY 2014-15

(in millions of dollars)

Received in SFY 2014-15 and SFY 2015-16	**8,540**
SFY 2016-17	
Goldman Sachs II	190
Mega Bank	180
Volkswagen	32
Agricultural Bank of China	215
PHH Mortgage	28
Intesa Sanpaolo	235
Deutsche Bank III	18
SFY 2016-17	*898*
Total Received SFY 2014-15 through SFY 2016-17	**9,438**
Uses	
Previously Appropriated or Planned	
SFY 2014-15 Budget Support	(275)
SFY 2015-16 Budget Support	(250)
SFY 2016-17 Budget Support	(102)
Chemical Dependence Program	(5)
Department of Law - Litigation Services 2015-16	(10)
Department of Law - Litigation Services 2016-17	(63)
Audit Disallowance - Federal Settlement	(850)
Planned Deposits to Dedicated Infrastructure Investment Fund	(4,550)
Additional Deposits to DIIF	(1,840)
Environmental Protection Fund	(120)
Total Previously Allocated	**(8,065)**
Proposed	
Buffalo Billion Phase II (spending from DIIF)	(400)
Security and Emergency Response Preparedness (spending from DIIF)	(203)
Health Care Capital Grants (not spent from DIIF)	(200)
Downtown Revitalization (spending from DIIF)	(100)
Life Sciences (spending from DIIF)	(300)
Dept. Military and Naval Affairs Armories (spending from DIIF)	(20)
Rainy Day Deposit (from General Fund)	(150)
Total Proposed	**(1,373)**
Remaining (undesignated)	**-**

Sources: Division of the Budget and Office of the State Comptroller
Note: "Goldman Sachs II" and "Deutsche Bank III" refer to the second and third settlement, respectively, that the State has received from those institutions in recent years.

Using non-recurring resources for capital assets or for non-recurring expenditures appropriately applies one-time resources to one-time expenditures. Some capital expenditures, such as ongoing maintenance costs, may not represent appropriate uses of one-time resources. Use of non-recurring resources to pay for operating expenses is also to be discouraged, because such resources temporarily support spending that is expected to continue when the resources are depleted. Applying one-time resources to capital investments also averts interest costs that are incurred if debt were used to pay for such assets.

[6] This statement does not apply to settlements that were announced after submission of the SFY 2017-18 Executive Budget on January 17, 2017. For example, on January 30, 2017, the Department of Financial Services announced a settlement totaling $425 million with Deutsche Bank for money laundering activities.

Reserves

DOB projects that the combined balances in the State's two largest statutory reserve funds – the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund – will total just under $1.8 billion as of March 31, 2017, representing approximately 2.6 percent of General Fund expenditures. In addition to the State's restricted reserves, the General Fund also has unrestricted funds, which include certain monetary settlement funds. Figure 6 shows projected General Fund reserves as of March 31 of SFY 2016-17 and SFY 2017-18.

Figure 6

Projected General Fund Restricted and Unrestricted Reserves
(in millions of dollars)

	2016-17 Estimated	2017-18 Proposed	Difference
Statutory Reserves	**1,871**	**2,005**	**134**
Tax Stabilization Reserve Fund	1,258	1,258	-
Rainy Day Reserve	540	690	150
Contingency Reserve Fund	21	21	-
Community Projects Fund	53	37	(16)
Refund Reserve (Unrestricted)	**4,935**	**3,558**	**(1,377)**
Debt Management	500	500	-
Other	-	-	-
Monetary Settlement Proceeds	4,435	3,058	(1,377)
Total	**6,807**	**5,563**	**(1,244)**

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

The Executive indicates an intention to transfer $1.2 billion of settlement funds to the Dedicated Infrastructure Investment Fund and $120 million to the Environmental Protection Fund in SFY 2016-17. The Executive Budget proposes transferring another $2 billion to DIIF in SFY 2017-18. DOB anticipates depositing $150 million from settlement funds in the Rainy Day Fund (fiscal conditions permitting) in SFY 2017-18.

Proposals Affecting Dedicated Infrastructure Investment Fund and Other Reserves

The Executive Budget includes a proposal that would conform the DIIF transfer provisions to those governing the Rainy Day Fund. Existing transfer provisions would be amended to allow DOB to transfer funds from the DIIF back to the General Fund to repel invasion, suppress insurrection, to defend the State in war or to respond to other emergencies, including disaster caused by an act of terrorism.

The Budget includes a proposal that would authorize an amount equal to 50 percent of the "cash basis surplus" within the General Fund, as calculated and certified by the Director of the Budget, to be transferred to the Debt Reduction Reserve Fund (DRRF). Cash-basis surplus is defined as estimated aggregate receipts over estimated aggregate disbursements at the end of the fiscal year, as calculated on or before March 25th by the Director of the Budget. Upon request by the Director of the Budget, the Comptroller would transfer such amount from the General Fund to the DRRF. All spending from the DRRF would be exempt from the 2 percent limit on State Operating Funds spending growth. In addition, funds could stay in the DRRF at the end of the fiscal year. Currently, funds are returned to the General Fund if not used during the fiscal year.

In addition, the Budget proposes the creation of a new Retiree Health Benefit Trust Fund. This new fiduciary fund would be in the sole custody of the Commissioner of Civil Service, with investment powers granted to the Commissioner of Tax and Finance. The Director of the Budget would be authorized to make deposits from State “surplus” funds and these funds would be used to offset costs associated with health care for retirees and their dependents. This proposal contains a different time frame for calculation of the surplus than that proposed with respect to the DRRF. Under this proposal, the surplus would be calculated by the Director of the Budget at the close of the fiscal year, rather than on or before March 25th as described above.

Risks to the Financial Plan

As with any Financial Plan, the SFY 2017-18 Executive Budget Financial Plan is subject to various risks and uncertainties. DOB has expanded upon its assessment of budget risks and uncertainties in recent years, and identifies a variety of issues, both general and specific, that could negatively affect the State’s projections. Such risks and uncertainties include, but are not limited to:

- general economic and business conditions;
- changes in political, social, economic, and environmental conditions, including climate change and extreme weather events;
- impediments to the implementation of gap-closing actions;
- regulatory initiatives and compliance with governmental regulations;
- litigation; and
- actions by the federal government to reduce or disallow expected aid.

A prominent concern at this point is potential changes by the new Presidential administration and Congress that may affect federal aid for a number of different programs. In particular, significant uncertainty relates to health care, with Medicaid representing the State’s largest area of federal funding, projected at more than $33 billion in SFY 2017-18. The State also receives over $2 billion in federal assistance for capital spending, primarily in transportation.

The Financial Plan does not reduce projections related to this funding because actual changes are unknown at this point. However, the Budget Bills include new language that would provide significant discretion to the Executive in managing the Budget. For example, many appropriations in the Aid to Localities Budget Bill include language that would provide broad authorization to the Executive to reduce spending unilaterally in the event that revenues (including but not only federal funds) fall below expectations. See the Transparency, Accountability and Oversight Issues section of this Report for additional discussion.

In addition to the broad-scoped risks and uncertainties identified with respect to revenue and economic projections, DOB has recognized many of the transactional risks identified by the Office of the State Comptroller in annual budget reviews in recent years. Spending-side concerns identified by DOB include labor-related negotiations and settlements, cash flow projections, adherence to the School Aid and Medicaid spending caps, and funding of other postemployment benefits. The Financial Plan includes the limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service as a risk and/or uncertainty, although its expectation is that debt outstanding and debt service will continue to remain below the limits imposed by the Act. The Plan notes that capital spending and debt financing practices may be adjusted to preserve debt capacity and keep spending under the caps. In addition, the Executive Budget includes a plan to reduce projected levels of bonded capital spending by 5 percent annually beginning in SFY 2018-19, based on agency plans.

Looking out further, the Executive Budget includes a provision that the State will fulfill its commitment to provide $8.3 billion in funding to the Metropolitan Transportation Authority for its 2015-19 capital plan no later than SFY 2025-26 or by the completion of the MTA capital program. However, the financing sources for the vast majority of this commitment have yet to be identified. The proposed Budget provides a new appropriation for MTA. However, there is no planned spending from it during the Capital Plan period.

Potential risks beyond those identified by DOB include the Budget's reliance on revenue from certain public authorities, as well as transfers of available fund balances from dedicated funds to the General Fund (the Budget proposes the authorization of $750 million in unspecified transfers, an increase of $250 million from the SFY 2016-17 authorization).

Transparency, Accountability and Oversight Issues

Transparency, accountability and independent oversight are keys to ensuring that taxpayer dollars are protected from waste, fraud and abuse, and that public access to important information regarding government activities is protected. These essential elements also help assure taxpayers that the State Budget is fiscally responsible and provides an honest representation of the State's spending plan. Provisions that weaken these protections leave public resources more vulnerable to misuse, and New Yorkers' confidence in their State government may suffer.

Certain elements of the SFY 2017-18 Executive Budget fall short with respect to high standards of transparency, accountability and oversight. These include: grants of unilateral authority to the Executive to manage or reshape the Budget; broadly defined allocations of State resources; increased reliance on public authorities; and elimination of important checks and balances with respect to capital projects as well as other spending and revenue measures. Several of the new proposals lack critical details with respect to funding sources and how spending decisions will be made. Examples of Budget proposals and actions that raise such concerns are described below.

- **Broad Expansion of Executive Discretion to Manage and/or Reshape the Budget.** The Executive Budget includes several new language provisions that are contained in numerous appropriations across many program areas, potentially impacting the expenditure of tens of billions of dollars. These provisions provide significant flexibility to the Executive after enactment of the Budget. Each of these provisions would provide the Executive with significant new powers to reshape the Budget in a variety of ways, including increasing or decreasing the amount of spending, changing the stated purpose or planned use of spending, and reallocating such spending to other State agencies and public authorities after enactment of the Budget. The expansive powers contained in this new language would bypass and erode the long-standing system of checks and balances embedded in the structure of separate and independent branches of government, including the Legislature's role regarding the allocation of State resources. In certain cases, the Executive has indicated that the language is necessary to mitigate Financial Plan risk, while in other cases the intended goal of the proposed language is unclear. Such provisions include:

- **Aid to Localities Reduction Language.** The Budget includes language in many appropriations in the Aid to Localities Budget Bill that, notwithstanding any law, rule or regulation to the contrary, allows the Executive to unilaterally reduce spending in the event that receipts (of any amount), including federal aid, state taxes, miscellaneous receipts and others, do not meet SFY 2017-18 Financial Plan projections, as determined by the Director of the Budget. In this event, amounts available for payment under these appropriations could be reduced in accordance with a written allocation plan promulgated by the Director. The plan would specify "uniform percentage reductions" of the appropriations and related cash disbursements to offset the loss in receipts. The language also provides agency commissioners and directors broad discretion in implementing the reductions, subject to the approval of the Director of the Budget, including limiting spending and liabilities for statutorily authorized programs. The language indicates the reductions would be made uniformly against existing liabilities and spending, to the extent practicable, among other requirements. If included in the final budget, this language would provide the Executive with a powerful fiscal management tool to reduce local assistance spending without the involvement of the Legislature.

- **State Operations Transfer Language.** The Budget includes language contained within numerous appropriations, primarily in the State Operations Budget Bill, which provide the Executive, notwithstanding any other provision of law to the contrary, with unlimited authority to increase or decrease spending authority by interchange or transfer with any appropriation of any other department, agency or public authority or by transfer or suballocation to any department, agency or public authority.

  While State Finance Law authorizes transfer and interchange of appropriations in a limited fashion, the greatly expanded authority in the proposed Budget would provide the Executive with tremendous flexibility to restructure the Budget after Legislative enactment. For example, a State Operations appropriation in one agency for one program or purpose could be reduced and moved to another agency to be used for a different program or purpose. This language would also allow, for example, movement of appropriations between State Operations and Aid to Localities. Furthermore, allowing the transfer of funds to public authorities would reduce oversight and control, as compared with State agencies, with respect to spending, procurement, employee compensation, and other matters.

- **Other Interchange Transfer Language.** In addition to the above-referenced broad language, the Budget would continue the practice of providing significant power to DOB to reallocate spending among agencies for various management and administrative functions within the Office of General Services (OGS), as well as changes to the State's provision of information technology services. It also adds new interchange language to support a proposed consolidation of administrative law judge hearing functions now based in various agencies (excluding the State Attorney

General and the Office of the State Comptroller). Additional information on the latter proposal appears in the Other Issues section of this Report.

Many appropriations are authorized to be interchanged among agencies for these purposes. While a certain degree of spending flexibility may be needed in specific instances, DOB should work toward providing each agency with the appropriate and necessary levels of spending authority each year, instead of continuing to rely on the shifting of hundreds of millions of dollars after Budget enactment.

- **Linking State Operations and Aid to Localities Budgets.** Language included in many State Operations appropriations would make appropriated funds unavailable until the Legislature's enactment of related Aid to Localities appropriations in an amount deemed sufficient for the fiscal year by the Director of DOB. This includes State Operations funding for the State Education Department, the Department of Environmental Conservation, the Office of Children and Family Services, Office of Temporary and Disability Assistance, the Department of Health, the Office of Parks, Recreation, and Historic Preservation, and the Department of Corrections and Community Supervision.

- **Make Permanent and Expand Use of Alternative Procurement Mechanisms Without Robust Protections.** Article VII language proposed with the Budget would make the Infrastructure Investment Act, originally enacted in 2011 and extended in 2015, permanent. The proposal would also significantly broaden the authorization for design-build procurement to other entities, as well as making other amendments described in more detail in the Debt and Capital section of this Report. This proposal also notwithstands Public Authorities Law Section 2879-a, which grants the Comptroller the authority to review State authority contracts in excess of $1 million which are awarded noncompetitively or which are to be paid in whole or part from moneys appropriated by the State. Further, a provision is added that would deem any contract awarded pursuant to the Act to be a "competitive procurement" for the purposes of Section 2879-a, thus potentially narrowing the statutory scope of the Comptroller's oversight of these projects.

  Many Capital Projects appropriations contain language that, separately, would extend the life of the Infrastructure Investment Act to March 31, 2018, and authorize design-build for projects funded pursuant to those appropriations. In certain instances, including projects funded through the New York Works Economic Development Fund and the new Life Sciences Laboratory Public Health Initiative, the language would extend design-build procurement to entities that are not currently authorized to use it, and would allow additional alternative construction delivery methods.

  While design-build may provide opportunities for budget savings and construction efficiency, greater transparency, accountability and independent oversight should also be required. These important elements would help ensure that the use of these alternative procurement methods is justified, provide greater clarity with respect to eligible projects, establish more robust public notification and participation processes before projects could move forward, and introduce greater public protections, such as cost-benefit analyses and financing plans. The current proposal does not provide for these protections. The proposed removal of these contracts from the Comptroller's independent review removes important oversight protections that serve as a deterrent to fraud and corruption.

- **Lack of clarity with respect to the level of spending and spending growth.** The Executive's primary presentation of All Funds revenues and spending omits nearly $10 billion in federal funding that is part of the Budget. As a result of those omissions, the main references to All Governmental Funds revenue and spending, in both the Financial Plan and related documents, present the totals as $150.5 billion and $152.3 billion, respectively. Where these figures are included in certain accompanying tables, footnotes explain that they exclude additional federal aid associated with federal health care reform and with disaster aid related to Superstorm Sandy. Such presentation, the purpose of which is unclear, obscures both the actual scope of the Budget and the level of growth in spending year over year.

  As described earlier in the Financial Plan section of this Report, the Financial Plan includes several timing-related adjustments, shifts and categorizations of spending, within the Budget and off-budget, that cloud the reported rate of growth in State Operating Funds spending. While such proposals can be evaluated based on their individual merits, a clear delineation of such proposals, and their impact on State Operating Funds growth in the Financial Plan, would improve transparency and allow for a more straightforward and comprehensive accounting of the State Operating Funds measure of growth. Shifting spending outside the scope of State Operating Funds, which otherwise would be counted within such measure, diminishes the reliability and meaning of any presentations of such spending and growth.

  While the Executive Budget proposal shows the reductions that would be necessary to maintain the 2 percent spending cap in the out-years, it does not indicate what actions might be necessary to achieve those reductions and provides no specificity as to how this goal would be achieved. Additional details with respect to proposals to limit spending would provide greater assurance to New Yorkers that the stated goal is realistic, would indicate areas being targeted for budget savings, and would help local governments and other entities dependent upon State assistance to plan more effectively and adjust their future expectations appropriately.

- **Use of lump-sum appropriations for Executive and Legislative initiatives.** The proposed Budget would continue and expand the State's use of lump sum appropriations for yet-to-be-determined projects. In an effort to improve transparency and accountability in the State's spending, the Budget Reform Act of 2007 prohibited the use of lump-sum appropriations by the Legislature, with more limited restrictions for the Executive.[7] The statutory prohibition can, however, be circumvented in various ways. Examples of proposed lump sum appropriations in the Executive Budget are detailed below.

  - **Spending authority from settlement funds.** The Budget reappropriates an estimated $6.5 billion in Capital Projects Fund appropriations from the DIIF initially enacted in SFY 2015-16 and SFY 2016-17, and provides additional appropriations of $1.2 billion to

[7] The Act defines a lump-sum appropriation as "an item of appropriation with a single related object or purpose, the purpose of which is to fund more than one grantee by a means other than a statutorily prescribed formula, a competitive process, or an allocation pursuant to subdivision five of section 24 of this chapter." Subdivision five relates to any appropriation added by the Legislature without designating a grantee. Such provision requires that such funds shall be allocated "only pursuant to a plan setting forth an itemized list of grantees with the amount to be received by each, or the methodology for allocating such appropriation. Such plan shall be subject to the approval of the chair of the senate finance committee, the chair of the assembly ways and means committee, and the director of the budget, and thereafter shall be included in a concurrent resolution calling for the expenditure of such monies, which resolution must be approved by a majority vote of all members elected to each house upon a roll call vote." The 2007 Act prohibited the use of lump sum appropriations by the Executive for Temporary Assistance for Needy Families, the Environmental Protection Fund, and the Medical Assistance Program.

support a wide range of new projects. A total of up to $7.7 billion has been or is proposed to be transferred to Capital Projects funds from the General Fund over the life of the Capital Plan.[8] Most of this $7.7 billion is in lump sums to be allocated based on broadly worded language accompanying the appropriations, rather than through specific appropriations or objective criteria and a clearly defined process established in statute.

- **The bond-financed State and Municipal Facilities Program (SAM) first enacted in SFY 2013-14.** Budgets enacted in each of the four previous years added $385 million in appropriation and bonding authority for the SAM program, bringing total appropriations enacted over four years to $1.54 billion. These funds are proposed to be reappropriated in SFY 2017-18. The allowed uses of such moneys include a broad range of economic development, education, environmental and other purposes. However, the Budget does not include specific language to provide for the distribution of these moneys among the various purposes or among the various entities authorized to receive funding, or even to outline the process by which such funds will be allocated.

- **New broad-scoped appropriations.** Examples of new lump sum appropriations include $207.5 million for the Strategic Projects Program, $199 million for New York Works Economic Development Fund, and others. Such programs use less transparent mechanisms to distribute hundreds of millions of dollars, providing minimal disclosure of decision making regarding the allocation of funds, the intended recipients of such funding, specific expenditures and the potential benefits of such spending for New Yorkers. State dollars should be allocated in a fair, objective, and transparent manner, with information about actual expenditures made public in a timely and detailed manner.

- **Continued and expanded use of off-budget spending for State programs.** The Budget would continue the practice of “off-budget” spending of certain funds, and shifting out spending that had traditionally been included in the State Budget and in State spending totals. More than $3.4 billion in certain capital spending is projected to be spent off-budget from SFY 2017-18 through SFY 2021-22. This does not include capital spending for SUNY dormitories funded pursuant to a new financing program established in SFY 2013-14. Other examples of off-budget spending include a new proposal to use tobacco settlement funds, estimated at $125 million in SFY 2017-18 and $400 million annually thereafter, to pay for certain Medicaid costs and the use of certain SIF revenues, estimated at $100 million in SFY 2017-18, to pay for a portion of State employee workers’ compensation costs. The example related to tobacco settlement funds also lowers the reported level of State revenues, as these funds would have otherwise been deposited in a State fund and counted as a miscellaneous receipt.

  If these programs were appropriated within the State Budget, the spending would be subject to greater oversight and control, and such spending would be counted within the appropriate category (e.g., State Operating Funds, capital projects), providing a more accurate representation of State spending. Off-budget spending artificially makes spending for State-related purposes appear lower, and eliminates important oversight, transparency and accountability mechanisms.

[8] Of the $7.7 billion in settlement funds to be transferred to Capital Projects funds, all is anticipated to be transferred to the DIIF except for $120 million to be deposited to the Environmental Protection Fund and $200 million health care facilities to be deposited in other Capital Projects funds.

- **Use of one-time revenue and payment deferrals.** The Executive Budget Financial Plan assumes the deferral of $193 million in loan repayments due to NYPA and assumes the use of $60 million in proceeds from the sale of buildings at CUNY to replace funding that is ongoing in nature. Almost half of the proposed General Fund Gap-Closing Plan is made up of temporary resources, primarily the extension of the higher rate in the personal income tax. The use of these actions in the Budget makes it easier to close projected budget gaps in the coming year, but more difficult to achieve long-term structural budget balance.

- **Use of debt-related proposals to lower the appearance of State Operating Funds spending.** The Budget continues and expands the use of debt and debt service obligations as a major element of various spending items that have or could have the effect of lowering the appearance of spending, often without reducing the State's costs. In some cases, the intended action is clear, and in other instances, flexibility is written into the proposal, but the specific action to be taken is not identified.

  For example, the Budget proposes that any amount disbursed from the Debt Reduction Reserve Fund (DRRF) would not count toward the 2 percent State Operating Funds cap. Although no disbursements are anticipated from this fund during the Financial Plan period, the Budget provides for transfer of up to $1 billion from the General Fund to the DRRF and proposes to increase the appropriation from the DRRF by $500 million to $1 billion. The DRRF appropriation language is drafted broadly enough to allow for the payment of routine debt service obligations, supplanting amounts that would otherwise be paid from State Operating Funds.

- **Reduced independent oversight creating risk for misuse of funds and higher costs.** The Budget includes several proposals to eliminate existing statutory provisions that are intended to safeguard taxpayer dollars. One such proposal would limit the Comptroller's longstanding independent oversight of various debt issuances of certain public benefit corporations, localities and school districts. Specifically, this proposal would restrict the scope of the Comptroller's review of bond issuances to interest rates, yields, prices and costs of issuance. It would also impose a deadline requiring a decision by noon on the day following the pricing of bonds; absent such action, the issuance would be deemed to be approved. Among other implications, the proposed changes would eliminate the Comptroller's ability to consider critically important elements which can significantly impact the overall cost of the borrowing (e.g., level of savings, if any, related to refunding bonds and total debt service costs related to the use of different bond structures). The reviews conducted by the Office of the State Comptroller have been undertaken within the framework of well-established principles of sound debt management and have resulted in positive results for taxpayers, ratepayers and tollpayers. The proposed restrictions in the Executive Budget would result in a significant erosion of important independent oversight and create considerable new risks for substantially increased costs to taxpayers, ratepayers and toll payers.

  The Executive Budget includes several proposals that would bypass existing statutory provisions that are intended to ensure procurement integrity. In certain instances, the competitive bidding process, notice provisions and the Office of the State Comptroller's contract review authority are proposed to be eliminated.

Under Section 112 of the State Finance Law, the Office of the State Comptroller conducts an independent review of most State agency contracts. Under Section 2879-a of the Public Authorities Law, the Comptroller also has the authority to review certain high value public authority contracts, particularly where such contracts are funded with State tax dollars. This independent review reduces the risk that the State will encounter waste, fraud or abuse. Pre-audit review has an important deterrent effect. Although the Comptroller's constitutional authority allows for the withholding or recovery of moneys arising from fraud or illegality after a contract has been implemented, 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 State residents.

The Budget includes a proposal authorizing the New York State Consolidated Laboratory Project Act, which would also impair independent oversight of procurement. The Act is intended to consolidate laboratory facilities and functions of the Department of Health (DOH) in the Capital Region, including the Wadsworth Center, into a new laboratory campus. The proposal would authorize the Dormitory Authority of the State of New York (DASNY), in consultation with DOH, to enter into an agreement or agreements for the project using the design-build, construction manager build delivery or the construction manager-at-risk delivery methods. The language notwithstands numerous provisions of law related to procurement, such as preferred source requirements, general provisions for State procurements, publication in the procurement opportunities newsletter, separate specifications for work, and provisions requiring contract review and approval by the Office of the State Comptroller and the Attorney General. The language permits DASNY and DOH to enter into agreements "without public auction or bidding or any other competitive procurement process." The potential for undertaking such a significant project without public bidding and other traditional protections is not in the best interest of the public.

As noted above, the Budget also proposes to remove the Comptroller's ability to review and approve State authority contracts in furtherance of projects authorized under the Infrastructure Investment Act. Other examples where contract review and approval by the Office of the State Comptroller would be bypassed include the allocation of certain funds in the Department of Health related to the Physician Loan Program, the Physician Practice Support and Diversity in Medicine initiatives and in the Department of Agriculture and Markets for the Taste NY Program. Another example where competitive bidding would be bypassed is the proposed additional $500 million appropriation for the Health Care Facility Transformation Program which would authorize capital awards to be made, without competitive bidding, to health care institutions and community-based providers.

- **Inclusion of blanket fund sweep authorization without transparency and contrary to the intended use of the funds.** The Budget proposes an authorization for $750 million in unspecified transfers from dedicated funds to the General Fund, an increase of $250 million from the SFY 2016-17 Enacted Budget. Since SFY 2007-08, budget language has authorized DOB to transfer or "sweep," at its discretion, available, unencumbered resources from other State funds to the General Fund and has transferred nearly $1.6 billion over this period, with another $50 million anticipated to be swept in SFY 2016-17. The Financial Plan currently does anticipate using the blanket sweep in SFY 2017-18. The unidentified programs which may be affected are generally programs that have dedicated revenue streams. Any use of such sweeps could undermine the purposes for which the funds were originally generated and dedicated.

III. Economy and Revenue

Economic Outlook

Both DOB and IHS project employment growth to slow in 2017 and 2018 compared to the past year, both nationally and in New York State, as shown in Figures 7 and 8. However, both also project more robust growth in wages and personal income at both the national and statewide levels over the next two years, compared to 2016

National Economy

Figure 7

U.S. Economic Indicators
(percent change)

	2016		2017		2018	
	DOB	IHS	DOB	IHS	DOB	IHS
Real GDP	1.6	1.6	2.4	2.3	2.4	2.6
Consumer Price Index	1.3	1.3	2.6	2.5	2.5	2.1
Employment	1.7	1.7	1.4	1.3	1.3	1.2
Wages	4.2	4.2	4.4	4.8	4.4	5.2
Personal Income	3.5	3.5	4.4	4.6	4.6	5.2

Source: NYS Division of the Budget, IHS January 2017 Macroeconomic Forecast

The national economy began 2017 with continuation of the fourth longest economic expansion in recorded U.S. history.[9] However, this expansion has had the slowest average quarterly economic growth of all periods of expansion since World War II.

At the end of 2015, the Federal Reserve increased the federal funds rate, a key short-term interest rate, for the first time in seven years. Since this was widely anticipated, the rate hike did not cause a significant reaction in the financial markets. However, continued slow growth in the global economy and declining oil prices caused market volatility in the first quarter of 2016. This volatility continued into the second quarter of the year with Great Britain's decision to leave the European Union ("Brexit"). The Federal Reserve maintained the federal funds rate at the 0.25 to 0.5 percent level for most of 2016 in light of these factors.

Over the second half of the year, better economic news, the stabilization of oil prices, and the easing of worries over Brexit contributed to accelerated economic growth. However, with the uncertainty surrounding the presidential election, the financial markets were still facing some volatility and the Federal Reserve continued to hold interest rates steady. With the presidential election decided and continued positive signs in the economy, the Federal Reserve increased interest rates by a quarter of a percentage point on December 14, 2016, bringing the target range to 0.5 to 0.75 percent.

Despite the stronger pace of economic growth in the second half of the year, real GDP for all of 2016 increased by just 1.6 percent, slower than the 2.6 percent growth in 2015. For 2017,

[9] The National Bureau of Economic Research reports business cycle expansions and contractions from December 1854 to present.

economic growth is projected to maintain its momentum from the second half of 2016 with GDP projected by DOB to rise 2.4 percent. However, factors including uncertainty surrounding the fiscal policies of the new administration and Congress could impact the pace of growth throughout the year.

New York State Economy

New York's economy continued to expand through much of 2016. However, there were signs of slowing in the final quarter of the year as the Index of Coincident Economic Indicators, as published by the New York State Department of Labor, showed four consecutive months of decline.

According to preliminary data from the State Department of Labor, employment growth in New York in 2016 is estimated at 1.3 percent, an increase of more than 118,000 jobs, with over 112,000 of these jobs in the private sector. While this growth was slower than in 2015, when employment increased by 1.7 percent, it still resulted in a continued decline in the unemployment rate for 2016 from 5.3 percent to 4.9 percent.

According to the State Department of Labor's Quarterly Census of Employment and Wages (QCEW), wages paid in the first half of 2016 were 2.7 percent higher than those for the same period in 2015. Overall, wage growth in 2016 is estimated by DOB at 3.4 percent, a deceleration from overall growth of 4.4 percent in 2015.

Figure 8

New York Economic Indicators
(percent change)

	2016		2017		2018	
	DOB	IHS	DOB	IHS	DOB	IHS
Employment	1.7	1.2	1.3	0.8	1.3	0.7
Wages	3.4	3.9	4.3	4.1	4.2	4.9
Personal Income	3.2	3.2	4.8	3.9	4.5	4.5

Source: Division of the Budget, IHS January 2017 Regional Forecast

Figure 8 shows estimated economic indicators for New York for 2016 and projections for 2017 and 2018 by DOB and IHS. Personal income is estimated to have grown by 3.2 percent in 2016. The slower growth in income as compared to wage growth is due to an estimated decline in capital gains income and slow growth in property income, such as interest and dividends. One reason for this slow growth could be the possibility of income shifting as taxpayers may have deferred income into 2017 due to potential tax changes at the federal level.

Employment growth is projected to continue to slow in 2017 at both the State and national levels; DOB projects increases of 1.3 percent and 1.4 percent, respectively. This is a result of the projected tightening as the labor market reaches what some economists consider "full employment," as the unemployment rate is projected to decrease by only one-tenth of a percentage point in 2017. With the tightening of the labor market, wage growth in the State is projected by DOB to accelerate to 4.3 percent. This wage growth as well as stronger projected growth in property income is expected by DOB to drive an increase in personal income of 4.8 percent.

Revenue

All Funds Revenues

In the current fiscal year, DOB projects that All Funds revenues (including federal receipts) will total $153.6 billion, an increase of 0.2 percent or $362 million over the previous year. The relatively flat revenue picture is due to slow growth in tax collections, primarily as a result of weak personal income tax (PIT) receipts and previously enacted Tax Law changes, as well as the decline in non-recurring settlement revenues.

All Funds tax collections in SFY 2016-17 are estimated at $75.3 billion, up $630 million or 0.8 percent. The gain is due to increased collections resulting from economic growth offset by the following: the impact of Tax Law changes under the corporate and estate taxes; non-recurring large estate tax payments made in SFY 2015-16; and weakness in estimated tax payments under the PIT.

Figure 9

All Funds Revenues
(in millions of dollars)

	SFY 2016-17 Enacted	SFY 2016-17 Estimated	Percent Change	SFY 2017-18 Projected	Percent Change
Personal Income Tax	49,464	47,639	-3.7%	50,683	6.4%
Consumption and Use Taxes	16,134	16,184	0.3%	16,998	5.0%
Business Taxes	7,994	7,847	-1.8%	8,253	5.2%
Other Taxes	3,536	3,633	2.7%	3,600	-0.9%
Total Taxes	**77,128**	**75,303**	**-2.4%**	**79,534**	**5.6%**
Miscellaneous Receipts	23,567	25,439	7.9%	26,597	4.6%
Federal Grants	51,651	52,885	2.4%	54,265	2.6%
Total Revenues	**152,346**	**153,627**	**0.8%**	**160,396**	**4.4%**

Source: Division of the Budget

In SFY 2017-18, All Funds revenues are projected at $160.4 billion, an increase of 4.4 percent or $6.8 billion. This projected growth includes increases in overall tax collections and federal aid as well as in miscellaneous receipts, which includes additional bond proceeds to reimburse spending for capital projects. Projected federal aid does not assume any impact of potential policy changes by Congress and the new Administration in Washington. For SFY 2017-18, All Funds tax collections are projected to increase to $79.5 billion, rising by $4.2 billion or 5.6 percent. This increase results from continued projected growth in the economy as well as the impact of the proposed extension of the top PIT rate for high-income earners.

General Fund Revenues

For SFY 2016-17, General Fund revenues (including transfers) are estimated to decrease to $68.1 billion, down 2.5 percent or $1.7 billion from SFY 2015-16. Similar to revenue collections on an All Funds basis, this decrease is largely due to weakness in personal income and business tax collections, as well as the absence of growth in miscellaneous receipts in Capital Projects funds which bolstered All Funds revenues.

In SFY 2017-18, General Fund revenues are projected to increase to $71.0 billion, an increase of 4.3 percent or $2.9 billion, as shown in Figure 10. This increase is due to projected stronger growth in personal income and business taxes as well as the projected impact of the extension of the top PIT rate on high-income earners. Some of this growth is mitigated by projected declines in collections for other taxes and miscellaneous receipts as a result of the continued phase-in of the increased filing threshold for estate taxes and the absence of one-time settlement payments.

Figure 10

General Fund Revenues
(in millions of dollars)

	SFY 2016-17 Enacted	SFY 2016-17 Estimated	Dollar Change	SFY 2017-18 Projected	Percent Change
Personal Income Tax	46,236	44,431	-3.9%	48,077	8.2%
Consumption and Use Taxes	13,568	13,561	-0.1%	13,712	1.1%
Business Taxes	5,750	5,571	-3.1%	5,955	6.9%
Other Taxes	1,045	1,134	8.5%	969	-14.6%
Miscellaneous Receipts	2,813	3,374	19.9%	2,298	-31.9%
Total Revenues	**69,412**	**68,071**	**-1.9%**	**71,011**	**4.3%**

Source: Division of the Budget
Note: PIT and Consumption Tax figures are gross collections before transfers to debt service funds.

Proposed Revenue Actions

The Executive Budget includes a number of proposals that are projected to result in a net increase in All Funds revenues of $930 million in SFY 2017-18 and of $4.1 billion by SFY 2020-21. These proposals include: expansion of the current tax base in various tax categories; new or increased taxes and fees; and extensions of tax rates, credits, or enforcement actions that are due to expire over the next three years.

The majority of the fiscal impact from the new proposals is a result of the proposed extension of the top PIT rate of 8.82 percent for three years, from January 1, 2018 to December 31, 2020. This proposal would increase revenues by $683 million in SFY 2017-18 growing to $4.0 billion in SFY 2020-21. Figure 11 shows the fiscal impact of proposed changes.

In addition, the Executive anticipates that bonds issued by the Tobacco Settlement Financing Corporation in 2003 will be retired in SFY 2017-18, resulting in the reversion of Master Settlement Agreement (tobacco settlement) payments back to the State. These payments are estimated to be approximately $125 million in SFY 2017-18 and $400 million annually thereafter. The Executive Budget includes a proposal to deposit such funds directly in the Medicaid Management Information System (MMIS) escrow fund, an off-budget account, which would exclude these receipts from estimates of State Operating and All Funds revenues. In doing so, the projected spending associated with this revenue (certain Medicaid costs) would also be moved off-budget and removed from State Operating and All Funds spending totals.

Figure 11

Proposed Revenue Actions
(in millions of dollars)

	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21
Personal Income Tax	**683**	**3,105**	**4,249**	**3,758**
Extension of Top PIT Rate	683	3,375	4,505	4,029
Enhanced Child and Dependent Care Credit	-	-	(42)	(42)
Conversion of NYC STAR Rate Benefit	-	(340)	(354)	(369)
Extension of Limit on Charitable Deductions	-	70	140	140
Consumption/Use Taxes	**99**	**196**	**196**	**196**
Expansion of Sales Tax on Internet Purchases	68	136	136	136
Ride Sharing Tax	16	32	32	32
Amend Tax Rate on Cigars	12	23	23	23
Tax on Vapor Products	3	5	5	5
Business Taxes	**-**	**-**	**(35)**	**(35)**
Life Sciences Tax Credit	-	-	(5)	(5)
Investment Tax Credit Clarification	-	-	20	20
Extension of NY Youth Jobs Credit	-	-	(50)	(50)
Miscellaneous Receipts	**88**	**123**	**124**	**124**
Motor Vehicle Title Fees Increase	74	81	81	81
Imposition of E-911 Surcharge on Prepaid Telephones	7	26	26	26
Additional Fee for REAL ID Licenses	7	16	17	17
Tax Enforcement	**40**	**50**	**50**	**50**
Taxation of Asset Sales	20	20	20	20
Extension of Warrantless Wage Garnishment	15	15	15	15
Warrantless Bank Data Matching	5	15	15	15
All Other Revenue Actions	**20**	**31**	**29**	**28**
TOTAL ALL FUNDS IMPACT OF REVENUE ACTIONS	**930**	**3,505**	**4,613**	**4,121**

Source: Division of the Budget

Note: The table above does not include the proposal related to Tobacco Settlement payments whereby an estimated $125 million in SFY 2017-18 and $400 million annually thereafter would be deposited in the MMIS escrow fund off-budget to support a portion of the State's costs related to the takeover of local governments' Medicaid costs.

Personal Income Tax

Collections

For the current fiscal year, PIT collections are estimated at $47.6 billion, an increase of $584 million, or 1.2 percent. Although wages and personal income for SFY 2016-17 are estimated to grow at a stronger pace, several factors are expected to limit growth in collections. An extraordinarily large amount of capital gains and other property income were realized in the 2014 tax year, inflating tax receipts in SFY 2015-16 and subsequently reducing revenues from payments made with the filing of annual tax returns and requests for extensions to file in the current year.

Financial market volatility as well as erratic economic growth over the course of 2016 created downward pressure on financial sector wages and non-wage income, impacting both withholding collections and quarterly estimated tax payments. As a result of the volatility in the markets, finance and insurance sector bonuses are estimated to decline, further tempering projections for withholding collections in the final quarter of the fiscal year. In addition, with the recent presidential election, there is anecdotal evidence of some taxpayers shifting income into 2017 in anticipation of potential federal tax cuts.

In SFY 2015-16, the administrative cap on tax refunds established by the Department of Taxation and Finance was increased to $2.55 billion, which resulted in the acceleration of $800 million in refunds and artificially reduced SFY 2015-16 revenues. This temporary increase, and the cap's return to its historical level of $1.75 billion in SFY 2016-17, results in artificially lower refund payments in both the first and last quarters of the current fiscal year. Had this change not occurred, reported PIT collections in the current fiscal year would have shown much lower growth, if not a decline.

For SFY 2017-18, PIT collections are projected to be much stronger, increasing by $3.0 billion or 6.4 percent to $50.7 billion. This reflects continued employment gains as well as stronger growth in both wages and non-wage income. Projected PIT collections are also augmented by the proposed extension of the tax rate of 8.82 percent on high-income earners, which was due to expire on December 31, 2017.

New Revenue Actions

Proposals in the Executive Budget affecting PIT revenues include several that would enhance tax enforcement. These are projected to increase revenues by $725 million in SFY 2017-18 and by over $3.8 billion in SFY 2020-21. They include:

- Extension of the "Millionaire's Tax" – The top rate of 8.82 percent would be extended for three years, until December 31, 2020.

  - The top rate applies to: incomes over $2.1 million for married, joint filers; over $1.6 million for heads of household; and over $1.07 million for single filers.
  - Inflation indexing of income brackets as well as the standard deduction would expire on December 31, 2017.
  - Projected revenues would be increased by $683 million in SFY 2017-18, $3.4 billion in SFY 2018-19, $4.5 billion in SFY 2019-20 and $4.0 billion in SFY 2020-21.

- Limit on itemized deduction for charitable contributions – The limit on itemized deductions for charitable contributions by high income taxpayers, currently due to expire December 31, 2017, would be made permanent. DOB projects no fiscal impact in SFY 2017-18, but revenues would increase by $70 million in SFY 2018-19 and by $140 million annually thereafter.

- Conversion of the STAR program's New York City PIT rate reduction into a State PIT credit. The current reduction in New York City PIT rates for the STAR benefit would be converted to a State PIT credit for New York City taxpayers with incomes less than $500,000. The credit would be equal to a percentage of the taxpayer's City taxable income, the percentage of which varies by the amount of the taxpayer's income. This proposal is projected to reduce State PIT revenues by $340 million in SFY 2018-19, by $354 million in SFY 2019-20 and by $369 million in SFY 2020-21, while reducing State spending that currently reimburses New York City for the existing tax benefit beginning in SFY 2017-18. For more information on this proposal, see the Education portion of the Programmatic Area Highlights section of this Report.

- Enhanced Child and Dependent Care credit – The credit would be increased for taxpayers with incomes between $50,000 and $150,000.

  - The credit, which varies by income, is equal to a percentage of the federal child care credit. Currently, the credit varies from 100 percent to 20 percent of the federal credit for taxpayers with incomes between $50,000 and $150,000. The new credit would vary from 120 percent to 60 percent of the federal credit.
  - The increased credit, effective for tax years 2018 and after, would reduce revenues by a projected $42 million in SFY 2019-20.

- The remaining proposals are primarily intended to enhance the enforcement of the PIT and are projected to increase revenues by $42 million in SFY 2017-18 and by $47 million annually thereafter. These proposals include making warrantless wage garnishment permanent (such authorization is currently due to expire on April 1, 2017); making additional asset sales subject to tax; and allowing bank data matching without a warrant.

Consumption and Use Taxes

Collections

All Funds consumption and use taxes comprise the sales and use tax, the auto rental tax, cigarette and tobacco excise taxes, the motor fuel tax, alcoholic beverage taxes, the highway use tax, and the MTA taxicab tax as well as the new excise tax on medical marijuana.

For SFY 2016-17, All Funds collections from these taxes are estimated at $16.2 billion, an increase of $459 million or 2.9 percent from the prior year primarily driven by a 3.8 percent increase in sales and use tax receipts. While this increase is largely due to continued overall consumption growth, as well as increases in employment and disposable income, it also benefits from a large adjustment in sales tax revenues in SFY 2015-16 due to a clerical error which artificially lowered revenues. Had the adjustment not occurred, sales tax collections would be estimated to increase by 2.0 percent.

Also mitigating year-over-year growth is the continued decline in cigarette and tobacco tax collections and the impact of the decrease in the registration fee under the Highway Use Tax included in the SFY 2016-17 Enacted Budget.

In SFY 2017-18, consumption and use taxes are projected to increase to $17 billion, up by $814 million or 5.0 percent. This growth is largely due to a projected increase of 6.2 percent in the sales and use tax, driven by strong projected growth in the sales tax base as well as the proposal to expand the imposition of sales tax on Internet sales. In addition, the proposal to provide ride sharing upstate and its associated assessment would bolster slowing taxicab tax revenues.

New Revenue Actions

Proposals in the Executive Budget affecting consumption and use taxes are projected to increase revenues by $111 million in SFY 2016-17 and by $210 million thereafter. They include measures that would:

- Require marketplace providers, such as Amazon, that provide a forum for transactions and receive payments for purchases, to collect sales tax on taxable sales to New York customers. The proposal, which would expand the current “Amazon tax” to certain sellers that are not located in New York but sell into the State, would increase projected sales tax revenues by $68 million in SFY 2017-18 and by $136 million thereafter.

- Amend the method by which the State imposes the tobacco tax on cigars. The tax would be imposed at 45 cents per cigar rather than at 75 percent of the wholesale price paid to the manufacturer.

- Impose a State assessment on ride-sharing fares.

- Provide for jeopardy assessments under the cigarette and tobacco excise tax. To promote compliance, this proposal would allow the tax to be assessed and collected before the filing of a tax return for taxpayers with high levels of tax avoidance.

- Provide for the taxation and regulation of electronic cigarettes and other vapor products. The tax would be imposed at 10 cents per fluid milliliter and would increase revenues by $3 million in SFY 2017-18 and by $5 million thereafter.

- Clarify the amount of untaxed cigarettes required to seize a vehicle.

- Tighten provisions related to sales tax-related entities.

Business Taxes

Collections

All Funds business taxes comprise the corporate franchise tax (Article 9-A), corporation and utilities taxes, insurance taxes, the bank tax, and the petroleum business tax. Collections from the corporate franchise tax, corporation and utilities taxes, insurance taxes, and the bank tax are deposited to the General Fund and special revenue funds. The petroleum business tax is deposited to special revenue funds and the Dedicated Highway and Bridge Trust Fund.

All Funds business tax collections are estimated at $7.8 billion in SFY 2016-17, a decrease of $37 million or 0.5 percent. The decline is attributable to corporate tax changes, which included the decrease in the net income tax rate from 7.1 percent to 6.5 percent, and the first year of the phase-out of the capital base tax under the corporate franchise tax. Lower estimated insurance tax collections, due to the full year impact of the tax credit for assessments paid to the Life Insurance Guaranty Corporation (LIGC), have also contributed to the decline.

For SFY 2017-18, All Funds business tax collections are projected at $8.25 billion, rising by $406 million or 5.2 percent. This increase primarily reflects growth in the corporate franchise tax resulting from higher corporate profits and increased audit collections. Another factor is growth in insurance tax receipts due to a projected decline in credits for LIGC.

New Revenue Actions

Six proposals in the Executive Budget would affect business tax revenues. None of these proposals is projected to have a fiscal impact in SFY 2017-18. When fully phased in, these proposals are projected to decrease revenues by $38 million.

- Create two new Life Sciences tax credits. New credits would be established for investment in and research and development (R&D) of life sciences businesses, both sunsetting after 10 years.
    - The R&D credit would equal 15 or 20 percent of the R&D expenditures depending upon the size of the business, capped at $10 million.
    - "Angel" investors would be allowed a tax credit of up to 25 percent of their investment in life sciences businesses, capped at $5 million.
    - The Angel credit would reduce revenues by a projected $5 million starting in SFY 2019-20. DOB projects no new fiscal impact for the R&D credit, as it is expected to come from the annual allocation of Excelsior Jobs credits.

- Extend the Film Production tax credit for three years. This credit is currently due to sunset on December 31, 2019.

- Expand the Employee Training Incentive Credit to include incumbent workers.

- Rename the Urban Youth Jobs Program tax credit as the New York Youth Jobs Program tax credit and extend the program for five years. Additional allocations for the program would reduce revenues in SFY 2019-20 through SFY 2023-24 by $50 million annually.

- Amend the Investment Tax Credit to clarify the types of businesses that are not eligible for the credit, which would include utilities and broadcast media. This would increase revenues by $20 million in SFY 2019-20 and annually thereafter.

- Extend the credit for alternative fuels property and electric vehicle recharging property for five years.

Other Taxes

Other taxes include the estate tax, the real estate transfer tax, pari-mutuel taxes, the boxing and racing exhibitions tax, and the MTA payroll tax. In SFY 2016-17, All Funds collections from these taxes are estimated to be $3.63 billion, a decrease of $376 million or 9.4 percent. This is primarily due to a decline in collections from the estate tax, as a consequence of there being fewer "super-large" estates, as well as the effect of increasing the exemption threshold for the tax from $3.125 million to $4.188 million on April 1, 2016.

For SFY 2017-18, collections from other taxes are projected to decrease to $3.6 billion, a decline of $33 million or 0.1 percent. This primarily reflects the continued phase-in of the exemption threshold under the estate tax, offset by a projected increase in the MTA payroll tax as a result of projected wage growth.

New Revenue Actions

The Executive Budget includes two proposals to tighten provisions of the real estate transfer tax. These proposals are projected to add $6 million to receipts in SFY 2017-18.

Miscellaneous Receipts

Miscellaneous receipts encompass a wide variety of other revenues collected by the State including abandoned property, motor vehicle fees, alcoholic beverage license fees, surcharges, and fines. All Funds miscellaneous receipts are estimated to total $25.4 billion, a decrease of $1.8 billion, or 6.7 percent, in SFY 2016-17. This decline is primarily due to a decrease in new monetary settlements.

All Funds miscellaneous receipts are projected to increase by $1.15 billion or 4.6 percent in SFY 2017-18. The loss of the settlement funds is projected to be more than offset by increased proceeds from public authorities' borrowing on behalf of the State, which are reflected as Capital Projects Fund miscellaneous receipts.

New Revenue Actions

The Executive Budget includes eight proposals designed to increase revenues from miscellaneous receipts. Most of the proposals are estimated to have little or no fiscal impact in SFY 2017-18. The proposals with the largest fiscal impacts are those that would increase motor vehicle fee collections, including the increase in motor vehicle title fees and the implementation of REAL ID licenses. These would result in a total revenue increase of $81 million in SFY 2017-18. Other proposals include imposing the E-911 surcharge on prepaid cell phones, allowing motion picture theaters to sell alcohol, and allowing Taste-NY stores to sell alcoholic beverages and provide alcoholic beverage tastings.

IV. Debt and Capital

The Executive Budget Five-Year Capital Program and Financing Plan (Capital Plan or Plan) projects total capital spending of $66.2 billion through SFY 2021-22. This total includes $62.8 billion that is reflected in the State's Financial Plan and an additional $3.4 billion in "off-budget" spending directly from public authority bond proceeds. It represents an increase of $2.8 billion or 4.4 percent, due in large part to proposed increases in economic development and environmental spending, partially offset by declines in education-related capital spending.

The SFY 2017-18 Executive Budget proposes increased bonding authorization for State-Supported debt of nearly $8.9 billion, or 6.8 percent, over existing State-Supported bond cap authorizations. It also proposes:

- To broaden and make the Infrastructure Investment Act, originally enacted in 2011, permanent and to extend its authorization for design-build procurement to include all State agencies, State and local authorities and affiliates and subsidiaries of these entities, and counties outside of New York City.
- To establish a Statewide Capital Efficiency Plan to be completed by agencies as part of their annual Financial Management Plans. This Plan is intended to prioritize essential projects and reduce annual bonded capital spending by $1.5 billion over the five years to comply with the State's statutory cap on debt outstanding. The reductions in bonded capital spending would begin to take effect in SFY 2018-19.
- To move the spending associated with employees who "maintain and preserve" State assets to capital projects funds and out of State Operating Funds, reflecting nearly 3,200 Full-Time Equivalent employees (FTEs) and approximately $227 million in spending.
- To authorize the Director of the Budget to direct that 50 percent of any "cash basis surplus" in the General Fund be deposited to the Debt Reduction Reserve Fund (DRRF). All spending from the DRRF would be excluded from the 2 percent cap on annual growth in State Operating Funds.
- To add additional authorizations to transfer funds from the Dedicated Infrastructure Investment Fund (DIIF), a Capital Projects fund, to the General Fund.
- To restrict the scope of the Office of the State Comptroller's review of the terms and conditions of bonds issued at private sales by certain public authorities, local governments and school districts to interest rates, yields, prices and costs of issuance. A deadline is also imposed which stipulates that if a decision is not provided by the Office of the State Comptroller by noon EST on the next business day following final pricing activity on the sale, the terms shall be deemed approved.

Further discussion of certain of these proposals appears in the Transparency, Accountability and Oversight Issues section of this Report.

The State's statutory debt capacity remains limited, especially in the later years of the Capital Plan and even after assuming agencies reduce capital spending financed with bond proceeds by 5 percent annually. The growth in debt and debt service anticipated from the Executive Budget is almost entirely due to growth in public authority debt.

Debt Outstanding and Debt Service

In the Capital Plan, DOB projects that $33 billion in new State-Supported debt will be issued over the five-year life of the Plan. This compares to just under $20.5 billion in retirements over the same period, resulting in a projected increase in State-Supported debt of approximately $12 billion or 24.2 percent (an annual average increase of 4.4 percent). More than 30 percent of this increase is associated with education and higher education purposes, followed by transportation (28.5 percent).

Average annual State-Supported debt issuance is $6.6 billion over the life of the proposed Capital Plan, compared to $6.1 billion in the current plan. This estimate includes a reduction of $1.5 billion associated with unidentified projects that would be deferred by the planned Statewide Capital Efficiency Plan.

Total State-Supported debt outstanding would increase to $61.7 billion by the end of the Capital Plan period. That outstanding amount does not reflect approximately $11.4 billion in additional debt projected to be outstanding at the end of SFY 2021-22, which is not included in the statutory definition of State-Supported debt.[10]

Figure 12

Projected State-Funded Debt Outstanding

(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2017-18 through SFY 2021-22	SFY 2017-18 through SFY 2021-22
General Obligation	2,694,133	3,381,042	3,557,582	3,687,119	3,804,704	3,751,776	39.3%	1,057,643
Other State-Supported Public Authority	46,977,217	49,706,828	52,513,643	55,348,018	56,690,041	57,944,011	23.3%	10,966,794
State-Supported	**49,671,350**	**53,087,870**	**56,071,225**	**59,035,137**	**60,494,745**	**61,695,787**	**24.2%**	**12,024,437**
State-Funded Secured Hospitals	156,680	142,480	127,500	111,715	95,090	77,635	-50.4%	(79,045)
New SUNY Dormitories	1,107,630	1,190,773	1,396,928	1,535,590	1,656,610	1,754,584	58.4%	646,954
TSFC	659,865	-	-	-	-	-	-100.0%	(659,865)
TFA BARBs	7,881,635	8,447,490	8,410,434	8,270,213	8,336,358	8,089,572	2.6%	207,937
STARC	1,884,500	1,804,745	1,721,240	1,633,590	1,541,580	1,444,985	-23.3%	(439,515)
MBBA	203,375	171,605	138,605	104,165	67,985	30,000	-85.2%	(173,375)
Total Other State-Funded	**11,893,685**	**11,757,093**	**11,794,706**	**11,655,273**	**11,697,623**	**11,396,776**	**-4.2%**	**(496,909)**
Projected Outstanding (State-Funded)	**61,565,035**	**64,844,963**	**67,865,931**	**70,690,410**	**72,192,368**	**73,092,563**	**18.7%**	**11,527,528**

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY

Note: Figures reflect SFY 2016-17 end through SFY 2021-22 end. Totals may not add due to rounding.

[10] 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 Reform*. 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 (STARC) to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation (TSFC) 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); new debt issued by the Dormitory Authority of the State of New York (DASNY) under the SUNY dorm financing program authorized in the SFY 2013-14 Enacted State Budget; and a portion of the secured hospital program. 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 Office of the State Comptroller's January 2013 report, *Debt Impact Study,* for more information on State-Funded debt.

These obligations are, however, included in the Office of the State Comptroller's more comprehensive definition of State-Funded debt. Based on current Capital Plan projections, State-Funded debt is projected to increase by $11.5 billion or 18.7 percent to $73 billion over the same time frame, as indicated in Figure 12.

Projections for new debt issuance for SUNY dormitories are only available through SFY 2019-20, while projections for the New York City Transitional Finance Authority (TFA) Building Aid Revenue Bonds (BARBs) are only available through SFY 2020-21.[11] Therefore, the growth figures cited for State-Funded debt are likely to be understated in SFY 2020-21 and 2021-22, as additional debt issuance may occur. As shown in Figure 13, TFA plans to issue approximately $1.3 billion in new BARBs through SFY 2020-21, and DASNY anticipates that it will issue $409 million for SUNY dormitories through SFY 2019-20. This would bring the projected five-year issuance level of State-Funded debt to $34.7 billion, representing an increase of $2.7 billion above the level in the current Capital Plan. Bonds issued by the Tobacco Settlement Financing Corporation (TSFC) are scheduled to be fully retired in SFY 2017-18.

Figure 13

Projected State-Funded Debt Issuance – SFY 2016-17 through SFY 2021-22
(in thousands of dollars)

		Proposed Capital Plan					**Total Capital Plan**
	SFY 2016-17	**SFY 2017-18**	**SFY 2018-19**	**SFY 2019-20**	**SFY 2020-21**	**SFY 2021-22**	**SFY 2017-18 through SFY 2021-22**
General Obligation	231,518	930,647	430,796	390,131	384,993	234,993	2,371,560
Other State-Supported Public Authority	2,849,228	6,188,603	6,437,397	6,674,322	6,043,868	5,313,506	30,657,696
Total State-Supported Issuances	**3,080,746**	**7,119,250**	**6,868,193**	**7,064,453**	**6,428,861**	**5,548,499**	**33,029,256**
SUNY Dormitories	151,790	94,195	217,753	96,978	-	-	408,926
TFA BARBs	-	750,000	163,000	77,000	295,000	-	1,285,000
Total State-Funded Issuances	**3,232,536**	**7,963,445**	**7,248,946**	**7,238,431**	**6,723,861**	**5,548,499**	**34,723,182**

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
Note: Totals may not add due to rounding.

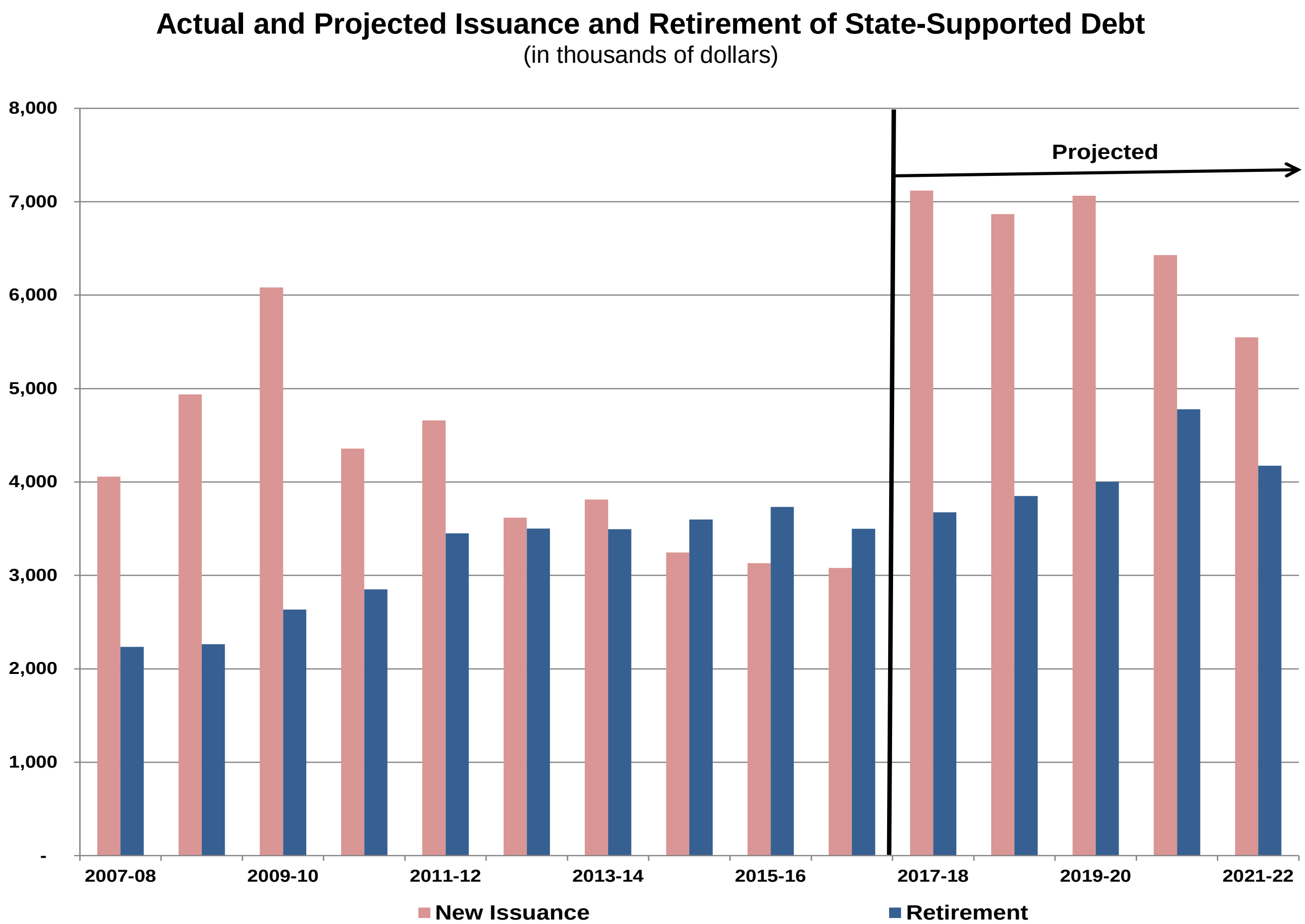
Currently, nearly 96 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the five-year life of the proposed Capital Plan, public authorities are projected to issue $32.4 billion in in State-Funded debt, or 93.2 percent of total issuances. General Obligation (GO) bond issuances of $2.4 billion represent 6.8 percent of projected total issuances.

Projections for the current fiscal year and actual figures for the three preceding years show that debt retirement and debt issuance amounts have been almost equal, as shown in Figure 14. Projections for the next five years included in the proposed Capital Plan show that debt issuances are planned to exceed retirements by 62 percent. This forecasted growth in debt outstanding, together with DOB's revised, lower projections for personal income, results in lower available debt capacity.

[11] Projections throughout this report for TFA BARBs incorporate issuance projections from the New York City Fiscal Year 2018 Proposed Budget released in January 2017. Issuance projections for SUNY dormitories are from DASNY Board materials dated October 15, 2015.

Figure 14 also illustrates the actual and projected issuance and retirement of State-Supported debt over the life of the proposed Capital Plan. Average annual State-Supported debt issuance has been $4.1 billion over the ten years from SFY 2007-08 through SFY 2016-17. This compares to average annual State-Supported debt retirement of $3.1 billion over the same period, representing a retirement-to-issuance ratio of 76.3 percent. The ratio of State-Funded debt retirement to State-Funded debt issuance is slightly lower, at 73.5 percent, over the same period.

Figure 14



Source: Division of the Budget

As shown in Figure 15, under the Capital Plan, State-Funded debt service is expected to approach $8.3 billion by SFY 2021-22, with growth of approximately 18.8 percent between SFY 2017-18 and SFY 2021-22, or an average of 3.5 percent annually. This reflects the current assumption contained in the Capital Plan that bonds issued by the Tobacco Settlement Financing Corporation will be retired in SFY 2017-18.

Before adjusting for prepayments, the proposed Capital Plan indicates that State-Supported debt service is projected to increase by 5 percent from SFY 2016-17 to SFY 2017-18. (The Executive's recent practice of making large debt service prepayments across State fiscal years can obscure the picture of annual change.)

Figure 15

Projected State-Funded Debt Service – SFY 2016-17 through SFY 2021-22

(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2017-18 through SFY 2021-22	SFY 2017-18 through SFY 2021-22
General Obligation	380,356	356,972	400,907	419,116	436,071	466,126	22.5%	85,770
Other State-Supported Public Authority	4,900,539	5,189,518	6,036,807	6,653,974	6,941,271	6,748,555	37.7%	1,848,016
2016-17 Capital Plan (State-Supported)	**5,280,895**	**5,546,490**	**6,437,714**	**7,073,090**	**7,377,342**	**7,214,681**	**36.6%**	**1,933,786**
State-Funded Secured Hospitals	33,584	22,212	22,221	22,213	22,211	22,210	-33.9%	(11,375)
SUNY Dorms (All)	143,233	140,725	146,516	157,281	176,791	157,210	9.8%	13,977
TSFC	768,365	676,288	-	-	-	-	-100.0%	(768,365)
TFA BARBs	547,997	604,485	633,222	664,065	677,447	690,892	26.1%	142,895
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	40,966	40,986	40,964	41,204	41,263	41,265	0.7%	299
Total Other State-Funded	**1,704,146**	**1,654,696**	**1,012,923**	**1,054,764**	**1,087,712**	**1,081,577**	**-36.5%**	**(622,569)**
Projected Debt Service (State-Funded)	**6,985,041**	**7,201,186**	**7,450,637**	**8,127,854**	**8,465,054**	**8,296,258**	**18.8%**	**1,311,217**

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
Note: Figures reflect SFY 2016-17 end through SFY 2021-22 end. Totals may not add due to rounding.

Debt Limits Under the Debt Reform Act of 2000

The Debt Reform Act of 2000 established a statutory cap on State-Supported debt outstanding. Under the cap, the State is prohibited from issuing new debt if outstanding debt issued after April 1, 2000 exceeds 4 percent of personal income. Significant borrowing, coupled with weak economic conditions since the Great Recession, has depleted much of the State's statutory debt capacity. Over the last five years, projected debt capacity under the statutory cap has declined significantly.

Because the cap on State-Supported debt is based on New York personal income, available capacity under the cap can be volatile, especially when coupled with the somewhat variable nature of capital spending. The changes reflected throughout SFY 2016-17 provide an example of this volatility.

In the First Quarter Update to the SFY 2016-17 Financial Plan, DOB stated that available capacity would improve somewhat from projections included with the Enacted Budget Capital Plan, increasing from a low point of $105 million in SFY 2019-20 to $305 million in the same year, because near-term projections for personal income were increased and capital spending estimates were decreased. For context, note that DOB estimates that issuances will be almost $3.1 billion in SFY 2016-17 and more than $7.1 billion in SFY 2017-18.

In the Mid-Year Update, DOB projected that there would be $1.5 billion in available State-Supported debt capacity in SFY 2019-20, an increase of $1.2 billion over the amount anticipated in the First Quarter Update. These projections have been revised downward in the Executive Budget, with available capacity in SFY 2019-20 of $943 million, reaching a low point of $538 million in SFY 2020-21 and then increasing to $1.3 billion in SFY 2021-22. The revised estimates are based on current projections for personal income in New York State, as well as revised estimates for debt issuances, retirements and capital spending. Figure 16 illustrates how out-year projections for available capacity progressed between Financial Plans released in November 2016 and January 2017.

Figure 16

Changes in Projected Debt Capacity Under Statutory Cap

(in millions of dollars)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total
Available Capacity - November 2016	**5,893**	**3,070**	**1,935**	**1,502**	**1,691**	**2,234**	
Personal Income Forecast Adjustment	(455)	(555)	(824)	(972)	(1,075)	(1,121)	(4,547)
Executive Capital Proposed Additions	-	(885)	(1,923)	(2,822)	(3,577)	(4,217)	(13,424)
Executive Capital Re-Estimates	996	2,464	2,746	2,436	2,370	2,969	12,985
Capital Efficiencies - 5% Reduction	-	-	405	799	1,129	1,449	3,782
Available Capacity - January 2017	**6,434**	**4,094**	**2,339**	**943**	**538**	**1,314**	

Source: Division of the Budget

DOB projects that personal income will increase annually at an average rate of 4.6 percent through 2021, representing its lowest projection for average annual growth over the life of the Plan since October 2009, down from a high estimate of 5.7 percent in the SFY 2013-14 Executive Budget Capital Plan. With this projected growth, along with the projected issuances and retirements of State-Supported debt, DOB expects that the level of State-Supported debt outstanding subject to the statutory cap will remain within the cap within the next five years.

IHS projects that personal income will increase by an average of 4.4 percent annually over the life of the Plan.[12] If its projections are realized, absent other actions, the cap on debt outstanding would be breached in SFY 2020-21 by $253 million.

If all SUNY dormitory debt were still included under the cap, using DOB's estimates of personal income, the cap on debt outstanding would be breached in SFY 2019-20 by $593 million.

Capital Program and Financing Plan

The Executive Budget's proposed SFY 2017-18 Five-Year Capital Program and Financing Plan includes $66.2 billion in projected capital spending, of which $3.4 billion would be spent off-budget directly from bond proceeds held by public authorities.

Total spending in the proposed Capital Plan is $2.8 billion, or 4.4 percent, higher than projected spending in the current Capital Plan (reflecting the SFY 2016-17 Enacted Budget). The difference largely reflects increased capital spending expected in the areas of economic development and government oversight, environment and parks, and health purposes, some of which is proposed to be financed with settlement resources. At the same time, planned capital spending for education would decline from the current Capital Plan estimates. The significant decline in the "Other" category reflects, in part, the unidentified projects expected to be deferred as a result of the Executive's Statewide Capital Efficiency Plan. Figure 17 compares the SFY 2016-17 Capital Plan to the proposed Capital Plan by functional area.

[12] IHS is a consulting firm that produces economic forecasts.

Figure 17

Capital Program and Financing Plan by Functional Area
SFY 2016-17 through SFY 2020-21 Compared to SFY 2017-18 through SFY 2021-22
(in thousands of dollars)

Functional Area	SFY 2016-17 Through SFY 2020-21 Enacted	SFY 2017-18 Through SFY 2021-22 Proposed	Dollar Change	Percentage Change
Transportation	25,741,079	26,419,958	678,879	2.6%
Education	2,265,098	2,075,806	(189,292)	-8.4%
Higher Education	7,328,517	7,351,754	23,237	0.3%
Economic Development/Government Oversight	6,942,981	8,439,964	1,496,983	21.6%
Mental Hygiene	2,548,768	2,567,851	19,083	0.7%
Parks and Environment	4,310,760	5,576,323	1,265,563	29.4%
Health	2,556,445	3,626,054	1,069,609	41.8%
Social Welfare	2,586,265	2,881,898	295,633	11.4%
Public Protection	1,939,071	2,291,586	352,515	18.2%
General Government	819,315	1,039,405	220,090	26.9%
Other	6,429,466	3,965,109	(2,464,357)	-38.3%
Total	63,467,765	66,235,708	2,767,943	4.4%

Source: Division of the Budget

Figure 18 shows a comparison between the current five-year Capital Plan and the proposed Capital Plan by financing source. The largest dollar increase in sources of capital spending in the proposed Capital Plan, as compared to the current Plan, is State Pay-As-You-Go (PAYGO) resources, primarily reflecting one-time settlement funds. Reliance on public authority bonds is also estimated to increase, while spending from State General Obligation bonds, reflecting voter-approved debt, would decline significantly from the level projected in the current Capital Plan.

Figure 18

Capital Program and Financing Plans by Financing Source
SFY 2016-17 through SFY 2020-21 Compared to SFY 2017-18 through SFY 2021-22
(in thousands of dollars)

Financing Source	SFY 2016-17 Through SFY 2020-21 Enacted	SFY 2017-18 Through SFY 2021-22 Proposed	Dollar Change	Percentage Change
State Pay-As-You-Go (PAYGO)	19,566,086	21,669,986	2,103,900	10.8%
Federal PAYGO	8,651,930	8,585,365	(66,565)	-0.8%
General Obligation Bonds	2,568,085	2,169,389	(398,696)	-15.5%
Authority Bonds	32,681,664	33,810,968	1,129,304	3.5%
Total Capital Funding	63,467,765	66,235,708	2,767,943	4.4%
Less Federal Funding	(8,651,930)	(8,585,365)	66,565	-0.8%
State Capital Funding	54,815,835	57,650,343	2,834,508	5.2%

Source: Division of the Budget

On average, capital spending is projected to be approximately $13.2 billion annually in each year of the Plan, with a low of $11.4 billion in SFY 2021-22 and a high of $14.5 billion in SFY 2017-18.

Financing Sources

Figure 19 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years. Over the life of the Capital Plan, DOB projects that PAYGO financing will average approximately 37.4 percent of total State-funded capital financing (not including federal funding). PAYGO financing is expected to represent just under 40 percent of capital spending in SFY 2017-18. Both figures are higher than the ten year average of 33.6 percent. Planned spending from the $7.7 billion in settlements funds increases the use of PAYGO resources throughout the plan period.

Figure 19

Financing Sources – SFY 2016-17 through SFY 2021-22

(in thousands of dollars)

		Proposed Capital Program and Financing Plan					
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	Average 2017-18 through 2021-22
State Pay-As-You-Go (PAYGO)	3,914,043	5,092,948	4,846,817	4,419,299	3,952,690	3,358,232	4,333,997
Federal PAYGO	1,797,183	1,706,716	1,689,252	1,725,655	1,731,871	1,731,871	1,717,073
General Obligation (G.O.) Bonds	433,689	728,476	430,796	390,131	384,993	234,993	433,878
Authority Bonds	5,470,608	6,988,714	7,252,690	7,125,053	6,358,091	6,086,420	6,762,194
Total Capital Funding	**11,615,523**	**14,516,854**	**14,219,555**	**13,660,138**	**12,427,645**	**11,411,516**	**13,247,142**
Less Federal Funding	(1,797,183)	(1,706,716)	(1,689,252)	(1,725,655)	(1,731,871)	(1,731,871)	(1,717,073)
State Capital Funding	**9,818,340**	**12,810,138**	**12,530,303**	**11,934,483**	**10,695,774**	**9,679,645**	**11,530,069**
State PAYGO as Percentage of State Funding	**39.86%**	**39.76%**	**38.68%**	**37.03%**	**36.96%**	**34.69%**	**37.4%**
GO as Percentage of State Funding	**4.42%**	**5.69%**	**3.44%**	**3.27%**	**3.60%**	**2.43%**	**3.7%**
Authority Bonds as Percentage of State Funding	**55.72%**	**54.56%**	**57.88%**	**59.70%**	**59.44%**	**62.88%**	**58.9%**

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

New Debt Authorizations

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by approximately $8.9 billion, or 6.8 percent, over existing bond cap authorizations. Figure 20 illustrates the proposed increases by program area, including borrowing for new capital initiatives and ongoing capital programs.[13]

[13] The $500 million appropriation for the Health Care Facilities Transformation Program authorizes DASNY to issue bonds up to the level of the appropriation, although the bond cap contained in statute for Health Care Initiatives is increased by $300 million.

Figure 20

State-Supported Bond Cap Increases – Proposed SFY 2017-18

(in millions of dollars)

	Increase
Environmental Infrastructure	2,344
Economic Development	1,834
Transportation Initiatives	889
Housing Capital	687
SUNY Educational Facilities	680
CHIPs	487
CUNY Educational Facilities	394
Mental Health Facilities	351
Prison Facilities	316
Health Care Initiatives	300
State Facilities	145
SUNY 2020	110
Information Technology	86
SUNY Community Colleges	53
Homeland Security	53
Youth Facilities	36
Water Pollution Control	35
Higher Education Capital Matching Grants	30
Private Special Education	25
Library Facilities	14
State Police	6
Total	**8,874**

Source: Division of the Budget

Debt Management and Potential Savings

DOB is assuming savings in SFY 2017-18 associated with various debt management actions. These include the proposal to make permanent and expand authorization for design-build procurement that is discussed in more detail below, as well as the following:

- Prepayment of $280 million in debt service in SFY 2016-17 that is due in SFY 2017-18, thus lowering costs in SFY 2017-18.
- Savings of $186 million through debt management actions including the refunding of bonds that meet savings thresholds.
- Moving approximately $227 million of spending associated with approximately 3,200 FTEs who maintain and preserve State assets from State Operating Funds to Capital Projects Funds. This has the effect of shifting spending outside of the 2 percent cap on annual growth in State Operating Funds.
- Continuing the goal of at least 50 percent of new debt issuances being sold on a competitive basis.
- Amending the language which established the DIIF to allow transfers back to the General Fund from the DIIF in case of invasion, insurrection or to respond to emergencies resulting from a disaster, including a disaster caused by an act of terrorism.

The Statewide Capital Efficiency Plan will require agencies to prioritize essential projects and defer non-essential projects that will not affect an agency's core mission, beginning in SFY 2017-18 for projects beginning in SFY 2018-19 and beyond. Essential projects are described as those that, if not completed, would present a threat to health or safety, violate a court order or federal, State or local law, or result in substantial reduction in federal aid.

DOB anticipates that this plan will help maintain debt capacity under the Debt Reform Act caps and reduce bonded capital spending by approximately $1.5 billion over the next five years. Certain spending would be delayed compared to current plans. The Capital Plan does not identify specific projects or spending categories to be reduced, but rather reflects the reductions within the "Other" category of capital spending.

Design-Build Procurement

The Executive Budget includes a proposal to make the Infrastructure Investment Act, originally enacted in 2011 and extended for two years in 2015, permanent and to extend the authorization for design-build procurement to include all State agencies, including SUNY and CUNY, State and local authorities, local development corporations, land banks, Industrial Development Agencies and affiliates and subsidiaries of these entities, and counties outside of New York City. In addition, the authorization is broadened to permit the use of design-build for capital projects related to "publicly owned capital assets." Capital assets, as defined in State Finance Law, include fixed assets and infrastructure assets, which could include roads, bridges, facilities, mass transportation facilities, water, sewer and drainage systems or capital asset groups such as roads or canals. The proposal leaves unresolved certain concerns relating to labor protections, including questions involving the use of project labor agreements.

The proposal also notwithstands Public Authorities Law Section 2879-a, which grants the Comptroller the authority to review State authority contracts in excess of $1 million which are awarded noncompetitively or which are to be paid in whole or part from moneys appropriated by the State. Further, a provision is added that would deem any contract awarded pursuant to the Act to be a competitive procurement for the purposes of 2879-a, thus narrowing the statutory scope of the Comptroller's oversight of these projects.

The Budget also inserts language in numerous capital appropriations which, separately, would extend the life of the Infrastructure Investment Act to March 31, 2018, and authorize design-build for projects funded pursuant to those appropriations. In certain instances, including projects funded through the New York Works Economic Development Fund and the new Life Sciences Laboratory Public Health Initiative, the language would also authorize additional alternative construction delivery methods.

Other Actions

The Executive Budget includes a proposal to authorize annual deposits to the DRRF totaling 50 percent of "cash-basis surplus." In addition, funds could stay within the DRRF after the end of the fiscal year (currently OSC is required to sweep unused funds from the DRRF to the General Fund). A $1 billion transfer to the DRRF and an increase in DRRF appropriations from $500 million to $1 billion is also proposed, although the Executive does not indicate an intention to transfer resources into the DRRF or to spend from the DRRF. The proposal also includes a provision to exclude any spending from the DRRF from the 2 percent cap on annual growth in State Operating Funds. For additional details on this proposal, see the Financial Plan Overview section of this Report.

Dedicated Infrastructure and Investment Fund

Spending of monetary settlement funds from capital projects funds from SFY 2015-16 through SFY 2021-22 is projected to total over $8.7 billion, including $1.2 billion in proposed new spending. Included in the $8.7 billion is $1 billion for the Jacob K. Javits Center project in New York City that is anticipated to be reimbursed by bond proceeds, $200 million in health care spending that will occur outside the DIIF, and $120 million that will be spent from the EPF. Figure 21 reflects certain information provided in the Capital Plan related to the spending of monetary settlement funds.

Figure 21

Uses of Monetary Settlement Funds – Previously Planned and Proposed New Uses
SFY 2015-16 through SFY 2021-22
(in thousands of dollars)

	2016	2017	2018	2019	2020	2021	2022	Total
REAPPROPRIATIONS								
Broadband Initiative	2,500	59,350	116,800	130,500	96,800	94,050	-	500,000
Municipal Restructuring (1)	-	20,040	45,150	38,040	28,965	17,805	-	150,000
Health Care Providers	-	85,000	105,000	85,000	80,000	-	-	355,000
Security and Emergency Response	80,279	58,190	11,531	-	-	-	-	150,000
MTA Capital Plan (Penn Station Access)	-	-	-	100,000	150,000	-	-	250,000
Thruway Stabilization SFY 2015-16	608,420	424,000	252,580	-	-	-	-	1,285,000
Thruway Stabilization SFY 2016-17 (2)	-	175,000	330,000	195,000	-	-	-	700,000
Long Island Transformative Projects	-	17,805	32,040	39,150	32,040	28,965	-	150,000
Infrastructure, Transportation, Upstate Transit, Economic Development	7,337	24,240	29,900	24,240	23,290	5,993	-	115,000
Southern Tier Agriculture and Hudson Valley Farmland Protection	2,556	10,680	13,050	10,680	9,655	3,379	-	50,000
Municipal Consolidation (1)	-	-	10,000	10,000	-	-	-	20,000
Statewide Multiyear Housing Program	-	3,300	10,000	10,000	26,700	-	-	50,000
Upstate Revitalization Initiative SFY 2016-17 (3)	-	78,000	92,000	-	-	-	-	170,000
DOT Capital Plan Contribution	-	40,000	50,000	50,000	50,000	10,000	-	200,000
Other Economic Development or Infrastructure Projects	-	5,000	27,000	31,000	22,000	-	-	85,000
Empire State Poverty Reduction Initative	-	5,000	10,000	10,000	-	-	-	25,000
Roswell Park Cancer Institute	15,500	-	-	-	-	-	-	15,500
Community Health Care Revolving Loans	-	19,500	-	-	-	-	-	19,500
Behavioral Health Grants	9,000	1,000	-	-	-	-	-	10,000
Statewide Multiyear Housing Program	-	25,000	175,000	279,409	110,591	-	-	590,000
Upstate Revitalization Initiative SFY 2015-16	21,000	128,050	320,400	391,500	320,400	318,650	-	1,500,000
Javits Convention Center Expansion (bonded)	-	-	160,000	350,000	320,000	170,000	-	1,000,000
Environmental Protection Fund (not paid from DIIF)	-	120,000	-	-	-	-	-	120,000
Total Spending From Reappropriations	*746,592*	*1,299,155*	*1,790,451*	*1,754,519*	*1,270,441*	*648,842*	-	*7,510,000*
PROPOSED								
Health Care Facilities Transformation (not paid from DIIF) (4)	-	NA	NA	NA	NA	NA	NA	200,000
Buffalo Billion Phase II	-	-	80,000	80,000	80,000	80,000	80,000	400,000
Life Sciences	-	-	50,000	55,000	55,000	55,000	85,000	300,000
Military and Naval Affairs Armories	-	-	20,000	-	-	-	-	20,000
Counter Terrorism and Security Measures	-	-	53,000	50,000	50,000	50,000	-	203,000
Downtown Revitalization SFY 2017-18	-	-	20,000	20,000	20,000	20,000	20,000	100,000
Total Spending from Proposed Appropriations (5)	-	-	*223,000*	*205,000*	*205,000*	*205,000*	*185,000*	*1,223,000*
Total (5)	**746,592**	**1,299,155**	**2,013,451**	**1,959,519**	**1,475,441**	**853,842**	**185,000**	**8,733,000**

Notes: (1) New appropriation language enacted in SFY 2016-17 changed from the previous year. Language was added to SFY 2015-16 reappropriation that extends funding to Downtown Revitalization Program, including the Healthy Foods/Healthy Community initiative. In addition, funding was extended to "other municipal entities."
(2) New appropriation language enacted in SFY 2016-17 was changed from the previous year, by adding debt service and related payments as a purpose, but did not include reporting requirements that were included in the allocation enacted in SFY 2015-16.
(3) New appropriation language enacted in SFY 2016-17 was changed from the previous year by removing language requiring the allocation to be made pursuant to a competitive process among the Regional Economic Development Councils and by limiting awards to projects in certain regions.
(4) As noted in the text above, the Capital Plan does not identify a spending plan that distinguishes between settlement dollars and bond proceeds associated with the additional $500 million appropriation for the Health Care Facilities Transformation Program. As a result, it is not possible to identify how much of the settlement resources will spent annually for this purpose, as opposed to bond proceeds. Also, the $500 million appropriation for this Program provides DASNY with the authority to issue bonds for the purposes of the appropriation up to the amount of the appropriation.
(5) Annual totals for "Total Spending from the Proposed Appropriations" and "Total" in 2017 through 2022 do not include spending related to Health Care Facilities Transformation, since annual estimates of such spending from monetary settlements have not been provided.

All but one of the new appropriations proposed to be financed with monetary settlement resources will be spent from the Dedicated Infrastructure Investment Fund. According to the Executive, $200 million of a $500 million appropriation for Health Care Facilities Transformation is anticipated to be paid from the State Capital Projects Fund and financed with settlement resources; however, Budget language authorizes the entire $500 million to be bond-financed, providing flexibility with respect to the use of the these settlement resources.[14]

[14] The report entitled *Comptroller's Fiscal Update: State Fiscal Year 2016-17 Revenue Trends through the Mid-Year*, November 2016, included a discussion of the Executive's evolving plan related to the use of monetary settlements identified for deposit to the DIIF. This plan was in part to provide flexibility regarding use of such funds until they are needed for identified projects in the DIIF. For additional detail regarding this issue see: https://www.osc.state.ny.us/reports/budget/2016/2016-17_midyear_report.pdf.

V. Program Area Highlights

Education

The Executive Budget proposes an increase in "school aid" (representing the bulk of total education aid) from $24.6 billion to $25.6 billion for school year (SY) 2017-18. The $961 million, or 3.9 percent, increase equals the maximum percentage increase allowed under the statutory school aid cap, which is based on growth in New York State personal income.

On a State fiscal year basis, projected school aid spending would total $25.6 billion, an increase of $1.3 billion, or 5.1 percent, in State Operating Funds. The Executive Budget Financial Plan indicates that school aid spending from commercial gaming revenues will rise from an estimated $13 million in SFY 2016-17 to $81 million in the coming year. If the casino revenue projections fall short of expectations, the resulting gap in projected school aid would become an obligation of the General Fund.

The proposed $961 million school aid increase for SY 2017-18 is allocated as follows:

- A $428 million increase in Foundation Aid, bringing total proposed Foundation Aid for SY 2017-18 to $16.9 billion. However, $150 million of this total would be "set aside," or earmarked, to fund Community Schools in certain school districts, $50 million more than in SY 2016-17.
    - The Executive Budget proposes changes to the Foundation Aid formula, including measures to allow larger aid increases to lower-wealth districts, and using more recent poverty estimates.
    - The Executive also proposes eliminating references in law to a future phase-in of Foundation Aid, instead offering the SFY 2017-18 distribution as a base from which future increases would be calculated.
- $333 million to support growth in various expense-driven aid programs and categorical grants such as transportation, textbooks and school construction.
- $150 million for a Fiscal Stabilization Fund, not yet allocated for a specific purpose.
- $50 million in competitive grants, including:
    - $35 million for the Empire State After-School program to be awarded as competitive grants.
    - $5 million for prekindergarten expansion for three- and four-year-old children, with funds targeted to high-need school districts and preference given to those that do not currently offer prekindergarten. Related language would consolidate funding for several prekindergarten programs under the Universal Prekindergarten program line.

- $5.3 million to continue to support the early college high school and career and technical educational programs.

- $4.7 million for various other initiatives.

Excluding building aids, changes in formula-based aid to individual school districts would range from a 10 percent decrease to a 12.5 percent increase, with an overall statewide average increase of 2.8 percent. Other education spending in the Executive Budget, separate from school aid, includes:

- $340 million in funding for the Statewide Universal Full-Day Pre-Kindergarten program, of which $300 million is allocated for New York City. Additionally, the Executive Budget proposes to continue funding several existing prekindergarten grant programs.

- $18 million to continue to implement the "My Brother's Keeper" program to improve outcomes for boys and young men of color.

The Budget proposes several charter school initiatives, as follows:

- Removing the limitation on the number of charter schools allowed within New York City.

- Creating a new tier of charter school transitional aid to school districts to partially offset required increases in their tuition payments to charter schools. The new tier would phase out in three years.

- Requiring New York City to pay additional amounts to charter schools that are not offered appropriate co-located space within a City public school.

- Holding New York City responsible for providing enough space for charter schools to accommodate approved grade levels in the same space.

Other proposals in the Executive Budget include:

- A proposed three-year extension of the New York City Mayor's governing authority over the City's public school system. In 2016, mayoral control was extended for one year after the State Budget was enacted, expiring on June 30, 2017.

- Establishment of a new, independent Inspector General (IG) to oversee and investigate allegations of corruption, fraud, criminal activity, conflicts of interest or abuse within the State Education Department (SED). The IG would serve a five-year term and be chosen by the Legislature.

- Creation of an alternative education pilot program of Recovery High Schools which would provide high school students diagnosed with a substance use disorder a comprehensive high school education and structured plan of substance use recovery.

- $1 million for the East Ramapo Central School District for the direct benefit of students attending public schools within the district. Recent concerns about how the district is meeting the needs of its public school students have led the Education Department to appoint a monitor to oversee and advise the school board.

The Executive Budget again proposes that a local school district, an approved private school or a Board of Cooperative Educational Services (BOCES) be authorized to request a waiver allowing for flexibility in implementing innovative special educational programs. This waiver request has been included in Executive Budgets for the last four years but has not been enacted.

STAR

The Executive Budget includes five proposals to amend the School Tax Relief (STAR) program, two of which have been proposed in prior Executive Budgets. The first would cap homeowners' STAR benefits in SFY 2017-18 at SFY 2016-17 levels, generating estimated savings of $50 million in SFY 2017-18. Under current law, STAR benefits could grow by up to 2 percent annually. A similar proposal was included in both the SFY 2015-16 and SFY 2016-17 Executive Budgets, but ultimately not included in the Enacted Budgets for those years.

The Executive Budget also proposes making enrollment in the income verification program for the Enhanced STAR benefit mandatory, similar to prior Executive Budget proposals. This would result in estimated savings of $24 million in SFY 2017-18 and annually thereafter.

The Executive Budget also proposes to convert the New York City STAR personal income tax rate reduction into a refundable New York State personal income tax credit. This would be the last part of the STAR program to be converted to a State PIT credit, following the conversion of the New York City STAR PIT credit and STAR property tax exemptions to New York State PIT credits in the SFY 2016-17 Enacted Budget.[15]

Currently, both homeowners and renters with incomes less than $500,000 are subject to lower City PIT rates in order to receive a tax benefit under the STAR program. The State then reimburses the City for the total amount of the NYC STAR rate reduction afforded to these NYC personal income taxpayers. Under the Executive proposal, instead of paying reduced City PIT rates, New York City taxpayers with incomes less than $500,000 would be able to claim a refundable credit against their State PIT equal to a percentage of their City taxable income.

This change from a local assistance spending program to a personal income tax expenditure would result in a reduction in State Operating Funds spending of $277 million in SFY 2017-18, growing to $382 million by SFY 2020-21. However, due to timing differences between the STAR payment schedule and PIT settlements, there is a lag between the reduction in spending and the corresponding decline in PIT receipts.

The remaining STAR proposals are projected to result in little or no fiscal impact. These proposals include:

- Relaxing the secrecy rules under the Tax Law, which would allow the Department of Taxation and Finance to release information to local assessors; and
- Making a technical correction to the calculation of the STAR benefit for cooperative housing units.

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[15] A portion of STAR property benefits (for new homeowners or homeowners who change their residences) were converted to a New York State PIT credit in the SFY 2016-17 Enacted Budget. All other homeowners retain the STAR exemption on their property tax bills.

Overall STAR program costs, including both disbursements and tax credits, are projected at $3.08 billion in SFY 2017-18, down $313 million or 9.2 percent from the current fiscal year, reflecting the impact of the current proposal as well as the full-year impact of the changes to the STAR program enacted in SFY 2016-17.

Higher Education

The Executive Budget projects All Funds spending of $8.1 billion for the State University of New York (SUNY), $1.5 billion for the City University of New York (CUNY), $1.2 billion for the Higher Education Services Corporation (HESC), and $10.4 million for other higher education purposes, an overall increase of 1.1 percent from estimated spending in SFY 2016-17, as shown in Figure 22. Projected State Operations spending of $6.3 billion for SUNY represents 58.3 percent of all such spending. The estimated spending for HESC includes $990 million for the Tuition Assistance Program, 3.8 percent higher than the current State fiscal year.

The Budget provides a $253.9 million State Operations appropriation to CUNY for collective bargaining agreement payments in the current academic year; provided that such funding does not increase the State's operating aid to CUNY. It maintains base operating aid for SUNY and CUNY community colleges at $2,697 per FTE student, the same level as in the 2016-17 academic year (AY).

Figure 22

All Government Funds Spending for Higher Education
(in millions of dollars)

	2016-17	2017-18	Change	% Change
SUNY Subtotal	7,972	8,063	92	1.2%
Local Assistance Grants	517	490	-26	-5.1%
State Operations	6,237	6,276	39	0.6%
General State Charges	376	381	5	1.5%
Capital Projects	842	915	73	8.7%
CUNY Subtotal	1,590	1,533	-57	-3.6%
Local Assistance Grants	1,454	1,395	-59	-4.1%
State Operations	93	95	1	1.5%
General State Charges	8	8	0	0.0%
Capital Projects	35	35	0	1.1%
HESC Subtotal	1,081	1,162	81	7.5%
Local Assistance Grants	1,022	1,104	82	8.0%
State Operations	48	47	-1	-2.7%
General State Charges	11	11	0	3.8%
Other Purposes*	5	10	5	92.8%
Higher Education Total	10,648	10,768	120	1.1%

Source: Division of the Budget
*Other purposes is made up of Higher Education – Miscellaneous and the Higher Education Facilities Matching Grants Program.

The Budget proposes a $69.3 million General Fund transfer for SUNY Hospitals, 21.2 percent lower than the SFY 2016-17 Enacted Budget. The Executive Budget Five-Year Capital

Program and Financing Plan anticipates approximately $1.5 billion in disbursements for higher education capital projects in SFY 2017-18, including $1.0 billion for SUNY and $450.4 million for CUNY.

The Budget proposes to allow proceeds from the sale of State-owned property to be used by CUNY in AY 2017-18, including the Masters of Fine Arts building at Hunter College, to offset State support for CUNY. Up to $60 million, "or an alternative amount as determined by the director of the budget," would be used to reduce equally the State's net operating expenses. The Financial Plan projects that Local Assistance spending for CUNY Senior Colleges will go down by $63 million, or 5.2 percent, in SFY 2017-18 compared to the current State fiscal year.

Among other provisions, the Executive Budget also proposes to move an estimated $125.3 million in spending in SFY 2017-18 to support 1,863 FTEs in SUNY that have been deemed as employees that maintain and preserve State assets, from State Operating Funds to Capital Projects Funds.

The Budget proposes the Excelsior Scholarship to provide free SUNY and CUNY tuition for individuals and children of parents that have adjusted gross incomes up to $100,000 in AY 2017-18, $110,000 in AY 2018-19 and $125,000 in AY 2019-20. The plan provides funds for any tuition costs that remain after the State Tuition Assistance Program (TAP), federal Pell and other financial awards, along with tuition credits, have been applied to such costs. Students must attend full-time (at least 15 combined credits per term or its equivalent) and maintain a minimum grade point average necessary for successful completion of their coursework.[16]

Students would not be eligible for awards under the program if they: 1) receive grants and/or scholarships that cover the full cost of their tuition; 2) enroll in more than the number of academic years required to complete their award under full-time study; or 3) already have a bachelor's degree or have an associate's degree and are applying for a two-year program of study. The Financial Plan projects the cost of the Excelsior Scholarship at $71 million in SFY 2017-18, $133 million in SFY 2018-19, $152 million in SFY 2019-20 and $163 million in SFY 2020-21.

The Budget proposes to allow increases in undergraduate, State resident tuition up to $250 per year at SUNY and CUNY for five years, from AY 2017-18 through AY 2021-22. Revenue from such increases would be made available to campuses based on plans for investments in faculty, instruction and student improvement, and for tuition credits for TAP-eligible students. SUNY and CUNY trustees would be required annually to report by September 1 on the use of such revenue for the purposes noted above. This proposal does not provide for State Maintenance of Effort funding.

The Executive proposes to make certain qualified undocumented immigrants eligible for TAP and other State financial assistance programs under the New York State DREAM Act. This Act would require such students to have lived in the State while attending and graduating from a New York State high school (or obtaining a GED diploma) and to attend college within five years of high school graduation. Students would be required to show they have begun or will

[16] SUNY statutory colleges administered by Cornell University and Alfred University would be included in the program. DOB estimates that upon full phase-in, approximately 32,000 additional students would attend college on a tuition-free basis, including some newly receiving TAP and Pell grants. Approximately 180,000 current SUNY and CUNY students pay no tuition due to their eligibility for TAP, Pell and additional awards, according to DOB.

begin legalization of their immigration status. The Financial Plan projects the cost of the DREAM Act to be $19 million in SFY 2017-18 and $27 million each year in SFY 2018-19 through SFY 2020-21.

The Budget further provides:

- $110 million in capital projects funds for the competitive NY SUNY 2020 and NY CUNY 2020 challenge grant programs ($55 million for each system).

- $5 million for apprenticeship programs established in the current State fiscal year, including $3 million for SUNY and $2 million for CUNY.

- $1.8 million for child care centers at SUNY and CUNY community colleges.

The Budget further proposes to:

- Disqualify newly enrolled students from receiving TAP awards if their higher education institution does not limit annual tuition increases to either $500 or the three year average of the Higher Education Price Index (HEPI), whichever is greater.

- Eliminate Bundy Aid for private colleges that raise tuition by more than $500 or the three year average of the HEPI.

- Direct 10 percent of annual prior year's revenue in CUNY-affiliated nonprofit foundations (estimated by the Executive to be $35 million) to fund tuition assistance for eligible students who attend CUNY.

- Provide the State Inspector General (IG) with jurisdiction to investigate SUNY and CUNY affiliated nonprofit organizations and foundations by expanding the definition of a "covered agency" to include these entities. The IG would have authority to investigate complaints of corruption, fraud, criminal activity, conflicts of interest or abuse, and to refer potential criminal findings for prosecution.

- Provide the IG with oversight of the implementation and enforcement of financial control policies at SUNY, CUNY and affiliated nonprofit organizations and foundations. The IG would have the authority to require such not-for-profits to adopt written policies, subject to penalty of ineligibility for aid or assistance from the State, SUNY or CUNY for noncompliance.

Health/Medicaid

The Executive Budget projects overall federal, State and local Medicaid spending in New York of $65.2 billion in SFY 2017-18. The Budget makes no assumptions regarding potential federal policy changes under discussion by Congress and the new President's Administration. The Budget proposes $23.4 billion in State-funded Medicaid spending, which is $1.1 billion, or 5.1 percent, higher than projected spending for SFY 2016-17. From SFY 2016-17 through SFY

2020-21, the Budget projects State-funded Medicaid spending to grow by approximately $4.7 billion, or 20.9 percent, to nearly $27.0 billion in SFY 2020-21.[17]

The Budget proposes a one-year extension of the cap on Department of Health (DOH) State funds Medicaid spending established in 2011, as well as the State Health Commissioner's authority to develop and implement a plan to reduce such spending if it is projected to exceed the cap in either SFY 2017-18 or SFY 2018-19. This authority has not been exercised to date.

The Executive Budget Financial Plan projects DOH State funds Medicaid spending (including the Essential Plan) at $19.5 billion in SFY 2017-18, an increase of $961.0 million, or 5.2 percent, over SFY 2016-17. The $19.5 billion amount would be offset in part by $125 million in payments New York expects to receive under the Master Settlement Agreement with tobacco manufacturers. The Executive proposes to have such funds be deposited directly in the Medicaid Management Information System (MMIS) escrow fund, where the money would defray certain Medicaid costs while shifting such costs off-budget and outside the scope of the annual 2 percent cap on State Operating Funds growth.

The indexed provisions of the Medicaid cap – $18.3 billion – account for the majority of DOH State funds Medicaid spending in SFY 2017-18. These provisions limit the year-to-year growth in such spending to the ten-year average of the medical component of the Consumer Price Index (CPI). For SFY 2017-18, the Executive Budget projects this growth rate to be 3.2 percent, or $567 million, reflecting increases in the costs of health care services, health care utilization and program enrollment.

The DOH Medicaid spending cap is adjusted for State costs associated with the takeover of growth in local governments' Medicaid costs, the assumption of local Medicaid administration responsibilities, and the management of the Essential Plan health insurance program for individuals not eligible for Medicaid. Other adjustments relate to additional federal Medicaid funding available under the federal Affordable Care Act (ACA) and statewide minimum wage increases authorized in the SFY 2016-17 Enacted Budget. The spending cap excludes State payments not appropriated within DOH, as well as most services provided at facilities of the Office of Mental Health (OMH), the Office for People With Developmental Disabilities (OPWDD), and the Office of Alcoholism and Substance Abuse Services (OASAS).

The Medicaid global spending cap for SFY 2016-17 is $18.6 billion. Through November 2016 (the latest available monthly Medicaid global spending cap report on the DOH website), total State Medicaid expenditures subject to the spending cap were $26 million, or 0.2 percent, above projections. Since the cap was established in 2011, Medicaid spending has remained within budgeted limits by the end of each State fiscal year.

The Executive Budget increases State and federal (All Funds) Medicaid spending by $2.2 billion, or 4.1 percent, to nearly $57 billion in SFY 2017-18. Much of this increase is due to higher DOH State funds Medicaid spending, as well as enhanced federal funding New York has been receiving for a new adult eligibility group established by the Affordable Care Act. The

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[17] These figures include $125 million in revenues related to the Master Settlement Agreement with certain tobacco manufacturers in SFY 2017-18 and $400 million annually thereafter. However, the Budget includes a proposal to have such funds be deposited directly to the Medicaid Management Information System (MMIS) escrow fund, an off-budget fund, and be used for certain State Medicaid costs. As a result, these amounts are not included in certain Financial Plan figures in this Report.

Budget projects total Medicaid spending, including local costs, to be $65.2 billion in SFY 2017-18, an increase of $2.0 billion, or 3.2 percent, over SFY 2016-17, as shown in Figure 23.

Figure 23

Total Medicaid Disbursement Estimates
(in millions of dollars)

	2016-17	2017-18	2018-19	2019-20	2020-21
Department of Health	17,841	19,040	20,228	21,196	21,949
Mental Hygiene	4,315	4,258	4,470	4,668	4,860
Foster Care	97	96	101	105	114
Education	50	50	50	50	50
State Share Total	**22,303**	**23,444**	**24,849**	**26,019**	**26,973**
Federal Share	32,428	33,528	34,721	36,379	35,797
Local Share	8,427	8,186	8,127	8,057	8,087
Total Medicaid Spending	**63,158**	**65,158**	**67,697**	**70,455**	**70,857**

Source: Division of the Budget

The Budget projects Medicaid enrollment of 6,284,551 people in SFY 2017-18, an increase of 67,312, or 1.1 percent, over SFY 2016-17. By SFY 2020-21, Medicaid enrollment is projected to reach 6,343,450, or approximately one in three New Yorkers.

The Essential Plan, authorized by the ACA, is a health insurance program for individuals with incomes between 138 and 200 percent of the poverty level who are ineligible for Medicaid or Child Health Plus and do not have access to affordable employer coverage. The Essential Plan also covers individuals with incomes below 138 percent of poverty who are ineligible for federal Medicaid subsidies due to immigration status. The Budget projects Essential Plan enrollment to reach 723,020 individuals in SFY 2017-18, an increase of 9,929, or 1.4 percent, over SFY 2016-17.

The Executive Budget provides $553.3 million to operate the State's health insurance exchange in SFY 2017-18, an increase of $42.9 million, or 8.4 percent, over SFY 2016-17. This increase reflects the costs of enrolling additional New Yorkers in qualified health plans offered on the exchange, as well as Medicaid, the Essential Plan, and the Child Health Plus insurance program, all of which use the exchange for enrollment determinations.

The Budget includes various State DOH Medicaid spending initiatives and savings actions that represent the seventh year of Medicaid Redesign Team (MRT) recommendations, which are described as being intended to contain Medicaid spending and improve quality of care. The package proposes $298.9 million in State spending initiatives, including increases of:

- $175.4 million for higher monthly Medicare Part B premiums and cost-sharing payments to the federal government for the Medicare Part D prescription drug program for individuals dually eligible for Medicaid and Medicare (dual eligibles);
- $118 million to repay the federal government for certain ACA-related Medicaid claims; and
- $5.5 million to comply with federal regulations for reimbursement of covered outpatient drugs in the Medicaid program.

These spending increases are offset by a total of $680.9 million in State savings actions, including decreases of:

- $267 million related to use of DOH Medicaid resources to help replace a loss of federal revenue for developmental disability services;
- $92.6 million in pharmacy spending, including the establishment of rebates for high cost drugs, reducing inappropriate prescribing by eliminating the prescriber's right of final determination(excluding mental health drugs) in fee-for-service and managed care, and reducing coverage of over-the-counter medications;
- $83.1 million in long-term care spending, including reducing quality incentive bonus payments for managed long-term care plans, eliminating nursing home reimbursement for bed hold days for residents who temporarily leave the facility, and requiring spousal contributions and responsibilities for spouses living together in community settings;
- $60.5 million in managed care spending, including requiring Medicare coverage as a condition of Medicaid eligibility, reducing quality incentive bonus payments for mainstream managed care plans, and reducing payments to plans for facilitated enrollment services;
- $25.2 million in transportation spending, including delivering transportation benefits on a fee-for-service basis in managed long-term care, and eliminating supplemental payments to rural transportation networks and emergency medical transportation providers; and
- $152.5 million in various other initiatives, including development of a joint plan to improve Medicaid claiming of School Supportive Health Services in New York City with estimated savings of $50 million annually. If the plan does not receive DOH approval, DOH would be authorized to reduce the City's Medicaid Administration payments by $50 million annually. Other savings actions include reductions of $20 million for supportive housing and $15 million for delivery system reform payments to safety net hospitals and facilities in severe financial distress, as well as $15 million by requiring certain Essential Plan enrollees to contribute monthly premiums toward the cost of coverage and increasing co-payments at the point of service.

The Executive Budget Financial Plan uses the remaining $382 million of these Medicaid spending decreases ($680.9 million in total savings actions less $298.9 million in State Medicaid spending initiatives, identified above) to support additional OPWDD-related Medicaid expenses under the Medicaid spending cap. These expenses are projected to increase by $189 million, or 16.8 percent, to $1.3 billion in SFY 2017-18.

Funding for the Office of the Medicaid Inspector General (OMIG) is proposed to decline by $2.7 million, or 5.3 percent, to $48.2 million in SFY 2017-18. This decline is primarily attributable to a reduction in the agency's workforce, through attrition, by 27 positions to 426 and by achieving "operational efficiencies." OMIG's audit target of State-share Medicaid cash recoveries and cost avoidance for SFY 2017-18 remains $1.16 billion, unchanged from SFY 2016-17.

The Budget proposes $500 million in new health care capital grants – funded with $300 million in State bonds and $200 million in monetary settlement funds – to facilitate mergers, consolidation, acquisition and other restructuring activities. Of the $500 million, $50 million is reserved for Montefiore Medical Center, which has been expanding health care in the Bronx and the lower Hudson Valley, and $30 million is reserved for clinics, home care, primary care, and other community-based providers.

The Executive Budget Capital Program and Financing Plan (Capital Plan) projects overall spending for health care capital projects in SFY 2017-18 to increase by $404.8 million, or 273.8 percent, to $552.7 million. This increase is primarily due to implementation of the $1.2 billion Capital Restructuring Financing program and the $1.4 billion Health Care Facility Transformation program enacted in previous budgets. The Capital Plan anticipates disbursements of $193 million from the Health Care Facility Transformation program and $175 million from the Capital Restructuring program in SFY 2017-18. Disbursements are not anticipated for either program in SFY 2016-17.

The Budget includes Capital spending of $30 million for the Statewide Health Information Network for New York (SHIN-NY), an increase of $5 million over SFY 2016-17, and $10 million for the All Payer Claims Database (APD), an increase of $5 million over SFY 2016-17. Both increases are funded with Health Care Reform Act (HCRA) receipts. The SHIN-NY, when fully operational in March 2018, is intended to create an interconnected network of electronic health records maintained by hospitals, clinics, labs, physicians and other providers to improve patient care quality and reduce health care costs. Full implementation of the APD, a repository of health care data including public and private claims and encounters from insurance carriers, health plans, pharmacy benefit managers, Medicaid and Medicare, is expected in late 2017.

HCRA revenue and spending for various State health care initiatives, including a significant portion of State-share Medicaid spending, are projected by the Executive to remain in balance at $5.7 billion in SFY 2017-18. HCRA receipts are expected to increase by $105 million, or 1.9 percent, due in part to higher health care surcharge collections generated in part by continued growth in health care utilization. HCRA disbursements are projected to rise by $27 million, or 0.5 percent to $3.84 billion in SFY 2017-18, due in part to a $38 million, or 1.0 percent, increase in the portion of State-share Medicaid expenditures supported by HCRA.

As shown in Figure 24, State-share Medicaid spending that would otherwise be financed with General Fund proceeds but instead is funded with HCRA resources (also known as "off-loads") accounts for the largest portion of annual HCRA disbursements in the Executive Budget.

Figure 24

HCRA Spending and General Fund Off-Loads

(in millions of dollars)

	2016-17	2017-18	2018-19	2019-20	2020-21
Medicaid	3,802	3,840	3,811	3,693	3,561
Elderly Pharmaceutical Insurance Coverage	144	145	140	140	140
Roswell Park Cancer Institute	103	103	103	103	103
Total Off-Loads	**4,049**	**4,088**	**4,054**	**3,936**	**3,804**
As a Share of Total HCRA Spending	71.3%	71.7%	70.8%	68.5%	66.6%
Total HCRA Spending	**5,675**	**5,702**	**5,728**	**5,750**	**5,711**

Source: Division of the Budget

HCRA funding for the Roswell Park Cancer Institute in SFY 2017-18 is proposed to include $66.6 million in operational support and $36 million in capital spending.

State Funds support for various DOH public health programs, several of which are financed with HCRA dollars, is proposed to increase by $8.2 million, or 0.4 percent, to $1.9 billion in SFY 2017-18. The increase reflects higher spending of $48.6 million, or 11.7 percent, for State Operations functions and General State Charges (primarily fringe benefits), offset in part by lower spending of $40.4 million, or 2.7 percent, for various Local Assistance programs.

The increase in State Operations spending largely reflects the shift of $66.7 million in New York State of Health Exchange spending from Medicaid to HCRA, offset by $12.7 million in administrative efficiencies and the attrition of 37 DOH FTEs, as well as $4.2 million related to shifting 84 FTEs to DOH's capital budget. The reductions in Local Assistance spending include savings of $24.6 million, achieved by consolidating 39 public health appropriations addressing similar functions into four pools and reducing funding for them by 20 percent. Determinations on how to spend pool amounts are left to DOH.

Additional proposals are estimated to generate State savings of:

- $11 million ($22 million when fully annualized) by reducing the State reimbursement rate for non-emergency public health expenditures in New York City from 36 to 29 percent. Budget documents note the City's access to other forms of public health funding from sources including the federal Centers for Disease Control and Prevention. The Budget preserves the 36 percent reimbursement rate for all other county health departments.

- $3.9 million ($14.3 million when fully annualized) by advancing various revisions to the State Early Intervention program for approximately 68,000 children under age three with autism, cerebral palsy and other disabilities. The revisions increase reimbursement from third-party insurers by facilitating collection of insurance information, maximizing appeals of insurer payment denials and requiring insurers to pay for benefits covered by a child's health insurance policy. The Budget projects these revisions will generate cumulative local government savings of $15 million per year.

- $3.1 million by eliminating the 0.8 percent statutory human services cost-of-living adjustment for various DOH public health providers.

- $2 million by discontinuing a wage increase targeted to direct care workers and direct service providers that DOH providers have not adopted as anticipated because of complexities in identifying targeted workers.

The Budget also includes a proposal to establish a work group with up to 25 members within DOH to advise the Executive on restructuring health care statutes, policies and regulations governing the licensure and oversight of health care facilities and home care services in the State. The work group would be modeled after the State's Medicaid Redesign Team and would include stakeholders from the New York health care industry, as well as State employees with relevant experience and members of the State Legislature or their representatives, all of whom would serve at the pleasure of the Executive. The work group would address issues including:

streamlining the State's certificate-of-need and other licensure or construction approval processes; identifying and streamlining duplicative and inconsistent State and federal standards for quality of care; surveillance and licensure; and creating more flexible rules on licensing and scope of practice for clinicians and caregivers. This proposal is estimated to achieve State administrative savings; however, no specific amount is identified.

The DOH workforce is anticipated to increase by 163 FTE positions, or 3.3 percent, to 5,082 in SFY 2017-18. Of the new FTEs, 106 are intended to provide staff to support the sixth year of the phased State takeover of local administration of the New York Medicaid program. Legislation enacted in 2012 authorizes DOH to assume responsibility for local administration of the program by March 31, 2018.

All Funds spending for the State Office for the Aging (SOFA) is reduced by $12.3 million, or 5.0 percent, to $235.5 million in SFY 2017-18. This reduction includes savings actions of: $3.4 million to be achieved by shifting support for the NY Connects/No Wrong Door program (which provides one-stop access to information for people needing long-term care services) to federal funds; $2 million to be achieved by discontinuing a wage increase targeted to direct care workers and direct service providers that Budget documents indicate was not adopted as anticipated; and $1.6 million to be achieved by eliminating the 0.8 statutory human services cost-of-living-adjustment (COLA) for SOFA providers.

Mental Hygiene

The Executive Budget reduces State-funded mental hygiene spending, including General State Charges, by $15.1 million, or 0.2 percent, to nearly $6.5 billion in SFY 2017-18. All Funds spending, including federal funds and Capital Projects, would increase by $34.3 million, or 0.5 percent, to $7.0 billion (after adjusting for a shift of certain Medicaid funding, the overall increase would be 2.7 percent, as detailed below). Five State agencies are supported by this funding, with All Funds support in SFY 2017-18 projected to change as follows:

- Office for People With Developmental Disabilities (OPWDD) spending would decrease by $53.4 million, or 1.8 percent, to over $2.9 billion.
- Office of Mental Health (OMH) spending would increase by $69.4 million, or 2.1 percent, to over $3.4 billion.
- Office of Alcoholism and Substance Abuse Services (OASAS) spending would increase by $17.2 million, or 2.8 percent, to $625.6 million.
- Justice Center for the Protection of People with Special Needs (Justice Center) spending would increase by just over $1 million, or 2.6 percent, to $42.1 million.
- Developmental Disabilities Planning Council (DDPC) spending would be held flat, with disbursements of $4.2 million.

The All Funds reduction in OPWDD spending reflects a shift of over $1.3 billion in OPWDD Medicaid costs (an increase of $188.8 million, or 16.8 percent, over SFY 2016-17) to the Department of Health (DOH), where those expenditures would be financed within the Medicaid global cap. Adjusting for this cost shift, All Funds OPWDD spending is projected to increase by $135.4 million, or 3.3 percent, to nearly $4.3 billion in SFY 2017-18, with All Funds mental hygiene spending projected to increase by $223.1 million, or 2.7 percent, to nearly $8.4 billion in SFY 2017-18.

Since 2014, certain OPWDD-related Medicaid costs have been financed under the Medicaid global cap within DOH to alleviate the impact of reduced federal revenue associated with reimbursement of Medicaid costs at State-operated facilities providing developmental disability services. The Budget uses $382 million in projected financial plan savings, achieved through net reductions in State DOH Medicaid spending, to help support additional OPWDD-related Medicaid expenses within the global cap. For more information on these projected financial plan savings, see the Health/Medicaid portion of the Programmatic Area Highlights section of this report.

Consistent with both federal requirements and the State's own plans to transition people with disabilities out of segregated settings such as developmental and psychiatric centers into integrated, community-based settings, the Executive Budget would continue to close beds at State-operated facilities. The savings from anticipated bed closures would be used to provide new community services. The Budget provides $3 million ($12 million, when fully annualized in SFY 2018-19) to transition 56 individuals from OPWDD developmental centers and 100 individuals from OPWDD intermediate care facilities to more integrated, community-based support systems in SFY 2017-18. The Budget anticipates $6.2 million in savings from expected census declines associated with the transition of these individuals to the community.

The Budget also proposes $30 million ($120 million, when fully annualized in SFY 2018-19) for new service opportunities to help individuals with intellectual and developmental disabilities living at home or in residential schools transition to adult services within the OPWDD system. These opportunities include housing support, day program and employment options, and respite services. The Budget also provides an additional $12 million in funding for OPWDD crisis services, bringing the total in SFY 2017-18 to $21 million.

Within OMH, the Budget anticipates closing 100 vacant, State-operated beds in SFY 2017-18 and reinvesting $5.5 million in expected savings in additional community services. The Budget also proposes to reconfigure 140 State-operated OMH residential beds into 280 supported housing community beds for net savings of nearly $3 million in SFY 2017-18. OMH expects to save nearly $4 million by reducing overlapping services at its 85 State-operated outpatient clinics.

The Budget proposes to spend $6.8 million for two new wards to accommodate growth in OMH's forensic services program for individuals with mental illness who are involved with the criminal justice system, as well as nearly $30 million for 1,608 OMH community residential beds that were partially phased-in during SFY 2016-17, and to open or phase in 1,170 new community beds in SFY 2017-18.

The Budget anticipates staff reductions through attrition at both OPWDD and OMH as a result of the State inpatient bed closures, with no layoffs of State employees expected. As shown in Figure 25, the Budget projects a total of 606 fewer positions across all five State mental hygiene agencies in SFY 2017-18, a decrease of 1.8 percent from current year staffing levels.

Figure 25

State Mental Hygiene Agency Staff Level Estimates

	2016-17	2017-18	Change	Percentage Change
OPWDD	18,855	18,602	-253	-1.3%
OMH	14,200	13,847	-353	-2.5%
OASAS	741	741	0	0.0%
JUSTICE CENTER	441	441	0	0.0%
DDPC	18	18	0	0.0%
TOTAL	34,255	33,649	-606	-1.8%

Source: Division of the Budget

The Budget includes $200 million to combat the State's heroin/opioid epidemic, an increase of $30 million over SFY 2016-17. This funding will enable OASAS to support 80 new residential beds to be run by not-for-profit providers, open 600 additional opioid treatment slots, fund 10 new regional coalitions to increase community collaboration on prevention and treatment services, and add ten new navigator programs to help those seeking treatment and their families learn about insurance coverage and OASAS treatment options.

The Budget provides a total of $23 million in State funds for minimum wage increases for direct care, direct support and other workers at not-for-profit organizations providing services on behalf of OPWDD, OMH and OASAS. It proposes to defer for one year the 0.8 percent cost-of-living-adjustment (COLA) for not-for-profit service providers funded by OPWDD, OMH and OASAS, for total savings of $31.4 million at these three agencies.

Mental hygiene capital spending is projected to increase by $93.3 million, or 19.8 percent, to $565.5 million in SFY 2017-18. The Budget's capital plan attributes much of the increase to improvements at OMH's inpatient facilities, the construction of community residential sites, various mental health-related general hospital projects, and non-residential community programs.

The Budget proposes Article VII legislation authorizing OMH to open county jail-based programs to restore defendants deemed incompetent to stand trial to competency and operate a corrections-based restoration program within the State Department of Corrections and Community Supervision (DOCCS), provided a county or counties and DOCCS agree to participate. The Budget provides $850,000 to help county jails make infrastructure improvements to provide separate treatment units and anticipates $2.1 million in OMH savings under this initiative. A similar proposal was made by the Executive in 2016 but not enacted by the Legislature.

Human Services / Labor

The Executive Budget proposes nearly $3.3 billion in State spending, including General State Charges, for human services programs operated by the Office of Temporary and Disability Assistance (OTDA) and the Office of Children and Family Services (OCFS) in SFY 2017-18, a reduction of $17.1 million, or 0.5 percent, from SFY 2016-17 spending projections. All Funds spending of $8.1 billion for the two agencies, including federal funds, Capital Projects and General State Charges, would be $71.3 million or 0.9 percent lower than in SFY 2016-17.

All Funds spending for OCFS, whose responsibilities include maintaining a system of residential facilities for juvenile delinquents and offenders, as well as supervising a system of family support and child welfare services in the State, would decrease by $168 million, or 5.4 percent, to $2.9 billion in SFY 2017-18.

Much of that decrease reflects a $62 million reduction in the block grant for State reimbursement of local social service districts' costs for children in foster care, and an $18.9 million reduction in funding for residential placements of children with special needs made by the Committee on Special Education (CSE) in New York City. The foster care reduction reflects an Executive Budget proposal to reduce State costs consistent with estimated declining numbers of children in foster care.

These proposals would shift a total of $23.5 million in State spending to local governments (including $10 million to New York City) in their 2017 fiscal year budgets; in 2018, the local government impact rises to $59.9 million (including $40.4 million to New York City). An additional Article VII proposal would eliminate the State's share of funding for tuition for foster care children placed by the New York City social service district. The financial impact of this proposal on the City of New York would be $5.8 million in its 2017 fiscal year and $23 million in 2018, according to the Executive.

The Budget also requires local governments to use $27 million of the $98 million in federal social services block grant funding the State receives every year, and allocates to counties, for child care subsidies. Prior budgets authorized local governments to use the $27 million at their discretion to fund certain services. The Executive Budget would allow the State to maintain child care subsidies at their current level, while reducing State costs for the program. The Budget also proposes to eliminate a total of $24.8 million in funding for legislative additions included in the current year's Enacted Budget.

The Budget includes Article VII legislation to raise the age of juvenile jurisdiction from 16 to 18, by January 2020. Similar legislation has been included in the past two Executive Budgets, but was not acted upon by the Legislature. Past proposals included full State funding for all State and local responsibilities associated with the legislation. The SFY 2017-18 proposal authorizes State reimbursement of local government costs in counties subject to the property tax cap, if the counties: comply with the property tax cap; develop a plan to raise the age of juvenile jurisdiction; and incur expenses resulting in fiscal hardship by implementing the proposal. The City of New York would not qualify for State reimbursement because it is not subject to the property tax cap.

The Executive Budget increases All Funds spending for OTDA, whose responsibilities include providing temporary cash and other assistance for needy families and individuals, by $96.7 million or 1.9 percent to nearly $5.2 billion in SFY 2017-18.

This increase reflects an $84 million, or 18.5 percent, rise in State-funded public assistance spending to $537.8 million for Safety Net Assistance caseloads. These caseloads are projected to increase slightly to 328,333 residents in SFY 2017-18. The State typically pays 29 percent and local governments, including New York City, 71 percent of the costs of safety net caseloads, which include single adults, childless couples, certain families and persons who have exceeded the 60-month limit on Family Assistance benefits funded solely by the federal government. Safety Net Assistance includes no federal funds.

In SFY 2017-18, the State expects to spend nearly $1.1 billion in federal Temporary Assistance for Needy Families (TANF) block grant funding for Family Assistance benefits, a decrease of $18.9 million or 1.8 percent. The Family Assistance caseload is projected to be 230,387 people, which reflects a decrease of 4,515 or 1.9 percent from the projected caseload for SFY 2016-17.

The Budget also proposes to recoup 100 percent of Lottery winnings for current and former public assistance recipients, up to the amount of assistance they received within the past ten years. Current law authorizes the State to intercept 50 percent of such winnings. This proposal, which would have an effective date of July 1, 2017, is projected to save the State $1 million and local governments $800,000 in SFY 2017-18.

The Budget increases State funding for homeless housing by $10.6 million, or 57.2 percent, to $29.1 million in SFY 2017-18. The Budget also proposes to increase federal TANF funding for summer youth employment by $5 million to $36 million in SFY 2017-18. Federal TANF support for child care subsidies through OTDA would decrease by $33.8 million or 8.4 percent to $369.3 million, offset by an equal increase in General Fund and federal social services block grant support for such subsidies within the OCFS budget.

The Executive Budget proposes All Funds appropriations of nearly $3.7 billion for the State Department of Labor (DOL) in SFY 2017-18, a reduction of $117.1 million, or 3.1 percent, from SFY 2016-17. The Executive attributes the decrease to reductions in estimated unemployment insurance claims as a result of improving economic conditions.

The Budget also includes Article VII legislation to:

- Provide $50 million a year over the next five years to extend the Urban Youth Jobs program, which currently provides tax credits to businesses hiring unemployed, disadvantaged youth in 13 communities around the State, through 2022. The legislation also renames the program the New York Youth Jobs program.

- Extend the State's ability to recover unpaid wages to the top ten shareholders of out-of-state limited liability corporations. The proposal also authorizes DOL to enforce liabilities for unpaid wages on behalf of affected workers. Under current law, individual workers must pursue their own wage collection efforts through the courts.

- Reduce barriers to employment for New Yorkers receiving unemployment insurance (UI) benefits by allowing claimants to earn up to $100 or 40 percent of their UI benefit, whichever is greater, before any reduction in benefit. This initiative seeks to incentivize unemployed individuals to take on part-time work as they search for full-time employment.

Transportation

The Executive Budget projects All Funds transportation spending for the Department of Transportation (DOT), the Department of Motor Vehicles (DMV), and the Metropolitan Transportation Authority (MTA) to total $10.8 billion in SFY 2017-18. This is an increase of $539 million, or 5.3 percent, over the current State fiscal year's spending. Transportation spending from State Operating Funds is projected to increase by $18.7 million, or 0.4 percent, to $5.1 billion. The Budget projects All Funds spending for DOT to be $9.8 billion in SFY 2017-

18, including $6.2 billion for local assistance. This is an increase of 4.1 percent compared to SFY 2016-17.

Capital Projects

For State and federal funds appropriated through the above three agencies' budgets, spending for the State's transportation capital program is projected at $5.6 billion in SFY 2017-18, a 9.6 percent increase from the current year. Spending by DOT represents $4.7 billion of this total, a 7.7 percent increase from the current year, and spending by the MTA is $643.7 million, 25.7 percent higher than in the current State fiscal year. See the MTA section of this Report for more information.

The Budget provides $477.8 million in SFY 2017-18 for local highway and bridge projects through the Consolidated Highway Improvement Program (CHIPS, $438.1 million) and the Marchiselli program ($39.7 million). This funding has been maintained at the same level since SFY 2013-14. The Budget also provides a total of $84.5 million for non-MTA transit capital aid.

Executive Budget documents indicate that $100 million each for the BRIDGE NY and PAVE NY initiatives will be available to localities in SFY 2017-18. However, the Budget does not include appropriations or Article VII language specifically associated with these proposals.

Statewide Mass Transit Operating Aid

The Budget provides almost $5 billion in operating aid to transit systems, a 0.6 percent increase from the current State fiscal year. The MTA would receive almost $4.5 billion while other transit systems are allotted $502 million. Almost $2 billion of the $4.5 billion MTA amount represents revenue from the Metropolitan Commuter Mobility Tax and from MTA Aid Trust funds, made up of other dedicated taxes and fees imposed and collected in the Metropolitan Commuter Transportation District and directly remitted to the MTA.

Department of Motor Vehicles

The Budget proposes $321.9 million in total spending for DMV in SFY 2017-18. This includes $223.5 million in Capital Projects funds that would be used for Department operations. The Budget proposes to increase, or add, the following fees, which would produce a total of $81 million in the coming fiscal year:

- Reinstatement of driving privileges for non-residents, from $25 to $100.
- Certificate of title, from $50 to $100.
- Duplicate certificate of title, from $20 to $40.
- Non-driver identification cards (NDID) marked as NDIDs, $5.
- Driver's licenses, renewals or amendments of licenses marked as REAL ID licenses, $5.

Fees for replacement of NDID cards for crime victims would be waived. The Executive Budget additionally proposes to:

- Collect an additional $3 million annually from the New York City Traffic Violations Bureau for deposit to the General Fund to reimburse the State for information technology services it provides.

- Amend Penal Law and Vehicle and Traffic Law to:
  - Make toll avoidance a theft of services misdemeanor;
  - Authorize DMV to enter into reciprocal agreements with other states and Canada to target toll violators outside of State borders; and,
  - Prohibit driving on toll roads with altered or obscured license plates.

Ride-hailing

The Budget includes a proposal to regulate the activity of transportation network companies (TNCs), also known as ride-hailing or ride-sharing services, throughout New York State. Ride-hailing is currently authorized only in New York City. TNCs outside the City would be subject to a 5.5 percent gross receipts tax, and municipalities would not be allowed to impose a tax, fee or surcharge on such companies or participating drivers. The State would regulate TNCs exclusively and municipalities would continue to apply or adopt local traffic and parking controls.

TNC drivers would pay fees to the companies to receive connections to potential passengers and related services from the TNC. Under the Executive Budget proposal, drivers would be required to maintain insurance through their own purchase of a policy, a group policy, or a combination of the two.

For driver applications, the TNC or a third party would annually:
- Conduct local and national criminal background checks, including a review of whether applicants are listed on the New York State sex offender registry or the United States Department of Justice (USDOJ) National Sex Offender public website; and
- Obtain and review driving history reports.

Among other requirements, applicants would not be allowed to drive for a TNC if:
- They are a match on the USDOJ Sex Offender website;
- They have received certain convictions within the last three years; or
- They have received sex offense, violent felony or certain other felony convictions within the last seven years.

TNCs further would be required to:
- Apply a zero-tolerance policy to drivers concerning use of drugs and alcohol; and
- Adopt a non-discrimination policy for passengers and potential passengers, including providing access to people with a disability.

The proposal would require DMV to be responsible for monitoring compliance of TNCs, including inspecting company records and investigating complaints. TNCs would be allowed to exclude information identifying specific drivers when providing records to the DMV for this purpose. Also, such records used by the DMV would be confidential.

This proposal would establish a not-for-profit corporation, the New York Transportation Network Company Driver's Injury Compensation Fund, to provide workers' compensation insurance to ride-hailing drivers. TNCs would be required to become members of this Fund.

The Financial Plan anticipates that revenue from the TNC assessment would total $16 million in SFY 2017-18 and $32 million annually from SFY 2019-20 through SFY 2021-22. Costs associated with this proposal include the addition of an estimated five new staff positions at DMV. The Executive indicates that costs from this measure in SFY 2017-18 would be $916,000, with $843,000 of this amount recurring.

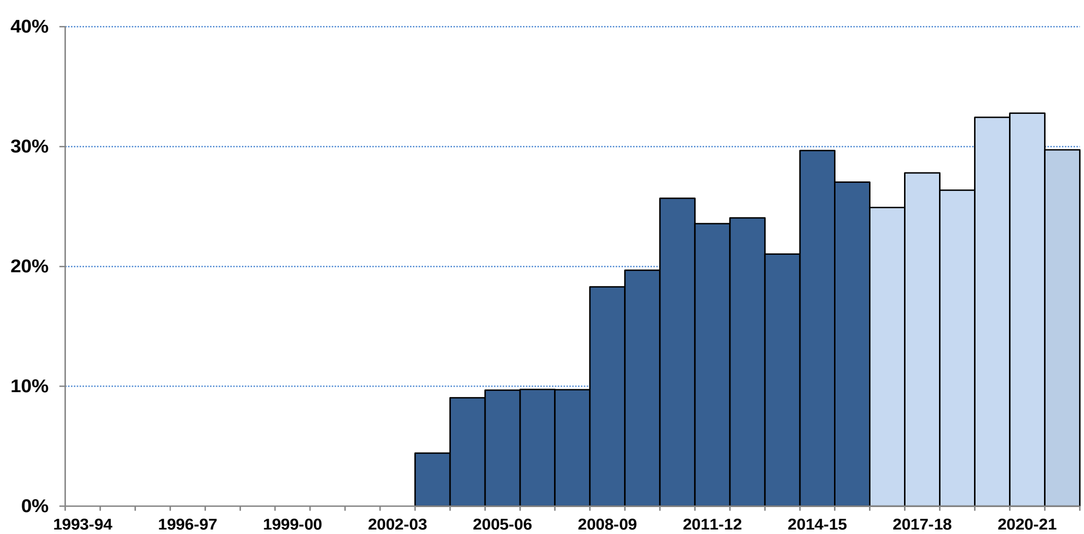
Dedicated Highway and Bridge Trust Fund

The Dedicated Highway and Bridge Trust Fund (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 and debt service.

The DHBTF also continues to rely on transfers from the General Fund and from the Federal Capital Projects Fund. The Executive Budget Financial Plan projects a General Fund subsidy for the DHBTF of $644 million in SFY 2017-18 (with authorization for up to $720 million). The General Fund subsidy is projected to grow to $918.5 million in SFY 2020-21, and subsequently decline to $753.9 million in SFY 2021-22. Total General Fund transfers into the DHBTF from the time they were first authorized in SFY 2004-05 through SFY 2015-16 have been $4.03 billion. The projected total from SFY 2016-17 through SFY 2021-22 is anticipated to be an additional $4.3 billion.

Figure 26

Transfers as a Percentage of All Funds DHBTF Revenues



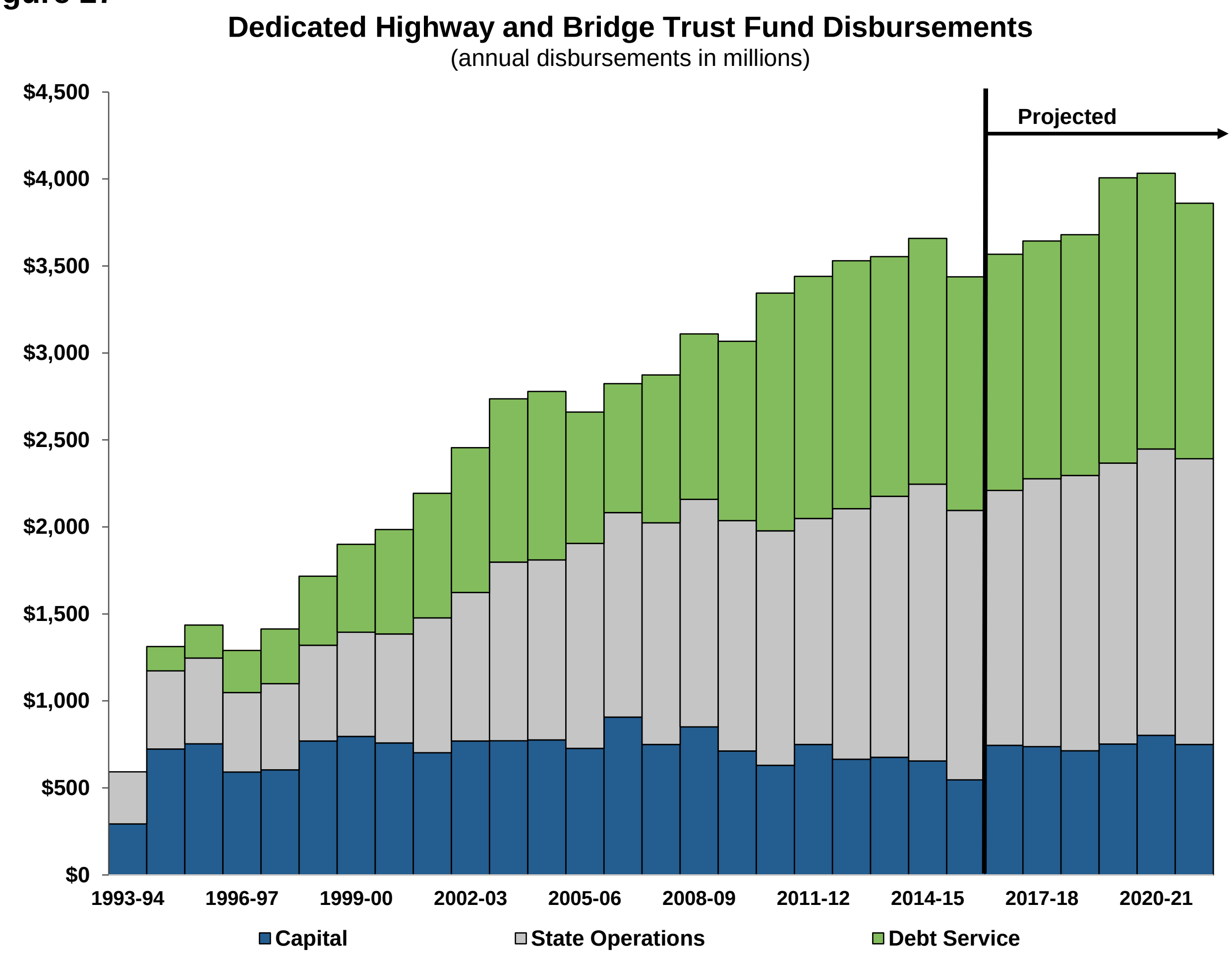
Sources: Division of the Budget, Office of the State Comptroller
Note: DOB estimates are presented in lighter shade.

As Figure 26 shows, the percentage of DHBTF revenues comprising and estimated to comprise transfers from other funds has grown steadily since SFY 2003-04. This trend moderated slightly after spikes in SFY 2010-11 and SFY 2014-15, but projections indicate this dependence will increase in SFY 2019-20 and SFY 2020-21, when transfers are projected to represent over 32 percent of all Fund revenues, before declining in SFY 2021-22 to under 30 percent.

Total projected disbursements from the DHBTF in SFY 2017-18 are $3.6 billion. Capital disbursements, the ostensible purpose for the existence of the Fund, are projected to total $736.6 million in SFY 2017-18, down 1.0 percent from the SFY 2016-17 estimated amount of $744.3 million (Figure 27). Capital spending is projected to represent slightly over one-fifth of total DHBTF spending.

Debt Service disbursements from the DHBTF for SFY 2017-18 are projected to total $1.37 billion, or $7.8 million more than in SFY 2016-17. As a proportion of all spending from the DHBTF, debt service is expected to decrease from 38.1 percent in SFY 2016-17 to 37.5 percent in SFY 2017-18. State Operations spending is expected to total $1.54 billion in SFY 2017-18, or 42.3 percent of DHBTF disbursements. Projections for both through SFY 2021-22 indicate that the proportion spent on Debt Service will increase slightly to 38.1 percent and the percentage spent on State Operations will remain about the same at 42.5 percent.

Figure 27



Sources: Division of the Budget, Office of the State Comptroller
Note: DOB estimates are presented in lighter shade.

Economic Development

The Executive Budget increases All Funds spending for the State's economic development programs by $82 million or about 3.3 percent, from $2.5 billion in SFY 2016-17 to nearly $2.6 billion in SFY 2017-18. This growth reflects net increases in State Operations and Capital Projects funding of $1.3 million and $92.5 million, respectively, partially offset by a $10.1 million decrease in Aid to Localities funding.

The growth in State Operations funding reflects an increase in personal service costs due to the new Public Employees Federation (PEF) contract, as well as $1 million in contractual services from the Commerce Economic Development Assistance Account which provides marketing services. That additional funding would be included as part of the Governor's proposal to provide $55 million in funding for tourism. However, specific details regarding how this additional money would be spent were not provided.

The decrease in Aid to Localities primarily reflects the elimination of funding added by the Legislature in the SFY 2016-17 Enacted Budget. This includes a reduction in the funding for the State's ten centers of excellence from $1 million to $872,000 per center. Funding for the Albany Center of Excellence in Atmospheric and Environmental Prediction and Innovation, which was added in the SFY 2016-17 Enacted Budget, would be eliminated. Funding for the Economic Development Fund, which provides grants and loans for projects whose purposes are enumerated within the Urban Development Corporation Act, would also be reduced by $5 million.

Offsetting a portion of the decrease in the overall Aid to Localities funding is an increase of $6.25 million for the State's marketing programs. This includes a $2 million increase, from $5 million to $7 million, for the Market New York program to promote attractions around the State.

A new appropriation of $1.45 million would be provided to promote agri-tourism and the State's food and beverage products. This funding would be allocated to three entities – $500,000 to the Cornell Cooperative Extension of Broome County, $350,000 for the Montgomery County Chapter of NYARC and $600,000 to the Cornell Cooperative Extension of Nassau County – which operate the Taste NY stores in Binghamton, Montgomery County, and Long Island. This appropriation would be used to provide funding for the ongoing activities at these stores.

The Executive Budget includes $69.5 million, an increase of $3 million from SFY 2016-17, for tourism and business marketing, including marketing for the Excelsior Business Program (formerly known as START-UP NY) and the Global NY initiative. While the $3 million increase is to be spent on tourism funding, there is no detail provided regarding how the funding would be allocated to each of the marketing programs.

The $92.5 million increase in Capital Projects funding is a net increase in such funding through the Urban Development Corporation (UDC) and the economic development funding from the Dedicated Infrastructure Investment Fund (DIIF) within the Miscellaneous – All State Departments and Agencies appropriations. Over the past two years, appropriations from the DIIF for economic development programs have alternated from being made through UDC and the DIIF from the All State Departments and Agencies appropriation. For example, $255 million in appropriations were provided from the DIIF All State Departments and Agencies appropriation in SFY 2016-17, whereas $1.5 billion in appropriations from the DIIF were included in appropriations for UDC in SFY 2015-16.

No new appropriations are included in the Budget or assumed in the Executive's proposed Capital Program and Financing Plan (the Capital Plan) for the following programs and projects, which received funding from appropriations totaling nearly $1.8 billion in SFY 2016-17:

- High technology manufacturing projects in Erie and Chautauqua Counties - $685.5 million;
- Nano Utica - $638 million;
- The Upstate Revitalization Program - $200 million;
- Industrial scale research and development facility in Plattsburgh - $125 million;
- Economic Development projects - $85 million;
- Brookhaven Laboratory - $10 million; and
- SUNY College of Nanoscale Science and Engineering (CNSE) - $15 million.

The $15 million in funding for CNSE was to be the initial round in a multiyear commitment of $60 million related to the State's support for a project at the College's Albany campus that would develop next-generation computer chip technology using 450 millimeter (mm) wafers. However, the industry consortium involved with the facility recently disbanded, resulting in the elimination of future funding. The State previously provided a total of $300 million to the project in SFY 2012-13 and in SFY 2014-15.

The capital funding for the Brookhaven Lab was to be the first installment of a $50 million commitment to be paid over five years. There is no plan for the appropriation of the remaining amount of the commitment in the Capital Plan.

The reappropriation of the $638 million in funding authorized in SFY 2016-17 for Nano Utica would be amended to include other unspecified economic development projects in Oneida County while also retaining the language for funding of economic development projects at Nano Utica. The Empire State Development Corporation (ESDC) has indicated that it plans to find a replacement for ams AG, which had been expected to build a computer chip factory at Marcy Nanocenter.

The Executive Budget includes nearly $1.9 billion in capital funding for nine new projects or programs, as follows:

- Moynihan Station - $700 million;
- Buffalo Billion II - $400 million;
- Life Sciences Initiative - $300 million;
- Strategic Projects Program - $207.5 million;
- Life Sciences Laboratory Public Health Initiative - $150 million;
- Kingsbridge Armory - $108 million;
- Cultural, Arts, and Public Spaces Fund - $10 million;
- Water treatment systems for the City of Auburn and Town of Owasco (both in Cayuga County) - $2 million; and
- A memorial to commemorate the June 12, 2016 terrorist attack targeting the lesbian, gay, bi-sexual, and transgender (LGBT) community in Orlando, Florida - $1 million.

As part of his State of the State address in Buffalo, the Governor announced a second round of funding under the Buffalo Billion initiative. The announcement stated that an additional $500 million in funding would be provided for initiatives in Buffalo, Niagara Falls, and the surrounding communities. Of the $500 million in funding, $400 million is appropriated for UDC through the DIIF. According to the Capital Plan, this appropriation would be cash spending as opposed to bond financed. The Executive indicates the cash devoted to this purpose would come from settlement funds. It is unclear how the remaining $100 million in funding would be allocated, as there do not appear to be other appropriations specifically identified for this portion of the second round of funding. DOB has indicated that the remaining funding for this initiative is included in appropriations of other agencies for projects in Western New York.

The Life Sciences Initiative would provide $650 million through a combination of capital funding and tax credits for research and development in the life sciences industry. Of the total funding, $300 million is appropriated from the DIIF, including funding for $200 million in capital grants and $100 million in investment capital. The investment capital is intended to be combined with $100 million in matching funds from the private sector, but the Budget includes no statutory language or plan detailing requirements for this match. Similar to the funding for the second phase of the Buffalo Billion, the capital funding is anticipated to be provided as cash from the DIIF as opposed to being bond financed.

The $207.5 million in funding for the Strategic Projects Program includes no allocations for specific projects and no detail regarding how the funds would be allocated. The appropriation is broadly drafted to allow funding for services and expenses, loans and grants related to strategic economic development projects that create or retain jobs or support innovation. DOB indicates that the focus of the funding from this appropriation would be on nanotechnology, specifically on projects that are currently being funded that may need additional funding to continue, including SUNY Poly projects.

There is also no specific allocation of projects that would receive funding under the Cultural, Arts, and Public Spaces Fund. The appropriation language is broadly drafted to allow funding for projects including but not limited to promotion of business development and increasing tourism. According to DOB, this funding would be allocated by the regional economic development councils (REDCs). Each region would be allocated $1 million in funding to be spent on projects such as museums, parks, or amphitheaters. In addition, capital funding for allocation through the REDCs would continue at $150 million.

The reappropriation for the Transformative Investment Program, which was included in the SFY 2015-16 Enacted Budget, is amended to: reduce the funding for “all other projects” from $219 million to $100 million; increase the funding for the renovation and expansion of MacArthur airport on Long Island from $6 million to $20 million; and to identify funding for the following projects :

- Smithtown Business District Sewer Improvement Area - $20 million;
- Kings Park Waste Water Treatment Facility - $20 million;
- Renovations to LIRR stations at Great Neck, Valley Stream, Merrick, Bellmore, Baldwin, Deer Park, Syosset, Northport, and Stony Brook - $45 million; and
- LIRR Brookhaven connection project - $20 million.

Certain other economic development proposals that were announced by the Executive in conjunction with the State of the State addresses have no specific appropriations identified in the Budget but, instead, are indicated to be funded with existing resources. These include: $10 million for the Photonics Venture Challenge in Rochester; tax free areas for life sciences researchers; $2.1 million for the expansion of Datto Inc. in Rochester; and $10 million for Saab Defense and Security in East Syracuse.

Article VII provisions associated with the State's economic development programs include proposals to extend for one year the general loan powers of UDC, the administration of the Economic Development Fund, and the requirements of the Minority and Women-owned Business Development program.

The Executive Budget also includes a proposal to rename the START-UP NY program the Excelsior Business Program, and to make amendments to the program as follows:

- Eligibility would be limited to start-up or early stage businesses;
- Businesses that are publicly traded or have more than 25 employees would not be eligible;
- Tax-free areas could include space or land of affiliates of a State university, community college or city university. This would include land and space of the SUNY Research Foundation or the Fort Schuyler Management Corporation;
- The business would have to create a minimum of one job in the first five years to receive benefits;
- The business must develop and produce a product or service within the tax-free area and agree to locate all its business activities in tax-free areas;
- A statutorily required report on the Excelsior Jobs Program would be required annually instead of quarterly, as under current law; and
- Businesses could receive tax benefits from both the Excelsior Jobs Program and the Excelsior Business Program if they create at least five jobs. Excelsior Jobs tax credits include a jobs tax credit, an investment tax credit, a research and development tax credit, and a real property tax credit.

Housing

The Executive Budget proposes $416.6 million in All Funds spending for the Division of Housing and Community Renewal (DHCR) for SFY 2017-18, an increase of $154.6 million or 59 percent. This growth is primarily driven by $153.5 million in anticipated local assistance spending increases for housing programs.

The Budget appropriates $526.5 million in new capital funding for the Affordable Housing and Homeless Plan. Appropriation language states that up to $500 million of this funding would be available in SFY 2019-20 and $26.5 million in SFY 2020-21. This brings total appropriations for the plan to $2.5 billion. These funding amounts reflect combining reappropriations from the SFY 2016-17 Capital Projects Budget housing program appropriations of $590 million (derived from the Dedicated Infrastructure Investment Fund) and $1.4 billion from the Housing Program

Fund, with the proposed $526.5 million appropriated in the SFY 2017-18 Executive Budget.[18] These funds are intended to support:

- $950 million for the construction of 6,000 supportive housing units.
- $601 million for new construction or adaptive reuse of rental housing affordable to households earning up to 60 percent of area median income (AMI).
- $177 million for substantial or moderate rehabilitation of affordable multi-family rental housing currently under a regulatory agreement.
- $150 million for new construction, adaptive reuse, or reconstruction of rental housing affordable to households that earn up to 130 percent of AMI.
- $125 million for substantial or moderate rehabilitation and/or the demolition and replacement through new construction of public housing authority developments outside of New York City.
- $125 million for developing or rehabilitating affordable housing targeted to low-income seniors aged 55 and above.
- $100 million to preserve and improve Mitchell-Lama properties throughout the State.
- $100 million for projects and improvements at housing developments owned or operated by the New York City Housing Authority.
- $62.5 million for rehabilitation and/or the demolition and replacement of buildings of 5 to 40 units.
- $45 million for mixed-use affordable housing developments that may include retail, commercial, or community development components through the Rural and Urban Community Investment Fund.
- $41.5 million for promoting home ownership among families of low and moderate income and stimulating the development, stabilization, and preservation of New York communities.
- $13 million for mobile and manufactured home programs.
- $10 million for stimulating reinvestment in properties located within mixed-use commercial districts located in urban, small town, and rural areas of the State.

The Budget amends and reauthorizes the 421-A tax abatement program, renaming it the Affordable New York Housing Program.

The Budget provides for the use of $141.5 million in "excess" Mortgage Insurance Funds for housing programs as follows:

- $41 million to the Housing Finance Agency (HFA) for Mitchell-Lama rehabilitation projects.
- $36 million to the Housing Trust Fund Corporation (HTFC) for the Rural and Urban Community Investment Fund program.
- $22.96 million to the HTFC for the rural rental assistance program.
- $21 million to the HTFC for the Low Income Housing Trust Fund program.
- $8.5 million to the HTFC for the Neighborhood Preservation Program.

[18] A requirement in previous appropriations that spending of these funds be subject to a Memorandum of Understanding (MOU) among the Director of the Budget and State legislative leaders has been removed in the Executive Budget proposal.

- $6.5 million to the Homeless Housing and Assistance Corporation for the New York State Supportive Housing Program, the Solutions to End Homelessness Program, or the Operational Support for AIDS Housing Program.
- $3.5 million to the HTFC for the Rural Preservation Program.
- $2 million to the HTFC for the Homes for Working Families program.

Environment and Parks

Environment

The Executive Budget proposes $1.24 billion in All Funds spending for the Department of Environmental Conservation (DEC) in SFY 2017-18, an increase of $228 million or 23 percent over projected SFY 2016-17 spending. This increase is associated with capital spending from the newly proposed $2 billion Clean Water Infrastructure Act and other capital investments. In addition, the Budget increases New York Works capital appropriations for DEC projects by $30 million to $70 million. This funding will support improvements in access to State lands, rehabilitation of campgrounds and updates of DEC buildings, as well as dam safety and flood control projects. The Executive identifies the projects supported by New York Works capital in the DEC budget as the Adventure NY program.

A proposed new $2 billion appropriation is included in the Budget with language indicating that $400 million will be made available in each of the next five fiscal years. Each $400 million annual allocation would be made available for:

- Projects authorized by the New York State Water Infrastructure Improvement Act of 2015, for which a total of $400 million was appropriated in the SFYs 2015-16 and 2016-17 budgets;
- Regional water infrastructure projects;
- Water quality improvement projects, including for the proper management of road salt;
- Green infrastructure projects;
- Land acquisition projects for source water protection pursuant to Title 33 of Article 15 of the Environmental Conservation Law; and
- Transfer to the Hazardous Waste Remedial Fund for site remediation.

The $400 million allocation for SFY 2017-18 would also be available for:

- State assistance payments and services and expenses of soil and water Conservation Districts for water quality protection projects, intended to assist concentrated animal feeding operations;
- Replacement of lead drinking water service lines;
- A study related to the consolidation of water systems; and
- Development of information technology systems.

The appropriation would be financed through bonds issued by the Environmental Facilities Corp. (EFC).

Article VII language accompanying the Budget proposes to establish the Clean Water Infrastructure Act of 2017. This Act is not specifically referenced in the new $2 billion appropriation, although the purposes of the Act align with the language of the appropriation.

Specific actions supported under the program include drinking water distribution improvements, installation of water filtration systems, lead service line replacement, wastewater treatment infrastructure improvements, strategic open space conservation and farmland protection purchases, measures to speed the cleanup of toxic waste sites and the development of green infrastructure. The Article VII proposal would:

- Amend the Environmental Conservation Law (ECL) to establish a source water protection program for acquisition of open space and conservation easements on farmland to protect surface waters or aquifers that are sources of drinking water.
- Amend the ECL to create a new remedial program to clean up contaminated sites that are known or suspected sources of contamination of drinking water supplies.
- Amend the Public Authorities Law to authorize EFC to create a regional water infrastructure grants program to support regional waste water and drinking water infrastructure projects. Grants will be made with funding appropriated in the State budget for this purpose.
- Amend the Public Health Law to authorize the DOH to provide grants to municipalities for the purpose of replacing lead drinking water service lines. Grants would be awarded without a formal competitive process based on the cost of replacing the lines and the number of people affected, with priority given to low-income communities.

The Executive Budget appropriates $300 million for the Environmental Protection Fund (EPF). Funding highlights include: $40.9 million for solid waste programs; $86.8 million for parks and recreation; $150.6 million for open space conservation; and $21.7 million for climate change mitigation and adaptation. The Executive proposal creates a new account—the Climate Change and Mitigation Account—within the EPF and increases from $15 million to $23 million the amount of unclaimed deposits returned to the State under New York State's container deposit law that are subsequently deposited to the credit of the EPF.

The Budget's other environmental proposals include:

- Amending the Public Health Law to create an emerging contaminant monitoring program. Under this program, DOH would promulgate and periodically update a list of emerging drinking water contaminants and concentrations of concern for these contaminants. All public water systems in the State would be required to test for these contaminants at least every three years. If the contaminants are detected in hazardous concentrations, the DOH Commissioner would be empowered to require actions to reduce exposures by the operators of public water systems. The program includes financial assistance for systems if compliance with the program can be shown to cause a financial hardship.

- Amending the Public Health Law to create a residential well testing program. The DOH Commissioner would be directed to adopt regulations with requirements for testing of residential wells, including a list of potential contaminants. This list may vary by county based on the likelihood that certain contaminants may be present. Under the program, all residential wells must be tested before a property sale, and wells serving rental properties must be tested every five years with the results shared with tenants. The program calls for the State to provide financial assistance to owners of property serviced by private wells if compliance with the program can be shown to cause a financial hardship.

- Classifying a portion of the Environmental Protection and Spill Compensation Fund (Oil Spill Fund) spending related to response, remediation and cleanup of petroleum spills as capital funding. A portion of license fees and penalties authorized by the Navigation Law would be deposited into a newly created New York environmental protection and spill remediation account in the Miscellaneous Capital Projects Fund. Under the Executive proposal, all authorized costs associated with the remediation of oil spills incurred by the DEC within appropriation limits would be paid from the new account.

- Creating a new food scraps donation and recycling program. By 2021, restaurants and grocery stores that generate two tons or more of food scraps and excess food a week would be required to separate this food from other waste and donate excess food for consumption or transport this material to a licensed facility for recycling.

- Establishing a plan of self-insurance for State-owned structures and their contents that are located in areas designated by the federal government as requiring flood insurance. Under federal regulations, states that establish a self-insurance plan may be exempt from flood insurance requirements.

Parks

The Executive Budget proposes $333.2 million in All Funds spending for the Office of Parks, Recreation and Historic Preservation (Parks) for SFY 2017-18, an increase of $1.4 million over projected SFY 2016-17 spending. The Budget includes $120 million, an increase of $30 million, in New York Works capital funding for capital improvements in State parks, recreation and historic facilities.

The Budget for SFY 2017-18 proposes to fund phase one of the proposed Empire State Trail network construction with $53 million. Trail construction will occur in three phases. The Empire State Trail network would stretch from New York City to the Canadian border near Plattsburgh and from Albany to Buffalo along the route of the Erie Canal. Appropriations totaling $200 million in support of trail construction are included in the capital projects budget for the Hudson River Valley Greenway Communities Council ($123 million) and the New York State Power Authority ($77 million).

The Budget proposes to increase State assistance payments under the State Waterfront Revitalization program from 50 percent to 75 percent of total project cost.

Agriculture

The Executive Budget proposes $102.5 million in All Funds spending for the Department of Agriculture and Markets (Ag and Markets) for SFY 2017-18, an increase of $4.8 million.

The following amounts would be available for programs promoting sales of New York grown agricultural commodities:

- Taste New York ($1.1 million);
- New York Grown and Certified ($35.7 million); and
- FreshConnect farmers market program ($625,000).

The Budget also proposes $750,000 for the Farm-to-School Grant program and $416,000 for the Agriculture in the Classroom program.

A total of $55.5 million is appropriated through Ag and Markets for State Fairground improvements in SFY 2017-18. Projects include a multi-use events building, development of a gondola to transport visitors between the fairgrounds and the Onondaga County Lakeview Amphitheater, parking improvements and a new on-ramp to Interstate 690.

Energy

The Executive Budget proposes $77.4 million in All Funds spending for the Department of Public Service (DPS) for SFY 2017-18, an increase of $3.1 million over SFY 2016-17.

The Budget proposes $28.3 million in State-funded spending for the New York Power Authority (NYPA) for SFY 2017-18, an increase of $26.4 million over SFY 2016-17 associated with the Empire State Trail. The proposal for NYPA contains State Operations appropriations of $35 million to address contingent liability to the State associated with potential defaults related to the transfer of ownership of the James A. FitzPatrick Nuclear Power Plant from Entergy Corporation to Exelon Corporation. An additional State Operations appropriation of $215 million is included in the NYPA State Operations Budget to repay funding transferred by NYPA to the General Fund.

The Budget proposes $25.6 million in All Funds spending for the New York State Energy Research and Development Authority (NYSERDA), an increase of $11.3 million, reflecting growth in capital spending.

The proposed budget for NYSERDA for SFY 2017-18 includes $1.3 billion in revenues from all sources. Of this amount, $1.2 billion is not appropriated in the State Budget, including:

- Utility surcharge assessments authorized by orders of the New York State Public Service Commission (PSC) – $564.1 million;
- Sale of renewable energy credits and zero-emission credits as authorized in PSC orders in the Clean Energy Standard proceeding – $485.6 million; and
- Auction of allowances to emit greenhouse gases under the Regional Greenhouse Gas Initiative (RGGI) – $153.4 million.

Other energy-related items proposed in the Executive Budget include:

- $88 million in new Office of General Services (OGS) appropriations to construct a cogeneration plant and microgrid to provide electricity and heat to the Empire State Plaza and surrounding municipal buildings in Albany. This project is projected to reduce greenhouse gas emissions by 25,600 tons per year.

- Authorizing the Department of Agriculture and Markets (Ag and Markets), Parks, DEC and the Department of State to be reimbursed for the expenses of participating in DPS proceedings with funding from the utility assessment authorized under Section 18-a of the Public Service Law.

- Authorizing NYSERDA to collect up to $19.7 million in an assessment on gas and electric utilities. NYSERDA would be directed to transfer $1 million to the State General Fund for the DEC, $150,000 to the State General Fund for Ag and Markets and $750,000 to the University of Rochester laboratory of laser energetics. Remaining funds can be used for:
    - the energy research, development and demonstration program;
    - the zero emissions and electric vehicle rebate program; and
    - the Fuel New York program.

- Authorizing NYSERDA to transfer to the General Fund $23 million in proceeds from the auction of carbon dioxide emission allowances under RGGI. This transfer is intended to offset the impacts on the State's Financial Plan of tax credits associated with biofuel production, clean heating fuel, alternative fuel and electric vehicle recharging stations, as well as residential and commercial solar energy systems.

- Extending the repeal date for charges on oil and gas producers to support the development of unit of production values by the Department of Taxation and Finance three years, from March 31, 2018 to March 31, 2021. The development of unit of production values is a component of establishing real estate taxation rates for oil and gas production property.

- Extending a tax credit that accrues to parties who install equipment to refuel alternative fuel vehicles, or recharge electric vehicles. The tax credit is equal to the lesser of $5,000, or 50 percent of the cost of the equipment.

Public Protection / Criminal Justice

The Executive Budget would reduce State-funded Public Projection/Criminal Justice spending, including General State Charges, by $62.5 million, or 1.6 percent, to approximately $3.8 billion in SFY 2017-18. All Funds spending would decrease by $588 million, or 9.7 percent, to approximately $5.5 billion in SFY 2017-18. Proposed changes in spending for the seven largest agencies supported by this funding are as follows:

- Department of Corrections and Community Supervision (DOCCS), up $50.2 million, or 1.7 percent, to $3.0 billion.
- Division of Homeland Security and Emergency Services (DHSES), down $611.0 million, or 35.6 percent, to $1.1 billion.
- Division of State Police, down $64.3 million, or 7.7 percent, to $767 million.
- Division of Criminal Justice Services (DCJS), down $10.5 million, or 4.5 percent, to $224.2 million.
- Division of Military and Naval Affairs (DMNA), down $2.4 million, or 1.9 percent, to $128.2 million.
- Office of Indigent Legal Services, up by $33.6 million, or 46.9 percent, to $105.3 million.
- Office of Victim Services, up $16.8 million, or 28.2 percent, to $76.6 million.

- All other agencies in this category – including the Commission of Correction, the Commission on Judicial Conduct, the Commission on Judicial Nomination, State Judicial Screening Committees and the Statewide Financial System – decrease by a cumulative net of $201,000, or 0.5 percent, to $38.4 million.

The Budget also advances proposals to: establish a hate crimes task force; reduce the penalty for publicly possessing a small amount of marijuana; update criminal laws protecting privacy and personal, financial and intellectual property to address cyber threats; modify the criminal justice system by, for example, requiring video recording of interrogations for serious offenses and improving witness identification procedures; and allow certain parolees to reduce their terms of supervision for good conduct.

The increase in spending for DOCCS reflects $13 million in higher drug, hospital and energy costs, $8.3 million to fill an additional 165 full-time equivalent security staff positions, $1.5 million in collective bargaining increases, and $500,000 toward the creation of a 50-bed dormitory for older inmates at the Ulster Correctional Facility offset, in part, by savings actions that include $13.6 million in overtime reduction and $2.6 million by reducing visitors' days at maximum security facilities from seven to three days a week. This latter proposal would reduce the number of DOCCS FTEs by 39 positions. The overall DOCCS staffing level is projected to increase by 126 FTEs, or 0.4 percent, to 29,215 positions in SFY 2017-18. The State prison population is projected to decrease by 500 inmates, or 1.0 percent, to 51,000 individuals, continuing a downward trend from a peak of more than 72,000 in the late 1990s.

The decrease in spending for DHSES, which works to prevent, prepare for, respond to and support recovery from terrorism and other man-made and natural disasters, threats, fires and emergencies, is due to the completion of disaster recovery projects resulting from Hurricane Irene and Tropical Storm Lee. The Budget supports a total of 570 FTEs within DHSES, an increase of 98 FTEs or 20.8 percent, and includes the creation of a new Cyber Incident Response Team to help protect State agencies and local governments from cyberattacks, a transportation security training program for airport employees statewide, and a swift water rescue simulator at the State preparedness training center at the Oneida County Airport in Oriskany.

The decrease in funding for DCJS, whose responsibilities include law enforcement training, collection and analysis of statewide crime data, maintenance of criminal history information and fingerprint files, reflects the elimination of $18.1 million in various local assistance programs, including aid to prosecution and defense, rape crisis centers, anti-gun violence initiatives, legal service providers and immigrant legal services. The Budget also proposes a $3.4 million reduction in local grants for various criminal justice activities. The Budget supports a total of 436 FTEs within DCJS, unchanged from SFY 2016-17.

The Office of Indigent Legal Services oversees the State's county-based system to provide legal representation to individuals who cannot afford their own attorney. The proposed increase in funding represents, in part, $8.7 million in additional State funding to continue implementation of a legal settlement agreement to improve the public defense system in five counties (Onondaga, Ontario, Schuyler, Suffolk and Washington) in which certain criminal defendants were deemed to have been deprived of the right to legal counsel. The Budget also provides $1.3 million to develop a statewide plan to reform the public defense system. In addition, it provides $310,000 for three new FTEs to assist with grant administration, increasing the Office's workforce to 22 positions in SFY 2017-18.

The increase in funding for the Office of Victim Services is largely due to lower-than-anticipated spending in the current State fiscal year that is now expected to occur in SFY 2017-18. Article VII language proposes to expand eligibility for Victim Services payments to include individuals suffering emotional trauma from non-physical injury crimes such as menacing, criminal mischief and robbery. According to Budget documents, this initiative would have minimal fiscal impact for the Office of Victim Services. The Budget supports a total of 92 FTEs within Victim Services, unchanged from SFY 2016-17.

Lottery and Gambling

The Executive Budget projects approximately $3.6 billion in All Funds revenue from the Lottery and gambling in the State, an increase of $86.9 million or 2.5 percent. This increase is primarily due to $256 million in projected gross revenues from casino gaming, offset by a projected $123.8 million shortfall in video lottery terminal (VLT) revenues. Under current statute, if VLT revenues in the State Lottery Fund are less than $958.2 million, a transfer from the Commercial Gaming Revenue Fund to the State Lottery Fund is required.

The Budget recommends a net increase in All Funds appropriations for the Gaming Commission of $86.6 million, a 35.5 percent increase over SFY 2016-17. This reflects an increase of $86.5 million in Aid to Localities funding as well as a net increase in State Operations funding of $100,000 for the New York State Racing Fan Advisory Council. In addition, $2.02 million in funding is provided for the new Interactive Fantasy Sports Program which provides for the regulation and oversight of fantasy sports in the State. However, funding for this program is provided through a reallocation of funding from the other programs under the purview of the Gaming Commission.

Aid to Localities funding reflects an $80 million increase in funding through the Commercial Gaming Program as well as a $6.5 million increase in appropriations under the Tribal State Compact Revenue Program. The $80 million increase reflects the local share of commercial gaming tax revenue from new casinos operating in the State. Four casinos are projected to be operational in the upcoming fiscal year – Tioga, Del Lago, Rivers and Montreign - resulting in a total of $88 million in funding for localities.

The increase in the Tribal State Compact Revenue Program is primarily due to a timing issue in relation to the agreement between the City of Salamanca, Cattaraugus County, and the Seneca Allegany casino. With the delay in the signing of the agreement, a portion of the revenues from the Seneca Allegany casino that were due to be paid in the current fiscal year will be paid in SFY 2017-18.

Article VII language accompanying the Executive Budget includes proposed changes to the New York Racing Association (NYRA) as follows:

- The board of directors would be reduced from 17 to 15 members with three-year terms and equal voting rights, as follows:

- Six appointed by the Governor – one on recommendation of the Senate and one on recommendation of the Assembly;
- Eight appointed by the current NYRA reorganization board; and
- The president and chief executive officer of NYRA.

- Two new committees of NYRA would be created – one addressing equine safety and one focusing on issues related to racing operations.

- The State's Franchise Oversight Board would be provided additional oversight of NYRA in certain circumstances. If NYRA's financial position deviates significantly from its financial plan or if the financial plan poses a risk to NYRA's liquidity, the Board would require:

  - The hiring of an independent financial advisor at the expense of NYRA;
  - The submission of a corrective action plan to address the identified risks; and
  - The impoundment of racing supporting payments after two consecutive years of material losses by NYRA to be used for debt service payments on capital projects.

The Budget includes proposals to allow racing after sunset at Belmont Park and to reduce the winter racing meet at Aqueduct to less than 95 days if agreed to by the New York Thoroughbred Breeders, Inc., the New York Thoroughbred Horsemen's Association, and the Gaming Commission.

The Budget proposes to allow for a competitive procurement process with respect to the selection of entities that provide equine testing in the State and allowing any qualified laboratory in the State to do so. Current law requires such testing be done by "a state college within the state with an approved equine science program." As a result of this language, only Morrisville State College is qualified to provide equine testing. Assessments on horsepersons and racetracks would be used to fund the testing, which is currently provided by the General Fund, saving the State $4.5 million.

The Executive proposes to extend gaming-related statutory provisions in the State for one year, as follows:

- Extension of the authorization for video lottery gaming operators to earn capital awards, to encourage facility upgrades and improvements;

- Extension of certain tax rates and simulcasting provisions; and

- Extension of the current commission rate for video lottery gaming revenue at Monticello.

State Workforce

The SFY 2017-18 Executive Budget Financial Plan indicates that the overall size of the State workforce is projected to decrease in the coming fiscal year by 136 Full-Time Equivalents (FTEs). This decrease is the net result of an estimated 1,885 attritions and 1,749 new hires. Total FTEs at the end of SFY 2017-18 are projected to be 181,608, compared to an estimated 181,744 at the end of SFY 2016-17 (these figures do not include members or staff of the

Legislature or the Judiciary.) Figure 28 presents agencies expected by the Executive to show changes of 10 FTEs or more on an All Funds basis. Along with these changes, the Budget transfers certain Division of Military and Naval Affairs employees to the Office of General Services' Business Services Center as part of ongoing consolidation of agency human resource functions.

The Budget estimates a total of $13.5 billion in All Funds personal services expenditures for the upcoming fiscal year, 1.4 percent lower than in SFY 2016-17. (This excludes employee fringe benefit costs, which are paid separately through General State Charges, discussed below.) This figure includes the phased-in minimum wage increase for State employees and SUNY employees, for which DOB projects statewide costs in SFY 2017-18 of approximately $700,000 for 2,585 State employees and $2.8 million for approximately 30,400 SUNY employees.

The Budget includes a plan to move approximately $227 million in spending associated with approximately 3,200 FTEs from State Operating Funds to Capital Projects Funds, on the basis that the employees maintain and preserve State assets. Among other implications, this has the effect of shifting spending outside the annual 2 percent cap on State Operating Funds growth.

Figure 28

SFY 2017-18 Estimated All Funds Agency Workforce Changes
Changes of 10 or more FTEs

	March 2017	March 2018	Number Change	Percent Change
Agencies with Increases				
Health, Department of	4,919	5,082	163	3.3%
Corrections and Community Supervision, Department of	29,089	29,215	126	0.4%
Motor Vehicles, Department of	2,149	2,256	107	5.0%
Homeland Security and Emergency Services, Division of	472	570	98	20.8%
Transportation, Department of	8,367	8,453	86	1.0%
Temporary and Disability Assistance, Office of	1,953	2,026	73	3.7%
State Police, Division of	5,685	5,711	26	0.5%
Children and Family Services, Office of	2,954	2,965	11	0.4%
Agencies with Decreases				
Mental Health, Office of	14,200	13,847	(353)	-2.5%
People w ith Developmental Disabilities, Office for	18,873	18,620	(253)	-1.3%
Information Technology Services, Office of	3,585	3,406	(179)	-5.0%
Medicaid Inspector General, Office of	453	426	(27)	-6.0%
State, Department of	539	525	(14)	-2.6%

Source: Division of the Budget

General State Charges

The Budget's presentation of costs associated with employee fringe benefits and certain other State expenses is known collectively as General State Charges (GSC). The General Fund Miscellaneous All State Departments and Agencies General State Charges appropriation of

$3.7 billion that appears in the SFY 2017-18 State Operations appropriations bill accounts for 45.1 percent of the Financial Plan's estimated GSC spending of $8.3 billion from All Governmental Funds.

The Executive Budget Financial Plan projects that State Operating Funds spending for GSC will total $7.9 billion in SFY 2017-18, a rise of 4.0 percent from the current State fiscal year. Within that total, employee fringe benefit costs are projected at $7.5 billion, as shown in Figure 29. Among other factors, this reflects growth in the following costs during the upcoming State fiscal year: health insurance, 8.0 percent; pensions, 3.4 percent; and workers' compensation, 34.1 percent. The overall increase in such spending from SFY 2016-17 through SFY 2020-21 is estimated to be 25.6 percent. All Funds costs for employee fringe benefits are projected at $8.3 billion, according to DOB.

For the first time since amortization of certain pension costs was initially authorized in SFY 2010-11, the State will not amortize any portion of such costs in SFY 2016-17. The SFY 2017-18 Executive Budget Financial Plan also assumes the State will not amortize any pension costs in SFYs 2017-18 through SFY 2020-21. From SFY 2010-11 through the current fiscal year, the State has amortized a total of $3.6 billion in such costs. The Financial Plan estimates repayments of approximately $432.1 million in the current State fiscal year and in each of the next four years, for amounts amortized from SFY 2010-11 through SFY 2015-16.

Figure 29

State Operating Funds – General State Charges
(disbursements in millions)

	2016-17	2017-18	% Change from 2016-17 to 2017-18	2020-21	% Change from 2016-17 to 2020-21
Employee Health Insurance	2,320	2,505	8.0%	3,029	30.6%
Retiree Health Insurance	1,362	1,471	8.0%	1,779	30.6%
Health Insurance Subtotal	**3,682**	**3,976**	8.0%	**4,808**	30.6%
Pensions	2,457	2,540	3.4%	2,990	21.7%
Social Security	988	992	0.4%	1,009	2.1%
Workers' Compensation	249	334	34.1%	689	176.7%
Employee Benefits	95	95	0.0%	95	0.0%
Dental Insurance	64	65	1.6%	67	4.7%
Unemployment Insurance	15	15	0.0%	15	0.0%
All Other/Non-State Escrow	(369)	(498)	-35.0%	(530)	-43.6%
Fringe Benefits Subtotal	**3,499**	**3,543**	1.3%	**4,335**	23.9%
Fixed Costs	**450**	**421**	-6.4%	**441**	-2.0%
General State Charges Total	**7,631**	**7,940**	4.0%	**9,584**	25.6%

Source: Division of the Budget

The Budget provides that the General Fund appropriation for payments of worker's compensation costs is reduced by a transfer of $100 million of certain assessment amounts held by the worker's compensation board to the State Insurance Fund. The Budget also proposes several changes that would reduce the State's costs for health insurance coverage for retirees and their dependents, and shift costs to retirees. These proposals would:

- Effective October 1, 2017, apply different New York State Health Insurance Plan (NYSHIP) premiums to new State retirees based on years of service;
- Effective May 1, 2017, limit reimbursement of Medicare Part B premiums at 2016 levels[19]; and
- Effective January 1, 2017, stop reimbursement for the Medicare Part B Income Related Monthly Adjustment Amount (IRMAA) for higher-income State retirees in NYSHIP, for premiums incurred on or after January 1, 2017.

The Executive indicates the first proposal would decrease the State's Other Postemployment Benefits (OPEB) liability by approximately $17.6 billion and reduce budgetary costs by $3.4 million in SFY 2017-18 and by $10.9 million in SFY 2018-19.[20] The second proposal would reduce the State's OPEB liability by an estimated $10.2 billion and prevent an increase in annual costs of approximately $7.4 million. The third proposal would reduce the State's OPEB liability by approximately $450 million and save approximately $8 million per year when fully annualized.

The Budget includes a proposal to establish the Retiree Health Benefit Trust Fund (Fund) as a special investment fund to pay health care benefits of retired State employees and their dependents. The Commissioner of Civil Service would be the custodian of the Fund. If there is a certified General Fund cash surplus, the Director of the Budget may determine and transfer a portion of the surplus directly to the Fund. Payments from the Fund would not be subject to appropriation and would be transferred to the health insurance fund for funding retiree health insurance benefits. The Commissioner of Taxation and Finance would be responsible for managing the investments of the Retiree Health Benefit Trust Fund and would develop a written investment policy for this Fund in consultation with the State Health Insurance Council.

Local Governments

The Executive Budget continues the recent trend of holding direct assistance to local governments flat, while proposing funding a number of competitive grants and infrastructure programs. The Budget also requires that counties coordinate a new shared services planning initiative among their constituent municipalities.

Each county outside New York City would be required to prepare a property tax savings plan "for shared, coordinated and efficient services among the county, cities, towns and villages within such county." The mayor of each city and village and the supervisor of each town within each county "shall inform such property tax savings plan," and counties will also elicit input from the public and from business, civic, labor and community leaders through at least one public hearing. The chief executive officer of each county would be required to seek consensus among such mayors and supervisors regarding the plan prior to submission of the plan to the county legislative body by an August 1, 2017 deadline. Such plan shall be accompanied by a certification as to the accuracy of the saving contained within the plan. The savings certification would also have to be submitted to the Director of the Budget.

[19] State reimbursement to retirees and their dependents who enrolled in Medicare Part B on or before December 31, 2015 would not exceed $104.90 per month. Reimbursement for retirees and their dependents who enrolled or enroll in Medicare Part B on or after January 1, 2016 would not exceed the lesser of $121.80 per month or the currently applicable standard Medicare premium.

[20] Under accounting rules established by the Governmental Accounting Standards Board, the State and many other governmental entities are required to report the unfunded actuarial accrued liability arising from the State's commitment to pay certain health-care and other costs for retirees, collectively known as other post-employment benefits. As of March 31, 2016, this OPEB liability was $77.9 billion.

Each plan would be required to show new recurring property tax savings through actions such as elimination of duplicative services, reduction in administrative costs and better coordination of services. The county legislative body shall review the plan and may modify the plan by majority vote, with any such modification to be submitted, as a certification of the amended property tax savings, to the Director of the Budget. The counties must finalize each plan no later than September 15, 2017, and publicly disseminate it to county residents. The finalized plan would be placed on local ballots at the November 2017 general election, and, if approved, be implemented no later than January 1, 2018. If a plan fails to pass, a similar process would be repeated in 2018. The Aid to Localities appropriation bill contains language that makes payments from the SFY 2017-18 appropriation for Aid and Incentives for Municipalities (AIM, which provides unrestricted State aid to cities, villages and towns) contingent upon the State Legislature enacting a law regarding county-wide shared services property tax savings plans.

The Budget proposes a $2 billion capital appropriation for clean water infrastructure projects. These funds could be used to finance land acquisition to protect water sources, award grants to municipalities to replace lead drinking water service lines, and expand the eligibility for Technical Assistance Grants to municipalities. The Budget would also establish a Regional Water Infrastructure Grants Program that would provide State assistance to municipalities, public benefit corporations and public authorities for waste-water and drinking water infrastructure projects that have a regional impact or demonstrate certain efficiencies. (See the Environment section of this Report for more information.)

Proposals affecting significant funding streams for local governments include:

- Aid and Incentives to Municipalities**:** The Executive Budget proposes keeping AIM funding flat at $715 million, as it has been since SFY 2011-12.
- Funding for local roads and bridges: Consolidated Local Street and Highway Improvement Program (CHIPs) and Marchiselli Aid would be held flat at a combined $477.8 million. The Capital Plan indicates that local governments would receive additional funding from the PAVE NY initiative totaling $100 million.
- Aid for municipalities with video lottery terminals**:** Such aid would be reduced by 2.4 percent, to $28.6 million, compared to last year.

The Budget proposes to continue funding the Citizens Re-organization Empowerment Grants and the Citizen Empowerment Tax Credits with a shared appropriation of $35 million; the Local Government Efficiency Grant Program would be funded at $4 million.

The Financial Restructuring Board (FRB) would continue to be authorized to grant or loan municipalities up to $5 million in aid if they undertake FRB financial review and implement recommendations resulting from such reviews. Funding for FRB awards could come from reappropriations for the Local Government Performance and Efficiency Program.

Several local governments are provided appropriations, including $2.25 million for Madison County and smaller appropriations for three other counties (Essex, Franklin and Hamilton). Also, the Financial Plan includes $1 million for the City of Jamestown.

Certain provisions in the Budget would result in increased costs for counties and New York City. These include the following (with local cost estimates by DOB):

- A proposal to authorize early voting would cost local governments an estimated $2.0 million for local fiscal years ending in 2017.

- Except for certain violent crimes, 16- and 17-year-olds who are charged with criminal offenses would be prosecuted as juveniles. This could increase costs for the State, New York City and counties, though counties that are compliant with the tax cap may receive a State waiver for the local share if they meet certain requirements. (See the Human Services section of this Report for more details.)
- The State funding percentage for foster care would be lowered from 54 to 50 percent. DOB estimates the impact on counties outside of New York City at $13.5 million during local fiscal years ending in 2017. (See the Human Services section of this Report for more details.)

Other provisions affecting local governments include:

- Authorization for counties outside New York City, State and local public authorities, and certain other entities to use "design-build contracts" for certain capital projects. (See the Debt and Capital section of this Report for more information.)
- Authorization for the Office of Indigent Legal Services to develop and implement a written plan for reforming certain indigent legal services. The Executive Budget indicates that the State would reimburse counties for increased costs due to any eventual costs incurred as a result of implementing such plan, which are expected to be phased in over a multi-year period.
- Allowing property taxpayers to make partial tax payments, unless the governing body of the local government passes a resolution disallowing partial payments. This provision applies to the collection of real property taxes, special ad valorem levies and special assessments for fiscal years beginning on and after January 1, 2019.
- Changes to increase counties' reimbursements from third-party insurers for early intervention services. See the Health section of this Report for more information.

New York City

The Executive Budget would increase education aid to New York City by $295 million for the school year beginning in September 2017, which is $270 million less than the amount anticipated in the City's current financial plan. However, New York City would be eligible to apply for a portion of $200 million in additional statewide education grants. In addition, the Governor's proposed budget would extend mayoral control of the City's schools for an additional three years (through June 30, 2020).

The Budget also includes the following proposals, which the State Division of the Budget estimates would have a net cost of nearly $16 million for New York City:

- Proposed changes to social service programs would have a net City cost of $62 million, mostly from a reduction in the Foster Care Block Grant ($21 million) and from shifting from the State to the City a larger share of the costs of tuition for children in Foster Care ($23 million) and residential placements for certain high-needs special education students ($19 million).
- Proposed changes to health care programs would have a net City cost of $8 million from reducing reimbursements for non-emergency General Public Health Work Program

expenses ($17 million), partly offset by estimated savings from proposals to maximize commercial insurance reimbursement for children with disabilities enrolled in the Early Intervention program.

- Proposed revenue actions would benefit the City by an estimated $55 million, mostly by requiring Internet retailers that provide a marketplace for smaller sellers to collect sales taxes on marketplace sales to New York residents.

In addition, State reimbursement to New York City for the administration of the Medicaid program would be reduced by $50 million annually unless the City generates $50 million in State savings by obtaining federal Medicaid reimbursement for school supportive health services provided to students with disabilities. Currently, the City retains all reimbursement proceeds. Under the proposal, the City would be required to submit a shared savings allocation plan to the State Commissioner of Health (which must be approved by June 30, 2017) to increase the amount of federal reimbursement by $100 million for such services.

The City has identified certain proposals in the Budget that could increase costs or reduce State aid to the city, including measures relating to charter schools, prekindergarten service and the 421-a property tax exemption program.

While the Executive Budget would reduce funding to the City University of New York's (CUNY) senior colleges by 5.2 percent, the impact is estimated to be mitigated by the proceeds from the expected sale of a State-owned building used by Hunter College. Additional discussion of CUNY appears in this report's section on Higher Education.

The New York City Housing Authority (NYCHA) would be allocated up to $100 million for State-approved capital projects and other improvements at facilities it owns or operates, but none of these funds may be obligated until the $100 million appropriated two years ago for similar purposes is fully obligated as determined by the State Director of the Budget.

Metropolitan Transportation Authority

The Executive Budget would provide the Metropolitan Transportation Authority (MTA) with $4.5 billion for its operating budget in calendar year 2017, which is $125 million less than the amount anticipated by the MTA. The proposed budget would provide $75 million less in Metropolitan Mass Transportation Operating Assistance (MMTOA) than the MTA was expecting and would reduce by $67 million the amount of funding the State has provided the MTA to offset the impact of exemptions to the Metropolitan Commuter Transportation Mobility Tax (MTA Payroll tax) that the State granted to schools and small businesses in 2011. Other tax revenues (including the Petroleum Business Tax) would increase slightly, mitigating the impact of these actions.

The Budget would continue the State's commitment to funding the MTA's 2015-2019 capital program. In the SFY 2016-17 Enacted Budget, the State and City committed to provide the MTA with $10.8 billion for the 2015-2019 capital budget, including $8.3 billion from the State. In accordance with the SFY 2015-16 Enacted Budget, the State will provide $750 million in State bond proceeds and $250 million in financial settlement funds for the 2015-2019 program. The State has not identified the sources of the remaining $7.3 billion in State funding.

According to provisions included in the SFY 2016-17 Enacted Budget, the State will provide the MTA with the remaining $7.3 billion after the MTA has effectively exhausted all other existing sources of capital funding. The State would fulfill its commitment no later than SFY 2025-26 or by the completion of the capital program. This year's Executive Budget includes $1.5 billion in new appropriations, in addition to $2.9 billion appropriated in SFY 2016-17, that could be used for capital grants if the State elects to provide such direct financial support, although no plan to do so is included in the Budget documents. In addition to capital grants, the State's fulfillment of its commitment could include authorizing the MTA to issue its own bonds backed by an existing or new State revenue source. According to DOB, the issuance of bonds by the MTA is one of numerous options currently being discussed to cover the State share.

Public Authorities

The Executive Budget estimates that nearly $7.0 billion in capital projects will be financed using public authority bond proceeds in SFY 2017-18. The Budget increases bond caps (which generally reflect authorizations to borrow) for 21 State-Supported bonding programs.

Figure 30

FY 2017-18 State-Supported Bond Caps / Authorizations

(dollars in millions)

Program	Current Cap [1]	SFY 2017-18 Proposed Cap	Proposed Change from Current Cap Dollars	Proposed Change from Current Cap Percentage
Environmental Infrastructure Projects	2,108.3	4,451.8	2,343.5	111.2%
Economic Development Initiatives	4,671.8	6,505.3	1,833.5	39.2%
Transportation Initiatives	3,065.0	3,954.0	889.0	29.0%
Housing Capital Programs	4,697.5	5,384.2	686.7	14.6%
SUNY Educational Facilities	11,663.0	12,343.0	680.0	5.8%
Consolidated Highway Improvement Program (CHIPs)	9,147.2	9,634.6	487.4	5.3%
CUNY Educational Facilities	7,588.4	7,982.0	393.6	5.2%
Mental Health Facilities	8,021.8	8,372.8	351.0	4.4%
Prison Facilities	7,425.0	7,741.2	316.2	4.3%
Capital Restructuring Program	2,400.0	2,700.0	300.0	12.5%
State Office Buildings and Other Facilities	509.6	654.8	145.2	28.5%
SUNY 2020 Challenge Grants	550.0	660.0	110.0	20.0%
Office of Information Technology Services	364.8	450.5	85.7	23.5%
SUNY Upstate Community Colleges	861.5	914.6	53.1	6.2%
Homeland Security	197.0	250.0	53.0	26.9%
Youth Facilities	647.1	682.9	35.8	5.5%
Water Pollution Control (SRF)	840.0	875.0	35.0	4.2%
Higher Education Capital Matching Grants	240.0	270.0	30.0	12.5%
Private Special Education	5.0	30.0	25.0	500.0%
Library Facilities	159.0	173.0	14.0	8.8%
Division of State Police Facilities	167.6	173.6	6.0	3.6%
Total Public Authority Bond Caps with Enacted Changes	**65,329.5**	**74,203.2**	**8,873.7**	**13.6%**
All Other Public Authority Bond Caps	**46,889.4**	**46,889.4**	**-**	**-**
Total Public Authority Bond Caps	**112,218.9**	**121,092.6**	**8,873.7**	**7.9%**
General Obligation Bond Act Authorizations [2]	**19,185.0**	**19,185.0**	**-**	**-**
Total State-Supported Bond Caps/Authorizations	**131,403.9**	**140,277.6**	**8,873.7**	**6.8%**

Sources: Division of the Budget and the Office of the State Comptroller
Note: Totals may not add due to rounding.
[1] The current cap reflects the amount currently authorized, some or all of which may already have been issued.
[2] This table reflects General Obligation Bond Acts where there is a remaining authorized but unissued amount and/or a remaining debt outstanding balance.

As shown in Figure 30, the net proposed increase in bonding authorizations for public authorities is $8.9 billion, an increase of 7.9 percent over SFY 2016-17. The proposal amends the bond cap language for economic development initiatives to include State Fair projects, the planned Empire State Trail, the Kingsbridge Armory Project, strategic economic development projects, the cultural arts and public spaces fund, an LGBT memorial, water infrastructure in the City of Auburn and Town of Owasco, both in Cayuga County, and the life sciences laboratory public health initiative, while increasing the cap by $1.8 billion. See the Economic Development portion of the Program Area Highlights section of this Report for additional detail.

The proposal amends the bond cap language for Environmental Infrastructure Projects to include the capital costs of clean water infrastructure projects, while increasing the cap by $2.3 billion. Also related to the proposed Clean Water Infrastructure Act of 2017 is a modification to the existing Hazardous Waste Remediation bond cap to include solid waste and drinking water response projects. Several other caps were modified to include new purposes coupled with cap increases.

As shown in Figure 31, the Executive Budget authorizes $47.1 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. The Budget also includes the transfer of “excess” reserves of the State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) totaling $141.5 million to the Housing Trust Fund Corporation (HTFC), the Homeless Housing and Assistance Corporation (HHAC), or the Housing Finance Agency (HFA), to fund various housing programs. The proposed MIF transfer amount is $8.5 million lower than the amount authorized in the SFY 2016-17 Enacted Budget.

Figure 31

SFY 2017-18 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
Dormitory Authority of the State of New York	22.0
New York State Energy Research and Development Authority*	25.1
Total to General Fund	**47.1**
Transfers to Various Housing Funds:	
State of New York Mortgage Agency	141.5
Total from Public Authorities	**188.6**

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

* The NYSERDA transfer includes $23 million from the proceeds of auctions of carbon dioxide emission allowances under the Regional Greenhouse Gas Initiative (RGGI), and up to $913,000 to help offset debt service requirements related to the remediation of the Western New York Nuclear Service Center. In addition, $1 million in support for the Department of Environmental Conservation's Office of Climate Change and $150,000 in support of the Department of Agriculture and Markets' Fuel NY Program is authorized to be transferred to the General Fund while $750,000 for the University of Rochester Laboratory for Laser Energetics is authorized to be transferred directly. These items have historically been funded through State Operations and Aid to Localities appropriations for NYSERDA, but the appropriations were eliminated in the SFY 2015-16 Enacted Budget.

The Budget includes a proposal to make the Infrastructure Investment Act, originally enacted in 2011, permanent and to make other amendments including to extend the authorization for design-build procurement to include all State agencies, including SUNY and CUNY, State and local authorities, including local development corporations, land banks, Industrial Development Agencies and affiliates and subsidiaries of these entities and counties outside of New York City. For additional detail regarding this proposal see the Debt and Capital Section of this Report.

The Budget includes a proposal to create a Chief Procurement Officer, appointed by the Governor, to oversee all State procurements, under the direction of the Commissioner of the Office of General Services. This Officer would have the authority to review any procurement by any State agency or any public authority, as defined in Section 2 of Public Authorities Law, which would include State and local authorities, local development corporations, land banks, Industrial Development Agencies, interstate or international authorities and affiliates and subsidiaries of these entities. Annual procurement reporting required under Public Authorities Law section 2879 would also need to be submitted to the Chief Procurement Officer. Additional information about this proposal appears in the Other Issues section of this Report.

The Budget proposes new language to empower the State's Inspector General to investigate alleged corruption, fraud, criminal activity, conflicts of interest or abuse by officers, employees and contracted parties in State procurements, which would include procurements by public authorities that do not have an inspector general pursuant to statute and whose chair is appointed by the Governor.

A proposal to expand the State's existing requirement that the structural steel purchased for certain construction projects undertaken by State agencies and departments and public authorities must be made in whole or in substantial part in the United States is included in the Executive Budget. The New York Buy American Act would apply to all State agency, SUNY, CUNY, State authority and certain local authority contracts in excess of $100,000, with certain exceptions.

The Executive proposes the New York State Consolidated Laboratory Project Act for the purpose of consolidating laboratory facilities and functions of the Department of Health (DOH) in the Capital Region, including the Wadsworth Center, into a new laboratory campus. The proposal authorizes the Dormitory Authority of the State of New York (DASNY), in consultation with DOH, to enter into an agreement or agreements for the project using the design-build method, the construction manager-build delivery method, or the construction manager-at-risk delivery method. In addition, the proposed legislative findings reference the possibility of the new facility hosting private users that could "complement the operations and work of the consolidated laboratory or enhance its economic benefits to the State." The language notwithstands numerous provisions of law related to procurement, such as preferred source requirements, general provisions for State procurements, publication in the procurement opportunities newsletter, separate specifications for work, and provisions requiring contract review and approval by the Office of the State Comptroller and the Attorney General. The language permits DASNY and DOH to enter into agreements "without public auction or bidding or any other competitive procurement process."

The Act would also authorize DOH to accelerate delivery of the project by communicating to the Legislature that pressing circumstances affecting public health or safety at the existing facilities warrant measures to expedite the project, including awarding contracts without competitive bidding. DASNY, in consultation with DOH, would be required to maintain a public website regarding the project and its status. The project would be subject to project labor agreement provisions of the Labor Law, and to Minority and Women-Owned Business Enterprise (MWBE) and service-disabled veteran-owned business enterprise provisions of the Executive Law.

The Executive Budget proposes the creation of the Office of the New York Port Authority Inspector General which would have jurisdiction over New York-related Port Authority conduct. New York-related Port Authority conduct is defined in the language as "any Port Authority action with a nexus to the State of New York or its residents" engaged in by a New York commissioner, managerial appointee or managerial employee. The New York Port Authority Inspector General would be appointed by the Governor and would have the authority to: receive and investigate allegations of corruption, fraud, criminal activity, conflicts of interest or abuse in New York-related Port Authority conduct by New York commissioners, appointees and employees; inform New York Commissioners of allegations and investigations; determine if further investigation by federal, State or local agencies or civil or criminal prosecution is warranted; prepare and release public reports on investigations; review the policies and procedures of New York commissioners; recommend remedial action to prevent or eliminate corruption, fraud and other issues; and establish training programs for New York commissioners, appointees and employees.

The Executive proposes an additional $500 million for the Health Care Facility Transformation Program. This funding for capital awards would be authorized to be made, without competitive bidding, to health care institutions and community-based providers. According to the Executive, these grants would be funded, in part, through $300 million in bonds issued by DASNY and could not be used for operating expenses. The corresponding DOH appropriation, however, indicates that DASNY could issue bonds up to the appropriated amount of $500 million. The projects funded through bonds would require Public Authorities Control Board approval. The Executive also proposes a corresponding bond cap authorization increase of $300 million with language amended to authorize the issuance of bonds for this additional funding while also adding the Essential Health Care Provider Program to the authorized purposes.

The Budget proposes authorization for the Power Authority of the State of New York (NYPA), the Canal Corporation and the Department of Transportation (DOT) to enter into shared services agreements to permit the sharing of employees, services and resources for emergency situations and extreme weather conditions, and to support the operation and maintenance of the canal system and related infrastructure. This is similar to an authorization enacted in the SFY 2015-16 Budget between DOT and the Thruway Authority, of which the Canal Corporation was a subsidiary at the time. However, that authorization was limited to emergencies and extreme weather and the term of the agreements could not be longer than ten days.

Article VII language accompanying the Executive Budget includes a proposal to reduce the board of the New York Local Government Assistance Corporation (LGAC) from seven to three members – the Comptroller, the Director of the Budget and one member appointed by the Governor. In addition, the Corporation would be exempt from the provisions of Public Authorities Law related to requirements to have an audit committee, governance committee and finance committee.

The Executive proposes to restrict the scope of the independent review by the Office of the State Comptroller (OSC) of the terms and conditions of bonds issued by certain public authorities, local governments and school districts at private sale to interest rates, yields, prices and costs of issuance. The proposal also imposes a decision deadline which stipulates that if an approval is not provided by OSC by noon EST on the next business day following final pricing activity on the sale, the terms shall be deemed approved.

Also included in the proposal is authorization for the Environmental Facilities Corporation (EFC), as part of the proposed Clean Water Infrastructure Act of 2017, to establish a New York State Regional Water Infrastructure Grants Program to provide State assistance to municipalities for drinking water and waste water infrastructure projects that have a regional impact or demonstrated efficiencies. The language includes modifications to an existing bond authorization, although the cap remained at the previously authorized amount of $2.2 billion. As discussed previously, language elsewhere in the Budget would authorize an increase of $2.3 billion for the capital costs of clean water infrastructure and other environment and parks projects.

The Executive Budget authorizes NYSERDA to receive utility assessment funds, not to exceed $19.7 million, directly from utilities. The funds would be used to support expenditures for the energy research, development and demonstration program, the energy policy and planning program, the zero emissions vehicle and electric vehicle rebate program and the Fuel NY program. In addition, NYSERDA is directed and authorized to transfer $1 million to the General Fund in support of the DEC's Office of Climate Change, $150,000 to the General Fund in support of the Department of Agriculture and Markets' Fuel NY program and $750,000 to the University of Rochester Laboratory for Laser Energetics. Each of these purposes were typically appropriated in past years within the State Operations and Aid to Localities budgets, but as a result of the direct payments, these appropriations were eliminated for NYSERDA in the SFY 2015-16 Enacted Budget, lowering reported State Operating Funds spending and reducing transparency and accountability for these funds.

The Budget proposes amendments to the Penal Law and the Vehicle and Traffic Law with the stated intention of deterring toll evasion, enhancing toll enforcement and maximizing toll collections by tolling authorities. Tolling authorities are defined in the language as any public authority which operates a toll highway, bridge and/or tunnel facility, including the Port Authority of New York and New Jersey.

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

- making permanent DASNY's authorization to enter into design and construction management agreements with DEC and Parks;
- an extension for one year of the Urban Development Corporation's (UDC dba ESDC) authorization to administer the Empire State Economic Development Fund and of UDC's power to grant general loans;
- an extension for one year of Article 15-A of the Executive Law relating to participation by minority- and women-owned business enterprises in State contracts;
- making permanent the provisions allocating the Transportation and Transmission Tax collections between the Metropolitan Mass Transportation Operating Assistance

Account (MMTOA) and the Public Transportation Systems Operating Assistance Account (PTOA);

- removing the provision that would require the Thruway to have any bonds sold at public sale be sold by the State Comptroller;
- establishing the Health Care Regulation Modernization team within DOH to provide advice to the Governor related to the health care delivery system. The language directs State agencies and State public authorities to provide assistance including the use of facilities and staff, subject to the approval of the public authorities' boards of directors;
- $193 million in savings for the State in the coming fiscal year related to a revision to the annual payment schedule to the New York Power Authority (NYPA), extending the terms through 2023, according to the SFY 2017-18 Executive Budget Financial Plan; and
- capital funding with language authorizing the use of design-build procurement of:
    - $150 million for UDC for the Life Sciences Public Health Initiative (as discussed above, this purpose is also added to the bond cap authorization language), and $199 million for the New York Works Economic Development Fund;
    - $77 million for NYPA for the Empire State Trail; and
    - $10 million for the Olympic Regional Development Authority, including maintenance and energy efficiency projects (there is no language in this appropriation authorizing design-build procurement), and $2.5 million through the Office of Parks, Recreation and Historic Preservation as part of New York Works, with language authorizing the use of design-build procurement.

Other Issues

The Executive Budget creates a new Division of Central Administrative Hearings to reorganize and consolidate any administrative law judge (ALJ) hearing functions housed within any State agencies, excluding the State Attorney General and the Office of the State Comptroller. Article VII legislation creating the new division authorizes the Executive to appoint a Chief Administrative Law Judge, who would serve at the pleasure of the Governor, to head the new Division.

The legislation authorizes the Chief ALJ to establish, consolidate, reorganize or abolish any administrative hearing function within any of the affected agencies as he or she determines to be necessary for the efficient operation of the Division, provided that any such actions must be approved by the Director of the Budget pursuant to a plan submitted to the Director. The legislation would take effect six months after enactment. In addition, State Operations appropriation language for each of these agencies allows certain appropriations to be interchanged, transferred to the new Division, and/or sub-allocated to it. While the Financial Plan assumes no additional costs or savings under this proposal, the Executive indicates savings are likely to occur.

The Budget's Article VII legislation includes a bill titled "Good Government and Ethics Reform." The Governor also proposed three amendments to the State Constitution as described in this section. The proposed Article VII bill includes provisions in the areas outlined below.

Procurement and other oversight

The Budget proposes creation of a Chief Procurement Officer (CPO), appointed by the Governor, with "oversight of all state procurements, under the direction of the commissioner of general services," to ensure prudent use of State resources. The CPO'S authority would include reviewing "any procurement" by "any agency or authority," and reporting suspicions or allegations of corruption, fraud, criminal activity, conflicts of interest or abuse to the State Inspector General. Another part of the proposed legislation expressly empowers the Inspector General (IG), generally, to investigate alleged corruption and other issues by officers, employees and contractors related to any State procurement. The IG would also be empowered to oversee "implementation and enforcement of financial control policies" at SUNY, CUNY and affiliated nonprofit organizations and foundations.

The Budget would also create:

- A New York Port Authority Inspector General, appointed by the Governor, charged with duties including investigating and responding to potential corruption, fraud and other issues "in any New York-related port authority conduct committed by a New York commissioner, managerial appointee or managerial employee."

- A State Education Department Inspector General, appointed by concurrent resolution of the Legislature and reporting to the Regents, with certain investigatory and other powers.

Campaign contributions would be prohibited from any individual or entity actively seeking a State procurement contract until the close of the bidding period or, for the recipient of a final contract award, six months after the award.

The Comptroller, Attorney General, and representatives of the Office of Information Technology and the Office of General Services would be required to report by September 1, 2017, on the feasibility of a system of single identifying vendor codes or numbers for all contractors, vendors or grantees directly receiving State funds, to facilitate tracking of such entities and tracking of audit findings by the Comptroller and the Attorney General. The proposal is similar to one proposed in the 2016-17 Executive Budget that was not adopted by the Legislature.

Campaign finance and elections

The Budget proposes campaign finance reforms similar to proposals made previously by the Executive, including a system of voluntary public campaign financing for all State-level candidates, reduced limits on campaign contributions, and expanded disclosure of contributions. The public financing proposal includes funding based on authorization of transfers of "remaining available monies" in the Abandoned Property Fund, at the direction of the Director of the Budget, as well as a voluntary tax checkoff system, private contributions and General Fund resources. Other proposed legislation would include limited liability corporations (LLCs) among corporate entities whose political contributions are restricted by the Election Law, closing the "LLC loophole."

The Budget proposes several statutory steps to promote voter registration and participation, including required provisions for early voting starting 13 days before elections in each county and New York City. In addition, the Department of Motor Vehicles would be required to establish automatic application for voter registration upon an individual's application for a driver's license or license renewal (individuals could decline to apply for voter registration). Separately from the proposed statutory changes, a proposed Constitutional amendment would provide that citizens are entitled to register to vote up to and on election days. The Constitution currently requires that registration be completed at least 10 days before elections.

Legislators' outside employment

Legislators who earn more than $5,000 per year from outside employment, with certain exceptions, would be required to request an opinion from the Legislative Ethics Commission as to whether such employment would violate ethics restrictions in the Public Officers Law. In addition, a proposed Constitutional amendment would limit Legislators' income from non-governmental services to 15 percent of the legislative salary established by statute.

Financial disclosure for local officials

County executives, county managers, chairs of county boards of supervisors, and other local elected officials paid more than $50,000 annually would be required to file annual financial disclosures with the Joint Committee on Public Ethics.

Expansion of the Freedom of Information Law

The Freedom of Information Law would be extended to cover the Legislature in much the same way as it covers State agencies. Where a collective bargaining agreement between a public employer and an employee organization requires ratification by employees or the employer, proposed terms would be required to be made publicly available no later than when such proposed terms are presented for ratification.

Term limits for statewide officials and legislators, and 4-year terms for legislators

The Governor has also proposed an amendment to the State Constitution that would establish four-year terms (rather than the current two years) for members of the State Senate and the State Assembly. Legislators would be limited to two terms, starting with the first election after the amendment's effective date. The Governor, the Comptroller and the Attorney General would be limited to two terms in office, starting with the first terms after the amendment's effective date.

VI. Appendices

Appendix A: Multiyear Gap-Closing Plan

SFY 2017-18 Executive Budget General Fund Gap-Closing Plan
SFY 2017-18 through SFY 2020-21
(in millions of dollars)

	2016-17	2017-18	2018-19	2019-20	2020-21
Current Services Gap Reported in Mid-Year Update	**-**	**(3,533)**	**(7,122)**	**(8,935)**	**(6,816)**
Non-Recurring and Temporary Resources and Costs	**(130)**	**1,112**	**3,375**	**4,505**	**4,029**
PIT - Top Rate Extension	0	683	3,375	4,505	4,029
Additional Debt Service Prepayment	(220)	220	-	-	-
NYPA Repayment Non-Recurring Benefit	-	193	-	-	-
Reserves	90	16	-	-	-
Recurring State Operations Reductions	**-**	**431**	**218**	**161**	**11**
Executive Agencies, University and Judicial		165	189	198	82
NYPA Repayment		-	(21)	(43)	(43)
Potential Labor Agreements less Financial Management Plans		4	(103)	(153)	(203)
Fringe Benefits and Costs		262	153	159	175
Debt Management and Capital		**360**	**391**	**316**	**331**
Recurring Local Assistance Reductions	**-**	**1,544**	**2,195**	**2,526**	**2,672**
Health Care		596	872	873	774
Education		271	614	890	1,075
Higher Education		103	63	63	63
Human Services and Housing		135	114	111	114
Mental Hygiene		68	58	55	55
STAR - Including Program Conversion		371	474	534	591
Recurring Revenue/Resources/Re-Estimates	**130**	**(2)**	**(486)**	**(622)**	**(1,264)**
Revised Tax Projections	(566)	(415)	(475)	(679)	(1,039)
Other Receipt Revisions	(93)	413	(11)	57	(225)
Revised Disbursements	789	-	-	-	-
Recurring New Tax Actions		**147**	**(15)**	**(39)**	**(54)**
STAR Conversion		-	(340)	(354)	(369)
Other Tax Extenders		42	129	104	104
Other Tax Actions		105	196	211	211
New Spending Initiatives	**-**	**(90)**	**(310)**	**(461)**	**(485)**
Juvenile Justice Reform		-	(97)	(205)	(194)
DREAM Act		(19)	(27)	(27)	(27)
Indigent Legal Services		-	(53)	(77)	(101)
Excelsior Scholarship		(71)	(133)	(152)	(163)
All Other	-	**31**	**(18)**	**(110)**	**(203)**
Remaining Gap In Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	**-**	**-**	**(1,772)**	**(2,659)**	**(1,779)**

Source: Division of the Budget
Note: Figures presented above for SFY 2020-21 are not included in the Mid-Year Update, and are newly presented in the Executive Budget.

Appendix B: Capital Spending Plan Comparison

Comparison of Capital Spending
SFY 2016-17 Enacted Capital Plan vs. SFY 2017-18 Proposed Capital Plan

(in millions of dollars)

		Enacted Capital Plan - SFY 2016-17 through SFY 2020-21					Average	Total Dollar	Total Percentage
	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	2016-17 through 2020-21	2016-17 through 2020-21	2016-17 through 2020-21
Transportation	4,518,590	5,242,538	5,376,367	5,042,603	5,208,805	4,870,766	5,148,216	25,741,079	40.6%
Education	46,131	406,692	589,100	562,749	389,157	317,400	453,020	2,265,098	3.6%
Higher Education	1,402,410	1,512,249	1,502,649	1,465,149	1,436,869	1,411,601	1,465,703	7,328,517	11.5%
Economic Development/ Government Oversight	736,175	1,580,299	1,626,215	1,364,777	1,201,937	1,169,753	1,388,596	6,942,981	10.9%
Mental Hygiene	336,225	537,059	540,452	488,973	491,142	491,142	509,754	2,548,768	4.0%
Parks and Environment	680,828	786,631	917,833	931,682	880,682	793,932	862,152	4,310,760	6.8%
Health	107,281	272,289	605,289	684,289	552,289	442,289	511,289	2,556,445	4.0%
Social Welfare	150,942	273,558	435,942	648,273	666,123	562,369	517,253	2,586,265	4.1%
Public Protection	421,818	451,887	417,219	380,817	348,074	341,074	387,814	1,939,071	3.1%
General Government	202,278	213,868	187,298	175,583	143,883	98,683	163,863	819,315	1.3%
Other	945,924	1,447,315	1,532,430	1,381,231	1,113,250	955,240	1,285,893	6,429,466	10.1%
Total	**9,548,602**	**12,724,385**	**13,730,794**	**13,126,126**	**12,432,211**	**11,454,249**	**12,693,553**	**63,467,765**	**100.0%**

		Proposed Capital Plan - SFY 2017-18 through SFY 2021-22					Average	Total Dollar	Total Percentage
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	2017-18 through 2021-22	2017-18 through 2021-22	2017-18 through 2021-22
Transportation	5,092,582	5,593,867	5,290,467	5,453,648	5,101,687	4,980,289	5,283,992	26,419,958	39.9%
Education	231,692	589,100	475,249	426,657	367,400	217,400	415,161	2,075,806	3.1%
Higher Education	1,387,000	1,465,737	1,475,660	1,477,753	1,470,662	1,461,942	1,470,351	7,351,754	11.1%
Economic Development/ Government Oversight	1,315,556	1,672,273	1,974,104	1,722,551	1,671,072	1,399,964	1,687,993	8,439,964	12.7%
Mental Hygiene	472,110	565,452	488,973	491,142	511,142	511,142	513,570	2,567,851	3.9%
Parks and Environment	808,874	1,061,358	1,136,862	1,119,061	1,079,521	1,179,521	1,115,265	5,576,323	8.4%
Health	147,890	552,739	917,042	860,071	713,101	583,101	725,211	3,626,054	5.5%
Social Welfare	211,566	394,963	607,424	639,467	627,530	612,514	576,380	2,881,898	4.4%
Public Protection	472,157	566,461	476,683	420,778	414,687	412,977	458,317	2,291,586	3.5%
General Government	217,168	321,994	256,779	201,760	128,903	129,969	207,881	1,039,405	1.6%
Other	1,258,928	1,732,910	1,120,312	847,250	341,940	(77,303)	793,022	3,965,109	6.0%
Total	**11,615,523**	**14,516,854**	**14,219,555**	**13,660,138**	**12,427,645**	**11,411,516**	**13,247,142**	**66,235,708**	**100.0%**

Source: Division of the Budget

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