Report on the
State Fiscal Year 2019-20
Executive Budget

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

February 2019
Message from the Comptroller

February 2019

State tax revenues in December and January fell far short of earlier projections, making the process of adopting the new State budget more difficult than in the recent past.

Employment and personal income are expected to continue growing in 2019, although somewhat more slowly than last year. While the Division of the Budget (DOB) also expects higher tax receipts in State Fiscal Year 2019-20, it has reduced projections for the current and next year by a combined $5.7 billion from the estimates issued in November, before proposed actions.

There is still uncertainty about all of the factors underlying recent revenue developments. Lingering effects from federal tax changes are likely a significant part of the picture; for example, the new limit on federal deductions for state and local taxes may be changing high-income taxpayers’ timing of certain tax payments. Wall Street volatility in late 2018, including a sharp stock market decline in December, may be affecting financial firms’ bonuses and related non-wage income. It is difficult to quantify those impacts. In addition, information that will provide important insights about how these factors affect Personal Income Tax receipts going forward will not be available until after the start of the new fiscal year on April 1.

In light of the unknowns, an exceptionally high degree of caution regarding revenue expectations is advisable this year. While DOB plans $488 million in deposits to rainy day reserves, a good first step, I urge the Governor and the Legislature to make the prudent choice of building these reserves even further to prepare for the inevitable next economic downturn.

As always, key issues for my office include those related to oversight, accountability and transparency. Appropriation language in the Executive Budget would restore the Office of the State Comptroller’s independent review of certain contracts, and funding is proposed for an online database of economic development projects – both positive steps. However, the proposed Budget also raises concerns, including those regarding accountability and transparency, as outlined in the following pages.

In addition, this report examines issues such as the impact of the Executive Budget proposals on fiscal reserves and out-year gaps, the level of spending increases in State Operating Funds, projected increases in outstanding debt and annual debt service, and continuing risks to federal aid. I hope readers will find the information and analysis in this report useful in this year’s budget debate in the upcoming weeks.

Thomas P. DiNapoli
State Comptroller
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Revenue projections in the initial Executive Budget for State Fiscal Year 2019-20 reflected a substantial shortfall in Personal Income Tax (PIT) receipts in December, relative to November projections by the Division of the Budget (DOB). DOB’s Financial Plan issued in January reduced estimates (before revenue actions) for General Fund tax receipts in the current fiscal year and SFY 2019-20 by a total of nearly $2 billion.

Actual PIT receipts for the month of January were $2.5 billion below the Executive Budget projections. In its updated Financial Plan issued with the 30-day Executive Budget amendments in mid-February, DOB assumes that $2.3 billion of that shortfall reflected PIT estimated payments, and that approximately $1.4 billion in such receipts will be recovered in April 2019 when many taxpayers make final payments for the 2018 tax year.

In view of these and other factors, DOB has reduced projections of tax receipts for the current and next fiscal year by a combined $5.7 billion from the estimates issued in November 2018. These downward revisions arise amid expectations of slower economic growth, volatility in financial markets, risks to federal aid, and projected declines in the General Fund balance this year and in coming years.

The full ramifications of the troubling revenue developments are not yet clear. Such uncertainty will linger past the start of the new fiscal year, in part because many high-income taxpayers’ final payments on their 2018 tax liabilities are not made until mid-April or later. As a result, decisions on the new budget demand heightened caution, and budget implementation through the coming year will require continued, careful attention to the revenue picture.

The Executive Budget was released more than two weeks before the constitutional deadline, and the Legislature acted in January on a variety of policy initiatives that had also been advanced in the Budget. These early steps may facilitate timely Budget adoption. Important initiatives in the Budget include improved oversight of certain procurements, new funding for clean water infrastructure, and planned deposits to rainy day reserves.

Appropriation language in the Budget would restore the Office of the State Comptroller’s independent review of certain contracts involving the State University of New York (SUNY), the City University of New York and their construction funds and the Office of General Services, and authorize review of SUNY Research Foundation contracts where State funding is in excess of $1 million, among other procurement-related reforms. In addition, funding is proposed for an online database of economic development projects. These proposals represent positive steps toward enhanced oversight and transparency, and should be strengthened and written into permanent law.

Certain other aspects of the Executive Budget raise concerns regarding transparency, accountability and oversight. These include proposals to increase the use of off-budget spending, broadly expand Executive authority to reshape the Budget after enactment, and authorize wide-ranging but unspecified organizational changes at the Metropolitan Transportation Authority (MTA), with unclear implications for the MTA’s performance and affordability, among other issues.
The updated Financial Plan projects All Funds spending of $175.1 billion in the coming year, an increase of 2.0 percent. Spending from State Operating Funds is projected to rise 1.8 percent. However, this figure reflects planned actions that would move spending off-budget, change the timing of disbursements or otherwise affect reported spending levels. Adjusting for such readily identifiable actions, State Operating Funds spending would rise by nearly 4 percent. After numerous such actions in recent years, the State Operating Funds measure as reported by the Executive has become a less meaningful gauge of spending levels and trends, and funding structures of questionable policy merit have become more prevalent.

The updated Financial Plan projects tax receipts will increase 7.8 percent in SFY 2019-20, reflecting the unexpectedly lower base in the current year, continuing but slower economic growth and other factors. Proposed statutory actions are expected to result in net annual revenue gains of just over $1 billion in the coming fiscal year and $5.7 billion in SFY 2022-23. The bulk of this increase flows from a proposal to extend the top PIT rate of 8.82 percent, currently scheduled to expire on December 31 of this year, through 2024. Compared to previous, shorter extensions of the higher rate, the five-year extension would provide additional revenue stability.

Federal aid is projected at $63.8 billion, or 37 percent of All Funds receipts, in SFY 2019-20. While that represents a 1.4 percent increase from the current year, the recent partial federal government shutdown demonstrated the potential for interruption of funding due to ongoing policy disputes in Washington. Meanwhile, the risk of damaging changes to federal funding for health care and other essential programs remains a concern.

The General Fund balance is projected at $6.5 billion at the end of the current fiscal year, down nearly $3 billion from a year earlier. The updated Financial Plan projects a further drop of more than $1.5 billion by March 31, 2020. More than $2.5 billion in additional declines are expected in succeeding years, as such resources continue to be drawn down.

The State has received $11.9 billion in extraordinary monetary settlements since SFY 2014-15. The initial Executive Budget proposed using $500 million of the previously unallocated funds for clean water infrastructure; the revised Financial Plan reallocated $250 million of that amount, along with an additional $86 million from new settlements, for budget relief in the current fiscal year. The remaining $488 million of previously unallocated settlement resources is anticipated to be deposited to the Rainy Day Reserve Fund, if fiscal conditions permit, in the current and next fiscal years. The last deposit to rainy day reserves was in 2015; further strengthening of such reserves would help guard against growing risks to the State’s financial plan.

State-Supported debt outstanding and debt service are both projected to increase by an average of 4.7 percent annually from the current year through SFY 2023-24, roughly double projected inflation. The Budget proposes increases in State-Supported bonding authorizations totaling $5.1 billion, or 3.4 percent, over existing limits. Available statutory debt capacity is projected to decline to a low of $24 million in SFY 2022-23. The Budget further clouds the picture of debt service growth, which has already been blurred in recent years through various actions, by moving certain debt service payments off-budget.
The Budget would increase school aid by $956 million or 3.6 percent. It would revise a statutory cap on annual aid increases to reflect the 10-year annual average change in personal income, lowering the cap on growth during the coming year.

A proposed commission of “independent health policy and insurance experts” would be charged with reporting to the Governor by December 1, 2019, on options for achieving universal access to health care in New York.

For the first time since SFY 2011-12, the Executive Budget proposes a reduction in Aid and Incentives for Municipalities (AIM), the primary general aid program for localities. Total AIM payments would be reduced by $59 million or 8 percent, with aid to 1,326 towns and villages eliminated, according to information provided by the Executive. The 30-day budget amendments would require counties to make up the lost AIM payments with revenue from local sales taxes.

Other key points in this report on the SFY 2019-20 Executive Budget include:

- As part of its response to the shortfall in SFY 2018-19 receipts, DOB plans certain uses of temporary or one-time resources during the current fiscal year. These include $750 million in public authority bond proceeds to reimburse prior capital spending, $491 million in resources from monetary settlements, and $310 million in transfers from certain fund balances. For SFY 2019-20, the updated Financial Plan assumes use of nearly $7.6 billion in temporary or one-time resources.

- In the updated Financial Plan, out-year budget gaps projected for the three years starting with SFY 2020-21 average $4.8 billion, including the effect of current proposals but before potential gap-closing actions in coming years. After unspecified actions, the Executive projects that the gaps will be reduced or eliminated.

- State-share Medicaid spending is expected to rise by $374 million or 1.6 percent in SFY 2019-20. This reflects 30-day amendments that would reduce such spending by $550 million in the coming year relative to the initial Executive Budget.

- Proposed 30-day amendments project savings in the Department of Corrections and Community Services reflecting expected closure of up to three prisons in the coming fiscal year.

- The Budget proposes a Congestion Tolling Program in New York City to generate revenue for the MTA, and appropriates the final $1.5 billion of the State’s $7.3 billion commitment for the Authority’s current capital plan. However, spending from this and related reappropriations is contingent on the Legislature passing certain Executive Budget proposals.

- Building on provisions in the current year’s budget which shifted significant amounts of State resources off-budget to the MTA, the Executive Budget would direct certain State-imposed taxes and fees directly to the MTA without an appropriation. This would result in the shift of $297 million in revenues and associated spending off-budget in the coming year. These provisions diminish transparency regarding the commitment of resources to the MTA at a time when a full understanding of the fiscal relationships between the State and the MTA is especially critical.
• The Budget would create a Climate Action Council to develop a plan for a 40 percent reduction of greenhouse gas emissions in New York, compared to 1990 levels, by 2030. Other environmental measures include proposals to expand the bottle deposit law, and to limit utilization of single-use plastic bags by retail stores.

• Proposed legislation would legalize adult use of cannabis and establish a wide-ranging regulatory structure as well as new taxes to generate revenue for the State and localities where cannabis is sold.

• Other criminal justice proposals include measures to eliminate cash bail and allow compassionate release for certain prison inmates over age 55 with incapacitating medical conditions.

Note: This report describes certain aspects of both the Executive Budget submitted to the Legislature on January 15, 2019, before any amendments, and the Executive Budget as updated for the 30-day amendments, which were released on February 14, 2019.
II. Financial Plan Overview

State Fiscal Year 2018-19

Tax collections in All Governmental Funds (All Funds) totaled $63.6 billion through the first 10 months of the 2018-19 fiscal year, a decline of $4.4 billion or 6.4 percent from the same period during the previous year. While the Division of the Budget (DOB) had forecast a decrease related to taxpayer behavior in the wake of federal tax changes, actual collections through January were $2.3 billion lower than projections in the Executive Budget and $3.1 billion below the SFY 2018-19 Enacted Budget projections. These variances are primarily related to lower personal income tax (PIT) collections in December and January.¹

In the Executive Budget Financial Plan, DOB reduced tax projections (before proposed changes) in every year of the Financial Plan period. Relative to projections in the Mid-Year Update issued in November 2018, the Financial Plan updated for the 30-day amendments included further revisions, for total reductions of nearly $3 billion in the current fiscal year and $2.7 billion in the coming year. These reductions rise to nearly $6.4 billion in SFY 2022-23. A more detailed discussion of receipts appears in the Economy and Revenue section of this report.

Spending has largely trailed projections throughout the year, especially in capital projects. Through January 31, All Funds spending was $269.6 million below November projections, with most of the variance in capital projects. Spending from State Operating Funds was 2 percent or nearly $1.5 billion higher than a year earlier and $58.8 million higher than projections in the Mid-Year Update, primarily because of local assistance grants made through the General Fund.

General Fund

General Fund tax receipts, not including transfers from other funds, are projected to total $35.5 billion in SFY 2018-19, $14.1 billion lower than SFY 2017-18 results. Besides the reductions from previous projections discussed elsewhere, this decrease is primarily due to statutory changes enacted with the SFY 2018-19 budget, which increased the dedication of PIT revenues for debt service from 25 to 50 percent. This change had the effect of shifting such PIT receipts from the General Fund to the Debt Service funds. (Funds not used for debt service are eventually transferred to the General Fund.) The current projection is more than $1.5 billion below projections from the SFY 2018-19 Enacted Budget Financial Plan. Including transfers from other funds as well as miscellaneous receipts, General Fund receipts are expected to total $70.7 billion, with nearly $1.2 billion in one-time settlement funds contributing to the total.

General Fund spending, including transfers to other funds, is now projected to total $73.6 billion in SFY 2018-19, approximately $3 billion less than anticipated in the SFY 2018-19 Enacted Budget. The difference results primarily from lower local assistance grants and lower transfers to other funds to support capital projects spending. General Fund spending is projected to increase $3.8 billion or 5.5 percent from SFY 2017-18. The latest projection assumes $765

¹ Budgetary figures in this section generally reflect the updated Financial Plan unless otherwise noted.
million in debt service prepayments, of which $145 million was anticipated in Financial Plan updates before the Executive Budget. Funds will be provided to the bond trustee during the current year that would otherwise be provided in SFY 2019-20, thereby lowering year-to-year growth in State Operating Funds spending. The bond trustee will retain such funds and make the debt service payments in SFY 2019-20 as required.

The updated Executive Budget Financial Plan includes a General Fund closing balance for the current year of $6.5 billion, $1 billion higher than initial estimates. This increase results largely from the unanticipated monetary settlements noted above, as well as lower spending and transfers to capital projects funds. With the use of an additional $491 million in monetary settlement dollars in the updated Plan, the total used for budget relief increases to over $1.1 billion in SFY 2018-19. The estimated closing balance for the current year is $2.9 billion below the SFY 2017-18 closing balance, reflecting factors including lower-than-anticipated PIT collections, the timing of such collections, and planned spending of some of the fund balance. DOB anticipates depositing $250 million from monetary settlements to the Rainy Day Reserve Fund (which is included within the General Fund balance) before the close of the current fiscal year, fiscal conditions permitting, increasing the balance in that reserve to $790 million.

The reduction of $3 billion in estimated tax collections (before revenue actions) in SFY 2018-19 made with the updated Financial Plan requires gap-closing actions for the General Fund to stay balanced without the use of restricted reserves. More than $1.5 billion of such actions are temporary or non-recurring. According to DOB, the gap-closing actions include:

- $750 million from reimbursing General Fund capital advances made in prior fiscal years.
- $632 million in non-tax receipts, primarily from the non-recurring use of available fund balances.
- $499 million in various local assistance actions, primarily in Medicaid.
- $491 million in additional non-recurring monetary settlement proceeds, of which $336 million will be used for unspecified General Fund relief and $155 million to address labor agreement costs.
- $177 million in various operational cost savings.
- $13 million from lower transfers to other funds.

State Operating Funds

DOB projects SFY 2018-19 State Operating Funds receipts will decline approximately 2.8 percent or $2.7 billion from SFY 2017-18 results, for a total of $96.6 billion. Spending in SFY 2018-19 is projected to total $100.1 billion, nearly $2 billion or 2.0 percent higher than in SFY 2017-18. Prepayments and other actions, including the movement of approximately $1.4 billion in spending for the MTA off-budget, affect this reported growth. This issue is discussed in more detail below.

All Funds

The Executive Budget Financial Plan, as amended, projects All Funds receipts for SFY 2018-19 to increase nearly $3.7 billion, or 2.3 percent, from SFY 2017-18 results. Federal receipts are anticipated to increase $3.9 billion to $62.9 billion, primarily reflecting growth in Medicaid
grants and other non-capital spending. Miscellaneous receipts are expected to increase nearly $4.1 billion, reflecting additional monetary settlements, reimbursements from bond proceeds, and various receipts in special revenue funds. Tax collections are projected to decline $4.3 billion, or 5.4 percent, to just under $75 billion.

Updated projections show All Funds spending increasing this year by $8 billion, or 4.9 percent, with nearly $5.5 billion occurring in Medicaid and other local assistance grants, primarily in federally funded programs.

**State Fiscal Year 2019-20**

DOB projects All Funds tax receipts to increase 7.8 percent in SFY 2019-20. The increase includes the proposed extension of the top PIT tax rate, which is expected to yield collections of $771 million in the coming fiscal year, and a return to historic levels for PIT refunds paid in the fourth quarter. Other factors include a reduction in projected tax receipts during the current year, which affects the year-over-year increase, and the expectation that certain PIT estimated payments originally expected in January will instead be received in April (during the next fiscal year). Total spending is expected to increase 2 percent, or $3.4 billion, of which $2.6 billion is attributable to local assistance payments and $797 million to General State Charges, which are rising due in part to the accelerated repayment of previously amortized pension costs. This increase is partly offset by debt service, where spending in the coming year is expected to decline due primarily to prepayments anticipated to be made in SFY 2018-19 and to the movement of certain debt service payments off-budget. Such budget adjustments are discussed later in this section.

**General Fund**

The Executive Budget Financial Plan, as amended, projects that General Fund receipts (including transfers from other funds) will total $75.1 billion, an increase of 6.3 percent or $4.4 billion, compared to updated SFY 2018-19 estimates. General Fund tax collections are projected to increase 9.9 percent or $3.5 billion. Miscellaneous receipts are projected to fall by just over $1.1 billion, largely reflecting a decline in monetary settlements.

General Fund disbursements are projected to total $76.6 billion, an increase of $3.1 billion or 4.2 percent, from SFY 2018-19 estimated levels. The year-to-year increase includes a number of accounting actions that will result in a shifting of disbursements outside of State Operating Funds, including the General Fund.

DOB now projects the General Fund balance will decline to $5 billion as of March 31, 2020, down from the $5.9 billion projected in January. The State’s statutory rainy day funds are included within this balance and are projected at less than $3 billion at that date. This amount includes another deposit to the Rainy Day Reserve Fund if fiscal conditions permit, of $238 million, in SFY 2019-20.

**Proposed General Fund Gap-Closing Plan**

The updated Financial Plan projects a General Fund current services deficit or gap of $3.1 billion in SFY 2019-20 before factoring in changes made since the Mid-Year Financial Plan
Update and proposed new actions. Tax receipt re-estimates included in the updated Financial Plan would increase the projected deficit to $5.9 billion before gap-closing actions.

As discussed earlier, DOB expects to prepay $765 million in debt service in SFY 2018-19 (of which $145 million was anticipated in the Mid-Year Update), thus providing non-recurring gap-closing relief in SFY 2019-20. The Executive’s updated gap-closing plan for SFY 2019-20 includes nearly $2 billion in revenue revisions and $3.4 billion in spending adjustments, as shown in Figure 1. The largest portion of spending adjustments is in local assistance grants, totaling $2.9 billion, $896 million more than in the January projection, resulting primarily from Medicaid reductions. The updated gap-closing plan also anticipates using $500 million from an unrestricted General Fund reserve that was set aside for debt management purposes to accelerate the repayment of certain previously amortized pension costs.

Figure 1 illustrates the difference in gap-closing plans in the Executive Budget Financial Plan and the Plan updated for the 30-day Amendments. In the “Executive Budget” and “30-Day Amendments” columns, positive figures reflect those that contribute to closing the projected gap (such as spending actions and newly available revenues), while figures in parentheses reflect the initially estimated gap and factors that add to it (such as the downward revisions in projected tax receipts).

Figure 1

<table>
<thead>
<tr>
<th>Comparison of Gap Closing Plans, SFY 2019-20</th>
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<tr>
<td>Executive Budget Financial Plan and Updated for 30-Day Amendments</td>
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<td>(in millions of dollars)</td>
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<table>
<thead>
<tr>
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<th>Executive Budget</th>
<th>30-Day Amendments</th>
<th>Dollar Difference</th>
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<td>MID-YEAR UPDATE SURPLUS/(GAP)</td>
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<td>Tax Receipts Reestimates</td>
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<td>PIT Top Rate Extension</td>
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<td>Other Taxes/Miscellaneous Receipts</td>
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<td>Debt Service Transfers</td>
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<td>Non-Tax Transfers</td>
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<td>Total Receipts</td>
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<td>Local Assistance</td>
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<td>Agency Operations</td>
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<td>Debt Service Transfers</td>
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<td>Monetary Settlement Transfers</td>
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<td>Other Transfers</td>
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<td>Total Disbursements</td>
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<td>Use/(Reserve) of Fund Balance</td>
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<td>Rainy Day Reserve</td>
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<td>Extraordinary Monetary Settlements</td>
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<td>Debt Management</td>
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<td>Total Use/(Reserve) of Fund Balance</td>
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<tr>
<td>EXECUTIVE BUDGET SURPLUS/(GAP)</td>
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<td>-</td>
<td>-</td>
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Source: Division of the Budget
Reported Growth in State Operating Funds

The updated Financial Plan projects that State Operating Funds revenue will total $99.5 billion in SFY 2019-20, an increase of $2.9 billion or 3 percent from estimated SFY 2018-19 receipts. This primarily results from higher personal income tax collections. Miscellaneous receipts are projected to decline $2.9 billion, or 12.7 percent, in part due to the loss of one-time revenue from monetary settlements.

For SFY 2019-20, State Operating Funds spending is projected to total just under $102 billion, an increase of 1.8 percent or $1.8 billion over SFY 2018-19. Most of the increase is projected to occur in local assistance grants, primarily in Medicaid and school aid.

In recent years, the Executive has set a goal of limiting annual growth in State Operating Funds spending to no more than 2 percent. As in certain previous years, a number of timing-related actions and other changes proposed in the SFY 2019-20 Executive Budget would affect the level of reported State Operating Funds spending growth in the Financial Plan. The SFY 2018-19 planned prepayment of $765 million in debt service would reduce spending in SFY 2019-20 by a commensurate amount. Such prepayments reduce the appearance of growth by increasing spending in the base year and reducing it by the same amount in the following year. However, total costs are not affected.

Other proposed budget actions that change the appearance of spending growth in State Operating Funds include: shifting expenditures to capital projects or other funds, which are outside the scope of State Operating Funds; moving expenditures off-budget to a public authority or an off-budget fund or account; shifting payments from a disbursement to a transfer (transfers are not counted in State Operating Funds totals); 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 as spending; deferring expenditures to future years; and others.

Such readily identifiable actions are expected to reduce SFY 2019-20 State Operating Funds expenditures by a net of approximately $2.1 billion, including the offsetting changes and planned debt service prepayments. Adjusting for such differences, State Operating Funds spending in the coming year would increase by nearly 4 percent.

In addition, revisions made previously to the manner in which the School Tax Relief (STAR) benefit is provided to taxpayers effectively shift certain fiscal impacts from the program from State disbursements to reductions in State revenues through a tax credit. Such changes result in ongoing annual reductions in reported State Operating Funds spending.

The Budget also includes various proposals that would provide flexibility for the Executive to manage spending under the 2 percent State Operating Funds cap. 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 proposal would provide the Executive with extraordinary broad authority to move spending outside State Operating Funds and out from under the cap on spending growth, in addition to having other implications.
The Executive Budget would make permanent a provision that exempted any amount disbursed from the Debt Reduction Reserve Fund (DRRF) from calculations of annual spending growth within State Operating Funds. (This exemption is currently scheduled to sunset in June 2019.) Although no disbursements are anticipated from this Fund during the Financial Plan period, the Budget provides for transfer of up to $500 million from the General Fund to the DRRF. As in prior years, the appropriation language from the DRRF allows for the payment of routine debt service obligations. However, when considered with the exemption described above, this authority could be used to reduce amounts that would otherwise be paid during the year from State Operating Funds and therefore lower reported spending 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.

All Funds

The updated Financial Plan projects All Funds receipts will increase by $3.2 billion or 1.9 percent in SFY 2019-20, to $172.4 billion. This primarily reflects growth in tax receipts. Miscellaneous receipts are expected to decline by $3.5 billion, in part due to the absence of non-recurring monetary settlements received in SFY 2018-19, as well as lower bond proceeds and the shift off-budget of certain driver’s license and registration fees. Federal receipts, comprising more than one in every three dollars in the Budget, are projected to total $63.8 billion. This reflects an overall increase of $893 million or 1.4 percent. Tax receipts are projected to increase $5.8 billion, or 7.8 percent.

All Funds spending is projected to total $175.1 billion, an increase of $3.4 billion or 2 percent. DOB projects inflation in 2019, as measured by the Consumer Price Index, at 2.0 percent.

Structural Imbalance

For decades, the State’s annual budgets have often included provisions that drove recurring spending to rise at a faster pace than recurring revenue, creating structural imbalances and recurring budget gaps. Such gaps have largely been closed through the use of short-term solutions, frequently addressing only a single year, a practice which exacerbated the problems in subsequent years.

While the State has taken some steps to restrain spending growth in recent years, such as in agency operating budgets, certain other budgetary actions have created revenues or spending reductions that are only temporary. Although these can help to balance annual budgets, they leave recurring structural budget challenges unaddressed. In addition, the State has enacted certain recurring increases in spending programs and tax reductions that add to the challenge of achieving structural balance.

The FY 2019 Mid-Year Update released by DOB in November 2018 projected cumulative out-year budget gaps for current services at $16.1 billion for the three years from SFYs 2019-20 through 2021-22, or an annual average of $5.4 billion. Downward revisions in projections of tax receipts with both the Executive Budget and the 30-day amendments increased those gaps significantly before proposed actions. The Executive Budget, as amended, includes both revenue and spending actions that are intended to close the SFY 2019-20 gap, while reducing or eliminating projected gaps in future years.
Figure 2 illustrates the challenge of restraining State spending on a recurring basis. It compares growth in disbursements for major spending categories during the ten years ending in SFY 2018-19, the coming year (SFY 2019-20), and ensuing years (SFYs 2020-21 through 2022-23) before incorporating the effects of actions to achieve the 2 percent spending limit. Projected average growth in total State Operating Funds spending (the left-hand group of bars labeled Total Disbursements on Figure 2) is 3.9 percent over the three out-years, double the increase projected for the coming year, but roughly equal to estimated spending in SFY 2019-20 if actions to limit reported spending growth are adjusted out. Projected growth in all the major categories that collectively make up State Operating Funds is above the 2 percent benchmark (with the exception of Departmental Operations), and well above that level in most cases.

Figure 2

Percentage Change in Disbursements from State Operating Funds: Previous Years, Projected SFY 2019-20 and Out-Year Projections Updated for 30-Day Amendments

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.

Spending obligations in certain areas, such as General State Charges and debt service, can be difficult to change significantly on a recurring basis, due to legal, contractual or other commitments. However, modifying the timing of payments, as planned in debt service and General State Charges, or shifting payments to other funds or off-budget and outside the scope...
of reported spending, can affect year-over-year growth without materially changing actual spending requirements.

The amounts for debt service in Figure 2 reflect the use of prepayments, which have helped ensure that overall State Operating Funds growth in recent years remained below 2 percent. The projected average annual growth of 8.9 percent in the out-years reflects a relatively low base year, in part the result of prepaying debt service in the year before and certain debt service being moved off-budget, as well as increases in planned borrowing. This growth could be understated since certain debt service is proposed to be shifted off-budget and, as a result, such spending is not included in these figures.

Neither the SFY 2019-20 Executive Budget Financial Plan nor the Plan as amended includes detailed projections of gap-closing actions which were provided in previous Executive Budget Financial Plans. While some information is presented by Financial Plan classifications, such as local assistance or capital, as well as certain large items (such as the extension of the top tax rate in PIT), the table is significantly less detailed than in prior years. The lack of certain information formerly provided makes it more difficult to determine which actions are recurring or non-recurring, and how much of the structural imbalance is left unaddressed.

General Fund gaps are projected at $4.8 billion, $4.6 billion and $5.2 billion, respectively, in SFYs 2020-21 through SFY 2022-23. These amounts reflect proposed gap-closing actions in the updated Financial Plan, but not further actions needed in future years to meet the 2 percent spending growth benchmark in State Operating Funds. The multiyear total of nearly $14.5 billion compares to the analogous three-year total of $11.8 billion projected in January.

As has been the case in recent Executive Budgets, the Financial Plan estimates unspecified savings associated with limiting spending growth from State Operating Funds to 2 percent annually in coming years. For SFYs 2020-21 through 2022-23, such savings are estimated at $2.7 billion, $4.1 billion and $5.9 billion, respectively, a cumulative total of nearly $12.7 billion. After reflecting those amounts, the Plan projects deficits of $2 billion in SFY 2020-21 and $490 million in SFY 2021-22, and a surplus of $717 million in SFY 2022-23.

The above-referenced unspecified savings are labeled on distinct lines in various Financial Plan tables. The total disbursements in the Financial Plan tables, reflected in the out-year gap projections described above, 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 such spending reductions may be achieved.

**Non-Recurring and Temporary Resources**

As part of its response to the shortfall in SFY 2018-19 receipts, DOB plans to use certain resources during the current fiscal year that are one-time or temporary in nature. These include $750 million in public authority bond proceeds to reimburse prior capital spending, $491 million in resources from monetary settlements, and $310 million in transfers from certain fund balances.

The Executive Budget as amended includes nearly $7.6 billion in SFY 2019-20 resources that the Office of the State Comptroller identifies as either temporary (more than one year but not permanent) or non-recurring (one year). Figure 3 shows the Office of the State Comptroller's
analysis of such resources. Of the almost $7.6 billion total, $4.7 billion results from temporary actions in previous budgets (primarily the extension of the top PIT rate), and $1.9 billion represents prepayments, use of reserves (Community Projects Fund and unrestricted debt management) and the release of debt service reserves.

Figure 3

**Temporary and Non-Recurring Resources Updated for 30-Day Amendments**

<table>
<thead>
<tr>
<th>(in millions of dollars)</th>
<th>SFY 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prepayments and Use of Reserves</strong></td>
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<tr>
<td>SFY 2018-19 Debt Service Prepayment</td>
<td>765</td>
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<tr>
<td>Use of Reserves</td>
<td>526</td>
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<tr>
<td>Transfers from Capital Funds</td>
<td>525</td>
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<td>Debt Service Reserve Release</td>
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<td><strong>Subtotal</strong></td>
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<td><strong>Temporary or Non-Recurring Enacted in SFY 2019-20</strong></td>
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<tr>
<td>PIT Top Rate Extension</td>
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<tr>
<td>Defer Human Services COLA</td>
<td>141</td>
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<tr>
<td>Transfers from Other Funds</td>
<td>56</td>
</tr>
<tr>
<td>Restructure Youth Facility Billing</td>
<td>55</td>
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<tr>
<td>New York Power Authority Transfer</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>1,043</td>
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<tr>
<td><strong>Previously in Law or Outside Budget Process</strong></td>
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<tr>
<td>Temporary PIT Bracket (1)</td>
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<tr>
<td>Health Care Transformation Fund</td>
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<tr>
<td>Use of Essential Plan Resources</td>
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<tr>
<td>High Income Charitable Deduction Limit</td>
<td>140</td>
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<tr>
<td>CUNY Asset Sales</td>
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<tr>
<td>New York State Insurance Fund</td>
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<tr>
<td>Sales Tax Asset Receivable Corporation Refunding</td>
<td>17</td>
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<tr>
<td>Mortgage Insurance Fund</td>
<td>12</td>
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<tr>
<td>New York Power Authority Repayment Adjustment</td>
<td>(43)</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>4,663</td>
</tr>
<tr>
<td><strong>Total State Temporary and Non-Recurring Resources and Prepayments</strong></td>
<td>7,593</td>
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</table>

Sources: Division of the Budget and Office of the State Comptroller
Notes: (1) Projections for the existing PIT provisions were not updated in the updated Financial Plan. These projections are based on actual and projected collections relative to Plan.

**Settlements**

From SFY 2014-15 through mid-February 2019, the State has received a total of $11.9 billion in non-recurring and largely unanticipated settlements from various financial institutions and other companies, including nearly $1.2 billion in the current year. Approximately $988 million was unallocated before the Executive Budget was released. DOB now expects to use $488 million of this for Rainy Day Reserve Fund deposits in SFYs 2018-19 ($250 million) and 2019-20 ($238 million), respectively, $250 million for clean water infrastructure purposes beginning in SFY 2020-21 and $250 million for budget relief (in addition to $155 million of settlement resources that have been previously allocated but have not yet been used for such purposes and $86 million in new settlement resources).
A total of $5 billion in monetary settlements funds has been spent through SFY 2017-18, while an additional $2.7 billion is projected to be spent in the current and coming fiscal years. Some $3.3 billion of that total has been or is anticipated to be used for budget relief; none is planned for such use in the coming year. Figure 4 illustrates the various purposes for which such spending has occurred or is projected to occur from SFY 2014-15 through SFY 2019-20.

Figure 4

Using non-recurring resources for capital assets, non-recurring expenditures or deposits to reserves applies one-time resources to appropriate purposes. Applying one-time resources to capital investments also avoids interest costs that might be incurred, if debt were otherwise used to pay for such assets. Such resources should not be used to support spending that is expected to continue when the resources are depleted, and thus are not appropriately targeted to ongoing operating expenses or to certain capital expenditures such as ongoing maintenance costs.

**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 over $2 billion as of March 31, 2019, representing approximately 2.8 percent of General Fund expenditures. This reflects a $250 million deposit to the Rainy Day Reserve Fund anticipated in SFY 2018-19. An additional $238 million is expected to be deposited in SFY 2019-20 (each
planned deposit is planned if fiscal conditions permit), bringing the total to $2.3 billion or 3 percent of General Fund expenditures.

As shown in Figure 5, in addition to the State’s restricted reserves, the General Fund also has unrestricted reserves, which include balances from monetary settlement funds that have not been spent but have been designated for certain uses in the Financial Plan. DOB projects that settlement funds remaining in the General Fund will total $3.9 billion at the end of the current fiscal year after the use of over $1.1 billion for budget relief. Additional settlement resources are expected to be spent or transferred from the General Fund over the next several years, as shown by the projected declining balance associated with this purpose in Figure 5.

The Executive has indicated that a majority of settlement resources are intended to be used for capital investment or other one-time purposes. The updated Financial Plan reflects at least one significant change from the January Plan by redirecting resources from capital purposes to budget balancing – the planned use of $250 million that had been targeted for clean water infrastructure projects. That $250 million is now anticipated to be financed with debt. The Budget Director has indicated that some or all of the settlement resources not yet spent could be used as additional budgetary reserves if needed. It is not clear how further such use of these resources would affect other spending plans or commitments.

Figure 5 compares restricted and unrestricted reserves within the General Fund. The figures for SFY 2020-21 through SFY 2022-23 are Office of the State Comptroller estimates based on projected use of reserves in the Executive Budget Financial Plan. The Financial Plan does not provide projections of out-year General Fund balances.

**Figure 5**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Statutory Reserves</td>
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<tr>
<td>Rainy Day Reserve</td>
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<td>1,258</td>
<td>1,258</td>
<td>1,258</td>
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<td>Contingency Reserve Fund</td>
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<td>1,028</td>
<td>1,028</td>
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<tr>
<td>Community Projects Fund</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>21</td>
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<tr>
<td>Refund Reserve (Unrestricted)</td>
<td>4,443</td>
<td>2,684</td>
<td>2,081</td>
<td>1,170</td>
<td>188</td>
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<tr>
<td>Debt Management</td>
<td>500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Labor Agreements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Monetary Settlement Proceeds</td>
<td>3,943</td>
<td>2,684</td>
<td>2,081</td>
<td>1,170</td>
<td>188</td>
</tr>
<tr>
<td>Total</td>
<td>6,545</td>
<td>4,998</td>
<td>4,388</td>
<td>3,476</td>
<td>2,494</td>
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</table>

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

Total General Fund reserves are projected to be $6.5 billion at the end of the current fiscal year before declining by approximately $1.5 billion in the coming year, largely due to expected

2 Amounts for SFY 2019-20 are Financial Plan estimates. For projected use of reserves, see DOB, FY 2020 Executive Budget Financial Plan – Updated for Governor’s Amendments and Forecast Revisions, February 2019, page T-1.
transfers to the Dedicated Infrastructure Investment Fund (DIIF) and the use of the $500 million to accelerate the repayment of certain previously amortized pension costs.

Figure 6 shows historic and projected General Fund reserves from SFYs 2008-09 through 2022-23, as well as reserves as a percentage of General Fund spending. By SFY 2022-23, reserves as a proportion of General Fund spending are expected to drop to nearly the same level experienced in the aftermath of the Great Recession.

Figure 6

Projected General Fund Restricted and Unrestricted Reserves, Updated for 30-Day Amendments
(in millions of dollars)

As in recent years, the Financial Plan includes a line called “Reserve for Transaction Risks” in its accounting of transfers from other funds. This is not a formal reserve but provides the Executive with flexibility in managing the General Fund. If spending is higher or receipts are lower than anticipated, this figure can be adjusted to increase projected General Fund receipts. The amounts indicated in the Financial Plan for this purpose are $123.8 million in the current year and $328.3 million in the coming year (compared to $263.3 million and $338.8 million, respectively, in the initial Executive Budget), and $350 million annually in the out-years of the Plan. Given these adjustments, $139.5 million more in the current year and $10.5 million more in the coming year are made available to the General Fund than initially planned.

3 See page T-199 in the FY 2020 Executive Budget Financial Plan updated for 30-day amendments.
Risks to the Financial Plan

As with any projections, the Financial Plan is subject to various risks and uncertainties. In January, DOB reduced its projections for tax collections, before proposed revenue actions, by amounts ranging from $396 million in the current year to more than $4 billion in SFY 2022-23. The updated Financial Plan further revised projections downward, for total reductions of $3 billion in the current fiscal year to nearly $6.4 billion in SFY 2022-23. As discussed earlier, the updated Financial Plan assumes that certain PIT revenues previously expected in January will instead be received in April. Such estimates are subject to uncertainty; the full picture of any such timing changes will not be known before the start of the new fiscal year.

Among other important areas of uncertainty, the State is facing a variety of risks related to the Federal government. Questions remain over how federal tax changes from the Tax Cuts and Jobs Act (TCJA), enacted by Congress in late 2017, will continue to affect the State’s finances, reinforcing the need for cautious estimating with respect to receipts.

The Financial Plan notes that the State receives substantial amounts of federal aid for health care, education, transportation and other purposes. Many programs that drive current funding levels may be subject to change based on current budget and policy discussions in Washington. Risks to health care funding within the Financial Plan period include whether the State will receive federal reimbursement in the Essential Plan for federal cost-sharing reduction payments. In addition, scheduled reductions in federal Disproportionate Share Hospital (DSH) payments to hospitals that treat large numbers of Medicaid recipients leave unclear any resulting impacts on hospitals and other entities.

The SFY 2019-20 Executive Budget, as amended, continues a provision included in the SFY 2018-19 Enacted Budget that allows the Budget Director to impose spending cuts, absent action by the Legislature, if certain reductions in federal assistance occur. However, this provision does not specify the circumstances under which the $850 million threshold would be deemed to have been met. The impact of this process on the Financial Plan and on recipients of State funding under varying potential scenarios of federal aid reduction is unclear. Given the risk of such reductions, continued close monitoring of developments in Washington is essential. Federal funding reductions not already assumed in the Financial Plan could place significant strain on the State’s budget, and force difficult decisions regarding the availability of other resources and the funding of important programs and services.

New York relies heavily on revenues, particularly the personal income tax, that are highly sensitive to changing economic conditions. The U.S. economy, as of the end of 2018, was in the second longest expansion in recorded history, although growth is projected to slow in the coming year. As outlined in the section of this report on Reserves, while additional deposits are anticipated to the Rainy Day Reserve Fund in the current and coming year if fiscal conditions allow, unrestricted reserves are forecast to decline over the Financial Plan period as such resources are used for various already planned purposes. Such declines would leave the State with increasingly limited flexibility to respond to economic downturns or catastrophic events. The Great Recession and previous downturns have resulted in a need for deficit reduction actions. These have included difficult spending cuts and significant tax increases, at times when such steps may have been especially damaging, as well as budget management actions such as sweeps of funds originally dedicated to other purposes, changes in timing of
payments, and other fiscal gimmicks. More robust reserves could reduce the need for such measures going forward.

The State has committed to provide $7.3 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 majority of this commitment have yet to be identified.

**Transparency, Accountability and Oversight Issues**

Transparency, accountability and independent oversight are keys to ensuring that public resources are protected from waste, fraud and abuse, and that the public has access to important information regarding government activities. These essential elements of good governance also help assure 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 may diminish New Yorkers’ confidence in their State government.

As detailed below, the SFY 2019-20 Executive Budget, as updated, proposes certain improvements in these areas. However, other elements of the Budget fall short with respect to high standards of transparency, accountability and oversight. More work needs to be done to enhance public trust in State government, and to ensure that public resources are used wisely and that the State is acting in the best interest of New Yorkers, now and in the future.

*Independent Oversight and Procurement Integrity Provisions*

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 public authority contracts. The Office of the State Comptroller has had the authority to pre-audit contracts for over 100 years. The Comptroller’s independent review of contracts protects taxpayers, agencies, not-for-profit organizations and other vendors contracting with the State by validating that a contract’s costs are reasonable, that its terms are favorable to the State, and that a level playing field existed for bidders. Such an independent review serves as an important deterrent to waste, fraud and abuse, and further ensures that the State is contracting with responsible vendors.

The Comptroller’s oversight was statutorily eliminated in 2011 for certain contracts of SUNY, CUNY and their construction funds. It was removed in 2012 for Office of General Services (OGS) centralized contracts.

Certain appropriations within the Budget include provisions that would restore the Office of the State Comptroller’s independent review of certain contracts in excess of $250,000 for SUNY, CUNY and their construction funds, and in excess of $85,000 for OGS centralized contracts. In addition, it would authorize the Office of the State Comptroller to review SUNY Research Foundation contracts where State funding is in excess of $1 million. Various appropriations would also enhance oversight of certain agencies’ procurements by the State Inspector General. As a part of this review the State Inspector General may also require certification.
pertaining to collusion, ethics and conflicts of interest. These proposals represent positive steps toward enhanced oversight.

However, additional steps are needed to ensure that the Office of the State Comptroller’s independent review of such contracts is restored in permanent law, and to further strengthen procurement oversight.

Unfortunately, the Executive Budget, as amended, also includes several measures that bypass existing statutory provisions intended to ensure independent oversight and procurement integrity. In certain instances, the competitive bidding process and the Office of the State Comptroller’s contract review authority would be eliminated. Examples include Article VII and corresponding Aid to Localities appropriation language related to the Consumer Directed Personal Assistance Program (CDPAP), which would authorize the Department of Health (DOH) to contract with one or more fiscal intermediaries (FIs) to perform general administrative services such as payroll and wage withholding on behalf of Medicaid recipients participating in the program, as well as in a $30 million federally funded appropriation for services for persons with heroin and opiate use addiction disorders. In addition, certain proposed modifications to the Infrastructure Investment Act would diminish independent oversight by removing the Comptroller’s ability to review and approve State authority contracts awarded pursuant to alternative procurement methods such as design-build contracting under the statute.

**Lack of Clarity as to the Level of State Operating Funds Spending and Spending Growth**

In recent years, the Executive has set a non-statutory goal of limiting annual growth in State Operating Funds spending to no more than 2 percent. As described earlier in this section, the Financial Plan includes a number of budget actions including timing-related adjustments, program restructurings, shifts and new categorizations of spending and other steps that cloud the picture of spending growth. The readily identifiable actions described in this report are expected to reduce SFY 2019-20 State Operating Funds expenditures by a net of approximately $2.1 billion. Adjusting for such differences, State Operating Funds spending in the coming year would increase by nearly 4 percent, compared to the 1.8 percent presented in the Executive Budget Financial Plan, as updated. Certain of these actions also have other troubling implications, including potentially harmful programmatic impacts and diminished transparency regarding how taxpayer resources are spent.

For example, one new proposal would allow an indeterminate amount of resources from the Environmental Protection Fund (EPF), a dedicated capital projects fund, to be used for personal service expenses, which would move certain spending outside State Operating Funds. Such a change could undermine the Fund’s ability to make capital investments to meet environmental and recreational needs of the State and its local governments. The EPF’s reliance on General Fund support is projected to grow during the coming Capital Plan period. While expenditures from the EPF are forecast to reach historic highs during the Capital Plan period, it is unclear how much of this record-level spending will be used for environmental-related capital investment, given the proposed open-ended authorization for Fund resources to support personal service costs. See the Environment and Parks section of the report for additional details.

While actions that move spending outside State Operating Funds affect reported growth within that category, they do not change the State’s actual spending requirements. Though budget
management actions can be evaluated based on their individual merits, a clear delineation of such proposals, and their overall impact on State Operating Funds growth, would improve transparency related to the State’s fiscal condition and budgetary trends. For more details, see the section on Reported Growth in State Operating Funds earlier in the Financial Plan section.

While the Executive Budget Financial Plan shows the amount of spending reductions that would be necessary to meet the 2 percent benchmark for State Operating Funds spending growth in the out-years, it does not show where such reductions would be made. Such information would provide greater assurance that the stated goal is achievable without use of budgetary gimmicks, and would help local governments and other entities dependent upon State assistance to plan more effectively.

**Expanded Use of Off-Budget Spending for State Programs and Purposes**

The Executive Budget expands the practice of “off-budget” spending, shifting out State resources and spending that had traditionally been or otherwise would be included in the State Budget and in State revenue and spending totals, and accounted for in the Statewide Financial System (SFS). These provisions limit transparency related to the State’s obligations and use of public resources and reduce the oversight of and accountability for taxpayer dollars that result when decisions regarding State resources are subjected to the annual budget process and spending flows through SFS. Examples include the new shift of certain MTA-related State resources annually outside of the State Treasury. Such funds, which are estimated to total $297 million in the coming year, would flow directly to the MTA without a State appropriation. These actions build on provisions in the SFY 2018-19 Enacted Budget which directed more than $1.5 billion in revenues from the State Payroll Mobility Tax (PMT), as well as other sources, along with associated spending, off-budget.

It is essential for policy makers and other stakeholders to have access to definitive information about the State’s financial support for the MTA, and all programs supported with State resources. A full understanding of the fiscal relationships between the State and the MTA is especially critical as policy makers debate the distribution of costs and responsibilities for the MTA, which is confronting significant challenges related to its budget and infrastructure. Establishment of and reliance on off-budget funding streams for major State commitments, however, can prevent such a complete picture of the State’s financial contributions to the MTA.

Another Executive Budget proposal would modify the funding stream securing certain DASNY Mental Health facilities bonds (MH bonds) to move these revenues and associated debt service disbursements off-budget, further clouding the picture of debt service spending, which has already been blurred in recent years through various actions. The proposal related to MH bonds, like certain debt-related actions in previous years, would reduce reported levels of the State’s debt service and State Operating Funds spending, but does not change the actual amounts owed by the State.

**Broad Expansion of Executive Discretion to Manage and/or Reshape the Budget**

The Executive Budget includes a number of new proposals and continues existing provisions, involving billions of dollars, which provide significant flexibility to the Executive after enactment of the Budget. Such flexibility could be used, for example, to increase, decrease or change the use of spending while bypassing the Legislature’s role regarding the allocation of State
resources. In certain cases, the Executive has indicated that such proposals are necessary to mitigate Financial Plan risk, while in other cases the goal is unclear. While these provisions may provide flexibility in managing the Budget, they also leave uncertainty as to how their use might affect important programs and services, State agencies, local governments, nonprofits and individual New Yorkers who rely on State funding. Such provisions include:

- **Aid to Localities Reduction Language.** The Budget Director would be authorized to uniformly reduce certain Local Assistance appropriations and disbursements by up to 3 percent to maintain a balanced budget if the Executive reduces projected tax receipts for SFY 2019-20 by more than $500 million from the Executive Budget projection. School aid, Medicaid and certain other types of payments would be exempt from reduction, as would appropriations and spending where reductions would violate federal law. If actual tax receipts at the end of the year are not less than $500 million below the Executive Budget estimates, the amounts withheld would be payable as soon as practicable in SFY 2021-22, more than a year after such reductions occurred.

A new provision in the 30-day amendments would authorize the Budget Director to unilaterally reduce certain appropriations and cash disbursements if the Executive determines that the General Fund is reasonably calculated to end the fiscal year out of balance. However, such provision shall have no force or effect if a separate 30-day amendment proposal is enacted, that is intended to mitigate the financial impact of certain legislative action taken outside of the budget process.

- **Federal Funding Reduction Language.** The Budget would extend for another year language included in the SFY 2018-19 Enacted Budget that empowers the Budget Director to cut planned spending, absent action by the Legislature, if certain federal aid is reduced by $850 million or more. The provision leaves unclear the specific circumstances under which the $850 million threshold would be deemed to be met.

- **State Operations Transfer Language.** Numerous State Operations appropriations provide the Executive broad authority to shift resources among departments, agencies or public authorities after Budget enactment. While existing State Finance Law authorizes some transfer, interchange and suballocation authority, the new proposal would significantly expand such flexibility, potentially allowing shifts of resources to completely different programs or purposes. Any transfer of funds from State agencies to public authorities could reduce oversight and control of such resources.

**Use of Lump-Sum and Other Broad-Scoped Appropriations or Allocations for Executive and Legislative Initiatives**

The proposed Budget would continue the State’s use of lump sum and other broadly-scoped appropriations for yet-to-be-determined projects. 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, specific expenditures and the potential benefits for New Yorkers. Examples of lump-sum or other broadly-scoped appropriations or provisions in the Executive Budget include:

- **Health Care Transformation Fund.** Moneys in this Fund, established in the SFY 2018-19 Enacted Budget, are authorized to be transferred to any other fund of the State. The provisions allow expenditure of potentially billions of dollars in State resources to support a broad variety of health care or other programs or purposes pursuant to a plan
prepared by the Commissioner of DOH and approved by the Budget Director. The Health/Medicaid section of this report provides further information on planned use of the Fund as outlined in the Financial Plan and elsewhere.

- **New lump sum appropriations** include $220 million for the New York Works Economic Development Fund and $325 million for the High Technology Innovation and Economic Development Infrastructure program, increases of $20 million and $25 million from the current year, respectively.

**Transparency and Accountability for Economic Development**

The Budget proposes new funding of $500,000 within the Department of Economic Development for the creation of an online database of economic development projects. This is a positive step toward enhancing much-needed transparency regarding economic development expenditures. However, the budget language is an authorization, and the Budget includes no statutory requirement for such a database, or details relating to how it would be structured or what type of information it should contain.

**Wide-Ranging Authorization for MTA Organizational Changes; New Oversight Requirements**

The Budget includes provisions with the stated intent of improving the organizational structure of the Metropolitan Transportation Authority (MTA). This broad authorization is modified in the 30-day amendments which would direct the MTA to develop a reorganization plan to assign, transfer, share or consolidate its powers, duties, functions, activities, departments or divisions or any of those of its subsidiaries, or affiliates or their subsidiaries, within or between itself, its subsidiaries or affiliates or their subsidiaries, subject to a majority vote of the board. The 30-day amendments would also establish a Mass Transit Expert Panel. The reorganization plan would also be subject to the approval of this panel, which would also be provided with broad oversight over many aspects of the Authority’s operations. With no public plan for reorganization, it is uncertain how this authority may be used and what the short- and long-term implications of any such changes may be for users of the system and others. It is unclear how these broad authorizations would be implemented since several of the MTA subsidiaries and affiliates are governed by different statutes. It is unclear what transparency, oversight or other issues may arise with respect to the activities authorized by these proposals. For more information, see the Metropolitan Transportation Authority section of this report.

**Expanded Use of Alternative Procurement Methods for Certain Construction Projects Without Robust Protections**

The proposed Budget would authorize additional entities to use design-build and would expand alternative procurement methods to include, for example, construction manager at risk, would significantly expand the scope of projects where such procurement could be used, and make other amendments described in more detail in the Debt and Capital section of this report. Proposed changes would diminish independent oversight by removing the Comptroller’s ability to review and approve certain State authority contracts awarded pursuant to these alternative procurement methods. The proposal could also weaken or eliminate existing protections or requirements, including low bid award, performance or payment bonds, and separate specifications. While design-build procurements may facilitate construction efficiency and cost savings, greater transparency, accountability and independent oversight with regard to use of such procurements would help ensure the safeguarding of public resources.
## Economic Outlook

At the end of 2018, the current U.S. economic expansion was the second longest in recorded history at 114 months.\(^4\) This expansion is widely expected to break the record in 2019, although economic growth is estimated to slow. DOB projects real GDP growth nationally of 2.4 percent, compared to 2.9 percent in 2018. IHS Markit (IHS) also projects slower growth of 2.4 percent in 2019.\(^5\)

Nationally, employment grew by 1.6 percent in 2018, an increase of over 2.4 million jobs.\(^6\) As part of the updated Financial Plan, DOB increased its estimate of national employment growth for 2018 to 1.7 percent, with a slight deceleration to 1.6 percent in 2019. DOB made no changes to its estimates for growth in personal income or wages at the national level. IHS, in its February report, shows national employment growing at the same rate in both 2018 and 2019, 1.7 percent. For 2019, both DOB and IHS project wages to increase by 4.2 percent. However, IHS estimates personal income to increase at a slightly more robust rate of 4.3 percent compared to DOB’s 4.1 percent.

New York’s economy also continued to expand in 2018. According to IHS, the State’s gross domestic product (GDP) is estimated to have increased by 2.0 percent, a slight acceleration from 1.9 percent the previous year. According to preliminary data from the State Department of Labor, employment in New York grew by 1.2 percent, an increase of over 115,000 jobs, with some 114,000 of these in the private sector. Quarterly Census of Employment and Wages (QCEW) data from the U.S. Bureau of Labor Statistics show total New York wages paid in the first half of 2018 were 5.7 percent higher than those for the same period in 2017. Annual wage growth is estimated by DOB to reach 3.8 percent in 2018, a deceleration from 5.4 percent in 2017. While increased employment contributes to higher total wages, overall growth is mitigated by an estimated decline in bonus growth for the securities industry.

While DOB expects employment growth in New York to exhibit a slight slowdown in 2019, IHS projects a slight acceleration, as shown in Figure 7.

### Figure 7

<table>
<thead>
<tr>
<th>New York Economic Indicators (percentage change)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Wages</td>
<td>4.1</td>
<td>4.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Personal Income</td>
<td>4.6</td>
<td>4.8</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sources: Division of the Budget, IHS Markit February 2019 Regional Forecast</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note: 2018 figures are estimated; 2019 and 2020 figures are projected.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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\(^4\) The National Bureau of Economic Research reports business cycle expansions and contractions from December 1854 to present.

\(^5\) IHS Markit is a data and information services firm that produces economic forecasts.

With a continued decrease in bonuses projected, wage growth is projected to continue to slow over the course of the year. DOB projects wage growth to decelerate to 3.3 percent, somewhat below IHS’s forecast.

Total personal income is estimated by DOB to have experienced stronger growth than wages in 2018 as both property income (dividends and capital gains) and proprietors’ income (business income) increased at higher rates. Like wages, personal income growth is also projected to slow in 2019. DOB projects that gains in both wages and personal income will be somewhat stronger in 2020.

DOB revised its estimates for both wages and personal income in New York in the updated Financial Plan, while keeping employment growth unchanged. Wage growth is now estimated to have been 4.1 percent in 2018, up from 3.8 percent in the Executive Budget. This reflects a stronger increase in non-bonus wages partially offset by a larger decline in finance and insurance sector bonuses (now expected to fall by 8.3 percent). In 2019, wages are projected to increase by 3.3 percent (revised downward from 3.6 percent); bonuses are projected to decline by 5.3 percent as compared to 0.9 percent in the Executive Budget. Similar to gains in wages, personal income growth was revised upward from 4.5 percent to 4.6 percent in 2018 and downward from 4.0 percent to 3.8 percent for 2019.

**Revenue**

**All Funds Revenues**

Revenue projections in the Executive Budget Financial Plan released by DOB in January reflected a shortfall in PIT receipts in December, relative to November projections. At that time, DOB reduced its estimates (before revenue actions) for General Fund tax receipts in the current fiscal year and SFY 2019-20 by a total of nearly $2 billion, with larger downward revisions in the out-years.7

Actual PIT receipts for the month of January were $2.5 billion below the Executive Budget projections. DOB estimates that $2.3 billion of that shortfall reflected PIT estimated payments, and that approximately $1.4 billion in such receipts will be recovered in April 2019 when many taxpayers make final payments for the 2018 tax year. Taxpayers’ timing of such payments appears to have shifted because the new limit on federal deductions for state and local taxes eliminates the incentive for high-income taxpayers to make large estimated payments before the end of the tax year, according to DOB. (Significant amounts of payments made in late December are not recorded until early January.) Some $900 million in previously expected receipts from estimated payments is no longer anticipated, largely because of downward revisions to estimates of capital gains and other non-wage income during 2018. In addition to the shortfall in estimated payments, receipts from PIT withholding in January were modestly below expectations.

Compared to the mid-January Plan, the updated Financial Plan reflects additional significant downward revisions to projections of tax receipts, as detailed below.

7 Budgetary figures in this section generally reflect those included in the updated Financial Plan released in February 2019 unless otherwise noted.
In the updated Financial Plan, DOB projects All Funds revenues in the current fiscal year (including federal receipts) to total $169.2 billion, an increase of 2.3 percent or $3.7 billion from State Fiscal Year (SFY) 2017-18. All Funds tax collections are estimated at $75.0 billion, down $4.3 billion or 5.4 percent. In addition to the factors described above, the decline in total tax receipts is attributable to the absence of the acceleration in personal income tax revenues during the previous fiscal year that had resulted from the enactment of the federal Tax Cuts and Jobs Act (TCJA), as well as the shifting of the MTA Payroll Mobility Tax (PMT) off-budget.

In SFY 2019-20, All Funds revenues are projected at $172.4 billion, an increase of 1.9 percent or $3.2 billion. According to the Executive, this projected growth reflects in part the shift of certain PIT estimated payments from the end of the tax year to those paid with final returns or extension requests, as described above, as well as increased sales and excise taxes related to proposals included with the Executive Budget. All Funds tax collections are projected to increase to $80.8 billion, growth of $5.8 billion or 7.8 percent. Offsetting stronger tax collections is an estimated 11.3 percent decline in Miscellaneous Receipts. This decrease is in part due to the absence of nearly $1.2 billion in one-time monetary settlements that were received in SFY 2018-19.

Compared to projections of total tax receipts issued in January, the updated Financial Plan reflects downward revisions of $2.6 billion in the current fiscal year, $1.2 billion in SFY 2019-20, and additional revisions in the following years as PIT receipts grow from a lower base than previously expected.

**State’s Response to Federal Limit on State and Local Tax (SALT) Deductions**

The SFY 2018-19 Enacted Budget contained provisions intended to mitigate the adverse federal tax impacts of the $10,000 limit on itemized deductions for State and local income and property taxes, including establishment of the Charitable Gifts Trust Fund and the Employer Compensation Expense Tax.

**Charitable Gifts Trust Fund**

The Charitable Gifts Trust Fund allows taxpayers to make charitable donations to the State for purposes of funding healthcare and education. Taxpayers can then take an itemized deduction for the donation at both the federal and State levels as well as a State tax credit equal to 85 percent of the contribution. However, in August 2018, the Internal Revenue Service (IRS) proposed regulations limiting the amount of charitable contributions that can be claimed as an itemized deduction when the taxpayer receives a tax credit in excess of 15 percent of the taxpayer’s contribution. These regulations have not yet been finalized.

In the current fiscal year, DOB estimates contributions to the Charitable Gifts Trust Fund will total $93.4 million, $57.9 million for health care and $35.5 million for elementary and secondary education. Reflecting the authorized deductions and credits, these donations are expected to result in a reduction in PIT receipts of approximately $8 million in the upcoming fiscal year and

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8 Taxpayers are also authorized to claim deductions and nonrefundable tax credits for contributions to each of the three following entities: Health Research, Inc.; the SUNY Research Foundation; and the CUNY Research Foundation. Such credits are limited to a total of $30 million annually ($10 million annually for each entity).
$79 million in SFY 2020-21.\(^9\) For SFY 2019-20, the Executive Budget projects less than $2 million in donations due to uncertainty regarding the regulations described above.

**Employer Compensation Expense Tax (ECET)**

The ECET is a tax that businesses may choose to pay on the wages they pay to their employees, as part of an approach to reducing the impact on taxpayers of the new limit on federal itemized deductions for State and local taxes. The tax applies to wages over $40,000.

For the 2019 tax year, 262 employers opted to pay the ECET, most of which, according to DOB, are small partnerships. DOB indicates that approximately $160 million in wages would be subject to the ECET, with $2.4 million in taxes projected to be collected in SFY 2019-20 based on the tax rate of 1.5 percent in 2019. That rate rises to 3 percent in 2020 and 5 percent in 2021 and thereafter.

**Proposed Revenue Actions**

The Executive Budget’s proposed revenue actions, updated for 30-day amendments, include measures that are projected to produce net increases in All Funds revenues of just over $1.0 billion in SFY 2019-20 and $4.2 billion in SFY 2020-21. Figure 8 shows the estimated fiscal impact of proposed changes.

**Figure 8**

**Proposed Revenue Actions Updated for 30-day Amendments**

<table>
<thead>
<tr>
<th></th>
<th>SFY 2019-20</th>
<th>SFY 2020-21</th>
<th>SFY 2021-22</th>
<th>SFY 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Income Tax</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Extension of Top PIT Rate</td>
<td>771</td>
<td>3,560</td>
<td>4,707</td>
<td>5,057</td>
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<tr>
<td>Extend Limitation on Itemized Deductions for Charitable Contributions</td>
<td>86</td>
<td>175</td>
<td>180</td>
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<tr>
<td>Inclusion of NYS Gambling Winnings in Non-resident Income</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Extension of Clean Heating Fuel Credit</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Shift of STAR recipients to STAR Credit</td>
<td>(185)</td>
<td>(241)</td>
<td>(294)</td>
<td>(353)</td>
</tr>
<tr>
<td><strong>Consumption/Use Taxes</strong></td>
<td>303</td>
<td>483</td>
<td>485</td>
<td>541</td>
</tr>
<tr>
<td>Sales Tax on Internet Marketplace Providers</td>
<td>196</td>
<td>250</td>
<td>250</td>
<td>250</td>
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<tr>
<td>Elimination of Sales Tax Exemption on Energy Services (ESCOs)</td>
<td>96</td>
<td>128</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>Tax on Adult-Use Cannabis</td>
<td>-</td>
<td>83</td>
<td>85</td>
<td>141</td>
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<tr>
<td>Supplemental Auto Rental Tax</td>
<td>11</td>
<td>22</td>
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<td><strong>Business Taxes</strong></td>
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<tr>
<td>New York State Employer-Provided Child Care Credit</td>
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<td>(1)</td>
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<tr>
<td>Employer Recovery Hiring Tax Credit</td>
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<td>(2)</td>
<td>(2)</td>
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<tr>
<td>Extension of Workers with Disability Credit</td>
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<td>(4)</td>
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<tr>
<td><strong>Tax Enforcement</strong></td>
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<td></td>
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<tr>
<td>Increased PIT Audits</td>
<td>12</td>
<td>120</td>
<td>120</td>
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<tr>
<td>Excise Tax on Vapor Products and Tobacco Enforcement</td>
<td>2</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Extension of Tax Shelter Reporting and Tax Preparer Penalties</td>
<td>14</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td><strong>All Other Revenue Actions</strong></td>
<td>99</td>
<td>136</td>
<td>153</td>
<td>153</td>
</tr>
<tr>
<td><strong>TOTAL ALL FUNDS IMPACT OF REVENUE ACTIONS</strong></td>
<td>1,016</td>
<td>4,178</td>
<td>5,371</td>
<td>5,723</td>
</tr>
</tbody>
</table>

Source: Division of the Budget

The additional revenue primarily results from the proposal to extend the top PIT rate of 8.82 percent, which is currently due to expire on December 31, 2019 (under current law, the top rate would then drop to 6.85 percent).

\(^9\) Taxpayers are authorized to take the itemized deduction for the contributions in the tax year in which they are made. The tax credit can only be taken in the subsequent tax year.
All other proposed revenue actions are expected to result in net revenue increases of $245 million and $618 million in SFYs 2019-20 and 2020-21, respectively. These proposals include the expansion of the current tax base in the sales and use tax, new or increased taxes and fees, and enforcement actions. Besides the extension of the top PIT rate, the proposals with the largest projected fiscal impacts in SFY 2019-20 are a requirement for internet marketplaces to collect and remit the sales tax and the elimination of the sales tax exemption for energy service companies (ESCOs). These two proposals would increase revenues by $292 million in SFY 2019-20 and by $378 million in SFY 2020-21.

**Personal Income Tax**

For the current fiscal year, PIT collections are estimated at $47.6 billion, a decrease of $3.9 billion, or 7.6 percent from the previous year. According to DOB, the primary drivers for this decline are: the absence of the accelerated estimated tax payments that occurred in December 2017 following the enactment of the TCJA; and a decline in the revenue associated with the repatriation of foreign hedge fund income. An estimated decline in bonuses is also a factor in the lower collections.

Total PIT collections in SFY 2019-20 are projected to increase by $4.2 billion or 8.8 percent to $51.8 billion. Besides the projected growth in wages, factors in this increase include the shift in the timing of estimated payments by certain taxpayers described earlier in this section. Total collections in the upcoming fiscal year are also expected to be impacted by a reduction in the administrative cap on refunds to be paid in the fourth quarter of the fiscal year. In SFY 2018-19, the cap is set at $2.25 billion, then lowered to $1.75 billion in SFY 2019-20. This results in $500 million in refunds being shifted into SFY 2020-21. Compared to figures issued in January, DOB’s updated projections of PIT receipts reflect downward revisions of $2.6 billion in the current fiscal year and $1.2 billion in SFY 2019-20, with similar reductions in out-year estimates.

The proposals in the Executive Budget, including enforcement proposals, are projected to increase PIT revenues by $612 million in SFY 2019-20. The proposal to extend the top PIT rate of 8.82 percent for five years, until December 31, 2024, is estimated to retain $771 million in receipts in the upcoming fiscal year. Offsetting a portion of these collections is the impact of the proposal to incentivize current School Tax Relief (STAR) exemption recipients to, instead, claim the STAR tax credit (see STAR section of this report).

The Executive Budget also includes a proposal to address the federal tax treatment of carried interest; similar legislation was also proposed in the SFY 2018-19 Executive Budget, but not enacted. Carried interest is the share of profits received by partners of private investment funds which are treated as capital gains and therefore taxed for federal purposes at a preferential rate. At the State level, there is no preferential tax treatment of this income. The proposal would impose a State tax at a rate of 17 percent, the assumed federal tax benefit afforded this type of income. However, the new tax would only take effect if substantially similar legislation is enacted in Connecticut, New Jersey, Massachusetts and Pennsylvania. As of the Executive Budget’s release, only New Jersey has enacted legislation. As a result, no increased revenue has been reflected in the Financial Plan.
Consumption and Use Taxes

For SFY 2018-19, All Funds collections from the sales and use tax, and other consumption and use taxes, are estimated at $17.4 billion, an increase of $734 million or 4.4 percent. The growth is driven primarily by an estimated 4.9 percent increase in sales and use tax receipts reflecting overall economic factors. Mitigating the strong growth in sales tax collections is an expected continued decline in cigarette and tobacco tax collections.

In SFY 2019-20, consumption and use taxes are projected to increase to $18.2 billion, up by $741 million or 4.2 percent. This growth is largely due to a projected increase of 5.9 percent in the sales and use tax, driven by the proposed new revenue actions as well as increased collections resulting from a Supreme Court decision affecting taxation of online sales. Offsetting a portion of these higher collections is the movement off-budget of $101 million in revenues from the MTA taxicab surcharge and the supplemental tax on auto rentals in the Metropolitan Commuter Transportation District (MCTD) in the coming year.

Updated Executive proposals affecting consumption and use taxes are projected to increase State revenues by $303 million in SFY 2019-20 and by over $480 million thereafter. They include measures that would:

- Require internet marketplace providers that provide a forum for transactions and receive payments for purchases, such as Amazon, to collect sales tax on taxable sales made through such marketplaces to New York customers. This would increase revenues by $125 million in SFY 2019-20 and $250 million thereafter. The 30-day amendments revised this proposal to accelerate the effective date from September 1, 2019 to June 1, 2019, resulting in an additional $71 million in SFY 2019-20 (for a total of $196 million).

- Eliminate the sales tax exemption on energy services purchased from an energy service company (ESCO). Commercial customers that benefit from the current exemption would be subject to the sales tax; residential customers would not be affected by this proposal since all residential energy services are exempt. This proposal is projected to increase revenues by $96 million in SFY 2019-20 and by $128 million annually thereafter.

- Impose a supplemental tax on auto rentals outside the MCTD. The tax would be imposed at a rate of 5 percent of the rental price. Collections would be distributed to public transportation systems outside the MTA region.

- With the proposed authorization of adult-use cannabis, the following taxes and fees would be imposed throughout the distribution chain:
  - $1 per dry-weight gram of cannabis flower and 25 cents per dry-weight gram of cannabis trim;
  - 20 percent of the invoice price on the transfer of cannabis from the wholesaler to the retail dispensary; and
  - a biennial registration fee of $600 to be paid by the wholesalers.

These taxes and fees would be deposited to a new State fund, the Cannabis Revenue Fund. In addition, a 2 percent tax on the invoice price from the wholesaler to the retail dispensaries would be imposed in localities that allow for such sales. All revenues from the 2 percent tax
would be distributed directly to the localities. DOB projects State receipts of $83 million in SFY 2020-21, rising to $141 million two years later.

**Business Taxes**

All Funds business tax collections are estimated at $7.7 billion in SFY 2018-19, an increase of $580 million or 8.1 percent. The growth is attributable to increased collections from the corporate, insurance and petroleum business taxes.

For SFY 2019-20, All Funds business tax collections are projected at $8.6 billion, rising $867 million or 11.2 percent. This increase primarily reflects growth in the corporate franchise tax resulting from projected higher corporate profits and increased audit collections. Insurance taxes are also projected to realize significant growth as a result of the full-year impact of the conversion of Fidelis Care to a for-profit health insurer. The proposals included in the Executive Budget affecting business taxes have no expected fiscal impact in SFY 2019-20 and minimal impacts in the out-years. They include new tax credits for employer-provided child care and the hiring of individuals recovering from substance abuse.

**Other Taxes**

Other taxes include the estate tax, the real estate transfer tax, pari-mutuel taxes, the boxing and racing exhibitions tax, and the employer compensation expense tax. For SFY 2019-20, collections from other taxes are projected to grow slightly, an increase of $38 million or 1.7 percent, largely reflecting slight growth in both estate and real estate transfer taxes.

**Miscellaneous Receipts**

Miscellaneous receipts are projected to decrease by $3.5 billion, or 11.3 percent, in SFY 2019-20. This decrease is partially the result of the expected absence of one-time settlement payments of nearly $1.2 billion received in SFY 2018-19 and a reduction of $600 million in payments received as a result of the conversion of Fidelis Care, as well as the movement off-budget of an estimated $196 million in supplemental registration and license fees that are dedicated to the MTA.

The 30-day amendments include a proposal to impose an excise tax on opioids. Similar to the existing excise taxes on alcoholic beverages and tobacco, the tax would be imposed on the first sale of the opioid in the State, at a rate of either 0.25 cents or 1.5 cents per morphine milligram equivalent, depending on the wholesale cost of the opioid. The tax would be paid by pharmacies, pharmaceutical companies, or other manufacturers or distributors of opioids. Revenues from this new tax would be deposited to the General Fund.

This new excise tax is intended to replace an assessment on opioid manufacturers and distributors that was included in the SFY 2018-19 Enacted Budget, but was subsequently found unconstitutional in federal court in December 2018. As a result, the revenue impact of this new tax is the preservation of $100 million in revenues that were to be collected from the assessment. While the legislation establishing the previous assessment directed that it could not be passed on to consumers, the newly proposed tax includes a provision to allow such pass-through.
IV. Debt and Capital

The Executive Budget Five-Year Capital Program and Financing Plan (Capital Plan or Plan) projects total capital spending of $66.5 billion through SFY 2023-24. This total includes $63.4 billion that is reflected in the State’s Financial Plan and an additional $3.1 billion in “off-budget” spending directly from public authority bond proceeds.

State-Supported debt outstanding is expected to increase by 25.8 percent over the Capital Plan period, and debt service by 25.9 percent. Both increases are driven primarily by growth in public authority debt.

The decline in debt service in SFY 2019-20, projected to fall by 4.7 percent, is primarily timing-related, reflecting $765 million of costs due in SFY 2019-20 that are expected to be prepaid to the fiscal agent in SFY 2018-19. Certain State-Supported debt service is also proposed to be shifted off-budget. Without the prepayments and proposed shift of debt service off-budget, debt service would grow by 25.4 percent in the coming year.

The Budget proposes increased bonding authorization for State-Supported debt of $5.1 billion, or 3.4 percent, over existing authorizations. The State’s statutory debt capacity remains limited, declining to a projected $24 million in SFY 2022-23.

Since 2005, the Office of the State Comptroller has reported the level of State-Funded debt, which represents a more comprehensive accounting of the State’s debt burden. This measure includes State-Supported debt as defined in the Debt Reform Act of 2000, along with certain other obligations.

This section of the report will provide analysis of State-Supported debt and debt service, as provided in the State Capital Program and Financing Plan. Figure 9 provides an illustration of the differences between State-Funded debt and State-Supported debt under projections for SFY 2019-20 and SFY 2023-24.

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10 These figures reflect the proposed authorizations in the Executive Budget Article VII language. The FY 2020 Capital Program and Financing Plan reports a total increase in bonding authorizations of $5.5 billion or 3.7 percent over current limits. The Division of the Budget has indicated that the Article VII language will be amended in the Enacted Budget to reflect the authorization amounts shown in the Capital Plan. For additional details, see the Public Authorities section of this report.


12 Issuance and retirement figures for TFA Building Aid Revenue Bonds are only available through SFY 2021-22, and, as a result, growth figures are likely understated in SFY 2022-23 and SFY 2023-24.
Debt Outstanding and Debt Service

DOB projects that $34.6 billion in new State-Supported debt will be issued over the five-year life of the Capital Plan. This compares to $20.5 billion in retirements over the same period, resulting in a projected increase in State-Supported debt of approximately $13.8 billion or 25.8 percent over SFY 2018-19 levels (an annual average increase of 4.7 percent). More than 46 percent of this increase is associated with economic development and housing.

The average annual issuance of State-Supported debt is $6.9 billion over the life of the proposed Capital Plan, approximately 5 percent higher than the current Capital Plan and well above the average over the past decade, as detailed below. Total State-Supported debt outstanding would increase from $53 billion to $67 billion by the end of the Capital Plan period, as illustrated in Figure 10.

Currently, more than 95 percent of State-Supported debt outstanding was issued by public authorities and, therefore, not subject to voter approval. Over the proposed Capital Plan, public authorities are projected to issue $32.5 billion in State-Supported debt, or 94 percent of total issuances. Voter-approved General Obligation (GO) bond issuances of $2.1 billion represent 6 percent of the projected total.

State-Supported debt declined from SFY 2011-12 through SFY 2016-17. Debt outstanding began to increase again in SFY 2017-18, and is projected to show further growth in SFY 2018-19 and annually over the five-year Capital Plan period. Over the next five years, debt issuances are projected to exceed retirements by 68.4 percent. The growth in debt outstanding, together with DOB’s lower personal income projections compared to the Mid-Year Update issued in November 2019, would result in lower available debt capacity than previously expected.
As shown in Figure 11, the annual gap between new borrowing and debt retirement is expected to widen noticeably in the years immediately ahead, continuing a trend that began in SFY 2017-18. State-Supported debt issuance is estimated to have averaged $4.3 billion annually, and retirements $3.4 billion, over the ten years ending with SFY 2018-19.

State-Supported debt service is expected to approach $7.4 billion by SFY 2023-24, 25.9 percent more than in the current fiscal year. Excluding the SFY 2018-19 anticipated prepayment of $765 million, debt service growth during this period would total 44.4 percent.
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. Since the cap on State-Supported debt is based on New York personal income, available capacity can be volatile, especially when coupled with the somewhat variable nature of capital spending. DOB manages statutory debt capacity through a variety of actions, including timing of capital spending and debt issuances, implementation of the Statewide Capital Efficiency Plan and moving debt outside the statutory cap.

Current projections of debt capacity reflect recent changes in the way personal income is counted by the U.S. Bureau of Economic Analysis (BEA). As first reflected in the SFY 2018-19 Mid-Year Update, such changes increased reported personal income in New York State by $70 billion and debt capacity by $2.8 billion in SFY 2017-18 and thereafter. The Executive Budget reflects this adjustment, a new downward revision to the personal income forecast, and additional projected debt issuances.

The updated Financial Plan projects that the State will end SFY 2019-20 with approximately $3.4 billion in available debt capacity, declining to a low of $24 million in SFY 2022-23 before increasing again to $261 million in SFY 2023-24. Figure 12 illustrates how available capacity has changed from the SFY 2018-19 Mid-Year Update to the release of the updated Executive Budget Financial Plan.

Figure 12

<table>
<thead>
<tr>
<th>SFY</th>
<th>Mid-Year Debt From Capital Spending Revisions</th>
<th>Personal Income Revision</th>
<th>Amended Executive Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>5,794</td>
<td>224</td>
<td>(187)</td>
</tr>
<tr>
<td>2019-20</td>
<td>4,175</td>
<td>(223)</td>
<td>(579)</td>
</tr>
<tr>
<td>2020-21</td>
<td>3,438</td>
<td>(607)</td>
<td>(719)</td>
</tr>
<tr>
<td>2021-22</td>
<td>2,878</td>
<td>(912)</td>
<td>(820)</td>
</tr>
<tr>
<td>2022-23</td>
<td>2,066</td>
<td>(1,141)</td>
<td>(901)</td>
</tr>
<tr>
<td>2023-24</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Division of the Budget
Note: The $261 million in debt capacity in SFY 2023-24 was first reported in the Executive Budget Financial Plan updated for 30-day amendments.

DOB projects that the personal income used to calculate the cap will increase annually at an average 4.2 percent through SFY 2023-24, a comparatively low level relative to projections over the last decade – a factor that will tend to limit statutory debt capacity.

Projections of personal income, like those of other economic indicators, vary. For example, IHS Markit projects that New York personal income will increase by an average of 3.7 percent...
annually over the life of the Plan. If these projections are realized, absent other actions, the cap on debt outstanding would be breached in SFY 2022-23 by $808 million, at which point no additional State-Supported debt could be issued until the annual cap calculation is determined to be in compliance with the debt outstanding limit. DOB indicates it “may adjust capital spending priorities and debt financing practices . . .to preserve available debt capacity and stay within the statutory limits, as events warrant.”

**Capital Program and Financing Plan**

The SFY 2019-20 Five-Year Capital Program and Financing Plan includes $66.5 billion in projected capital spending, little changed from the current Plan. However, certain components are significantly different, as shown in Figure 13. For instance, projected spending for transportation is now $821 million lower (3.1 percent) than the current Plan. Other significant revisions include those for social welfare and parks and environment. Figure 12 compares the proposed SFY 2019-20 Executive Budget Capital Plan to the current SFY 2018-19 Enacted Budget plan by functional area. Capital spending is projected to average approximately $13.3 billion annually, with the highest individual year’s figure of $14 billion scheduled for SFY 2019-20. New Executive Budget capital appropriations including those related to the environment, economic development, parks, housing and others are discussed in the various programmatic sections of this report.

**Figure 13**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>26,320</td>
<td>25,499</td>
<td>(821)</td>
<td>-3.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>2,053</td>
<td>2,076</td>
<td>22</td>
<td>1.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher Education</td>
<td>7,075</td>
<td>7,157</td>
<td>82</td>
<td>1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Development/Government Oversight</td>
<td>9,354</td>
<td>9,372</td>
<td>18</td>
<td>0.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mental Hygiene</td>
<td>2,780</td>
<td>2,825</td>
<td>45</td>
<td>1.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parks and Environment</td>
<td>5,834</td>
<td>6,572</td>
<td>738</td>
<td>12.6%</td>
<td></td>
<td></td>
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<tr>
<td>Health</td>
<td>3,574</td>
<td>3,541</td>
<td>(33)</td>
<td>-0.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Welfare</td>
<td>3,298</td>
<td>2,993</td>
<td>(305)</td>
<td>-9.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Protection</td>
<td>2,371</td>
<td>2,495</td>
<td>124</td>
<td>5.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>1,345</td>
<td>1,344</td>
<td>(1)</td>
<td>-0.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,513</td>
<td>2,615</td>
<td>101</td>
<td>4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>66,518</td>
<td>66,489</td>
<td>(29)</td>
<td>0.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Division of the Budget

**Financing Sources**

Figure 14 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years.
Over the life of the Plan, DOB projects that pay-as-you-go or PAYGO financing will average approximately 31.7 percent of State capital financing. Planned spending of $4.8 billion from non-recurring settlement funds increases the use of PAYGO resources throughout the Plan period.

**New State-Supported Debt Authorizations**

The Budget proposes Article VII language to increase bond caps on programs financed with State-Supported debt by approximately $5.1 billion, or 3.4 percent, over existing authorizations. Significant increases include $1.1 billion for various economic development and housing initiatives (22.6 percent of the total increase), $663 million for SUNY Educational Facilities (13 percent) and $360 million for CUNY educational facilities (7.1 percent). Another $1.0 billion is for transportation-related spending (19.7 percent), including $487.5 million for local highways.

In addition to the State-Supported cap increases, the cap for bonds issued to finance SUNY Dormitories is proposed to be increased by $450 million or 48 percent, to $1.394 billion. (After April 2013, new and refunding debt issued is no longer considered State-Supported, but reported as State-Funded debt by OSC.)

See the section on Public Authorities for more information on authority bond cap increases.
Debt Management and Potential Savings

The General Fund gap closing plan for SFY 2019-20 includes $843 million in savings from changes related to debt service, including the effects of an additional $620 million in prepayments expected to be made in SFY 2018-19 (for a total of $765 million). Other savings come from expected debt refundings and competitive sales. Other debt management proposals include the following:

- Article VII legislation submitted with the Budget would modify the funding stream securing certain DASNY Mental Health facilities bonds (MH bonds) to move these revenues and associated debt service disbursements off-budget. The proposal would reduce spending in reported State Operating Funds spending ($75 million in SFY 2019-20), but does not reduce overall costs and has no other apparent policy purpose. Such bonds historically were issued to finance capital projects at mental health facilities run by State and voluntary agencies. In recent years, such projects have been financed by State PIT revenue bonds. MH bonds are secured by patient income at State mental health facilities and rental payments from voluntary facilities. These moneys are deposited into the Mental Hygiene Facilities Improvement Fund Income Account (Income Account), an off-budget fund held by the Commissioner of Taxation & Finance, as agent for DASNY. Currently, receipts to the Income Account are transferred to the Mental Health Services Fund, the on-budget State debt service fund used to pay principal and interest on the MH bonds, subject to appropriation.

  The Executive proposal would direct rental payments from voluntary facilities that are now deposited into the Income Account to be paid directly to MH bond trustees instead, off-budget and without an appropriation, to pay debt service associated with Mental Health bonds issued to finance both State and voluntary facilities. Amounts in the Income Account are subsequently directed to be paid (also off budget and without appropriation) to the bond trustees for State PIT and Sales Tax bonds issued for mental health purposes. It is unclear what the projected annual level of debt service or debt issuance is through the Capital Plan period. There is approximately $1.3 billion in remaining authorization under the debt cap related to this financing program.

- DOB proposes to make permanent the exclusion of any spending from the Debt Reduction Reserve Fund (DRRF) from the State’s 2 percent spending limit calculation. Such a provision in current law sunsets on June 30, 2019. In addition, an authorization is provided to transfer up to $500 million to the DRRF. This authorization has been included in Enacted budgets for the last several years, but never used. For the past several years, there has also been $500 million in the General Fund reserved for debt management purposes.

Design-Build Procurement

The Budget includes a proposal that would make permanent and broaden the applicability of the Infrastructure Investment Act. Under current law, the Thruway Authority, the Bridge Authority, the Department of Transportation, the Office of Parks, Recreation and Historic Preservation and the Department of Environmental Conservation are generally authorized to use the design-build procurement method.
The Dormitory Authority of the State of New York (DASNY), the Urban Development Corporation (UDC), the Olympic Regional Development Authority (ORDA) and the Office of General Services (OGS) received authorization in the SFY 2017-18 Enacted Budget to use design-build for certain specified projects of $5 million or more, and the SFY 2018-19 Enacted Budget provided design-build authorization for certain specified projects in New York City. The Executive proposes to reduce the threshold for eligible specified projects authorized in SFY 2017-18 to $1.2 million, expand the authorization for DASNY, UDC, ORDA and OGS, and add the Department of Health (DOH) as a State entity authorized to use design-build, in addition to making the authorization permanent. The 30-day amendments propose adding the State University Construction Fund as a State entity authorized to use design-build.

The proposal “notwithstanding” several sections of law, including the Office of the State Comptroller’s contract review and approval provisions of Public Authorities Law (PAL) Section 2879-a, and would deem any contract awarded to be a competitive contract for the purposes of 2879-a, thus narrowing the statutory scope of the Comptroller’s oversight of these projects. In addition, numerous statutes including those pertaining to separate specifications, low bid and prohibitions of design-build would be notwithstanding. However, the language permits compliance with provisions regarding separate specifications, if otherwise applicable, by requiring the contractor to prepare separate specifications when procuring subcontractors.

Language defining capital projects would be modified to permit design-build procurement for projects “located in the state,” removing the requirement that the projects be related to the State’s infrastructure. Buildings and appurtenant structures would be added to the list of eligible infrastructure and alternative procurement methods would be expanded to include construction manager at risk and construction manager build. In addition, modified language would require that the award must go to the contractor offering the best value whether the proposal is based on lump-sum value or cost-plus not to exceed maximum price, and may include elements of both contract types. The proposal provides that an authorized entity may require payment and performance bonds, notwithstanding Sections 136 and 137 of the State Finance Law, which require that such bonds be provided in certain instances.

The proposal adds language requiring that service-disabled veteran-owned businesses, in addition to minority or women-owned businesses and small businesses, be considered when design-build contracts are awarded.

The 30-day amendments also include a separate provision to modify the purposes of the MTA established in Section 1264 of the Public Authorities Law to state that developing and implementing a unified mass transportation policy for the Metropolitan Commuter Transportation District should be done “in an efficient and cost-effective manner that includes the use of design-build contracting on all major projects.”
V. Program Area Highlights

Education

The Executive Budget increases School Aid, which represents the major portion of total education aid, from $26.7 billion to $27.7 billion for school year (SY) 2019-20. This $956 million or 3.6 percent increase reflects the Executive’s proposal to change the basis of the State’s statutory cap on annual School Aid increases from the prior year’s growth in personal income to a 10-year average growth rate.

The proposed $956 million increase includes an additional:

- $338 million, or a 1.9 percent, increase in Foundation Aid, for a total of $18.1 billion in SY 2019-20. As with the current year’s budget, $50 million of this increase is an additional “set-aside” for Community Schools programs, bringing the total to $250 million.
- $411 million to support growth in various expense-driven aid programs and categorical grants (such as transportation, textbooks and school construction). In addition:
  - The Executive Budget proposes a new tier of Building Aid for projects approved on or after July 1, 2019.
  - Beginning with SY 2020-21, eleven expense-based aid categories would be consolidated into a new “Services Aid” category. Annual increases in this aid would be based on inflation and average daily student attendance, rather than submitted expenses.
- $157 million for a Fiscal Stabilization Fund. This funding is not distributed on the School Aid runs (detailed district-by-district projections) that accompany the Executive Budget. Similar items included in recent years’ Executive Budgets have been reallocated through School Aid formulas in enacted budgets.
- $50 million in new competitive grant programs, including:
  - $15 million to expand three- and four-year-old prekindergarten instruction in high-need school districts;
  - $10 million to expand the Empire State After-School program in high-need communities;
  - $9 million for 15 new early college high schools focused on in-demand industries; and
  - $16 million for a variety of smaller grant programs.

Excluding Building Aid programs, changes in formula-based aid to individual school districts would range from a 7 percent decrease to a 14 percent increase, with an overall statewide average increase of 2.3 percent.

On a State Fiscal Year basis, projected School Aid would total $27.2 billion, an increase of $734 million, or 2.8 percent in State Operating Funds. The Executive Budget Financial Plan
projects that School Aid funded from commercial gaming revenues will grow from an estimated $140 million in SFY 2018-19 to $154 million in SFY 2019-20. If such projections fall short, the General Fund will be obligated to fund the resulting gap.

Distribution of Funding Within School Districts

The Budget proposes changes to the phase-in of new school building-level reporting requirements for school districts. In SY 2018-19, the New York City school district and school districts that receive more than 50 percent of their funding from the State and have more than four schools were required to submit detailed reports showing how they allocated funding to each school within the district; in SY 2019-20, this requirement will apply to all districts with at least four schools. Changes submitted with the Executive Budget include:

- The State Education Department (SED) and DOB would have 90 days to approve each district’s detailed statements of allocation as complete and in the format provided by DOB, rather than 30 days as in current law.
- School districts that fail to submit an allocation statement by August 30, 2019, or whose statements are determined to be noncompliant by SED and DOB, would have their SY 2019-20 School Aid increases withheld.
- DOB would provide a list of high-need schools it deems underfunded by May 1st each year. Any school district with schools on the list would have to submit an “equity plan” to SED by July 1st, describing how per pupil funding to such schools would increase and how these schools would utilize this specific increase in their Foundation Aid allocation. SED would be required to develop an equity plan by September 1st for school districts that fail to submit a plan.

Other Education Items

- The New York City Mayor’s governing authority over the City school system would be extended three years, until June 30, 2022.
- The Budget includes $24.9 million in new direct aid to New York City charter schools. In addition, $31.5 million in Charter School Facilities Aid would be reimbursed to New York City.
- The Budget would amend provisions relating to the Annual Professional Performance Review (APPR) plan, eliminating the requirement that school districts include student performance on State assessment examinations in teacher and principal evaluations.13
- Boards of cooperative educational services (BOCES) would be permitted to establish regional science, technology, engineering and mathematics (STEM) magnet high schools.

STAR

Overall School Tax Relief (STAR) program costs, including both disbursements for the exemption benefit and tax credits, are projected at $3.4 billion in SFY 2019-20, an increase of $85 million from SFY 2018-19. The Executive Budget includes $2.2 billion in estimated disbursements for the STAR exemption, a decrease of $238 million, or 9.8 percent, from SFY

13 Legislation addressing this issue (A. 783/S. 1262) was approved by both houses of the Legislature on January 23, 2019.
2018-19. The decline primarily reflects the proposals included within the Budget as well as the continued impact of the conversion of certain STAR exemptions to personal income tax credits. The Budget projects that STAR personal income tax credits will total $1.2 billion in SFY 2019-20, an increase of $303 million, or 32 percent, from the current fiscal year.

Proposed amendments to the STAR program include two measures to incentivize current STAR benefit recipients to switch to the STAR tax credit program. One such proposal, which has been included in past Executive Budgets, would cap homeowners’ STAR exemption benefits at current levels rather than allowing annual growth up to 2 percent as authorized in current law. The second would decrease the income threshold to qualify for the basic STAR exemption from $500,000 to $250,000, which the Division of Budget estimates would impact 130,000 taxpayers. For those taxpayers who take the tax credits, the growth factor and income thresholds would be retained as in current law. These proposals would result in estimated spending reductions of $106 million and $125 million, respectively, in SFY 2019-20.

DOB estimates the value of all STAR tax credits will rise to more than $1.7 billion, nearly half the overall cost of the program, as of SFY 2022-23. The ongoing shifting of STAR costs from disbursements to tax credits is reflected in the level of overall State spending and is a factor in calculations related to the Executive’s benchmark of 2 percent growth in State Operating Funds spending, as discussed in the Financial Plan section of this report.

**Higher Education**

The Executive Budget projects All Funds spending of $8.4 billion for the State University of New York (SUNY), $1.7 billion for the City University of New York (CUNY), $1.0 billion for the Higher Education Services Corporation (HESC), and $12 million for other higher education purposes, an overall increase of 0.4 percent from estimated spending in SFY 2018-19, as shown in Figure 15. On an academic year (AY) basis, the Budget includes $4.4 billion in General Fund operating support for senior colleges at SUNY ($3.0 billion) and CUNY ($1.4 billion), a 1.1 percent and a 3.1 percent increase, respectively. It maintains base operating aid for SUNY and CUNY community colleges at the current $2,847 per full-time equivalent (FTE) student. State Operating Funds support for community colleges in SFY 2019-20 would decrease by 2.5 percent and 7.3 percent, respectively, primarily due to lower enrollments.

Estimated spending for HESC in SFY 2019-20 includes $959 million for the Tuition Assistance Program (TAP), Excelsior Free Tuition, Enhanced Tuition Assistance and other awards, a decrease of 6.6 percent from the current year. This is primarily due to a change in the method used by HESC to make TAP and scholarship payments to SUNY, from a disbursement to a transfer of funds. Academic Year General Fund support for HESC financial aid programs indicates a 6.1 percent increase in such aid, represented mostly by increased spending for Excelsior Free Tuition and the New York State DREAM Act, discussed below. No new funding is provided in the Executive Budget for oversight of HESC financial aid programs despite recent and proposed changes including eligibility expansions related to the DREAM Act and the creation of the Excelsior Free Tuition program and the aforementioned proposed restructuring of the flow of funds for certain award payments.
Figure 15

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

<table>
<thead>
<tr>
<th></th>
<th>SFY 2018-19</th>
<th>SFY 2019-20</th>
<th>Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUNY Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Assistance</td>
<td>8,340</td>
<td>8,431</td>
<td>91</td>
<td>1.1%</td>
</tr>
<tr>
<td>Operations</td>
<td>6,906</td>
<td>7,053</td>
<td>147</td>
<td>2.1%</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>952</td>
<td>908</td>
<td>(44)</td>
<td>-4.6%</td>
</tr>
<tr>
<td>CUNY Subtotal</td>
<td>1,633</td>
<td>1,658</td>
<td>25</td>
<td>1.6%</td>
</tr>
<tr>
<td>Local Assistance</td>
<td>1,494</td>
<td>1,517</td>
<td>23</td>
<td>1.6%</td>
</tr>
<tr>
<td>Operations</td>
<td>103</td>
<td>104</td>
<td>1</td>
<td>1.3%</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>36</td>
<td>37</td>
<td>1</td>
<td>2.0%</td>
</tr>
<tr>
<td>HESC Subtotal</td>
<td>1,085</td>
<td>1,018</td>
<td>(68)</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Local Assistance</td>
<td>1,026</td>
<td>959</td>
<td>(68)</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Operations</td>
<td>59</td>
<td>59</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Purposes</td>
<td>13</td>
<td>12</td>
<td>(1)</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Higher Education Total</td>
<td>11,071</td>
<td>11,118</td>
<td>48</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Source: Division of the Budget.
Note: State Operations includes General State Charges. Other Purposes is made up of Higher Education – Miscellaneous and the Higher Education Facilities Matching Grants Program.

The Five-Year Capital Program and Financing Plan anticipates $1.4 billion for capital disbursements ($1.0 billion for SUNY and $412 million for CUNY), marginally changed from the current year’s Plan. The Budget includes appropriations totaling $110 million for a new round of NY SUNY/CUNY 2020 competitive challenge grants, $55 million for each university system.

As provided in the current and previous Enacted Budgets, the Executive Budget proposes that up to $60 million from the sale of State-owned property would be used by CUNY in AY 2019-20 to offset State support for CUNY. These funds would be used to reduce equally the State’s net operating expenses. Such sale of property has not yet taken place.

The Budget further provides:

- $5 million for apprenticeship programs, including $3 million for SUNY and $2 million for CUNY, the same amount as in the current year.

- $1.8 million for child care centers at SUNY and CUNY community colleges. This reflects elimination of $2 million in funding from current year programs. However, the Budget proposes $5 million in child care funding for the new Family Empowerment Community College Pilot Program ($3 million for SUNY and $2 million for CUNY).

The Budget would eliminate: $7 million for Educational Opportunity Centers and $5.4 million for the Educational Opportunity Program at SUNY, $4.7 million for the Search for Education, Elevation and Knowledge program and the $2.5 million Accelerated Study in Associate Programs at CUNY and $5.9 million for the Higher Education Opportunity Program at the State Education Department. Anticipated spending for the Higher Education Capital Matching Grants program in SFY 2019-20 would be $11.9 million or 5 percent below the current year’s level, and would be from reappropriations. No new appropriation is provided for the program.

Additional proposals include the New York State DREAM Act, which would make certain undocumented immigrants eligible for State tuition assistance and other State financial
assistance programs,\textsuperscript{14} and provisions to require student loan servicing companies to obtain a State license and meet legal and regulatory standards that govern other loan industries such as mortgage servicing. For-profit schools would be required to report on the source and use of funds (including salaries of senior leadership) and indicate that at least 20 percent of revenues are not from students’ tax-based grants and loans, to limit participation of senior staff in accreditation boards and to direct at least 50 percent of spending to instruction.

\textbf{Health/Medicaid}

The Executive Budget, as amended, projects overall federal, State and local Medicaid spending in New York to increase by $770 million or 1.1 percent to $73.4 billion in SFY 2019-20, as shown in Figure 16.\textsuperscript{15} The 30-day amendments propose to reduce State share Medicaid spending by $550 million and $606 million in SFYs 2019-20 and 2020-21, respectively, from levels in the initial Executive Budget.

\textbf{Figure 16}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Health</td>
<td>20,819</td>
<td>21,491</td>
<td>22,441</td>
<td>23,546</td>
<td>24,406</td>
</tr>
<tr>
<td>Mental Hygiene</td>
<td>2,852</td>
<td>2,569</td>
<td>3,054</td>
<td>3,007</td>
<td>3,217</td>
</tr>
<tr>
<td>Foster Care</td>
<td>85</td>
<td>91</td>
<td>94</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Education</td>
<td>99</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Corrections</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>State Share Total</strong></td>
<td><strong>23,857</strong></td>
<td><strong>24,231</strong></td>
<td><strong>25,669</strong></td>
<td><strong>26,729</strong></td>
<td><strong>27,799</strong></td>
</tr>
<tr>
<td>Federal Share</td>
<td>40,300</td>
<td>41,884</td>
<td>42,447</td>
<td>44,016</td>
<td>46,470</td>
</tr>
<tr>
<td>Local Share</td>
<td>8,516</td>
<td>7,328</td>
<td>7,036</td>
<td>7,204</td>
<td>7,212</td>
</tr>
<tr>
<td><strong>Total Medicaid Spending</strong></td>
<td><strong>72,673</strong></td>
<td><strong>73,443</strong></td>
<td><strong>75,152</strong></td>
<td><strong>77,949</strong></td>
<td><strong>81,481</strong></td>
</tr>
</tbody>
</table>

Source: Division of the Budget

The $374 million, or 1.6 percent, increase in SFY 2019-20 State spending includes the above-referenced reduction as well as the cost of statewide minimum wage hikes (growing by $428 million, or 60.9 percent, to $1.1 billion in SFY 2019-20), the State takeover of growth in local Medicaid costs and the State assumption of local Medicaid administrative costs.

Support for State Medicaid spending has typically come from the General Fund, resources from the Health Care Reform Act (HCRA), and provider taxes. Starting in SFY 2018-19, the State share of Medicaid spending is also expected to receive support from the Health Care Transformation Fund (HCTF), which was established in the SFY 2018-19 Enacted Budget.\textsuperscript{16}

\textsuperscript{14} On January 23, 2019, the New York State Legislature passed the Jose Peralta New York State DREAM Act (A. 782/S. 1250), which differs in certain ways from the DREAM Act proposed in the Executive Budget.

\textsuperscript{15} These figures include estimated revenues of $435 million in SFY 2018-19, $327 million in SFY 2019-20 and $371 million in each of SFYs 2020-21, 2021-22 and 2022-23 related to the Master Settlement Agreement with certain tobacco manufacturers. The Executive Budget anticipates that these funds will be deposited into the Medicaid Management Information System (MMIS) escrow fund, an off-budget fund, to pay a portion of the State’s share of local Medicaid growth. As a result, these amounts are not included in certain Financial Plan figures in this report.

\textsuperscript{16} Article VII legislation included with the SFY 2018-19 Enacted Budget established the Health Care Transformation Fund and included authorization to make moneys of the fund available for a wide range of health care and other purposes and authorization for transfers to other funds of the State.
The sale of the not-for-profit health insurer Fidelis Care to Centene Corporation, a for-profit provider, included the companies’ agreement to contribute approximately $2 billion in direct payments and taxes to the State over five years. The Financial Plan anticipates that $1.8 billion of this amount will be deposited into and subsequently transferred from the HCTF over the five-year period from SFY 2018-19 through SFY 2022-23 to support a variety of purposes. A large portion of the receipts (83 percent) are expected to be received in the current and coming State Fiscal Years, with the initial $1 billion having been received in July 2018. Two-thirds of the anticipated spending associated with these resources, $1.2 billion, is also anticipated to occur in this same time frame.

In the updated Financial Plan, support for housing rental subsidies is expected to consume more than two-thirds (nearly $1.3 billion) of the resources in the HCTF in the SFY 2018-19 through SFY 2022-23 period, while 22 percent ($408 million) is expected to support State-only Medicaid spending, including $136 million in the current year and $136 million in each of the next two State fiscal years. The Executive Budget Financial Plan had reflected a total of $772 million in HCTF resources for the Medicaid program through SFY 2020-21, including $500 million in transitional operational support for health care. The updated Financial Plan anticipates that this $500 million will be used to provide $364 million in additional HCTF resources for housing rental subsidies through SFY 2022-23 and $136 million in additional State-only Medicaid spending.

The Executive expects enrollment in Medicaid and the Essential Plan (which provides health coverage for lower-income adults who do not qualify for Medicaid) to continue growing by modest amounts annually through SFY 2022-23. As of that year, enrollment is projected to total more than 6.3 million in Medicaid and more than 764,000 in the Essential Plan.

According to the Executive, the Financial Plan reflects the loss of more than $1.7 billion in federal cost-sharing reduction (CSR) payments associated with the Affordable Care Act in the current fiscal year and SFY 2019-20. The State has used these payments to help fund Essential Plan coverage. However, it is unclear whether the State will receive Federal reimbursement in the Essential Plan for CSRs in 2019 and beyond. The Financial Plan also reflects the loss of $330 million in federal Disproportionate Share Hospital (DSH) payments during SFY 2019-20, and larger reductions in succeeding years. Under current federal law, the reduction in DSH payments is scheduled to take effect beginning October 1, 2019.

The Budget proposes a one-year extension of the global cap on Department of Health (DOH) State funds Medicaid spending, 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 2019-20 or SFY 2020-21. This authority, first enacted in 2011, has not been exercised to date.

The Budget provides $575 million to operate the State’s health insurance exchange, NY State of Health, in SFY 2019-20, a decrease of $1 million, or 0.2 percent, over current year projections. The Budget would also codify the exchange in the State’s Public Health Law; the exchange was established by Executive Order in April 2012. In addition, the Budget would codify provisions of the federal Affordable Care Act (ACA), such as banning insurance limitations for pre-existing health conditions, requiring all health insurance policies sold in New York to cover the 10 essential health care benefits as defined in the ACA, and requiring health insurers to publish the list of all covered drugs accessible to their enrollees.
The Budget would establish a commission of “independent health policy and insurance experts,” with members appointed by the Commissioner of Health and the Superintendent of Financial Services, to develop options for achieving universal access to health care in New York State. Such options are to be reported to the Governor by December 1, 2019.

The Financial Plan, as amended, reflects various State health care administrative actions and statutory proposals that represent the ninth year of Medicaid Redesign Team (MRT) recommendations. The Executive Budget Financial Plan included a total of $544 million in net savings actions proposed to offset an identical amount of spending initiatives or impacts. The amended Financial Plan includes additional proposed State share Medicaid savings of $550 million in SFY 2019-20 and $605 million in SFY 2020-21 offset by an identical amount of spending initiatives or impacts.

The spending initiatives in SFY 2019-20, as amended, include:

- $975 million in additional Medicaid expenses shifted to the State DOH Medicaid global spending cap, including $550 million in costs associated with the increase in the statewide minimum wage (identified in the updated Financial Plan), as well as $381 million in spending related to the Office of Mental Health (OMH) and the Office for People With Developmental Disabilities (OPWDD). Including the additional OMH and OPWDD expenses, the Executive Budget, as amended, proposes to provide over $2.0 billion in global cap resources to support $1.8 billion and $220 million in OPWDD- and OMH-related Medicaid spending, respectively, in SFY 2019-20.

- $60 million in additional Medicaid DSH payments for uncompensated care provided by the three State University of New York teaching hospitals (SUNY Upstate Medical Center, SUNY Downstate Medical Center and Stony Brook University Hospital). According to the Department of Health, this would increase the State share of SUNY DSH costs to $230 million in SFY 2019-20.

- $15 million in additional non-medical, in-home community-based services for aging New Yorkers. This action, included as a Local Assistance appropriation in the State Office for the Aging (SOFA) budget, is intended to delay State Medicaid costs by improving access to services such as dressing, bathing and personal care for older adults who want to remain at home and out of institutional settings. This is estimated to save $34 million in State share Medicaid costs in SFY 2019-20.

- $11.5 million in expenses for the traumatic brain injury program shifted to the Medicaid global spending cap.

- $10 million to implement the federal government’s electronic visit verification mandate, which is intended to track home health providers and ensure the visits they report actually occur, patients get required care and Medicaid is accurately billed.

- $6.4 million to broaden behavioral health treatment options for over 4,000 New York children with autism.

- $16.8 million in various other spending initiatives that include $4 million to reduce the risk of maternal mortality in the State, $3.6 million to support a 5 percent rate increase for certain Early Intervention service providers, and $3.1 million to increase Medicaid ambulance rates.
The net savings actions in SFY 2019-20, as amended, intended to offset the cost of the above initiatives include:

- **$287.2 million** in long-term care actions such as: reducing certain nursing home rates based on collection of better data on the intensity of nursing care required by patients (State share savings of $122.8 million); consolidating administrative and payroll services for the Consumer Directed Personal Assistance Program ($75 million); delaying future State costs by improving access to non-medical, in-home services for older New Yorkers ($34 million); and managing utilization of personal care in the Managed Long-Term Care program ($25 million).

- **$222 million** by redeploying HCTF resources originally proposed for transitional operational support for health care to instead be used for non-Medicaid housing rental subsidies.

- **$190.2 million** by authorizing a uniform, 0.8 percent across-the-board reduction in certain Medicaid payments, excluding, for example, those which would violate federal law (e.g., payments required under the Medicare program); reductions in direct payments to certain mental hygiene providers; payments the State is obligated to make under court orders or judgments; and intergovernmental transfers from local governments (i.e., payments for which the non-federal share does not reflect any State funding). This proposal allows DOB and DOH, “based on consultation with the health care industry,” to consider an alternative method for achieving the savings.

- **$137.8 million** by reducing indigent care payments to certain hospitals in New York City as well as Westchester, Nassau and Suffolk counties starting in January 2020. The reductions would apply to hospitals that had operating margins greater than 2.98 percent and net operating income of more than $68 million in 2017, as determined by DOH. These hospitals would be eligible for a maximum of $10,000 in indigent care payments.

- **$88.0 million** in pharmacy actions such as: regulating pharmacy benefit managers and limiting the difference between amounts that such managers bill Medicaid and amounts they pay pharmacies for medications ($43.3 million); eliminating “prescriber prevails” requirements that allow providers and patients, rather than the State, to have the final say over medication decisions ($18.7 million); accelerating drug rebate processing ($13.7 million); and reducing coverage of over-the-counter drugs ($12.7 million).

- **$56.3 million** in managed care actions such as: shifting support for the Flushing Hospital Medical Center, a financially distressed facility in Queens, from State-only funding provided by the Vital Access Provider Assurance Program to the Value Based Payment Quality Improvement Program, which is eligible for federal matching funds ($29.6 million); transferring the Medicaid disenrollment function from local social service districts to the State when alternative insurance coverage is identified ($18.7 million); and expanding Office of the Medicaid Inspector General (OMIG) managed care recoveries ($4.1 million).

- **$23.6 million** in transportation actions such as: shifting transportation services provided by managed long term care plans and adult day health care providers to the State’s transportation manager program ($10.5 million); reducing the reimbursement rate for New York City livery service providers ($6.1 million); and eliminating rural transit assistance ($4.0 million).

- **$89 million** in various other actions.
All Funds spending for the OMIG is proposed to decline by $5.2 million, or 10.9 percent, to $42.8 million in SFY 2019-20. The Budget would allow the agency to determine how to achieve personal service efficiencies required by this spending reduction. Similar to the SFY 2018-19 Executive Budget, the Budget includes statutory proposals to expand OMIG authority to achieve managed care recoveries totaling $4.1 million in State share savings in SFY 2019-20.

The Budget does not propose new appropriation authority for health care capital projects, but provides capital projects fund reappropriations from previous years totaling nearly $3.3 billion, including funding for a range of purposes, including “restructuring” and “transformation,” either statewide or in particular areas such as Brooklyn and Oneida County.

Receipts for the HCRA Financial Plan, higher by $50 million in the updated Financial Plan to reflect additional anticipated surcharge revenue, are projected to increase by $86 million, or 1.5 percent, to $6.0 billion in SFY 2019-20. (HCRA was established in 1996 to help fund a portion of State health care activities.)

The Budget includes $4.4 million for 28 new full-time equivalent positions (FTEs) to reduce exposure to lead paint. The Executive proposes additional Local Assistance funding of $2.4 million to reimburse counties and the City of New York for lead reduction activities and $800,000 to increase non-Medicaid reimbursement rates for Early Intervention program providers.

The Budget also proposes to reduce State reimbursement for non-emergency claims above New York City’s base grant from 36 percent to 20 percent, starting July 1, 2019, to achieve $27 million in savings in SFY 2019-20 and $54 million per year when fully annualized.

The DOH workforce is projected to increase by 154 FTEs, or 2.8 percent, to 5,616 in SFY 2019-20. This number includes 101 new FTEs related to supporting the eighth year of the phased State takeover of local administration of the New York Medicaid program. The Executive indicates no time frame for completing the takeover.

All Funds spending for the State Office for the Aging (SOFA) would increase by $14.8 million, or 6.3 percent, to $250.7 million in SFY 2019-20. This increase primarily reflects a $15 million increase in the Expanded In-Home Services for the Elderly Program (EISEP). That would be offset in part by the deferral of the statutory human services cost-of-living adjustment for various SOFA community-based services in SFY 2019-20, as well as the elimination of certain initiatives that were included in the current year’s Enacted Budget.

In addition, other budget proposals would raise the minimum sales age for tobacco products from 18 to 21 and prohibit sales of tobacco products in all pharmacies in New York.

**Mental Hygiene**

All Funds spending for Mental Hygiene agencies would decrease by $206.1 million, or 3.7 percent, from $5.6 billion in the current fiscal year to $5.4 billion in SFY 2019-20, as reflected in the updated Financial Plan. The reduction largely reflects spending shifts of $160.6 million from the Office for People With Developmental Disabilities (OPWDD) and $220 million from the Office for Mental Health (OMH) to Department of Health (DOH) Medicaid spending, offset by other proposed spending actions within the DOH Medicaid global cap. OPWDD-related
spending in DOH would grow from over $1.6 billion in SFY 2018-19 to $1.8 billion in SFY 2019-20.

The $5.4 billion in spending would support five State agencies, as follows:

- OMH spending, as reflected in the updated Financial Plan, would decrease by $169.5 million, or 5.8 percent, to $2.8 billion.
- OPWDD spending, as reflected in the updated Financial Plan, would decrease by $62.9 million, or 3.2 percent, to $1.9 billion.
- Office of Alcoholism and Substance Abuse Services (OASAS) spending would increase by $25.7 million, or 4.1 percent, to $652.8 million.
- Spending by the Justice Center for the Protection of People with Special Needs would increase by $598,000, or 1.4 percent, to $44.4 million, mostly to support agency responsibilities associated with the Raise the Age initiative.
- Developmental Disabilities Planning Council (DDPC) spending would be held flat at $4.2 million.

State share funding of $30 million in SFY 2019-20 is proposed to help additional individuals with intellectual and developmental disabilities living at home or in residential schools transition to adult services within the OPWDD system. This amount would rise to $120 million when fully annualized in SFY 2020-21. The assistance would include housing support, day program and employment options, and respite services. The Budget also proposes an additional $47.4 million in State share funding to support salary and benefit costs associated with increasing the minimum wage for OPWDD-funded organizations. The Budget includes up to $5 million in one-time start-up costs for readying OPWDD’s provider system for the transition to Medicaid managed care.

Within OMH, the Budget proposes a capital projects appropriation of $375 million from the Mental Hygiene Facilities Capital Improvement Fund, an increase of $100 million over the current year, for replacement of the Mid-Hudson Forensic Psychiatric Center (PC) in Orange County. The Executive expects to complete its construction in four to five years. Overall OMH capital spending is projected to decrease by $42.5 million, or 19.5 percent, to $175.6 million in SFY 2019-20, primarily due to the near-completion of other psychiatric center projects.

The Budget proposes an additional $10 million for existing supported housing and single residence occupancy programs, and an additional $10 million to engage individuals with mental illness living in adult homes who need higher level services to transition successfully to the community. It includes $8.3 million in additional funding to support compensation costs associated with increasing the minimum wage for OMH-funded organizations and $3.8 million to provide mental health restoration services to inmates in jail awaiting trial. Under this program, OMH would work with counties on a voluntary basis to attempt to reduce the time individuals with mental illness spend in jail awaiting justice. The Legislature has not acted on similar proposals in the past. The OMH workforce is projected to increase by 40 positions (related to the forensic program), or 0.3 percent, to 13,717 FTEs in SFY 2019-20.

For OASAS, the Budget proposes $6.7 million in additional funding to support salary and benefit costs associated with increasing the minimum wage for OASAS-funded organizations. Other proposals would leverage $1.2 million in federal funds to expand access to medication-
assisted opioid treatment in State prisons from 6 to 9 facilities, and provide $1.5 million for an independent substance use disorder and mental health ombudsman. The Executive estimates the Budget would provide approximately $211 million for OASAS to address the State’s heroin and opioid crisis, an increase of $7.6 million, or 3.7 percent, over current year spending.

The 30-day amendments propose to impose an excise tax on the sale of opioids in New York that is projected to generate $100 million a year to offset certain State costs for existing opioid prevention, treatment and recovery programs. The SFY 2018-19 State Budget created an Opioid Stewardship Fund that was intended to generate $100 million in annual payments imposed on manufacturers and distributors of opioids, based upon the volume and potency of opioids sold or distributed in the State. However, a federal court ruling has blocked the State from collecting these payments.

Human Services / Labor

The Executive Budget proposes $3.2 billion in State spending for programs operated by the Office of Temporary and Disability Assistance (OTDA) and the Office of Children and Family Services (OCFS) in SFY 2019-20, a reduction of $34.7 million, or 1.1 percent, from SFY 2018-19 spending projections.

All Funds spending for OCFS would decrease by $273.7 million, or 9.1 percent, to $2.7 billion. Specific proposals include:

- Child care subsidies supported by the General Fund would decline by $146.3 million or 50.5 percent to $143.2 million. This reduction is related to the proposed use of $144.2 million of federal Temporary Assistance for Needy Families (TANF) funding for child care in the OTDA budget. Federal child care block grant funds would increase by $8.8 million or 4.1 percent, to $221.3 million. Overall child care spending would increase by $26 million, or 3.2 percent, to $832 million in SFY 2019-20 (including the federal TANF funding in OTDA).

- State spending would be reduced by $110 million in SFY 2019-20 through a change in the method that the State uses to recoup the local share of expenses for OCFS youth facilities. Rather than remit bills and receive payments from counties and New York City for the local share of such costs, as has been the practice, certain other OCFS-related payments to localities would be reduced to offset the costs, according to DOB. The annual amount of payments by localities has been capped in recent years at $55 million statewide. The reduced spending of $110 million in SFY 2019-20 relates to county and New York City costs for calendar years 2017 and 2018. In SFY 2020-21 and annually thereafter, OCFS-related payments would be reduced by $55 million, reflective of the annual cap.

- Capital spending would decrease by $45.1 million, or 65.6 percent, to $23.6 million, largely reflecting the projected completion of certain renovation projects associated with the Raise the Age initiative.

- Spending of $35 million that was added in the current year’s Enacted Budget for various programs would be eliminated.

- Increased federal TANF funding of $17.3 million for Advantage After School Programs in the OTDA budget would replace General Fund OCFS support in SFY 2019-20.
- State spending associated with the costs of funding 62 percent of county expenses for child welfare preventive services would decline by $15.4 million, reflecting expected reduced levels of county claims for reimbursement of costs.

- The statutory human services cost-of-living adjustment (COLA) for various OCFS service providers would be eliminated in SFY 2019-20, for an estimated savings of $15.1 million. The current year’s budget eliminated the human services COLA for SFY 2018-19, but included a provision authorizing annual adjustments from April 2019 through March 2022. The Executive Budget would revise this provision, authorizing adjustments from April 2020 through March 2023.

- Savings of $585,000, as proposed in the 30-day amendments, would be achieved in SFY 2019-20, and $3.9 million in annual savings thereafter, associated with closing the Ella McQueen Reception Center for Boys and Girls in Brooklyn in early 2020. According to DOB, OCFS provided the required one-year notice of the expected closure in late January 2019. The amended Financial Plan reflects the expected closure by reducing, through attrition, the OCFS workforce by an additional 45 FTEs to 2,919 employees.

Proposed spending increases include:

- Increasing All Funds spending for the initiative to raise the age of criminal responsibility to 18 years (which takes full effect on October 1, 2019) by $55 million, or 67 percent, to $137 million in SFY 2019-20.

- Increasing General Fund support for local youth and young adult development services by $9.1 million, or 10.1 percent, to $99.1 million.

- Increasing General Fund support for the costs of Medicaid health care services for children in foster care by $4.1 million, or 4.8 percent, to $88.8 million.

- Increasing General Fund support for adult protection/domestic violence services by $2.8 million, or 6.2 percent, to $48.1 million.

All Funds spending for OTDA would decrease by $113.0 million or 2.1 percent to $5.2 billion in SFY 2019-20. The total number of public assistance recipients is expected to decline by 1.1 percent, to 532,164, reflecting small decreases in the numbers of both Safety Net Assistance and Family Assistance recipients. Total public assistance spending is projected to decrease by $26.9 million, or 1.0 percent, to $2.7 billion.

State-funded spending for Safety Net Assistance is projected to decline marginally (by less than 0.2 percent) to approximately $496.7 million in SFY 2019-20. The State typically pays 29 percent and local governments 71 percent of the costs for Safety Net Assistance, which receives no federal funds. In SFY 2019-20, federal TANF block grant funding for Family Assistance benefits is projected to total $1.0 billion, a decrease of $24.3 million, or 2.3 percent, from SFY 2018-19.

Major OTDA budget actions would include:

- Establishing a 10 percent local share for New York City for the Family Assistance program, freeing up federal TANF funding of $72.3 million to be available for other purposes in SFY 2019-20. According to DOB, this provision would increase the City’s current and ensuing fiscal year costs by $18.1 million and $72.3 million, respectively.
- Funding costs associated with rental assistance for New York City residents with HIV/AIDS through Safety Net Assistance. The State cost has been paid in recent years with $9 million annually in proceeds from a settlement with J.P. Morgan; DOB indicates that shifting the cost to Safety Net Assistance would create a permanent funding source for the rental assistance program. Under this proposal, the City’s share of the annual cost would increase from $11 million to about $14 million; the State’s share of the cost would be $6 million per year, according to DOB.

- Incentivizing local social services districts outside New York City to participate in a program created in the SFY 2018-19 Enacted Budget to limit the rent paid by public assistance recipients living with HIV/AIDS. Under this initiative, the State would provide up to $1 million per district to encourage them to partner with a Medicaid managed care plan and a not-for-profit service provider to assist public assistance recipients living with HIV/AIDS in maintaining or securing stable housing. The managed care plans would be required to match the State funds, and the service provider would connect the recipient to housing and other services.

- Increasing federal TANF funding for the summer youth employment program by $4 million, or 10 percent, to $44 million.

The OTDA workforce is projected to remain unchanged at 1,989 FTEs in SFY 2019-20. However, the Executive Budget proposes to increase the appropriation for OTDA’s disability determination program by $21.9 million, or 12.0 percent, to $205 million to accommodate the hiring of 200 additional federally-authorized staff intended to implement improved processing of determinations.

The Budget proposes All Funds spending of $555.5 million for the State Department of Labor (DOL) in SFY 2019-20, a reduction of $8.9 million, or 1.6 percent, from SFY 2018-19. The reduction is primarily due to the elimination of $14.5 million in various employment and training programs that were added in the current year’s Enacted Budget, offset by $5 million in spending for the Pay for Success program, which is proposed to be shifted from OCFS to DOL. Total spending on the program is expected to decrease by $7.5 million, or 60 percent, in SFY 2019-20. Pay for Success was launched in 2014 to train and employ formerly incarcerated individuals.

The Executive also proposes no change in spending from the Unemployment Insurance Benefit Fund, an Enterprise Fund, which is projected to total $2.5 billion in SFY 2019-20.

Article VII language is proposed to increase criminal penalties for wage theft and to reduce penalties for unemployment insurance recipients working part-time.

**Transportation**

All Funds spending for the Department of Transportation (DOT), the Department of Motor Vehicles (DMV) and the Metropolitan Transportation Authority (MTA) would total $9.5 billion in SFY 2019-20, a decrease of almost $600 million or 5.9 percent. The decline results primarily from the proposed shift of $297 million in revenues and $261 million in associated spending for the MTA off-budget, as well as the absence of $194 million in non-recurring spending for the Subway Action Plan in the current year.
Capital Projects

Federal and State funds spending on capital projects for the above three agencies’ budgets totals $5.5 billion in SFY 2019-20, the fifth year of the multiyear $29.3 billion State transportation capital plan. This consists of $4.6 billion for DOT, $238 million for DMV, and $675 million for the MTA. In addition, the plan includes spending for the Thruway Authority of $139 million in SFY 2019-20, drawing on prior years’ appropriations totaling nearly $2 billion. Total spending is $242 million less than in the current year, a reduction of 4.2 percent.

A total of $477.8 million would be provided in SFY 2019-20 for local highway and bridge projects through the Consolidated Highway Improvement Program (CHIPS, $438.1 million) and the Marchiselli program ($39.7 million), the same level as since SFY 2013-14. The Executive Budget also proposes $100 million each for the BRIDGE NY and PAVE NY initiatives to be made available to localities. However, the Budget does not include appropriations or Article VII language specifically associated with these programs.

Statewide Mass Transit Operating Aid

The Executive Budget Financial Plan indicates that on-budget operating aid to transit systems would be over $3.5 billion, a 10.8 percent decrease from the current year, which is related to the proposed off-budget shift described above. The MTA would receive almost $3 billion and non-MTA systems would receive the remainder — $350 million downstate and approximately $217.7 million upstate. According to the Plan, including off-budget spending, the MTA is estimated to receive about $5.3 billion in SFY 2019-20, which includes the Payroll Mobility Tax shifted off-budget in SFY 2018-19 and the proposed shift of resources in the coming year. Funding for other downstate systems would increase 8.0 percent ($26 million), and for upstate systems, 5.3 percent ($11 million).

The increase in spending for upstate transit operations would result from the statewide expansion of the auto rental surcharge, which is currently applied only in the Metropolitan Commuter Transportation District. The expansion is expected to bring in an estimated $22 million annually in coming years.

Dedicated Highway and Bridge Trust Fund

The Dedicated Highway and Bridge Trust Fund (DHBTF) was established in 1991 to provide funding for the construction and rehabilitation of State-owned roads and bridges. When first created, the fund was expected to 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 DHBTF resources has been used to pay for debt service and State operating costs.

The DHBTF also continues to rely on transfers from the General Fund and from the Federal Capital Projects Fund. The General Fund subsidy for the DHBTF in SFY 2019-20 is projected to be $402.6 million, although $727.5 million is proposed to be authorized. This increased subsidy, almost three times higher than estimated for the current year, is, according to DOB, largely due to debt service trends associated with prior bond refundings. The General Fund
subsidy is expected to increase by 19 percent to almost $480 million in SFY 2020-21, and then decline to an average $392 million annually from SFY 2020-21 through SFY 2023-24.

Total projected disbursements and transfers to other funds from the DHBTF in SFY 2019-20 are $3.5 billion, 3.8 percent higher than the current year. Capital disbursements are projected to total $771.7 million in SFY 2019-20, down 6.3 percent from the estimated current year figure. Such spending is 24.6 percent of total disbursements in SFY 2018-19, the highest proportion since SFY 2008-09.

Debt service requirements from the DHBTF are projected to total $1.5 billion in SFY 2019-20, 18.2 percent higher than in the current year. As a proportion of all spending from the fund, debt service is expected to increase from 38 percent in SFY 2018-19 to 43 percent in the upcoming year. State operations spending is expected to total $1.2 billion in SFY 2019-20, or 35 percent of DHBTF disbursements. Projections through SFY 2023-24 indicate that the proportion spent on debt service will decrease modestly to 41.0 percent, while the share devoted to State operations will increase slightly to 36.2 percent.

Other transportation-related proposals in the Budget would:

- Establish a Congestion Tolling Program in New York City (see the Metropolitan Transportation Authority section of this report).

- Institute measures intended to enhance safety for large passenger vehicles including: a ban on the registration of certain altered vehicles; the requirement that drivers hold commercial driver licenses with endorsements to operate a for-hire vehicle with eight or more passengers; increased penalties for violations; and a new $120 fee on inspections of certain for-profit buses, limousines and other livery vehicles. The 30-day amendments would require use of a seat belt by all motor vehicle passengers aged 16 and over, extending the existing requirement for younger passengers.

- Extend authorization for the testing of autonomous vehicles in the State through April 1, 2021; repeal the law requiring at least one hand on the wheel on April 1, 2021; and permanently extend DMV’s annual reporting requirement on this program.

- Allow DOT to charge utilities for the use of State highway rights-of-way in the installation of fiber optic cables.

- Create the Gateway Development Commission as an interstate authority with authorization to receive federal funds and with broad powers, including authority to issue bonds and enter into other payment obligations and to direct its funds and other revenues for repayment without use of taxation. Although borrowing is authorized, no amount or limit is specified. DOT would also be authorized to enter into agreements with the Commission for use of eminent domain powers. The Commission would act through a vote of its three-member board, with one member appointed by the Commissioner of the New York State DOT, one appointed by the New Jersey Transit Corporation Board of Directors and one appointed by Amtrak. The Act establishing this Commission would take effect upon New Jersey enacting legislation “having an identical effect.” The 30-day
amendments include revisions such that the bill language and its effect are similar to legislation recently advanced in the New Jersey legislature for this purpose.\footnote{As of February 14, 2019, a bill has advanced in New Jersey Senate and Assembly committees that establishes the Gateway Development Commission in conjunction with the State of New York. It includes language that an identical bill will need to be enacted in New York State. It is unclear what additional actions, if any, will be necessary for both states’ legislation to conform.}

- Provide for increased bus lane and school speed zone enforcement in New York City.
- Provide requirements for toll facilities related to notification and electronic communication of customers’ obligations.

**Economic Development**

The Executive Budget proposes decreasing All Funds appropriations for the Department of Economic Development (DED) and the Urban Development Corporation (UDC) by $463 million or 31.7 percent, from almost $1.5 billion in SFY 2018-19 to just under $1.0 billion in SFY 2019-20. Most of this decrease is attributable to a $445 million net decline in capital projects appropriations for the UDC, including elimination of a $600 million appropriation related to the relocation of the Wadsworth Lab, for which a reappropriation has been provided in the Executive Budget. Offsetting a portion of this decline are new or increased appropriations, primarily for capital projects in other programs. Appropriations for State Operations and Aid to Localities are decreased by $18.1 million or 9.2 percent.

All Funds appropriations for the DED would decrease by a net total of $3.6 million, or 3.9 percent, primarily due to the elimination of funding added in the SFY 2018-19 Enacted Budget. The proposed Budget would increase funding for the promotion of agri-tourism and the State’s food and beverage products by $406,000, from $3.6 million to $4.0 million, to support operators of Taste NY stores as well as marketing programs at the State’s 11 welcome centers. The 30-day amendments would revise the number of Taste NY store operators receiving support under this appropriation from five, as initially proposed in the Executive Budget, to nine.

Appropriations for DED would also include $6 million in new funding for the Security Through Advanced Research and Technology (START) initiative, a matching grants program under the Division of Science, Technology & Innovation (NYSTAR) to support technology development and commercialization in the State. The Budget would also provide $500,000 for the creation of an online database for economic development projects. However, no accompanying Article VII language has been proposed to provide statutory requirements for the creation of such a database, or details relating to how it would be structured or what type of information it should contain.

Capital projects appropriations of $820.3 million within UDC reflect continued funding at SFY 2018-19 levels for certain existing economic development programs and projects, including: $2.3 million for the retention of professional football in Western New York; $5 million for the Clarkson-Trudeau partnership; $8 million for Market NY; and $150 million for the Regional Council Capital Fund. The Budget also provides an appropriation of $220 million for the New York Works Economic Development Fund, an increase of $20 million over the current year, and includes $110 million in new appropriations for the SUNY 2020/CUNY 2020 Challenge Grant Programs, $55 million for each program. This initiative last received new capital projects appropriations, totaling $110 million, in SFY 2017-18.
The Budget would continue the High Technology Innovation and Economic Development Infrastructure Program and increase the appropriation to $325 million from $300 million in SFY 2018-19. The Capital Program and Financing Plan reflects $200 million in disbursements from the new High Technology appropriation in SFY 2019-20, with the remainder to be disbursed in the following two years.

**Housing**

The Executive Budget proposes All Funds spending for the Division of Housing and Community Renewal (DHCR) totaling $752.5 million in SFY 2019-20, a decrease of $127.6 million or 14.5 percent compared to SFY 2018-19. This is primarily due to a reduction in capital projects spending, which is anticipated to total $581.3 million, down $142 million or nearly 20 percent from the current year. The decline is partially offset by an anticipated increase in Aid to Localities spending to $73.3 million, up $14.4 million. Spending for State Operations is anticipated to be unchanged from the current year estimate of $97.9 million.

**Capital Projects**

The overall decline in capital projects spending anticipated for the coming year is largely due to the absence of an estimated $250 million in non-recurring spending related to emergency repair projects at the New York City Housing Authority (NYCHA) housing sites in the current year. The full amount of this appropriation is anticipated by DOB to be disbursed in the current year. The Executive Budget does not propose any additional capital support for NYCHA in SFY 2019-20. This decline is partially offset by various increases, including an additional $39.1 million in spending related to the Housing Program, which is expected to total $404.1 million, up 10.7 percent from the current year.

In addition, a new capital projects appropriation of $72 million is proposed for the Governor’s Office of Storm Recovery (GOSR) to continue support of recovery and rebuilding efforts in areas impacted by natural disasters. Spending is to be administered by the Housing Trust Fund Corporation (HTFC) and is anticipated to be fully disbursed in the coming year.

A new $5 million appropriation, which is anticipated to be fully disbursed in SFY 2019-20, is proposed for the Manufactured Home Advantage Program to support loans and grants for mobile or manufactured homes and home parks.

**Aid to Localities**

A new General Fund appropriation of $21 million is provided for the Rural Rental Assistance Program in relation to providing assistance to sponsors of housing for low-income individuals. This represents a decline of $2.6 million or 11 percent from SFY 2018-19. Current year funding was provided off-budget through the State of New York Mortgage Agency Mortgage Insurance Fund (SONYMA MIF). Funds from the new appropriation are authorized to be transferred to the HTFC.

**State Operations**

The Executive proposes State Operations appropriations of $180.2 million, an increase of $72.9 million or 68 percent over the SFY 2018-19 Enacted Budget, related to the inclusion of
certain two-year Special Revenue Funds appropriations within the Office of Rent Administration program.

Other Proposals

Article VII legislation proposes to extend the system of rent regulation, pursuant to other statutory action that would be required in 2019, including changes to end vacancy decontrol, amend the application of preferential rent, and limit capital improvement charges, based on a report that the Commissioner of DHCR would deliver to the Governor on or after March 1, 2019.

Other Article VII proposals relate to prohibiting housing discrimination based on source of income and limiting the amount of security deposit that a landlord may charge to no more than two months’ rent, including the first month’s. Currently, there is no statewide limit as to the maximum amount a landlord can charge a tenant as a security deposit.

Proposed Article VII language also authorizes the transfer of $12 million from SONYMA MIF that is considered to be in “excess” of projected needs to be used off-budget for the following programs: $8.5 million for the Neighborhood Preservation program (NPP); and $3.5 million for the Rural Preservation Program (RPP). The amounts provided for these two purposes are unchanged from the current year.

Environment and Parks

Environment

The Executive Budget proposes $1.3 billion in All Funds spending for the Department of Environmental Conservation (DEC), an increase of $91.2 million, or 7.6 percent over estimated spending for SFY 2018-19. The Capital Plan indicates that $983 million will be used to finance DEC capital projects in SFY 2019-20, including $510 million in authority bond resources.

A $300 million appropriation is proposed for the Environmental Protection Fund (EPF), unchanged from the current year. Spending from the EPF is projected to total $255.3 million in SFY 2019-20, the highest level in the history of the Fund and an increase of $15 million over the current year. Further increases are projected in future years, to a high of $260.5 million in SFY 2021-22. Average spending from the EPF over the life of the five-year Capital Plan is projected at approximately $259.4 million annually.

Revenues to the EPF, including General Fund transfers, are projected to be $226.8 million in SFY 2019-20, an increase of $45 million from the current year. An additional $14 million in EPF revenues are expected in SFY 2020-21 due to the proposed bottle bill expansion. These bottle bill revenues are expected to increase to $16 million in SFY 2021-22 and hold steady at that level annually for the remainder of the Capital Plan period. Despite additional resources from the proposed expansion of bottle deposits, the EPF is expected to have a higher reliance on transfers from the General Fund. These are projected to total $276 million over the five-year Capital Plan, an increase of $68 million compared to the current Capital Plan.

The Budget includes new language that would allow an undefined portion of the EPF appropriation to be used for personal service expenses. The DEC Commissioner has indicated that the agency plans to use EPF appropriations to pay for agency staff involved in managing
EPF-funded programs, although the language does not contain this limitation. Any use of such resources for this purpose would effectively reduce funding available to EPF project and program needs; the extent and potential impact of such alternative use are unclear.

The Executive Budget proposes an additional $500 million for a range of clean water infrastructure projects, including those authorized by the New York State Water Infrastructure Improvement Act of 2017, replacement of lead water service lines, green infrastructure projects, and open space preservation related to water quality protection. This appropriation is part of an anticipated overall $2.5 billion, five-year clean water program. The first appropriation of $500 million in SFY 2019-20 was initially expected to be financed with resources from extraordinary monetary settlements the State has received in recent years. The Financial Plan updated for 30-day amendments now anticipates that this appropriation will be funded with a combination of monetary settlements and bond proceeds ($250 million each). Spending for this new initiative is not expected to begin until SFY 2020-21, with $25 million planned in that year, followed by $50 million in the following year. The bulk of the planned spending, $425 million, is not expected to occur until the final two years of the Capital Plan period. The Capital Plan assumes additional $500 million appropriations to be provided annually thereafter, but does not include projected spending from these future appropriations. The 30-day amendments would authorize transfer of these funds to the Environmental Facilities Corporation, or any other department or agency.

The Budget would establish the Climate Leadership Act, including:

- Creation of a Climate Action Council to develop a plan to achieve 40 percent reduction of greenhouse gas emissions from 1990 levels by 2030 and to make New York State carbon neutral. The plan is to be produced with the next update of the State Energy Plan by the end of 2020. The Council is also directed to partner with the U.S. Climate Alliance in planning how to achieve the State’s proportional share of the U.S. commitments for carbon reduction under the Paris Agreement on combating climate change.

- A requirement that the State Energy Planning Board incorporate measures in the State Energy Plan to achieve 100 percent clean electricity by 2040.

- Establishment of a State Clean Energy Program directing the Public Service Commission to require electric utilities to meet 70 percent of their electric demand with renewable generating sources by 2030 and 100 percent with clean energy sources by 2040. For these purposes, clean energy sources can include carbon neutral biofuels and nuclear generation.

- A requirement that DEC promulgate an economy-wide greenhouse gas emission limit for 2030 that reduces emissions by 40 percent from 1990 levels, and establish in consultation with NYSERDA a social cost of carbon for use by State agencies and other regulations consistent with measures identified by the Climate Action Council.

An expansion of the State’s “Bottle Bill” is proposed to include most non-alcoholic beverage containers, while continuing to exclude infant formula, dairy products, prescription medicine and dietary supplements. Other proposed amendments are intended to address enforcement problems and would allow deposit initiators that use a New York specific uniform product code to retain 40 percent (up from 20 percent) of unclaimed deposits. This proposal is anticipated to generate an additional $18 million in SFY 2020-21 and $20 million annually thereafter. Revenues would be divided between the General Fund and the EPF, pursuant to current law.
The Budget proposes to discourage offshore oil and gas production in federal waters off New York by prohibiting leases for oil and gas exploration or production in New York waters, siting of infrastructure associated with offshore oil and gas production on land in New York State, and transportation of crude oil produced in the federal North Atlantic Planning Area in the navigable waters of New York State.

The Budget includes two new programs to provide information to the public on chemical hazards in consumer products and in personal care products. The DEC would be authorized to require manufacturers of consumer products to provide lists of ingredients, and those that are found to be hazardous must be identified on a product label with such information to be made available publicly by the DEC. The Department of Health is authorized to create a similar program addressing personal care products.

Other environmental proposals in the Executive Budget include:

- Prohibiting single-use plastic bags in grocery and other retail stores. Certain uses, such as bags provided for produce, would be exempt from the ban.
- Increasing the bonding authorization for State environmental infrastructure projects by $240.8 million.
- Making permanent the waste tire management and recycling fee.

**Parks**

The Executive Budget proposes All Funds spending of $369.1 million for the Office of Parks, Recreation and Historic Preservation (OPRHP) in SFY 2019-20, an increase of $3.4 million, or 0.9 percent over SFY 2018-19.

The OPRHP capital budget would include a New York Works appropriation of $112.5 million in support of infrastructure projects at State parks and historic sites, an increase of $20 million over the current year. Of this funding, $2.5 million is directed to the Olympic Regional Development Authority for maintenance and infrastructure projects and $20 million will support continued development of the new Shirley Chisolm State Park in Brooklyn.

The Budget includes a $23 million appropriation for the improvement and rehabilitation of the Hudson River Park, which requires a matching payment by New York City. Also proposed are Enterprise Fund appropriations of $20 million and $2 million, respectively, from a Golf Account and a Parks Retail Stores Account for the maintenance and operation of golf courses in State parks as well as for retail stores.

Other parks-related proposals include expansion of eligibility for the State Historic Rehabilitation Tax Credit to include projects in State Parks, State Historic Sites, or other State-owned land under the jurisdiction of OPRHP.

**Agriculture**

The Executive Budget proposes All Funds spending of $97.6 million by the Department of Agriculture and Markets (Ag and Markets) in SFY 2019-20, a decrease of $57.8 million or 37
percent from SFY 2018-19. This decrease is largely attributable to the completion of the Exposition Center at the New York State Fairgrounds in SFY 2018-19. The Budget also anticipates increased personal service disbursements of $1.8 million to support an additional 29 food safety inspectors to assist in addressing a backlog of inspections.

The Budget includes a $10 million appropriation in the State Education Department to maintain the increased State reimbursement of 25 cents per meal for those school lunch programs that purchase at least 30 percent of all food products from New York State farms. In addition, the Budget would extend the State farmworker tax credit to employees of certain licensed farm wineries and cideries.

**Energy**

The Budget would increase All Funds spending by the Department of Public Service (DPS) by $1.6 million in SFY 2019-20, to a total of $82.2 million. An additional 8 FTE positions are proposed at DPS to support the Article 10 electric generator siting process.

All Funds spending in SFY 2019-20 for the New York State Energy Research and Development Authority (NYSERDA) is proposed to decrease by $2.4 million to $20.5 million, while spending for the New York Power Authority (NYPA) would increase by $30.8 million to support the Empire State Trail. The vast majority of spending by these authorities is not appropriated in the State Budget.

The Budget would authorize NYPA to provide energy supply services to any municipal corporation, or to the residents of a municipal corporation under a community choice aggregation program approved by the Public Service Commission (PSC). NYPA would also be authorized to develop and maintain electric vehicle charging stations for use by the public.

In addition, NYPA would be authorized to develop an offshore wind electric transmission grid, and to finance and develop renewable energy generating facilities within the State or its territorial waters. NYPA would be authorized to purchase the electricity generated by these facilities, and then to resell it to certain customers.

Other energy-related proposals in the Executive Budget include:

- Exempting from property taxes certain renewable energy systems and low- or zero-emission energy systems that are sited on State-owned or State-controlled lands, if they are under contract to sell their electricity to the State. The 30-day amendments add “fuel-flexible linear generators” to the list of eligible electric generating systems and clarify that the facilities proposed for property tax exemption are also exempt from special ad valorem levies and special assessments as defined in Section 490 of the Real Property Tax Law.

- Authorizing and directing NYPA, to the extent its trustees deem feasible and advisable, to transfer $20 million to the General Fund for energy-related activities; and authorizing and directing NYSERDA to transfer $23 million in Regional Greenhouse Gas Initiative revenues and $913,000 in other funds to the General Fund.

- Establishing a new source of funding for services and expenses of the Electric Generation Cessation Mitigation Fund (Fund), an off-budget fund administered by the Urban Development Corporation (UDC). The Fund provides financial assistance to certain
localities experiencing a loss in tax base due to closings of electric generation plants. For SFY 2019-20 and annually thereafter:

- Funding provided to the Fund for payment to eligible municipalities would be deemed an expense of DPS within the meaning of Section 18-a of the Public Service Law.
- Electric businesses of public utilities subject to regulation by the PSC, other than municipalities, would be required to annually pay UDC a share of a total amount not to exceed $10 million for deposit to the Fund, with such share determined pursuant to a statutorily prescribed formula.
- The Chair of the PSC would be required to review an accounting of the Fund not later than August 15, 2020 and by August 15th annually thereafter.

- Authorizing Ag and Markets, DEC, the Department of State and OPRHP to be reimbursed for the expenses of participating in DPS ratemaking 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 assessments on gas and electric utilities. This funding is not appropriated in the Budget, but billed to utilities by the PSC and transferred directly to NYSERDA to pay for expenditures of the NYSERDA energy research, and development program. NYSERDA is also directed to transfer to the State’s General Fund $1 million for DEC and $150,000 for Ag and Markets, while $825,000 would be transferred directly to the University of Rochester, Laboratory of Laser Energetics.

Public Protection / Criminal Justice

The updated Financial Plan reflects a decrease in State Operating funds spending for agencies DOB includes in its Public Protection and Criminal Justice grouping of $34.2 million or 0.8 percent, to just under $4.0 billion in SFY 2019-20. All Funds spending would decrease by $76.0 million, or 1.3 percent, to nearly $5.7 billion in SFY 2019-20.

As reflected in the updated Financial Plan, All Funds spending for the Department of Corrections and Community Supervision (DOCCS), which represents more than half of overall Public Protection and Criminal Justice spending, would decrease by $57.1 million, or 1.8 percent, to nearly $3.1 billion. Changes include a $12.3 million decrease in projected capital spending on DOCCS prisons and a $44.8 million decrease in spending related to prison operations. The Executive attributes much of the spending decrease to a proposal included in the 30-day amendments to authorize closure of up to three correctional facilities in SFY 2019-20. The proposal allows the Executive to determine which facilities to close, provided the Temporary President of the Senate and the Speaker of the Assembly receive at least 60 days' notice of any closures. The proposal would bypass certain statutory provisions including requiring 12 months’ notice to all local governments where the prisons are located, all labor organizations representing prison employees, and managerial and confidential employees working in the prisons. The proposal would also bypass provisions requiring DOCCS to develop strategies which attempt to minimize the impact of any closures on the State workforce and local and regional economies; and provisions requiring the Department of Economic Development to evaluate the community impact of and prepare an “adaptive reuse plan” for any closures. The Executive estimates the closures would eliminate at least 1,200 beds and
save the State at least $35 million a year. The Executive’s updated Financial Plan projects reductions in the DOCCS workforce, through attrition, of an additional 525 FTEs as a result.

This reduction is offset in part by the addition of 153 staff positions necessary to meet the terms of a settlement agreement related to changes in the use of solitary confinement in New York. These additional positions would result in a net decrease of 372 FTEs, or 1.3 percent, in the DOCCS workforce of 28,803 employees by March 2020.

In addition, according to DOB, $24 million would be spent in SFY 2019-20 to begin construction of “step-down” housing units for inmates whose history of violence or substance abuse had led to segregation from the general prison population at nine State prison facilities. The State prison population is projected at 47,400 inmates as of March 31, 2019, a decrease of more than one-third from the peak reached in the late 1990s, and is expected to remain at that level through SFY 2022-23.

As reflected in the updated Financial Plan, All Funds spending for the Division of Homeland Security and Emergency Services (DHSES) would decline by $77.7 million, or 7.1 percent, to $1.0 billion. The Executive attributes much of the decrease to the timing of large Federal Emergency Management Agency (FEMA) payments related to Superstorm Sandy. The Executive Budget proposes $1 million to create a new fund for the “Securing the Cities” program, intended to reduce the risk of deployment of radiological or nuclear weapons against major metropolitan areas in the State. Capital appropriations for DHSES would increase by $30 million to $33 million in SFY 2019-20, including $25 million in county grants or reimbursement for public safety communication systems or networks and $5 million for improvement projects at the State preparedness training center in Oriskany.

As reflected in the updated Financial Plan, the Budget proposes to increase All Funds spending for the Division of State Police (State Police) by $5.5 million, or 0.7 percent, to $828.6 million in SFY 2019-20. Executive proposals to increase spending on fringe benefits by $4.5 million, or 17.8 percent, to $29.9 million and on capital projects by nearly $1 million, or 2.1 percent, to $45.7 million are partially offset by a $2.5 million, or 0.3 percent, decrease in State Operations spending to $753 million in SFY 2019-20.

All Funds spending for the Division of Criminal Justice Services (DCJS) is projected to decrease by $45.3 million, or 16.6 percent, to $228.2 million in SFY 2019-20. Proposed changes include elimination of $31.3 million in initiatives that were added in the SFY 2018-19 Enacted Budget, and $1.3 million in the DCJS administration program, offset in part by $10 million in additional spending on programs intended to decrease violent gang-related crime, particularly involving MS-13 on Long Island.

All Funds spending for the Division of Military and Naval Affairs would increase by $39.9 million, or 27.8 percent, to $183.5 million in SFY 2019-20. The higher spending largely reflects a $43.7 million, or 59.3 percent, increase in capital costs, including armory maintenance projects, partially offset by lower fringe benefit expenses.

Spending for the Office of Indigent Legal Services would increase by $37.6 million, or 33.2 percent, to $150.9 million, largely reflecting second-year costs associated with the implementation of the statewide initiative to improve New York’s system of public defense
services. The Budget proposes $101.4 million in appropriation authority for this purpose, which nearly doubles the program’s current year appropriation.

The Budget proposes to increase spending for the Office of Victim Services by $21.0 million, or 25.0 percent, to $105.3 million. The higher spending largely reflects an increase in a federal grant for victim and witness assistance.

Article VII proposals in the Budget related to Public Protection and Criminal Justice include a measure to authorize compassionate parole for eligible inmates at least 55 years old who are certified by the DOCCS Commissioner to be suffering from a health condition exacerbated by age, are unable to care for themselves within the correctional facility and meet certain other criteria. Once such inmates are certified as affected by an age-related disability, the State Parole Board would have the power to release them on compassionate parole. Inmates convicted of murder or an attempt or conspiracy to commit murder or serving a sentence of life without parole would not be eligible for compassionate parole. A similar proposal was included in the SFY 2018-19 Executive Budget, but not acted upon by the Legislature.

Article VII legislation also includes proposals that would: increase the statute of limitations during which a child sex abuser may be held criminally and civilly liable (the Child Victims Act)\(^\text{18}\); prohibit non-consensual dissemination of sexually explicit images or videos intended to harm another; increase criminal penalties for assault on journalists; statutorily abolish the death penalty; ban rapid-fire modification devices (e.g., bump stocks); combat gun violence with a “Red Flag Law” to prevent individuals who show signs of being a threat to themselves or others from purchasing or possessing guns; and modify pre-trial justice procedures by eliminating cash bail, improving access to a speedy trial and expanding the discovery process regarding sharing of evidence before trial.\(^\text{19}\) Similar pre-trial proposals included in last year’s Executive Budget were not acted upon by the Legislature.

**Lottery and Gambling**

The Executive Budget projects lottery and gambling revenues in SFY 2019-20 to decrease by $199 million, from nearly $4.0 billion to $3.8 billion. While revenues from both casinos and video lottery terminals (VLTs) are projected to increase modestly in the upcoming fiscal year, by $21 million and $16 million, respectively, collections from the traditional lottery games are estimated to decrease by $111 million due to the expected absence of extremely large jackpots under Mega Millions. The year-over-year decline in collections is also attributable to the return to the regular payment schedule under the Tribal State Compact program.

The Budget recommends a net increase in All Funds appropriations for the Gaming Commission of $48.9 million, or 13.6 percent. This reflects an increase of $49 million in Aid to Localities funding and a $70,000 net decrease in State Operations funding.

In 2018, an arbitration panel was formed to determine whether the Seneca Nation was required to make payments to the State on revenues received from the Nation's gaming operations. On January 7, 2019, the panel ruled the Seneca Nation is liable for these payments. The collection

\(^{18}\) Legislation addressing this issue (A. 2683/S. 2440) was approved by both houses of the Legislature on January 28, 2019 and signed into law by the Governor on February 14, 2019 (Chapter 11 of the Laws of 2019).

\(^{19}\) Legislation addressing the issue of bump stocks (A. 2684/S. 2448) and the Red Flag Bill (A. 2689/S. 2451) was approved by both houses of the Legislature on January 29, 2019. The Red Flag bill was signed by the Governor on February 25, 2019.
of the outstanding payments as well as the scheduled March 2019 payment, a combined total
of $247.5 million, is expected in SFY 2018-19.

While appropriations in the current fiscal year under the Tribal State Compact program reflect
the distribution of the local portion of the outstanding payments due from the Seneca Nation as
well as the regular payments under compacts with the State’s other tribes, the Executive
Budget would increase the Aid to Localities appropriation in SFY 2019-20 by $47 million for
this program in the event the payments due from the Seneca Nation are delayed.

The Budget includes the following proposals relating to gaming and racing operations:

- Revise VLT rates, resulting in additional State revenue of $5 million annually.
- Authorize the Gaming Commission to hire individuals who would be disqualified under
current law by virtue of having held a gaming occupational license. Budget documents
indicate the change is needed to “allow the Gaming Commission to hire the most talented
candidates.” In addition, the Budget would revise certain provisions of existing law related
to casino occupational licensing and hiring, including changes regarding hiring of
individuals with criminal convictions.
- Allow the Gaming Commission to enter into the Mid-Atlantic Drug Compact, which is
intended to enhance and standardize equine drug rules, and expand the potential number
of equine testing laboratories.
- Impose new governance requirements on boards of directors of regional off-track betting
corporations (OTBs), and allow one OTB to assume the operations of another with
approval by the Gaming Commission.

**State Workforce**

The Financial Plan updated for 30-day amendments indicates that the overall size of the State
workforce (excluding the Legislature and the Judiciary) is projected to be 183,827 full-time
equivalent employees (FTEs) at the end of SFY 2019-20, an increase of 122 over the estimated
total at the end of the current year (556 FTEs lower than the level projected in the Executive
Budget released in January). This increase is the net result of an estimated 8,979 attritions and
9,101 new hires. The major expected changes are:

- Department of Corrections and Community Supervision, net decrease of 372, reflecting
expected attrition of 525 FTEs resulting from the proposed closure of three prisons in the
30-day amendments and 153 additional positions from changes related to solitary
confinement;
- Department of Health, net increase of 154 FTEs, primarily for the State’s continued
takeover of Medicaid administration from localities;
- Department of Taxation and Finance, net increase of 110 FTEs, reflecting an increase in
audit and enforcement staff;
- Department of Housing and Community Renewal, net increase of 94 FTEs for the
administration of rent regulation; and
- Office of Children and Family Services, net decrease of 45 FTEs, due to the proposal in
the 30-day amendments to close a residential facility.
The Budget includes plans to change funding for certain positions. In the Office of General Services, 424 FTEs currently supported by the General Fund would be paid through Internal Service Funds. In the Division of Homeland Security and Emergency Services, 59 FTEs currently supported with federal funds would be changed to State Special Revenue Funds.

All Funds spending for personal services in SFY 2019-20 would increase by 1.7 percent to $14.7 billion as reflected in the updated Financial Plan. (This excludes employee fringe benefit costs, which are paid separately through General State Charges, discussed below.) This increase is 0.5 percent less than provided in the initial Executive Budget Financial Plan.

Article VII proposals in the Budget include measures to: establish continuing eligible lists for open-competitive class positions; allow non-competitive and labor class employees to take promotion examinations without also holding open competitive examinations; and provide certain salary protections for provisional and temporary employees. Several other proposals related to employee and retiree benefits are discussed in the following section.

**General State Charges**

The State’s costs associated with employee fringe benefits and certain other expenses are known collectively as General State Charges (GSC). The updated Financial Plan projects State Operating Funds spending for GSC will total $9.2 billion in SFY 2019-20, an increase of 9.6 percent from SFY 2018-19. This is almost 6 percent higher than the initial Executive Budget estimate, reflecting DOB’s intention, fiscal conditions permitting, to accelerate the repayment of $500 million in certain previously amortized pension costs due in SFYs 2020-21 through SFYs 2022-23. This action would increase total pension costs in the coming fiscal year to almost $3.0 billion, as shown in Figure 17.

**Figure 17**

**State Operating Funds – General State Charges**

(disbursements in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>SFY 2018-19</th>
<th>SFY 2019-20</th>
<th>Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>4,196</td>
<td>4,307</td>
<td>111</td>
<td>2.6%</td>
</tr>
<tr>
<td>Pensions</td>
<td>2,422</td>
<td>2,963</td>
<td>541</td>
<td>22.3%</td>
</tr>
<tr>
<td>Social Security</td>
<td>1,035</td>
<td>1,067</td>
<td>32</td>
<td>3.1%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>476</td>
<td>577</td>
<td>101</td>
<td>21.2%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>143</td>
<td>137</td>
<td>-6</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Dental Insurance</td>
<td>60</td>
<td>61</td>
<td>1</td>
<td>1.7%</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>12</td>
<td>12</td>
<td>0</td>
<td>0.0%</td>
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<tr>
<td>All Other/Non-State Escrow</td>
<td>(333)</td>
<td>(320)</td>
<td>13</td>
<td>3.6%</td>
</tr>
<tr>
<td>Fringe Benefits Subtotal</td>
<td>8,011</td>
<td>8,804</td>
<td>793</td>
<td>9.9%</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td>417</td>
<td>430</td>
<td>13</td>
<td>3.1%</td>
</tr>
<tr>
<td>General State Charges - Total</td>
<td>8,428</td>
<td>9,234</td>
<td>806</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

Source: Division of the Budget

Overall, employee fringe benefits are projected at $8.8 billion. This includes $4.3 billion for health insurance benefit costs, an increase of 2.6 percent from SFY 2018-19, and workers’ compensation costs of $577 million, up 21 percent. All Funds spending for GSC, including
costs for federally funded State employees, is projected at $9.6 billion in the updated Financial Plan.

The GSC appropriation includes language that would reduce the State’s payments to the State Insurance Fund (SIF) related to workers’ compensation costs by a transfer by the Workers’ Compensation Board to SIF of $50.5 million in assessment amounts held by the Board. The payment would be made as soon as practicable on or after April 1, 2019, for partial payment and partial satisfaction of a portion of the State’s workers’ compensation obligations.

In addition, for the fourth consecutive year, the Executive Budget proposes changes to health coverage costs for State retirees through:

- Limiting reimbursement of Medicare Part B premiums for retirees and their dependents to $135.50 per month effective January 1, 2020, resulting in a projected reduction of the State’s unfunded other post-employment benefits (OPEB) liabilities of approximately $9.5 billion (if future reimbursement levels are not increased); and
- Eliminating reimbursement of certain Medicare costs for higher-income State retirees starting January 1, 2019, for State savings of an estimated $49 million through SFY 2022-23.

Effective for new employees as of April 1, 2019, the Budget would create a sliding scale for retiree health insurance coverage based on years of service. This action is anticipated by the Executive to reduce OPEB liability by $4 billion, or 5 percent. Additionally, the Budget would expand the list of authorized medical providers for workers’ compensation claimants and revise the authorization and removal processes related to this proposal.

**Local Governments**

The Executive Budget proposes reducing the largest appropriation of unrestricted aid to local governments, the Aid and Incentives to Municipalities (AIM) program, by $59 million or 8 percent, bringing the total to $656 million in SFY 2019-20. The Article VII proposal provides that payments to cities would remain flat, while payments for certain towns and villages, including those where AIM funding represents less than 2 percent of total expenditures, would be eliminated. However, the 30-day amendments would require counties to annually distribute sales tax proceeds to towns and villages within their jurisdiction, in the same amount of the AIM payments that are proposed to be eliminated, in addition to any other revenue distribution to such municipalities required by law.

The Budget proposes holding funding for most other local government aid programs at SFY 2018-19 levels. Aid to Municipalities with Video Lottery Gaming Facilities would be held flat at $28.9 million. Specific appropriations for several counties are also the same as last year, including $2.25 million for Madison County and smaller amounts for Essex, Franklin and Hamilton counties. The Financial Plan identifies $1 million in municipal aid for the City of Jamestown, but the Budget has no specific appropriation. No additional aid is proposed for the City of Albany, which received $12 million in special assistance in the SFY 2018-19 Enacted

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20 DOB’s calculation of AIM payments uses local fiscal year ending (FYE) 2017 data reported by local governments to the Office of the State Comptroller and published by the Office as of January 10, 2019. The Executive has provided a list of AIM payments for individual cities, towns and villages as a result of this Budget proposal which may be accessed at: www.budget.ny.gov/pubs/archive/fy20/exec/local/index.html.
Budget through an off-budget fund. DOB anticipates that any outstanding local shares of Tribal State Compact payments owed to municipalities impacted by the lack of casino revenue payments previously made by the Seneca Indian Nation will be made by the end of the current fiscal year.

Various competitive grant programs would be continued, including:

- Reappropriation of $75.8 million to fund municipal grants and loans for the Financial Restructuring Board for Local Governments;
- $35 million to fund the Citizens’ Re-Organization Empowerment Grants and Citizen Empowerment Tax Credits, and $4 million for the Local Government Efficiency Grant Program; and
- A new capital projects appropriation of $100 million for the fourth round of the Downtown Revitalization Initiative.

Funding for local streets and highways would be held flat, with the Consolidated Highway Improvement Program (CHIPS) at $438.1 million and the Marchiselli Program at $39.7 million. Funding of $65 million included in the SFY 2018-19 Enacted Budget to help compensate local governments for severe winter weather damage is reappropriated, but no new funding for this purpose is proposed. Executive Budget documents indicate that $100 million each is available to continue the BRIDGE NY and PAVE NY programs. However, the Budget does not include appropriations or Article VII language specifically associated with these programs.

The Budget reappropriates nearly the entire $2.5 billion originally appropriated for Clean Water Infrastructure Act projects from the SFY 2017-18 Enacted Budget, and includes an additional $500 million capital appropriation for drinking and wastewater infrastructure and water quality protection. For additional detail regarding this new appropriation, see the Environment and Parks section of the report.

An Article VII proposal would establish a new annual off-budget revenue stream in an amount not to exceed $10 million annually for the Electric Generation Cessation Mitigation Fund, an off-budget fund administered by UDC. This Fund provides financial assistance to certain localities experiencing a loss in their tax base due to closings of electric generation plants. The Budget does not propose to increase the amount of funding that can be awarded from the Fund, which is currently capped at $69 million. For additional information, see the Energy section of this report.

The Budget would continue to support certain initiatives affecting local governments that were enacted in prior years. It includes a new $200 million appropriation and various reappropriations for costs relating to raising the age of juvenile jurisdiction. The Budget also includes a reappropriation of $225 million to fund the State’s match of net savings realized for new actions approved by county-wide shared service plans.

Additionally, the Budget advances a proposal establishing a regulated adult-use cannabis program. Counties, and cities with a population of at least 100,000, would be able to opt out of allowing adult-use cannabis retail dispensaries within their jurisdiction. Counties that do participate would receive revenues generated by a 2 percent excise tax paid by the wholesaler upon selling cannabis to a retail dispensary located in the county. No estimate of the county
The revenue impact of this tax was released with the Budget. Additional discussion appears in the Other Issues section of this report.

In addition to traditional aid and competitive or categorical grants, the Budget includes several proposals that could affect local government bottom lines:

- Making the property tax levy limit (tax cap) permanent for local governments and school districts. Currently, the property tax cap is scheduled to sunset after June 15, 2020.

- Election-related proposals, including early voting, absentee voting and same-day registration. The Legislature approved measures in each of these areas after release of the Executive Budget. While such changes may increase costs for local election boards, no additional funding is proposed in the Budget, raising concerns by local officials and government reform organizations regarding effective implementation of these provisions.

- Sales tax proposals and other actions that would enhance revenue for local governments include:
  - A new requirement that internet marketplace providers collect sales tax on behalf of their third-party marketplace sellers. The Financial Plan estimates that this change will generate $280 million in additional local sales tax collections annually starting in SFY 2020-21.
  - The Department of Taxation and Finance recently posted a tax notice regarding the U.S. Supreme Court ruling in *South Dakota v. Wayfair, Inc.* Under the Tax Law, a business with no physical presence in New York but which has both sales of tangible personal property exceeding $300,000 and more than 100 transactions annually is required to collect and remit sales tax to the State. The Financial Plan estimates that this change will generate an additional $110 million in sales tax revenue for local governments starting in SFY 2020-21.
  - Repeal of the sales tax exemption on third-party energy service company transportation, transmission and distribution charges for gas and electricity, with additional local government revenues (outside New York City) estimated to be $48 million annually.

- Extending current law regarding binding arbitration for police and fire unions for five years, until July 1, 2024.

The Budget also includes local government-related initiatives that were proposed with the SFY 2018-19 Executive Budget, but were not adopted with that year’s Enacted Budget. Under one measure, all county executives, county managers, chairs of county boards of supervisors, and any local official who receives annual compensation from a local government of at least $50,000 would be required to file annual statements of financial disclosure with the Joint Commission on Public Ethics (JCOPE). Another Budget proposal would change the interest rate paid by local governments and the State on court judgments or accrued claims, from the current fixed rate of 9 percent to a market rate.

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**New York City**

The Executive Budget includes a number of proposals that would impact New York City’s budget. Education aid would increase by $282 million in City Fiscal Year (CFY) 2020, about $150 million less than anticipated in the City’s February 2019 financial plan. The City would be required to submit an “equity plan” to SED by July 1, 2019, describing how per pupil funding would increase and how underfunded high-need schools would utilize a proposed increase in their allocation of Foundation Aid. The City would realize additional tax revenue from enhanced enforcement of taxation on internet sales to New York residents, and a proposal to require internet marketplace providers to collect sales taxes when they facilitate third-party sales. However, the benefits would be mitigated by other proposals, including those that require the City to fund 10 percent of the cost of the Family Assistance program, and a larger share of public health programs currently funded by the State. The City has indicated that the proposed State budget could potentially increase the City’s costs by $570 million in CFY 2020.

**Metropolitan Transportation Authority**

According to the Executive Budget Financial Plan, the State would provide the MTA with $5.3 billion in transit aid in SFY 2019-20. This total is $38 million more than anticipated by the MTA in its financial plan for calendar year 2019. This includes both State appropriations and off-budget resources. The budget also reauthorizes the MTA, in consultation with the City (and without expiration), to place cameras on its buses to enforce bus lane and other traffic violations. The City would be required to remit any fines generated by the cameras to the MTA for its operating budget.

The Executive Budget includes an appropriation for the final $1.5 billion installment of the State’s $7.3 billion commitment for the MTA’s 2015-19 capital plan, but makes payment from this appropriation and any reappropriations relating to the $7.3 billion commitment contingent on the State Legislature passing the Executive Budget proposals for congestion pricing, MTA reorganization, a mass transit expert panel (added in the 30-day amendments) and school speed zone cameras, which are discussed below.

*Congestion Pricing*

The proposed Budget authorizes the MTA to establish a congestion tolling program in Manhattan’s Central Business District (defined to be at and below 60th street, but excluding FDR Drive). Implementation could not begin earlier than December 31, 2020. The MTA would be required to establish a congestion tolling capital lockbox fund and could pledge such revenues to secure MTA debt, or use them to pay for capital projects. The MTA would be prohibited from using or transferring moneys from the congestion tolling capital lockbox fund for non-capital costs. For-hire vehicles (subject to a separate congestion toll authorized in the current year’s budget) and emergency vehicles would be exempt from the new congestion toll. Vehicles using the Queens Midtown Tunnel, the Hugh Carey Tunnel, the Holland Tunnel, the Lincoln Tunnel or the Henry Hudson Bridge would be credited an amount equal to the toll of the crossing prior to entering the congestion zone.
MTA Reorganization

The 30-day amendments would modify an Executive Budget proposal that would provide broad authorization for the MTA to make changes to its organizational structure. The MTA would be required to develop a reorganization plan which shall, in whole or in part, assign, transfer, share or consolidate the MTA’s powers, functions, duties, activities, departments or divisions or any of those of its subsidiaries, or affiliates or their subsidiaries, within or between itself, its subsidiaries or affiliates or their subsidiaries. A majority of the MTA Board would have to approve such changes before they could be implemented. Such actions could not impair any rights and remedies of any holders of notes, bonds or other obligations issued by, or violate any labor agreements entered into by, the MTA or its subsidiaries, or affiliates or their subsidiaries. The proposal would also require that the term of the chair of the MTA board or any of its board members would expire upon the expiration of the term in office of the elected official upon whose recommendation they were appointed.

Mass Transit Expert Panel

The 30-day amendments would establish a mass transit expert panel, consisting of six members, to oversee the preparation of a performance and financial audit of the capital and operating budgets of the MTA and its subsidiaries, affiliates and subsidiaries of affiliates. The panel would be directed to review and approve the capital and operating budgets of the MTA, review and approve the MTA’s 2020-24 capital plan and successor plans, review and approve the MTA’s reorganization plan, assess fiscal and programmatic risks and improve workforce management. The effect of these roles in relation to the powers of the MTA board and other already existing entities is unclear. The panel would also determine the congestion toll amounts, including a variable pricing structure, no sooner than November 15, 2020 and no later than December 31, 2020. The panel would be required to ensure that net revenues (i.e., after operating costs) would be sufficient to fund at least $15 billion for capital projects.

School Speed Zone Cameras

New York City would be authorized to install, over three years, 150 additional speed cameras in school zones. The revenue generated by the additional cameras would be paid to the New York City Transit Authority to support capital initiatives for improvements to system safety.

Design-Build Procurement

The 30-day amendments would modify the purposes of the MTA established in Section 1264 of the Public Authorities Law to state that developing and implementing a unified mass transportation policy for the Metropolitan Commuter Transportation District should be done “in an efficient and cost-effective manner that includes the use of design-build contracting on all major projects.”

Public Authorities

Borrowing Authorizations

The Executive Budget increases statutory bond caps (total authorizations to borrow) for 20 programs financed through State-Supported debt issued by public authorities. As shown in Figure 18, such bonding authorizations would increase by $5.1 billion or 3.9 percent over
current limits. The largest increases include $1.0 billion to finance various transportation capital programs, $1.1 billion for economic development and housing programs, $1.1 billion for education-related capital programs, and nearly $1.0 billion for various public protection and State facilities (including $93 million for a new Statewide Equipment program). In addition, the proposal increases the bond cap for SUNY Dormitories by $450 million to nearly $1.4 billion. (New and refunding debt for such dormitories issued after April 2013 is no longer considered State-Supported, but is reported as State-Funded by the Office of the State Comptroller.)

Figure 18

SFY 2019-20 State-Supported Bond Caps and Authorizations
(in millions of dollars)

<table>
<thead>
<tr>
<th>Program</th>
<th>Current Cap</th>
<th>SFY 2019-20 Prop Cap</th>
<th>Proposed Change: Dollars</th>
<th>Proposed Change: Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development Initiatives</td>
<td>8,300.6</td>
<td>9,301.6</td>
<td>1,001.0</td>
<td>12.1%</td>
</tr>
<tr>
<td>SUNY Educational Facilities</td>
<td>13,178.9</td>
<td>13,841.9</td>
<td>663.0</td>
<td>5.0%</td>
</tr>
<tr>
<td>Mental Health Facilities</td>
<td>8,778.7</td>
<td>9,333.3</td>
<td>554.6</td>
<td>6.3%</td>
</tr>
<tr>
<td>Consolidated Highway Improvement Program (CHPs)</td>
<td>10,251.9</td>
<td>10,739.5</td>
<td>487.5</td>
<td>4.8%</td>
</tr>
<tr>
<td>Prison Facilities</td>
<td>8,082.9</td>
<td>8,495.0</td>
<td>412.1</td>
<td>5.1%</td>
</tr>
<tr>
<td>MTA Transportation Facilities</td>
<td>1,694.0</td>
<td>2,079.9</td>
<td>385.9</td>
<td>22.8%</td>
</tr>
<tr>
<td>CUNY Educational Facilities</td>
<td>8,314.7</td>
<td>8,674.3</td>
<td>359.6</td>
<td>4.3%</td>
</tr>
<tr>
<td>Environmental Infrastructure Projects</td>
<td>5,147.3</td>
<td>5,388.0</td>
<td>240.8</td>
<td>4.7%</td>
</tr>
<tr>
<td>State Office Buildings and Other Facilities</td>
<td>748.8</td>
<td>952.8</td>
<td>204.0</td>
<td>27.2%</td>
</tr>
<tr>
<td>Housing Capital Programs</td>
<td>5,981.4</td>
<td>6,178.6</td>
<td>197.2</td>
<td>3.3%</td>
</tr>
<tr>
<td>Transportation Initiatives</td>
<td>4,500.0</td>
<td>4,628.0</td>
<td>128.0</td>
<td>2.8%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>541.0</td>
<td>662.7</td>
<td>121.7</td>
<td>22.5%</td>
</tr>
<tr>
<td>Statewide Equipment</td>
<td>-</td>
<td>93.0</td>
<td>93.0</td>
<td>N/A</td>
</tr>
<tr>
<td>Private Special Education</td>
<td>55.0</td>
<td>110.0</td>
<td>55.0</td>
<td>100.0%</td>
</tr>
<tr>
<td>Division of State Police</td>
<td>220.1</td>
<td>271.6</td>
<td>51.5</td>
<td>23.4%</td>
</tr>
<tr>
<td>SUNY Upstate Community Colleges</td>
<td>968.5</td>
<td>1,005.6</td>
<td>37.1</td>
<td>3.8%</td>
</tr>
<tr>
<td>Youth Facilities</td>
<td>769.6</td>
<td>804.6</td>
<td>35.0</td>
<td>4.5%</td>
</tr>
<tr>
<td>Water Pollution Control (State Revolving Fund)</td>
<td>910.0</td>
<td>945.0</td>
<td>35.0</td>
<td>3.8%</td>
</tr>
<tr>
<td>Homeland Security and Training Facilities</td>
<td>253.0</td>
<td>286.0</td>
<td>33.0</td>
<td>13.0%</td>
</tr>
<tr>
<td>Division of Military &amp; Naval Affairs</td>
<td>67.0</td>
<td>92.0</td>
<td>25.0</td>
<td>37.3%</td>
</tr>
<tr>
<td>Library Facilities</td>
<td>217.0</td>
<td>231.0</td>
<td>14.0</td>
<td>6.5%</td>
</tr>
<tr>
<td>Regional Economic Development (2004)</td>
<td>293.3</td>
<td>243.3</td>
<td>(50.0)</td>
<td>-17.0%</td>
</tr>
</tbody>
</table>

Total Public Authority Bond Caps with Proposed Changes 79,273.7  84,357.6  5,083.9  6.4%
All Other Public Authority Bond Caps 49,678.3  49,678.3 - -
Total Public Authority Bond Caps 129,152.0  134,335.9  5,083.9  3.9%
General Obligation Bond Act Authorizations  19,185.0  19,185.0 - -
Total State-Supported Bond Caps/Authorizations 148,337.0  153,420.9  5,083.9  3.4%

Sources: Division of the Budget, Office of the State Comptroller
Note: Totals may not add due to rounding.
1. The current cap reflects the amount previously authorized, some or all of which may already have been issued.
2. The proposed cap reflects the amount authorized in the Executive Budget Article VII language. The FY 2020 Capital Program and Financing Plan reports a total increase in bonding authorizations of $5.5 billion or 4.2 percent over current limits. The Division of the Budget has indicated that the Article VII language will be amended in the Enacted Budget to reflect the authorization amounts shown in the Capital Plan.
3. This table reflects General Obligation Bond Acts for which there is a remaining authorized but unissued amount and/or a remaining debt outstanding balance.

Transfers and Other Budget Support

As shown in Figure 19, the Executive Budget proposes a total of $79 million in transfers and other uses of funds from public authorities. Of this, $67.1 million is intended to provide State General Fund support. The Budget also includes the transfer of $12 million in “excess” reserves of the State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) to the Housing Trust Fund Corporation (HTFC) to pay for certain housing programs off-budget.
The Budget includes a proposal to modify the Infrastructure Investment Act related to design-build procurement. For additional detail regarding this proposal, see the Debt and Capital section of this report.

The Budget proposes to authorize the Olympic Regional Development Authority (ORDA) to enter into contracts or other agreements containing indemnity provisions in order to host Olympic or other national or international games or events. The language limits the authority to an appropriation amount for that purpose, and specifies that the appropriation for the 2023 World University Games shall be no less than $16 million. The 30-day amendments clarify this language by limiting the authority to an appropriation or other funding mechanism, such as a performance bond or other collateral instrument, and revising the limit on the appropriation amount to no more than $16 million. The Budget includes a $16 million State Operations appropriation for ORDA for this purpose.

The Budget also proposes capital funding of $83.5 million for ORDA. This includes $70 million for an upgrade and modernization plan to support improvements to the Olympic ski and other facilities, and $10 million for maintenance and energy efficiency projects. Also included is $2.5 million appropriated from OPRHP, with $500,000 of this amount for Belleayre Mountain Ski Center, and $1 million from DEC for Belleayre projects.

Other provisions in the Executive Budget include:

- The Climate Leadership Act, which would establish the Climate Action Council, co-chaired by the president of NYSESDA and the Commissioner of DEC. The Budget would authorize the Long Island Power Authority (LIPA) and New York Power Authority (NYPA) to pay part of the costs for the proposed Climate Action Council charged with developing a roadmap for statewide carbon neutrality and other tasks. See the Environment and Parks section of this report for additional detail.
- A provision making permanent the existing authorization for DASNY to enter into design and construction management agreements with the DEC and OPRHP.

- Authorization for a subsidiary of DASNY, the Atlantic Healthcare Property Holding Corporation, to convey certain property in Brooklyn for the purposes of increasing access and quality of health care and preventative services and creating affordable housing. This authorization notwithstanding Public Authorities Law (PAL) provisions governing the disposition of property, including public bidding, fair market value, and reporting and notification requirements, among others.

- Provisions requiring State agencies and State authorities to enter into internet service contracts only with providers that adhere to net neutrality principles.

- Creation of the Gateway Development Commission as an interstate authority. See the Transportation section of this report.

- Authorization for the Agriculture and New York State Horse Breeding Development Fund and the New York State Thoroughbred Breeding and Development Fund to make contributions for the ongoing care of retired horses.

- Authorization is provided in the 30-day amendments for the Thruway Authority to set fees for the use of its fiber optic system instead of requiring disposal through public auction as required by PAL Section 2897.

**Other Issues**

*Freedom of Information Law*

The proposed Public Protection and General Government Article VII legislation includes a number of revisions to the Freedom of Information Law, including measures that would broadly extend the law’s requirements to the Legislature, and make the proposed terms of collective bargaining agreements available to the public by the time of submittal for ratification.

*Freestanding Article VII bills and Constitutional Amendments*

The Executive Budget includes a “Good Government Ethics Reform” Article VII bill with 24 legislative proposals. In the first weeks of the Legislature’s 2019 session, several measures that were identical or similar to Executive Budget proposals passed both houses and were signed into law by the Governor. These included legislation to promote early voting, consolidate federal and State primary elections, and limit campaign contributions by limited liability companies. In addition, the Legislature gave first passage to proposed amendments to the State Constitution intended to promote same-day voter registration and allow broader use of absentee voting, versions of which also accompany the Executive Budget.

The Article VII bill would create a voluntary public campaign financing system for candidates in primary or general election campaigns for statewide office and the Legislature. The program would be funded by sources including the General Fund, a new State personal income tax check-off program, private contributions, and the State’s Abandoned Property Fund.

Among other provisions, the “Good Government” bill would also: require disclosure of tax returns by candidates for statewide office and the Legislature; provide automatic voter
registration when individuals engage in certain transactions with State agencies; expand from two to three hours the amount of time that employers must allow employees to take for voting purposes without loss of pay; allow 16- and 17-year-olds to pre-register to vote; prohibit campaign contributions from those bidding on State contracts; expand lobbying restrictions on former public officials; prohibit employees of statewide elected officials and legislators from volunteering on such officials’ campaigns; and require financial disclosure for local elected officials.

In addition to the proposed Constitutional amendments described earlier, another proposal would add “sex” as a protected class in the State Constitution. Currently, Section 11 of Article 1 of the Constitution prohibits discrimination “because of race, color, creed or religion.”

Cannabis legalization, regulation and taxation

The Executive Budget proposes statutory language to merge existing law for medical cannabis with new provisions to legalize adult-use cannabis and regulate the licensing, cultivation, production, distribution, sale and taxation of all forms of cannabis in the State. Individuals who are at least 21 years old would be permitted to purchase cannabis or related products for themselves or others who are at least 21, but not for re-sale.

The proposal would create an independent Office of Cannabis Management within the Division of Alcoholic Beverage Control with broad powers and duties including establishing cultivation and processing standards, licensing all businesses in the chain of production and distribution, and enforcing program standards.

The Office would issue rules and regulations, including provisions to prevent the distribution of adult-use cannabis to persons under 21 and to address risks of drugged driving and other adverse public health outcomes associated with cannabis use. In consultation with DOH, OASAS and OMH, the Office would also implement a public health campaign regarding adult-use cannabis.

The proposal would revise certain Penal Law provisions related to possession and sale of marijuana. It also provides for the taxation of cannabis and related products, as outlined in the Economy and Revenue section of this report.
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