New York State Comptroller
THOMAS P. DiNAPOLI

Report on the State Fiscal Year 2023-24 Enacted Budget Financial Plan

July 2023

Message from the Comptroller

July 2023

Three months into the fiscal year, the Division of the Budget (DOB) released the State Fiscal Year (SFY) 2023-24 Enacted Budget Financial Plan detailing the budgetary impact of changes adopted during budget negotiations and the economic and fiscal outlook for the next four years.

Last year, the Enacted Budget Financial Plan for SFY 2022-23 forecast an extended period of fiscal stability, with no budget gaps projected in any year of the Plan. Federal aid, previously enacted tax increases and continuing economic growth allowed for increased spending on safety net programs to address the lingering impacts of the COVID-19 pandemic, and to make new investments in education, health care, child care and more.

Now, the outlook has changed considerably, with the SFY 2023-24 Enacted Budget Financial Plan indicating growing outyear budget gaps totaling $36.4 billion through SFY 2026-27. The deteriorating fiscal outlook is rooted in several factors, including anticipated revenue declines from a weakening economy and a volatile stock market, and increases in recurring spending. Revenues are projected to decline year-over-year in the current fiscal year, and are projected to grow slowly over the financial plan period, while expenditures are projected to grow at a faster rate.

Fortunately, State leaders have acted to increase the State's statutory rainy day reserves to a record level - $6.3 billion. When combined with other informal reserves designated for economic uncertainties, the State has set aside nearly $19.5 billion in what DOB deems "principal reserves." These resources are an important budget management tool, but are insufficient to close budget gaps in their entirety and are not a substitute for prudent fiscal discipline. State leaders must take action to align recurring revenues with recurring spending, with an eye toward preserving the economic competitiveness of our State and equality of opportunity for all New Yorkers.

Thomas P. DiNapoli
State Comptroller

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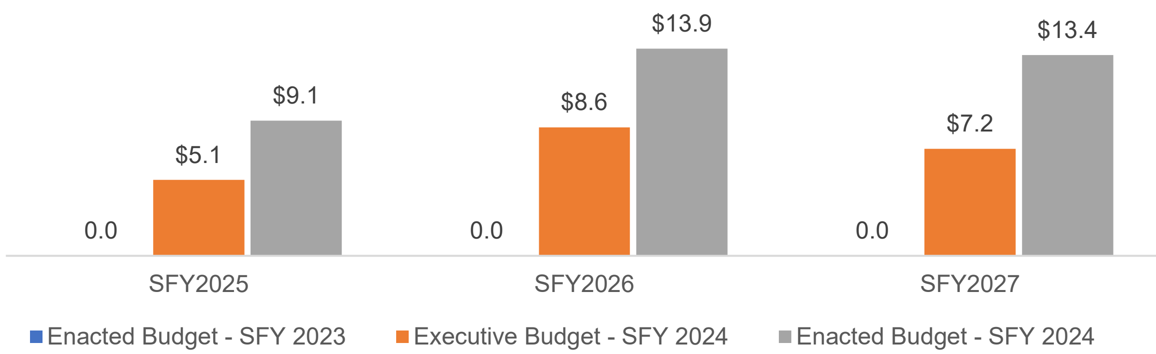
Growing Budget Gaps

About one year ago in the State Fiscal Year (SFY) 2022-23 Enacted Budget Financial Plan, the Division of the Budget (DOB) projected balanced budgets for SFYs 2022-23 through 2026-27. Since that time, DOB has revised financial plan estimates to project consistently larger budget gaps. In the three months between the release of the SFY 2023-24 Executive Budget Updated for the 30-Day Amendments and the SFY 2023-24 Enacted Budget Financial Plans, the projected budget gaps grew by $4 billion in SFY 2024-25, $5.3 billion in SFY 2025-26, and $6.3 billion in SFY 2026-27. As shown in Figure 1, the gaps are now projected to be $9.1 billion, $13.9 billion and $13.4 billion, respectively. The gaps are equal to 8.1 percent of projected General Fund spending in SFY 2024-25; 12.1 percent in SFY 2025-26; and 11.3 percent in SFY 2026-27.[1]

Figure 1
General Fund Budget Gaps Projected by Financial Plan Release, SFY 2024-25 – SFY 2026-27
(dollars in billions)



Note: Budget gaps presented for SFY 2024 Executive Budget reflect the Financial Plan updated for the Governor's 30-day amendments.

Source: Division of the Budget

DOB attributes the larger budget gaps to:

- an economic forecast indicating a generally weaker economy for the United States and New York, leading to downward revisions in revenues; and
- spending increases, particularly on programs and services projected to have recurring and growing costs.

As shown in Figure 2, from the Executive Budget for SFY 2023-24, General Fund tax receipts were revised downward by more than $5 billion annually. In addition, more than $1 billion in recurring spending was added beginning in SFY 2024-25. The projected budget gaps would have been larger, but were offset by discretionary actions taken by DOB, including adjustments to the timing of payments and prepaying future expenses (such as debt service). Absent these actions, DOB's projected cumulative gap over the four-year financial plan period would total $48.9 billion.

Figure 2
Reported Changes from the Executive Budget Financial Plan to the Enacted Budget Financial Plan, SFY 2023-24 – SFY 2026-27
(dollars in millions)

	SFY2024	SFY2025	SFY2026	SFY2027
Executive Budget Gaps	**-**	**(5,079)**	**(8,597)**	**(7,159)**
Tax Receipt Revisions	(5,623)	(5,291)	(5,399)	(5,818)
Total Negotiated Changes	**(1,842)**	**(1,204)**	**(1,270)**	**(1,611)**
Spending	(1,939)	(1,205)	(1,265)	(1,597)
Revenue	97	1	(5)	(14)
Revised Gaps	**(7,465)**	**(11,574)**	**(15,266)**	**(14,588)**
Available Resources	1,842	114	22	22
Prepayments and Other Actions	5,623	2,405	1,371	1,128
Enacted Budget Gaps	**-**	**(9,055)**	**(13,873)**	**(13,438)**

Note: As presented in the Enacted Budget Financial Plan; spending additions are net of "other additions and resources." Budget gaps presented for SFY 2024 Executive Budget reflect the Financial Plan updated for the Governor's 30-day amendments.

Source: Division of the Budget

Weaker Economic Forecast Leads to Revenue Revisions

DOB's forecast was revised from the Consensus Economic and Revenue Forecast Report (Consensus) on March 1 to reflect higher economic and employment growth in 2023, due, in part, to the stronger-than-expected increase in real Gross Domestic Product (GDP) of 1.3 percent in the first quarter of the year, as well as accelerating monthly job gains.[2] However, for 2024, DOB now projects a weaker national economy and employment losses.

Figure 3
Forecasts of Select Economic Indicators, United States

U.S. ECONOMIC INDICATORS Annual Percentages								
	REAL GDP GROWTH		CONSUMER PRICE INDEX GROWTH		EMPLOYMENT GROWTH		UNEMPLOYMENT RATE	
	2023	2024	2023	2024	2023	2024	2023	2024
Enacted	1.2	0.9	4.2	2.6	1.9	(0.1)	3.8	4.6
Consensus	1.0	1.9	4.1	2.6	1.6	0.3	N/A	N/A
Blue Chip	1.2	0.7	4.0	2.6	N/A	N/A	3.8	4.5
S&P Global	1.5	1.3	4.2	2.7	2.3	0.2	3.6	4.0

Sources: Division of the Budget; FY 2023 Consensus Economic and Revenue Forecast Report; June 2023 Blue Chip Economic Indicators; S&P Global June 2023 National Forecast

Despite a mild contraction anticipated for the second half of the year, DOB's economic forecast shows continued, but weak, national economic growth. Following 2.1 percent growth in 2022, Real GDP is projected to increase by 1.2 percent in 2023 and to continue to slow in 2024. Inflation, as measured by the change in the Consumer Price Index (CPI), is forecasted to remain above 4 percent in 2023 with slower employment growth and a slight increase in unemployment.

For the current fiscal year, DOB is projecting a weaker New York economy compared to Consensus. (See Figure 4.)[3] Both wages and employment are forecasted to slow from their previous fiscal year levels. While personal income is anticipated to increase at a faster rate, the low growth in SFY 2022-23 reflected the decline in transfer receipts resulting from the absence of enhanced unemployment benefits (that expired in 2021).[4]

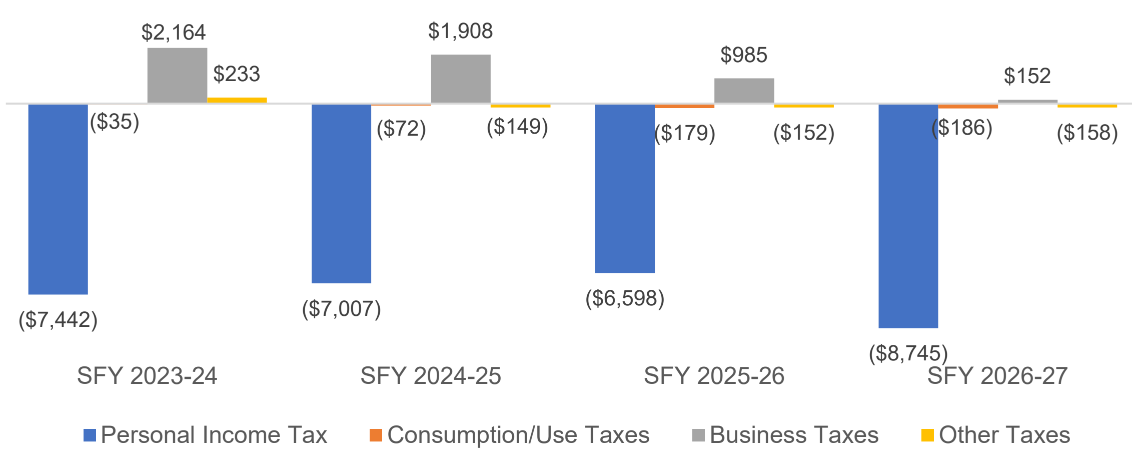
Figure 4
Comparison of Select Economic Indicators, New York

NEW YORK ECONOMIC INDICATORS (Annual Percentage Change)						
	PERSONAL INCOME		WAGES		EMPLOYMENT	
	SFY 22-23	SFY 23-24	SFY 22-23	SFY 23-24	SFY 22-23	SFY 23-24
Enacted	1.3	3.5	3.1	2.4	4.0	0.4
Consensus	1.5	4.1	3.2	3.3	4.0	0.8

Sources: Division of the Budget; FY 2023 Consensus Economic and Revenue Forecast Report

With the weaker economic forecast for the New York economy, DOB revised its projection for All Funds tax receipts over the course of the financial plan by a total of $25.3 billion. As shown in Figure 5, the downward revision is primarily due to a forecasted decline in personal income tax (PIT) collections resulting from lower settlement payments associated with the 2022 tax year, as well as the projected weakening in wages and employment.

Figure 5
Revisions to Projected Tax Collections Between SFY 2023-24 Executive and Enacted Financial Plans
(dollars in millions)



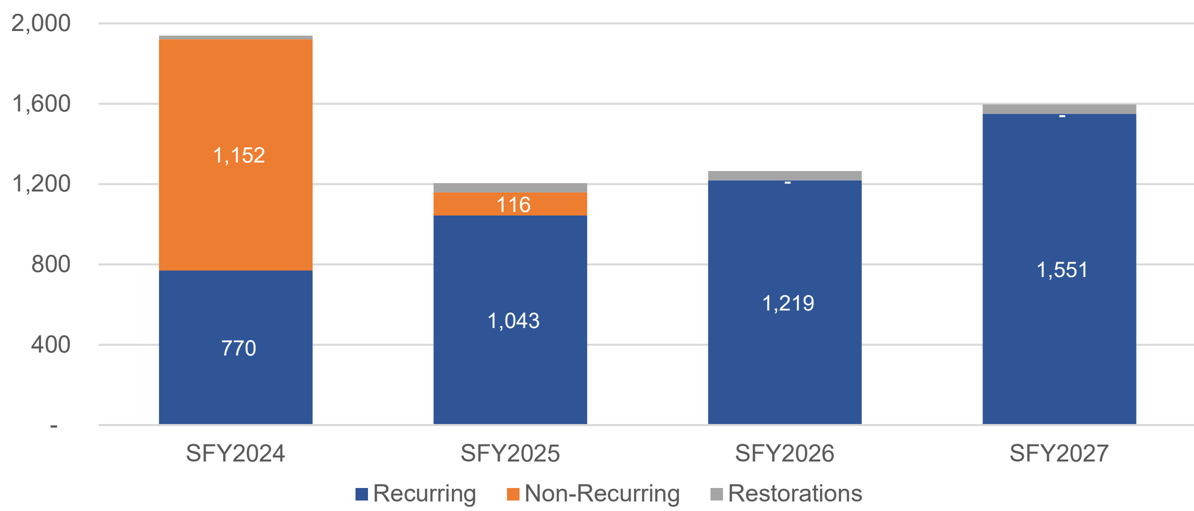
Source: Division of the Budget

Spending Increases

As shown in Figure 6, DOB estimates that negotiations during the budget process added $1.9 billion in net General Fund spending in SFY 2023-24. Most of the additional spending, almost $1.2 billion, was identified by DOB as being for non-recurring items, including $390 million in legislative discretionary additions for individual programs and $391 million to address rental arrears, primarily for tenants in publicly subsidized housing. An additional $500 million for distressed hospitals was also included (but offset with Medicaid program resources).

The Financial Plan shows that other negotiated changes resulted in recurring spending increases projected to grow from $770 million in SFY 2023-24 to more than $1.5 billion in SFY 2026-27. According to DOB, changes with the largest recurring gross costs included additional operating assistance for the public university systems, with costs rising to $330 million by SFY 2026-27; increased costs due to larger minimum wage increases than proposed by the Executive, with projected costs growing to $158 million by SFY 2026-27; and an additional 1.5 percent cost-of-living adjustment for human services providers, with costs of $121 million annually.

Figure 6
New General Fund Spending in Enacted Budget, SFY 2023-24 – SFY 2026-27
(dollars in millions)



Source: Division of the Budget

Two notable items projected to increase recurring costs in the Medicaid program were increases to minimum wages and in home care worker wages, with costs rising to $800 million by SFY 2026-27; and additional hospital and nursing home rate increases, with costs rising to $232 million in SFY 2026-27. Some gross Medicaid costs were offset by new resources and actions approved in the Enacted Budget.

Prepayments Obscure True Structural Gaps

The projected budget gaps would have been greater if not for discretionary actions taken by DOB in prior fiscal years. Changes were made to anticipated costs and the timing of payments. For example, planned payments to the Retiree Health Benefits Trust after SFY 2022-23 were eliminated and the timing of transfers from the health care transformation fund was revised. In addition, expenses were pre-paid; in SFY 2022-23, this included prepayment of workers compensation, health insurance and debt service.

Prepayment of expenses using available fund balance distorts year-to-year spending growth calculations and makes determination and tracking of structural budget gaps difficult. For example, DOB has increasingly relied on debt service prepayments as a budget management tool. Debt service prepayments totaled $2.2 billion in SFY 2020-21; $7.6 billion in SFY 2021-22; and $6.0 billion in SFY 2022-23. These prepayments may result in some modest interest cost savings, but generally result in lower payments in the near term that mask the rapidly growing trajectory of debt service.

As shown in Figure 7, absent prepayments, baseline debt service costs would rise by more than 48 percent; with prepayments, debt service appears to decline by 40.6 percent between SFY 2022-23 and SFY 2027-28. This also reduces the levels of reported State Operating Funds spending growth for the financial plan period. Furthermore, if future prepayments are significantly reduced, restructured or eliminated, annual cash debt service payments may jump significantly year-over-year, further complicating budget management.

Figure 7
Projected Debt Service Costs Before and After Prepayments, SFY 2022-23 – SFY 2027-28
(dollars in millions)

							Total Growth	
	SFY2023	**SFY2024**	**SFY2025**	**SFY2026**	**SFY2027**	**SFY2028**	**$**	**%**
Baseline Debt Service	**5,556**	**6,603**	**7,213**	**7,538**	**8,037**	**8,228**	**2,672**	**48.1%**
Benefit of Prior Prepayments	(1,075)	(2,255)	(2,395)	(1,630)	(2,360)	-		
FY 2023 Prepayments	6,000	(1,450)	(1,300)	(750)	(500)	(2,000)		
Enacted Budget Debt Service	**10,481**	**2,898**	**3,518**	**5,158**	**5,177**	**6,228**	**(4,253)**	**(40.6%)**

Note: SFY 2022-23 figures are not actual, audited results.

Source: Division of the Budget

Reliance on One-Time Resources

The Enacted Budget includes over $15.2 billion in SFY 2023-24 resources that the Office of the State Comptroller identifies as either temporary (more than one year but not permanent) or non-recurring (one year), as shown in Figure 8. While this list may not reflect the entirety of the Budget's reliance on temporary resources, it presents the most significant items: 97 percent results from temporary federal assistance related to the pandemic (69 percent) and temporary tax increases (28 percent).

Figure 8
Temporary and Non-recurring Resources, SFY 2023-24
(dollars in millions)

New Actions	
Various Fund Sweeps	244
Dormitory Authority Transfer	22
New York Power Authority Transfer	20
NYS Energy Research and Development Authority Transfer to General Fund	5
NYS Energy Research and Development Authority Transfer to Environmental Protection Fund	5
Subtotal	**295**
Prior Continuing Actions	
Personal Income Tax Top Rate Surcharge	3,439
Corporate Franchise Rate Increase	810
Mortgage Insurance Fund	98
CUNY Asset Sales	60
Subtotal	**4,407**
Federal Assistance	
Education Funding	4,663
American Rescue Plan State Fiscal Relief	2,250
Medicaid Reimbursement	1,908
Home and Community Based Services FMAP	1,848
Subtotal	**10,669**
Total Temporary and Non-recurring Resources	**15,371**

Source: Division of the Budget

Financial Plan Trends

Trends at a Glance

While the budget gaps are measured in the General Fund, expenditures are also projected by DOB to outpace revenues on a State Operating Funds basis, as well. While DOB projects that revenues will decline by more than 10 percent from SFY 2022-23 through SFY 2026-27, projected expenditures are expected to grow by almost $22 billion, or 17.8 percent. On an All Funds basis, which captures the impact of waning extraordinary federal aid related to the COVID-19 pandemic (see Appendix), receipts are projected to decline by 5.3 percent during this period, while expenditures are expected to grow by 10.3 percent.

Figure 9
Change in Financial Plan Disbursements and Receipts, SFY 2022-23 – SFY 2026-27
(dollars in millions)

	DISBURSEMENTS					TOTAL GROWTH	
	SFY2023	**SFY2024**	**SFY2025**	**SFY2026**	**SFY2027**	**$**	**%**
All Funds	220,462	229,013	231,618	235,737	243,155	22,693	10.3%
		3.9%	*1.1%*	*1.8%*	*3.1%*		
State Operating Funds	123,751	125,331	131,931	139,765	145,734	21,983	17.8%
		1.3%	*5.3%*	*5.9%*	*4.3%*		
General Fund	92,799	104,412	111,792	114,374	119,415	26,616	28.7%
		12.5%	*7.1%*	*2.3%*	*4.4%*		

	RECEIPTS					TOTAL GROWTH	
	SFY2023	**SFY2024**	**SFY2025**	**SFY2026**	**SFY2027**	**$**	**%**
All Funds	233,062	222,438	217,115	217,990	220,631	(12,431)	(5.3%)
		-4.6%	*-2.4%*	*0.4%*	*1.2%*		
State Operating Funds	137,720	122,583	123,735	122,399	123,475	(14,245)	(10.3%)
		-11.0%	*0.9%*	*-1.1%*	*0.9%*		
General Fund	103,197	100,498	101,752	97,236	97,579	(5,618)	(5.4%)
		-2.6%	*1.2%*	*-4.4%*	*0.4%*		

Note: SFY 2022-23 figures are not actual, audited results.

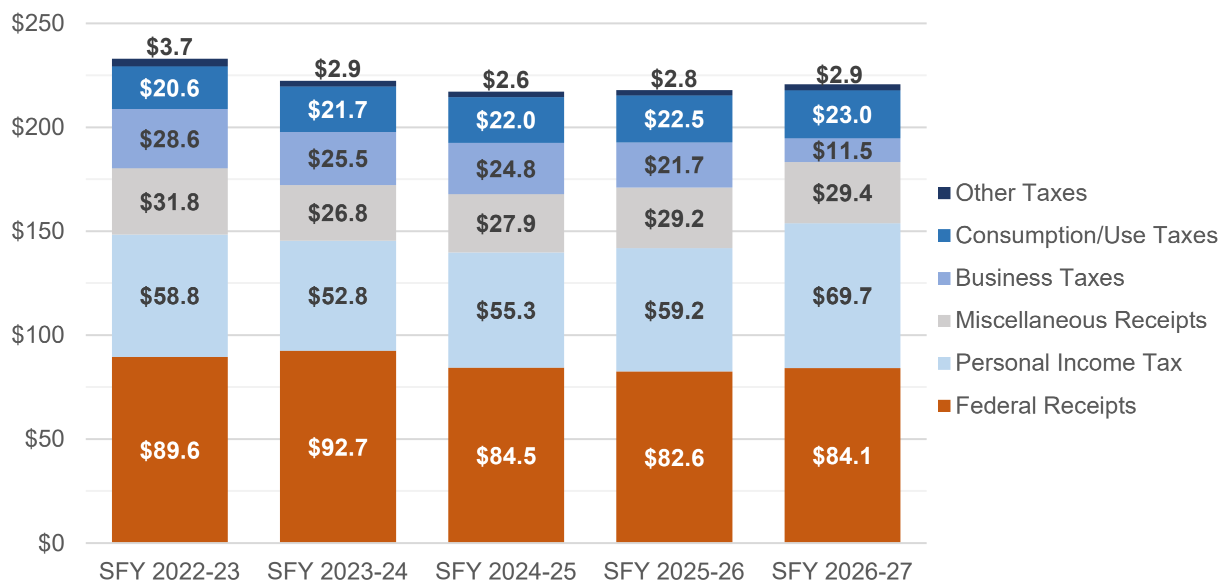
Source: Division of the Budget

Revenues

All Funds revenues in SFY 2023-24 are projected to decline by $10.6 billion, 4.6 percent, from the year prior. While lower PIT collections account for most of the reduction, decreases are also estimated in other revenue sources, such as miscellaneous receipts and business and other taxes. Mitigating some of the decline is a projected increase in federal receipts as well as in consumption and use taxes.

As shown in Figure 10, All Funds revenues are projected to continue to fall through SFY 2024-25, despite the extension of the higher corporate franchise tax rates included in the Enacted Budget. This is partly the result of other tax provisions that will reduce revenues, particularly the expansion of the Empire State Child Tax credit.[5] For the remaining two years of the Financial Plan period, receipts are forecasted to grow, but by an average of less than one percent; revenues in SFY 2026-27 are projected to be $1.8 billion below those estimated for the current fiscal year.

Figure 10
Projected All Funds Revenues by Source, SFY 2022-23 – SFY 2026-27
(dollars in billions)



Note: SFY 2022-23 figures are not actual, audited results.

Source: Division of the Budget

Personal Income Tax

In SFY 2022-23, PIT collections fell by $12 billion (16.9 percent) due, in part, to one-time homeowner's property tax rebates and supplemental child tax and earned income credits. In addition, the financial markets' volatility during 2022 negatively impacted estimated payments made, as well as industry bonuses. Credits for the Pass-Through-Entity Tax (PTET) related to the 2021 tax year also depressed net PIT receipts for the year.

For the current fiscal year, DOB projects receipts will fall further, by nearly $6 billion, to $58.8 billion. While the continued, but weaker, economic growth as well as the absence of the one-time credits is forecasted to have a positive impact on PIT collections, the lower middle-class tax rates, as well as the net settlement of the 2022 tax year will more than offset that growth. DOB projects this net settlement to be just over $10 billion lower than that for tax year 2021, partly due to taxpayer behavior relating to the claiming of PTET credits, which continues to obscure collection trends for the PIT. (See section on Concerns and Risks.)

Consumption/Use Taxes

DOB projects collections from the sales tax and various excise taxes to increase by $1.1 billion, or 5.5 percent, in SFY 2023-24. This is partly due to the resumption of full year collections of sales and excise taxes on motor fuel after the suspension expired on December 31, 2022. Initial collections from the excise tax on adult-use cannabis are also projected to be $70 million. However, the $1 per pack increase on cigarettes is estimated to decrease revenues ($13 million) as the higher price is expected to result in a deterrent effect, reducing cigarette consumption.

Business Taxes

Business tax collections in the current fiscal year are projected by DOB to decrease by $3.1 billion, or 10.8 percent. Receipts from the corporate franchise tax, one of the largest categories of business taxes, are estimated to decrease by 11.9 percent. The decline is due to a projected decline in corporate profits, as well as the absence of large audit receipts received in the prior fiscal year.

Since its inception in 2021, the PTET has become the largest source of business tax revenues. However, because the PTET is an optional tax, collections not only depend on economic conditions but on the number of businesses choosing to participate. DOB projects PTET receipts to be $1.9 billion, 12.7 percent lower than in SFY 2022-23. Part of this decline is due to slow economic growth for the year but also because, according to DOB, the number of participating businesses decreased by 6,600 from tax year 2022.

Gaming Receipts

Gaming receipts consist of the State’s share of lottery sales, taxes on video lottery terminal (VLT), commercial casino, and mobile sports betting revenue, and payments made by the State’s Native American tribes through tribal-state compacts. Collections from the various types of gaming are projected by DOB to total $4.7 billion in SFY 2023-24, an increase of $103 million, 2.2 percent. Most of the increase is due to larger administrative surpluses from the lottery and VLT revenues rather than projected increases in gaming participation.[6]

Revenues from mobile sports betting are expected to level out over the Financial Plan. Following $740 million for the first full year of collections in SFY 2022-23, receipts are projected to grow to $790 million in SFY 2026-27, an increase of 6.9 percent over the four-year period.

The application process for the three downstate commercial casinos is currently ongoing.[7] DOB has not included any revenues from these casinos in the Financial Plan.

Federal Receipts

Federal receipts are forecasted by DOB to total $92.7 billion in SFY 2023-24, representing 3.5 percent growth from the prior year. As assistance related to the COVID-19 emergency comes to an end, federal receipts are forecasted to decline to $82.6 billion by SFY 2025-26.

Expenditures

On an All Funds basis, spending growth will be driven primarily by health-related costs. All Funds health disbursements are projected to grow by almost $16 billion between SFY 2022-23 and SFY 2026-27, comprising more than 70 percent of the projected growth for this time period. That growth is largely due to a projected rise in Department of Health (DOH) Medicaid costs of nearly $10 billion (from $77.4 billion to $87.3 billion) and of $4.3 billion in the Essential Plan (from $6.3 billion to $10.6 billion). Federal funds play a significant role in supporting Medicaid and the Essential Plan, as well as other health and mental health programs.

Figure 11
Functions with Greatest Projected Dollar Growth, All Funds Disbursements, SFY 2022-23 – SFY 2026-27
(dollars in millions)

	SFY2023	SFY2024	SFY2025	SFY2026	SFY2027	Total Growth $	%
Health	91,235	99,049	97,734	103,214	107,198	15,963	17.5%
Education	43,716	47,269	48,146	45,688	47,076	3,360	7.7%
Transportation	12,032	13,285	14,465	14,171	14,458	2,425	20.2%
Higher Ed	12,185	13,703	14,416	14,477	14,470	2,285	18.8%
Mental Hygiene	9,027	12,074	10,933	10,860	11,217	2,190	24.3%
Econ Dev & Gov Oversight	2,311	3,197	4,071	3,796	3,727	1,417	61.3%
All Other	49,956	40,437	41,854	43,531	45,009	(4,947)	-9.9%

Note: SFY 2022-23 figures are not actual, audited results.

Source: Division of the Budget

Medicaid and Health

The Enacted Budget includes spending for New York’s health care and human services delivery system that DOB projects will drive higher levels of recurring spending, including a $3.9 billion or 12.5 percent increase in projected State-share Medicaid disbursements, to $35.2 billion, in SFY 2023-24. The Financial Plan is projecting out-year State share Medicaid spending to increase by nearly 6 percent per year and exceed $41 billion in SFY 2026-27.

Enacted Budget spending additions also include reimbursement increases of up to 7.5 percent for Medicaid services in inpatient and outpatient hospital settings, nursing homes and assisted living programs that will increase annual State share spending by $611.4 million through SFY 2024-25. In addition, a 4 percent cost-of-living adjustment for human service providers funded by the State Offices of Addiction and Support Services (OASAS), Mental Health (OMH), Children and Family Services (OCFS), and Temporary and Disability Assistance (OTDA), as well as Offices for People with Developmental Disabilities (OPWDD) and the Aging, is projected to increase current year State spending by $324 million.

The Enacted Budget Financial Plan also identifies some significant non-recurring costs. Approximately $1.3 billion in previously unbudgeted State funding has been added to reflect the full cost of bonus payments to eligible healthcare workers through SFY 2024-25. The bonus payments – of up to $3,000 for healthcare and direct workers earning less than $125,000 – were authorized by the SFY 2022-23 Enacted Budget and expected to be funded with $1.3 billion in State funds, as well as about $1.3 billion in federal matching funds. However, the Financial Plan indicates the federal government is not likely to provide matching funds for the bonuses, doubling the State's cost for the program.

The Financial Plan anticipates that $957.8 million in State-share Medicaid savings will be generated through SFY 2024-25 by implementing the previously approved transition of Medicaid pharmacy benefits from managed care plans to fee-for-service. However, the Financial Plan indicates that amounts equivalent to these savings and an additional $80 million through SFY 2024-25 will be spent on 340B eligible providers, including hospitals, Ryan White clinics and Federally Qualified Health Centers, affected by the transition.[8]

The Financial Plan continues to benefit from enhanced Federal Medicaid Assistance Percentage (eFMAP) funding provided in response to the COVID-19 pandemic, but at a reduced rate through December 2023 due to a federal phase-out of the funding. The COVID eFMAP began in January 2020 and generated over $10 billion in State-share Medicaid savings through SFY 2022-23, but is projected to decrease by nearly $2.1 billion to about $1.6 billion in SFY 2023-24. The State has used the enhanced federal funding to offset increased costs associated with elevated enrollment during the pandemic and lost State savings due to Federal restrictions regarding program restructuring while the eFMAP remains in place, according to the Executive.

The Financial Plan assumes Medicaid enrollment peaked at nearly 7.9 million in June 2023 and will decrease to 6.9 million by April 2024 and about 6.6 million by April 2025. Some enrollees exiting Medicaid are anticipated to enroll in the Essential Plan, and enrollment in this program is projected to grow from 1.16 million in March 2023 to 1.24 million by March 2027.

The Financial Plan retains eFMAP funding the State previously shared with the counties and the City of New York. According to DOB, the State is retaining a total of $956.6 million in City and county funding in local fiscal years 2023 and 2024, including $535 million in COVID eFMAP and $421.6 million in eFMAP related to the Affordable Care Act (ACA). The sharing of ACA eFMAP will be phased out over a three-year period, reducing it by 25 percent in SFY 2023-24 and 50 percent in SFY 2024-25, and eliminating it in SFY 2025-26.

School Aid

DOB estimates that the Enacted Budget will provide $34.5 billion in total School Aid for school year (SY) 2023-24, an increase of $3.3 billion from $31.3 billion in SY 2022-23 (10.4 percent). This amount includes a year-over-year increase of $2.6 billion (12.3 percent) in Foundation Aid to a level of $24 billion in SY 2023-24. Funding for Universal Pre-Kindergarten (UPK) programs would total $1.2 billion, including $150 million in new funding ($100 million in formula-based allocation and a $50 million grant to be competitively awarded). Since 2019-20, School Aid has grown by $6.7 billion or 24 percent, largely resulting from completion of the three-year plan to fully fund the Foundation Aid formula. With full funding in place, the State Education Department recently stated its intent to review the Foundation Aid formula to identify potential changes to better reflect current circumstances.

Figure 12
Change in State Operating Funds Disbursements, SFY 2022-23 – SFY 2026-27
(dollars in millions)

	SFY2023	SFY2024	SFY2025	SFY2026	SFY2027	Total Growth $	Total Growth %
School Aid (SY Basis)	31,383	34,414	35,760	37,219	38,723	7,340	23.4%
DOH Medicaid	25,468	27,253	30,137	32,441	34,438	8,970	35.2%
All Other Asst/Grants	25,026	29,891	28,893	28,675	29,308	4,282	17.1%
State Ops & GSC	31,393	30,875	33,623	36,275	38,088	6,695	21.3%
Debt Service	10,481	2,898	3,518	5,158	5,177	(5,304)	(50.6%)
Total SOF Disbursements	**123,751**	**125,331**	**131,931**	**139,768**	**145,734**	**21,983**	**17.8%**

Note: State Operating Funds includes the General Fund, State-funded Special Revenue Funds, and Debt Service Funds.

Source: Division of the Budget

Other Recurring Spending

According to DOB, the Enacted Budget includes several other recurring spending additions beyond the Executive Budget proposal:

- For each higher education system, the SFY 2023-24 Enacted Budget provides recurring operating assistance that is additional to last year's Enacted Budget: $163 million to the State University of New York (SUNY) and $93 million to the City University of New York (CUNY). Of these amounts, $60 million and $40 million, respectively, were proposed by the Executive Budget. This aid will be supplemented by cumulative increases of $54 million for SUNY and $36 million for CUNY in each of the following two academic years.
- The Enacted Budget includes $80 million in SFY 2023-24, growing to $134 million annually thereafter, to support public and nonpublic school participation in the Federal Community Eligibility program, allowing all students in those schools to eat breakfast and lunch at no charge regardless of family income.
- The Executive Budget proposal to provide a Human Services provider cost-of-living adjustment was increased from 2.5 percent to 4 percent, resulting in additional costs of $121 million annually.
- Additional funding was included for administration of recently enacted Discovery Reforms and assigned counsel services resulting in $212 million of additional recurring spending.

Reserves

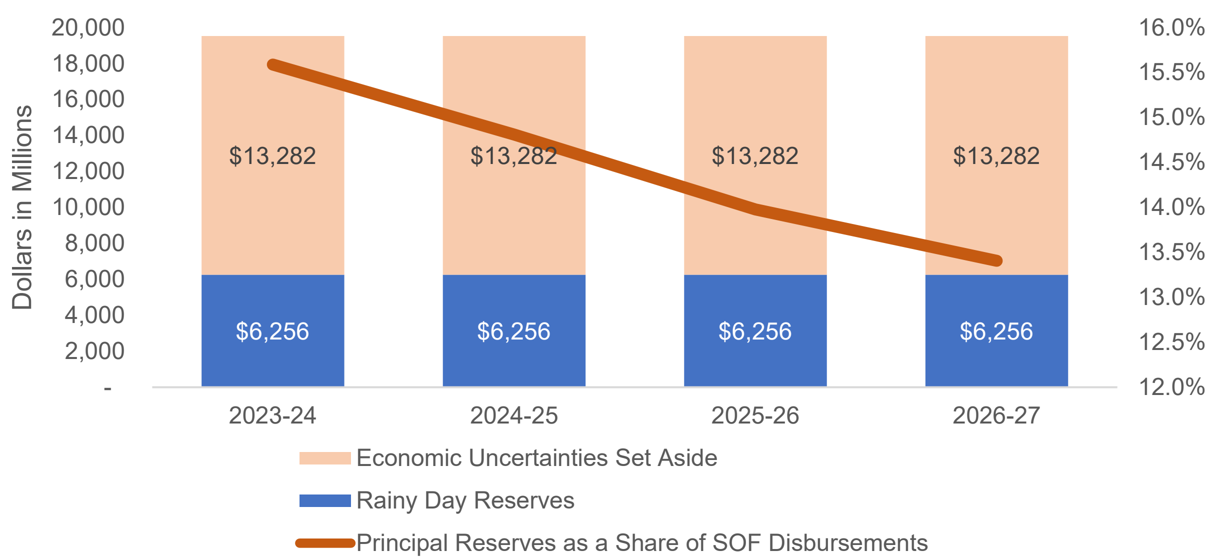
Uncertain revenue and increased spending underscore the importance of building rainy day reserves to preserve the stability of State finances and services through economic downturns and other unexpected shocks.

At the end of SFY 2022-23, the State contributed $2.9 billion to its statutory rainy day funds to bring the combined balance to $6.26 billion: $1.62 billion in the Tax Stabilization Reserve and $4.64 billion in the Rainy Day Reserve Fund (RDRF). The combined amount is equivalent to 6.0 percent of General Fund spending in SFY 2023-24.

The SFY 2023-24 Enacted Budget contained provisions expanding the maximum annual deposits to the RDRF to 15 percent of General Fund spending and the maximum allowable balance to 25 percent of General Fund spending; however, the Financial Plan does not project any additional deposits to the RDRF. Rather, a deposit "will be executed at the end of FY 2024 dependent on fiscal and economic conditions."[9] This renders the decision as one for the Executive to implement at its discretion at the end of the fiscal year, rather than a more disciplined and transparent approach for building the RDRF with ongoing monthly deposits while economic conditions allow, as recommended by the Office of the State Comptroller.

In addition to the statutory rainy day funds, the Executive indicates that informal reserves will also be maintained such that combined reserves will total $19.5 billion in SFY 2023-24 and in the outyears of the financial plan. This amount equals more than 15 percent of State Operating Funds spending in SFY 2023-24, declining to 13.4 percent by SFY 2026-27.

Figure 13
Principal Reserves as a Share of State Operating Funds Disbursements, SFYs 2023-24 – 2026-27



Note: The Division of the Budget characterizes as "principal reserves" the State's statutory rainy day funds and a portion of General Fund balance that is informally designated for use to address economic uncertainties.

Source: Division of the Budget

While the balance of the State's informal and formal reserves is larger than it has been in recent history, both in dollar amounts and a share of spending, the amount is less than 54 percent of the cumulative outyear gaps currently projected to be $36.4 billion and is insufficient to forestall tough choices about future budgets.

More than two-thirds of the State's combined reserves will be in informal reserves; these funds are an administrative designation of General Fund balance by the Executive. Rather than use the expanded authority provided to enhance its statutory rainy day reserves further, the State is placing a greater reliance on informal reserves which can be used for any appropriated purpose. While this provides enhanced flexibility for the Executive, it places the funds at greater risk of depletion, potentially prematurely. In contrast, rainy day reserves are governed by statutory requirements, including terms and conditions for withdrawals and mandatory repayment provisions.

Risks and Concerns

Size of the Budget Gaps & Use of Reserves

As discussed previously, General Fund budget gaps for the next three fiscal years are now projected to total $9.1 billion, $13.9 billion and $13.4 billion, respectively. The gaps are equal to 8.1 percent of General Fund spending in SFY 2024-25, 12.1 percent in SFY 2025-26, and 11.3 percent in SFY 2026-27.

The estimated gaps are well above typical forecasted levels over the previous 15-year period. For example, the cumulative gap estimate of $36.4 billion is the second largest in dollar terms, exceeded only by the SFY 2010-11 Enacted Budget Financial Plan at $37.2 billion; and, as a percent of General Fund spending, the 10.5 percent average is third only behind SFY 2010-2011 (17.2 percent) and SFY 2020-21 (10.6 percent) Enacted Budget Financial Plans.[10]

These large budget gaps will require development of a carefully crafted solution to reduce reliance on one-time resources and align recurring spending with recurring resources. They also underscore the importance of continuing to build up rainy day reserves while conditions allow, and enhancing criteria for the deployment of such reserves while instituting a more disciplined approach to routinize their repayment after being used.

While DOB states further deposits to the statutory rainy day funds may be made at the Executive's discretion at the end of the fiscal year, a more disciplined approach consisting of ongoing, monthly deposits is preferable. The Executive should begin to make use of the expanded authority to build the RDRF and place the $13.2 billion in fund balance it has designated for "economic uncertainties" into the RDRF over the course of the fiscal year; if the full amount were to be deposited, it would represent 12 percent of currently projected General Fund disbursements, well within the annual statutory maximum allowed. Statutory reserves would then total $19.5 billion and 17 percent of projected General Fund disbursements in SFY 2023-24.

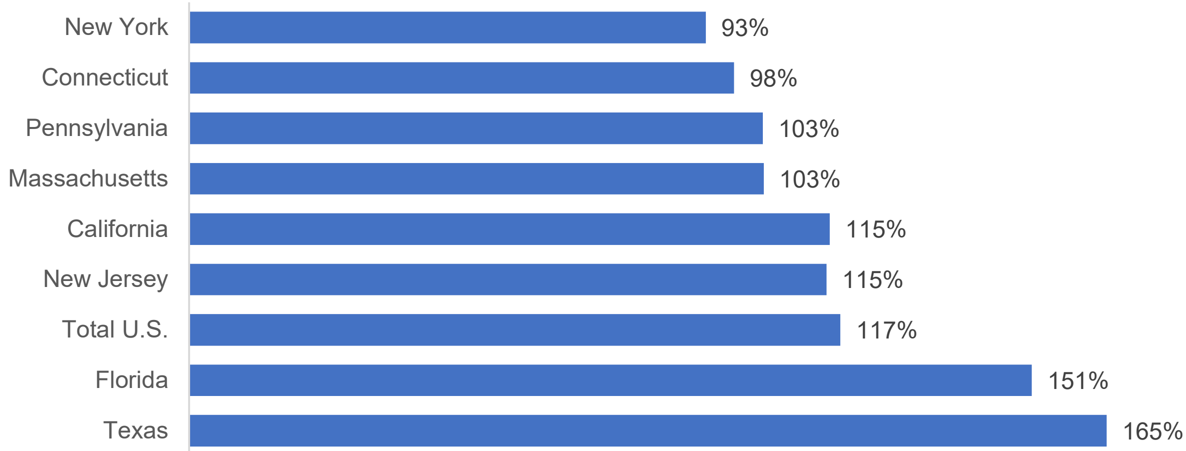
Absent such action, the Executive should develop and clearly state criteria for the use of fund balances reserved for "economic uncertainties" if it continues to assert these balances are for purposes analogous to a rainy day reserve, as well as a disciplined methodology for rebuilding such reserves after any usage.

Economic Concerns

Lagging Employment and Labor Force Recovery

The impact of the COVID-19 pandemic and its economic shutdown in 2020 caused employment to plummet, both nationally and in New York. Nearly three years since the end of the shutdown, other large states, as well as most of New York's neighboring states, have returned to pre-pandemic employments levels; however, as of May 2023, the State had regained only 93 percent of jobs lost in March and April 2020.

Figure 14
Post-Pandemic Employment Recovery, U.S. and Select States, May 2020 to May 2023

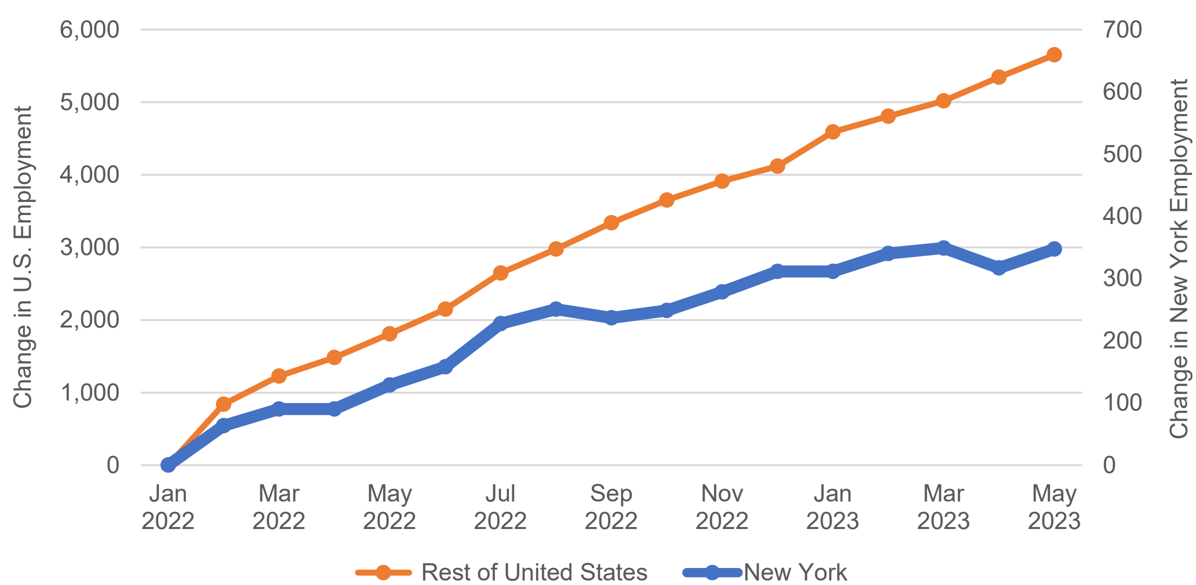


Note: Seasonally adjusted.

Source: U.S. Bureau of Labor Statistics

In addition, employment growth has been erratic in New York post-pandemic, and has slowed considerably since August 2022. As shown in Figure 15, the number of jobs in the rest of the United States has steadily increased since January 2022 while those in New York have had a flatter trajectory. In the five months of 2023, the State's rate of job growth has been nearly half of the rest of the nation.

Figure 15
Cumulative Employment Growth, New York and Rest of United States, January 2022 – May 2023



Note: Seasonally Adjusted.

Source: U.S. Bureau of Labor Statistics

The State's labor force has also struggled to recover to pre-pandemic levels. In May 2023, there were 185,000 fewer workers in New York than in February 2020.[11] While this lack of a full recovery is due, in part, to certain segments of the population, such as retirees and caregivers, deciding to remain out of the labor force, it also relates to a shrinking working-age population in the State. According to the U.S. Bureau of Labor Statistics (BLS), the number of people aged 16 and over in New York declined by 193,000 from 2021 to 2022.[12]

Other Economic Risks in an Uncertain Time

Other variables also play a role in the health of New York's economy. With inflation projected to remain elevated throughout 2023 and into 2024, wage growth below the level of inflation constrains consumers' purchasing power, which not only impacts the level of State sales tax and other consumption tax revenues but also the growth of the businesses that depend on those sales.

In addition, while the Federal Reserve maintained current interest rates at its June 14 meeting, it has signaled that increased rates may still be necessary in the coming months.[13] Higher interest rates would raise the financing costs of many consumer durable goods as well as mortgages. Increased rates would also influence business decisions to expand or build facilities or to purchase new machinery and equipment, resulting in even slower economic growth.

These factors – as well as other unforeseen economic or political shocks or natural disasters – may result in a weaker national or state economy than currently forecast by DOB, which would have negative implications for revenues.

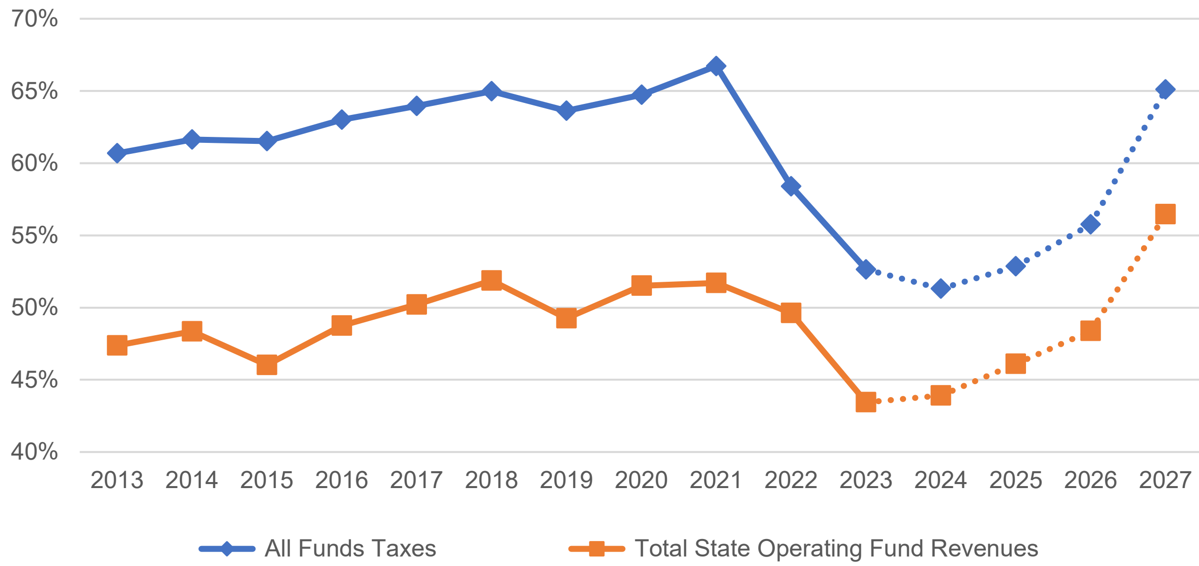
High Reliance on the Economically Sensitive Personal Income Tax

The Largest Tax Source

The Financial Plan is highly dependent upon the PIT. In the past ten fiscal years, collections from the PIT averaged 62 percent of All Funds tax revenues and nearly half of total State Operating Funds receipts; in SFY 2020-21, two-thirds of total All Funds taxes were from the PIT.

With the imposition of the Pass-Through-Entity Tax (PTET) at the end of SFY 2021-22, PIT's share dropped for both measures but was still more than half of all tax collections. (See Figure 16.) This trend is projected to continue throughout most of the Financial Plan. However, when participation in the PTET is expected to cease in SFY 2026-27, PIT collections are forecasted to comprise nearly two-thirds of revenues once again.[14] As follows, a number of factors impacting the PIT and PTET are resulting in more volatility and reduced predictability for forecasting these significant revenue sources, enhancing risk to the State's finances.

Figure 16
Personal Income Tax Collections as a Share of All Funds Taxes and State Operating Funds Revenues, SFY 2012-13 to SFY 2026-27



Note: Dotted lines are projections.

Sources: NYS Division of the Budget, OSC Analysis

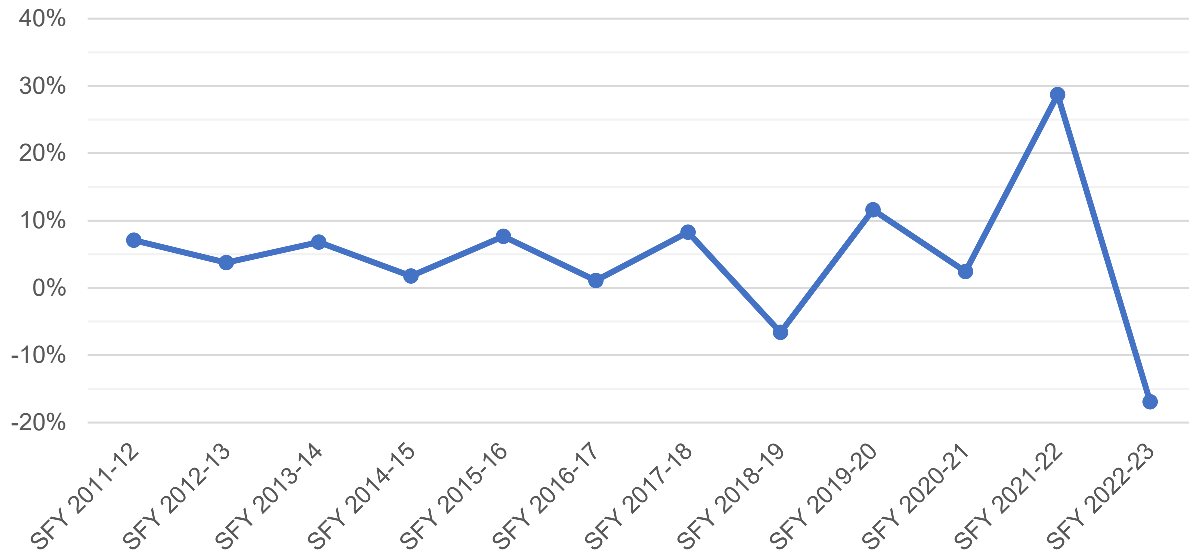
Volatility in Collections

PIT receipts can fluctuate from year to year since they are partially based on volatile income sources such as capital gains, dividend and interest income, and bonuses paid to securities industry employees. (See Figure 17.) In addition, the fluctuations can be the result of economic circumstances or taxpayer behavior in response to government policies. For example, in 2012, capital gains realizations increased significantly as taxpayers sought to avoid the rate increases associated with the higher federal tax rates going into effect on January 1, 2013. On the other hand, realizations dropped in 2016 in anticipation of lower federal tax rates in 2017.

In 2022, the Office of the State Comptroller noted that increased tax rates on high-income earners would likely make personal income tax collections more volatile. PIT liability is largely paid by a small number of taxpayers who also have a higher share of non-wage income. For tax year 2020, taxpayers with incomes over $1 million were 1.2 percent of New York PIT filers but paid 41.9 percent of the total tax liability. They also accounted for 71.1 percent of the total capital gains and dividend and interest income reported for that year. Based on preliminary tax year 2021 data, these taxpayers were 1.5 percent of all filers but paid 43.5 percent of total liability.[15] Their share of those non-wage income sources increased to 74 percent.

Volatility increased in SFY 2021-22 due to a combination of factors: increased tax rates on high-income taxpayers, the strong financial markets in 2020 and 2021, enhanced transfer receipts from federal pandemic relief packages, and the implementation of the PTET. With the decline in the financial markets in 2022 and expiration of federal benefits as well as the impact of PIT credits claimed for the PTET paid in 2021, PIT collections plummeted in SFY 2022-23.

Figure 17
Annual Growth in Personal Income Tax Collections, SFY 2011-12 – SFY 2022-23



Source: Office of the NYS Comptroller

Taxpayer Migration

While the PIT is imposed on both New York residents and nonresidents (e.g., commuters from other states), nonresidents only pay the tax on income earned in New York, while residents pay on their total income. As such, the PIT is dependent on taxpayers being residents. From 2015 to 2019, a net average of 28,700 personal income taxpayers moved out of New York annually, many of which were high-income residents.[16] However, in 2020 a net of 112,400 taxpayers moved out of New York, nearly four times as many in 2019. Of taxpayers with incomes of $1 million or more, 1.9 percent left the State.[17]

According to preliminary 2021 tax year data, the net number of taxpayers moving out of New York declined but were over 10,000 higher than the annual average for 2015 to 2019.[18] In addition, the net number of millionaires leaving were almost three times those in 2019.

The Pass-Through Entity Tax Clouds Trends and Forecasting

The PTET was enacted as part of the SFY 2021-22 Enacted Budget and, unlike other state taxes, is an optional tax. Pass-through entities, such as S-corporations and partnerships, can choose whether they want to pay a net income tax as a business entity (the PTET) or apportion the net income to their members, subjecting such income to the PIT. Businesses that choose to pay the PTET are required to make such elections with the Tax Department by March 15 every year. As a result, a business may pay the PTET in one tax year but then choose to have its members pay the PIT the next year, obscuring year-over-year collection trends. For example, nearly 99,000 businesses opted into the PTET for tax year 2022. For 2023, that number declined to over 92,200; 6,800 businesses now having their income taxed under the PIT.[19]

The interaction of the payment of the PTET with the subsequent claiming of the offsetting PIT credits has also resulted in confusion when projecting revenues. In principle, the net impact of the PTET and the credit is assumed by DOB to be zero, with the change in overall collections only reflecting economic changes. However, this "neutrality" is not as instantaneous as DOB portrays due to a number of factors: the implementation of the tax in 2021, inconsistent opt-in periods, and taxpayer behavior for claiming the offsetting PIT credits.

Businesses that opted into the PTET for the 2021 tax year were allowed the option of either making an estimated tax payment for the full tax year by December 31, 2021, or paying the tax when they filed their 2021 annual return by March 15, 2022. In addition, the members of the businesses were not allowed to adjust their estimated PIT payments for potential offsetting credits. As a result, taxes on income earned by the affected businesses were double counted in SFY 2021-22.

According to the Department of Tax and Finance (T&F), approximately 60 percent of the participating businesses made the estimated payments at the end of 2021. In addition, 47 percent of the businesses also requested extensions for filing their returns, a new deadline of September 15, 2022. This resulted in some PIT filers having to wait until the PTET returns were settled to learn the actual amount of credit that could be claimed and finalize their returns, resulting in a large amount of refunds being paid late in SFY 2022-23.

In relation to tax year 2021 PIT filings made through January 31, 2022, over $10.6 billion in offsetting PTET credits were claimed, approximately 79 percent of the $13 billion in 2021 PTET liability. Most of the remaining balance is estimated by DOB to be claimed in SFY 2023-24.

When the PTET was enacted, the opt-in deadline for the 2021 tax year was October 15, 2021, with the deadline being March 15 in the subsequent tax years. However, a PTET for New York City was enacted as part of the SFY 2022-23 Enacted Budget. With this enactment, the opt-in deadline was extended from March 15, 2022 to September 15, 2022. With the extended deadline, nearly 12,000 additional businesses chose to participate between April and September. Unlike the 2021 tax year, estimated payments for the 2022 tax year were required for all participating businesses, but the amount of those payments and when they were received depended on when the business elected to participate.

DOB states that the offsetting PIT tax credits for tax year 2022 were realized in lower quarterly estimated payments made by the impacted business members. However, whether this occurred is unclear, particularly for the members of the businesses that opted into the tax later in the year. While such estimated payments did decline in SFY 2022-23, the financial markets were lower, dividend and interest income decreased, and Wall Street bonuses were down; all playing a part in such lower payments.[20]

Businesses are only required to provide the credit to eligible members with their share of the PTET paid in order for the members to file their annual returns. This may only occur when the business files their annual return and the exact amount of the PTET liability for the year is known. In addition, quarterly estimated payments by the members reflect their individual income circumstances (e.g. any capital gains or extraordinary income received during the quarter) and not only their income earned from the participating business.

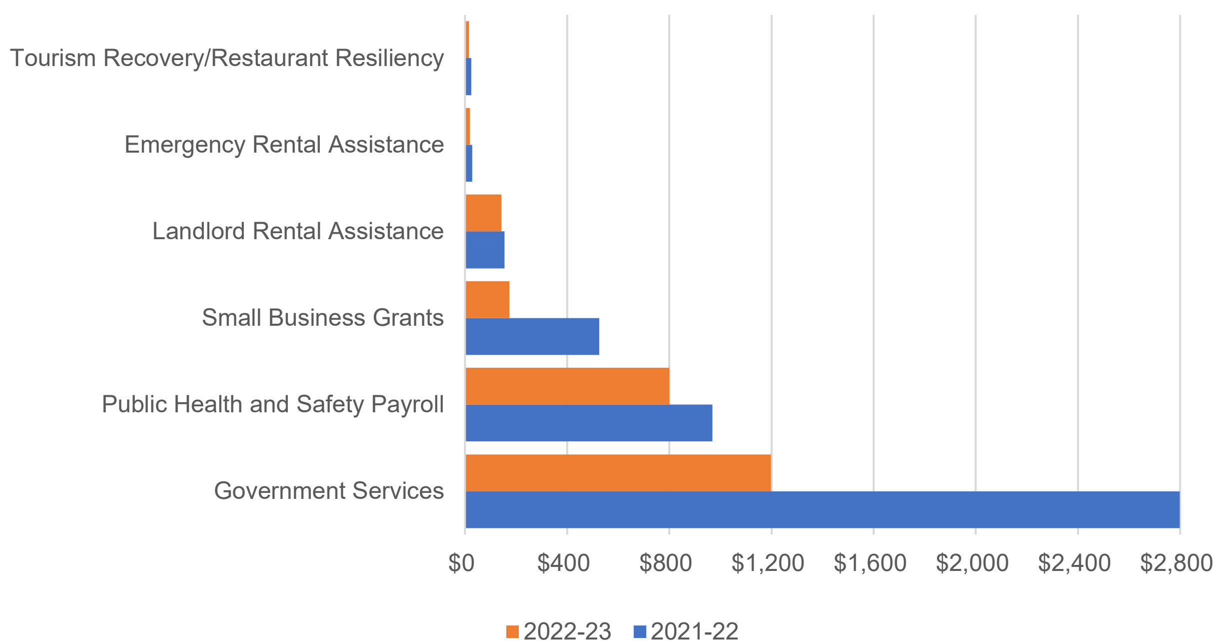
Because these factors have complicated the interpretation of year-to-year trends and forecasting both the PTET and PIT, greater reporting and analysis are necessary to understand the impact of PTET on collections.

Extraordinary Federal Aid is Ending

The federal American Rescue Plan Act of 2021 provided $12.75 billion in State and Local Fiscal Recovery Funds to New York State. This amount was transferred to the General Fund for expenditure over a four-year period and $6.85 billion was spent in the last two years. The SFY 2023-24 Enacted Budget Financial Plan assumes the remaining funds will be spent in the current and upcoming state fiscal years: $2.25 billion in FY 2023-24 and $3.645 billion in FY 2024-25. The State can alter the timing for these funds freely, as long as they are obligated by the end of 2024 and fully spent by the end of 2026. Nevertheless, if funds are pulled into the current fiscal year, it may open a wider budget gap in SFY 2024-25.

The Financial Plan identifies the purposes for spending for the second year of the program. Over the two years, 10 percent was used for small business grants and 5 percent to provide rental assistance to tenants and landlords. Approximately one-quarter of funds were used for public health and safety payroll, and more than half (almost $4 billion) was for "government services." This high-level reporting provides little specificity and explanation for use of the funds, including whether it is for recurring or non-recurring items. To the extent these funds are supporting recurring spending, they may cause a "fiscal cliff" when funds are depleted. Greater specificity in reporting should accompany future updates regarding the uses of these funds.

Figure 18
Use of State and Local Fiscal Recovery Funds, SFY 2021-22 and SFY 2022-23
(dollars in millions)



Source: Division of the Budget

Trajectory of Medicaid Enrollment, Costs and Risks

In June 2023, New York began reprocessing eligibility determinations for approximately 9 million public health insurance enrollees, mostly Medicaid recipients. Federal law required states to provide continuous coverage for Medicaid enrollees during the COVID public health emergency (PHE) in order to receive enhanced federal funding. The continuous coverage requirement ended in March 2023, allowing states to begin disenrolling ineligible individuals from Medicaid after a redetermination of eligibility. The State must complete eligibility redeterminations by the end of May 2024.

As a result of the redeterminations, Medicaid enrollment is projected to decrease from a peak of about 7.9 million recipients in June 2023 to 6.9 million by April 2024 and about 6.6 million by April 2025, according to the Enacted Budget Financial Plan. However, if actual enrollment exceeds projections, the Financial Plan will incur significant additional unbudgeted costs.

Slower-than-anticipated enrollment declines would produce fiscal pressures on spending beginning in the current State fiscal year. For example, if only half of the assumed current year decline (about 444,000 enrollees) is realized, there could be an additional $6.2 billion in total Medicaid costs, reflecting federal, State and local shares, including $2.2 billion in State costs in SFY 2023-24. Unanticipated, total two-year costs under alternative enrollment scenarios range from $10 billion (assuming enrollment declines by two-thirds) to $30 billion (assuming Medicaid enrollment does not decline at all by March 2025).

In addition to cost concerns, eligibility redeterminations could create temporary gaps in coverage, often referred to as “churn,” if eligible enrollees do not receive or understand notices or forms requesting additional information to verify their eligibility or do not respond to requests for information within required timeframes.[21] Continuous coverage requirements effectively halted churning among Medicaid enrollees during the PHE. In redetermining eligibility, the federal government requires states to develop plans that keep eligible individuals enrolled, reduce churn and maximize the successful transition to other coverage where appropriate. The Enacted Budget Financial Plan projects enrollment in the Essential Plan (EP) – which provides health insurance coverage for individuals including legally residing immigrants not eligible for Medicaid, the Child Health Plus insurance program, or other employer-sponsored coverage – to exceed 1.2 million New Yorkers by SFY 2025-26, as individuals shift out of Medicaid into the EP. Such a shift, if it occurs, could help to minimize churning among lower income New Yorkers.

Enacted Budget actions to retain COVID and ACA-related eFMAP funding the State previously shared with the counties and the City of New York represent a significant cost-shift to local governments. This cost-shift is a departure from a long-term policy in which the State has taken on a greater share of non-federal Medicaid costs (with local cost growth fully transferred to the State in 2015). It is unclear whether this is a one-off action, or an early indication of a potential change in posture with respect to local governments’ responsibility for Medicaid costs. Continued or further actions to manage Medicaid by pushing costs down to local governments could have serious and potentially destabilizing fiscal impacts for New York City and county governments.

Stalled Efforts on “Health Care Transformation”

Medicaid is the largest program in the State budget on an All Funds basis, the source of health care for millions of New Yorkers and a critical element of the State’s economy. As a result of COVID-19, program enrollment and costs reached record levels, and limitations on system capacity (in terms of staffing, supplies and available beds) were exposed. In the 2024 State of the State address, the Executive announced the intention to establish a Commission on the Future of Health Care to improve health outcomes, root out waste, and create long-term stability, among other things.

In conjunction with the disclosure that Medicaid spending is projected to exceed target levels in SFYs 2025-26 and 2026-27, the Financial Plan also references the commission, indicating that it will “examine and recommend reforms to improve quality and reduce costs.”[22] To date, no additional information has been provided, so it is unclear how this commission would operate, who or what organizations would participate in it or how it would interact with or differentiate itself from ongoing Medicaid Redesign Team (MRT) activities to “transform” the State’s Medicaid program and restrain program spending.

Determining the appropriate mix of actions to improve the quality of health care services and identify cost savings is a difficult, long-term effort that warrants transparency and a robust, public discussion among all stakeholders. It is important for the proposed commission to be established and commence work quickly.

Ensuring Continuity of State Operations: Lagging Hiring

SFY 2023-24 Executive Budget briefing materials noted that the State “is facing a shortage of more than 12,500 workers, with more than 26 percent of the state workforce eligible to retire within the next five years.”[23] Even though notable increases in workforce occurred as of March 31, 2023 at several agencies (including OMH, OPWDD, OCFS, State Police, the Department of Transportation and the Office of Information Technology Services), overall state workforce hiring lags behind anticipated outcomes. The All Funds Full-Time Equivalent (FTE) State Workforce on March 31, 2023 was 6.5 percent lower than estimated in the Amended Financial Plan, or 171,422 (actual) compared to 183,249 (estimated). The Enacted Budget Financial Plan projects a total state workforce for March 31, 2024 that is 185,010.

Recruitment and retention of a qualified and well-trained State workforce is critically important to allow the delivery of public services, and to be in position to respond to emerging challenges in a cost-effective manner. Efforts to build the necessary workforce are critical.

Affordability and Transparency of State Debt Practices

As discussed previously, DOB estimates that the State’s base costs for debt service (adjusted for prepayment actions) will increase by over 48 percent by SFY 2027-28, or an average annual increase of 8.2 percent. These costs stem from growing “backdoor” borrowing by public authorities for debt issued for State purposes and to be contractually repaid by the State, subject to appropriation. This backdoor borrowing circumvents the constitutional requirement for voter approval of State debt, and the Enacted Budget includes nearly $19.5 billion in new backdoor borrowing debt authorizations.

Total State-Supported debt outstanding is projected by DOB to grow from $55.9 billion in SFY 2022-23 to $86.5 billion in SFY 2027-28, a considerable increase of $30.6 billion or nearly 55 percent. The vast majority of this increase consists of backdoor public authority borrowings.

Much of the expected increase in the State's debt burden was enabled by the practice of excluding new debt issuances from the Debt Reform Act during SFYs 2020-21 and 2021-22, which resulted in nearly $18 billion in new debt being excluded from the State-Supported debt limit. In SFY 2023-24 alone, nearly 30 percent of the $62.6 billion total State-Supported debt outstanding is excluded, demonstrating how the debt limit has been rendered functionally meaningless. Concerningly, the Enacted Budget continues the practice of circumventing the State's statutory debt caps by excluding the federal transportation loan for the Gateway Program for the Hudson tunnel project for passenger rail.[24] The Plan does not count any of this expected $2.85 billion or more in its projections of either the State-supported or modified State-related measures of debt outstanding, despite the fact that this borrowing is imminent enough to require an appropriation in the State's debt service budget for the first time.

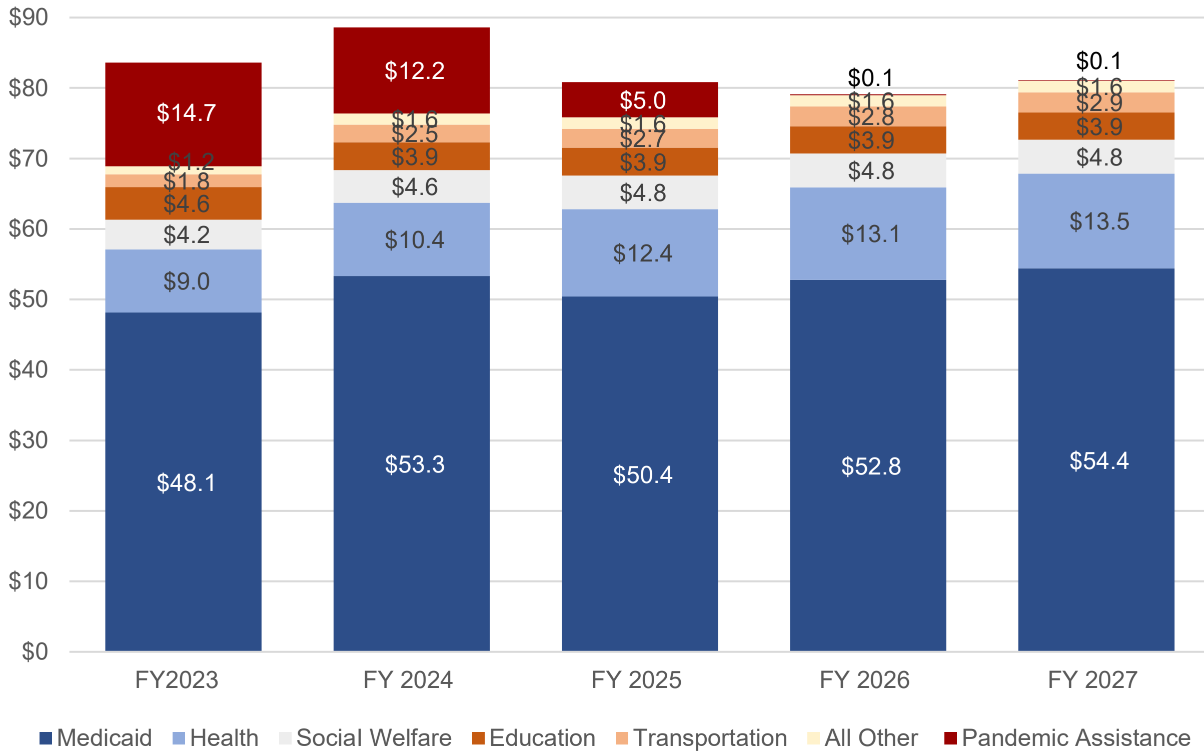
As recommended with the Comptroller's Roadmap for State Debt Reform, policymakers should seek to restore prudent debt policies and enhance transparency and accountability, by establishing comprehensive and binding constitutional debt limits, improve accountability to New York's voters, and provide responsible and sustainable best practices governing the use of debt.

Appendix: Waning Federal Pandemic Assistance Disbursements

Extraordinary federal aid related to the COVID-19 will be depleted in coming years. Disbursements related to pandemic assistance totaled $14.7 billion in SFY 2022-23 and will decline to $5.0 billion by SFY 2024-25, with approximately $100 million remaining in each of SFYs 2025-26 and 2026-27.

These figures do not include disbursements made from $12.7 billion in State and Local Fiscal Relief Funds provided under the American Rescue Plan. According to DOB, the State has used $6.85 billion of these funds and the remaining funds will be spent in SFY 2023-24 and SFY 2024-25.

Figure 19
Projected Federal Funds Disbursements, SFY 2022-23 – SFY 2026-27
(dollars in billions)



Note: SFY 2022-23 figures are not actual, audited results. Does not include disbursements from $12.7 billion in State and Local Fiscal Relief Funds provided under the American Rescue Plan.

Source: NYS Division of the Budget

Under the Enacted Budget Financial Plan, projected disbursements with federal funds increased compared to the Amended Executive Budget Plan in SFYs 2023-24 through 2026-27 by a range of $3.75 to $6.0 billion each year. Medicaid and other health represent the largest and growing portion of federal disbursements.

Endnotes

[1] The gaps are equal to 6.9 percent of State Operating Funds (SOF) spending in SFY 2024-25; 9.9 percent in SFY 2025-26; and 9.2 percent in SFY 2026-27.

[2] U.S. Bureau of Economic Analysis (BEA), Data by Topic, available at https://www.bea.gov/data/gdp. According to the U.S. Bureau of Labor Statistics (BLS), national employment increased by 217,000, 294,000, and 339,000 jobs in March, April, and May, respectively. See BLS, Current Employment Statistics, available at https://www.bls.gov/ces/.

[3] Blue Chip Consensus only reports on the U.S. economy. While S&P Global provides a forecast of the New York economy, it does so only on a calendar year basis.

[4] Personal income includes current transfer receipts which comprise government payments such as unemployment and social security benefits. The federal COVID-19 pandemic relief acts provided enhanced unemployment insurance benefits that both increased the amount of benefits as well as increased the eligibility period. These enhanced benefits expired on September 5, 2021.

[5] Excluding the extension of the temporary corporate franchise tax rates, the tax provisions included in the SFY 2023-24 Budget are estimated to reduce revenues by $248 million in SFY 2024-25, by $422 million in SFY 2025-26 and by $582 million in SFY 2026-27.

[6] The administrative surplus is any lottery or VLT revenues in excess of the administrative allowance for operations. Any surplus is dedicated to education aid.

[7] Downstate casinos are those that may be located in New York City and/or the counties of Nassau, Putnam, Rockland, Suffolk or Westchester.

[8] The 340B program requires drug manufacturers participating in Medicaid to provide outpatient drugs to eligible providers at significantly reduced prices but allows them to bill managed care plans at higher negotiated rates and to use the additional revenue they receive to reach more eligible patients in the communities they serve.

[9] New York State Division of the Budget (DOB), *FY 2024 Enacted Budget Financial Plan*, pg. 13.

[10] Analysis conducted by the Office of the State Comptroller.

[11] New York State Department of Labor, Local Area Unemployment Statistics, available at https://dol.ny.gov/local-area-unemployment-statistics.

[12] BLS, Employment Status of the Civilian Non-Institutional Population in States, at https://www.bls.gov/lau/ex14tables.htm.

[13] Federal Reserve Board, Federal Reserve Board Issues FOMC Statement, June 14, 2023, available at https://www.federalreserve.gov/newsevents/pressreleases/monetary20230614a.htm.

[14] Under current federal law, the limitation on federal itemized deductions for state and local taxes (SALT) is to sunset on December 31, 2025. Since the PTET was enacted as a workaround of this limit, DOB expects business participation to decline in subsequent tax years.

[15] New York State Department of Taxation and Finance, Personal Income Tax Study Files, 2020 and preliminary 2021.

[16] Office of the New York State Comptroller, *Moving In or Moving Out? New York State Personal Income Taxpayer Migration Trends, May 2022,* available at https://www.osc.state.ny.us/files/reports/pdf/taxpayer-migration.pdf.

[17] Office of the State Comptroller analysis of New York State Department of Taxation and Finance, Tax Year 2020 Personal Income Tax Study File.

[18] New York State Department of Taxation and Finance, Preliminary Tax Year 2021 Personal Income Tax Study File.

[19] DOB.

[20] BEA, Personal Income by State, available at https://www.bea.gov/data/income-saving/personal-income-by-state; and Office of the New York State Comptroller, *Wall Street 2022 Bonuses Fell 26% from Previous Year, Return to Pre-Pandemic Levels*, March 30, 2023, available at

https://www.osc.state.ny.us/press/releases/2023/03/dinapoli-wall-street-2022-bonuses-fell-26-previous-year-return-pre-pandemic-levels.

[21] See Kaiser Family Foundation, "10 Things to Know About the Unwinding of the Medicaid Continuous Enrollment Provision," published June 2023, available at https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-the-unwinding-of-the-medicaid-continuous-enrollment-provision/.

[22] DOB, *FY 2024 Enacted Budget Financial Plan*, pg. 18.

[23] DOB, *FY 2024 Executive Budget Briefing Book*, pg. 126, available at https://www.budget.ny.gov/pubs/archive/fy24/ex/book/stateworkforce.pdf.

[24] The Enacted Budget increased the authorization for this borrowing by $500 million, to a total of $2.85 billion. The Enacted Capital Program and Financing Plan details that the State share of these project costs is expected to increase further to $3.5 billion, for which DOB expects to recommend another increased authorization with next year's budget. Since the Debt Reform Act only counts "bonds or notes" and the Gateway debt is to be structured as an intergovernmental loan, this statutory authorization utilizes a loophole to incur debt outside of the State's debt cap. The Enacted Budget Capital Plan reduces transparency and accountability even further by inappropriately suggesting that the State's obligations under the Gateway loan should instead be counted in a newly-modified definition of "State-related debt" that would be inconsistent with current and past practices.

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