Report on the State Fiscal Year 2014-15 Enacted Budget Financial Plan and the Capital Program and Financing Plan

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Executive Summary

New York State ended State Fiscal Year (SFY) 2013-14 in its strongest financial condition since the Great Recession. Indications of the State's improved fiscal footing included a $175 million deposit in the Rainy Day Fund, the first since 2008, and General Fund reserves of $2.2 billion, effectively the highest level since the end of SFY 2007-08.[1] The SFY 2014-15 Enacted Budget seeks to build on the progress of recent years by limiting spending growth and holding potential budget gaps to comparatively manageable levels. State Operating Funds spending is projected to rise this year by 1.8 percent, according to the Division of the Budget (DOB). These positive elements contributed to rating upgrades on New York's bonds by Moody's Investors Service and Fitch Ratings in June 2014. A broad-based, wealthy State economy; a long history of closing annual budget gaps, recently with more structurally balanced solutions; and the well-funded State pension system were identified as strengths that contributed to the upgrades.

The Executive has instituted a non-statutory goal of limiting annual growth in spending from State Operating Funds to 2 percent or lower, and has worked with the Legislature to enact budgets intended to reflect that goal for the past four years. DOB indicates that the Executive will continue to propose budgets adhering to such limits in coming years. Without such limitations in the out-years, based on DOB Financial Plan projections, the Office of the State Comptroller estimates that projected out-year gaps for the fiscal years ending in 2016 through 2018 average $2.5 billion annually, or 3.7 percent of average projected General Fund revenues.[2] This level is down sharply from the levels of five and ten years ago. After enactment of the SFY 2004-05 Budget, DOB projected out-year General Fund gaps that represented the equivalent of 15.2 percent of General Fund receipts.[3] The SFY 2009-10 Enacted Budget left projected out-year gaps averaging 14.2 percent of expected General Fund revenues.[4]

Despite such significant progress, the remaining gaps between projected out-year revenues and expenditures represent a persistent challenge. The State faces other ongoing budgetary challenges that include continuing use of billions of dollars in temporary resources and heavy reliance on certain volatile revenue sources. Further, the lower projected spending growth is achieved through a combination of actual spending limitation and other actions, such as prepayments and shifting spending off-budget or otherwise outside the scope of State Operating Funds.

In April, the Office of the State Comptroller issued its *Preliminary Report on the State Fiscal Year 2014-15 Enacted Budget*. This report provides additional information and analysis based on the SFY 2014-15 Enacted Budget Financial Plan (Financial Plan) and

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[1] The General Fund closing balance was $2.3 billion at the end of SFY 2009-10, but only because $2.9 billion in various payments and refunds were delayed to SFY 2010-11 in order to address cash flow needs.

[2] These estimates do not include revenue totaling more than $3 billion that is anticipated to be received by the State from recently announced settlements, as such resources are not yet reflected in the Financial Plan. The First Quarter Update to the Financial Plan is expected to be revised to include these resources.

[3] Office of the State Comptroller calculations based on information in the Division of the Budget's *New York State 2004-05 Enacted Budget Report*.

[4] Office of the State Comptroller calculations based on information in the Division of the Budget's *New York State 2009-10 Enacted Budget Financial Plan*.

the Five-Year Capital Program and Financing Plan (Capital Plan), both of which were released by DOB in May.

The State's current fiscal year began on a challenging note, as Personal Income Tax (PIT) collections during April 2014 were $938 million lower than anticipated in projections released in February 2014. April 2013 PIT revenues had shown extraordinary year-over-year growth because of federal tax changes that resulted in many taxpayers moving income from capital gains, bonuses and other sources into calendar year 2012. For April 2014, the State projected that prior year estimated PIT payments (also known as extensions) based largely on such sources would decline 20 percent from the temporarily elevated, year-ago level. The actual decline in estimated payments from April 2013 to April 2014 was $1.7 billion, or nearly 34 percent. In the SFY 2014-15 Enacted Budget Financial Plan, DOB made adjustments to both revenue and expenditure projections that reflect the unexpectedly low April PIT receipts as well as legislated changes in this year's Enacted Budget. The Financial Plan includes a reduction of $606 million in anticipated tax receipts for SFY 2014-15, relative to the February projections.

While April 2014 PIT receipts were lower than forecast in February, total All Funds tax receipts in May were $838 million higher than the enacted projections.[5] The fluctuating levels of tax receipts relative to State projections are partly the result of volatility in PIT revenues associated with capital gains and bonuses, on which the State relies heavily, and on certain business taxes. Since release of the Financial Plan, the State has announced settlements that are expected to result in $3 billion or more in revenue. Such resources must be regarded as non-recurring and viewed in the context of volatile tax collections and the State's chronic structural deficit.

The Financial Plan relies on a net $3.6 billion in temporary resources, not including federal funds. Temporary resources include more than $2 billion from PIT-related tax changes that are scheduled to expire at the end of 2017, a $1 billion transfer from the State Insurance Fund, and other resources from an assessment on utilities, the use of reserves, and transfers from two public authorities. The continued reliance on these resources delays decisions that could bring about structural balance and leaves the State more susceptible to potentially disruptive spending cuts and tax increases if unexpected revenue shortfalls arise in future years. The Financial Plan also benefits from over $1.4 billion in prepayments and advances that lower spending in SFY 2014-15, including $668 million in debt service payments and $509 million in lower General Fund transfers to Capital funds.

Compared to spending trends during the five fiscal years ending in 2014, the Financial Plan shows faster spending growth in the years ahead on debt service, school aid and other aid to localities. For example, State Operating Funds spending for school aid rose by an annual average of 2.8 percent from SFY 2009-10 through SFY 2013-14, and is projected to increase 6.1 percent in SFY 2014-15 and by an average of 5.6 percent annually from SFY 2015-16 through SFY 2017-18. By contrast, Department of Health (DOH) Medicaid spending is projected to rise more slowly than in the past. After rising by an average of 9.1 percent annually during the prior five-year period, it is projected to increase by 3.0 percent in SFY 2014-15 and by 4.4 percent annually from SFY 2015-16 through SFY 2017-18.

[5] "DiNapoli Releases May State Cash Report," www.osc.state.ny.us/press/releases/june14/062014b.htm.

Other key points in this report include:

- The closing General Fund balance of more than $2.2 billion at the end of SFY 2013-14 included nearly $1.6 billion in restricted reserves – primarily the Tax Stabilization and Rainy Day reserve funds – and $646 million in the unrestricted Refund Reserve Fund. The General Fund balance, up $625 million from a year earlier, would have been higher if not for prepayments for debt service, tax refunds and certain other purposes.

- The Financial Plan anticipates such reserves to equal approximately 3.5 percent of SFY 2014-15 General Fund disbursements at the end of the fiscal year. This would represent the fifth consecutive year that the reserve-to-spending ratio has remained below 4 percent. Reserves are projected to change little in the out-years of the Financial Plan. Such reserves were $3.3 billion at the end of SFY 2005-06, equal to approximately 7 percent of General Fund disbursements that year. While reserves have reached their highest level since the Great Recession, they remain less than robust.

- DOB projects State Operating Funds expenditures will rise by $1.6 billion, or 1.8 percent, this year. After adjusting for prepayments made in SFY 2013-14, the Office of the State Comptroller estimates such growth at 3.5 percent. From SFY 2004-05 through SFY 2013-14, State Operating Funds spending rose at an annual average rate of 4.0 percent.

- This year's Enacted Budget continues, in more limited form, certain initiatives begun in recent years to limit expenditure growth. Statutory caps on the growth in education aid and State-funded DOH Medicaid expenditures were established in the SFY 2011-12 Enacted Budget. These caps and other policy choices by the Executive and the Legislature have served to constrain spending growth. However, some caps have been bypassed, or "notwithstood," statutorily (in the case of school aid) or otherwise circumvented (in the case of certain health care spending), in certain instances, in both the SFY 2013-14 and the SFY 2014-15 enacted budgets.

- The SFY 2014-15 General Fund gap-closing plan includes debt management and capital projects actions totaling $671 million, and is largely comprised of a reduced General Fund transfer to the Capital Projects Fund. At the same time, the Financial Plan significantly increased the projected year-end Capital Projects Fund's negative closing fund balance, relative to the Executive Budget estimate to negative $620 million. Taken together, these revisions have the effect of moving a gap in the General Fund to the Capital Projects Fund, and detract from other improvements in the State's financial position. While State Finance Law does not allow a General Fund deficit to be carried over into a new fiscal year, no such prohibition applies to the Capital Projects Fund. The Enacted Budget Financial Plan projects the resulting larger negative closing fund balance in the Capital Projects Fund to remain in place through the end of the Financial Plan period in SFY 2018-19.

- The Capital Plan increases the total amount of projected capital spending to nearly $47.9 billion over the next five years, compared to $46.8 billion in the Executive's proposed Capital Plan for the same five-year period, an increase of just over $1.0 billion. (The total includes $4.5 billion in off-budget capital spending, in which State-Supported bond proceeds are expended directly by public authorities.) This also represents an increase of nearly $2.5 billion from the previous five years.

- The Five-Year Capital Plan projects that State-Supported debt will increase $6.5 billion, or 12.4 percent, from SFY 2013-14 through 2018-19. State-Funded debt (a more comprehensive measure) would rise by $9.5 billion or 15.0 percent over the period. The Enacted Budget includes the proposed $2 billion Smart Schools Bond Act, which will be placed on the November ballot for consideration by voters.

- Risks to the current year's Financial Plan include uncertainty regarding the federal budget. The federal Highway Trust Fund faces potential insolvency before the current federal fiscal year ends on September 30. The U.S. Department of Transportation has warned states that it may delay reimbursements to states and to regional transit agencies if Congress does not act to replenish the fund.

- As always, developments in the global and national economies also pose risks to the New York State economic and revenue outlook. In the Financial Plan, DOB recognizes many of the risks that the Office of the State Comptroller has identified in its reports on the Executive and Enacted Budgets released over the past several years. These include a possible shortfall in projected revenue from Native American casinos and any adverse outcomes in ongoing negotiations with the federal government regarding the allowability of Medicaid costs for services provided in certain prior years to developmentally disabled individuals in New York.

While the State's financial position has improved in recent years, continuing that progress is essential. Indicators of further strengthening would include steps such as:

- Better aligning recurring receipts and disbursements to reduce reliance on temporary resources and actions;

- Reducing the State's debt burden (which in turn provides increased financial flexibility) by increasing pay-as-you-go financing for capital projects and paying down higher-interest outstanding debt, where feasible; and

- Increasing reserves and further bolstering liquidity.

SFY 2014-15 Financial Plan Overview

The SFY 2014-15 Enacted Budget increases All Funds disbursements by 3.2 percent, or $4.4 billion, to $142 billion, according to the Financial Plan released in May by the Division of the Budget (DOB). Almost half of that increase, $2.2 billion, is federal Medicaid funds related to the Affordable Care Act (ACA). DOB projects State Operating Funds disbursements will increase 1.8 percent, or $1.6 billion, over last year, compared to projected inflation of 1.9 percent.

The Enacted Budget also benefits from nearly $3.6 billion in temporary and non-recurring resources, most of which were enacted in previous budgets. Following a practice first used in 2013, the Financial Plan's out-year projections assume adoption of budgets with no more than 2 percent increases in State Operating Funds spending, but do not specify how such targets will be met.

PIT collections in the first month of SFY 2014-15 were approximately $1 billion lower than anticipated in February 2014 projections. As a result, DOB has made adjustments to certain PIT projections and expenditure assumptions in the Financial Plan, as compared to preliminary figures in the Financial Plan Update that accompanied the SFY 2014-15 Executive Budget.

All Funds Disbursements

All Funds disbursements are projected to increase 3.2 percent, or $4.4 billion, to $142 billion, primarily in federally funded Medicaid costs, representing new costs associated with the Affordable Care Act ($2.2 billion). All Funds spending for school aid is projected to increase $1.3 billion and spending from Capital Projects is projected to increase $479 million.

For the second consecutive year, disaster assistance expenditures were significantly lower in SFY 2013-14 than initially anticipated. DOB now projects that disaster assistance spending will be spread out over subsequent years at a more even annual pace. The 2013-14 Enacted Budget Financial Plan projected that disaster assistance would total $5.1 billion in SFY 2013-14, declining to $2.4 billion in SFY 2014-15. The current Financial Plan shows disaster assistance spending totaled $1.2 billion in SFY 2013-14, and is expected to increase to just under $1.5 billion in SFY 2014-15.

All Funds Receipts

All Funds receipts are expected to increase 2.9 percent or $3.9 billion in SFY 2014-15, primarily due to increased federal receipts ($2 billion) and miscellaneous receipts ($1.4 billion). Miscellaneous receipts are expected to increase primarily because of an increase of $750 million in transfers from the State Insurance Fund.

State Operating Funds Disbursements[6]

The Financial Plan projects spending from State Operating Funds in the SFY 2014-15 Enacted Budget will increase 1.8 percent from actual spending levels in SFY 2013-14. Figure 1 illustrates where growth in spending is projected to occur during SFY 2014-15. Almost all of net State Operating Funds spending growth comes in the areas of school aid and Medicaid. Spending on social welfare is projected to decline by 10.2 percent or $320 million.

Figure 1

Detailed Spending Growth from State Operating Funds
SFY 2013-14 Actual to SFY 2014-15 Enacted Budget Financial Plan
(in millions of dollars)

	SFY 2013-14 Actual	SFY 2014-15 Enacted	Dollar Growth	Percentage Growth	Percentage of Total Growth
Local Assistance					
Economic Development/Government Oversight	400	413	13	3.4%	0.8%
Parks and Environment	12	20	9	72.9%	0.5%
Transportation	4,722	4,817	95	2.0%	5.9%
DOH Medicaid (incl. Admin.)	16,241	16,731	490	3.0%	30.6%
Other Health	2,179	1,868	(311)	-14.3%	-19.4%
Social Welfare	3,122	2,802	(320)	-10.2%	-20.0%
Mental Hygiene	2,776	2,925	149	5.4%	9.3%
Public Protection/Criminal Justice	282	342	61	21.5%	3.8%
Higher Education	2,816	2,916	100	3.5%	6.2%
School Aid	20,420	21,671	1,251	6.1%	78.1%
Other Education	5,383	5,619	236	4.4%	14.7%
General Government	153	179	26	17.1%	1.6%
Local Government Assistance	756	779	23	3.1%	1.4%
Other	143	97	(46)	-32.4%	-2.9%
Total Local Assistance	**59,408**	**61,181**	**1,773**	**3.0%**	**110.7%**
State Operations					
Personal Service	12,300	12,593	293	2.4%	18.3%
Non-Personal Service	5,564	5,606	42	0.8%	2.6%
Total State Operations	**17,864**	**18,199**	**335**	**1.9%**	**20.9%**
General State Charges	**6,958**	**7,206**	**248**	**3.6%**	**15.5%**
Debt Service	**6,400**	**5,648**	**(752)**	**-11.8%**	**-47.0%**
Capital Projects	**3**	**-**	**(3)**	**-100.0%**	**-0.2%**
Total Disbursements	**90,633**	**92,234**	**1,601**	**1.8%**	**100.0%**

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

As shown in Figure 2, actual State Operating Fund disbursements in SFY 2013-14 totaled $90.6 billion, which were approximately $400 million higher than initially anticipated and $133 million higher than the last projections released in February. However, this disbursement figure includes certain payments originally planned for SFY 2014-15 that were made during the preceding year. These adjustments have a significant impact on projected growth for SFY 2014-15, in that Figure 2 reflects not only negotiated changes to the Executive proposal, but also any changes associated with timing issues. Figure 2 illustrates how projected spending growth increased from 1.7 percent in the Executive proposal to 1.8 percent in the Enacted Budget Financial Plan.

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[6] State Operating Funds are made up of the General Fund, State-sourced special revenue funds and Debt Service funds. Federally funded grants are not included nor is any capital spending (State or federal).

Figure 2

Comparison of Projected State Operating Funds Receipt and Disbursement Growth, SFY 2013-14 to 2014-15 Executive Proposal and Enacted Budget Financial Plan

(in millions of dollars)

	SFY 2013-14 Estimate (30-day amendments)	SFY 2014-15 Executive Proposal	Dollar Growth	Percentage Growth	SFY 2013-14 Actual (DOB)	SFY 2014-15 Enacted	Dollar Growth	Percentage Growth
State Operating Funds								
Receipts:								
Personal Income Tax	42,828	44,131	1,303	3.0%	42,961	43,735	774	1.8%
Consumption and Use	14,501	14,868	367	2.5%	14,518	14,769	251	1.7%
Business Taxes	7,513	7,171	(342)	-4.6%	7,604	7,023	(581)	-7.6%
Other Taxes	3,174	3,229	55	1.7%	3,252	3,299	47	1.4%
Total Taxes	68,016	69,399	1,383	2.0%	68,335	68,826	491	0.7%
Miscellaneous Receipts	19,476	20,356	880	4.5%	20,521	20,278	(243)	-1.2%
Federal Grants	75	74	(1)	-1.3%	71	74	3	4.2%
Total Receipts	**87,567**	**89,829**	**2,262**	**2.6%**	**88,927**	**89,178**	**251**	**0.3%**
Disbursements:								
Local Assistance Grants	59,495	60,811	1,316	2.2%	59,406	61,181	1,775	3.0%
Personal Service	12,376	12,585	209	1.7%	12,300	12,593	293	2.4%
Non-Personal Service	5,579	5,583	4	0.1%	5,564	5,606	42	0.8%
State Operations	17,955	18,168	213	1.2%	17,864	18,199	335	1.9%
General State Charges	6,976	7,367	391	5.6%	6,958	7,206	248	3.6%
Debt Service	6,061	5,689	(372)	-6.1%	6,400	5,648	(752)	0.0%
Capital	11	5	(6)	(1)	3	-	(3)	0.0%
Total Disbursements	**90,498**	**92,040**	**1,542**	**1.7%**	**90,631**	**92,234**	**1,603**	**1.8%**

Source: Division of the Budget

State Operating Funds Receipts

State Operating Funds receipts are projected to increase just 0.3 percent, or $251 million, primarily because of significant projected declines in business tax collections ($581 million) and miscellaneous receipts ($243 million), offset by growth of less than 2 percent for both PIT and consumption and use taxes. The low growth expected for PIT is largely because of the sharp decline in April collections. However, the PIT amount also reflects tax credits totaling $785 million that are not included in SFY 2013-14 figures and $328 million in prepaid refunds made in SFY 2013-14 that were initially anticipated for SFY 2014-15.

Total tax receipts in State Operating Funds (which excludes approximately $1.4 billion in taxes collected in Capital Projects funds) are projected to increase 0.7 percent, primarily in PIT collections. Consumption and use taxes are projected to increase 1.7 percent, or $251 million, primarily in sales tax receipts, which are projected to increase 3.0 percent.

Business tax collections in State Operating Funds are projected to decline by $581 million, or 7.6 percent. The largest decline is expected in Corporate Franchise Tax collections, largely due to deferred credits from 2010 that are now expected to be utilized. In addition, the Enacted Budget includes tax actions totaling $193 million that will reduce receipts.

Miscellaneous receipts are projected to decline $243 million, or 1.2 percent, largely due to non-recurring funding received in SFY 2013-14, offset by an additional $750 million in proceeds from the State Insurance Fund (for a total transfer of $1 billion in SFY 2014-15). The Financial Plan anticipates $200 million from license fees associated with four new commercial casinos, though the Financial Plan does not indicate that these funds will be used in SFY 2014-15.

General Fund Disbursements

Disbursements from the General Fund, including transfers to other funds, are projected to increase 3.1 percent, or $1.9 billion, to $63.1 billion in SFY 2014-15, compared to the Executive's proposed increase of 3.4 percent or $2.1 billion. The most significant increase in projected General Fund spending occurs in school aid, which is projected to increase $1.2 billion.

Total grants to local governments are projected to increase 5.5 percent or $2.2 billion. These increases are offset with lower General Fund spending for Social Welfare (decreased $321 million). The Enacted Budget includes a small increase in assistance for villages, but otherwise no change in unrestricted assistance for municipalities.

State Operations spending is projected to increase 7.4 percent primarily because of spending for Personal Services ($327 million). Non-Personal Service spending is projected to increase $214 million and General State Charges are projected to increase 3.5 percent or $173 million.

Transfers to Other Funds are projected to decline nearly 11 percent, or $993 million from SFY 2013-14, primarily because of transfers to Debt Service funds (down $891 million) and Capital Projects (down $506 million). Transfers to Debt Service funds are down primarily because of $668 million in prepayments made in SFY 2013-14, which lower the General Fund need in SFY 2014-15. Transfers to Capital Projects funds were also increased in SFY 2013-14, although bond sales that typically reimburse General Fund transfers were delayed. As a result, the Financial Plan projects that transfers from the General Fund will decline in SFY 2014-15.

General Fund Receipts

General Fund receipts are projected to increase 1.8 percent. This increase is attributable to projected growth in PIT collections, which excludes direct deposits to the School Tax Relief (STAR) fund and the Revenue Bond Tax Fund (RBTF). Debt service on Revenue Bonds is paid from the RBTF. The amount not needed for such debt service is transferred back to the General Fund. This increase is offset by lower projected receipts for business taxes (down $608 million). General Fund consumption and use tax collections are projected to increase 1.4 percent, or $91 million.

Figure 3 compares changes in General Fund receipts and disbursements from the Executive Budget projections to those in the Enacted Budget. This figure shows significant changes in transfers to capital funds (where the projection declined by $506 million) and to debt service (where the SFY 2013-14 figure rose and the SFY 2014-15 projection fell slightly).

Figure 3

Comparison of Projected General Fund Receipt and Disbursement Growth Executive Proposal and Enacted Budget Financial Plan

(in millions of dollars)

General Fund	SFY 2013-14 Estimate (30-day amendments)	SFY 2014-15 Executive Proposal	Dollar Growth	Percentage Growth	SFY 2013-14 Actual	SFY 2014-15 Enacted	Dollar Growth	Percentage Growth
General Fund								
Receipts:								
Taxes	42,483	43,187	704	1.7%	42,727	42,659	(68)	-0.2%
Personal Income Tax	28,732	29,669	937	3.3%	28,864	29,372	508	1.8%
Consumption and Use	6,525	6,714	189	2.9%	6,561	6,652	91	1.4%
Business Taxes	5,988	5,612	(376)	-6.3%	6,046	5,438	(608)	-10.1%
Other Taxes	1,238	1,192	(46)	-3.7%	1,256	1,197	(59)	-4.7%
Miscellaneous Receipts	3,251	3,857	606	18.6%	3,219	3,815	596	18.5%
Federal Grants	2	-	(2)	-100.0%	-	-	-	0.0%
Transfers from Other Funds	15,917	16,471	554	3.5%	15,922	16,488	566	3.6%
Total Receipts	**61,653**	**63,515**	**1,862**	**3.0%**	**61,868**	**62,962**	**1,094**	**1.8%**
Disbursements:								
Local Assistance Grants	40,383	41,797	1,414	3.5%	39,940	42,118	2,178	5.5%
Personal Service	5,704	5,880	176	3.1%	5,563	5,890	327	5.9%
Non-Personal Service	1,950	1,961	11	0.6%	1,746	1,960	214	12.3%
State Operations	7,654	7,841	187	2.4%	7,309	7,850	541	7.4%
General State Charges	4,904	5,265	361	7.4%	4,899	5,072	173	3.5%
Transfers to Other Funds								
Debt Service	1,628	1,119	(509)	-31.3%	1,972	1,081	(891)	-45.2%
Capital	1,078	1,439	361	33.5%	1,436	930	(506)	-35.2%
Other	5,813	6,114	301	5%	5,687	6,091	404	7.1%
	8,519	8,672	153	2%	9,095	8,102	(993)	-11%
Total Disbursements	**61,460**	**63,575**	**2,115**	**3.4%**	**61,243**	**63,142**	**1,899**	**3.1%**

Source: Division of the Budget

General Fund Current Services Gap

The $1.7 billion General Fund current services gap projected in the Executive Budget was increased by $1.2 billion as a result of various actions included in the Enacted Budget and re-estimates, including the following (figures represent the difference between Executive and Enacted Financial Plans):[7]

[7] See Figure 10 for out-year projections for gap-closing actions.

- $60 million to restore various proposed Executive Budget reductions in Local Assistance and State Operations, and $550 million in new spending added to the Executive Budget proposal by the Legislature and Executive;
- $220 million in tax law changes that reduce receipts more in SFY 2014-15, but increase receipts in later years, compared to the Executive's proposal; and
- $343 million in reduced projections for General Fund tax collections, largely in response to significantly lower-than-anticipated PIT collections in April.

DOB identified $1.2 billion in new General Fund resources to cover the additional spending, restorations, tax law changes, and revisions to receipts estimates. These include:

- $643 million in prepayments made in SFY 2013-14 that will lower costs in SFY 2014-15; and
- $530 million in additional capital transfers made in SFY 2013-14 that DOB expects will be largely reimbursed in SFY 2014-15. (See further discussion later in this report.)

According to the estimates provided in the Financial Plan, the General Fund gap-closing plan contains actions to keep the General Fund in balance for SFY 2014-15. Figure 4 compares the Executive's gap-closing plan to the plan included in the Enacted Budget Financial Plan.

Figure 4

Comparison of Current Services Gap-Closing Plan
SFY 2014-15 Executive Budget and SFY 2014-15 Enacted Budget
(in millions of dollars)

	Proposed	Enacted	Difference
Current Services Gap - SFY 2014-15	**(1,742)**	**(1,742)**	-
Non-Recurring and Temporary Resources and Costs	558	478	(80)
Recurring Revenue	(581)	(725)	(144)
State Operations Reductions	358	494	136
Capital and Debt Management	116	671	555
Local Assistance Reductions	1,624	1,676	52
New Initiatives	(142)	(715)	(573)
All Other (Including Re-Estimates)	(191)	(137)	54
Remaining Gap In Enacted Budget Financial Plan	-	-	-

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

The two largest changes from the Executive Budget that are included in the SFY 2014-15 gap-closing plan are new initiatives and capital and debt management actions.

The capital projects and debt management actions totaling $671 million largely comprise a reduced General Fund transfer to the Capital Projects Fund. At the same time, the Enacted Budget Financial Plan increases (relative to the Executive Budget Financial Plan) the projected year-end Capital Projects Fund negative closing fund balance by $358 million to a total of negative $620 million.

Taken together, these revisions have the effect of moving a gap in the General Fund to the Capital Projects Fund, and detract from other improvements in the State's financial position. While State Finance Law does not allow a General Fund deficit to be carried over into a new fiscal year, no such prohibition applies to the Capital Projects Fund. The Enacted Budget Financial Plan projects the resulting larger negative closing fund balance in the Capital Projects Fund to remain in place through the end of the Financial Plan period in SFY 2018-19.

State Operating Funds Projections Adjusted for Prepayments

The Executive has instituted a non-statutory goal of limiting growth in spending from State Operating Funds to 2 percent or lower, and has worked with the Legislature to enact budgets intended to reflect that goal for the past four years. Spending from State Operating Funds grew at an annual average of 5.4 percent from SFY 2002-03 through SFY 2010-11. Policy changes to school aid, Medicaid, State agency operations and other expenditure areas over the last four years have significantly reduced actual spending growth. However, reported levels of spending growth are also influenced by the cash basis of accounting used in the State budget, which allows budget management actions to shape apparent levels of growth.

Figure 5

SFY 2014-15 Enacted Budget and Financial Plan
State Operating Funds Adjusted to Reflect Timing Changes

	SFY 2013-14 Actual	SFY 2014-15 Projected	Dollar Growth	Percentage Growth
Unadjusted State Operating Funds Receipts	**88,927**	**89,178**	**251**	**0.3%**
Total Taxes	68,335	68,826	491	0.7%
Less Personal Income Tax Refund Prepayment	328	(328)		
Adjusted Personal Income Tax	68,663	68,498	(165)	-0.2%
Total Miscellaneous Receipts	20,521	20,278	(243)	-1.2%
Federal Grants	71	74	3	4.2%
Adjusted State Operating Funds Receipts	**89,255**	**88,850**	**(405)**	**-0.5%**
Unadjusted State Operating Funds Disbursements	**90,631**	**92,234**	**1,603**	**1.8%**
Local Assistance	59,406	61,181	1,775	3.0%
Less Social Services Prepayment	(150)	150		
Adjusted Local Assistance	59,256	61,331	2,075	3.5%
State Operations	17,864	18,199	335	1.9%
Personal Services	12,300	12,593	293	2.4%
Non-Personal Services	5,564	5,606	42	0.8%
General State Charges	6,958	7,206	248	3.6%
Less Pension Amortization Payment	(119)	119		
Adjusted Miscellaneous Receipts	6,839	7,325	487	7.1%
Debt Service	6,400	5,648	(752)	-11.8%
Less 2014-15 Prepayment	(668)	668	-	
Less 2015-16 Prepayment	-	(350)	-	
Adjusted Debt Service	5,732	5,966	234	4.1%
Capital	3	-	(3)	-100.0%
Adjusted State Operating Funds Disbursements	**89,694**	**92,821**	**3,128**	**3.5%**

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

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

Figure 5 illustrates that prepayments made in SFY 2013-14 have the effect of increasing spending in SFY 2013-14 and reducing spending in SFY 2014-15, making growth appear smaller than it would have been had the payments been made when due or expected. While prepayments may be both an indicator of improved cash position and an appropriate fiscal management tool, the impact of such actions should be clearly identified, to avoid the presentation of a potentially misleading picture of growth trends. If projections are adjusted to offset the impact of implemented and planned prepayments, projected spending growth in SFY 2014-15 would increase from 1.8 percent to 3.5 percent.

Figure 5 includes five timing-related adjustments that complicate the analysis of the fiscal picture for SFY 2014-15. The Enacted Budget includes several other actions, including fund shifts and movement of spending, that have the effect of changing the spending growth picture. An overall measure of such changes is difficult to obtain because several of these actions are not clearly delineated and the Financial Plan includes no overall summary of their impact on year-to-year growth.

Risks to the Financial Plan

As with any budget, the SFY 2014-15 Enacted Budget presents certain risks. The Financial Plan appropriately notes that actual results may differ materially and adversely from DOB's projections, and that in certain fiscal years collections of actual receipts have been substantially below forecasted levels. (SFY 2013-14 was the first year in the past seven in which actual tax receipts met initial projections.) In addition to forecast risk, DOB recognizes many of the risks that the Office of the State Comptroller identified in its Preliminary Report on the SFY 2014-15 Enacted Budget and prior years' reports on proposed and enacted State budgets.

In addition to the broad-scoped risks and uncertainties DOB identifies with respect to revenue projections, DOB identifies specific areas of concern. Examples of such revenue risks include the $205.7 million ($119.7 million in the General Fund) anticipated in the Financial Plan to be received from Native American casinos. DOB separately indicates that this revenue is offset by an adjustment for transactional risks. Other revenue-related risks stem from uncertainty regarding federal aid. The Office of the inspector General for the federal Department of Health and Human Services continues to review the allowability of Medicaid costs for services provided in certain prior years to developmentally disabled individuals in New York. Changes to the reimbursement for such services resulted in a reduction of an estimated $1.1 billion in annual federal aid. As a result of ongoing review, the federal Centers for Medicare and Medicaid Services (CMS) could seek to recover federal funds for additional prior years. Other health-related concerns identified by DOB include final execution of the terms of the $8 billion Medicaid waiver agreement reached with CMS.

New York and other states face the risk of a potential slowdown of federal transportation aid in the current fiscal year. The Federal Highway Trust Fund provides dedicated funding for state highway programs and local mass transit capital projects. The primary source of revenues for the Trust Fund is the federal excise tax on motor fuels. According to the Congressional Budget Office, about two-thirds of motor fuel tax collections come from the 18.4 cent per gallon tax on gasoline and ethanol blend motor fuels. The 24.4 cent per gallon excise tax on diesel fuel accounts for about one-fourth of remaining fuel tax receipts, while a variety of miscellaneous taxes and interest provides the remainder.

These excise tax rates have not changed since 1993. In recent years, collections have not kept pace with disbursements, as highway and mass transit construction costs have increased over time. As a result, some time in the next few months, the Trust Fund may not be able to meet all its obligations, absent action by Congress. Since federal law prohibits a negative Trust Fund balance, if the current situation persists, promised reimbursement payments from the federal government may be jeopardized. If that happens, New York's Department of Transportation might then be forced to slow the State's highway projects schedule, and local transit agencies might have to curtail their capital projects.

DOB also identified a risk of potential losses in federal funding from any sequestration cuts associated with the Federal Budget Control Act of 2011. DOB estimates the State and local governments could lose $5 billion in federal funding over a period of some years as a result.

On the spending side, DOB notes that the Financial Plan projections generally assume that school aid disbursements will be limited to the growth in State personal income, which DOB presents as 3.1 percent for SY 2014-15, reflecting a spending limitation enacted in SFY 2012-13. However, the SFY 2014-15 Enacted Budget authorizes school aid spending growth of 5.3 percent on a school year basis. Broadly speaking, the Enacted Budget depends on flexibility provided to the Executive to preserve budget balance and to achieve savings. A lack of specificity regarding potential savings actions makes it difficult to determine whether the proposed savings can be achieved.

Other spending-side concerns identified by DOB include labor-related negotiations and settlements, cash flow projections, pension amortization, and funding of other post-employment benefits.

The Financial Plan includes the limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service as a risk and/or uncertainty, although its expectation is that debt outstanding and debt service will continue to remain below the limits imposed by the Act. The Financial Plan includes a projection that debt capacity under the statutory cap on debt outstanding will decline from $3.3 billion in SFY 2012-13 to a projected Plan low of $366 million in SFY 2016-17, reflecting 0.03 percent of remaining capacity. The Plan notes that capital spending and debt financing practices may be adjusted to preserve debt capacity and keep spending under the caps.

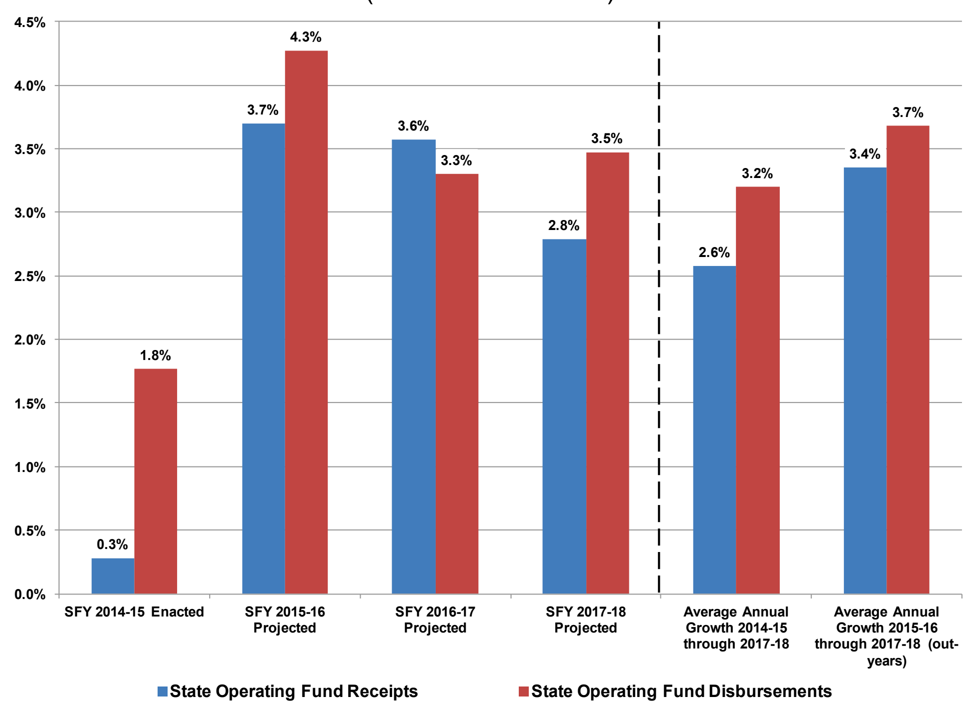
Structural Imbalance

Recent budgets have substantially reduced the structural imbalance between recurring revenues and expenditures that has plagued the State for decades. Despite such progress, the Enacted Budget Financial Plan is not balanced on a structural basis, and spending growth in future years is still projected to outpace revenue growth. Continued reliance on temporary and non-recurring resources, as well as administrative actions that may make trends in spending and revenue growth less clear, indicate that more progress is needed to put the State on a strong financial footing in the longer term.

The Executive has articulated an intention to adhere to a non-statutory cap on annual State Operating Funds spending growth of 2 percent. As with the SFY 2014-15 Executive Budget Financial Plan, the Enacted Budget Financial Plan includes an adjustment line in each summary table titled "Adherence to 2% State Operating Funds Spending Benchmark." This line provides the difference between projected spending based on current law and assumptions, and spending limited to 2 percent annual growth from estimated SFY 2014-15 levels. The Financial Plan states that if State Operating Funds spending growth in future years is held to 2 percent, savings would approach $5 billion by SFY 2017-18, enough to create an operating surplus, after enacted tax actions.

Figure 6

Projected Growth in Receipts and Disbursements – State Operating Funds
SFY 2014-15 through SFY 2017-18
(in millions of dollars)



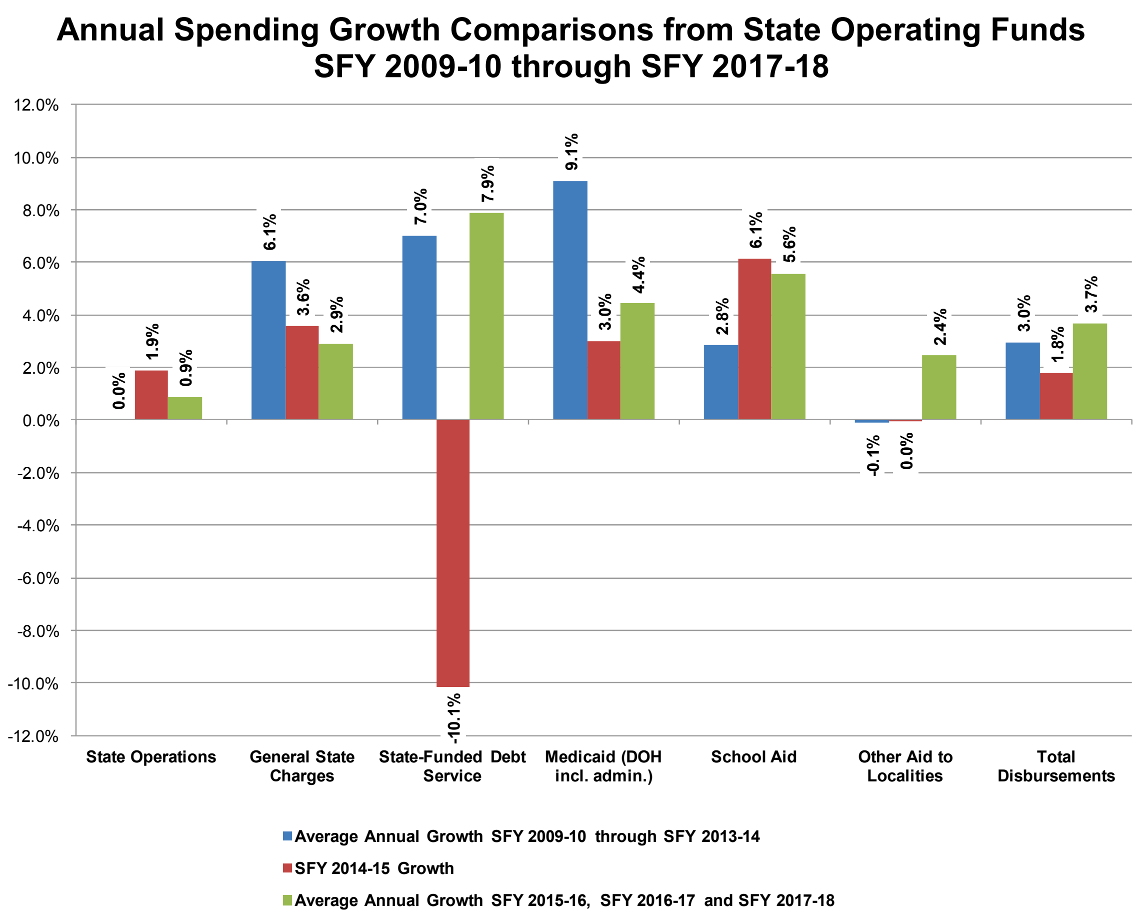
Source: Division of the Budget

Figure 6 illustrates current projected growth for receipts and disbursements from State Operating Funds. The columns on the far right show average annual growth for the whole plan as enacted (growth from SFY 2013-14) and average annual growth in out-years only (growth from SFY 2014-15). This presentation does not reflect the 2 percent spending limit goal, which is not included in enacted budget legislation or otherwise reflected in the disbursement figures in the Financial Plan.

The Executive indicates that if spending growth were held to 2 percent in future budgets, the State could realize a surplus of approximately $303 million by the second year of the Financial Plan, after any use of such resources for new policy actions. However, the Enacted Budget Financial Plan does not identify specific steps to achieve such spending limitations after SFY 2014-15.

Based on spending and receipt estimates included in the Enacted Budget Financial Plan, without adherence to the 2 percent spending growth target for State Operating Funds, the Office of the State Comptroller estimates that projected budget gaps would total $1.8 billion in SFY 2015-16 and rise to $3.4 billion in SFY 2017-18. Gap projections could increase further in the years beyond SFY 2017-18, as certain temporary resources currently supporting ongoing spending come to an end.

Figure 7



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

Out-year projections also illustrate how the structure of the Financial Plan is changing. Figure 7 compares average annual growth in various spending areas for the period from SFY 2010-11 through SFY 2013-14 to projected growth in SFY 2014-15, as well as to projected annual average growth from SFY 2014-15 through SFY 2017-18. The figures are not adjusted for the timing of payments or other movements of cash.[8]

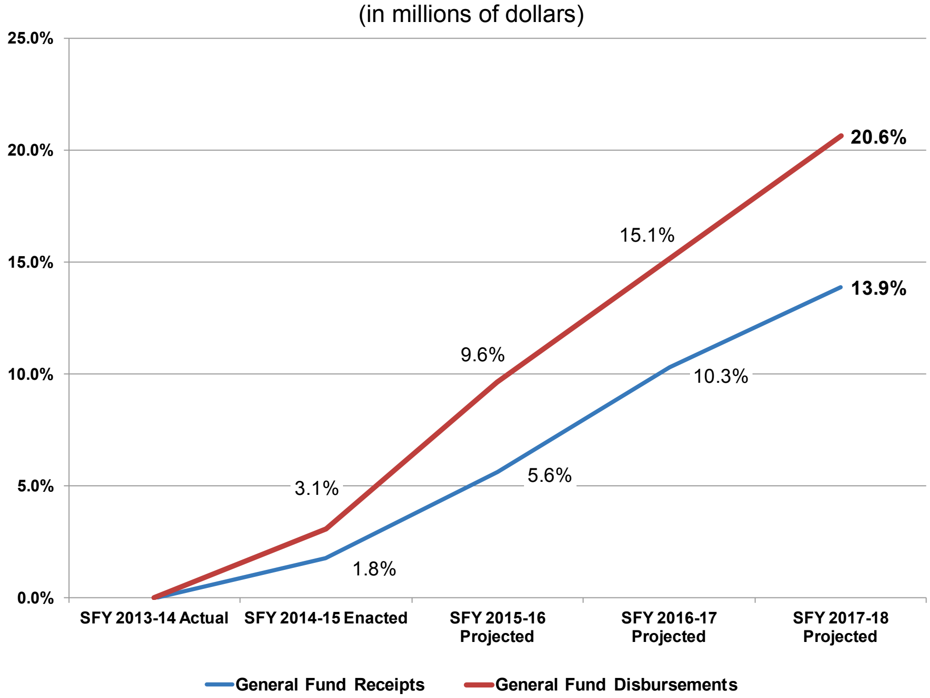
Figure 8 shows projected annual percentage growth in General Fund receipts and disbursements from SFY 2014-15 through SFY 2017-18. The Enacted Budget Financial Plan projects that General Fund receipts will grow an average of 3.3 percent annually in the four fiscal years from SFY 2014-15 through SFY 2017-18. Average annual growth in spending during that period is projected at 4.8 percent.

This Figure does not assume that future spending growth will be annually held to 2 percent. Instead, it shows the projections in the Enacted Budget Financial Plan for spending and receipt growth based on current law and assumptions, including the effects of actions that have been enacted in the last four budgets. The 6.7 percentage point difference equates to a projected gap of $3.4 billion in SFY 2017-18.

Figure 8

Projected Annual Percentage Growth in General Fund Receipts and Disbursements, SFY 2014-15 through SFY 2017-18 Based on SFY 2014-15 Enacted Budget

(in millions of dollars)



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

[8] State-Funded debt service includes costs associated with State University of New York (SUNY) dormitories through SFY 2012-13, when the funding was removed from the budget process and debt was moved off-budget. As such, out-year growth does not reflect any debt service for SUNY dormitories. State-Funded debt service includes funding for New York City's Transitional Finance Authority, the Sales Tax Asset Receivable Corporation and Municipal Bond Bank Agency for prior year school aid claims financed in SFY 2004-05. In the Financial Plan, these costs are counted as "Aid to Localities," so these costs are also removed from that category for this chart.

Over the life of the Financial Plan, the calculated General Fund deficit as a percentage of General Fund revenue increases to 4.9 percent in SFY 2017-18. By comparison, five years ago, in the SFY 2010-11 Enacted Budget Financial Plan, out-year gaps were projected to increase to almost $16 billion in SFY 2013-14, reflecting 25.5 percent of projected General Fund revenue in that year.

Temporary and Non-recurring Resources

Over several decades, the State has largely managed structural imbalances through the use of temporary and non-recurring resources, a practice which persists today, albeit on a smaller scale. Some level of such resources is to be expected, given the size and complexity of the State's budget. In the short term, such actions contribute to budget balance in the current year and smaller projected gaps in the Financial Plan out-years. However, by definition, temporary and non-recurring resources do not improve the State's structural imbalance between recurring levels of revenue and spending.

The Enacted Budget Financial Plan utilizes temporary and non-recurring resources totaling $5.1 billion, including just under $1.5 billion for federal disaster assistance, as well as another $1.4 billion in prepayments and advances that benefit the General Fund. The Plan also employs nearly $100 million in new non-recurring or temporary resources included as part of the Enacted Budget that are used to finance recurring expenditures. Finally, the Enacted Budget also relies upon non-recurring resources added in previous budgets that total $3.4 billion, which are expected to decline to just under $1.5 billion by SFY 2017-18.

Figure 9 illustrates these temporary and non-recurring resources, as well as the level of prepayments and additional advances that were made in SFY 2013-14 or are planned for SFY 2014-15. While the latter are not included in the total for temporary and non-recurring resources, such budget management actions make up a significant portion of the General Fund gap-closing plan.

The continued reliance on temporary resources delays decisions that could bring about structural balance, and leaves the State more susceptible to disruptive spending cuts and tax increases if unexpected revenue shortfalls arise.

Figure 9

Non-recurring Resources, Prepayments and Advances

(in millions of dollars)

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	Total
Prepayments and Advances					
SFY 2014-15 Debt Service Prepayment	668	-	-	-	**668**
SFY 2015-16 Debt Service Prepayment	(350)	350	-	-	**-**
Tax Refund Prepayments	328	-	-	-	**328**
Pension Contribution Prepayment	119	-	-	-	**119**
Social Services Prepayment	150	-	-	-	**150**
Additional Advance Transfer to Capital Projects	509	-	-	-	**509**
Total Prepayments and Advances	**1,424**	**350**	**-**	**-**	**1,774**
State Temporary and Non-recurring Resources					
Enacted					
Fund Sweeps	287	73	23	-	**383**
Property Tax Freeze	(375)	(783)	(342)	-	**(1,500)**
New York City Circuit Breaker	-	(85)	(85)	-	**(170)**
Reserves	188	11	12	11	**222**
Subtotal	*100*	*(784)*	*(392)*	*11*	***(1,065)***
Currently in Law					
Temporary Utility Assessment	232	160	126	-	**518**
State Insurance Fund	1,000	250	250	-	**1,500**
Gaming Licenses	200	-	-	-	**200**
Abandoned Property	155	155	155	155	**620**
Mortgage Settlement (1)	23	23	23	-	**68**
Dormitory Authority of the State of New York	22	-	-	-	**22**
New York Power Authority (2)	90	-	-	-	**90**
MMTOA for Debt Service (3)	10	-	-	-	**10**
PIT Surcharge Extension (4)	2,058	2,252	2,416	1,826	**8,552**
Job Growth Package	(65)	(115)	(196)	(95)	**(471)**
Extension of High Income Charitable Contribution Limit	140	140	70	-	**350**
Tax Modernization	22	22	17	-	**61**
Middle Class Family Tax Credit	(410)	-	(410)	(410)	**(1,230)**
Subtotal	*3,477*	*2,887*	*2,451*	*1,476*	***10,291***
Total State Temporary and Non-Recurring	**3,577**	**2,453**	**2,059**	**1,487**	**9,226**
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (5)	1,497	1,742	1,279	830	**5,348**
Total State and Federal Temporary and Non-Recurring Resources (not including Prepayments and Advances)	**5,074**	**4,195**	**3,338**	**2,317**	**14,574**
Total State and Federal Temporary and Non-Recurring Resources including Prepayments and Advances	**6,499**	**4,545**	**3,338**	**2,317**	**16,348**

(1) Represents the General Fund share of the JP Morgan civil settlement dated November 19, 2013, from a total deposit of $531.5 million. Of this deposit, a total $393.9 million is appropriated. Note that the State also received $81.5 million in SFY 2013-14 from this settlement, of which $58 million was returned to the Mortgage Settlement Proceeds Trust Fund.

(2) The total amount enacted in S.6355-D/A.8555-D Public Protection and General Government, Part I, Section 19(i) is $90 million. However, the language directs that the funds be credited to the General Fund, or as otherwise directed, in writing, by the Director of the Division of Budget to be utilized for energy-related initiatives or economic development purposes.

(3) Metropolitan Mass Transportation Operating Assistance Account within the Mass Transportation Operating Assistance Fund.

(4) Projections for the existing temporary PIT surcharge were not updated in the Enacted Financial Plan. These projections are based on actual collections relative to Plan.

(5) The Financial Plan does not separately detail spending for Disaster Assistance past SFY 2014-15, but the projected spending is included in the Division of Homeland Security and Emergency Services disbursement totals. These figures assume approximately $400 million annually for non-federally funded Homeland Security costs.

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

Effects of the General Fund Gap-Closing Plan on Out-years

The SFY 2014-15 Executive Budget included actions intended to eliminate a projected $1.7 billion current services deficit in SFY 2014-15, while reducing cumulative out-year gaps through SFY 2017-18 from $11.4 billion to $7.5 billion. The amended SFY 2014-15 Executive Budget projected cumulative current services General Fund gaps, over four years, of $11.4 billion before any budget actions. The Executive proposal added $8 billion in new recurring initiatives over the life of the Financial Plan, thus increasing the current services gap to $19.4 billion. The Executive's proposed gap-closing plan included approximately $11.9 billion in recurring gap-closing measures, reflecting 60.9 percent of the total. Non-recurring actions made up 2.9 percent of the gap-closing plan, while 36.8 percent of the out-year projected gap was not addressed.

The Enacted Budget Financial Plan also includes cumulative current services General Fund gaps of $11.4 billion, the same as projections in the Executive Budget. However, the Enacted Budget projects $4.6 billion in new recurring spending, reduces recurring revenue reductions by $2.3 billion over the next four years, and includes approximately $600 million in other actions, all of which increases the four-year gap total (before this year's gap-closing actions) to just over $20 billion. The gap-closing plan in the Enacted Budget Financial Plan relies upon $958 million in non-recurring resources to address gaps, or 4.8 percent of the total. Recurring spending reductions comprise 61.8 percent of the gap-closing plan, while 37.5 percent of the projected gaps are not addressed.

Figure 10

SFY 2013-14 Proposed and Enacted Budget Financial Plan Gap-Closing Measures
(in millions of dollars)

	Proposed SFY 2014-15 through SFY 2017-18	Enacted SFY 2014-15 through SFY 2017-18
Total Cumulative Gap to Be Closed	**(11,466)**	**(11,466)**
Additions to Gap		
Recurring Additions/Restorations/Initiatives	**(1,194)**	**(4,647)**
Recurring Revenue Reductions	**(6,413)**	**(4,078)**
Other	**(411)**	**183**
Total After Gap Additions	**(19,484)**	**(20,008)**
Re-Estimates	**(122)**	**(815)**
Share of Total After Gap Additions	*-0.6%*	*-4.1%*
Recurring Spending Actions	**11,871**	**12,356**
Share of Total After Gap Additions	*60.9%*	*61.8%*
Recurring Revenue Enhancements	**-**	**-**
Share of Total After Gap Additions	*0.0%*	*0.0%*
Temporary or Non-Recurring Resources/Cost	**558**	**958**
Share of Total After Gap Additions	*2.9%*	*4.8%*
Remaining Gap	**(7,177)**	**(7,509)**
Share of Total After Gap Additions	*36.8%*	*37.5%*

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

Figure 11 shows projections of out-year gaps or surpluses under different scenarios. The "2014-15 Enacted Budget" column shows DOB's Financial Plan estimates of surpluses, reflecting the impact of a contemplated 2 percent annual limit on growth in future State Operating Funds expenditures. The "Projected Savings from 2 Percent Spending Benchmark" columns shows savings that DOB projects from unspecified actions to hold spending within the 2 percent limit, while the "Enacted Budget Without 2 Percent Offset" column provides the Office of the State Comptroller's calculation of projected gaps based on DOB's figures for out-year expenditures and receipts. Such figures indicate that, while the State has made progress in reducing projected out-year gaps, further progress is needed to achieve structural balance.

Figure 11

Out-year General Fund Balance Surplus / (Gap) Estimates
(in millions of dollars)

	2013-14 Mid-Year Update	2014-15 Executive Budget	SFY 2014-15 Executive Budget Projected Savings from 2 Percent Spending Benchmark	SFY 2014-15 Executive Budget Without 2 Percent Offset	2014-15 Enacted Budget	SFY 2014-15 Enacted Budget Projected Savings from 2 Percent Spending Benchmark	SFY 2014-15 Enacted Budget Without 2 Percent Offset
2013-14	-	310	-	310	353	-	353
2014-15	(1,742)	-	-	-	-	-	-
2015-16	(2,889)	154	1,699	(1,545)	303	2,094	(1,791)
2016-17	(2,948)	164	2,375	(2,211)	1,105	3,385	(2,280)
2017-18	NA	174	3,622	(3,448)	1,478	4,916	(3,438)

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

New Spending Initiatives

The SFY 2014-15 Enacted Budget adds nearly $3.5 billion in net new General Fund spending through SFY 2017-18 compared to the Executive Budget. In SFY 2017-18, the spending added in SFY 2014-15 is projected to increase to nearly $1.5 billion, offset by spending reductions of $2.9 billion for a net decrease of $1.4 billion.

Taxes and Fees

The Enacted Budget includes actions totaling $4.1 billion in tax reductions over the life of the Financial Plan, which is approximately $2.3 billion lower than the more than $6 billion in reductions initially proposed by the Executive. Certain portions of the package are temporary, such as the property tax freeze that is expected to reduce revenues through PIT tax credits totaling $1.5 billion through SFY 2016-17). Other tax reductions, including those affecting corporate taxes and the estate tax, are permanent.

Spending Reductions

The Enacted Budget includes actions that are projected to reduce spending growth by a total of nearly $10.5 billion through SFY 2017-18. This includes $7.1 billion from local assistance reductions, primarily in education and STAR, but also in State-share Medicaid costs that are moved out of the General Fund.

The Enacted Budget also includes actions that are expected to reduce the growth in spending in State Operations by approximately $3.4 billion through SFY 2017-18. These actions involve reductions in spending by both Executive and independent agencies (Office of the State Comptroller and the Department of Law), as well as a reduction in the growth of spending for General State Charges associated with revised pension costs.

Transfers from the General Fund for Capital Projects and Debt Service

The General Fund provides funding for a number of different programs as well as funding for general Debt Service and Capital Projects (as well as serving as the fund of last resort for the Dedicated Highway and Bridge Trust Fund and other funds). Just like increasing revenue or decreasing expenditures, changes to transfers to and from the General Fund affect the closing balance and any gap-closing plan.

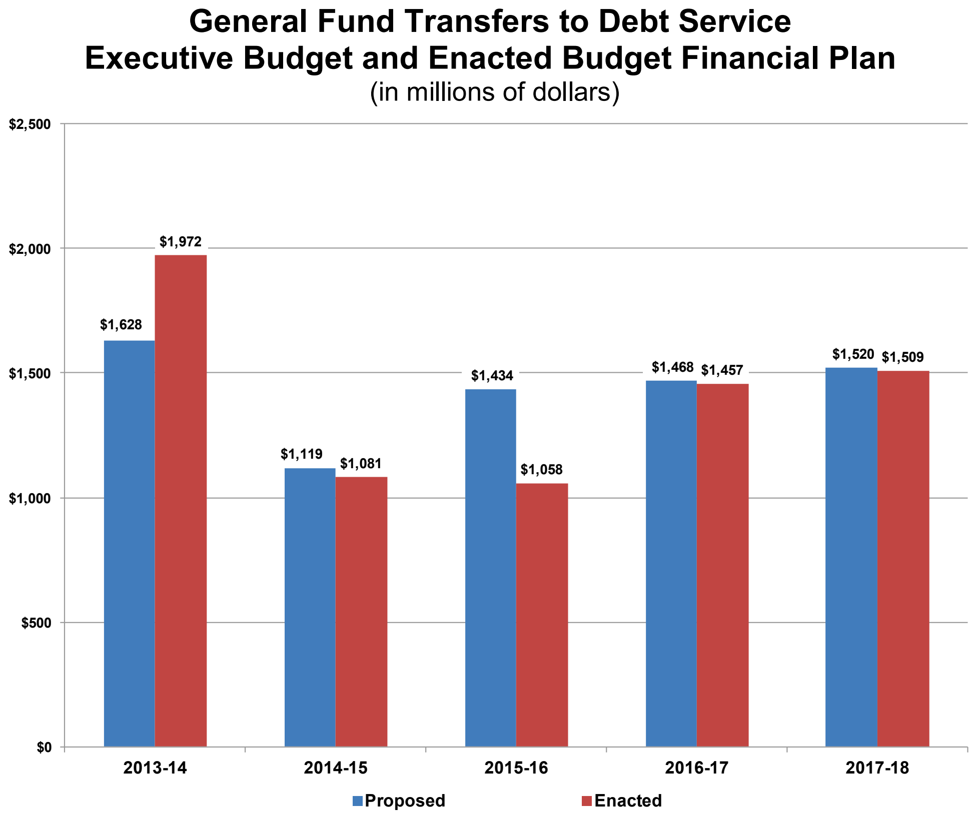
DOB states that the Enacted Budget includes $610 million in new or restored spending and another $220 million in additional revenue actions (tax credits) that reduce receipts. As such, the gap-closing plan was required to replace or create $830 million in resources to pay for the initiatives added to the Executive proposal. DOB also lowered tax projections in the General Fund by $343 million as a result of lower-than-anticipated PIT collections in April 2014. DOB identified $1.2 billion in new resources to cover these changes, including nearly $600 million in lower transfers to other funds in SFY 2014-15.

The Executive Budget Financial Plan projected that transfers from the General Fund to other funds would increase $153 million in SFY 2014-15, or 1.8 percent, including an increase of $361 million for Capital Projects and offset by a decline of $509 million for Debt Service (with $301 million in other transfers). The decline in transfers to Debt Service was primarily due to planned prepayments totaling $318 million identified earlier in the year.

The Enacted Budget Financial Plan projects General Fund transfers to other funds will decline $993 million in SFY 2014-15, or almost 11 percent, primarily because actual transfers made in SFY 2013-14 ended up being $576 million higher than projected in the Executive's amended Financial Plan and projected transfers for SFY 2014-15 are $570 million lower. Average annual transfers over the life of the Plan do not change significantly, from $9.47 billion to $9.36 billion. The reduction in transfers provides General Fund relief.

Over the four years of the Executive Budget Financial Plan, transfers to Debt Service funds were projected to total $7.2 billion, averaging $1.4 billion annually. Figure 12 illustrates how $344 million in additional funds were transferred at the end of SFY 2013-14, thus further reducing the need in SFY 2014-15 (this is in addition to the planned prepayment, meaning a total of $668 million was prepaid in SFY 2013-14). However, DOB also plans a $350 million Debt Service prepayment in SFY 2014-15. As such, the benefit from increasing the transfer in SFY 2013-14 is more apparent in projections for SFY 2015-16.

Figure 12



Source: Division of the Budget

The gap-closing plan also includes transfer actions associated with capital spending. Discussion of these actions appears in the section titled *Capital Projects Funds and Their Role in the General Fund Gap-Closing Plan.*

Non-recurring or Temporary Resources in the Gap-Closing Plan

The use of non-recurring or temporary resources to meet recurring expenses exacerbates the State's structural deficit, making it more difficult to achieve budget balance in the future. The Enacted Budget includes $478 million in non-recurring or temporary resources for the SFY 2014-15 gap-closing plan, compared to $558 million in the Executive proposal. See the Appendix for more details regarding the gap-closing plan in the Enacted Budget Financial Plan.

Reserves

The SFY 2014-15 Enacted Budget Financial Plan utilizes $180 million in unrestricted reserves, including $87 million from the Community Projects Fund, $58 million from the recent J.P. Morgan settlement that is being deposited into the newly created Mortgage Settlement Proceeds Trust Fund, and $46 million that is undesignated.

The State ended SFY 2013-14 with a General Fund closing balance of $2.2 billion, representing an increase of over $625 million from SFY 2012-13 and an increase of $432 million in additional, unanticipated funds (in comparison to the Executive's amended Financial Plan issued in February 2014). DOB has stated an intent to use $500 million in unrestricted reserves for debt management purposes, although there are no disbursements from reserves included in the Enacted Budget Financial Plan. A deposit of $175 million was also made to the Rainy Day Reserve Fund at the end of SFY 2013-14. Figure 13 below compares restricted and unrestricted reserve levels within the General Fund.

Figure 13

Closing General Fund Balance and Reserves – Actual and Projected Year End
SFY 2013-14 through SFY 2017-18
(in millions of dollars)

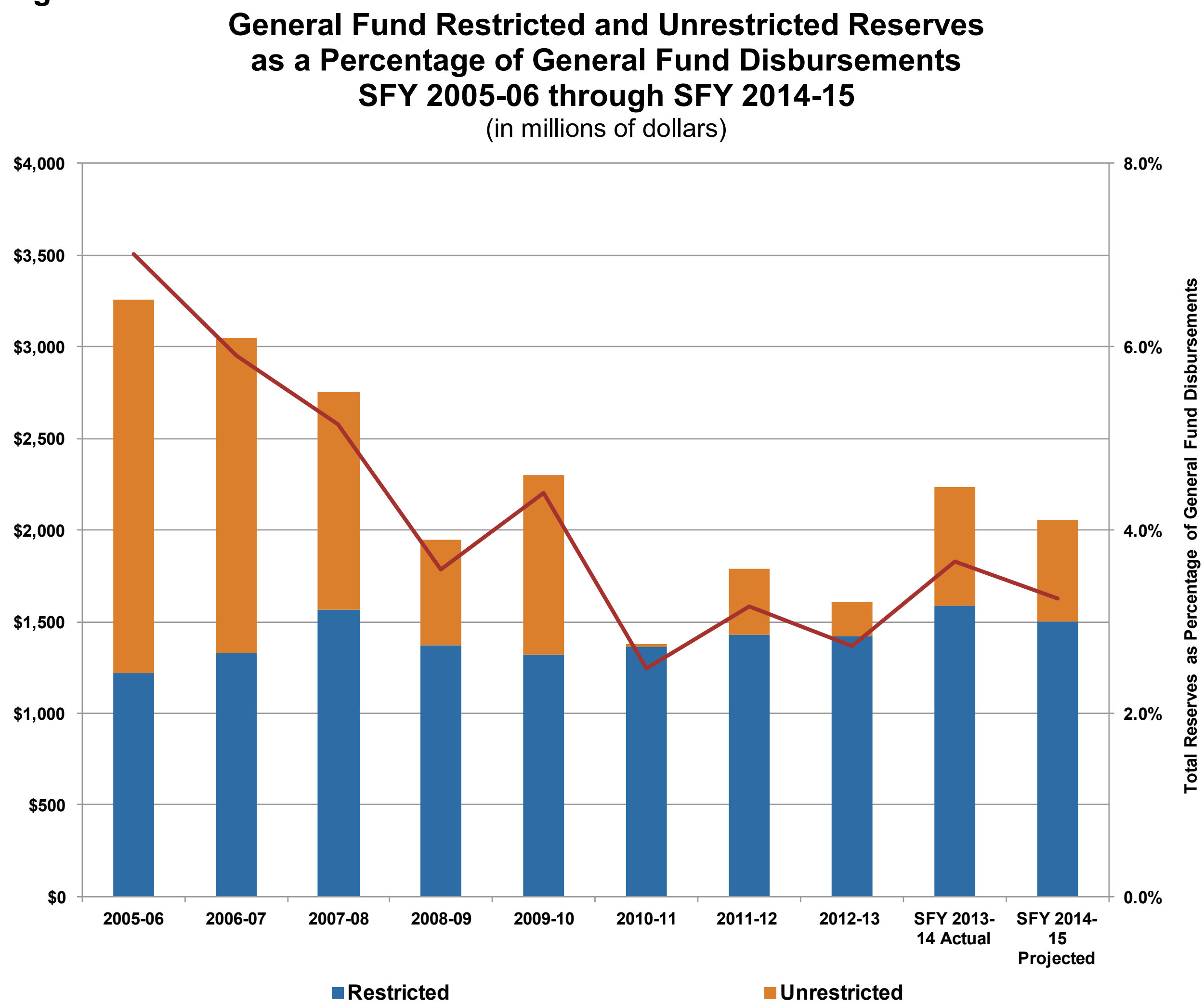
	SFY 2013-14 Actual	SFY 2014-15 Projected	SFY 2015-16 Projected	SFY 2016-17 Projected	SFY 2017-18 Projected
Statutory Reserves					
Tax Stabilization Reserve Fund	1,131	1,131	1,131	1,131	1,131
Rainy Day Reserve	350	350	350	350	350
Contingency Reserve Fund	21	21	21	21	21
Community Projects Fund	87	-	-	-	-
Refund Reserve (Unrestricted)	646	553	564	576	587
Total	**2,235**	**2,055**	**2,066**	**2,078**	**2,089**

Source: Division of the Budget

Figure 14 illustrates trends in restricted and unrestricted General Fund reserves from SFY 2005-06 through SFY 2014-15. Unrestricted reserve levels in SFY 2009-10 and SFY 2010-11 were affected by the delay of $2.06 billion in school aid payments and $500 million in PIT refunds from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11.

As shown by the red line in Figure 14, total reserves have declined from approximately 7 percent of General Fund disbursements in SFY 2005-06 to less than 4 percent in each of the last four years. As a proportion of disbursements, reserves are projected to decline further in the current fiscal year when compared to SFY 2013-14 levels.

Figure 14



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

Capital Program and Financing Plan

The SFY 2014-15 Enacted Budget Capital Program and Financing Plan (Capital Plan) increases the State's total amount of projected capital spending (including $4.5 billion in off-budget capital spending, in which State-Supported bond proceeds are expended directly by public authorities) to nearly $47.9 billion over the next five years, compared to $46.8 billion in the Executive's proposed Capital Plan for the same five-year period, an increase of just over $1.0 billion, as illustrated in Figure 15. This also represents an increase of nearly $2.5 billion over the previous five-year period.[9]

Figure 15

Executive and Enacted Budget Capital Program and Financing Plan
Actual and Projected Disbursements
(in millions)

Capital Spending	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total without 2013-14
Proposed	9,430	9,458	10,296	9,181	8,764	9,150	46,849
Enacted	9,104	9,394	10,695	9,477	9,019	9,268	47,853
Difference	(326)	(64)	399	296	254	118	1,004

Source: Division of the Budget

Over the life of the Capital Plan, annual capital spending is projected to average $9.6 billion, and just under $900 million or 9.4 percent of the annual average is projected to be off-budget. Beginning in SFY 2014-15, spending for the Consolidated Highway Improvement Program – CHIPs – will be brought "on-budget" and included in both Capital Plan and Financial Plan spending figures.

Over the five-year Capital Plan period, 44.1 percent of annual spending on average will address transportation purposes, down slightly from 44.5 percent in the Executive's proposed Capital Plan, and down from the 48.4 percent average of the last five years.

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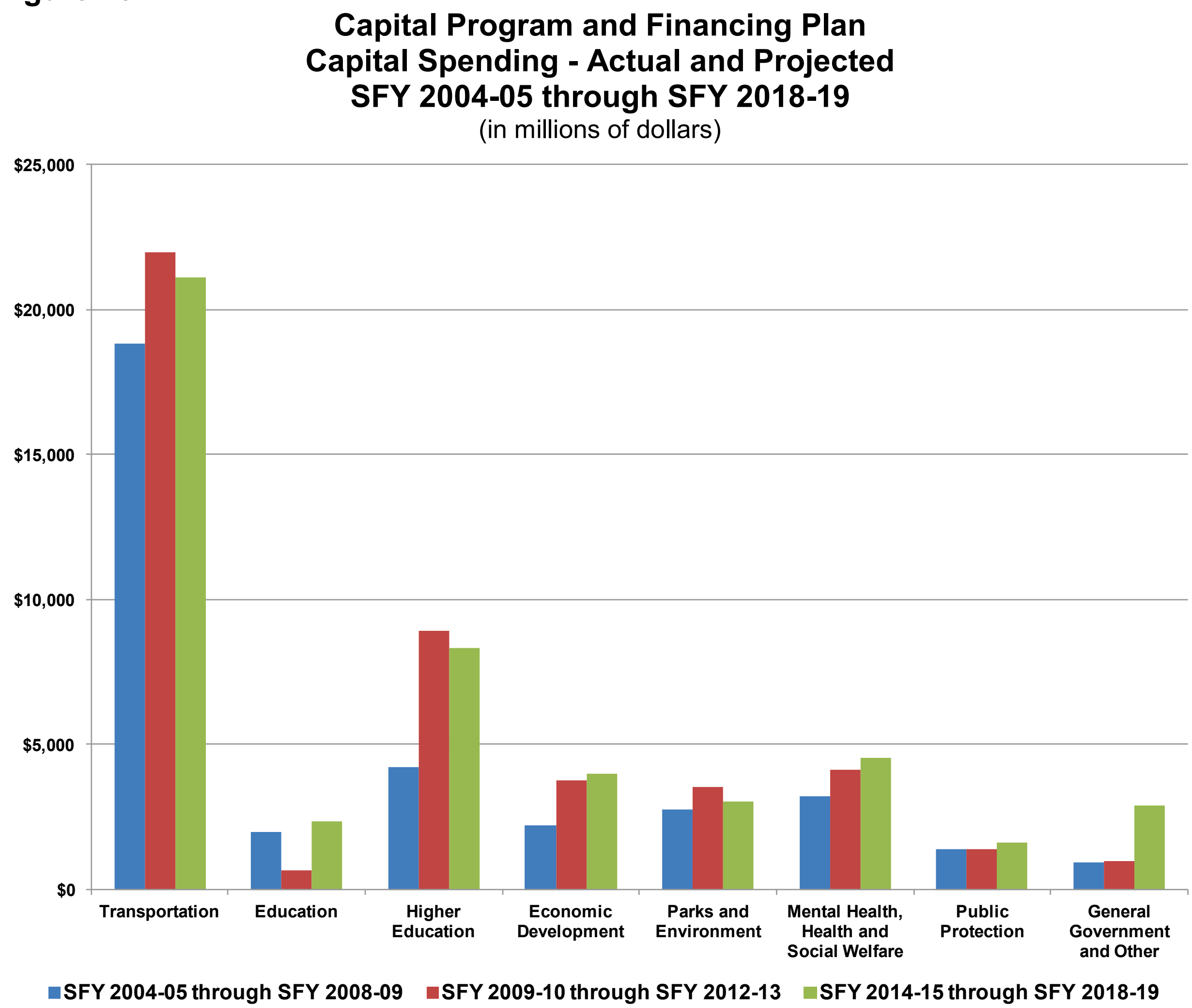
[9] Capital spending can be measured in two ways. In the Capital Program and Financing Plan, capital spending is measured as spending from Capital Projects funds, one of the four fund groups that make up All Governmental Funds. This measure also includes some local assistance grants that are deemed capital in nature. In addition, the Capital Program and Financing Plan includes off-budget capital spending in which public authorities issue State-Supported bonds on behalf of the State and spend directly from those proceeds. The Enacted Budget Capital Program and Financing Plan projects capital spending growth of 3.2 percent in SFY 2014-15. The Enacted Budget Financial Plan measures capital spending across fund groups (although the vast majority comes from the Capital Projects fund group) and does not include local assistance spending or off-budget spending. The Financial Plan projects growth in capital spending of 8.7 percent in SFY 2014-15. This increase is, in part, due to the movement of spending for the Consolidated Highway Improvement Program on budget. This spending had previously been off-budget and not included in the Financial Plan spending. As of March 31, 2013, capital spending for SUNY dormitories is no longer counted in capital spending figures or in the Financial Plan. Before March 31, 2013, capital spending for SUNY dormitories averaged approximately $170 million annually over the previous five years.

Education and Higher Education represent the next largest shares of capital spending, comprising 22.3 percent of the total Capital Plan over the next five years. The remaining 33.6 percent is divided among health, mental hygiene, social welfare, parks and environment, public protection and other governmental purposes. Figure 16 illustrates how projected spending for Capital Projects over the five-year Capital Plan period compares to the previous 10 years of actual spending.

Figure 16

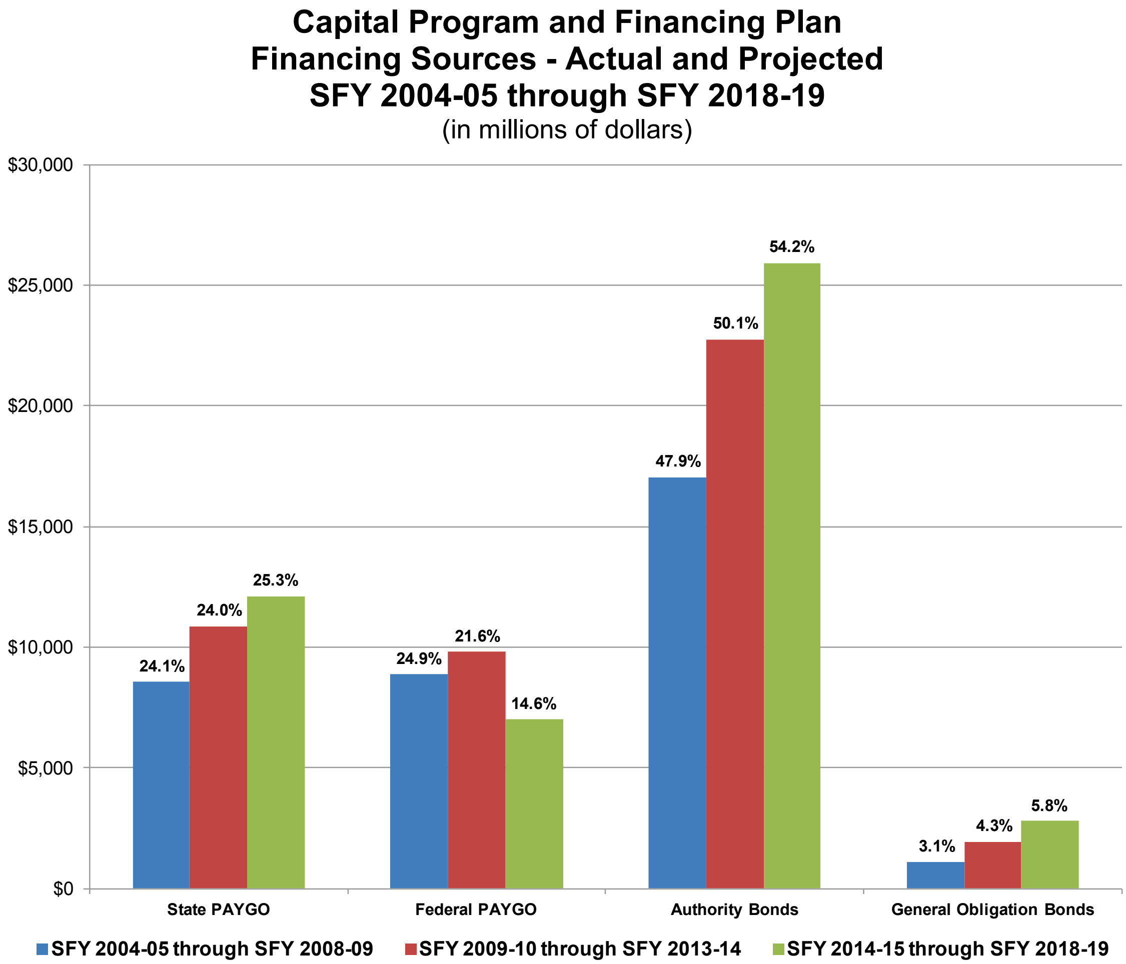


Sources: Division of the Budget, Office of the State Comptroller

The largest share of financing for the $47.9 billion Capital Plan is public authority bonds, averaging 54.2 percent of total financing over the next five years. This is higher than the 49.2 percent average share from the previous 10 years. The SFY 2014-15 Enacted Budget includes the $2 billion Smart Schools Bond Act, which will be put before voters this fall. As a result of this new program, the proportion of financing from General Obligation bonds is projected to increase from 3.8 percent during the previous 10 years to 5.8 percent over the next five years.

Between SFY 2004-05 and SFY 2013-14, capital spending supported by State cash resources (pay-as-you-go or PAYGO spending) averaged approximately 31.4 percent of capital spending, which is less than the average annual percentage of 36.4 percent since 1985. Figure 17 illustrates how financing sources for the Capital Plan have changed over the last decade and how they are projected to change over the next five years. Financing from State PAYGO is projected to increase slightly, whereas PAYGO from federal sources is projected to decline.

Figure 17



Sources: Division of the Budget, Office of the State Comptroller
Note: Figures at the top of the bars represent shares of total spending.

Debt Outstanding and Debt Service

The SFY 2014-15 Enacted Budget Capital Plan projects that State-Supported debt will increase $6.5 billion, or 12.4 percent, from SFY 2013-14 through SFY 2018-19. State-Funded debt[10] is projected to increase $9.5 billion, or 15.0 percent, or $9.5 billion to over $72.7 billion, during the same time frame.[11]

[10] State-Funded debt was defined by the Office of the State Comptroller in the February 2005 report, *New York State's Debt Policy, a Need for Change*. State-Funded debt represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include: bonds issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation (TSFC) to finance deficits in

Significant increases in the use of debt over the past decade coupled with declines or sluggish growth in Personal Income, have depleted much of the State's statutory debt capacity. Available State-Supported debt capacity as defined by the Debt Reform Act of 2000 is projected to decline from $3.3 billion in SFY 2013-14 to $366 million in SFY 2016-17. Figure 18 illustrates State-Supported and State-Funded debt outstanding from SFY 2013-14 through SFY 2018-19. State-Funded debt issuances are projected to be $34.2 billion over the next five years (an average of just under $6.5 billion annually), including $26.1 billion in new State-Supported debt issuances. Over the last five years, new State-Funded debt issuances have averaged $5.2 billion annually, including State-Supported debt issuances of $4.5 billion.

Figure 18

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

		Enacted Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2014-15 through SFY 2018-19	SFY 2014-15 through SFY 2018-19
General Obligation	3,191,335	3,198,826	4,216,695	4,273,948	4,326,173	4,353,282	36.4%	1,161,947
Other State-Supported Public Authority	49,268,175	50,448,355	52,167,975	53,383,149	53,668,658	54,616,970	10.9%	5,348,795
State-Supported	**52,459,510**	**53,647,181**	**56,384,670**	**57,657,097**	**57,994,831**	**58,970,252**	**12.4%**	**6,510,742**
SUNY Dormitories	317,841	394,562	560,393	716,139	916,501	900,319	183.3%	582,478
TSFC	2,053,345	1,744,905	1,374,720	1,035,335	680,080	-	-100.0%	(2,053,345)
TFA BARBs	6,051,465	7,447,540	8,720,815	9,982,234	11,220,663	11,026,819	82.2%	4,975,354
STARC	2,063,315	1,996,545	1,926,475	1,853,680	1,776,525	1,695,365	-17.8%	(367,950)
MBBA	281,315	262,650	233,670	203,375	171,605	138,605	-50.7%	(142,710)
Total Other State-Funded	**10,767,281**	**11,846,202**	**12,816,073**	**13,790,763**	**14,765,373**	**13,761,108**	**27.8%**	**2,993,827**
Projected Outstanding (State-Funded)	**63,226,791**	**65,493,383**	**69,200,743**	**71,447,860**	**72,760,204**	**72,731,360**	**15.0%**	**9,504,569**

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

State-Funded debt retirements are projected to be $22.9 billion (an average of $4.6 billion annually), including $19.6 billion in State-Supported retirements (an average of $3.9 billion annually), over the Capital Plan period. State-Funded retirements have averaged $3.6 billion over the last five years, including State-Supported debt retirements of $3.2 billion.

State-Supported Debt Service is projected to grow to $7.2 billion by SFY 2018-19, or 12.8 percent, as illustrated in Figure 19. State-Funded Debt Service is expected to

SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency (MBBA); and Building Aid Revenue Bonds (BARBs) issued by New York City's Transitional Finance Agency (TFA). Not all State-Funded debt appears in the Capital Program and Financing Plan and is, therefore, illustrated separately in the tables of this section. See the Comptroller's Debt Impact Study for more information on State-Funded debt, at www.osc.state.ny.us/reports/debt/debtimpact2010.pdf.

[11] Projected issuance for TFA BARBs and SUNY Dormitories is available only through SFY 2017-18.

exceed $8.6 billion by SFY 2018-19 after growing approximately 14.5 percent, or 2.8 percent annually on average, from SFY 2013-14.

Figure 19

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

		Enacted Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2013-14 through SFY 2018-19	SFY 2013-14 through SFY 2018-19
General Obligation	472,379	436,116	429,205	551,198	543,379	527,720	11.72%	55,341
Other State-Supported Public Authority	5,915,269	5,180,846	5,449,838	6,102,169	6,449,958	6,678,102	12.90%	762,833
2014-15 Capital Plan (State-Supported)	**6,387,648**	**5,616,962**	**5,879,043**	**6,653,367**	**6,993,337**	**7,205,822**	**12.8%**	**818,174**
SUNY Dorms (All)	134,409	146,865	153,814	158,882	160,938	175,251	30.4%	40,842
TSFC	396,581	400,423	447,488	399,294	398,022	247,909	-37.5%	(148,672)
TFA BARBs	410,785	448,590	497,892	591,005	687,459	781,695	90.3%	370,910
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	27,593	31,211	40,780	40,966	40,986	40,964	48.5%	13,371
Total Other State-Funded	**1,139,368**	**1,197,089**	**1,309,973**	**1,360,146**	**1,457,405**	**1,415,819**	**24.3%**	**276,451**
Projected Debt Service (State-Funded)	**7,527,016**	**6,814,051**	**7,189,016**	**8,013,513**	**8,450,742**	**8,621,641**	**14.5%**	**1,094,625**

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

Capital Projects Funds and Their Role in the General Fund Gap-Closing Plan

Management of debt and capital resources represents a major component of DOB's gap-closing plan in the Enacted Budget Financial Plan, with nearly $671 million or 39 percent of the total projected gap for SFY 2014-15 being addressed with these actions. This represents a significant increase from the Executive Budget Financial Plan, which included $116 million related to debt management initiatives, representing just under 7 percent of the gap.

A considerable portion of this is associated with capital advances from the General Fund to the Capital Projects Fund in SFY 2013-14. According to DOB, these advances are expected to be reimbursed in SFY 2015-16.

Figure 20 illustrates the projected transfers from the General Fund to the Capital Projects Fund in the Executive Budget Financial Plan and the Enacted Budget Financial Plan over the Financial Plan period. Figure 20 shows that an additional $358 million was transferred from the General Fund to the Capital Projects Fund in SFY 2013-14 above the amount that was anticipated in the Executive Budget Financial Plan. The

Enacted Budget Financial Plan lowers the anticipated transfer from the General Fund to the Capital Projects Fund in SFY 2014-15 by $509 million from the amount included in the Executive Budget Financial Plan, thus providing the benefit of last year's transfer to the General Fund in SFY 2014-15. These actions effectively move a gap from one fund to another.

Transfers from the General Fund to the Capital Projects Fund over the Financial Plan period are projected to decline by $1.0 billion when compared to the Executive Budget Financial Plan, although capital spending during that same time period is projected to increase by $886 million.

Figure 20

Capital Projects Fund Transfers from the General Fund
Proposed and Enacted Budget Financial Plans
(in millions)

Transfers from the General Fund to Capital Projects Funds	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**Total without 2013-14**
Proposed	1,078	1,439	1,571	1,932	2,161	7,103
Enacted	1,436	930	1,406	1,761	2,006	6,103
Difference	358	(509)	(165)	(171)	(155)	(1,000)

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

Several funds outside of the General Fund are authorized to carry a negative fund balance and can borrow from other funds to meet ongoing expenses.[12] The Capital Projects Fund has historically carried a negative fund balance. Spending from Capital Projects funds is often funded by transfers from the General Fund and reimbursed with bond proceeds or by federal receipts or dedicated tax collections.

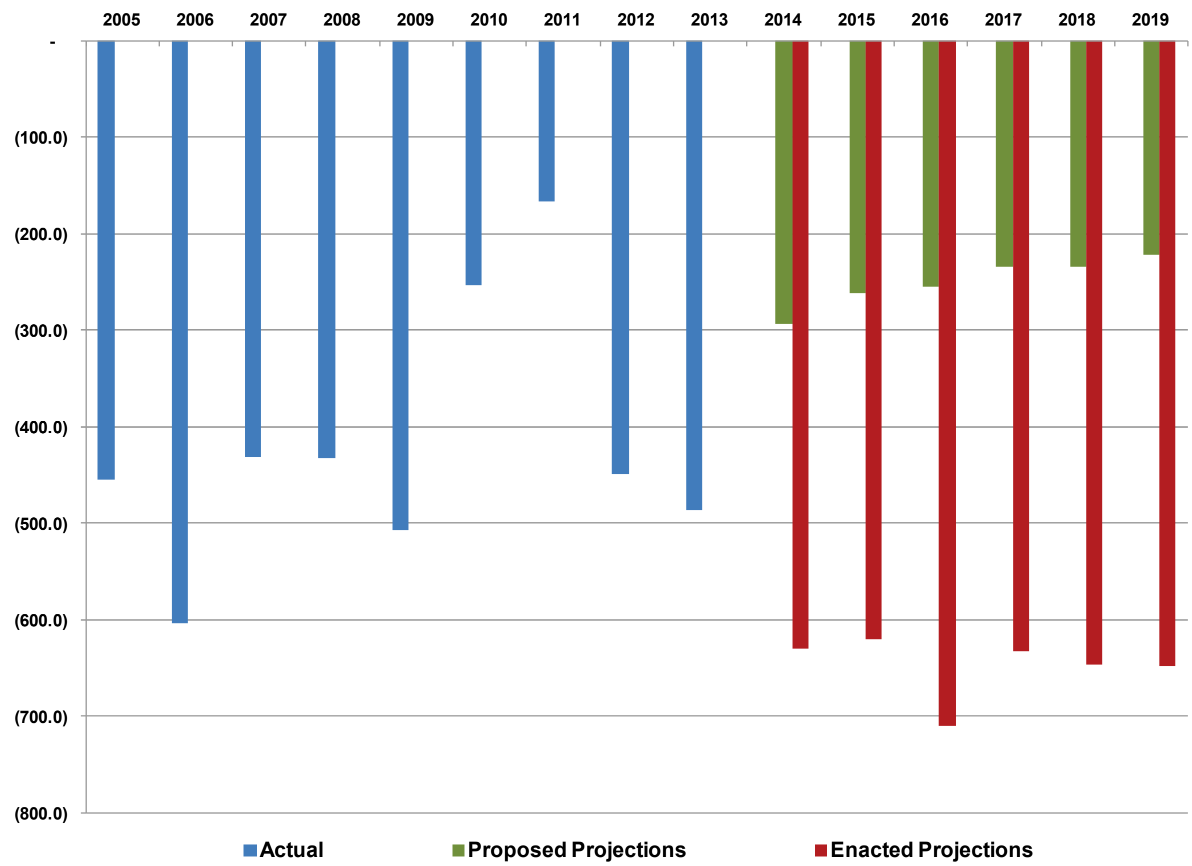
Over the last ten years, the average negative closing fund balance was $441.6 million (including the unaudited balance for SFY 2013-14). The Executive Budget Capital Plan anticipated a significant improvement in the average closing negative fund balance over the Capital Plan period, with an average projected negative closing fund balance of $241.3 million. This represented a projected decline in the average negative closing balance of 40.9 percent. However, the Enacted Budget Capital Plan projects that the average negative closing fund balance will be $651.1 million, representing an increase over the previous ten-year period of approximately 47.5 percent. The increase in negative closing fund balance begins in SFY 2013-14 with a negative balance of $630.2 million, the highest in at least ten years.

[12] See Appendix G in the Comptroller's Monthly Report on State Funds Cash Basis of Accounting as well as schedules 32 and 33 in the Comptroller Annual Report to the Legislature on State Funds Cash Basis of Accounting for a complete listing of temporary loans between funds. Both reports, current and historic, are available at www.osc.state.ny.us/finance/cbr.htm.

Figure 21 illustrates the actual aggregate closing fund balance in the Capital Projects Fund in each of the last ten years, as well as balances projected in the Executive's Proposed Budget Capital Plan and the Enacted Budget Capital Plan.

Figure 21

Actual and Projected Aggregate Closing Balance – Capital Projects Fund
(in millions of dollars)



Source: Division of the Budget, Office of the State Comptroller
Note that the figure for SFY 2013-14 in the Proposed Budget is a projection for the fund balance. The SFY 2013-14 figure listed for the Enacted Budget represents the actual (unaudited) fund balance.

The reduction in the General Fund transfer to the Capital Projects Fund over the Financial Plan period when compared to the Executive Budget Financial Plan, coupled with the projected increase in capital spending and the projected increase in the negative closing fund balance, could be described as a movement of a portion of the projected General Fund gap to the Capital Projects Fund.

Appendix

General Fund Gap-Closing Plan SFY 2014-15 through SFY 2017-18

(in millions of dollars)

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18
Current Services Gap Reported in Mid-Year Update	**(1,742)**	**(2,889)**	**(2,948)**	**(3,887)**
Tax Receipt Revisions	(450)	(88)	249	311
Other Revisions	289	(194)	(355)	(577)
Current Services Gap After Revisions	**(1,903)**	**(3,171)**	**(3,054)**	**(4,153)**
Non-Recurring and Temporary Resources and Costs	**478**	**844**	**35**	**(399)**
Use of Surplus	353	-	-	-
Modify Delivery of Family Tax Credit	-	410	-	(410)
Debt Service Prepayment	(350)	350	-	-
Fund Sweeps	287	73	23	-
Reserves	188	11	12	11
Revenue Actions	**(725)**	**(1,338)**	**(1,271)**	**(744)**
Tax Actions	(725)	(1,338)	(1,271)	(744)
Capital Projects and Debt Management	**671**	**395**	**382**	**409**
Actions from Executive Proposal	116	110	118	158
Reduced Capital Transfers from General Fund	509	165	171	155
Reduced Debt Service Transfer from General Fund	38	26	11	11
Other Capital and Debt Management Actions	8	94	82	85
State Operations Reductions (including restorations)	**494**	**734**	**940**	**1,240**
Executive Agencies	85	194	256	328
Independent Agencies	104	233	245	240
Fringe Benefits/Fixed Costs	305	307	439	672
Local Assistance Reductions (including restorations)	**1,676**	**1,802**	**1,952**	**1,661**
Cost of Living Adjustments - Human Services	92	125	127	128
Mental Hygiene	199	368	366	(2)
Health Care	152	98	(43)	(161)
Moving Costs to Department of Health Global Cap	270	448	638	688
Education	450	335	404	526
STAR	172	227	232	286
Social Services/Housing	341	201	228	196
Negotiated Initiatives	**(715)**	**(1,110)**	**(1,323)**	**(1,499)**
All Other	**24**	**53**	**59**	**47**
Remaining Gap In Enacted Budget Financial Plan	**-**	**(1,791)**	**(2,280)**	**(3,438)**

Source: Division of the Budget