



Report on Estimated Receipts and Disbursements

State Fiscal Years 2014-15 through 2016-17

November 2014

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Overview

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2014-15 through SFY 2016-17, issued pursuant to Section 23 of the State Finance Law (as amended by Chapter 1 of the Laws of 2007), is intended to enhance analysis and discussion of the State's economic condition and the State Budget.

The national economy continues to recover, but at a relatively slow rate of growth. The nation's Gross Domestic Product (GDP) grew by 2.2 percent in 2013 over the prior year, and is expected to grow by 2.3 percent in 2014. GDP growth is expected to be modestly higher in 2015. One major risk facing both the State and national economies is softening in overseas markets, particularly Europe and Asia.

After outpacing nationwide trends during and immediately after the Great Recession, employment in the State continues to rise, but more slowly than in the nation as a whole. New York employment is expected to increase by 1.2 percent in 2015, compared to a national gain of 1.8 percent.

The Office of the State Comptroller projects that the State's tax revenues will be relatively flat, growing by 0.7 percent in SFY 2014-15. Among other factors, this estimate reflects a decline in certain Personal Income Tax (PIT) payments caused by taxpayer response to federal tax changes, the introduction of new tax credits, and the State's repayment of certain business tax credits that had been delayed in previous years. Tax receipts are expected to grow by 5.6 percent in SFY 2015-16, largely because of the low level of growth in Personal Income Tax receipts projected in SFY 2014-15 as well as the projected growth in the economy.

The Office of the State Comptroller's projections for All Funds receipts are \$27 million lower than estimates from the Division of the Budget (DOB) for SFY 2014-15, \$105 million lower in SFY 2015-16 and \$164 million higher in SFY 2016-17, based on DOB's most current projections from the First Quarterly Update to the SFY 2014-15 Enacted Budget Financial Plan.

The Office of the State Comptroller's projections for All Funds disbursements are \$58 million higher than estimates from the DOB for SFY 2014-15, \$107 million higher in SFY 2015-16 and \$147 million higher in SFY 2016-17, based on DOB's most current projections from the First Quarterly Update to the SFY 2014-15 Enacted Budget Financial Plan.

Background: “Quick Start” Financial Information Review Process

The State Finance Law requires the staffs of the Executive, the Senate, the Assembly and the Comptroller to prepare and make available by November 5 of each year separate reports detailing estimates of receipts and disbursements “for the current and ensuing fiscal years.”¹ The Office of the State Comptroller interprets this provision as requiring estimates for the current and the next two ensuing fiscal years.

The receipts forecast must include estimates of taxes on an All Funds basis, lottery receipts and General Fund miscellaneous receipts. The disbursements forecast is required to include, but is not limited to, estimates in the functional areas of Medicaid, public assistance and elementary and secondary education (school aid). The underlying factors and data upon which the disbursement estimates are based must be included as well.

By November 15, the Executive, Senate and Assembly are directed to prepare jointly and make available on their respective Internet websites a report on the actual, estimated and projected State receipts and disbursements for the prior, current and ensuing fiscal years.

The statute also requires a public meeting of the staffs of the Executive, the Senate, the Assembly and the Comptroller to be held on or before November 15 to review financial information jointly, including the economic outlook, receipt forecasts, projected disbursements, and the impact of relevant State and federal statutory provisions on the State’s Financial Plan, to facilitate the timely adoption of a State Budget for the next fiscal year.

Office of the State Comptroller’s Estimates for Receipts and Disbursements

The Office of the State Comptroller maintains extensive data on receipts and disbursements, which reflect the flow of revenues and expenditures through New York’s Statewide Financial System (SFS). The Office of the State Comptroller’s estimates are based on analysis of such data along with projections by DOB, recent and projected economic indicators as well as other information. Unless otherwise indicated, all projections reflect comparisons to the prior fiscal year.

The following tables summarize the Office of the State Comptroller’s estimates compared to DOB’s estimates for receipts and disbursements as contained in the SFY 2014-15 First Quarter Financial Plan Update. The Office of the State Comptroller’s estimates for All Funds receipts and disbursements reflect factors including current law that provides for caps on growth in Medicaid and school aid spending. Because the statutory cap on Medicaid disbursements applies to disbursements from State Operating Funds, estimates for State Operating Funds are also provided.

¹ See Section 23(5) of the State Finance Law.

Figure 1

Actual and Estimated Receipts and Disbursements, All Funds
SFY 2013-14 through SFY 2016-17
(in millions of dollars)

	2013-14						
	Actual	2014-15	Growth	2015-16	Growth	2016-17	Growth
Receipts							
Office of the State Comptroller	137,713	145,777	5.9%	145,765	0.0%	150,574	3.3%
Division of the Budget	137,713	145,804	5.9%	145,870	0.0%	150,410	3.1%
Difference	-	(27)		(105)		164	
Disbursements							
Office of the State Comptroller	137,526	142,032	3.3%	148,989	4.9%	152,942	2.7%
Division of the Budget	137,526	141,974	3.2%	148,882	4.9%	152,795	2.6%
Difference	-	58		107		147	

Figure 2

Actual and Estimated Receipts and Disbursements, State Operating Funds
SFY 2013-14 through SFY 2016-17
(in millions of dollars)

	2013-14						
	Actual	2014-15	Growth	2015-16	Growth	2016-17	Growth
Receipts							
Office of the State Comptroller	88,927	93,280	4.9%	92,262	-1.1%	95,862	3.9%
Division of the Budget	88,927	93,333	5.0%	92,405	-1.0%	95,733	3.6%
Difference	-	(54)		(143)		129	
Disbursements							
Office of the State Comptroller	90,631	92,243	1.8%	96,195	4.3%	99,377	3.3%
Division of the Budget	90,631	92,244	1.8%	96,186	4.3%	99,359	3.3%
Difference	-	(1)		9		18	

See the Appendix for more detailed estimates for All Funds and State Operating Funds.

Economic Outlook

National Economy

The national economy continues to recover, but at a relatively slow rate of growth. The nation's Gross Domestic Product (GDP) grew by 2.2 percent in 2013, and is expected to grow by 2.3 percent in 2014.

Total employment rose by 1.8 percent in the first three quarters of 2014, compared with a 1.7 percent gain in 2013. The nation has now recovered all the jobs lost during the recession and added more (109 percent). The unemployment rate fell to 5.9 percent in September 2014, the lowest level since July 2008. However, labor force participation has declined to its lowest rate in 36 years as more workers have become discouraged and stopped looking for jobs, and many of the unemployed have been without jobs for an extended period.

Wage growth has been slow throughout the recovery, which has made consumers cautious about their spending and has constrained overall economic growth. Wage growth improved in the first half of 2014, rising by 4.5 percent on an annualized basis compared to a 2.8 percent gain in 2013.

The Federal Reserve recently ended its bond buying program, which was designed to hold down long-term interest rates and stimulate the economy. In October 2014, the Federal Reserve reaffirmed its commitment to keeping short-term interest rates near zero until there is further improvement in the labor markets. Many economists had believed that short-term rates would begin to rise in mid-2015, but continued weakness in the labor markets and an easing of inflation (with deflation again a concern in some overseas economies) have begun to move the anticipated increase later into 2015.

IHS Global Insight projects the national economy will continue to show modest gains into 2015. GDP growth is forecast to edge up to 2.7 percent in 2015, with employment rising by 1.8 percent, wages by 4.8 percent and Personal Income by 4.6 percent.

New York State Economy

New York State added 125,000 private sector jobs in 2013 (an increase of 1.7 percent over 2012) and will add another 120,000 in 2014 if the pace of employment growth through August continues over the full year. The public sector continues to lose jobs, but at a much slower rate than in the prior four years. In 2013, the State lost 14,600 public sector jobs (a decline of 1 percent) and will lose 5,100 public sector jobs in 2014 if the pace of decline through August continues over the full year. Overall, the State has recovered 171 percent of the jobs it lost during the recession. The job recovery, however, has been uneven across the State. Job growth has been driven by New York City and Long Island, while many parts of Upstate have yet to recover all the jobs they lost during the last recession.

Job growth has been concentrated in lower paying industries, including education and health care, leisure and hospitality (i.e., tourism-related areas), and retail trade. Among high-paying industries, job growth has been strong in business services, but the rate of growth in this sector has slowed to 2.2 percent thus far in 2014 from 2.7 percent in 2013.

The securities industry is a major part of the State's economy, accounting (either directly or indirectly) for 1 in 16 jobs in the State, and providing a significant share of State tax revenues (19 percent in SFY 2013-14). The securities industry has been profitable for five consecutive years (including the three highest-earning years on record), but profitability has recently been constrained by payments to settle legal actions related to the financial crisis. As noted elsewhere in this report, the State benefits financially from some such settlements. In 2013, profits fell by 30 percent to \$16.7 billion because of higher noncompensation expenses (including legal settlements). Securities industry profits totaled \$8.7 billion in the first half of 2014, which was 13 percent less than the same period last year because of continued growth in noncompensation expenses.

Approximately 90 percent of the State's securities industry jobs are located in New York City, which has lost 10,500 securities jobs over the past three years. While the City's securities industry workforce is now 15 percent smaller than before the financial crisis, industry employees remain well-compensated, with an average salary of \$355,500 (including bonuses) in 2013.

The Office of the State Comptroller estimates that the average bonus for industry employees working in New York City rose by 15 percent in 2013 over 2012 to \$164,530, the largest average bonus since the 2008 financial crisis and the third highest average bonus on record. Bonus growth was supported by payments deferred from prior years, as the industry has changed its compensation practices and is now deferring a larger share of bonuses over a period of three to five years. Based on securities industry compensation trends in 2014 and continued deferrals from prior years, the Office of the State Comptroller believes that bonuses in New York City are likely to increase this year.

Global Insight forecasts that the State's economy will continue to show modest employment growth (1.2 percent), wage growth (4 percent), and Personal Income growth (4.1 percent) in 2015. The major risk facing both the State and national economies is that slowing economies abroad, particularly in Europe and Asia, could act as a drag on domestic growth. This international weakness is already lifting the value of the dollar, which will slow exports and overseas business.

Receipts

Overview

This report includes the Office of the State Comptroller's forecast for All Funds tax receipts for SFY 2014-15 through SFY 2016-17. This forecast is consistent with an economy that continues to exhibit relatively slow growth in 2014 but is expected to strengthen in the following two years. In October 2014, the Blue Chip Economic Indicators consensus forecast of GDP growth is 2.2 percent for 2014 and 3 percent in 2015. In March 2014, DOB and the legislative fiscal committees agreed in projecting that wages in New York State would increase by 4.4 percent in SFY 2014-15.

Numerous variables affect the national and State economies, increasing the difficulty of forecasting tax collections. These factors include recent volatility in the financial markets and continued weakness in parts of the global economy. As a result, the State's actual tax revenues could deviate from these estimates. Close monitoring is critical to identify deviations in a timely way so that corrective actions can be taken.

After declining by 3.2 percent in SFY 2009-10, tax receipts have increased annually since then in response to enacted tax law changes and renewed economic growth, including the financial sector's return to profitability. In SFY 2013-14, tax receipts increased by 5.1 percent, but are expected to increase less than 1 percent in SFY 2014-15. The lower figure reflects factors including weakness in Personal Income Tax (PIT) estimated payments compared to the previous year, a number of new credits that reduce net collections, and repayment of certain business tax credits that were deferred from the 2010 through 2012 tax years to provide budget relief.

Tax collections are expected to increase 5.6 percent in SFY 2015-16, primarily in PIT. Compared to historical patterns, PIT settlements in SFY 2014-15 were low due to changes in taxpayer behavior caused by higher federal tax rates that took effect in 2013. Prior year estimated payments are expected to increase over 17 percent in SFY 2015-16, making up almost 20 percent of the anticipated \$3 billion increase. For SFY 2016-17, tax receipts are expected to grow by 5.2 percent largely due to the strengthening of the national economy as well as the phase-out of certain credits. (All projections are as compared to the prior fiscal year.)

Personal Income Tax

The Office of the State Comptroller estimates that Personal Income Tax receipts in SFY 2014-15 will increase by \$650 million (1.5 percent) from the previous year. This increase is primarily due to current year estimated payments as well as increases in withholding collections. Those gains are bolstered by lower refunds, largely due to the prepayment of \$328 million in refunds at the end of SFY 2013-14. Withholding tax collections are expected to increase by 5.2 percent, based on projected wage growth of 4.1 percent in SFY 2014-15, partially offset by the inflation indexing of tax brackets in 2014. Receipts from current-year estimated taxes are expected to increase by 6.0 percent.

For SFY 2015-16, PIT receipts are expected to increase by 6.9 percent. Growth is expected to be boosted by a 6.3 percent increase in withholding tax collections as wage growth continues, as well as by an 8 percent increase in current-year estimated payments. This is offset by a projected 17 percent increase in extension payments on 2014 income, reflecting the large one-time decline that occurred in the prior fiscal year, and a 9.3 percent increase in refunds. Personal Income Tax receipts in SFY 2016-17 are expected to grow by 7.3 percent.

Consumption and Use Taxes

Consumption and use tax receipts are forecast to increase by 1.8 percent in SFY 2014-15 over the prior fiscal year. This modest level of increase can be attributed mainly to the relatively slow growth in the economy. Sales Tax receipts, the largest component of this group, are forecast to increase by 2.8 percent this year, reflecting increased consumer spending as well as statutory changes. This growth is partially offset by a projected decrease of 8.3 percent (\$121 million) in cigarette and tobacco tax receipts, primarily attributable to the continued decline in smoking.

Over the remainder of the forecast period, growth in consumption and use tax receipts is expected to continue, averaging 3.7 percent in SFY 2015-16 and 2.8 percent in SFY 2016-17. This projection reflects the continuing increase in income and consumer spending, strength in tourism and the historical downward trend in the use of tobacco products.

Business Taxes

Business tax receipts are expected to fall by 6.4 percent in SFY 2014-15, reflecting declines in the Corporate Franchise Tax (36 percent) and Corporation and Utilities Tax (1.6 percent), offset by increases in Bank Tax (72.3 percent), Insurance taxes (2.4 percent) and Petroleum Business Tax (4.8 percent) collections. The significant increase in Bank Tax receipts largely reflects audit payments totaling over \$600 million received in the first half of the fiscal year. This decline in Corporate Franchise Tax receipts reflects both audit and non-audit revenue.

Business tax receipts will significantly change in SFY 2015-16 and beyond, as the Bank Tax is repealed and bank taxpayers are moved to the Corporate Franchise Tax. Business tax collections are expected to increase 3.3 percent to just under \$8 billion in SFY 2015-16, as almost all the growth in Corporate Franchise Tax is offset by reductions in Bank Tax. In SFY 2016-17, collections are expected to decline by 0.4 percent, largely reflecting statutory changes enacted in SFY 2014-15.

Other Taxes

Other Tax receipts, including the MTA Mobility Tax (payroll tax), are expected to increase by 1.7 percent in SFY 2014-15. The increase can be attributed to the continued growth in

the economy, with Mobility Tax collections expected to increase by 5.1 percent and Real Estate Transfer Tax collections by 6.0 percent.

Other Tax receipts are expected to increase in SFY 2015-16 and SFY 2016-17, by 2.7 percent and 1.0 percent, respectively, with increases in both Real Estate Transfer Tax and MTA payroll tax collections making up the majority of the growth.

General Fund Miscellaneous Receipts and Lottery Receipts

Miscellaneous receipts include fees, fines, and reimbursements, bond proceeds from public authorities, lottery revenue and interest on State investments. The Office of the State Comptroller has identified risks associated with the miscellaneous receipts expected to be received from abandoned property and contributions from public authorities.

General Fund miscellaneous receipts are estimated to increase nearly 140 percent in SFY 2014-15, to \$7.7 billion, primarily because of \$4.5 billion in non-recurring settlements and assessments from various financial institutions.² Miscellaneous receipts in the General Fund include a number of other revenue sources that are temporary or non-recurring in nature. For instance, in SFY 2014-15, the General Fund benefits from a \$1 billion payment from the State Insurance Fund (SIF) associated with changes to the Workers' Compensation Law enacted in the SFY 2013-14 Enacted Budget. A total of \$1.75 billion will flow to the General Fund from SIF for "debt management or fiscal uncertainties" and "reducing budget gaps" through SFY 2016-17.

In the SFY 2014-15 Enacted Budget Financial Plan, DOB included \$275 million in "potential financial settlements" in its projections for General Fund miscellaneous receipts in SFY 2014-15, declining to \$100 million in SFY 2017-18. In SFY 2014-15, General Fund miscellaneous receipts include nearly \$6.2 billion in non-recurring or temporary resources (77 percent of total projected General Fund miscellaneous receipts), as well as nearly \$350 million in miscellaneous receipts that are received outside the General Fund but have direct General Fund impact.³

General Fund miscellaneous receipts are projected to decline 61.3 percent in SFY 2015-16, primarily reflecting the loss of non-recurring settlement receipts and a \$750 million reduction in payments from SIF. General Fund miscellaneous receipts are projected to decline further by 6.4 percent in SFY 2016-17, primarily because of the loss or reduction of certain temporary revenue sources.

All Funds projections for miscellaneous receipts in SFY 2014-15 (most of which is initially collected outside the General Fund) include \$195.7 million from Native American casinos.

² The First Quarterly Update to the SFY 2014-15 Enacted Budget Financial Plan does not yet include \$325 million in General Fund settlement and assessment proceeds that have been received. This revenue is expected to be included in the Mid-Year Update to the Enacted Budget Financial Plan.

³ Certain miscellaneous receipts, such as insurance conversion proceeds, Lottery revenue and revenue from Native American casinos, are actually received in special revenue funds other than the General Fund. However, if there are shortages in those special revenue funds, the General Fund is often used as the backup source of revenue.

Of that total, \$113 million will be transferred to the General Fund after payments to local governments.⁴

DOB projects All Funds miscellaneous receipts will decline \$4.7 billion or 15.7 percent in SFY 2015-16, primarily from the loss or reduction of the temporary payments discussed above.

Lottery revenues for education (not including administration) from traditional games are expected to decline by 0.7 percent to \$2.2 billion in SFY 2014-15, and revenues from video lottery terminals (VLTs) are expected to increase 0.6 percent to \$944 million. Total lottery receipts are projected to increase 2.1 percent in SFY 2015-16 and to decline by 1.1 percent in SFY 2016-17.

DOB has not yet included in its Financial Plan projections for revenue resulting from the Upstate New York Gaming and Economic Development Act, other than potential license fees. DOB estimated in October 2013 that it expected statewide revenue from the Act to total \$430 million annually, including \$238 million in State receipts for aid to public schools and \$192 million for local government assistance. The associated Constitutional Amendment was passed by voters in November 2013 and the Gaming Commission is expected to issue up to four licenses in SFY 2014-15.

Federal Receipts

Federal grants support State spending for Medicaid, transportation, school aid, public health, environmental and energy programs as well as other activities. Since State spending for federally financed programs is typically “cash neutral” (i.e., federal receipts equal spending), the Office of the State Comptroller accepts DOB’s federal receipt projections, with adjustments based on expected changes in federally funded disbursements as projected in this report.

In SFY 2014-15, federal receipts are projected to increase \$2 billion or 4.6 percent from SFY 2013-14, primarily due to increased funding associated with the Affordable Care Act. DOB projects federal receipts will increase \$745 million or just less than 1.6 percent in SFY 2015-16. Federal grants for capital spending are projected to decline 18.3 percent or \$377 million in SFY 2015-16. Federal grants for operating costs, including debt service, are projected to increase 2.6 percent or \$1.1 billion in SFY 2015-16. Total federal receipts are projected to increase \$1.7 billion in SFY 2016-17, with operating revenues increasing 4.0 percent and capital revenues declining 2.6 percent.

⁴ This funding is initially collected as a miscellaneous receipt in the Tribal State Compact special revenue fund (339.22169). After payments to localities that host the Native American casinos covered under the Tribal State Compact, the remaining revenue is transferred to the General Fund.

Disbursements

Overview

State Finance Law requires forecasts for State disbursements. This report includes a forecast for disbursements for SFY 2014-15 through SFY 2016-17. . Because Department of Health (DOH) Medicaid spending from State funds is specifically limited in both statute and appropriation authority, the Office of the State Comptroller includes spending projections from both All Funds and State Operating Funds in its estimates.

These estimates rely on a variety of data sources, including receipt and disbursement data from New York's Statewide Financial System and information from State agencies, including the State Education Department (SED), DOB, DOH, the Department of Labor (DOL), and the Office of Temporary and Disability Assistance (OTDA). All projections for growth reflect comparisons to the prior fiscal year.

The SFY 2014-15 Enacted Budget – like the prior year's – included appropriations intended to reflect two years' worth of spending in Medicaid and school aid. The Budget also provided limits on future spending growth for Medicaid based on the ten-year average growth in the medical component of the Consumer Price Index (CPI), and for education assistance based on the rate of growth for Personal Income in the State. As a result of these limitations, projected spending in two of the largest categories of spending in the Budget is constrained, absent action by the Executive and the Legislature to supersede the spending targets. In the SFY 2014-15 Enacted Budget, school aid was increased by an amount that exceeded the statutory cap for the second consecutive year. The \$1.1 billion increase (5.3 percent) exceeds the statutory cap of 3.1 percent, which would have resulted in an aid total approximately \$475 million lower.⁵

This report provides Medicaid and school aid spending projections from the Financial Plan that are based on current law, including the effect of statutory spending caps, through SFY 2016-17. However, estimated spending growth that would occur absent the spending limitations enacted in SFY 2011-12 is also provided for comparative purposes in each program area.

This report does not adjust for actual or planned actions that artificially and temporarily change growth rates such as pre-payments (which increase base year spending while decreasing subsequent year spending, thus implying lower growth). The Office of the State Comptroller's *Report on State Fiscal Year 2014-15 Enacted Budget Financial Plan and Capital Program and Financing Plan* provides an overview of such actions that are included in the SFY 2014-15 Enacted Budget as well as actions taken in SFY 2013-14 that affect SFY 2014-15.⁶

⁵ See Sections 3602 (1) (aa through dd) of the Education Law.

⁶ See www.osc.state.ny.us/reports/budget/2014/2014-15_financial_plan_enacted_budget.pdf.

SFY 2014-15

For SFY 2014-15, the Office of the State Comptroller projects Medicaid, school aid and public assistance spending from State Operating Funds will total \$39.1 billion, an increase of \$1.8 billion, or 4.9 percent, from SFY 2013-14 levels. Among other factors, this level of increase reflects the statutory limits enacted in SFY 2011-12 that were intended to constrain spending from State Operating Funds. All other State Operating Funds spending is projected to total \$53.2 billion, a decrease of \$221 million, or 0.4 percent, compared to SFY 2013-14. All other spending includes such categories as debt service, General State Charges and State Operations. All other spending also includes many timing-related actions that artificially hold down spending growth.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$70.6 billion in SFY 2014-15, which is \$4.7 billion, or 7.1 percent, higher than SFY 2013-14 levels.

SFY 2015-16

For SFY 2015-16, the Office of the State Comptroller estimates Medicaid, school aid and public assistance spending from State Operating Funds will total \$41.5 billion, which is an increase of \$2.4 billion, or 6.1 percent, from estimated SFY 2014-15 expenditures. The Office of the State Comptroller projects all other State Operating Funds spending to increase \$1.6 billion, or 2.9 percent, to \$54.7 billion.

Medicaid, school aid, and public assistance spending from All Funds is projected to total \$74.4 billion in SFY 2014-15, which is \$3.9 billion, or 5.5 percent, higher than projected SFY 2014-15 levels.

SFY 2016-17

For SFY 2016-17, the Office of the State Comptroller estimates Medicaid, school aid, and public assistance spending from State Operating Funds will total \$43.3 billion, an increase of \$1.8 billion, or 4.3 percent from the previous year. During this period, all other State Operating Funds spending is projected to increase \$1.4 billion, or 2.6 percent, to \$56.1 billion.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$78.7 billion in SFY 2016-17, which is \$4.2 billion, or 5.7 percent, higher than SFY 2015-16.

Supplemental Projections and Discussion

In the following section, Medicaid and school aid projections reflect increases that would be expected to occur without the enacted spending caps, but with all other changes included in previous budgets, to provide an understanding of the impact of the spending caps on the Budget.

School Aid Projections Without Enacted Spending Limits

For the fourth year in a row, the SFY 2014-15 Enacted Budget included appropriation language for school aid intended to cover two fiscal years. The appropriation for education assistance allows an overall school year increase of \$1.1 billion or 5.3 percent, approximately \$475 million higher than what would have been allowed by the statutory cap. The Legislature and Governor also agreed to provide \$340 million annually for expanded pre-kindergarten programs Statewide.

For School Year (SY) 2012-13, the spending cap limited growth in school aid to the average annual growth in Personal Income for the State for SFY 2005-06 through SFY 2009-10. Annual increases in succeeding years are limited to the level of change in Personal Income for the State for individual years, SY 2013-14 and thereafter.⁷ Annual growth in Personal Income averaged 5.3 percent from the statistic's first reported level in 1929 through 2013. However, between 2007 and 2013, annual growth averaged only 2.9 percent, largely because Personal Income declined in 2009 (the first decrease since 1938).

Projecting Personal Income in New York can be difficult because such income is heavily influenced by activity in the financial markets, which can be volatile. In the Mid-Year Update to the SFY 2011-12 Enacted Budget Financial Plan, school aid for SY 2013-14 was projected to reach \$21.4 billion, based on then-current projections for Personal Income. One year later, in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan, DOB projected SY 2013-14 school aid at just under \$21.1 billion. The Executive's SFY 2013-14 Proposed Budget projected school aid would total only \$20.8 billion in SY 2013-14, based on then-current projections for Personal Income. Between November 2011 and January 2013, therefore, school districts saw school aid projections decline by nearly \$600 million.

"Allowable Growth" for school aid, as statutorily defined, allows additional spending within the cap for formula-based and primarily expense-driven programs outside of Foundation Aid and the Gap Elimination Adjustment (GEA).⁸ The various permanent-law formulas used to compute General Support for Public Schools (GSPS) generate spending figures larger than those allowed under the cap. The GEA is a downward revision that reduces total general school aid to a targeted amount in order to keep spending within the Allowable Growth limits. If there is funding available under the cap after Allowable Growth

⁷ Aid is statutorily limited to growth in Personal Income from the State Fiscal Year, not the calendar year.

⁸ Foundation Aid is the State's largest category of aid to public schools, representing nearly 70 percent of total aid before applying the Gap Elimination Adjustment, which formulaically reduces the total amount of aid by district.

is calculated, additional spending or a reduction in the GEA can be authorized pursuant to a chapter of law.

The SFY 2014-15 Enacted Budget increased Foundation Aid by \$251 million from SY 2013-14.⁹ The increase of \$1.1 billion is supplemented with \$75 million in competitive funding for New NY Education Reform Initiatives, including extended school days or school years, community schools, high-performing teachers and early college high school programs. This funding is expected to continue through at least SY 2016-17. An additional \$340 million is added for universal pre-kindergarten costs.

The Enacted Budget also provides appropriations for two State fiscal years' worth of funding for school aid (including GEA), with limits on how much of the appropriations can be used in each State fiscal year. The updated SFY 2014-15 Enacted Budget Financial Plan projects a total increase of \$1.1 billion for SY 2014-15, to \$22.2 billion (\$21.7 billion in SFY 2014-15 – the fiscal year figure includes pre-kindergarten funding but the school year figure does not). The Financial Plan does not detail how this 5.3 percent increase will be apportioned among the various school aid programs, although school aid projections from the Department of Education indicate that \$15.4 billion is for Foundation Aid, and that the GEA will reduce aid by just over \$1 billion.

According to the Financial Plan update issued in August 2014, GSPS is projected to increase to \$23.1 billion in SY 2015-16 (\$23.3 billion in SFY 2015-16), representing an increase of \$864 million or 3.9 percent for the school year. Again, this increase may be used to adjust total aid or pieces of the total; the two approaches would have the same result in the State's Financial Plan, but could produce differing allocations of aid among individual school districts.

The enacted cap is supposed to fundamentally change how formulas are used to distribute school aid. With the cap in place, formulas can be adjusted to target certain populations and needs and then the GEA, also a formula-driven category, is used to target the reduction so that total aid is within the cap. In the SFY 2014-15 Enacted Budget, approximately \$600 million from the GEA was restored, via another formula. The following projections illustrate school aid growth without the statutory cap to show how the GEA would have to be increased or other aids reduced if the cap remains in effect. To create these projections, the Office of the State Comptroller used weighted historical average growth of the large expense aids (Transportation, Building, BOCES, Private Excess Cost and High Cost Excess), as well as State aid data reflecting the Enacted Budget. Projections for High Tax Aid and Universal Pre-Kindergarten were kept constant through the projection period. Foundation Aid is increased by the average annual growth from SY 2006-07 to SY 2013-14 of 2.8 percent. (Foundation Aid will be set annually by legislative action; the growth assumed here is not part of an existing schedule.)

The State Education Department is required to provide detailed school aid data by district three times throughout the year – February 15, May 15 and November 15.¹⁰ The

⁹ See School Aid run SA141-A from the State Education Department, May 13, 2014.

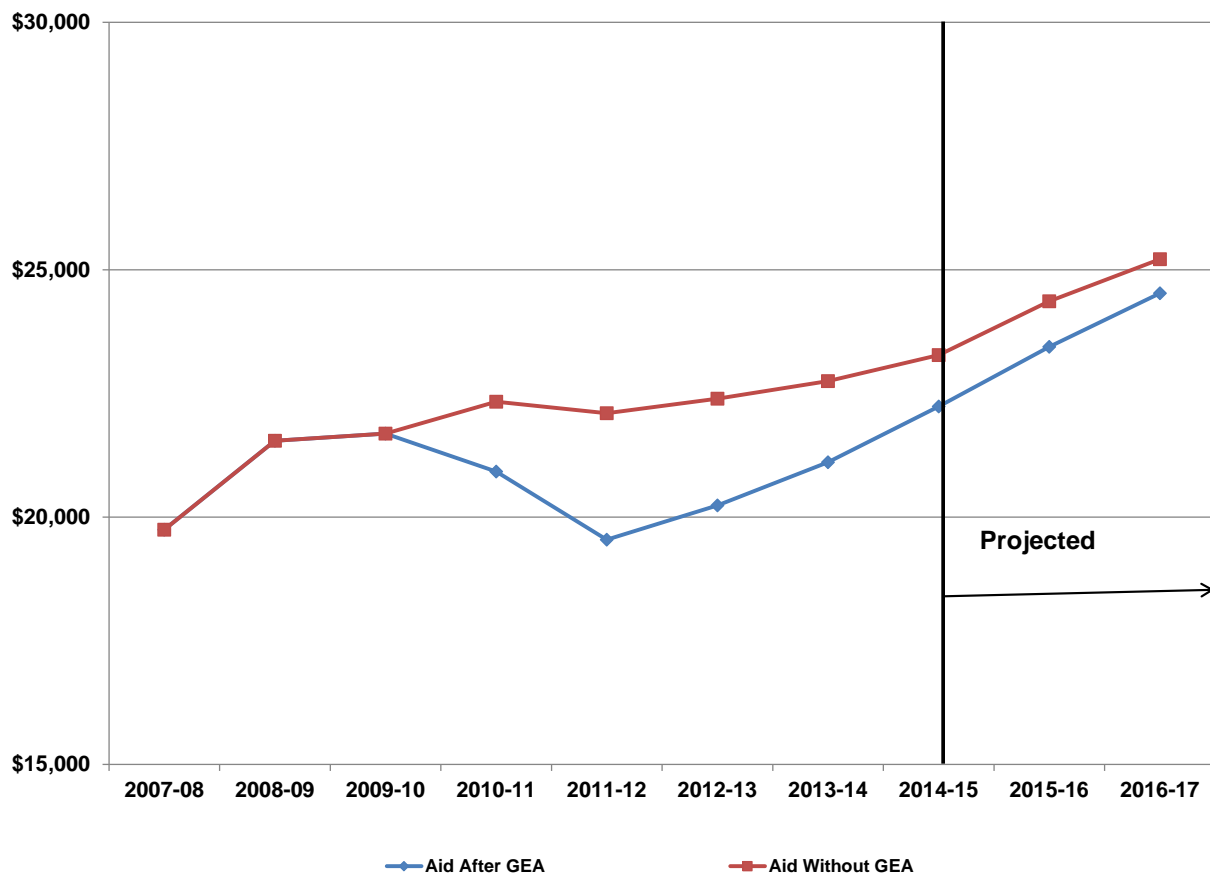
¹⁰ See Section 305 of the Education Law. Adjustments to school aid expenditures are often reflected in the first quarter of the following year. Such adjustments tend to neutralize the impact on the current year Financial Plan and, therefore,

November data is used to calculate aid included in the Executive Budget proposal and the February 15 data is typically the base for Enacted Budget spending totals.

The Office of the State Comptroller projects that school aid spending from State Operating Funds will total \$21.7 billion in SFY 2014-15, which is an increase of \$1.3 billion or 6.1 percent over SFY 2013-14. All Funds school aid is projected to reach \$24.3 billion in SFY 2014-15. This projection equates to approximately \$22.2 billion on a school-year basis. Figure 3 shows actual and projected school year spending totals with and without the GEA.

Figure 3

All Funds School Aid – With and Without Gap Elimination Adjustment
(in millions of dollars on school year basis)



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

would minimally impact this forecast. This forecast does not consider updated school aid funding data, since such data will not be available until November 15.

As previously stated, for the purposes of this report, Foundation Aid is increased by historical average annual growth and expense-based aids are increased by weighted average growth. Based on an analysis of historical spending trends in various expense-based aids, the Office of the State Comptroller estimates that school aid from State Operating Funds (without any GEA) would increase to \$25.1 billion in SFY 2015-16, an increase of \$3.4 billion, or 15.8 percent over SFY 2014-15. All Funds spending under this scenario is projected to increase \$3.5 billion or 14.5 percent to \$27.8 billion. This equates to \$24.4 billion on a school-year basis, thus requiring a GEA or other spending reductions of approximately \$922 million to stay within the cap.

The Office of the State Comptroller estimates that school aid from State Operating Funds (without any GEA) would increase to just under \$26 billion in SFY 2016-17, an increase of \$877 million, or 3.5 percent over SFY 2015-16. All Funds spending is projected to increase \$932 million or 3.3 percent to \$28.8 billion. This equates to just over \$25.2 billion on a school-year basis, thus requiring a GEA or other spending reductions of nearly \$700 million to stay within the cap.

Medicaid Projections Without Enacted Spending Limits

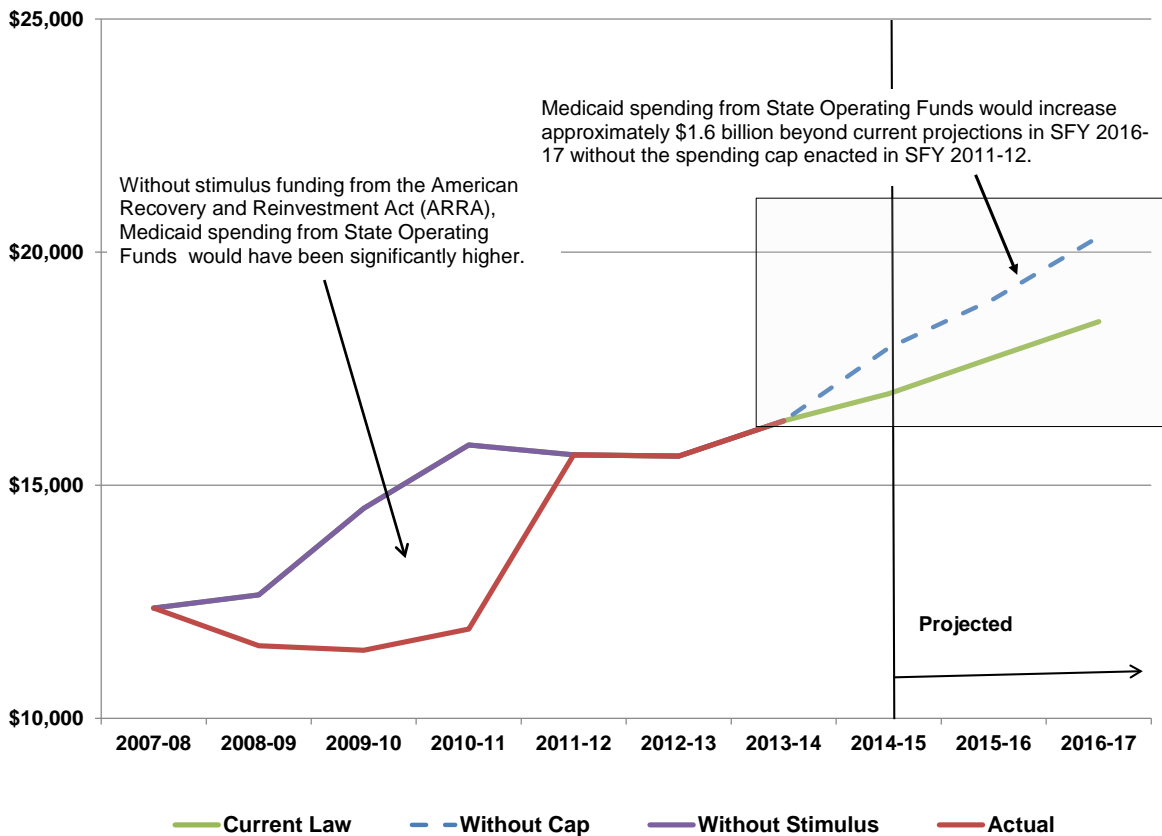
The SFY 2014-15 Enacted Budget again includes two years' worth of Medicaid spending authority by DOH (including administration costs), with a specific limit in State Operating Funds spending for each year.

The SFY 2014-15 Enacted Budget continues the cost-containment measures from various actions recommended by the Medicaid Redesign Team (MRT) and first enacted in the SFY 2011-12 Budget. These measures are projected to hold future spending growth within the spending cap, currently estimated by DOB at approximately 3.8 percent. Average annual growth before these changes was 4.6 percent from SFY 2007-08 through SFY 2011-12, not including additional Federal Medical Assistance Percentage (FMAP) funding that was part of the federal government's economic stimulus program in response to the Great Recession.

DOB projections issued in 2011 anticipated that savings derived from health-care provider actions to lower costs were projected to total nearly \$2.7 billion in SFY 2014-15. Monthly global cap reports from the Department of Health imply that MRT savings targets are being met as spending rarely exceeds projections, although these reports do not detail actual savings associated with monthly spending. The authority given to the Health Commissioner to reduce Medicaid spending administratively expires at the end of SFY 2015-16. If that authority is not renewed, the State's ability to realize the targeted level of savings over the remainder of the plan could be undermined.

Figure 4

Medicaid – State Operating Funds
(in millions of dollars)



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

The Office of the State Comptroller used historical trends derived from service utilization data maintained by DOH, actual spending data reported by DOB, and annual spending data included with DOB’s quarterly Financial Plan Updates to estimate Medicaid spending from State Operating Funds and All Funds for SFY 2014-15 and the ensuing two fiscal years. Spending data was adjusted to reflect known actions, such as delayed cycle payments, that would affect cash management.

The following estimates illustrate projected Medicaid growth in the absence of the enacted spending cap and unilateral cost control mechanisms. While enacted spending cuts are included in these estimates, the projected increases are primarily due to increased utilization. Changes in federally funded Medicaid spending are based on DOB projections.

Based on such factors, the Office of the State Comptroller estimates that absent the statutory spending limits, DOH Medicaid spending (including administrative costs) in SFY 2014-15 would total just under \$17 billion from State Operating Funds, and \$44.6 billion from All Funds.

For SFY 2015-16, the Office of the State Comptroller projects that absent the statutory spending limits, Medicaid spending would increase to \$19 billion (5.8 percent or \$1 billion) from State Operating Funds and to \$49.9 billion (6.2 percent or \$2.9 billion) from All Funds.

For SFY 2016-17, the Office of the State Comptroller estimates that absent the statutory spending limits, Medicaid spending would total \$20.3 billion from State Operating Funds, an increase of \$1.3 billion or 7 percent, and \$54.7 billion from All Funds, representing an increase of \$4.7 billion or 9.5 percent.

Public Assistance

Projections of public assistance caseloads and spending are sensitive to economic fluctuations. As unemployment increases and income falls, the number of persons in need of public assistance typically increases. Those who lose their jobs may face extended periods of unemployment or underemployment in the current economic climate. While national and State unemployment rates have declined over the past year, such rates are not a perfect measure of unemployment, as they miss people who have left the workforce and are not actively looking for work anymore, as well as people who are employed but in temporary or part-time positions paying significantly less than full-time jobs.

According to the Bureau of Labor Statistics, approximately 47 percent of the U.S. unemployed population had been unemployed for 15 weeks or more as of September 2014. When the numbers of people employed part-time (not by choice) and people no longer looking for employment are added, the unemployment rate of 5.9 percent in September 2014 increases to 11.8 percent of the civilian labor force. In 2007, before the Great Recession reached its full impact, that rate was 8.3 percent.

Using historical trends for unemployment rates, caseloads and spending according to monthly caseload reports issued by the Office of Temporary and Disability Assistance, the Office of the State Comptroller estimates that in SFY 2014-15, All Funds spending for public assistance will total \$1.65 billion (including \$444 million from State Operating Funds), based on caseloads of 371,559 families and 196,827 single recipients.

For SFY 2015-16, the Office of the State Comptroller projects public assistance spending will increase by \$2.0 million, or 0.1 percent, to \$1.65 billion (including \$446 million from State Operating Funds), based on caseloads of 370,222 families and 197,977 singles.

For SFY 2016-17, the Office of the State Comptroller estimates that spending for public assistance will increase \$3.5 million or 0.2 percent to just over \$1.65 billion (including \$449 million from State Operating Funds), based on caseloads of 369,426 families and 198,842 singles. Caseloads for families are projected to decline slightly, and those for singles to increase modestly, reflecting recent trends.

Figure 5

**Comparison of Actual and Projected Caseloads
Temporary Assistance for Needy Families, Safety Net Families and Singles**

TANF Families	2013-14	2014-15	Growth	2015-16	Growth	2016-17	Growth
	Actual						
Office of the State Comptroller	261,758	253,074	-3.3%	251,971	-0.4%	251,447	-0.2%
Division of the Budget	258,405	249,131	-3.6%	240,761	-3.4%	234,252	-2.7%
Difference	3,353	3,943		11,210		17,195	

Safety Net Families	2013-14	2014-15	Growth	2015-16	Growth	2016-17	Growth
	Actual						
Office of the State Comptroller	118,736	118,485	-0.2%	118,251	-0.2%	117,979	-0.2%
Division of the Budget	125,424	120,186	-4.2%	115,580	-3.8%	112,047	-3.1%
Difference	(6,688)	(1,701)		2,671		5,932	

Safety Net Singles	2013-14	2014-15	Growth	2015-16	Growth	2016-17	Growth
	Actual						
Office of the State Comptroller	192,857	196,827	2.1%	197,977	0.6%	198,842	0.4%
Division of the Budget	196,431	194,850	-0.8%	193,442	-0.7%	192,643	-0.4%
Difference	(3,574)	1,977		4,535		6,199	

Total Caseloads	2013-14	2014-15	Growth	2015-16	Growth	2016-17	Growth
	Actual						
Office of the State Comptroller	573,351	568,386	-0.9%	568,199	0.0%	568,268	0.0%
Division of the Budget	580,260	564,167	-2.8%	549,783	-2.5%	538,942	-2.0%
Difference	(6,909)	4,219		18,416		29,326	

Sources: Office of the State Comptroller, Division of the Budget, Office of Temporary and Disability Assistance

Risks

The Office of the State Comptroller has warned of risks to the SFY 2014-15 Financial Plan. Identified risks included unanticipated events that may require additional spending, as well as anticipated revenues that may fail to materialize. Further action by the federal government regarding reimbursement rates for Medicaid costs associated with facilities for the developmentally disabled could have a significant negative impact on the Financial Plan. However, slower-than-anticipated growth in the economy and the related potential effects on tax collections as well as Medicaid and public assistance expenditures remain the most significant current risks to the Financial Plan. Recent increased volatility in financial markets coupled with slowing growth in the European Union further increases the level of risk in State economic and revenue projections.

Other risks that have been previously identified also remain. These include the ability to reach targeted levels of certain miscellaneous receipts such as Abandoned Property revenue expected to be transferred to the General Fund, and new revenue anticipated from public authorities.

Although the last four enacted State budgets have included reductions from baseline spending growth projections, spending is still projected to grow faster than revenues over the next few years. This projected imbalance grows larger if the current year's Budget provisions allowing spending to increase by more than statutorily capped levels continue in future years. Looking further out, several of the largest revenue measures created in the past few years are temporary in nature. These include temporary higher Personal Income Tax rates at upper-income levels, a temporary utility assessment surcharge, and more than \$1.0 billion in funds to be transferred from SIF to the General Fund. Additional budget cuts or revenue increases to address the structural imbalance between recurring revenue and recurring spending will require difficult policy choices.

Appendix – Financial Projections

Projections Based on Current Law, Including Enacted Spending Caps

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2014-15

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	43,611	43,735	(124)
Consumer Taxes	14,780	14,717	63
Business Taxes	7,060	7,064	(4)
Other Taxes (incl. MTA Payroll)	3,311	3,300	11
<i>Total Taxes</i>	<u>68,762</u>	<u>68,816</u>	<u>(54)</u>
General Fund Miscellaneous Receipts	7,710	7,710	-
Lottery	3,144	3,144	-
Subtotal	79,616	79,670	(54)
Other Miscellaneous Receipts	13,590	13,590	-
Federal Grants	74	74	-
Total Receipts	<u>93,280</u>	<u>93,333</u>	<u>(54)</u>
Disbursements:			
Elementary and Secondary Education	21,671	21,671	-
DOH Medicaid (incl. administration)	16,962	16,962	-
Public Assistance	444	444	(1)
Subtotal	39,077	39,077	(1)
All Other Disbursements	53,167	53,167	-
Total Disbursements	<u>92,243</u>	<u>92,244</u>	<u>(1)</u>

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2015-16

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	46,621	46,829	(208)
Consumer Taxes	15,338	15,252	86
Business Taxes	7,320	7,353	(33)
Other Taxes (incl. MTA Payroll)	3,403	3,391	12
<i>Total Taxes</i>	<u>72,682</u>	<u>72,825</u>	<u>(143)</u>
General Fund Miscellaneous Receipts	2,980	2,980	-
Lottery (including new casino revenue)	3,369	3,369	-
Subtotal	79,031	79,174	(143)
Other Miscellaneous Receipts	13,157	13,157	-
Federal Grants	74	74	-
Total Receipts	<u>92,262</u>	<u>92,405</u>	<u>(143)</u>
Disbursements:			
Elementary and Secondary Education	23,289	23,289	-
DOH Medicaid (incl. administration)	17,741	17,741	-
Public Assistance	446	437	9
Subtotal	41,475	41,466	9
All Other Disbursements	54,720	54,720	-
Total Disbursements	<u>96,195</u>	<u>96,186</u>	<u>9</u>

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2016-17

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	50,047	50,023	24
Consumer Taxes	15,787	15,701	86
Business Taxes	7,292	7,285	7
Other Taxes (incl. MTA Payroll)	3,438	3,426	12
<i>Total Taxes</i>	<u>76,564</u>	<u>76,435</u>	<u>129</u>
General Fund Miscellaneous Receipts	2,790	2,790	-
Lottery (including new casino revenue)	3,317	3,317	-
Subtotal	82,671	82,542	129
Other Miscellaneous Receipts	13,117	13,117	-
Federal Grants	74	74	-
Total Receipts	<u>95,862</u>	<u>95,733</u>	<u>129</u>
Disbursements:			
Elementary and Secondary Education	24,294	24,294	-
DOH Medicaid (incl. administration)	18,511	18,511	-
Public Assistance	449	431	18
Subtotal	43,254	43,236	18
All Other Disbursements	56,123	56,123	-
Total Disbursements	<u>99,377</u>	<u>99,359</u>	<u>18</u>

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2014-15

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	43,611	43,735	(124)
Consumer Taxes	15,378	15,312	66
Business Taxes	7,732	7,712	20
Other Taxes (incl. MTA Payroll)	3,430	3,419	11
<i>Total Taxes</i>	<u>70,151</u>	<u>70,178</u>	<u>(27)</u>
General Fund Miscellaneous Receipts	7,710	7,710	-
Lottery	3,144	3,144	-
Subtotal	81,005	81,032	(27)
Other Miscellaneous Receipts	18,983	18,983	-
Federal Grants	45,789	45,789	-
Total Receipts	<u>145,777</u>	<u>145,804</u>	<u>(27)</u>
Disbursements:			
Elementary and Secondary Education	24,306	24,306	-
DOH Medicaid (incl. administration)	44,620	44,620	-
Public Assistance	1,648	1,590	58
Subtotal	70,573	70,515	58
All Other Disbursements	71,459	71,459	-
Total Disbursements	<u>142,032</u>	<u>141,974</u>	<u>58</u>

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2015-16

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	46,621	46,829	(208)
Consumer Taxes	15,942	15,856	86
Business Taxes	7,984	7,979	5
Other Taxes (incl. MTA Payroll)	3,522	3,510	12
<i>Total Taxes</i>	<u>74,069</u>	<u>74,174</u>	<u>(105)</u>
General Fund Miscellaneous Receipts	2,980	2,980	-
Lottery	3,369	3,369	-
Subtotal	80,418	80,523	(105)
Other Miscellaneous Receipts	18,813	18,813	-
Federal Grants	46,534	46,534	-
Total Receipts	<u>145,765</u>	<u>145,870</u>	<u>(105)</u>
Disbursements:			
Elementary and Secondary Education	26,018	26,018	-
DOH Medicaid (incl. administration)	46,809	46,809	-
Public Assistance	1,650	1,543	107
Subtotal	74,476	74,370	107
All Other Disbursements	74,512	74,512	-
Total Disbursements	<u>148,989</u>	<u>148,882</u>	<u>107</u>

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2016-17

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,047	50,023	24
Consumer Taxes	16,388	16,302	86
Business Taxes	7,952	7,910	42
Other Taxes (incl. MTA Payroll)	3,557	3,545	12
<i>Total Taxes</i>	<u>77,944</u>	<u>77,780</u>	<u>164</u>
General Fund Miscellaneous Receipts	2,790	2,790	-
Lottery	3,317	3,317	-
Subtotal	84,051	83,887	164
Other Miscellaneous Receipts	18,240	18,240	-
Federal Grants	48,283	48,283	-
Total Receipts	<u>150,574</u>	<u>150,410</u>	<u>164</u>
Disbursements:			
Elementary and Secondary Education	27,079	27,079	-
DOH Medicaid (incl. administration)	49,961	49,961	-
Public Assistance	1,653	1,506	147
Subtotal	78,694	78,546	147
All Other Disbursements	74,249	74,249	-
Total Disbursements	<u>152,942</u>	<u>152,795</u>	<u>147</u>

Note: Figures may not total due to rounding.