Report on the State Fiscal Year 2017-18 Enacted Budget Financial Plan and Capital Program and Financing Plan

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

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Message from the Comptroller

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As our nation enters its ninth year of economic expansion, New York State faces some signs of increasing fiscal challenges.

Tax receipts are projected to increase 4.8 percent in State Fiscal Year 2017-18, less than the 6.1 percent the Executive had projected in February of this year. Personal income tax receipts in the first quarter of the fiscal year were $1.7 billion lower than February projections.

The General Fund balance as of March 31, 2017 was $7.7 billion. That figure is substantially higher than the levels in the period during and immediately after the Great Recession, largely reflecting monetary settlements received in the past three years. But the State's budgetary cushion is shrinking: the Enacted Budget Financial Plan projects that the General Fund balance will be one-third lower at the end of the current fiscal year than its recent peak two years previously.

Through March 31, the State had spent over $3.1 billion of its extraordinary windfall in settlement resources. Nearly half that amount had been used for various forms of budget relief, and another $461 million is planned for such use this year. These billions of dollars are non-recurring, "one-time" resources that should be used for one-time purposes, including essential capital investments.

As we scrutinize developments in Washington, D.C., it's clear that the State faces an increased risk of cuts to federal funding for health care and other essential services. This year's Enacted Budget includes a provision that is intended to address potential reductions in federal aid, under certain circumstances. Yet it is unclear at this point how that process, if implemented, would affect the State's Financial Plan and those entities and individuals who depend on State funding.

Although the State has taken steps to limit spending growth in certain areas, projected budget gaps in the three years following this fiscal year total $17.4 billion before potential gap-closing actions. This year's Financial Plan relies in part on more than $4.8 billion in temporary and non-recurring resources (excluding federal aid). The continuing use of such temporary resources, projected outyear budget gaps and certain other factors show that more progress is needed to put the State on a strong financial footing for the longer term.

This report provides additional details in each of these areas. My office will continue to monitor these issues throughout the fiscal year.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

The Enacted Budget Financial Plan for the current fiscal year reflects certain increased budgetary challenges. These include reductions in projected tax receipts in the current year and the next three fiscal years, elevated risks to federal funding for health care and other programs, and continued use of monetary settlement resources for budget balancing and cash flow purposes.

Tax receipts are projected in the Financial Plan to rise by 4.8 percent during State Fiscal Year (SFY) 2017-18, more than twice the expected rate of inflation, but less than the 6.1 percent increase projected by the Executive in February 2017. The Financial Plan's estimate for total tax receipts in the first quarter of the fiscal year represents a decline compared to the previous year. Actual collections through this period were below this reduced projection.

Federal grants are projected to rise 2.2 percent, reaching $56.6 billion and representing more than one in every three dollars in the budget. The State faces a risk of substantial reductions in federal aid for health care and other programs. The Enacted Budget creates a process that could be used to address certain potential federal aid reductions of $850 million or more during the current year. However, the enacted provision does not specify the circumstances under which that threshold would be met. Its impact on the Financial Plan and on recipients of State funding, should significant federal aid reductions occur, is unclear.

The General Fund balance at the end of SFY 2016-17 was $7.7 billion, a decline of 13.3 percent from a year earlier, with resources from monetary settlements representing more than two-thirds of the total. The Financial Plan projects the balance will fall by an additional $1.4 billion, or 17.6 percent, as of the end of the current fiscal year. That balance, which reflects the State's total restricted and unrestricted reserves, rose sharply both in dollar terms and as a percentage of General Fund disbursements in SFYs 2014-15 and 2015-16, primarily because of monetary settlements. However, since that time, such reserves have declined or are projected to decline in each year through SFY 2020-21. No deposits to the State's rainy day reserve funds were made in SFY 2016-17, and no such deposits are projected to be made in this fiscal year.

The State's bottom line has been bolstered by receipt of over $10 billion in monetary settlements from SFY 2014-15 through May 2017, including a $350 million payment received after the Division of the Budget (DOB) released the Financial Plan in late May. The Financial Plan indicates an intent to use the majority of settlement funds for capital investments and other one-time purposes. Through March 31 of this year, the State had disbursed over $3.1 billion of these funds. Nearly half, or more than $1.5 billion, had been spent for various forms of budget relief. The Financial Plan projects that another $461 million in settlement resources will be devoted to budget balance in the current fiscal year. Aside from such purposes, the largest use of settlement funds through March has been $921 million provided to the Thruway Authority.

DOB projects that roughly 78 percent of settlement funds ultimately will be spent through the Dedicated Infrastructure Investment Fund (DIIF), transferred to the Environmental Protection Fund (a capital fund), or used for mass transit or health care purposes. Much of the appropriation language authorizing expenditures from the DIIF, a capital fund, would permit some resources to be used for non-capital purposes. No settlement resources have been or are planned to be deposited in rainy day reserves. Although the Executive Budget Financial Plan had allocated $150 million from monetary settlement resources for deposit to the Rainy Day Reserve Fund, if fiscal conditions permitted, these resources are now being used for budget balancing purposes.

The State is also using settlement funds for cash flow and debt management purposes that are presented as temporary in nature. The flexibility of these resources and their use for ongoing purposes may obscure the State's underlying fiscal position and create uncertainty regarding other commitments. Such uses should be considered within the context of factors such as the State's capital needs and the possibility that revenues this year or in coming years may be lower than expected. Should a shortfall occur, it may be difficult for the State to fill gaps created by the "temporary" use of such resources. Other key points in this report include:

- The Financial Plan projects All Funds disbursements of $163.6 billion this year, an increase of $6.6 billion or 4.2 percent.

- The Financial Plan indicates that spending from State Operating Funds will rise 2.0 percent this year, to $98.1 billion. That figure reflects several actions that complicate the picture of year-over-year spending growth. Such actions include: the use of prepayments; certain program restructurings which result in costs being reflected as reduced receipts rather than disbursements; shifting spending to capital projects funds; deferring expenditures to future years; and the use of off-budget resources to pay for certain program costs. Adjusting for such actions, the increase in State Operating Funds spending would be approximately 4 percent.

- Projected cumulative budget gaps in the following three years total $17.4 billion before potential gap-closing actions, an increase of nearly $11.2 billion from estimates in this year's Executive Budget. The Financial Plan includes the use of more than $4.8 billion in temporary resources, excluding federal aid, in the current year.

- Capital spending in the last fiscal year was $2 billion below projections in the SFY 2016-17 Enacted Budget Capital Plan, primarily due to lower-than-expected spending for education and higher education. Capital spending is expected to increase just over $3 billion, or more than 28 percent, in the current year.

- Over the five-year Capital Plan period, annual capital spending is projected to total $69.2 billion, $5.7 billion more than the total projected in the SFY 2016-17 Enacted Budget Capital Plan. Compared to the previous decade, transportation is expected to represent a smaller share of total capital spending in coming years, with larger proportions going to economic development, mental health, health and social welfare.

- Debt capacity for State-Supported debt under the State's statutory cap is projected to decline to $82 million in SFY 2020-21, before rising to $490 million the following year.

- State-Funded debt outstanding is projected to rise 4.1 percent this year, to $63.9 billion, and to reach $73.7 billion by the end of the Capital Plan period. State-Funded debt service is expected to approach $8.4 billion as of SFY 2021-22, reflecting an average annual increase of 3.1 percent over the coming five years.

II. SFY 2017-18 Financial Plan Overview

The SFY 2017-18 Enacted Budget Financial Plan (Enacted Budget Financial Plan or Financial Plan) released in May by the Division of the Budget (DOB) projects All Funds disbursements of $163.6 billion in SFY 2017-18, an increase of $6.6 billion or 4.2 percent.[1] Major increases include nearly $3 billion in spending from capital projects funds, almost $1.9 billion for Medicaid related to the Affordable Care Act (ACA) and health care reform, and $1.8 billion (including federal funds) for school aid.

These increases are partially offset by projected declines in spending in other areas including public protection, parks and STAR (or School Tax Relief, as it is converted from a disbursement to a tax credit). DOB estimates that State Operating Funds disbursements will increase by $1.9 billion or 2 percent over last year. General Fund disbursements, including transfers to other funds, are projected to increase by $3.1 billion or 4.6 percent over SFY 2016-17. DOB projects inflation this fiscal year at 2.2 percent.

The Financial Plan projects All Funds receipts for SFY 2017-18 to be $161.1 billion, representing an increase of $4.7 billion or 3 percent from SFY 2016-17. State Operating Funds receipts are projected to be $96 billion, an increase of $1.2 billion or 1.3 percent. General Fund receipts are projected to be $69.8 billion in SFY 2017-18, up by $2.9 billion or 4.4 percent.

All Funds personal income tax (PIT) collections in the first three months of SFY 2017-18 were more than $1.5 billion lower than the same period in SFY 2016-17, and approximately $1.7 billion lower than DOB's February 2017 projections. Primarily as a result of lower April estimated payments made with requests for filing extensions, estimates for General Fund tax receipts in the Financial Plan were lowered by $1.5 billion in the current year and by between $1.2 billion and $1.3 billion in each year of SFYs 2018-19 through 2020-21, as compared to estimates in the SFY 2017-18 Executive Budget Financial Plan Updated for Governor's Amendments and Forecast Revisions (Executive Budget Financial Plan).

The Financial Plan indicates that the downward adjustments are primarily in PIT and business tax collections, and largely attributable to potential federal tax law changes as well as actual tax law changes at the State level. These reduced projections in the Financial Plan follow reductions in each of the four previous Financial Plan updates from July 2016 through February 2017.

The Financial Plan includes over $5.4 billion in temporary and non-recurring resources, of which nearly $4.9 billion is State-sourced. Approximately $1.8 billion of this total was included in previous budgets. Such temporary resources are among the factors leading to projected budget gaps in future years. The Financial Plan projects budget gaps of $4 billion, $5.9 billion and $7.5 billion for the three years beginning in SFY 2018-19, respectively, for cumulative projected gaps of $17.4 billion, before any actions intended to address such gaps.

[1] The FY 2018 Enacted Budget Financial Plan is available at https://www.budget.ny.gov/pubs/archive/fy18archive/enactedfy18/FY2018EnactedFP.pdf.

The Financial Plan's outyear projections assume the adoption of budgets with no more than an annual increase of 2 percent in State Operating Funds spending, but do not specify how such targets will be met.[2] If State Operating Funds spending growth is held to 2 percent in each year, DOB projects that most but not all of the projected gaps would be eliminated, with a budget gap of $791 million in SFY 2018-19, followed by surpluses of $2 million in SFY 2019-20 and $443 million in SFY 2020-21.

All Funds Disbursements

All Funds disbursements are projected to total $163.6 billion, an increase of 4.2 percent, or $6.6 billion, over SFY 2016-17, $1.4 billion higher than projected in the Executive Budget. This is $519 million more than the projected spending growth in the Executive Budget Financial Plan, reflecting, in part, spending added in the final budget agreement. In addition, actual All Funds spending in SFY 2016-17 was $849 million higher than anticipated in the Executive Budget Financial Plan.

The majority of the projected growth in All Funds spending reflects increases in the General Fund (rising by just over $3 billion or 5.3 percent, not including transfers to other funds) as well as State capital project funds (up $3.4 billion, or nearly 43.8 percent). Federal spending from non-capital funds is projected to increase $1.7 billion, or 3.4 percent. Federal spending for capital purposes is projected to decline $477 million, or 20.5 percent, from levels in SFY 2016-17. Spending from debt service funds and State special revenue funds is projected to decline, offsetting projected growth by $196 million and $916 million respectively.

Spending changes from the Enacted Budget Financial Plan as compared to the Executive Budget Financial Plan include the following:

- **Local assistance grants** from All Funds are now projected to increase 4.3 percent, or just under $5 billion, as compared to a projected increase of approximately $4 billion, or 3.5 percent, in the Executive Budget Financial Plan;

- **Departmental operations spending** is projected to increase $11 million, or 0.1 percent, compared to a decline of $184 million in the Executive Budget;

- **General State Charges** are projected to increase 5.7 percent, or $450 million, as compared to 4.1 percent, or $323 million, in the Executive Budget;

- **Capital projects spending** is projected to increase 21.3 percent, or $1.4 billion, as compared to $1.7 billion, or 23.3 percent, in the Executive Budget;

- **Debt service**, which is affected by prepayments, is projected to decline 3.5 percent, or $195 million, compared to an increase of $256 million or 4.8 percent in the Executive Budget. The picture of debt service growth has been obscured by prepayments over the last several years. These prepayments, which do not provide interest savings, depress the apparent year-over-year growth in debt

[2] Disbursements in the Financial Plan do not reflect the assumed savings, which are identified as a separate line in the tables entitled "Adherence to 2% Spending Benchmark."

service and in the broader measures of growth in All Funds, State Operating Funds and General Fund spending.[3]

All Funds Receipts

All Funds receipts are expected to increase 3 percent, or $4.7 billion, in SFY 2017-18, as shown in Figure 1. Tax receipts are expected to total $77.9 billion, representing an increase of 4.8 percent, or $3.6 billion. This is primarily due to a projected $1.8 billion increase in PIT receipts (3.8 percent), which reflects factors including timing of refunds. Projected PIT receipts for SFY 2017-18 were adjusted downward by $1.3 billion to reflect lower-than-estimated April collections. The All Funds receipts estimate also reflects a $990 million projected increase in business tax collections and federal receipts that are projected to increase $1.2 billion or 2.2 percent in SFY 2017-18.

Figure 1

All Governmental Funds Receipts
(in millions of dollars)

	SFY 2016-17 Estimate (30-day Amendments)	SFY 2017-18 Executive Budget	Dollar Growth	Percentage Growth	SFY 2016-17 Actual	SFY 2017-18 Enacted	Dollar Growth	Percentage Growth
Receipts:								
Personal Income Tax	47,309	50,683	3,374	7.1%	47,565	49,382	1,817	3.8%
Consumption and Use Taxes	16,184	16,998	814	5.0%	16,212	16,861	649	4.0%
Business Taxes	7,847	8,253	406	5.2%	6,979	7,969	990	14.2%
Other Taxes	3,633	3,600	(33)	-0.9%	3,616	3,714	98	2.7%
Total Taxes	*74,973*	*79,534*	4,561	6.1%	*74,372*	*77,926*	3,554	4.8%
			-					
Miscellaneous Receipts	26,175	26,611	436	1.7%	26,594	26,509	(85)	-0.3%
Federal Grants	52,885	54,265	1,380	2.6%	55,406	56,642	1,236	2.2%
							-	
Total Receipts	**154,033**	**160,410**	6,377	4.1%	**156,372**	**161,077**	**4,705**	**3.0%**

Source: Division of the Budget

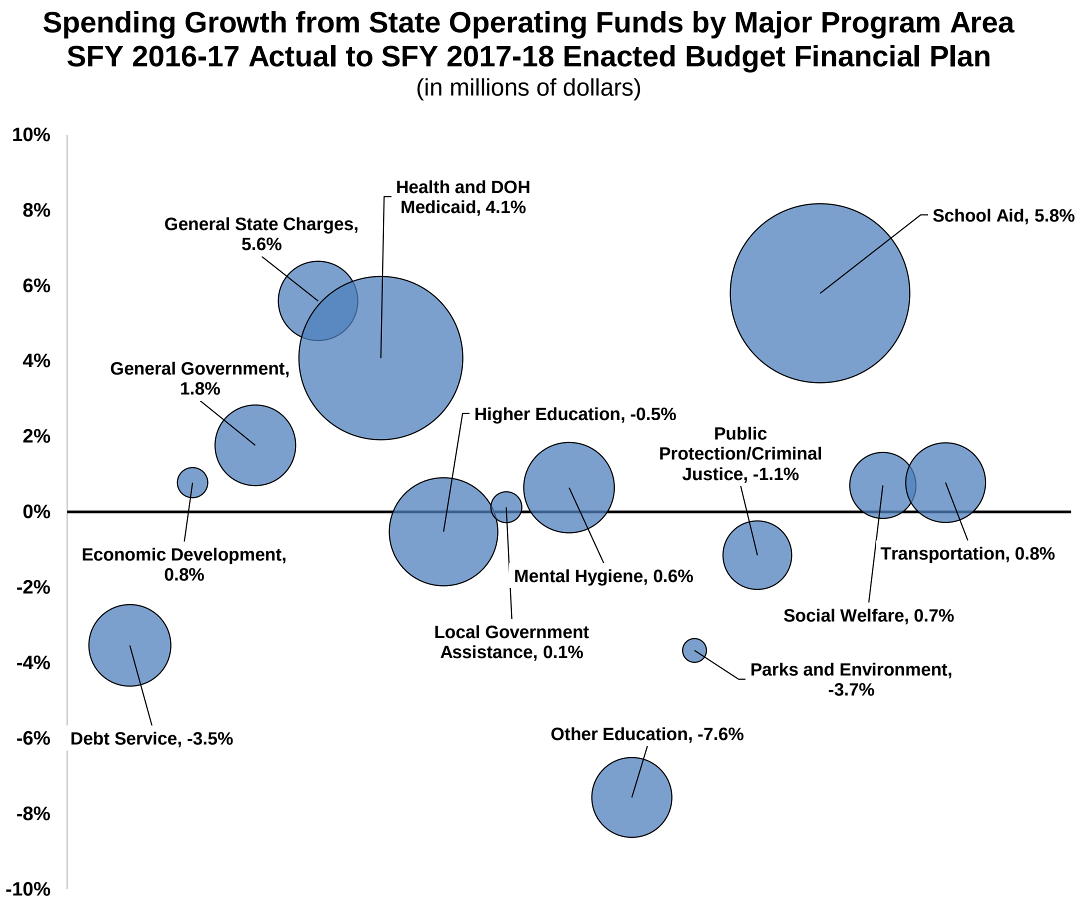
Through the first quarter of the fiscal year, All Funds tax receipts were $18.6 billion, $315.7 million or 1.7 percent below the reduced projections in the Enacted Budget Financial Plan. PIT receipts were $499 million lower than expected, while business tax collections were $222 million higher than planned. The General Fund balance as of June 30 was nearly $550 million higher than projected, largely because of lower-than-expected local assistance payments during the quarter.

State Operating Funds Disbursements

The Financial Plan projects that spending from State Operating Funds will increase by $1.9 billion or 2 percent from actual levels in SFY 2016-17.[4] Figure 2 illustrates the projected annual percentage changes in spending from State Operating Funds by major program area in SFY 2017-18.

[3] If prepayments in SFY 2016-17 of $491 million, which were otherwise scheduled to occur in SFY 2017-18, are adjusted out, debt service is projected to increase by $787 million, or 15.7 percent, from SFY 2016-17. However, reported debt service in SFY 2016-17 is lower by $710 million in prepayments made in SFY 2015-16. If these prepayments are also adjusted out, debt service in SFY 2017-18 would increase by 1.3 percent.
[4] 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



Note: The size of the circle represents total spending in that program area. For example, estimated State Operating Funds spending for school aid is $25.8 billion and estimated State Operating Funds spending for parks and environment is $454 million. The graph does not include Capital and Miscellaneous/Other categories. The center point of each circle aligns with the respective percentage on the vertical axis.
Sources: Division of the Budget, Office of the State Comptroller

Growth in State Operating Funds spending is driven primarily by increases in school aid ($1.4 billion to a total of $25.8 billion), health, including DOH Medicaid ($841 million to a total of just under $21.5 billion) and General State Charges ($268 million to a total of $5.05 billion) with smaller increases in certain other program areas. This growth is partially offset by declines in certain program areas, including other education ($420 million to a total of $5.1 billion), higher education ($50 million to a total of $9.4 billion) and debt service ($196 million to $5.4 billion).

As shown in Figure 3, actual State Operating Fund disbursements in SFY 2016-17 totaled nearly $96.2 billion, approximately $19 million higher than initially anticipated and close to the projections released in February. This disbursement figure reflects $491 million in prepayments of SFY 2017-18 expenses that were made during SFY 2016-17, as well as negotiated changes to the Executive Budget and other administrative actions.

These adjustments have a significant impact on projected growth for SFY 2017-18. Figures 2 and 3 reflect not only negotiated changes to the Executive proposal, but also factors including re-estimates, prepayments, spending shifts, and others that occurred after the February Financial Plan Update. For example, the decline in other education in Figure 2 is largely attributed to conversion of the STAR benefit for certain New York City personal income taxpayers from State spending to a State tax credit and the decline in debt service is driven by administrative actions changing the timing of payments.

Figure 3 illustrates how projected changes in spending and receipts were revised from the Executive Budget Financial Plan to the Enacted Budget Financial Plan.

Figure 3

Comparison of Growth in Projected State Operating Funds Receipts and Disbursements: Executive Budget and Enacted Budget Financial Plans

(in millions of dollars)

	SFY 2016-17 Estimate (30-day Amendments)	SFY 2017-18 Executive Budget	Dollar Growth	Percentage Growth	SFY 2016-17 Actual	SFY 2017-18 Enacted	Dollar Growth	Percentage Growth
Receipts:								
Personal Income Tax	47,309	50,683	3,374	7.1%	47,565	49,382	1,817	3.8%
Consumption and Use Taxes	15,568	16,431	863	5.5%	15,588	16,273	685	4.4%
Business Taxes	7,224	7,641	417	5.8%	6,339	7,349	1,010	15.9%
Other Taxes	3,514	3,481	(33)	-0.9%	3,497	3,595	98	2.8%
Total Taxes	*73,615*	*78,236*	*4,621*	*6.3%*	*72,989*	*76,599*	*3,610*	*4.9%*
Miscellaneous Receipts	21,111	19,163	(1,948)	-9.2%	21,758	19,355	(2,403)	-11.0%
Federal Grants	74	74	-	0.0%	72	74	2	2.8%
Total Receipts	**94,800**	**97,473**	**2,673**	**2.8%**	**94,819**	**96,028**	**1,209**	**1.3%**
Disbursements:								
Total Local Assistance Grants	64,465	65,955	1,491	2.3%	64,369	66,058	1,689	2.6%
Departmental Operations								
Personal Service	13,035	12,840	(195)	-1.5%	13,093	12,910	(183)	-1.4%
Non-Personal Service	5,757	5,759	2	0.0%	5,587	5,782	195	3.5%
Total Departmental Operations	18,792	18,599	(193)	-1.0%	18,680	18,692	12	0.1%
General State Charges	7,631	7,940	309	4.0%	7,634	8,063	429	5.6%
Debt Service	5,310	5,566	256	4.8%	5,514	5,319	(195)	-3.5%
Capital Projects	2	2	-	100.0%	2	2	-	0.0%
Total Disbursements	**96,200**	**98,062**	**1,863**	**1.9%**	**96,199**	**98,134**	**1,935**	**2.0%**

Source: Division of the Budget

State Operating Funds Receipts

State Operating Funds receipts are projected to increase 1.3 percent, or $1.2 billion from actual SFY 2016-17 levels, primarily due to growth of 4.9 percent in tax collections, offset by a projected decline in monetary settlement revenues within miscellaneous receipts. Projected growth in tax receipts in State Operating Funds is primarily in PIT, Business Taxes and Consumption and Use Taxes.

General Fund Disbursements

Disbursements from the General Fund, including transfers to other funds, are projected to increase 4.6 percent, or $3.1 billion, to $71.2 billion in SFY 2017-18, compared to the increase of 3.9 percent or $2.7 billion projected in the Executive Budget Financial Plan. Among other significant changes from the Executive Budget Financial Plan, the Enacted Budget Financial Plan includes the use of $461 million in settlement resources to help balance the Budget. A portion of these funds, $150 million, had been planned for deposit to the Rainy Day Reserve

Fund if fiscal conditions permitted, in the Executive Budget Financial Plan; however, this deposit is no longer planned. In addition to the $461 million, the Financial Plan also sets aside $155 million of settlement resources in the General Fund for future labor costs.[5] The $155 million is anticipated to remain within the General Fund but should also be considered General Fund relief as its intended purpose is to offset future operating costs.

General Fund Receipts

DOB projects General Fund receipts to increase by 4.4 percent or $2.9 billion from SFY 2016-17 levels, primarily due to increased tax collections, offset by the loss of monetary settlement revenue. General Fund tax collections are projected to increase $3.1 billion or 6.9 percent. This is approximately $656 million lower than the growth projected in the Executive Budget.

Figure 4 compares changes in General Fund receipts and disbursements from SFY 2016-17 to SFY 2017-18 as reflected in the Executive Budget projections to those in the Enacted Budget.

Figure 4

Comparison of Projected General Fund Receipts and Disbursements Growth: Executive Budget and Enacted Budget Financial Plans

(in millions of dollars)

	SFY 2016-17 Estimate (30 Day Amendments)	SFY 2017-18 Executive Budget	Dollar Growth	Percentage Growth	SFY 2016-17 Actual	SFY 2017-18 Enacted	Dollar Growth	Percentage Growth
Receipts:								
Personal Income Tax	32,274	35,406	3,132	9.7%	32,535	34,406	1,871	5.8%
Consumption and Use Taxes	7,082	7,514	432	6.1%	7,101	7,438	337	4.7%
Business Taxes	5,571	5,955	384	6.9%	4,761	5,718	957	20.1%
Other Taxes	1,134	969	(165)	-14.6%	1,110	1,072	(38)	-3.4%
Total Taxes	*46,061*	*49,844*	3,783	8.2%	*45,507*	*48,634*	3,127	6.9%
			-					
Miscellaneous Receipts	3,799	2,298	(1,501)	-39.5%	3,813	2,152	(1,661)	-43.6%
Federal Grants	-	-	-	0.0%	-	-	-	
Transfer from Other Funds	18,130	18,941	811	4.5%	17,575	19,048	1,473	8.4%
			-					
Total Receipts	**67,990**	**71,083**	3,093	4.5%	**66,895**	**69,834**	2,939	4.4%
Disbursements:								
Total Local Assistance Grants	44,826	47,247	2,421	5.4%	44,439	47,069	2,630	5.9%
Departmental Operations								
Personal Service	6,099	6,015	(84)	-1.4%	6,065	5,950	(115)	-1.9%
Non-Personal Service	2,154	2,290	136	6.3%	2,022	2,227	205	10.1%
Total Departmental Operations	8,253	8,305	52	0.6%	8,087	8,177	90	1.1%
General State Charges	5,491	5,741	250	4.6%	5,462	5,789	327	6.0%
Transfer to Other Funds	11,122	11,105	(17)	-0.2%	10,092	10,164	72	0.7%
Total Disbursements	**69,692**	**72,398**	2,706	3.9%	**68,080**	**71,199**	3,119	4.6%

Source: Division of the Budget

[5] An additional $350 million monetary settlement was received in May 2017. That funding has not been allocated as of the release of the Enacted Budget Financial Plan.

General Fund Current Services Gap

The Executive Budget Financial Plan projected a current services gap, the difference between expected revenues and the estimated cost of current services, of $3.5 billion for the current fiscal year. 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 2017-18. Figure 5 compares the Executive's proposed gap-closing plan to the plan included in the Enacted Budget Financial Plan. Among other changes, the Enacted Budget plan increases use of non-recurring resources and actions by more than $1.7 billion, for a total of more than $2.8 billion.

Figure 5

Comparison of Current Services Gap-Closing Plan
SFY 2017-18 Executive Budget and SFY 2017-18 Enacted Budget
(in millions of dollars)

	Proposed	Enacted	Difference
Current Services Gap - SFY 2017-18	**(3,533)**	**(3,533)**	**-**
Non-Recurring and Temporary Resources and Costs	1,112	2,844	1,732
Recurring Revenue Actions (including revenue re-estimates)	145	(1,645)	(1,790)
State Operations Reductions	431	337	(94)
Capital and Debt Management	360	923	563
Local Assistance Reductions	1,544	1,321	(223)
Recurring New Initiatives	(90)	(439)	(349)
All Other (Including re-estimates)	31	192	161
Remaining Gap In Enacted Budget Financial Plan	**-**	**-**	**-**

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

In addition to the SFY 2017-18 current services gap, the Enacted Budget Financial Plan included $2.3 billion new costs related to negotiated changes including new initiatives and restorations and re-estimates of certain receipts and spending including the following:[6]

- **$1.5 billion** in reduced projections for General Fund tax collections, largely in response to lower-than-anticipated PIT and business tax collections in March and April 2017 and spending re-estimates.

- **$390 million** in new spending added to the Executive Budget proposal, primarily in school aid, other education, higher education and human services.

- **$171 million** in proposed tax actions which were either rejected or modified in the Enacted Budget.

- **$157 million** to restore various proposed Executive Budget reductions in local assistance and spending for departmental operations.

DOB identifies nearly $2.3 billion in new General Fund resources to support the additional spending, restorations, tax modifications, and revised estimates of receipts. These include:

[6] See Figure 15 for outyear projections of the impact of gap-closing actions.

- **$461 million** in unallocated or reallocated monetary settlements.

- **$210 million** in prepayments made in SFY 2016-17 that will lower costs in SFY 2017-18 (in addition to already planned prepayments of $281 million).

- **$809 million** in transfers initially expected in SFY 2016-17 that DOB now anticipates will occur in SFY 2017-18, as well as transfers to capital funds that are lower than initially anticipated.

- **$772 million** associated with various other actions including updated estimates of miscellaneous receipts and transfers, the use of reserves, and spending revisions and management actions.

State Operating Funds Projections Adjusted for Prepayments and Other Actions

The Executive has instituted a goal of limiting annual spending growth from State Operating Funds to 2 percent or lower, and has worked with the Legislature for the past several years to enact budgets intended to reflect that goal. However, these reported and projected levels of spending growth are influenced by the use of budget management and other actions to shape apparent levels of growth. Such factors include: the use of prepayments across fiscal years; certain program restructurings which result in costs being reflected as reduced receipts rather than disbursements; shifting spending to capital projects funds; deferring expenditures to future years; and the use of off-budget resources to pay for certain program costs.

The goal of staying within the annual 2 percent growth limitation has been achieved, in part, by use of these actions, which may limit reported State Operating Funds disbursements and growth, without lowering actual costs. These actions also have the effect of changing the picture of spending and spending growth (and in certain instances, receipts) in other categories (e.g., General Fund) and in the All Funds budget.

Figure 6 illustrates that prepayments made in SFY 2016-17 depress the appearance of spending growth by making spending higher in the base year (in this case, SFY 2016-17), while reducing spending in the subsequent year. While prepayments may be both an indicator of improved cash position and a fiscal management tool, the impact of such actions should be clearly identified, to avoid distorting growth trends. If projections were adjusted to offset the impact of prepayments identified in the Financial Plan, projected spending growth from State Operating Funds in SFY 2017-18 would increase from 2.0 percent to 3.0 percent, excluding adjustments for other budgetary actions. [7]

[7] All figures in this report are given as projected by the Executive (not adjusted) unless otherwise indicated.

Figure 6

SFY 2017-18 Enacted Budget Financial Plan
State Operating Funds Adjusted to Reflect Prepayments
(in millions of dollars)

	SFY 2016-17 Actual	SFY 2017-18 Enacted	Dollar Growth	Percentage Change
Unadjusted State Operating Funds Disbursements	**96,199**	**98,134**	**1,935**	**2.0%**
Disbursements:				
Grants to Local Governments	64,369	66,058	1,689	2.6%
State Operations	18,680	18,692	12	0.1%
General State Charges	7,634	8,063	429	5.6%
Debt Service	5,514	5,319	(195)	-3.5%
Adjustment for SFY 2017-18 Debt Service Prepayment	(491)	491		
Adjusted Debt Service	*5,023*	*5,810*	*787*	*15.7%*
Capital Projects	2	2	-	0.0%
Adjusted State Operating Funds Disbursements	**95,708**	**98,625**	**2,917**	**3.0%**

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

The Enacted Budget Financial Plan includes several other actions that further complicate the analysis of spending growth (and in certain cases, revenue growth) from SFY 2016-17 to SFY 2017-18. Examples of such actions include the following:

- Using the State's share of revenue from the 1998 Master Settlement Agreement with participating cigarette manufacturers to pay certain State Medicaid costs off-budget ($97 million in SFY 2017-18 and $300 million annually thereafter). This example also lowers the reported level of State revenues, as these funds would have otherwise been deposited in a State fund and counted as a miscellaneous receipt.

- Converting the STAR benefit for certain New York City personal income taxpayers from State spending to a State tax credit ($277 million in SFY 2017-18 and $352 million the following year). This conversion also impacts the reported level of State tax revenue.

- Shifting spending for approximately 3,200 full-time equivalent workforce positions to the capital projects fund ($227 million).

- Deferring a loan repayment to the New York Power Authority ($193 million).

- Shifting a portion of the State employee workers' compensation costs off-budget to the State Insurance Fund ($205 million).

- Using intercepted sales tax revenue which otherwise would flow to New York City as an offset to State spending. The Enacted Budget includes "refund of appropriation" language to offset spending from a $170 million appropriation which flows to the Sales Tax Asset Receivable Corporation (STARC) ($170 million).

- Offsetting what otherwise would be State funding for the City University of New York with the sale of State-owned property (up to $60 million).

If State Operating Funds expenditures were adjusted to include spending associated with these actions as well as the prepayments discussed previously, this year's growth would be approximately 4 percent. In addition to the actions identified above, there may be other items that are not readily identifiable that could also influence such growth.

A definitive measure of such changes is difficult to determine and analyze because certain actions are not clearly delineated or included in the Financial Plan, and the Financial Plan does not include a comprehensive summary of their impact on year-to-year growth. For example, while the DIIF was created as a capital projects fund, and DIIF appropriations are contained in the Capital Projects budget bill, resources in the DIIF are not limited to capital purposes. Certain spending or transfers from the DIIF could be used for operating purposes that would not be captured within State Operating Funds spending.

In addition, the Enacted Budget will allow up to an additional $500 million to be transferred from the General Fund and spent from the Debt Reduction Reserve Fund (DRRF). Related language provides that spending from the DRRF, an operating fund, will not be counted by DOB when calculating growth in spending from State Operating Funds. Although the Financial Plan does not currently include any spending from the DRRF, if this were to change, such spending would not be included in the measure of State Operating Funds spending and growth.

Some of these actions may be reported and accounted for differently in the State's financial reporting and accounting documents. For example, the Office of the State Comptroller (OSC) issues financial reports, including the State's Basic Financial Statements, Comprehensive Annual Financial Report, the Comptroller's Annual Report to the Legislature on State Funds Cash Basis of Accounting and the Comptroller's Monthly Reports on State Funds Cash Basis of Accounting. These reports are subject to accounting standards which may result in differences in the presentation and reporting of receipts and disbursements between these required financial reports and the Enacted Budget Financial Plan for discrete funds as well as for total State Operating Funds and total All Governmental Funds.

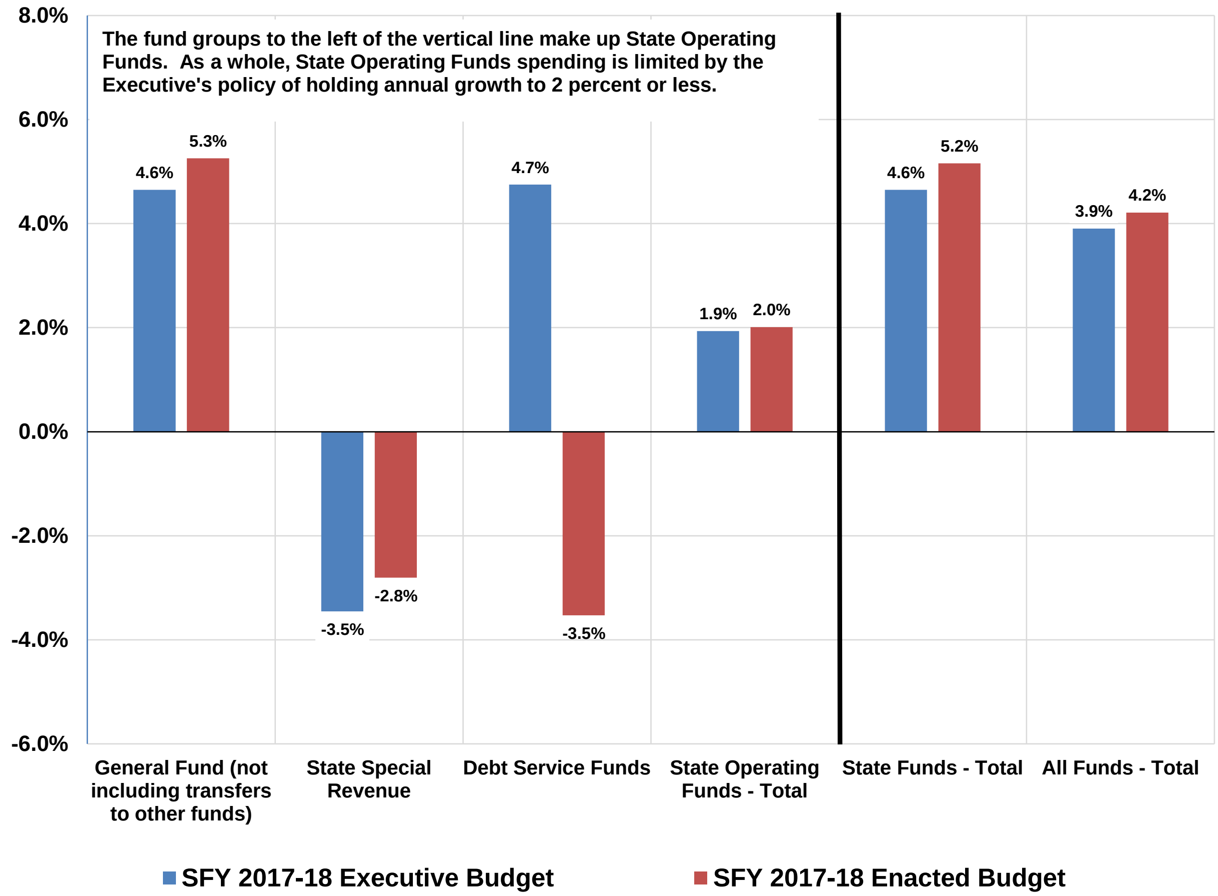
For instance, the OSC accounting and financial reporting of the STARC appropriation will include spending from the $170 million appropriation as a disbursement and the intercepted sales tax revenue as a State miscellaneous receipt. In the Enacted Budget Financial Plan, the intercepted sales tax revenue is used to offset the spending from the $170 million appropriation. As a result, the Financial Plan does not show spending from the appropriation as a disbursement in the Financial Plan, or the intercepted sales tax revenue as a miscellaneous receipt.

Figure 7 illustrates how State spending as measured by General Fund, State Funds and All Funds disbursements is projected to grow significantly more than the 2 percent growth in State Operating Funds disbursements presented in the Financial Plan. State Operating Funds include the General Fund (not including transfers to other funds), State special revenue funds and debt service funds.

To keep State Operating Funds growth at or below 2 percent, while allowing spending from the General Fund to grow more than 2.5 times the 2 percent limit, spending from State special revenue and debt service funds will have to decline significantly. The anticipated reduction in debt service funds in the SFY 2017-18 Enacted Budget is related to debt service prepayments. The decline in special revenue funds is, in part, related to certain of the actions described above.

Figure 7

Annual Spending Growth By Fund – Proposed and Enacted – SFY 2017-18



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

III. Monetary Settlements

The Enacted Budget Financial Plan includes an accounting of uses to date of just under $9.9 billion in monetary settlements received or anticipated from April 2014 through the release of the Financial Plan in May 2017 along with planned future uses of the settlement money. While the majority of settlement funds has not yet been spent, appropriations in the State's four most recent enacted budgets have authorized uses for all such resources, other than a $350 million settlement received in May 2017 that is not reflected in the Financial Plan.

One-time resources such as settlement funds are most appropriately used for capital investments and other one-time expenses. The Financial Plan states "the Executive's intention to use the majority of extraordinary monetary settlements to fund capital investments and nonrecurring expenditures." The SFY 2015-16 Enacted Budget included statutory language creating the Dedicated Infrastructure Investment Fund (DIIF), a capital projects fund. The DIIF was characterized as a mechanism to allow the settlement dollars to be set aside for intended purposes.

While the Capital Plan continues to show a majority of the settlement resources eventually being spent for what DOB describes as capital purposes, the planned use of these settlement resources has changed in various ways over time, including in recent months. For instance, over the course of SFY 2015-16 and SFY 2016-17, a total of almost $6.4 billion was planned for transfer to the DIIF where it would be held until it was needed to support appropriations from such fund. However, over the course of these two State fiscal years, only a quarter of the amount, nearly $1.6 billion, has actually been transferred. Most recently, the SFY 2017-18 Executive Budget Financial Plan had anticipated using $150 million in settlement resources for a deposit to the Rainy Day Reserve Fund during the current fiscal year, "if fiscal conditions permit." However, the Enacted Budget Financial Plan indicates that this is no longer anticipated to occur.

Use of Monetary Settlement Funds for Budget Relief

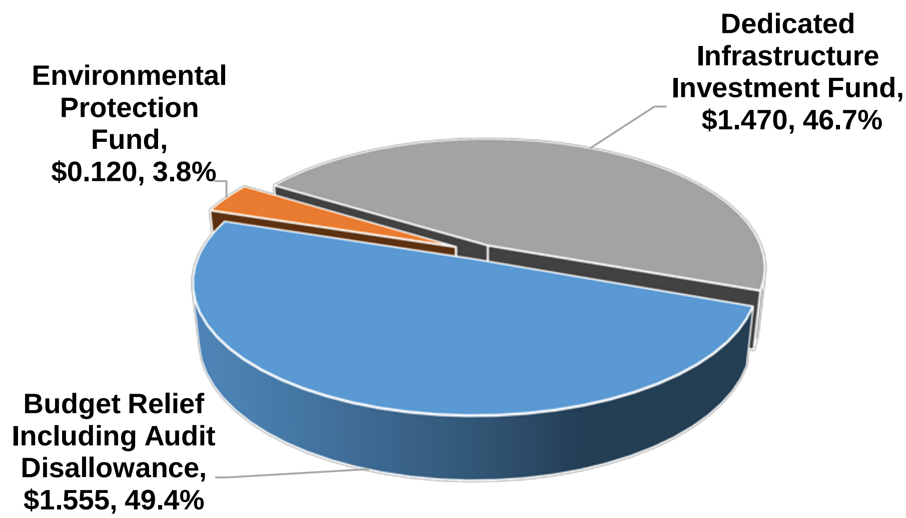
Certain settlement resources have been used, or are anticipated to be used, for general budget support. As shown in Figure 8, of the nearly $9.9 billion in settlement funds described in the Financial Plan, the State had disbursed over $3.1 billion as of March 31, 2017. Nearly one in every two settlement dollars spent to date - more than $1.5 billion - has been used for various forms of budget relief. Such uses included: $850 million to offset the federal disallowance of certain Medicaid expenditures[8]; $627 million in general budget support during SFYs 2014-15, 2015-16 and 2016-17; $73 million to support Department of Law litigation services; and $5 million for the State's chemical dependence program.[9]

[8] Section 93-b of the State Finance Law allows the Director of the Budget to authorize the transfer of funds within DIIF back to the General Fund under certain circumstances including an economic downturn, as calculated by the Department of Labor based on various factors, and to cover certain disallowances and/or settlements related to overpayments of federal Medicare and Medicaid revenues, and the associated reduction in State-share Medicare and/or Medicaid revenues.

[9] The $850 million used to offset federal disallowance of certain Medicaid expenditures represented the State's initial portion of repayment of the disallowance, with ongoing expenses of $100 million annually through FY 2027. The $5 million for the State's chemical dependence program is as required by Article 13-A of the Civil Practice Law.

Figure 8

Actual Disbursements Funded with Settlement Resources
SFY 2014-15 through SFY 2016-17 ($3.145 Billion Total)
(in billions of dollars)



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

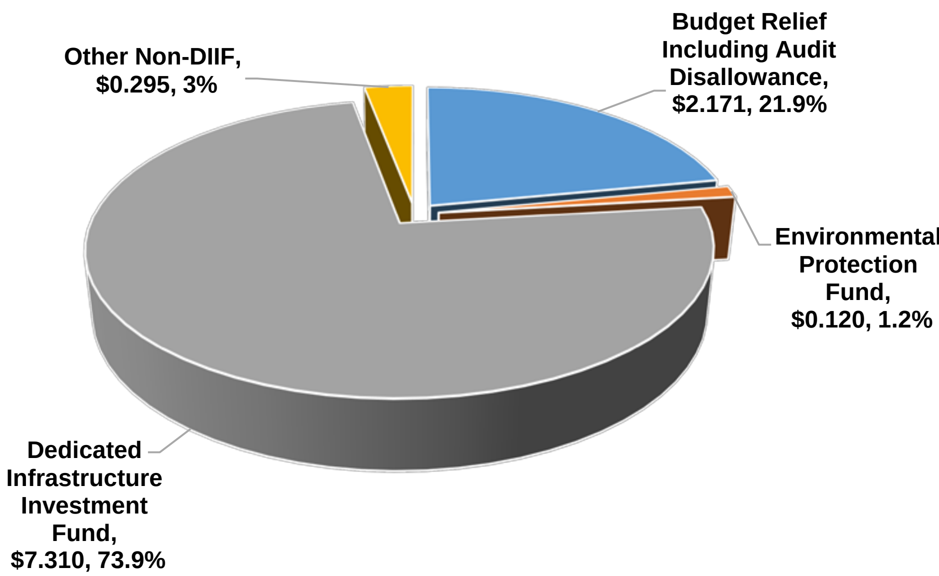
As of the end of the last fiscal year, nearly $1.5 billion in monetary settlement funds had been spent through the DIIF, a capital projects fund, including more than $921 million for the Thruway Stabilization Program and more than $155 million for health care and hospital initiatives, while an additional $120 million had been spent through the Environmental Protection Fund. Aside from the use of such resources for budget relief, the Thruway Authority has received the largest distribution of settlement resources.

In addition, in SFY 2016-17, $1.3 billion of monetary settlement funds from the General Fund were transferred to the State Capital Projects Fund. According to DOB, this was done in conjunction with a deferral of the issuance of $1.3 billion in bonds that were otherwise scheduled to be issued in SFY 2016-17. DOB now plans to issue those bonds in the current State fiscal year ($800 million) and in SFY 2018-19 ($500 million). If this $1.3 billion were included with the total monetary settlement disbursements to date, then the proportion spent for budget relief would be 35 percent.

Figure 9 illustrates that of the nearly $9.9 billion in monetary settlement allocations made to date, nearly $2.2 billion or 21.9 percent has been used or is expected to be used for budget relief across a number of categories, including $461 million intended for SFY 2017-18. Another 73.9 percent or $7.3 billion is expected to be spent from the DIIF over the next five years, while $120 million, or 1.2 percent, was transferred to the Environmental Protection Fund and the remaining $295 million, or 3 percent, is expected to be used to fund mass transit or health care purposes through appropriations that do not identify settlement dollars as a source of funding.

Figure 9

Actual and Planned Use of Settlement Resources
SFY 2014-15 through SFY 2021-22 ($9.896 Billion Total)
(in billions of dollars)



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

The DIIF is a capital fund; appropriations from the DIIF are capital appropriations and its spending is included in the State's Capital Program and Financing Plan. However, much of the appropriation language authorizing expenditures from the fund is written in such a way as to permit some DIIF resources to be used for non-capital purposes.[10]

None of the nearly $9.9 billion has been or is planned to be deposited in the State's rainy day reserve funds (Tax Stabilization Reserve or Rainy Day Reserve). Although the SFY 2017-18 Executive Budget Financial Plan contemplated a $150 million deposit to the Rainy Day Reserve Fund during the current fiscal year "if fiscal conditions permit," the Enacted Budget Financial Plan indicates that these funds will be used as part of the $461 million mentioned above to offset a shortfall in current year tax receipts.

Figure 10 illustrates how settlement dollars have been allocated through this year's and the three previous years' enacted budgets.

[10] For additional background on the evolution in planned uses of settlement resources, see *Comptroller's Fiscal Update: State Fiscal Year 2016-17 Revenue Trends through the Mid-Year,* November 2016, available at: https://www.osc.state.ny.us/reports/budget/2016/2016-17_midyear_report.pdf.

Figure 10

Monetary Settlement Uses
(in millions of dollars)

Total Received, SFY 2014-15 through SFY 2016-17	**9,896**
Uses	
Previously Enacted Budgets	
SFY 2014-15 Budget Support	(275)
SFY 2015-16 Budget Support	(250)
SFY 2016-17 Budget Support	(102)
Chemical Dependence Program	(5)
Department of Law - Litigation Services 2015-16	(10)
Department of Law - Litigation Services 2016-17	(63)
Audit Disallowance - Federal Settlement	(850)
Planned Deposits to Dedicated Infrastructure Investment Fund	(6,390)
Environmental Protection Fund	(120)
Total Previously Allocated	**(8,065)**
SFY 2017-18 Enacted Budget	
Buffalo Billion Phase II (spending from DIIF)	(400)
Security and Emergency Response Preparedness (spending from DIIF)	(100)
Downtown Revitalization (spending from DIIF)	(100)
Life Sciences (spending from DIIF)	(320)
Health Care Capital Grants (not spent from DIIF)	(200)
MTA Capital (not spent from DIIF)	(65)
Non-MTA Capital (not spent from DIIF)	(20)
Non-MTA Operating (not spent from DIIF)	(10)
Labor Costs (from General Fund)	(155)
SFY 2017-18 Budget Support	(461)
Total Enacted	**(1,831)**
Remaining (undesignated)	**-**

Note: The total figure for monetary settlements received includes $33 million not yet received in SFY 2017-18.
Sources: Division of the Budget, Office of the State Comptroller

Use of Monetary Settlement Funds for Cash Flow and Debt Management

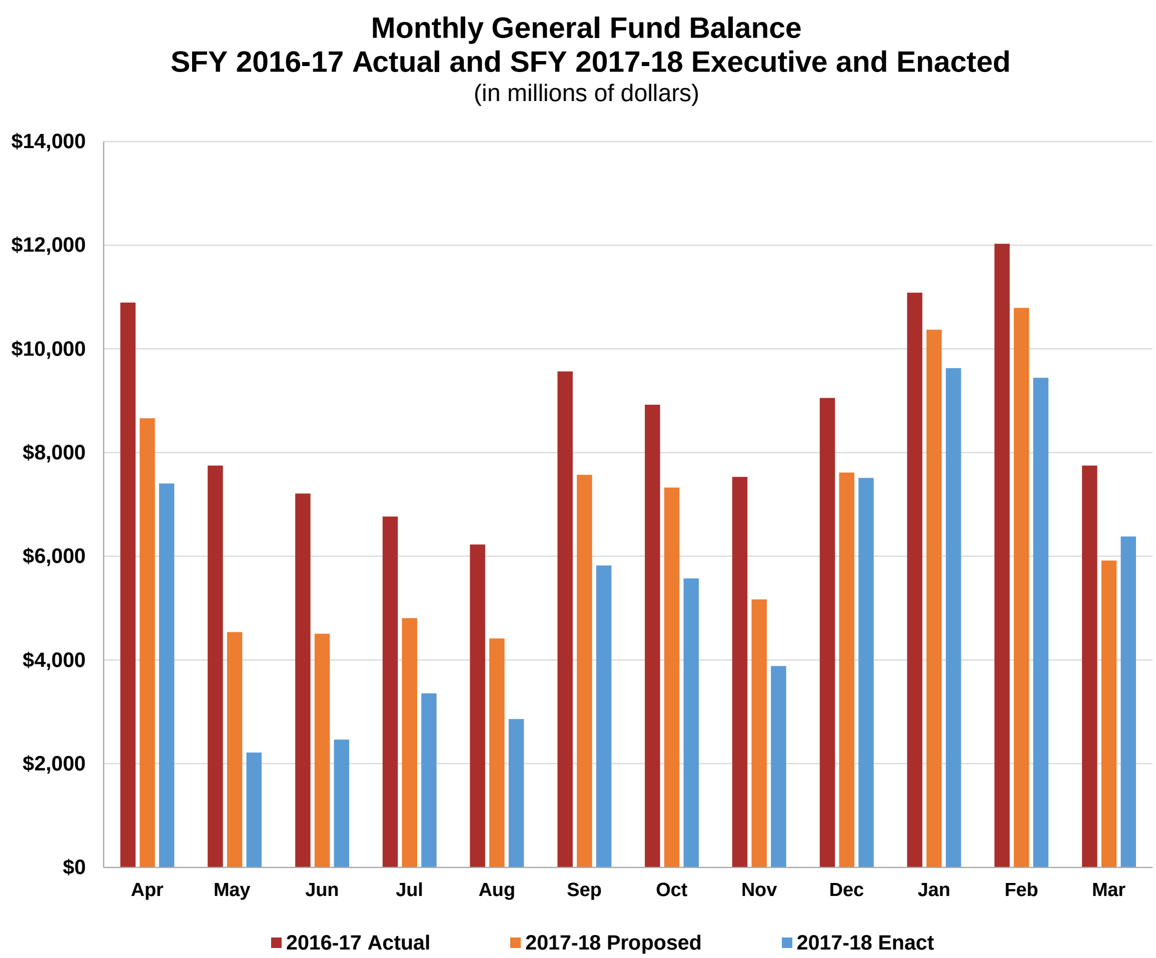
The State's receipts and disbursements can flow unevenly and unpredictably through the fiscal year. For example, during SFY 2016-17, monthly General Fund tax receipts ranged from a high of more than $5.5 billion in April 2016 to less than $2.1 billion in November 2016. Monthly General Fund disbursements varied widely as well, with a high of more than $11.1 billion in March 2017 compared to a low of less than $2.7 billion two months earlier. The Financial Plan projects monthly swings in receipts and disbursements during the current fiscal year, as well. When collections don't meet expectations, the timing of disbursements can be a tool to manage variations in cash flow.

The cash balance in the General Fund, which is affected by the mismatch of receipts and disbursements and other factors, fluctuates throughout the fiscal year as well. For example, the monthly General Fund closing balance was just below $10.9 billion as of April 30, 2016, but declined to approximately $7.8 billion the following month and reached a low for SFY 2016-17 of approximately $6.2 billion in August 2016.

The Enacted Budget Financial Plan projects that monthly General Fund closing balances during the current fiscal year will be substantially lower than those in the previous year, and lower than DOB projected in its January 2017 Executive Budget presentation. The Financial Plan projected balances for May 31 and June 30, 2017, of approximately $2.2 billion and $2.5 billion, respectively. The actual closing balance at the end of June was higher than projected, at $3.0 billion, primarily because of lower-than-projected spending and the receipt of $350 million in unanticipated monetary settlement funds. Still, this is nearly $4.2 billion below the General Fund balance for the same month a year earlier. Those figures and the projected General Fund balances for certain later months in the current fiscal year are lower than the Financial Plan's estimate of settlement resources in the General Fund for either the start or end of the fiscal year. This indicates that settlement resources are effectively being used, in part, for cash management purposes.

The Financial Plan projects that monthly General Fund balances will generally trend upward in coming months, as shown in Figure 11. However, with the exception of March 2018, such balances are expected to remain below the levels estimated in January and below the actual amounts of a year earlier.

Figure 11



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

The State is also using settlement resources to provide flexibility with regard to debt management and the preservation of borrowing capacity under the State's statutory debt limits. In the FY 2018 Enacted Capital Plan, DOB indicated that increased cash on hand "has provided the flexibility to use these cash resources temporarily to support capital spending and avoid issuing debt immediately, saving on interest costs."[11] The section of this report on Capital Spending and Debt below provides additional details.

DOB has indicated the State's receipt of billions of dollars in monetary settlements in recent years has improved liquidity and provided useful budgetary flexibility. However, the use of these resources for such purposes can obscure the State's underlying fiscal position. In addition, the benefits of such flexibility and the use of some settlement resources for ongoing General Fund purposes should be considered within the context of other factors. These include the State's capital needs and the possibility of lower-than-projected revenues going forward, which could make it difficult for the State to fill any gaps created by the "temporary" use of settlement resources. Such uses of settlement funds may also create uncertainty with regard to capital commitments already made, limit options for other potential investments and hinder the State's ability to capitalize on the significant opportunities provided through receipt of these funds.

[11] New York State Division of the Budget, *FY 2018 Enacted Capital Program and Financing Plan*, May 2017, p. 16.

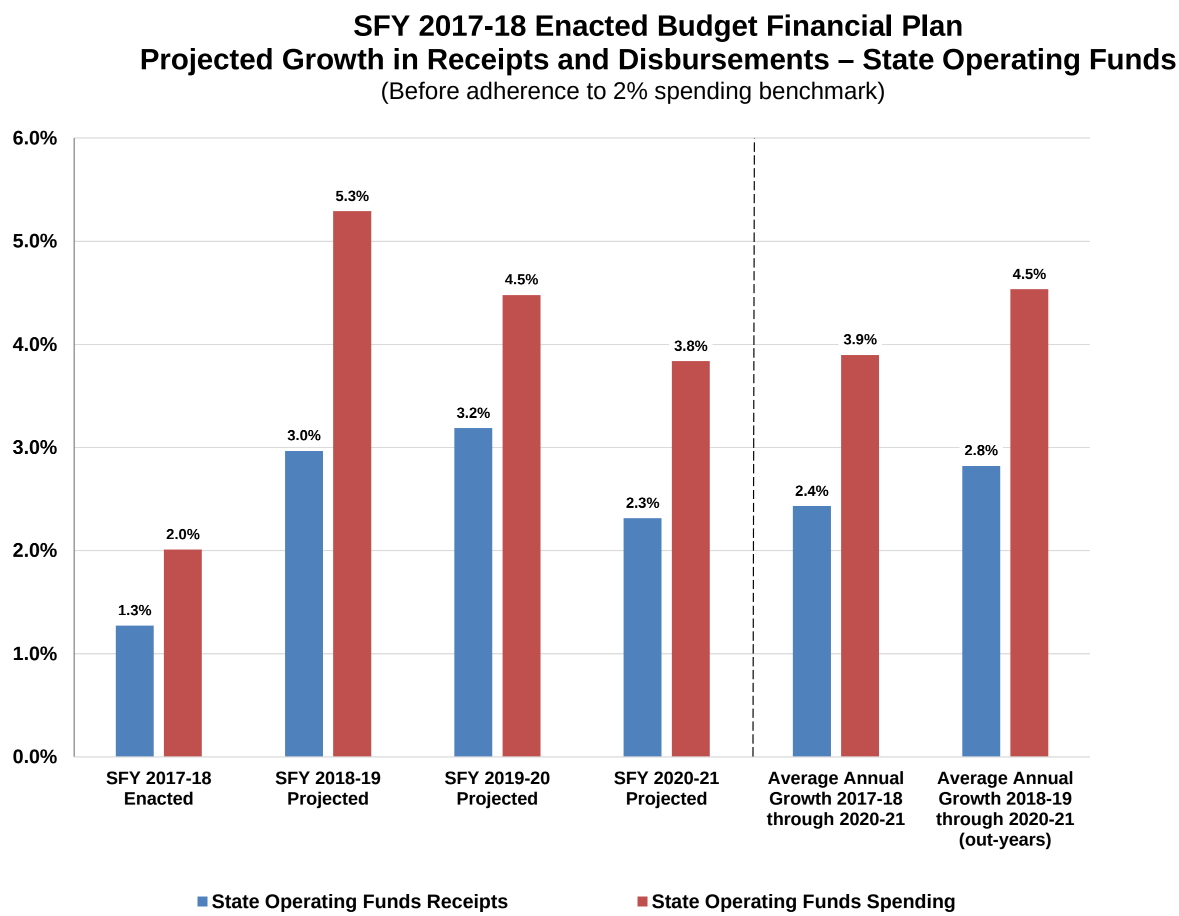
IV. Structural Imbalance

The Enacted Budget Financial Plan is not balanced on a structural basis, and spending growth in future years is projected to outpace revenue growth. Continued reliance on temporary and non-recurring resources, as well as administrative and accounting 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.

Figure 12 illustrates current projected growth for receipts and disbursements from State Operating Funds. The two columns on the far right show average annual growth for the Financial Plan as enacted (growth after SFY 2016-17) and average annual growth in outyears only (growth after SFY 2017-18).

This presentation does not reflect the Executive's non-statutory goal of limiting annual State Operating Funds spending growth to no more than 2 percent. This goal is not reflected in the disbursement figures in the Financial Plan.

Figure 12



Source: Division of the Budget

Based on spending and receipt estimates included in the Enacted Budget Financial Plan, DOB estimates that, without adherence to the 2 percent spending growth target for State Operating

Funds, the projected General Fund budget gap would total $4 billion in SFY 2018-19 and rise to $7.5 billion in SFY 2020-21.

The three-year total of nearly $17.4 billion in projected gaps during the Financial Plan period is nearly 180 percent higher than the total of projected gaps that DOB estimated based on the SFY 2017-18 Executive Budget Financial Plan. The $17.4 billion figure is also $2.4 billion or 14 percent higher than the cumulative total of outyear gaps projected in the SFY 2016-17 Enacted Budget Financial Plan.

Figure 13 compares average annual growth in various spending areas for the period from SFY 2007-08 through SFY 2016-17 to projected growth in SFY 2017-18, as well as to projected average annual growth from SFY 2018-19 through SFY 2020-21. These outyear projections can illustrate the impact of changing spending priorities within the Financial Plan, as well as the impact of budget management actions.

Figure 13

Annual Spending Growth Comparisons from State Operating Funds

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

As shown, projected growth in school aid this year would outpace the average annual increase over the decade ending in SFY 2016-17, a trend that is projected to continue. Medicaid spending growth is projected to be slightly below the 10-year average this year, but is expected to accelerate in coming years. Total State Operating Funds disbursements are projected to grow at more than twice the Executive's 2 percent benchmark. (The figures are not adjusted for the timing of payments or certain other budget management actions.)

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. Although some use of such resources is to be expected, given the size and complexity of the State's budget, these resources should be matched with non-recurring or temporary expenditures so as not to create or exacerbate structural imbalances. In the short term, the use of these resources contributes to budget balance in the current year and in any future years in which such resources are available. However, by definition, temporary and non-recurring resources do not improve the State's structural balance between recurring levels of revenue and spending.

Figure 14

Non-Recurring Resources, Adjustments, Prepayments and Advances
(in millions of dollars)

	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	Total
Prepayments and Use of Reserves					
Use of Reserves	30	-	-	-	**30**
Use of Settlement Resources	461	-	-	-	**461**
SFY 2016-17 Debt Service Prepayment	491	-	-	-	**491**
Subtotal	*982*	-	-	-	*982*
Temporary or Non-Recurring Resources Enacted in SFY 2017-18					
Sweeps from Other Funds	463	-	-	-	**463**
New York State Insurance Fund	205	-	-	-	**205**
Regional Greenhouse Gas Initiative	24	-	-	-	**24**
CUNY Asset Sales	60	-	-	-	**60**
TAP Reconciliation	166	-	-	-	**166**
NYPA Repayment Adjustment	193	(21)	(43)	(43)	**86**
STAR Conversion	277	-	-	-	**277**
Temporary PIT Bracket	683	3,375	3,965	902	**8,925**
Subtotal	*2,071*	*3,354*	*3,922*	*859*	***10,206***
Previously in Law or Outside Budget Process					
High Income Charitable Deduction Limit	-	70	140	70	**280**
Sales Tax Asset Receivable Corporation Refunding	200	200	17	-	**417**
Mortgage Insurance Fund	155	-	-	-	**155**
Temporary PIT Bracket (1)	1,456	-	-	-	**1,456**
Subtotal	*1,811*	*270*	*157*	*70*	***2,308***
Total State Temporary, Non-Recurring and Prepayments	**4,864**	**3,624**	**4,079**	**929**	**13,496**
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (2)	549	464	320	264	**1,597**
Total State and Federal Temporary and Non-Recurring Resources	**5,413**	**4,088**	**4,399**	**1,193**	**15,092**

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

As shown in Figure 14, the Financial Plan uses temporary and non-recurring resources totaling nearly $4.9 billion (excluding $549 million for extraordinary temporary federal disaster assistance) in the current State fiscal year. Of that total, $2.1 billion results from changes enacted as part of this year's Budget. Another $982 million in prepayments, use of reserves and monetary settlement funds are anticipated to benefit the General Fund during SFY 2017-

18. Finally, the Enacted Budget also relies upon non-recurring resources added in previous budgets that total $1.8 billion. 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.

Components of the General Fund Gap-Closing Plan and Effects of the Plan on Outyears

The SFY 2017-18 Executive Budget included actions intended to eliminate a projected $3.5 billion current services deficit in SFY 2017-18, while reducing cumulative outyear gaps from SFY 2018-19 through SFY 2020-21. As shown in the first column of Figure 15 below, $2.7 billion in new initiatives proposed in the Executive Budget, as well as re-estimates totaling $2.4 billion, would have increased the cumulative multiyear gap (including SFY 2017-18) to nearly $31.5 billion before gap-closing actions. Offsetting actions in the Executive Budget Financial Plan were projected to have brought the cumulative gap down to $6.2 billion.

The Executive's proposed gap-closing plan included approximately $12.3 billion in cumulative recurring gap-closing measures, reflecting 38.9 percent of the total. Non-recurring or temporary resources made up 41.3 percent of the gap-closing plan, while 19.7 percent of the outyear projected gap was not addressed in the Executive Budget.

Figure 15

SFY 2017-18 Proposed and Enacted Budget Financial Plan Gap-Closing Measures

(in millions of dollars)

	Proposed SFY 2017-18 through SFY 2020-21	Enacted SFY 2017-18 through SFY 2020-21
Total Cumulative Gap to Be Closed	**(26,406)**	**(26,406)**
Additions to Gap		
Recurring New Additions/Restorations/Initiatives	**(1,346)**	**(3,601)**
Recurring New Revenue Reductions	**(1,063)**	**(1,063)**
Other	**(303)**	**(28)**
Re-Estimates	**(2,374)**	**(8,136)**
Total Gap After Additions	**(31,492)**	**(39,234)**
Recurring Spending Actions (including Debt and Capital)	**11,156**	**10,473**
Share of Total Gap After Additions	*35.4%*	*26.7%*
Recurring Revenue Enhancements	**1,102**	**274**
Share of Total Gap After Additions	*3.5%*	*0.7%*
Temporary or Non-Recurring Resources/Cost	**13,021**	**11,096**
Share of Total Gap After Additions	*41.3%*	*28.3%*
Remaining Gap	**(6,213)**	**(17,386)**
Share of Total Gap After Additions	*19.7%*	*44.3%*

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

As shown in the second column of Figure 15 above, $4.7 billion in new initiatives included in the Enacted Budget, as well as re-estimates totaling $8.1 billion, increased the cumulative multiyear gap (including SFY 2017-18) to $39.2 billion before gap-closing actions. Growth in the projected outyear budget gaps compared to the Executive Budget is attributable primarily to: re-estimates (including $5.8 billion in downward revisions to tax receipt collections and other receipt revisions); an increase in new recurring spending of $2.3 billion; and the elimination or modification of proposed recurring revenue enhancements and temporary or non-recurring resources of nearly $2.8 billion.

The gap-closing plan in the Enacted Budget Financial Plan relies upon $11.1 billion in non-recurring resources to address gaps, or 28.3 percent of the total. Recurring spending reductions comprise $10.5 billion or 26.7 percent of the gap-closing plan, while recurring revenue enhancements make up less than one percent of the gap-closing measures. (The Enacted Budget includes a two-year extension of the top PIT rate on certain high-income earners, which is reflected in the figures for temporary or non-recurring resources.)

As shown in Figure 15, a total of 44.3 percent of the projected gaps, or $17.4 billion, are not addressed. This reflects an increase of nearly $11.2 billion or 180 percent from the Executive Budget estimate. These cumulative outyear gaps do not include any savings that could be achieved by limiting annual spending growth from State Operating Funds to 2 percent. The Financial Plan shows that limiting growth in such spending to the 2 percent benchmark will not be sufficient to eliminate the projected gap in SFY 2018-19.

V. Reserves

The State ended SFY 2016-17 with a General Fund closing balance of $7.7 billion, representing a decline of nearly $1.2 billion from SFY 2015-16, and $517 million over the Executive's amended Financial Plan projection issued in February 2017. The majority of this variance from the last plan is due to a decreased transfer of certain monetary settlement revenues to the DIIF ($475 million lower than anticipated). Excluding the reduced transfer, the General Fund ended the year approximately $42 million below the latest projections from February.

DOB made no deposits to the Tax Stabilization Reserve or Rainy Day Reserve in SFY 2016-17 and projects no such deposits this fiscal year. DOB continues to set aside $500 million in unrestricted reserves for debt management purposes in SFY 2017-18, although there are no disbursements from such reserves included in the Enacted Budget Financial Plan.

Figure 16 below compares restricted and unrestricted reserve levels within the General Fund. The figures for SFY 2018-19 through SFY 2020-21 are OSC estimates based on the projected uses of reserves in the Enacted Budget Financial Plan.[12] The Financial Plan does not provide projections of outyear General Fund balances.

Figure 16

Statutory and Unrestricted Reserves - Actual and Projected Year End
(in millions of dollars)

	SFY 2016-17 Actual	SFY 2017-18 Enacted Projection	SFY 2018-19 Projection	SFY 2019-20 Projection	SFY 2020-21 Projection
Statutory Reserves	**1,874**	**1,858**	**1,858**	**1,858**	**1,858**
Tax Stabilization Reserve Fund	1,258	1,258	1,258	1,258	1,258
Rainy Day Reserve	540	540	540	540	540
Contingency Reserve Fund	21	21	21	21	21
Community Projects Fund	56	40	40	40	40
Refund Reserve (Unrestricted)	**5,874**	**4,525**	**2,863**	**1,776**	**1,123**
Debt Management	500	500	500	500	500
Labor Agreements	25	155	155	155	155
Other	14	-	-	-	-
Monetary Settlement Proceeds	5,335	3,870	2,208	1,121	468
Total	**7,749**	**6,384**	**4,722**	**3,635**	**2,982**

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

The SFY 2017-18 Enacted Budget Financial Plan sets aside $130 million for labor agreement costs, and plans the use of $16 million from the Community Projects Fund and $14 million from "undesignated fund balance." This does not include monetary settlement funds that are planned for transfer to the DIIF or are currently unappropriated.

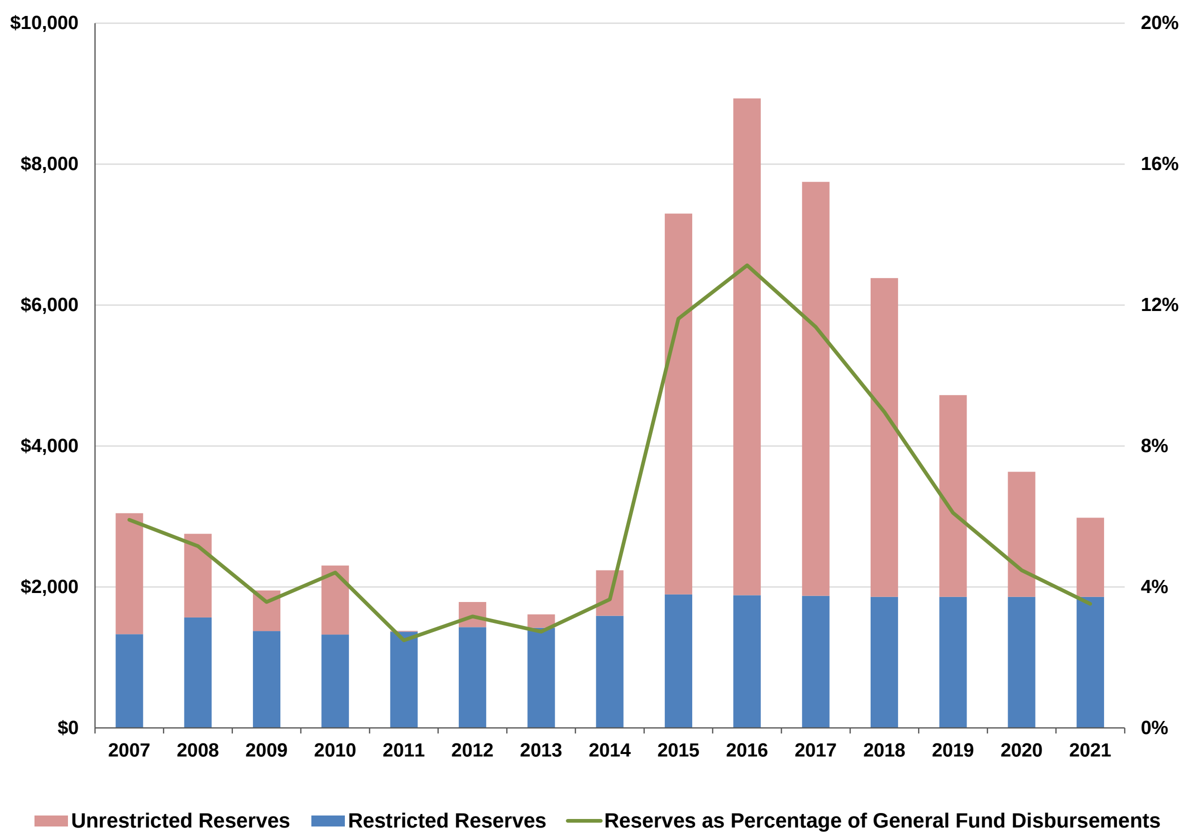
[12] For projected use of Fund Balances, see DOB, *FY 2018 Enacted Budget Financial Plan*, May 2017, page T-1.

DOB projects that there will be nearly $3.9 billion in settlement funds in the General Fund at the end of the current fiscal year. Additional settlement resources are expected to be spent or transferred from the General Fund over the next several years, as shown by the projected declining balance associated with this purpose in Figure 16. Additionally, the SFY 2017-18 Enacted Budget Capital Program and Financing Plan indicates that an additional $438 million in monetary settlements will be transferred to and spent from the DIIF in SFY 2021-22 and another $30 million will be transferred to the State Capital Projects Fund for health care facilities.

Figure 17 illustrates actual and projected trends in restricted and unrestricted General Fund reserves from SFY 2006-07 through SFY 2020-21.

Figure 17

General Fund Restricted and Unrestricted Reserves,
Total and as a Percentage of General Fund Disbursements,
SFY 2006-07 through SFY 2020-21
(dollars in millions)



Sources: Division of the Budget, Office of the State Comptroller. Figures for SFY 2017-18 and thereafter are projected; all others are actual results.

As shown by the green line in Figure 17, total reserves declined from approximately 7 percent of General Fund disbursements in SFY 2006-07 to less than 4 percent in SFYs 2010-11 through 2013-14. Reserves rose sharply in SFYs 2014-15 and 2015-16, primarily because of settlement resources, but have declined or are projected to decline in each year since then, falling below 4 percent again in the final year of the Plan period.

VI. Capital Spending and Debt

The State's capital spending is expected to increase by more than 28 percent in SFY 2017-18 compared to the previous year, and total capital investments over the five-year capital plan period are projected to be nearly 9 percent higher than those in the SFY 2016-17 Capital Plan. Significant increases include those for transportation, economic development, and health and social welfare purposes. Borrowing by public authorities is expected to remain the largest source of capital funding.

Projected Capital Spending

The SFY 2017-18 Enacted Budget Capital Program and Financing Plan (Capital Plan) reflects projected capital spending of $69.2 billion over the next five years, $2.9 billion more than proposed in the Executive Budget. This represents an increase of $5.7 billion over the previous year's Enacted Budget Capital Program and Financing Plan for SFY 2016-17 through SFY 2020-21.[13] The total includes $3.3 billion in off-budget capital spending, in which State-Supported bond proceeds are expended directly by public authorities.

Figure 18

SFY 2017-18 Capital Program and Financing Plan
Disbursements, Executive Budget and Enacted Budget
(in thousands of dollars)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total	Annual Average
Executive	11,615,523	14,516,854	14,219,555	13,660,138	12,427,645	11,411,516	66,235,708	13,247,142
Enacted	10,737,654	13,793,141	15,327,612	14,372,115	13,192,355	12,493,894	69,179,117	13,835,823
Difference	**(877,869)**	**(723,713)**	**1,108,057**	**711,977**	**764,710**	**1,082,378**	**2,943,409**	**588,682**

Source: Division of the Budget. For SFY 2016-17, the Executive Budget figure reflects the Executive's projection and the Enacted Budget figure reflects actual results as reported by DOB. Other years show DOB projections in the SFY 2017-18 Executive and Enacted Budgets.

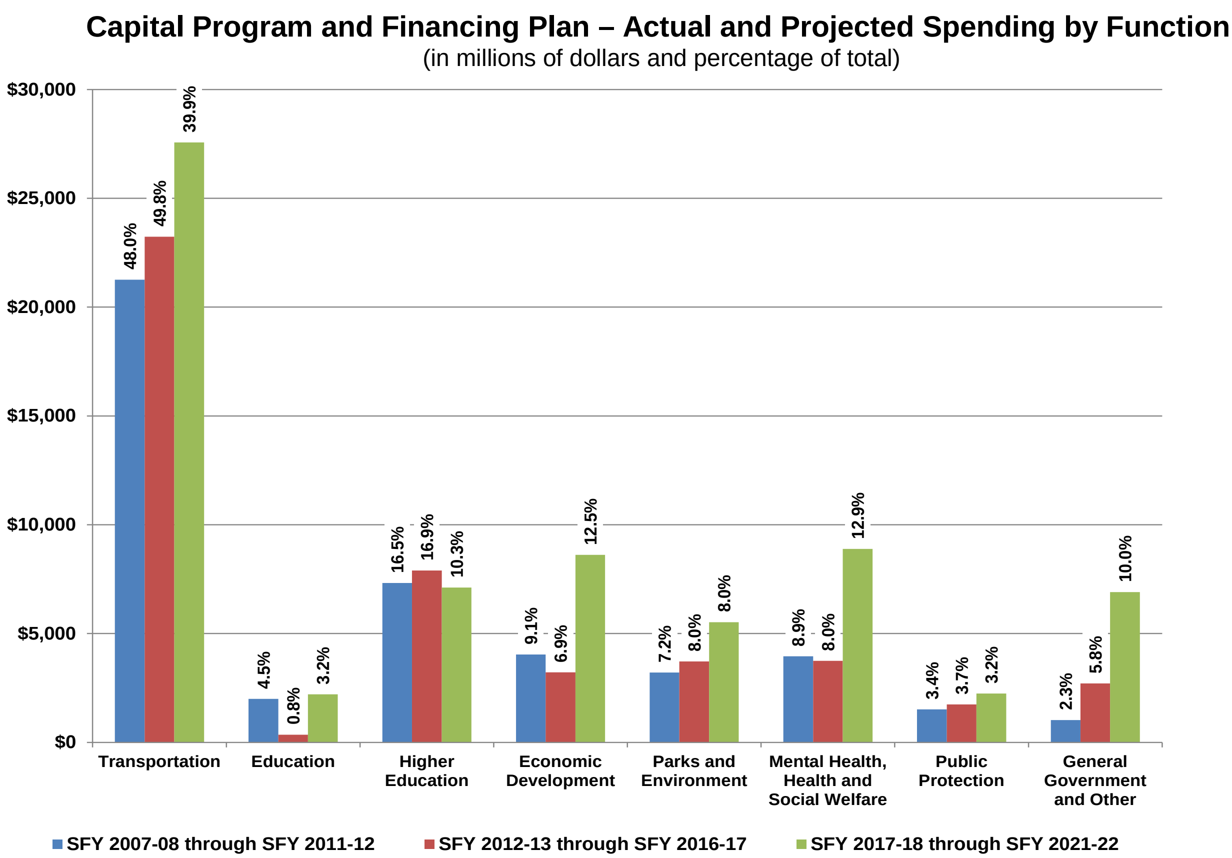
Actual spending in SFY 2016-17 was $878 million lower than estimated in the Executive Budget, primarily in the transportation and education/higher education spending categories. Capital spending was also just under $2 billion less than projected in the SFY 2016-17 Enacted Budget Five-Year Capital Program and Financing Plan, primarily in education and higher education as well as economic development. Actual spending funded with monetary settlement dollars through the DIIF was also significantly lower than anticipated, totaling $723.8

[13] Capital spending can be measured in two ways. First, 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 spending for operations that are deemed capital in nature. Additionally, spending may be made from capital projects funds for non-capital purposes. 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. Second, 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. Currently, some operational spending that is deemed to be capital in nature is included in the capital line.

million compared to nearly $1.4 billion planned in the SFY 2016-17 Enacted Budget Capital Program and Financing Plan.

Over the life of the Capital Plan, annual capital spending is projected to average $13.8 billion, 28.6 percent higher than actual spending in SFY 2016-17 and 48.1 percent higher than the average of the last five years. Over the five-year period, 39.9 percent of annual spending on average is projected to address transportation purposes, down from the 49.8 percent average of the last five years. Education and higher education represent the next largest shares of capital spending, comprising 13.5 percent of the total over the next five years. The category of economic development and government oversight is projected to increase its share of capital spending to 12.5 percent of the total disbursements over the Capital Plan period. The remaining amount is divided among parks and environment, health, mental hygiene, social welfare, public protection and other governmental purposes.

Figure 19



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

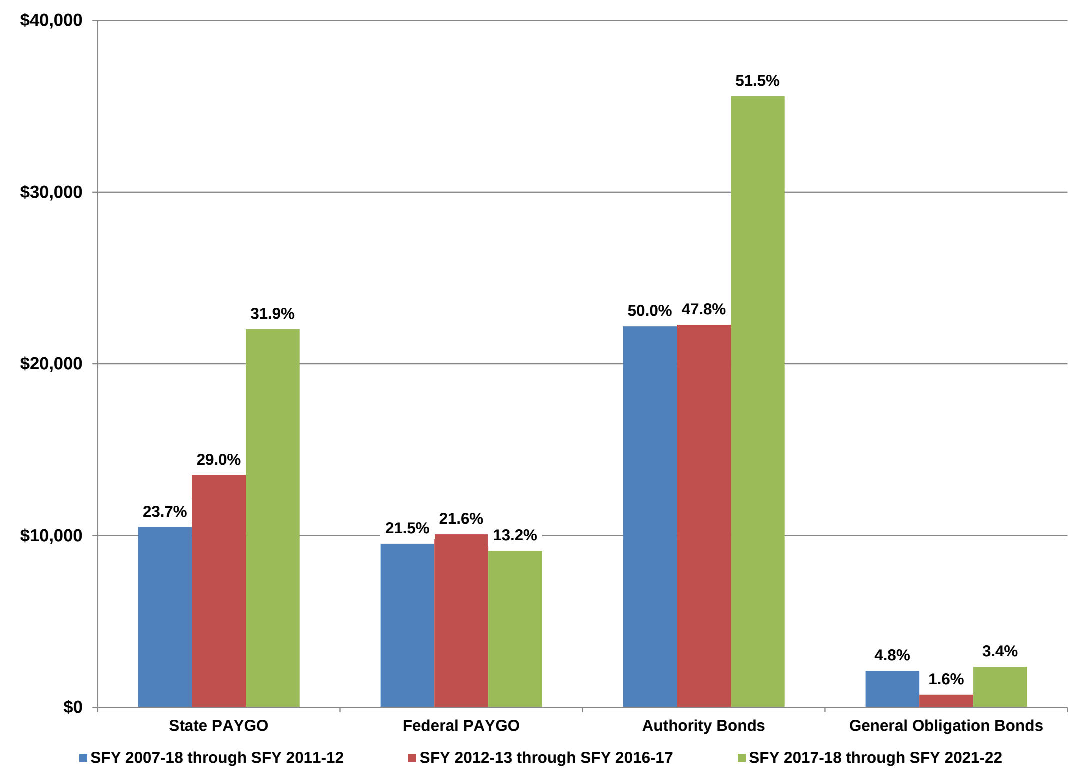
Figure 19 compares projected spending for capital projects over the five-year Capital Plan period to the previous 10 years of actual spending. Relative to the previous 10 years, proportionally large increases in dollar terms are projected in transportation; economic development; mental health, health and social welfare; and general government and other. While projected spending in most functional areas is significantly higher than actual spending over the previous two five-year periods, the functional proportions are expected to change, with transportation representing a smaller part of the total and larger shares for economic development, mental health, health and social welfare as well as general government and other.

The comparison in Figure 19, based on categories of spending within the Capital Program and Financing Plan, understates planned spending in certain specific categories. This is because DOB's projections for the "General Government and Other" category include most spending from the Dedicated Infrastructure Investment Fund (DIIF) and the State and Municipal Facilities (SAM) Program. Both the DIIF and the SAM Program include spending that would otherwise be included in other categories.

The Enacted Budget Capital Program and Financing Plan projects more than $1.6 billion will be spent from the DIIF this fiscal year. This includes $404 million for the Thruway as well as $70 million for the Department of Transportation. In addition, spending from the DIIF includes economic development, housing, health care and various other purposes.[14] Resources from the SAM Program to date have been used for economic development, transportation and other purposes.

Figure 20

Capital Program and Financing Plan – Actual and Projected Financing Sources
SFY 2007-08 through SFY 2021-22
(in millions of dollars and as percentage of total)



Sources: Division of the Budget, Office of the State Comptroller
Note: Percentage figures at the top of the bars represent shares of total spending in the Capital Program and Financing Plan.

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[14] DOB reports spending from the DIIF for Upstate Revitalization, Buffalo Billion Phase 2 and Life Sciences within Economic Development and Government Oversight, and spending from the DIIF for a specific housing appropriation within Social Welfare.

As shown in Figure 20, the largest share of projected financing for the Capital Plan is public authority bonds, averaging 51.5 percent of the total over the next five years. While such borrowing has been the State's primary source of capital financing for many years, this is higher than the 48.9 percent average share from the previous 10 years. The Capital Plan projects $575 million in spending from the $2 billion Smart Schools Bond Act in SFY 2017-18, with 95 percent of the program disbursed over the five-year plan period. Voter-approved General Obligation bonds supported only 1.6 percent of capital financing over the five years ending in SFY 2016-17. Primarily as a result of the Smart Schools program, the proportion of financing from General Obligation bonds is projected to average 3.4 percent over the Capital Plan period.

Capital spending supported by State cash resources (pay-as-you-go or PAYGO), which was just less than $3.4 billion in SFY 2016-17, is projected to increase by more than 38 percent this year and rise further, to more than $5 billion, in SFY 2018-19. Most of the growth associated with State PAYGO is spending from the DIIF, with over $6.8 billion or nearly 10 percent of total capital spending planned through SFY 2021-22.

From SFY 2007-08 to SFY 2016-17, State PAYGO spending averaged approximately 26.4 percent of total capital spending, a figure DOB projects will increase to 31.9 percent of the total in the next five years. Federally funded capital spending is projected to decline over the next five years both in dollars and as a share of the total, with such decreases primarily in transportation. However, much of the decline in federal PAYGO's share of total spending is due to growth in other financing areas, including authority bonds and State PAYGO.

Figure 20 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. Most of the growth in capital spending is projected to occur in State PAYGO and authority bond financing. The federal share of total capital spending is expected to decline from 21.6 percent in the last 10 years to 13.2 percent over the next five years.

Debt Outstanding

The SFY 2017-18 Enacted Budget Capital Plan projects that total State-Supported debt outstanding will increase by $12.7 billion, or 25.6 percent, to $62.3 billion from SFY 2017-18 through SFY 2021-22. The Office of the State Comptroller estimates that overall State-Funded debt outstanding,[15] a more inclusive measure, will total $73.7 billion by the end of the capital plan period.[16]

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[15] State-Funded debt, as defined by the Office of the State Comptroller, represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include: bonds issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation (TSFC) to finance deficits in SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency (MBBA); Building Aid Revenue Bonds (BARBs) issued by New York City's Transitional Finance Agency (TFA); bonds issued by the Dormitory Authority for SUNY dormitories; and a portion of the secured hospital program. Some State-Funded debt does not appear in the Capital Program and Financing Plan and is, therefore, illustrated separately in the tables of this section. See the Comptroller's 2013 Debt Impact Study for more information on State-Funded debt, at www.osc.state.ny.us/reports/debt/debtimpact2013.pdf.

[16] This is based on projections of debt issuances, retirements and debt service for State-Supported debt contained in the Capital Plan as well as estimates for the issuance, retirement and debt service for the other categories of debt which make up State-Funded debt. Issuance estimates for several of the State-Funded debt categories are not available beyond SFY 2020-21, which may result in understatement of total State-Funded debt.

The State's statutory debt capacity is limited under the Debt Reform Act of 2000, which imposes limits on both outstanding debt and annual debt service as detailed below. DOB projects that available State-Supported debt capacity will decline from $6.2 billion in SFY 2016-17 to $82 million in SFY 2020-21, before rising to $490 million in SFY 2021-22. Figure 21 illustrates State-Supported and State-Funded debt outstanding from SFY 2016-17 through SFY 2021-22.

Figure 21

State-Funded Debt Outstanding – SFY 2016-17 through SFY 2021-22

(in thousands of dollars)

		Enacted Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2017-18 through SFY 2021-22	SFY 2017-18 through SFY 2021-22
General Obligation	2,462,615	3,222,652	3,459,417	3,592,779	3,633,861	3,564,772	44.8%	1,102,157
Other State-Supported Public Authority	47,158,924	48,748,934	52,673,596	55,669,736	57,124,052	58,742,590	24.6%	11,583,666
State-Supported	**49,621,539**	**51,971,586**	**56,133,013**	**59,262,515**	**60,757,913**	**62,307,362**	**25.6%**	**12,685,823**
State-Funded Secured Hospitals	156,680	142,480	127,500	111,715	95,090	77,635	-50.4%	(79,045)
New SUNY Dormitories	955,840	1,357,252	1,561,742	1,759,649	1,843,752	1,766,351	84.8%	810,511
TSFC	659,865	-	-	-	-	-	-100.0%	(659,865)
TFA BARBs	7,881,635	8,447,490	8,410,434	8,270,213	8,336,358	8,089,572	2.6%	207,937
STARC	1,884,500	1,804,745	1,721,240	1,633,590	1,541,580	1,444,985	-23.3%	(439,515)
MBBA	203,375	171,605	138,605	104,165	67,985	30,000	-85.2%	(173,375)
Total Other State-Funded	**11,741,895**	**11,923,572**	**11,959,521**	**11,879,332**	**11,884,765**	**11,408,544**	**-2.8%**	**(333,351)**
Projected Outstanding (State-Funded)	**61,363,434**	**63,895,158**	**68,092,534**	**71,141,847**	**72,642,678**	**73,715,906**	**20.1%**	**12,352,472**

Note: Totals may not add due to rounding. TSFC is the Tobacco Settlement Financing Corporation; TFA BARBs are New York City Transitional Finance Authority Building Aid Revenue Bonds; STARC is the Sales Tax Asset Receivable Corporation; MBBA is the State of New York Municipal Bond Bank Agency. SFY 2016-17 figures are actual (unaudited), and others are projected. Projected issuances for TFA BARBs and SUNY Dormitories are available only through SFY 2020-21.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget

State-Supported debt declined slightly in each year from SFY 2011-12 through SFY 2016-17. Unaudited figures for SFY 2016-17 indicate that State-Supported debt declined by $608 million, bringing the decline from SFY 2011-12 to nearly $3.2 billion or nearly 6 percent of that year's figure. This decline reflects a number of factors, including changing the classification of debt issued by DASNY for SUNY dormitories so that it is no longer counted in the State-Supported debt measure, the timing of debt issuances, and the issuance of premium bonds. In addition, DOB has indicated, "Capital spending priorities and debt financing practices may be adjusted from time to time to preserve available debt capacity and stay within the statutory limits."[17]

The trend in outstanding State-Supported debt is projected to reverse this year, with an expected increase of more than $2.3 billion or 4.7 percent followed by a much larger anticipated increase the following year. State-Funded debt is also projected to increase, largely driven by continued growth in TFA Building Aid Revenue bonds and SUNY dormitory bonds that are not included in the State-Supported measure.

[17] DOB, *FY 2018 Enacted Capital Program and Financing Plan*, May 2017, p. 20.

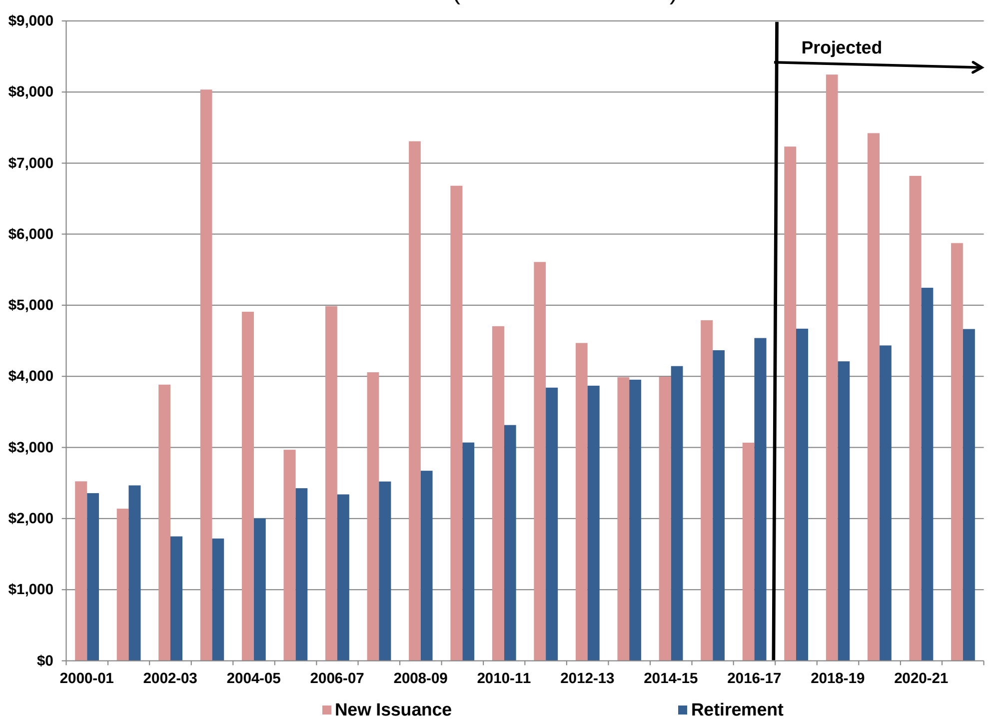
New Debt Issuance and Retirement

The growth in the overall level of State-Supported debt is primarily attributable to the fact that the State is projected to issue $2.6 billion more in State-Supported debt on average annually over the Capital Plan period than it retires. State-Supported debt issuances are projected to be $33.7 billion over the next five years (an average of approximately $6.1 billion annually), Over the last five years, new State-Supported debt issuances have averaged $3.4 billion annually. In SFY 2016-17, the State-Supported debt issuances of $3.1 billion represented the lowest level since SFY 2005-06.

State-Supported debt retirements are projected to be $20.5 billion (an average of $4.1 billion annually) over the Capital Plan period. State-Supported debt retirements have averaged $3.6 billion annually over the last five years. Figure 22 illustrates State-Funded debt issuances and retirements from SFY 2000-01 through SFY 2021-22. As noted, State-Funded debt provides a more inclusive measure than State-Supported debt; its trend line closely tracks the trend in State-Supported debt outstanding. Since SFY 2000-01 debt retirements exceeded issuances in only three years.

Figure 22

Actual and Projected State-Funded New Debt Issuance and Retirement
SFY 2000-01 through SFY 2021-22
(in millions of dollars)



Projected issuances for TFA BARBs and SUNY Dormitories are available only through SFY 2020-21.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget

Debt Service

Annual State-Supported debt service is projected to grow to $7.3 billion by SFY 2021-22, an increase of nearly $1.8 billion or 32.4 percent over the life of the Capital Plan, as illustrated in Figure 23. State-Funded debt service is expected to approach $8.4 billion by SFY 2021-22 after growing approximately 16.7 percent, or 3.1 percent annually on average, for the same time period.

Figure 23

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

(in thousands of dollars)

		Enacted Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2017-18 through SFY 2021-22	SFY 2017-18 through SFY 2021-22
General Obligation	379,986	334,844	384,890	408,326	424,798	445,592	17.3%	65,606
Other State-Supported Public Authority	5,104,245	4,969,642	6,086,604	6,697,118	6,948,642	6,817,818	33.6%	1,713,573
2016-17 Capital Plan (State-Supported)	**5,484,231**	**5,304,486**	**6,471,494**	**7,105,444**	**7,373,440**	**7,263,410**	**32.4%**	**1,779,179**
State-Funded Secured Hospitals	33,584	22,212	22,221	22,213	22,211	22,210	-33.9%	(11,375)
SUNY Dorms (All)	140,329	134,621	151,690	171,687	193,837	196,179	39.8%	55,850
TSFC	768,365	676,288	-	-	-	-	-100.0%	(768,365)
TFA BARBs	547,997	604,485	633,222	664,065	677,447	690,892	26.1%	142,895
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	40,966	40,986	40,964	41,204	41,263	41,265	0.7%	299
Total Other State-Funded	**1,701,242**	**1,648,592**	**1,018,097**	**1,069,170**	**1,104,757**	**1,120,546**	**-34.1%**	**(580,696)**
Projected Debt Service (State-Funded)	**7,185,473**	**6,953,078**	**7,489,591**	**8,174,614**	**8,478,197**	**8,383,956**	**16.7%**	**1,198,483**
State-Funded Debt Service as Percentage of:								
All Funds Receipts	4.6%	4.3%	4.5%	4.8%	5.0%	4.9%		
All Funds Disbursements	4.6%	4.2%	4.4%	4.7%	4.7%	4.5%		

Note: Totals may not add due to rounding. TSFC is the Tobacco Settlement Financing Corporation; TFA BARBs are New York City Transitional Finance Authority Building Aid Revenue Bonds; STARC is the Sales Tax Asset Receivable Corporation; MBBA is the State of New York Municipal Bond Bank Agency.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget.

Capital Planning in an Era of Limited Statutory Debt Capacity

As the State faces increasing needs for capital investment along with decreasing debt capacity, effective management of debt and capital resources is vital. As mentioned above, recent declines in the State's debt outstanding reflect a number of factors. One essential component of the State's debt picture is the Debt Reform Act of 2000, which established statutory caps on the levels of both debt outstanding and annual debt service.

Annually, DOB must calculate dollar limits reflecting the debt outstanding and debt service caps defined in Section 67-b of the State Finance Law to determine if additional debt can be issued, based on levels of outstanding debt and debt service at the end of the preceding fiscal year. If, as of October 31, DOB determines that debt outstanding and debt service as of the end of the previous fiscal year were below the caps on State-Supported debt outstanding and debt service, additional debt can be issued. If not, additional State-Supported debt cannot be issued at least until the next October 31, when the annual determination regarding the amounts of debt outstanding and debt service relative to the statutory caps is made again. The limit on

State-Supported debt outstanding is 4 percent of reported personal income in New York State during the previous calendar year, and the limit on State-Supported debt service is 5 percent of All Funds receipts for the previous fiscal year.

The SFY 2017-18 Enacted Budget authorized the issuance of over $10.5 billion in new State-Supported debt. As of March 31, 2017, $39.9 billion in State-Supported debt had been authorized but not issued. State-Supported debt issuances are projected to total $33.7 billion over the next five years, compared to the previous five years' total of $16.9 billion. Average annual issuances of State-Supported debt over the Capital Plan period are projected to be $6.7 billion, nearly double the average annual issuance over the last five years.

DOB uses various actions to manage capital and debt resources and stay within statutory debt limits. Changes to personal income projections can also change the projection for available debt capacity. For example, the Financial Plan includes a reduction to the personal income forecast which, according to DOB, translates into $142 million in reduced debt capacity over the life of the Capital Plan period compared to the capacity reported in the Executive Budget Financial Plan as updated for 30-day amendments.

Figure 24

Changes in Debt Capacity under Statutory Cap

(in millions of dollars)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Available Capacity - February 2017	**6,340**	**4,121**	**2,273**	**865**	**443**	**1,217**
Personal Income Forecast Adjustment	(172)	(66)	(101)	(125)	(126)	(142)
Enacted Capital Additions	-	(296)	(634)	(810)	(960)	(1,078)
Enacted Capital Re-Estimates	20	1,212	436	498	683	493
SUNY Dormitory Refundings	-	199	163	116	42	-
Available Capacity - May 2017	**6,188**	**5,170**	**2,137**	**544**	**82**	**490**

Source: Division of the Budget

Figure 24 illustrates how DOB plans to manage declining debt capacity in coming years, in part because of the lower personal income projection. Capital additions reflect new debt issued as a result of the Enacted Budget. The sum of these two categories alone would result in debt exceeding the cap starting in SFY 2019-20 and continuing through at least SFY 2021-22. However, capital spending re-estimates in the Financial Plan and the Capital Plan reduced estimated spending and created additional capacity. Also assumed is the creation of additional capacity through the refunding of debt issued under the pre-2013 SUNY Dormitory Facilities Lease Revenue program (State-Supported debt) with debt issued under the new program (SUNY Dormitory Facilities Revenue Bond program – which is not State-Supported). The net result of these changes provides available capacity through the end of the five-year plan.

The Financial Plan and the Capital Plan also include administrative actions put in place in SFY 2016-17 that reduce new debt issuance from levels that were otherwise planned, and preserve debt capacity. DOB planned to use $1.3 billion in monetary settlements to pay for capital spending in the first instance in conjunction with a deferral of the issuance of $1.3 billion in bonds that were otherwise scheduled to be issued in SFY 2016-17. DOB now plans to issue these bonds in the current fiscal year ($800 million) and SFY 2018-19 ($500 million). Transfers from the General Fund to the State Capital Projects Fund in SFY 2017-18 and SFY 2018-19 are anticipated to be $800 million and $500 million lower, respectively, reflecting the recapture of the $1.3 billion transfer in SFY 2016-17. To implement this, the original plan to transfer all settlement dollars to the DIIF up front was amended. DOB transferred nearly $1.2 billion in settlement dollars from the General Fund to the State Capital Projects Fund in SFY 2016-17.

Similarly, the Enacted Budget reappropriated $1 billion from the DIIF for renovation costs associated with the Jacob K. Javits Convention Center. Spending for the renovations, which is projected to begin in SFY 2017-18 and to end in SFY 2020-21, will be paid initially with transfers from the General Fund, and subsequently be reimbursed with bond proceeds. Bonds are projected to be issued in SFY 2019-20 and SFY 2020-21, delaying the impact on the State's outstanding debt.

Some of the above-noted actions are short-term in nature, such as the temporary use of resources planned to finance the DIIF to delay the need to borrow. Other actions are recurring and have a longer-term impact, such as the creation of a new financing program associated with SUNY dormitories and the refunding of old SUNY dormitory debt into the new program. Although these actions create additional statutory debt capacity, they do not change the State's overall debt burden, as the same resources are used to repay the bonds.

Dedicated Infrastructure Investment Fund

The State has received just under $9.9 billion in monetary settlement revenues since April 1, 2014.[18] Of this amount, nearly $2.6 billion has been or is planned to be used for purposes outside of the DIIF. Just over $7.3 billion is expected to be deposited in the DIIF within the five-year Capital Plan period, and DOB plans to use the remaining $461 million (including $278 million that remained unallocated after the budget process, $150 million that was initially planned for deposit in the Rainy Day Fund and $33 million that has not yet been received) for budget relief in the current year. For more information about monetary settlements, see the Financial Plan section of this report.

The SFY 2016-17 Enacted Budget changed the nature of the DIIF by including spending that could be financed with bond proceeds (for the Javits Convention Center Expansion Project). Administrative actions have allowed the use of settlement dollars for other non-DIIF capital appropriations in the near term. Furthermore, the Enacted Budget includes three appropriations that are expected to use settlement dollars along with other sources, although these appropriations do not specifically identify monetary settlements as a funding source. DOB includes a table in the Financial Plan that details planned spending for these particular appropriations, but there would be no other way to track that spending as it will be reported as a transfer from the General Fund to a capital projects fund.

Appendix B compares detailed plans for spending from the DIIF as presented in this year's Executive Budget and Enacted Budget Financial Plans.

[18] This figure does not include $350 million from BNP Paribas that was received in May 2017 and is not yet included in the Financial Plan.

VII. Risks to the Financial Plan

As with any budget, the SFY 2017-18 Enacted Budget presents certain risks. The Financial Plan appropriately notes that actual results may differ materially and adversely from DOB's projections, and points to particular risks and uncertainties including several federal budget and tax issues.

The State faces an elevated risk of reductions in federal aid for health care and other programs. The SFY 2017-18 Enacted Budget creates a process that could be used to address certain potential reductions of $850 million or more during the current year. The enacted provision does not specify the circumstances under which the $850 million threshold would be deemed to have been met, and its impact on the Financial Plan and on recipients of State funding under varying potential scenarios of federal aid reductions is unclear.

The Financial Plan also points to "heightened" uncertainty regarding the forecast for bonuses and various forms of taxable, non-wage income in light of taxpayer response to the possibility of changes in federal tax policy.[19] DOB identifies such taxpayer behavior as a key factor in the State's lower-than-expected PIT collections in March and April of this year, which in turn resulted in a $1.3 billion reduction in the projection for such receipts during SFY 2017-18. The likelihood, timing and potential impact on the Financial Plan of any federal tax changes remain unclear.

[19] *FY 2018 Enacted Budget Financial Plan*, p. 74.

VIII. Appendices

Appendix A: General Fund Gap-Closing Plan SFY 2017-18 through SFY 2020-21

(in millions of dollars)

	2017-18	2018-19	2019-20	2020-21
Current Services Gap Reported in Mid-Year Update	**(3,533)**	**(7,122)**	**(8,935)**	**(6,816)**
Non-Recurring and Temporary Resources and Costs	**2,844**	**3,445**	**3,835**	**972**
PIT - Top Rate Extension	683	3,375	3,695	902
High Income Charitable Deduction Extension	-	70	140	70
Additional Debt Service Prepayment	431	-	-	-
NYPA Repayment Benefit	193	-	-	-
Settlement Funds	461	-	-	-
Tuition Assistance Program Reconciliation	166	-	-	-
Use of State Insurance Fund for Workers' Compensation Costs	205	-	-	-
STAR Conversion Benefit	277	-	-	-
Human Services and Labor	(65)	-	-	-
Miscellaneous Transfers	463	-	-	-
Reserves	30	-	-	-
Recurring Departmental Operations Actions	**337**	**(9)**	**(105)**	**(295)**
Executive Agencies	391	103	78	3
Legislature and Judiciary	(43)	(44)	(43)	(101)
NYPA Repayment	-	(21)	(43)	(43)
Potential Labor Agreements less Financial Management Plans	(19)	(103)	(153)	(203)
Fringe Benefits and Costs	8	56	56	49
Debt Management and Capital	**923**	**374**	**330**	**392**
Recurring Local Assistance Reductions	**1,321**	**2,105**	**2,465**	**2,640**
Health Care	697	919	951	929
Education	212	545	864	1,044
Higher Education	142	96	96	96
Human Services and Housing	117	85	82	84
Mental Hygiene	83	58	55	55
STAR - Including Program Conversion	70	402	417	432
Recurring Revenue/Resources/Re-Estimates	**(1,703)**	**(1,885)**	**(1,950)**	**(2,598)**
Revised Tax Projections	(1,915)	(1,811)	(1,911)	(2,310)
Other Receipt Revisions	212	(74)	(39)	(288)
Recurring New Tax Actions	**58**	**(188)**	**(272)**	**(387)**
STAR Conversion	-	(340)	(354)	(369)
Other Tax Actions/Extenders	58	152	82	(18)
New Spending Initiatives	**(439)**	**(713)**	**(1,100)**	**(1,349)**
School Aid	(86)	(195)	(233)	(244)
Other Education/Higher Education	(127)	(103)	(112)	(128)
Excelsior Scholarship	(71)	(133)	(152)	(163)
Juvenile Justice Reform	-	(78)	(276)	(378)
Debt Service for Capital Additions	(33)	(148)	(272)	(380)
Direct and Clinical Care Worker Wage Increase/COLA Deferral	(14)	(39)	(39)	(39)
Indigent Legal Services	(108)	(17)	(16)	(17)
All Other	**192**	**(28)**	**(121)**	**(71)**
Remaining Gap In Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	**-**	**(4,021)**	**(5,853)**	**(7,512)**

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

Appendix B: Dedicated Infrastructure Investment Fund
Planned Disbursements – Executive Budget and Enacted Budget

(in thousands of dollars)

Executive Budget	**Predicted SFY 2017**	**Proposed SFY 2018**	**Projected SFY 2019**	**Projected SFY 2020**	**Projected SFY 2021**	**Projected SFY 2022**	**Total SFY 2017-18 through SFY 2021-22**
Broadband Initiative	59,350	116,800	130,500	96,800	94,050	-	438,150
Municipal Restructuring (1)	20,040	45,150	38,040	28,965	17,805	-	129,960
Health Care Providers	85,000	105,000	85,000	80,000	-	-	270,000
Security and Emergency Response	58,190	11,531	-	-	-	-	11,531
MTA Capital Plan (Penn Station Access)	-	-	100,000	150,000	-	-	250,000
Thruway Stabilization SFY 2015-16	424,000	252,580	-	-	-	-	252,580
Thruway Stabilization SFY 2016-17 (2)	175,000	330,000	195,000	-	-	-	525,000
Long Island Transformative Projects	17,805	32,040	39,150	32,040	28,965	-	132,195
Infrastructure, Transportation, Upstate Transit, Economic Development	24,240	29,900	24,240	23,290	5,993	-	83,423
Southern Tier Agriculture and Hudson Valley Farmland Protection	10,680	13,050	10,680	9,655	3,379	-	36,764
Municipal Consolidation (1)	-	10,000	10,000	-	-	-	20,000
Homeless Housing	-	3,300	10,000	10,000	26,700	-	50,000
Upstate Revitalization Initiative SFY 2016-17 (3)	78,000	92,000	-	-	-	-	92,000
DOT Capital Plan Contribution	40,000	50,000	50,000	50,000	10,000	-	160,000
Other Economic Development or Infrastructure Projects	5,000	27,000	31,000	22,000	-	-	80,000
Poverty Reduction	5,000	10,000	10,000	-	-	-	20,000
Community Health Care Revolving Loans	19,500	-	-	-	-	-	-
Behavioral Health Grants	1,000	-	-	-	-	-	-
Statewide Multiyear Housing Program	25,000	175,000	279,409	110,591	-	-	565,000
Upstate Revitalization Initiative SFY 2015-16 (3)	128,050	320,400	391,500	320,400	318,650	-	1,350,950
Javits Convention Center Expansion (bonded)	-	160,000	350,000	320,000	170,000	-	1,000,000
Buffalo Billion Phase II	-	80,000	80,000	80,000	80,000	80,000	400,000
Life Sciences	-	50,000	55,000	55,000	55,000	85,000	300,000
Preservation of Facilities	-	20,000	-	-	-	-	20,000
Counterterrorism and Security	-	53,000	50,000	50,000	50,000	-	203,000
Downtown Revitalization	-	20,000	20,000	20,000	20,000	20,000	100,000
Total Reappropriations and Proposed	*1,175,855*	*2,006,751*	*1,959,519*	*1,458,741*	*880,542*	*185,000*	*6,490,553*

Enacted Budget	**Actual SFY 2017**	**Enacted SFY 2018**	**Projected SFY 2019**	**Projected SFY 2020**	**Projected SFY 2021**	**Projected SFY 2022**	**Total SFY 2017-18 through SFY 2021-22**
Broadband Initiative	2,500	16,800	130,500	130,800	127,050	89,850	495,000
Municipal Restructuring (1)	9,542	18,150	38,040	37,965	26,805	19,498	140,458
Health Care Providers	130,790	55,000	85,000	50,210	17,000	17,000	224,210
Security and Emergency Response	57,431	12,290	-	-	-	-	12,290
MTA Capital Plan (Penn Station Access)	-	-	100,000	150,000	-	-	250,000
Thruway Stabilization SFY 2015-16	313,119	278,300	85,161	-	-	-	363,461
Thruway Stabilization SFY 2016-17 (2)	-	126,094	250,000	108,000	107,000	107,558	698,652
Long Island Transformative Projects	750	14,040	39,150	38,040	34,965	23,055	149,250
Infrastructure, Transportation, Upstate Transit, Economic Development	33,483	20,900	24,240	23,040	3,000	3,000	74,180
Southern Tier Agriculture and Hudson Valley Farmland Protection	16,665	4,050	10,680	10,049	3,000	3,000	30,779
Municipal Consolidation (1)	-	10,000	10,000	-	-		20,000
Homeless Housing	-	3,300	10,000	10,000	26,700	-	50,000
Upstate Revitalization Initiative SFY 2016-17 (3)	-	74,372	50,000	25,000	11,000	9,628	170,000
DOT Capital Plan Contribution	85,348	70,000	14,652	10,000	10,000	10,000	114,652
Other Economic Development or Infrastructure Projects	-	18,000	31,000	25,000	8,000	3,000	85,000
Poverty Reduction	-	-	-	-	-	-	-
Community Health Care Revolving Loans	-	-	-	-	-	19,500	19,500
Behavioral Health Grants	225	775	-	-	-	-	775
Statewide Multiyear Housing Program	34,554	175,000	279,409	101,037	-	-	555,446
Upstate Revitalization Initiative SFY 2015-16 (3)	39,350	320,400	391,500	320,400	388,650	17,950	1,438,900
Javits Convention Center Expansion (bonded)	-	160,000	350,000	320,000	170,000	-	1,000,000
Buffalo Billion Phase II	-	80,000	80,000	80,000	80,000	80,000	400,000
Life Sciences	-	70,000	55,000	55,000	55,000	85,000	320,000
Preservation of Facilities	-	-	-	-	-	-	-
Counterterrorism and Security	-	25,000	50,000	8,000	8,000	9,000	100,000
Downtown Revitalization	-	5,000	30,000	25,000	20,000	20,000	100,000
Total Reappropriations and Enacted	*723,757*	*1,557,471*	*2,114,332*	*1,527,541*	*1,096,170*	*517,039*	*6,812,553*

Notes: (1) Language for the SFY 2016-17 appropriation is different than the SFY 2015-16 appropriation language. The SFY 2015-16 reappropriation was revised to extend funding to the Downtown Revitalization Program, including the Healthy Foods/Healthy Community initiative and "other municipal entities."
(2) The SFY 2016-17 appropriation added debt service and related payments as a purpose, but omitted the reporting requirements that were included in the appropriation enacted in SFY 2015-16.
(3) New appropriation language enacted in SFY 2016-17 changed from the previous year's provisions by removing language requiring the allocation to be made pursuant to a competitive process among the Regional Economic Development Councils and limiting awards to projects in regions that did not receive Upstate Revitalization Initiative Best Plan awards in SFY 2015-16 or were not eligible to receive funding from the Buffalo Regional Information Cluster.
Sources: Division of the Budget, Office of the State Comptroller

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