Report on the State Fiscal Year 2018-19 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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In governmental budgeting, there can sometimes be a tendency to focus on the short term. At any level of government, taxpayers and those who depend on public services can suffer if officials don't ensure a strong financial foundation for the long term as well.

As this report shows, unexpectedly high personal income tax receipts and other factors resulted in a positive end to the State's last fiscal year, with a General Fund balance of $9.4 billion. That figure is the highest in recent history.

Yet the State continues to face real fiscal challenges. One indication is that the budget relies on nearly $6.7 billion in one-time or temporary resources, including the use of certain reserves.

I have called for the State to bolster its statutory reserves, which could be drawn upon to reduce the need for painful spending cuts, significant tax increases, or the use of temporary "one-shot" fixes the next time an economic downturn or catastrophic event hits New York. Unfortunately, no deposits to those reserves have been made since 2015, and none are projected this year.

Rising debt levels and shrinking borrowing capacity are also recurring concerns. Statutory capacity for State-Supported debt is projected to decline to just $49 million by State Fiscal Year 2020-21, and the Division of the Budget anticipates reductions in planned capital spending to avoid exhausting that capacity. Given the pressing need for investment in the State's capital assets as well as those of our local governments, the potential impact of such reductions is unclear.

In Washington, President Trump and some leaders in Congress have continued to call for radical changes to the Medicaid program and reduced funding not only for health care, but in areas including education, transportation and environmental protection as well. Federal assistance represents more than one in every three dollars of State revenues, supporting essential services all across New York. I will continue to speak out in defense of our State's interests regarding federal budgetary policies, and my Office will provide ongoing analysis and commentary on the critical issues examined in this report.

Thomas P. DiNapoli
State Comptroller

Table of Contents

I. Executive Summary

Thanks to factors including higher than expected personal income tax revenues, receipts of unplanned monetary settlements and lower than projected spending, the State ended its 2017-18 fiscal year on a positive note with a General Fund balance of $9.4 billion, the largest in recent history.

Despite the State's considerable fund balance at the end of last year, the fiscal outlook for future years remains more clouded. The FY 2019 Enacted Budget Financial Plan projects that spending will outpace revenues over the next three years. The Division of the Budget (DOB) expects that the State will use 42 percent of the General Fund balance in the current fiscal year, and that General Fund reserves will decline to $2.9 billion by State Fiscal Year (SFY) 2021-22. General Fund gaps totaling $17.9 billion are projected over the next three years, before unspecified actions to limit certain spending growth.

Personal income tax (PIT) revenues were strong during the final days of December 2017 and the first four months of calendar 2018, in part because of taxpayer responses to federal tax changes. DOB estimates that such responses resulted in $1.9 billion in tax collections being received in SFY 2017-18 rather than in the current fiscal year. While PIT receipts are expected to decline this year, DOB increased its projection of such revenues by nearly $1.2 billion in the FY 2019 Enacted Budget Financial Plan, to $50.4 billion, reflecting higher-than-expected payments in April.

Federal receipts are projected at $60 billion this year, 36 percent of All Funds receipts, and up $1.1 billion from the previous year. More than two-thirds of federal funds spending, $38.3 billion, is for Medicaid programs funded through the State Department of Health. Continuing calls in Washington for major changes to federal funding for health care and other programs are among the most notable budgetary risks for the State.

The Financial Plan presents this fiscal year's growth in State Operating Funds spending as 2 percent. Factors resulting in this calculation include the movement off-budget of $1.4 billion in disbursements for the Metropolitan Transportation Authority (MTA), as well as other budget management actions. Adjusting for such actions, the Office of the State Comptroller estimates State Operating Funds spending growth at more than 5 percent.

The Office of the State Comptroller previously released its analysis of the SFY 2018-19 Enacted Budget, based on review of enacted appropriations and other budget legislation.[1] This report provides additional analysis based on the FY 2019 Enacted Budget Financial Plan and FY 2019 Enacted Capital Program and Financing Plan, issued by DOB in mid-May.

Capital spending is projected at $66.5 billion over the five-year Capital Plan period ending in SFY 2022-23, a decrease of $2.7 billion from the plan issued a year earlier. The Capital Plan indicates that reductions in planned spending are necessary to avoid exceeding the statutory limit on outstanding debt. Actual capital spending in SFY 2017-18 was $2.1 billion lower than estimated in this year's Executive Budget.

[1] For additional information see Office of the State Comptroller's *Report on the State Fiscal year 2018-19 Enacted Budget*, April 2018 available at https://www.osc.state.ny.us/reports/budget/2018/enacted-budget-report.pdf

DOB projects that State-Supported debt capacity, which is calculated based on debt outstanding compared to total personal income in the State, will decline to $49 million in SFY 2020-21. If personal income declines or grows more slowly than projected by DOB, statutory capacity for additional State-Supported borrowing may decline more rapidly or disappear.

Additional points in this report include:

- Total tax receipts this year are projected at $77.9 billion, down by 1.7 percent from the previous year, reflecting a decline in PIT. Consumption and use tax receipts, primarily from the State sales tax, are projected to increase 3.5 percent this year to nearly $17.3 billion. Business tax revenues are projected at $8 billion, up 11.4 percent from SFY 2017-18.
- State-supported debt service is projected to increase by an average 4.4 percent annually through SFY 2022-23, reaching $7.3 billion in the latter year.
- The State's primary statutory reserve funds, the Tax Stabilization Reserve Fund and Rainy Day Reserve Fund, are currently authorized to hold more than $5.2 billion. Their combined balance of $1.8 billion represents just over one-third of that total and is projected to decline as a proportion of General Fund spending in each year of the Financial Plan period. The last deposits in these funds were in 2015, and no further deposits are projected during the four-year Financial Plan period.
- The Financial Plan includes nearly $6.7 billion in temporary and non-recurring resources, excluding federal funds. Such use of temporary resources is among the factors leading to projected budget gaps in future years.
- The State has collected $10.9 billion in extraordinary monetary settlements since April 2014, and spent $4.9 billion through March 31, 2018. Such one-time resources are most appropriately used for capital investments or other one-time expenses, or to bolster statutory reserves. Of the total spent through March, $2.1 billion or 37.5 percent had been used for various forms of budget relief.

II. SFY 2018-19 Financial Plan Overview

The SFY 2018-19 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 $170.3 billion in SFY 2018-19, an increase of $6.5 billion or 4 percent.[2] Major increases include $2 billion in capital spending, $1.9 billion (including federal funds) for school aid and $1.8 billion for Department of Health Medicaid, of which more than half is from federal funds.

These increases are partially offset by projected declines in spending in other areas including public protection, parks and transportation (the latter reflecting the movement of most of the Payroll Mobility Tax (PMT) and related spending off-budget). DOB estimates that State Operating Funds disbursements will increase by just under $2 billion or 2 percent over SFY 2017-18 (see discussion of this figure later in this section). General Fund disbursements, including transfers to other funds, are projected to increase by $6.9 billion or 9.9 percent over SFY 2017-18, largely reflecting the movement of certain transportation spending from the Dedicated Highway and Bridge Trust Fund as well as certain mental hygiene spending back to the General Fund. DOB projects inflation during SFY 2018-19 at 2.4 percent.

The Financial Plan projects All Funds receipts for SFY 2018-19 will reach $166 billion, representing an increase of $541 million or 0.3 percent from SFY 2017-18. The small increase reflects factors including the move off-budget of $1.5 billion from the PMT and the impact of federal tax actions on the timing of Personal Income Tax (PIT) collections. State Operating Funds receipts are projected to be $96.7 billion, a decline of $2.6 billion or 2.6 percent largely for the same reasons related to growth in All Funds receipts. General Fund receipts are projected to be $72.7 billion in SFY 2018-19, up by $1.2 billion or 1.7 percent.

The Financial Plan includes nearly $6.7 billion in State-sourced temporary and non-recurring resources. Such temporary resources are among the factors leading to projected budget gaps in future years. The Financial Plan projects budget gaps of $4 billion, $6.9 billion and $7 billion for the three years beginning in SFY 2019-20, respectively, for cumulative projected gaps of $17.9 billion, before any actions intended to address such gaps.

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.[3] If State Operating Funds spending growth is held to 2 percent in each year, DOB projects that gaps would be $780 million in SFY 2019-20, $1.4 billion in SFY 2020-21 and $487 million in SFY 2021-22.

All Funds Disbursements

The $170.3 billion in projected All Funds disbursements is up $2.1 billion or 1.2 percent from the Executive Budget. Among other changes, debt service, which is affected by prepayments, is projected to decline 8.4 percent, or $491 million, compared to an increase of $15 million or

[2] The FY 2019 Enacted Budget Financial Plan is available at www.budget.ny.gov/pubs/archive/fy19/enac/fy19enacFP.pdf.
[3] 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."

0.3 percent in the Executive Budget. The picture of debt service growth has been obscured by prepayments over the last several years. For additional detail, see the Capital Spending and Debt section of this report.

All Funds Receipts

All Funds receipts are expected to increase 0.3 percent or $541 million from SFY 2017-18, as shown in Figure 1. Tax receipts are expected to total $77.9 billion, representing a decline of 1.7 percent or $1.3 billion. This is primarily due to approximately $1.5 billion in PMT collections being moved off-budget; those receipts will now go directly to the MTA with no State appropriation.

Projected PIT receipts for SFY 2018-19 were adjusted upward from the Executive Budget Financial Plan by nearly $1.2 billion to reflect higher-than-estimated April extension receipts as well as increased withholding. The All Funds receipts estimate also reflects an $817 million projected increase in business tax collections.

Figure 1

All Governmental Funds Receipts
(in millions of dollars)

	SFY 2017-18 Estimated	SFY 2018-19 Executive Budget	Dollar Growth	Percentage Growth	SFY 2017-18 Actual	SFY 2018-19 Enacted Budget	Dollar Change	Percentage Change
Receipts:								
Taxes								
Personal Income Tax	50,935	49,244	(1,691)	-3.3%	51,501	50,410	(1,091)	-2.1%
Consumption and Use Taxes	16,754	17,664	910	5.4%	16,711	17,303	592	3.5%
Business Taxes	7,346	8,198	852	11.6%	7,164	7,981	817	11.4%
Other Taxes	3,917	2,263	(1,654)	-42.2%	3,890	2,229	(1,661)	-42.7%
Total Taxes	*78,952*	*77,369*	(1,583)	-2.0%	*79,266*	*77,923*	(1,343)	-1.7%
Miscellaneous Receipts	27,829	27,959	130	0.5%	27,262	28,005	743	2.7%
Federal Grants	57,777	57,878	101	0.2%	58,942	60,083	1,141	1.9%
Total Receipts	**164,558**	**163,206**	(1,352)	-0.8%	**165,470**	**166,011**	**541**	**0.3%**

Source: Division of the Budget

Federal Receipts and Disbursements

Within All Funds, federal receipts are projected to increase $1.1 billion or 1.9 percent in SFY 2018-19. The projected total of $60.1 billion represents 36.2 percent of All Funds receipts. Nearly two-thirds of federal disbursements in SFY 2018-19, $38.3 billion, is for Local Assistance payments for DOH Medicaid programs funded through the State Department of Health. Other projected federal funds spending includes Local Assistance payments of: $6.2 billion for other health purposes, $4.5 billion for social welfare and $2.8 billion in school aid. A total of $2.1 billion in federal disbursements is related to departmental operations.

State Operating Funds Disbursements

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

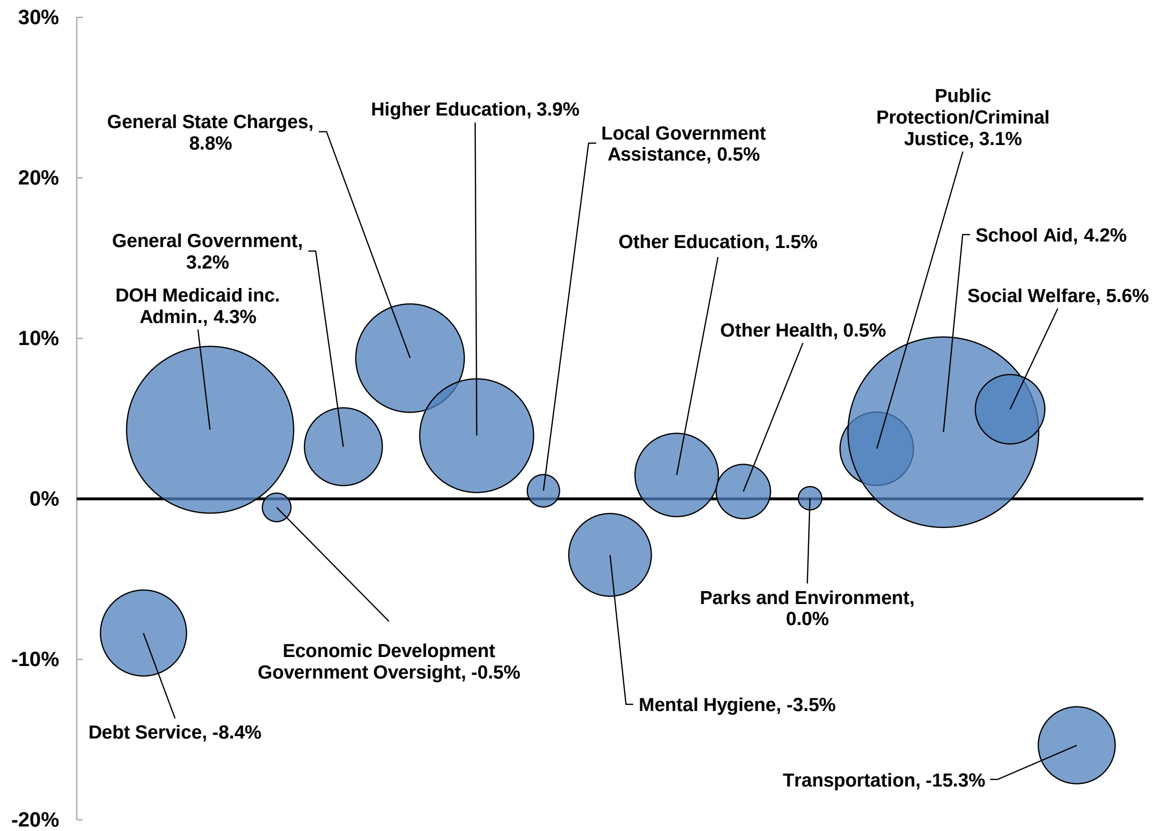
[4] State Operating Funds are made up of the General Fund, State-sourced special revenue funds and Debt Service funds. Federally funded grants are not included, nor is any capital spending (State or federal).

program area in SFY 2018-19. It shows that the two largest spending programs, school aid and Medicaid, are growing by more than twice the 2 percent figure. Such growth is partly offset by declines in transportation and debt service – largely reflecting budget management actions rather than actual spending reductions as detailed below.

Growth in State Operating Funds spending is driven primarily by increases in school aid ($1.1 billion on an SFY basis to a total of just under $26.5 billion), DOH Medicaid ($779 million to a total of $19.9 billion) and General State Charges ($689 million to a total of $8.5 billion) with smaller increases in certain other program areas. This growth is partially offset by declines in areas including transportation ($1.1 billion to a total of nearly $4 billion due largely to spending for the MTA moving off-budget) and debt service ($491 million to $5.4 billion because of prepayments).

Figure 2

Change in Spending from State Operating Funds by Major Program Area
SFY 2017-18 Actual to SFY 2018-19 Enacted Budget Financial Plan



Sources: Division of the Budget, Office of the State Comptroller
Note: The size of the circle represents total spending in that program area. For example, estimated State Operating Funds spending is $26.5 billion for school aid and $396 million for parks and environment. Spending figures do not include Capital and Miscellaneous/Other categories. The center point of each circle aligns with the respective percentage on the vertical axis.

Actual State Operating Fund disbursements in SFY 2017-18 totaled nearly $98.2 billion, which was approximately $17 million higher than initially anticipated and $25 million higher than projections released in February. This disbursement figure reflects $594 million in prepayments of SFY 2018-19 debt service expenses that were made during SFY 2017-18, among other factors.

Compared to the Executive Budget, the Enacted Budget plan projects stronger PIT revenues, but those gains are partly offset by lower estimates for consumption taxes and business taxes. Projected growth of local assistance grants, $1.1 billion, is up from the Executive Budget level due to negotiated increases for school aid and certain other programs.

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 $4.4 billion for the current fiscal year. Figure 3 compares the Executive Budget gap-closing plan to the plan included in the Enacted Budget Financial Plan.[5] Among other changes, the Enacted Budget plan increases use of non-recurring resources and actions by $135 million this year, for a total of almost $1.9 billion.

Figure 3

Comparison of Current Services Gap-Closing Plan
SFY 2018-19 Executive Budget and SFY 2018-19 Enacted Budget
(in millions of dollars)

	Executive	Enacted	Difference
Current Services Gap - SFY 2018-19	**(4,443)**	**(4,443)**	**-**
Non-Recurring and Temporary Resources and Costs	1,716	1,851	135
Revenue Actions	444	1,125	681
Departmental Operations Actions	498	68	(430)
Debt Management and Capital	569	557	(12)
Local Assistance Actions	1,382	1,308	(74)
New Initiatives	(246)	(488)	(242)
All Other	80	22	(58)
Remaining Gap In Enacted Budget Financial Plan	**-**	**-**	**-**

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

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 achieve that goal. However, these levels of spending growth are influenced by the use of budget management and other actions to shape apparent levels of growth. Such actions include: the use of prepayments across fiscal years; certain program restructurings which result in costs being reflected as reduced receipts rather than disbursements; shifting of spending to capital projects funds; deferral of expenditures to future years; the use of off-budget resources to pay for certain program costs; the use of "refund of appropriation" language; and movement of state-imposed tax receipts and associated expenditures outside the State treasury and budget process.

[5] See Appendix A for outyear projections of the impact of gap-closing actions.

Use of these actions has the effect of lowering State Operating Funds spending growth generally without lowering actual costs. These actions can also change spending growth (and in certain instances, receipts growth) in other disbursement categories (e.g., General Fund or capital projects funds) and in the All Funds budget.

Examples of such actions in this year's Enacted Budget and Financial Plan include the following:

- The movement of approximately $1.5 billion in State-imposed tax receipts from the PMT and $1.4 billion in associated disbursements to the MTA outside of the State treasury and the budget process. Projected receipts and disbursements will be reduced although collection of the tax and disbursements to the MTA will continue;
- Prepayment of debt service in SFY 2017-18 that would otherwise have been made in SFY 2018-19 ($594 million);
- The use of the State's share of revenue from the 1998 tobacco Master Settlement Agreement with participating cigarette manufacturers to pay certain State Medicaid costs off-budget ($435 million in SFY 2018-19, $327 million in SFY 2019-20 and $371 million annually thereafter). This also lowers the projected level of State revenues, as these revenues would have otherwise been deposited in the State's Tobacco Settlement Fund and counted as a miscellaneous receipt;
- The use of 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 an appropriation which flows to the Sales Tax Asset Receivable Corporation (STARC) ($170 million);
- The net additional impact of the conversion of the School Tax Relief (STAR) benefit to State PIT credits ($84 million in SFY 2018-19);
- The shift of certain funding for State University of New York (SUNY) hospitals from the General Fund to the Capital Projects Fund ($78.6 million);
- The use of revenue from the sale of State-owned property to offset State funding for the City University of New York (CUNY) (up to $60 million);
- Timing of the use of funds from debt service reserve releases ($41.6 million);
- Continued movement of operational costs from operating funds to capital funds related to certain agency costs ($38.3 million in the current fiscal year); and
- The reclassification of several State special revenue funds as enterprise funds ($2.5 million in SFY 2017-18).

The Enacted Budget also includes certain actions that partially offset the actions described above by adding spending to State Operating Funds. Examples include:

- The movement of approximately $390 million in operating costs out of the Dedicated Highway and Bridge Trust Fund; and
- Lower off-budget resources from the State Insurance Fund (SIF) which have been used to offset State costs for workers' compensation.

Together, the actions summarized above are expected to reduce SFY 2018-19 State Operating Funds expenditures by a net of over $3 billion, including the offsetting changes. If State

Operating Funds expenditures were adjusted to include spending associated with these actions, this year's growth would be more than 5 percent.[6]

Other aspects of the budget also make a definitive measure of spending growth difficult to determine. For example, the Budget establishes new State-imposed surcharges on certain taxi and for-hire transportation trips in Manhattan, with revenue generated net of certain expenses to be paid directly to the MTA without State appropriation. These surcharges represent additional expenditures, potentially in the hundreds of millions of dollars, to be made off-budget and not counted within State Operating Funds.

Other examples clouding the picture of State Operating Funds spending growth relate to certain disbursements that occur within capital projects funds but that may not be for capital purposes. For example, while the Dedicated Infrastructure Investment Fund (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.

Some of the budget management actions described above will be reported and accounted for differently in the State's financial reports. The Office of the State Comptroller (OSC) issues legally required 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 compiled using accounting principles and standards which produce differences in the 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 sales tax revenue is projected 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.

Another example is the reporting of the PMT. Given the importance of providing a comprehensive picture of State resources and spending, and of transparency regarding the collection of PMT revenues and disbursement of such resources to the MTA, the Office of the State Comptroller has begun reporting discretely on these amounts within the Comptroller's Monthly Report on State Funds Cash Basis of Accounting.[7]

Figure 4 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

[6] Actual spending totals for SFY 2017-18 were also influenced by prepayments. Figures discussed above do not adjust for such prepayments made before SFY 2017-18. Adjusting for debt service prepayments made in SFY 2016-17 would result in lower spending growth in SFY 2018-19.

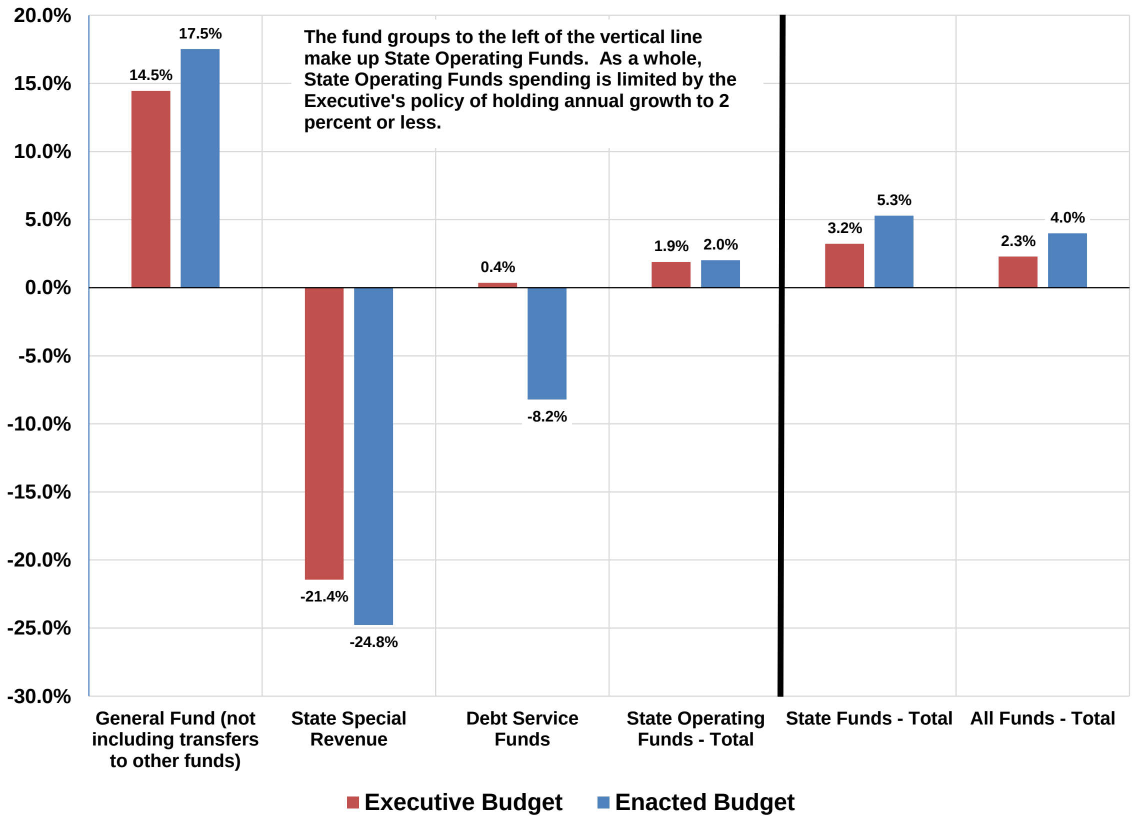
[7] See Note 4 and Schedule 4 within the Comptroller's Monthly Report on State Funds Cash Basis of Accounting, April 2018 at https://www.osc.state.ny.us/finance/finreports/cash/monthly/april-2018.pdf.

include the General Fund (not including transfers to other funds), State special revenue funds and debt service funds.

About half of the growth in General Fund spending is associated with a similar decline in spending from State special revenue funds because of reclassified spending in mental hygiene agencies, as illustrated in Figure 4. Another $390 million is due to spending moved to the General Fund from the Dedicated Highway and Bridge Trust Fund (a capital projects fund).

Figure 4

Annual Spending Growth by Fund – Executive and Enacted Budgets – SFY 2018-19



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

However, even if that spending is adjusted out, growth in spending from the General Fund would still approach 7.5 percent. To keep State Operating Funds growth at or below 2 percent, while allowing spending from the General Fund to grow significantly more than the 2 percent limit, spending from State special revenue and/or debt service funds must decline significantly. Budget management actions, such as those described above, are a primary factor in producing that result. For example, the anticipated reduction in spending from debt service funds in the SFY 2018-19 Enacted Budget is directly related to the $594 million in debt service prepayments. The remaining decline in special revenue funds is primarily because of the movement of spending for the MTA outside of governmental funds and the budget process.

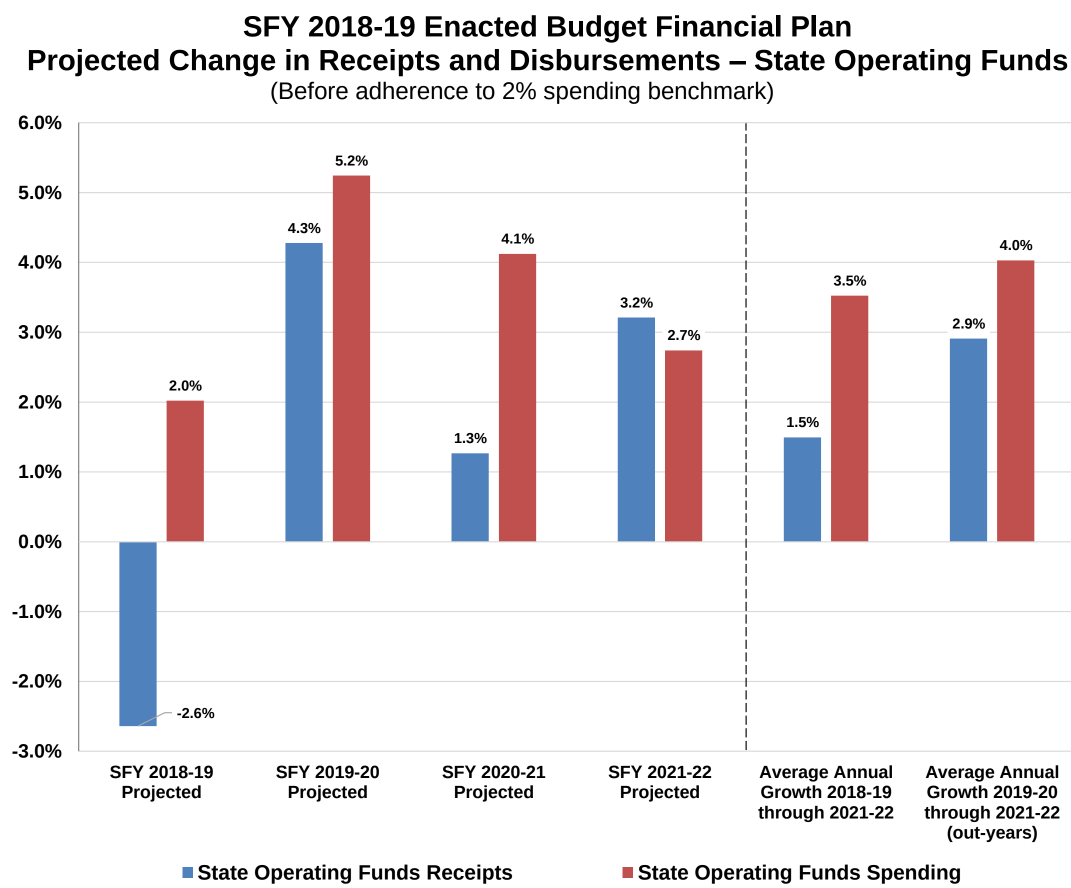
III. Structural Imbalance

The Enacted Budget Financial Plan indicates that the General Fund is not balanced on a structural basis. The Financial Plan projects that average annual spending growth in the future years of the Financial Plan period will outpace revenue growth, and that projected budget gaps are growing. Continued reliance on temporary and non-recurring resources, as well as budget management actions that make trends in spending and revenue growth less clear, show that more work is needed to put the State on a strong financial footing in the longer term.

Figure 5 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 full Financial Plan period (including SFY 2018-19) and average annual growth in outyears only (after SFY 2018-19).

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. The Financial Plan does not reflect this goal in its disbursement figures, but indicates an expectation of unspecified savings to meet the goal.

Figure 5



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 benchmark, the projected General Fund budget gap would total $4.0 billion in SFY 2019-20 and rise to $7.0 billion in SFY 2021-22.

The three-year total of nearly $17.9 billion in projected gaps during the Financial Plan period is more than 30 percent higher than the total that DOB estimated based on the SFY 2018-19 Executive Budget Financial Plan. The $17.9 billion figure is also $544 million or 3.1 percent higher than the cumulative total of outyear gaps projected in the SFY 2017-18 Enacted Budget Financial Plan.

Figure 6 compares average annual growth in State Operating Funds for various spending areas over the past decade to projected growth in SFY 2018-19, as well as to projected average annual growth from SFY 2019-20 through SFY 2021-22. These outyear projections illustrate the impact that changing spending priorities within the Financial Plan and budget management actions may have on the goal of limiting overall spending growth to 2 percent annually. Only one category, Departmental Operations, is expected to experience growth of less than 2 percent in the out-years of the Financial Plan period.

Figure 6

Change in Annual Spending from State Operating Funds, Actual and Projected

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

As shown, growth in school aid this year is expected to outpace the average annual increase over the decade ending in SFY 2017-18, and that trend 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 twice the Executive's 2 percent benchmark in the out-years of the Financial Plan period.

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 may contribute 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. The use of such resources to meet recurring expenses exacerbates the State's structural deficit, making it more difficult to achieve budget balance in the future.

Figure 7

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

	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	Total
Prepayments and Use of Reserves					
Use of Reserves	29	-	-	-	**29**
Debt Service Reserve Release	42	-	-	-	**42**
Use of Settlement Resources	652	-	-	-	**652**
SFY 2017-18 Debt Service Prepayment	594	-	-	-	**594**
Subtotal	*1,317*	-	-	-	**1,317**
Temporary or Non-Recurring Enacted in SFY 2018-19					
Sweeps from Other Funds	266	-	-	-	**266**
Health Care Transformation Fund	1,000	468	118	118	**1,704**
MTA Mobility Tax Timing	60	-	-	-	**60**
NYPA Transfer	20	-	-	-	**20**
Resources from Essential Plan	282	379	-	-	**661**
Indirect Cost Non-recurring Benefit	60	-	-	-	**60**
Subtotal	*1,688*	*847*	*118*	*118*	**2,653**
Previously in Law or Outside Budget Process					
High Income Charitable Deduction Limit	70	140	70	-	**280**
New York State Insurance Fund	100	-	-	-	**100**
Sales Tax Asset Receivable Corporation Refunding	200	17	-	-	**217**
CUNY Asset Sales	60	-	-	-	**60**
Mortgage Insurance Fund	55	-	-	-	**55**
NYPA Repayment Adjustment	(21)	(43)	(43)	(43)	**(150)**
Temporary PIT Bracket (1)	3,228	3,893	1,043	-	**8,163**
Subtotal	*3,692*	*4,007*	*1,070*	*(43)*	*8,725*
Total State Temporary, Non-Recurring and Prepayments	**6,696**	**4,854**	**1,188**	**75**	**12,694**

Sources: Division of the Budget, Office of the State Comptroller.
Note: (1) Projections for the existing PIT provisions were not updated in the Enacted Budget Financial Plan. These projections are based on previous estimates amended for actual and projected collections.

As shown in Figure 7, the Financial Plan uses temporary and non-recurring resources totaling nearly $6.7 billion (excluding funds for federal disaster assistance) in the current State fiscal year. Of that total, $1.7 billion results from changes enacted as part of this year's Budget. Another $1.3 billion in prepayments, use of reserves and monetary settlement funds are anticipated to benefit the General Fund during SFY 2018-19. Finally, the Enacted Budget also relies upon non-recurring resources added in previous budgets or outside the budget process that total $3.7 billion this year.

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

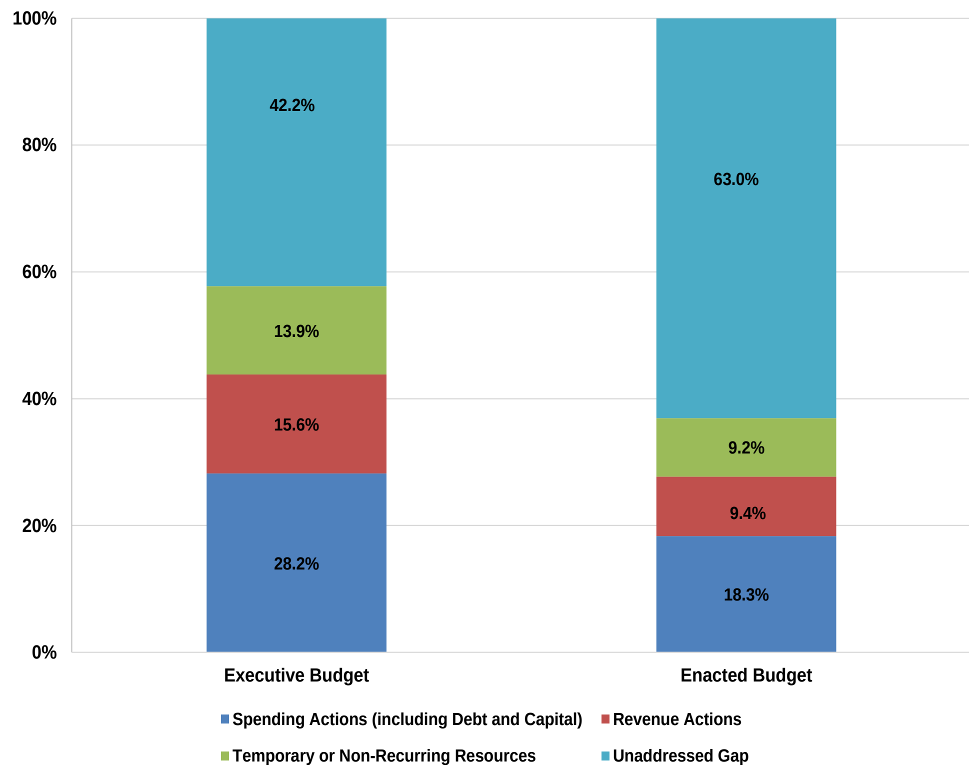
The SFY 2018-19 Executive Budget included actions intended to eliminate a projected $4.4 billion current services deficit in SFY 2018-19, while reducing cumulative outyear gaps from SFY 2019-20 through SFY 2021-22 that were projected to total $22.9 billion.

The Executive's proposed gap-closing plan included approximately $12.1 billion in measures that would reduce projected gaps on a recurring basis, reflecting 43.8 percent of the cumulative total. (In Figure 8, these measures include spending and revenue actions.) Non-recurring or temporary resources made up 13.9 percent of the gap-closing plan, while nearly 42.2 percent of outyear projected gaps was not addressed in the Executive Budget.

As shown in Figure 8, the Enacted Budget increases the share of projected gaps that are not addressed to 63 percent, or $17.9 billion. The gap-closing plan in the Enacted Budget Financial Plan relies on $2.6 billion in temporary or non-recurring resources to address gaps or 9.2 percent of the total, while spending and revenue actions comprise $7.9 billion or 27.7 percent of the gap-closing plan. The cumulative outyear gaps do not include any savings that could be achieved by limiting annual spending growth from State Operating Funds to 2 percent. However, the Enacted Budget Financial Plan shows that limiting growth in such spending to the 2 percent benchmark will not be sufficient to eliminate the annual projected gaps in SFY 2019-20 through SFY 2021-22.

Figure 8

Closing Projected Gaps: SFY 2018-19 Proposed and Enacted Budget Financial Plans



Sources: Division of the Budget, Office of the State Comptroller
Note: Numbers may not add due to rounding

IV. Reserves

The State ended SFY 2017-18 with a General Fund closing balance of $9.445 billion, representing an increase of $1.7 billion from SFY 2016-17, and $278 million over the Executive's amended Financial Plan projection issued in February 2018. This level was the highest in recent history, but the Enacted Budget Financial Plan anticipates that more than $3.9 billion, or 42 percent of the total, will be used this fiscal year.

The year-over-year increase in the General Fund closing balance reflects factors including unusually high PIT collections at the end of the 2017 tax year. The variance from the February plan is due not only to the higher-than-expected PIT collections in February and March but also to unanticipated monetary settlements and lower-than-anticipated spending.

DOB made no deposits to the Tax Stabilization Reserve or Rainy Day Reserve in SFY 2017-18 and projects no such deposits this fiscal year. These funds are statutorily limited to 2 percent and 5 percent of General Fund spending, respectively.[8] Based on actual General Fund spending in SFY 2017-18 and estimated General Fund spending in SFY 2018-19, those limits would allow combined reserves in the two funds of more than $5.2 billion. The combined balance of $1.8 billion in such funds represents just over one-third of such authorized amount. The last deposits to these funds were in March 2015 with $190 million deposited to the Rainy Day Reserve and $127 million to the Tax Stabilization Reserve.

Figure 9 below compares restricted and unrestricted reserves within the General Fund. The figures for SFY 2019-20 through SFY 2021-22 are OSC estimates based on the projected uses of reserves in the Enacted Budget Financial Plan.[9] The Financial Plan does not provide projections of outyear General Fund balances.

The $3.9 billion in General Fund balance projected to be used this fiscal year includes $1.9 billion that was received during SFY 2017-18 because of acceleration of tax payments that otherwise would have been received this year, according to DOB. It also includes the use of $2 billion in monetary settlement proceeds and $29 million from the Community Projects Fund.

As shown in Figure 9, the General Fund also retains certain monetary settlement funds that are planned for future transfer to the DIIF or other purposes, or are currently unappropriated. DOB projects that there will be just over $3 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 9. Further discussion of settlement resources appears in the Debt and Capital section of this report.

[8] See Sections 92 and 92-cc of the State Finance Law.

[9] Amounts for SFY 2018-19 are Financial Plan estimates. For projected use of Fund Balances, see DOB, *FY 2019 Enacted Budget Financial Plan*, May 2018, page T-1.

Figure 9

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

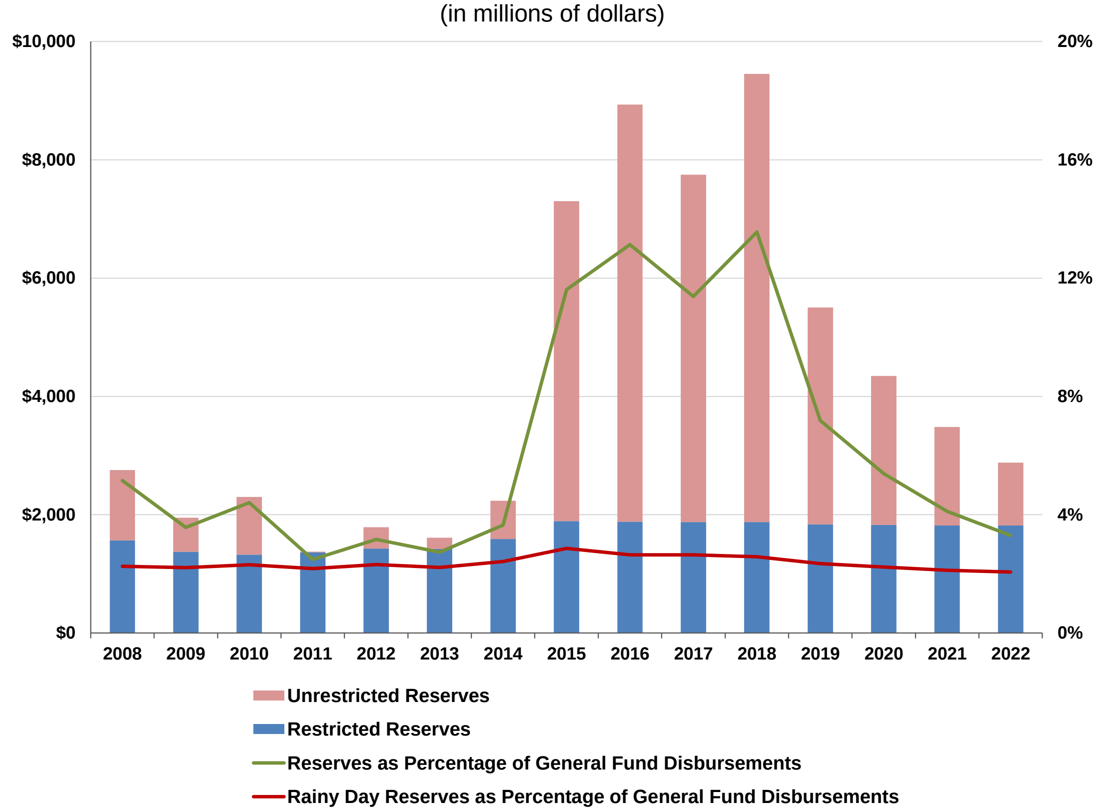
	2017-18 Actual	2018-19 Estimated	2019-20 Projected	2020-21 Projected	2021-22 Projected
Statutory Reserves	**1,875**	**1,836**	**1,827**	**1,819**	**1,819**
Tax Stabilization Reserve Fund	1,258	1,258	1,258	1,258	1,258
Rainy Day Reserve	540	540	540	540	540
Contingency Reserve Fund	21	21	21	21	21
Community Projects Fund	56	17	8	-	-
Refund Reserve (Unrestricted)	**7,580**	**3,668**	**2,520**	**1,665**	**1,061**
Debt Management	500	500	500	500	501
Labor Agreements	155	155	155	155	155
Other	1,905	-	-	-	-
Monetary Settlement Proceeds	5,020	3,013	1,865	1,010	405

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

Figure 10 illustrates actual and projected trends in restricted and unrestricted General Fund reserves from SFY 2007-08 through SFY 2021-22.

Figure 10

General Fund Restricted and Unrestricted Reserves, Total and as a Percentage of General Fund Disbursements, SFY 2007-08 through SFY 2021-22
(in millions of dollars)



Sources: Division of the Budget, Office of the State Comptroller.
Note: Figures for SFY 2018-19 and thereafter are projected; all others are actual results.

As shown by the green line in Figure 10, total reserves declined from approximately 5.2 percent of General Fund disbursements in SFY 2007-08 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, and again in SFY 2017-18 as discussed above, but are projected to decline in each year thereafter through SFY 2021-22, falling below 4 percent again in the final year of the Plan period.

The $1.8 billion in combined Tax Stabilization and Rainy Day Reserve funds at the end of SFY 2018-19 represents just less than 2.6 percent of General Fund disbursements that year. This amount is projected to decline as a proportion of General Fund spending in each year of the Financial Plan period, and is forecasted to be 2.1 percent of such spending in SFY 2021-22.

V. Capital Spending and Debt

The State's capital spending is expected to increase by 34 percent in SFY 2018-19 in part because SFY 2017-18 spending was $2 billion lower than anticipated, following recent trends. Figure 11 illustrates that annual spending as projected in the FY 2019 Enacted Capital Program and Financing Plan (Capital Plan or Plan) changes modestly from Executive Budget projections, with total spending over the five-year plan period expected to be $1.6 billion higher than those earlier projections. Categories with significant increases from the Executive Budget include transportation and economic development. Borrowing by public authorities is expected to remain the largest source of capital funding.

Projected Capital Spending

The Capital Plan projects capital spending of $66.5 billion over the current and next four fiscal years, including $3.3 billion in off-budget capital spending for which State-Supported bond proceeds are expended directly by public authorities. The total represents a decrease of $2.7 billion from the previous year's Enacted Budget Capital Plan for SFY 2017-18 through SFY 2021-22.[10] The Capital Plan indicates that declines in personal income projections necessitate reductions in capital spending to remain within the statutory debt limit in future years, as discussed further later in this section.

Figure 11

SFY 2018-19 Capital Program and Financing Plan Disbursements, Executive Budget and Enacted Budget

(in millions of dollars)

	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2022-23	Total	Annual Average
Executive	13,359	15,165	13,296	12,027	12,140	12,255	64,884	12,977
Enacted	11,285	15,146	13,816	12,610	12,272	12,674	66,518	13,304
Difference	**(2,074)**	**(19)**	**520**	**583**	**132**	**419**	**1,634**	**327**

Source: Division of the Budget.
Note: For SFY 2017-18, the Executive figure reflects the SFY 2018-19 Executive Budget projection and the Enacted figure reflects actual results as reported by DOB. Other years show DOB projections in the SFY 2018-19 Executive and Enacted Budgets.

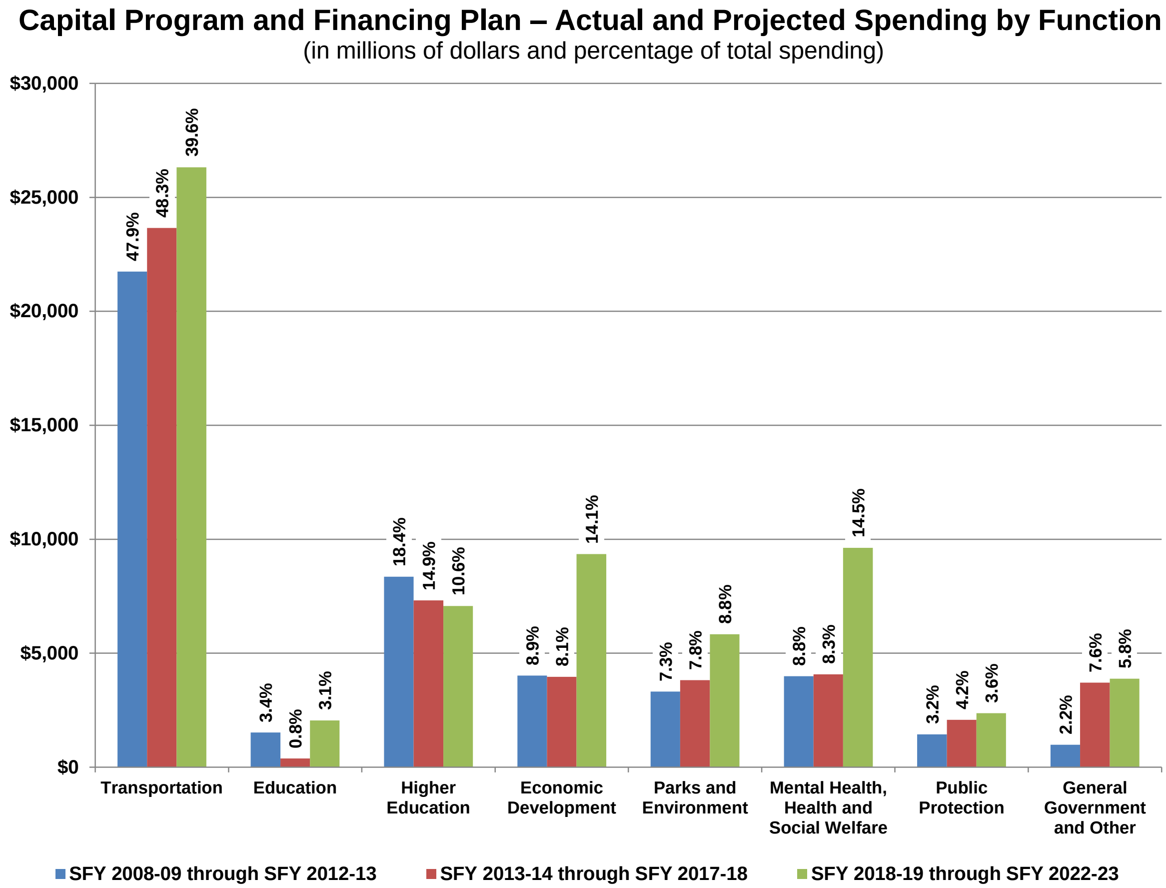
Actual spending in SFY 2017-18 was $2.1 billion lower than estimated in the SFY 2018-19 Executive Budget, with differences primarily in transportation and economic development/government oversight spending categories.

Over the life of the Capital Plan, annual capital spending is projected to average $13.3 billion, 17.9 percent higher than actual spending in SFY 2017-18 and 35.7 percent higher than the

[10] 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, as well as certain local assistance grants that are deemed capital in nature and off-budget capital spending in which public authorities issue State-Supported bonds on behalf of the State and spend directly from those proceeds. The Enacted Budget Financial Plan measures capital spending differently, 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. Both measures include some operational spending that DOB deems to be capital in nature.

average of the last five years. Transportation is projected to remain the largest functional area of capital spending at 39.6 percent of the total over the five-year period, as shown in Figure 12.

Figure 12



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

Figure 12 compares projected spending from capital project funds over the five-year Plan period to the prior 10 years of actual results. Proportionally large increases are projected in transportation, mental health, health and social welfare, as well as economic development. While projected spending in most functional areas is significantly higher than actual spending over the previous two five-year periods, the distribution of capital spending also changes, with transportation representing a smaller part of the total and larger shares for economic development, mental health and health, and social welfare.

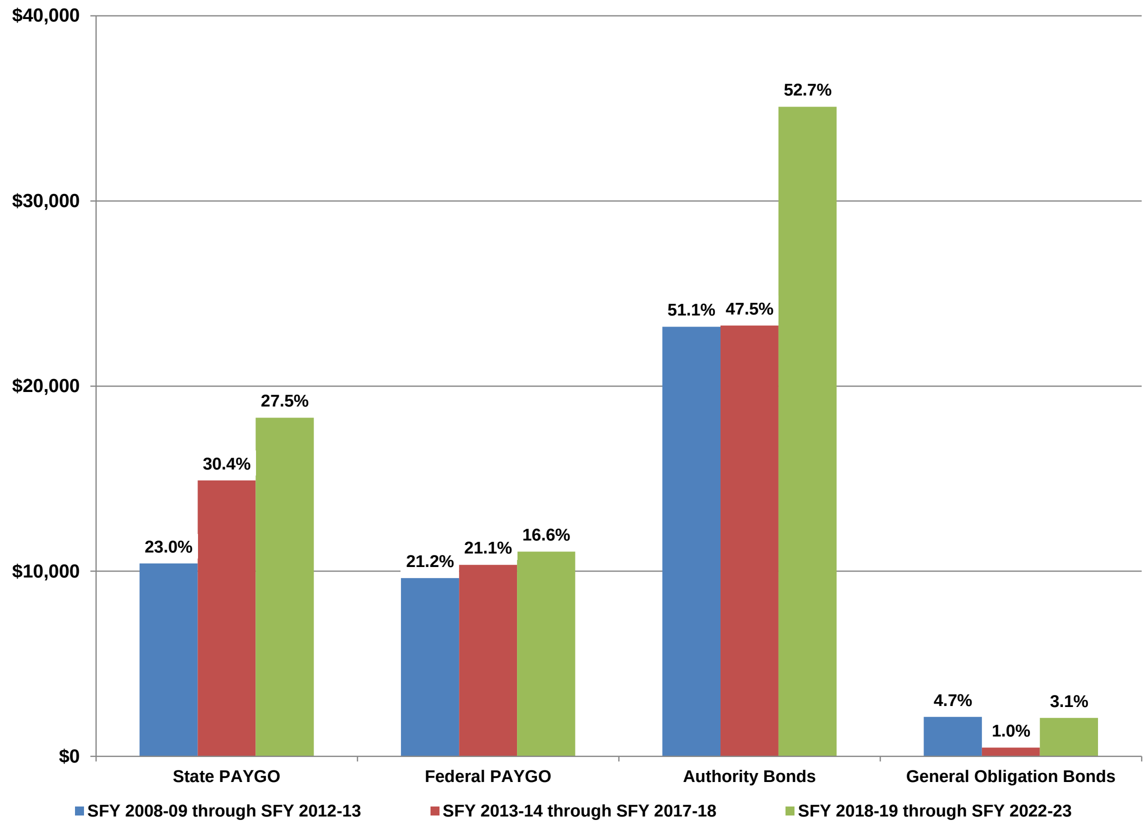
The comparison in Figure 12, based on Capital Plan categories, understates planned spending in certain categories because projections for the "General Government and Other" category include spending from the Dedicated Infrastructure Investment Fund (DIIF) and the State and Municipal Facilities (SAM) Program. Both the DIIF and the SAM Program include spending that would otherwise be included in other categories.

As shown in Figure 13, the largest share of projected financing for the Capital Plan is public authority bonds, 52.7 percent of the five-year total. While such borrowing has been the State's primary source of capital financing for many years, this is higher than the 49.3 percent average share from the previous 10 years.

Figure 13

Capital Program and Financing Plan – Actual and Projected Financing Sources SFY 2008-09 through SFY 2022-23

(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.

The Capital Plan projects $500 million in spending from the $2 billion Smart Schools Bond Act in SFY 2018-19 (after spending $126.8 million in the previous two years), with about 88 percent of the program disbursed by the end of the five-year plan period. Voter-approved General Obligation bonds supported only 1 percent of capital financing over the five years ending in SFY 2017-18. Primarily as a result of projected spending for the Smart Schools program, General Obligation bonds are projected to average 3.1 percent of total capital spending over the Capital Plan period.

Capital spending supported by State cash resources (pay-as-you-go or PAYGO), which was just less than $3.8 billion in SFY 2017-18, is projected to increase by more than 16 percent this year to $4.4 billion. Much of the growth associated with State PAYGO is spending from the DIIF, with $4.4 billion or 6.6 percent of total capital spending planned through SFY 2022-23.

DOB projects State PAYGO spending will represent 27.5 percent of capital spending over the plan period, up modestly from the previous 10-year average of 26.8 percent. Total federally-funded capital spending is projected to increase over the next five years in dollars but is expected to decline as a share of the total, primarily in transportation. 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.

Debt Outstanding

The SFY 2018-19 Enacted Budget included nearly $6.5 billion in new State-Supported bond authorizations.[11] The Capital Plan projects that total State-Supported debt outstanding will increase by $11 billion, or 21.5 percent, to $62.3 billion over the five-year plan. The Office of the State Comptroller estimates that overall State-Funded debt outstanding, a more comprehensive measure, will total $72.9 billion by the end of the Capital Plan period.[12] Figure 14 illustrates State-Supported and State-Funded debt outstanding from SFY 2017-18 through SFY 2022-23.

Figure 14

State-Funded Debt Outstanding – SFY 2017-18, SFY 2018-19 and SFY 2022-23
(in millions of dollars)

	2017-18 Actual (unaudited)	**2018-19 Projected**	**2022-23 Projected**
General Obligation	2,371	2,885	3,259
Other State-Supported Public Authority	48,894	51,775	59,039
Total State-Supported	**51,265**	**54,661**	**62,298**
State-Funded Secured Hospitals	142	109	21
New SUNY Dormitories	1,263	1,399	1,669
TFA Building Aid Revenue Bonds	7,944	8,044	7,567
Sales Tax Asset Receivable Corporation	1,805	1,721	1,344
Municipal Bond Bank Agency	172	139	-
Total Other State-Funded	11,326	11,411	10,601
Total State-Funded	**62,591**	**66,072**	**72,899**

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

State-Supported debt declined in each year from SFY 2012-13 through SFY 2016-17 and, based on unaudited figures, increased $1.7 billion in SFY 2017-18. The declines reflect a number of factors. These include a change in the classification of debt issued by the Dormitory

[11] For a listing of all new authorizations, see page 42 of the Office of the State Comptroller's *Report on the State Fiscal Year 2018-19 Enacted Budget*, available at www.osc.state.ny.us/reports/budget/2018/enacted-budget-report.pdf.
[12] 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. 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 Office of the State Comptroller's 2017 *Debt Impact Study* for more information on State-Funded debt, at www.osc.state.ny.us/reports/debt/debt-impact-study-2017.pdf. Issuance estimates for several of the State-Funded debt categories are not available for all years in the Plan period (projected issuances for TFA BARBs are available only through SFY 2021-22, and SUNY Dormitories through SFY 2020-21), which may result in understatement of total State-Funded debt.

Authority of the State of New York (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.

Outstanding State-Supported debt is projected to continue to rise this year, with an expected increase of more than $3.4 billion or 6.6 percent. State-Funded debt is also projected to increase, largely driven by the same factors affecting State-Supported debt. For State-Funded debt, offsetting factors include retirement in June 2017 of the last outstanding bonds of the Tobacco Settlement Financing Corporation, issued to finance deficits in SFYs 2003-04 and 2004-05.

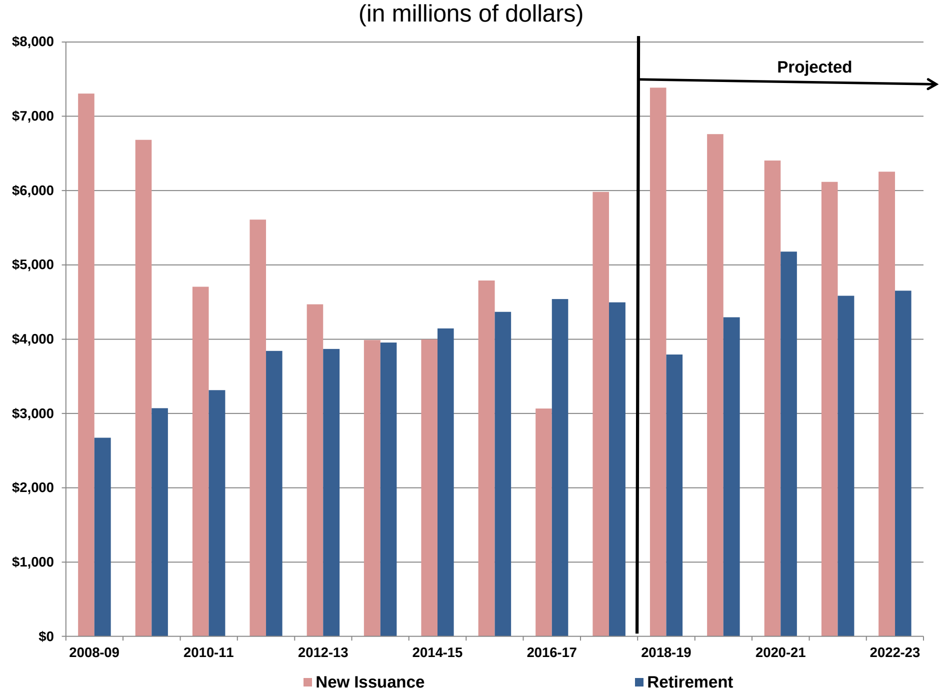
New Debt Issuance and Retirement

Average annual issuances of State-Supported debt over the Capital Plan are expected to exceed retirements by nearly $2.3 billion. State-Supported debt issuances are projected to total $31.7 billion over the next five years – an annual average of approximately $6.3 billion, compared to an average $3.8 billion over the previous five years.

State-Supported debt retirements are projected at $20.4 billion (an average of $4.1 billion annually) over the Capital Plan period. Retirements of such debt have averaged $3.6 billion annually over the last five years. Figure 15 illustrates State-Funded debt issuances and retirements from SFY 2008-09 through SFY 2022-23. While State-Funded debt is a more comprehensive measure than State-Supported debt, trend lines for the two metrics are similar.

Figure 15

Actual and Projected State-Funded New Debt Issuance and Retirement
SFY 2008-09 through SFY 2022-23
(in millions of dollars)



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

Debt Service

In the SFY 2018-19 Executive Budget, DOB stated an expectation of paying $340 million in State-Supported debt service initially planned for SFY 2018-19 in SFY 2017-18. Actual prepayments totaled $594 million, increasing reported debt service in SFY 2017-18 and reducing it the following year by that amount.

Prepayments also affect analysis of debt service growth. For example, the Enacted Budget Capital Program and Financing Plan reports a decline of $502 million or 8.6 percent between SFY 2017-18 and SFY 2018-19. However, the projected total of $5.4 billion in SFY 2018-19 is artificially reduced by the $594 million prepayment in SFY 2017-18 that otherwise would have been made in the current year. The Capital Plan projects growth of 29.5 percent from SFY 2018-19 to SFY 2019-20, to a total of nearly $7 billion, because no additional prepayments are planned and projected spending in SFY 2018-19 is artificially low. State-Supported debt service has increased an average of 2.9 percent annually over the last 10 years. The current Capital Plan projects 4.4 percent growth through the Plan period. If actual debt issuances are lower than planned levels, as DOB indicates may be the case, growth in debt service may be lower than expected. Other factors including market interest rates will also affect debt service costs.

Debt Reform Act of 2000

The State's statutory debt capacity is limited under the Debt Reform Act of 2000, which imposes limits on both outstanding State-Supported debt and annual State-Supported debt service as detailed below. DOB projects that available State-Supported debt capacity will decline from $3.7 billion in SFY 2017-18 to $49 million in SFY 2020-21, before rising to $117 million in SFY 2022-23.

Annually, DOB must calculate the limits on debt outstanding and debt service as defined in Section 67-b of the State Finance Law to determine if additional debt can be issued, based on levels at the end of the preceding fiscal year. 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.

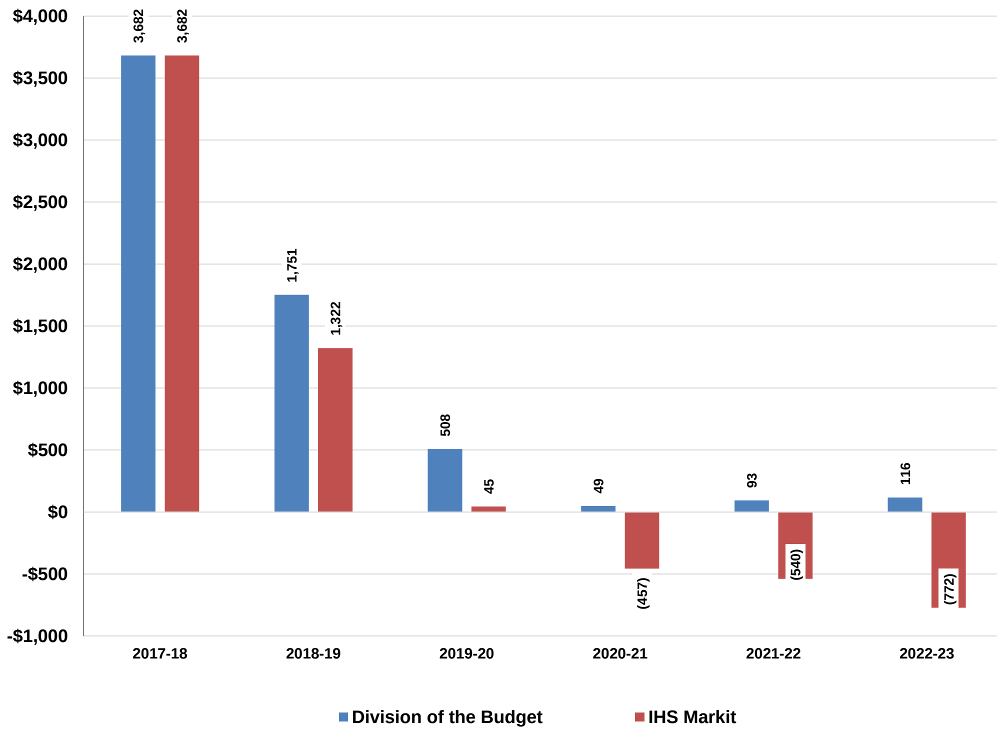
If, as of October 31, DOB determines that debt outstanding and debt service as of the end of the previous fiscal year were below their respective caps, additional debt can be issued. If not, additional State-Supported debt cannot be issued until the following October 31 at the earliest, when the annual determination regarding the amounts of debt outstanding and debt service relative to the statutory caps is made again. As of March 31, 2017, $39.9 billion in State-Supported debt had been authorized but not issued.

As forecasted in the Capital Plan, debt capacity is a function of projected annual debt issuance and retirements as well as projected personal income. If actual new issuances are higher than anticipated or if personal income is lower, available debt capacity under the statute could decline further or disappear. While the amount of annual capital spending and timing of debt issuances can be adjusted, personal income growth cannot.

Figure 16 illustrates projections of available debt capacity over the five-year Plan based on projected State-Supported debt issuance and scheduled retirements, using DOB projections for personal income compared to projected personal income from IHS Markit. In projecting that available capacity will be $49 million in SFY 2020-21, DOB assumes that personal income will increase by an average 4.5 percent annually. However, using IHS Markit's personal income projection of a 4.3 percent annual increase over the life of the Plan – a figure only slightly below DOB's – debt capacity would be eliminated during SFY 2020-21 and through the end of the Plan.

Figure 16

Statutory State-Supported Debt Capacity
Comparison of Projections Using Different Personal Income Forecasts
(in millions of dollars)



Sources: New York State Division of the Budget, IHS Markit

The Capital Plan refers to recent downward revisions in calculations of personal income by the U.S. Bureau of Economic Analysis, which affect DOB's projections of New York personal income in future years. "The substantial reduction to personal income makes it necessary to make capital spending reductions in order to stay within the debt cap in future years," the Plan states. "The spending reductions are expected to be managed within anticipated underspending on capital projects throughout the plan period."[13]

Monetary Settlements and the Dedicated Infrastructure Investment Fund

Since April 1, 2014, the State has received approximately $10.9 billion in extraordinary monetary settlements from financial companies and other entities for violations of State laws,

[13] *FY 2019 Enacted Capital Program and Financing Plan*, p. 25.

including $183 million already received in SFY 2018-19.[14] Through March 31, 2018, $4.9 billion of that total has actually been disbursed.

One-time resources such as settlement funds are most appropriately used for capital investments or other one-time expenses, or to bolster statutory budgetary reserves. The Financial Plan indicates that most of the settlement resources have been or are expected to be used to finance spending from capital appropriations, including certain operating activities associated with capital assets.

However, through the end of the last fiscal year, $2.1 billion or 37.5 percent of expenditures from settlement resources had been for various forms of budget relief. This includes $461 million used for General Fund operating purposes in SFY 2017-18. The Enacted Budget Financial Plan projects using another $383 million for General Fund operating purposes during the current fiscal year, as well as $194 million for MTA operating aid and $75 million for costs of the Department of Law's Litigation Services Bureau.

The SFY 2015-16 Enacted Budget included statutory language creating the Dedicated Infrastructure Investment Fund (DIIF), a capital projects fund. The Financial Plan indicates that just over $7.8 billion of settlement resources have been or are expected to be used to finance spending from capital appropriations, which may include operating costs. Planned transfers from the General Fund to the DIIF are expected to total $1.6 billion during this fiscal year.

The SFY 2017-18 Enacted Budget Capital Program and Financing Plan projected nearly $1.6 billion in settlement dollars would be spent from the DIIF last fiscal year; actual spending totaled $1.1 billion.

The Capital Plan projects $2 billion will be spent from the DIIF this fiscal year. This includes $453 million for the Thruway as well as $14.7 million for the Department of Transportation. Other planned spending from the DIIF includes economic development, housing, health care and various other purposes.

None of the nearly $11 billion in extraordinary monetary settlements has been, or is projected to be, deposited to the State's rainy day reserve funds.

State and Municipal Facilities Program

The SFY 2018-19 Enacted Budget includes a new $475 million appropriation for the State and Municipal Facilities Program (SAM), bringing total spending authorization for this primarily bond-financed program up to $2.4 billion since SFY 2013-14. Through March 31, 2018, $399 million has been disbursed. Of this amount, $301 million was spent through the Dormitory Authority, $67 million through the Empire State Development Corporation, $15.1 million through the Department of Transportation and the remaining $15 million through the Office of General Services and the Division of Housing and Community Renewal.

[14] On June 20, 2018, the New York State Department of Financial Services (DFS) announced a new $205 million settlement with Deutsche Bank AG for unlawful, unsafe and unsound conduct in its foreign exchange trading business. On June 28, 2018, DFS announced that Athene Life Insurance Company of New York will be required to pay a $15 million fine for violations of New York Insurance Law and regulations. These settlements are not included in the totals provided above.

VI. Risks to the Financial Plan

As with any Financial Plan, the SFY 2018-19 Enacted Budget Financial Plan is subject to various risks and uncertainties. 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.

Among important areas of uncertainty, the Financial Plan notes that the State receives substantial amounts of federal aid for health care, education, transportation and other purposes, and that many programs that drive current funding levels may be subject to change based on budget and policy discussions in Washington. The State continues to face certain risks regarding federal funding in the coming years.

The Enacted Budget includes certain provisions the Executive identifies as intended to address such risks. One such measure extends and broadens a provision included in the SFY 2017-18 Enacted Budget that allows the Budget Director to impose spending cuts, absent action by the Legislature, if certain reductions in federal assistance occur.

New York relies heavily on revenues that can be volatile depending on economic conditions, including its Personal Income Tax. The U.S. economy is now entering its 10^{th} year of growth since the last recession. However, economic cycles include both ups and downs. As outlined in the section of this report on Reserves, while the State's combined statutory and unrestricted reserves have been at recent historic high levels, unrestricted reserves are forecasted to decline over the Financial Plan period as such resources are used for various purposes. With declines in unrestricted reserves and no plan to bolster statutory reserves over the Plan period, the State may be increasingly left with limited flexibility to respond to economic downturns or catastrophic events.

The Great Recession and previous downturns have resulted in the need for deficit reduction actions, including difficult spending cuts and significant tax increases, at times when such steps may have been especially damaging. Other budget management actions have included sweeps of funds originally dedicated to other purposes, changes in timing of payments, and other fiscal gimmicks. More robust reserves could reduce the need for such measures going forward.

The State has committed to provide in excess of $8 billion in funding to the MTA for its 2015-19 capital plan no later than SFY 2025-26 or by the completion of the MTA capital program. However, the financing sources for the majority of this commitment have yet to be identified.

VII. Appendices

Appendix A: General Fund Gap-Closing Plan, SFY 2018-19 through SFY 2021-22

(in millions of dollars)

	2018-19	2019-20	2020-21	2021-22
Current Services Gap Reported in Mid-Year Update	**(4,443)**	**(6,385)**	**(8,053)**	**(8,413)**
Non-Recurring and Temporary Resources and Costs	**1,851**	**500**	**154**	**118**
Debt Service Prepayment	594	-	-	-
Contributions for Health Care Transformation	500	500	154	118
Use of Monetary Settlement Funds for General Fund Relief	383	-	-	-
Use of Monetary Settlement Funds for MTA Subway Action Plan	194	-	-	-
Human Services	(75)	-	-	-
Health Care	(40)	-	-	-
Non-Recurring Transfers	266	-	-	-
Reserves	29	-	-	-
Departmental Operations Actions	**68**	**(79)**	**(146)**	**(280)**
Executive Agencies	39	(108)	(174)	(316)
University Systems	81	77	80	93
Elected Officials	(52)	(48)	(52)	(57)
Debt Management and Capital	**557**	**(55)**	**8**	**(16)**
Local Assistance Actions	**1,308**	**1,261**	**1,114**	**1,478**
Education	439	727	897	990
Health Care	496	243	44	5
Human Services	132	150	208	205
Mental Hygiene	181	106	(18)	(137)
STAR	60	35	(17)	415
Revenue Actions	**1,125**	**834**	**343**	**365**
Revised Tax Projections	1,025	734	243	265
Opioid Stewardship and Prevention Fund	100	100	100	100
New Initiatives	**(488)**	**(323)**	**(304)**	**(311)**
MTA Subway Action Plan	(194)	-	-	-
School Aid	(152)	(220)	(226)	(233)
Other Education/Higher Education	(142)	(103)	(78)	(78)
All Other	**22**	**220**	**(62)**	**102**
Remaining Gap in Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	**-**	**(4,027)**	**(6,946)**	**(6,957)**

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

Appendix B:

All Governmental Funds
SFY 2017-18 Actual and SFY 2018-19 Enacted Budget Financial Plan
(in millions of dollars)

	SFY 2017-18 Actual	SFY 2018-19 Enacted Budget	Dollar Change	Percentage Change
Receipts:				
Taxes				
Personal Income Tax	51,501	50,410	(1,091)	-2.1%
Consumption and Use Taxes	16,711	17,303	592	3.5%
Business Taxes	7,164	7,981	817	11.4%
Other Taxes	3,890	2,229	(1,661)	-42.7%
Total Taxes	*79,266*	*77,923*	(1,343)	-1.7%
Miscellaneous Receipts	27,262	28,005	743	2.7%
Federal Grants	58,942	60,083	1,141	1.9%
Total Receipts	**165,470**	**166,011**	**541**	**0.3%**
Disbursements:				
Local Assistance Grants				
Economic Development and Government Oversight	1,301	1,523	222	17.1%
Parks and Environment	355	198	(157)	-44.3%
Transportation	6,248	5,953	(295)	-4.7%
DOH Medicaid inc. Administration	56,461	58,215	1,754	3.1%
Other Health	8,343	8,300	(43)	-0.5%
Social Welfare	7,551	8,329	777	10.3%
Mental Hygiene	2,600	2,554	(46)	-1.8%
Public Protection/Criminal Justice	1,732	1,459	(273)	-15.8%
Higher Education	2,838	3,078	239	8.4%
School Aid	27,849	29,721	1,873	6.7%
Other Education	5,673	5,727	54	1.0%
General Government	288	382	93	32.3%
Local Government Assistance	761	765	5	0.6%
Other	(7)	(577)	(570)	8109.6%
Total Local Assistance Grants	*121,995*	*125,627*	*3,632*	*3.0%*
Departmental Operations				
Personal Service	13,838	14,191	353	2.6%
Non-Personal Service	7,020	7,356	336	4.8%
Total Departmental Operations	*20,858*	*21,547*	*689*	*3.3%*
General State Charges	8,175	8,865	690	8.4%
Debt Service	5,873	5,382	(491)	-8.4%
Capital Projects	6,843	8,861	2,018	29.5%
Total Disbursements	**163,744**	**170,282**	**6,538**	**4.0%**

Source: Division of the Budget

Appendix C:

State Operating Funds
SFY 2017-18 Actual and SFY 2018-19 Enacted Budget Financial Plan
(in millions of dollars)

	SFY 2017-18 Actual	SFY 2018-19 Enacted Budget	Dollar Change	Percentage Change
Receipts:				
Taxes				
Personal Income Tax	51,501	50,410	(1,091)	-2.1%
Consumption and Use Taxes	16,139	16,678	539	3.3%
Business Taxes	6,542	7,330	788	12.0%
Other Taxes	3,771	2,110	(1,661)	-44.0%
Total Taxes	*77,953*	*76,528*	*(1,425)*	*-1.8%*
Miscellaneous Receipts	21,334	20,136	(1,198)	-5.6%
Federal Grants	74	75	1	1.4%
Total Receipts	**99,361**	**96,739**	**(2,622)**	**-2.6%**
Disbursements:				
Local Assistance Grants				
Economic Development and Government Oversight	267	261	(6)	-2.2%
Parks and Environment	10	11	1	10.0%
Transportation	5,025	3,961	(1,064)	-21.2%
DOH Medicaid inc. Admin	19,144	19,923	779	4.1%
Other Health	1,668	1,626	(42)	-2.5%
Social Welfare	2,855	2,997	142	5.0%
Mental Hygiene	2,351	2,258	(93)	-4.0%
Public Protection/Criminal Justice	287	433	146	50.9%
Higher Education	2,833	3,065	232	8.2%
School Aid	25,396	26,452	1,056	4.2%
Other Education	4,832	4,906	74	1.5%
General Government	232	314	82	35.3%
Local Government Assistance	761	765	4	0.5%
Other	(57)	(220)	(163)	287.0%
Total Local Assistance Grants	*65,604*	*66,752*	*1,148*	*1.7%*
Departmental Operations				
Personal Services	13,170	13,542	372	2.8%
Non-Personal Service	5,651	5,917	266	4.7%
Total Departmental Operations	*18,821*	*19,459*	*638*	*3.4%*
General State Charges	7,853	8,542	689	8.8%
Debt Service	5,873	5,382	(491)	-8.4%
Capital	-	-	-	0.0%
Total Disbursements	**98,151**	**100,135**	**1,984**	**2.0%**

Source: Division of the Budget

Appendix D:

Federal Funds
SFY 2017-18 Actual and SFY 2018-19 Enacted Budget Financial Plan
(in millions of dollars)

	SFY 2017-18 Actual	SFY 2018-19 Enacted Budget	Dollar Change	Percentage Change
Receipts:				
Special Revenue Funds	56,744	57,576	832	1.5%
Debt Service Funds	73	74	1	1.4%
Capital Funds	2,125	2,433	308	14.5%
Total Receipts	**58,942**	**60,083**	**1,141**	**1.9%**
Disbursements:				
Local Assistance Grants				
Economic Development Government Oversight	7	8	1	14.3%
Parks and Environment	2	1	(1)	-50.0%
Transportation	60	61	1	1.7%
DOH Medicaid inc. Administration	37,317	38,292	975	2.6%
Other Health	6,519	6,173	(346)	-5.3%
Social Welfare	4,363	4,482	119	2.7%
Mental Hygiene	140	154	14	10.0%
Public Protection/Criminal Justice	1,389	987	(402)	-28.9%
Higher Education	1	-	(1)	-100.0%
School Aid	2,361	2,770	409	17.3%
Other Education	822	772	(50)	-6.1%
General Government	56	58	2	3.6%
Other	(442)	(497)	(55)	12.4%
Total Local Assistance Grants	*52,595*	*53,261*	*666*	*1.3%*
Departmental Operations				
Personal Service	668	649	(19)	-2.8%
Non-Personal Service	1,369	1,439	70	5.1%
Total Departmental Operations	*2,037*	*2,088*	*51*	*2.5%*
General State Charges	322	323	1	0.3%
Capital Projects	1,159	1,315	156	13.5%
Total Disbursements	**56,113**	**56,987**	**874**	**1.6%**

Source: Division of the Budget

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