New York State Comptroller
THOMAS P. DiNAPOLI

State Fiscal Year 2022-23

Enacted Budget Financial Plan Report

July 2022

Message from the Comptroller

July 2022

After two years of extraordinary volatility in State finances, the State Fiscal Year (SFY) 2022-23 Enacted Budget Financial Plan projects fiscal stability through the five-year plan period. Continued recovery from the pandemic and substantial federal aid have allowed for programs intended to address the lingering impacts of the COVID-19 pandemic, as well as increased spending for education and health care. In addition, the Financial Plan boosts compensation for health, home care and human services workers, and includes new support for child care providers and expands access to child care in order to boost workforce participation, especially for women.

Effective administration of this funding will be critical. In particular, quick and transparent deployment of pandemic relief resources to the most severely affected communities is essential. It is also crucial that the State take steps to bolster rainy day reserves to ensure new recurring investments are sustainable over the long term. Major risks and challenges exist that have the potential to quickly change the current outlook. While the Division of the Budget (DOB) expects growth throughout the Financial Plan period, the ongoing economic and market impacts caused by supply chain disruptions, surging inflation, and the war in Ukraine will continue to jeopardize the State's ability to achieve anticipated growth levels. These factors could have sudden and unpredictable impacts on State tax collections.

Currently, the Financial Plan lays out a multi-year schedule to grow the State's statutory rainy day reserve funds from $3.3 billion at the end of SFY 2021-22 to $13.3 billion by SFY 2024-25. Combined with other economic reserves, State savings for economic downturns or fiscal emergencies would reach $19.4 billion by SFY 2024-25. As prior reports from my Office have shown, New York State has long been behind the curve in adequately funding its reserves. It is imperative that this plan be implemented on — or ahead of — schedule.

The Office of the State Comptroller will continue to monitor the State's fiscal condition and economic outlook, and provide resources to assist policy makers as they seek to navigate the challenges ahead successfully.

Thomas P. DiNapoli
State Comptroller

Financial Plan Overview

The Enacted Budget Financial Plan published by the Division of the Budget (DOB) projects disbursements in SFY 2022-23 of $222.2 billion from All Funds, including $122.7 billion from State Operating Funds. DOB projects State Operating Funds disbursements will grow 3.6 percent annually on average and All Funds disbursements will grow 1.1 percent annually on average between SFY 2022-23 and SFY 2026-27. (See Appendix A and B for more details.)

General Fund disbursements (including transfers to other funds) are projected by DOB to total $96.1 billion in SFY 2022-23, increasing to $115.8 billion by SFY 2026-27, for an average annual growth of 4.8 percent. (See Figure 1.) General Fund receipts are projected by DOB to total $88.3 billion in SFY 2022-23, growing to $113.2 billion by SFY 2026-27, reflecting average annual growth of 6.4 percent. While planned disbursements exceed receipts in some years, the Financial Plan indicates that surplus General Fund resources, mostly accumulated in SFY 2021-22, will be used to balance the Budget in SFY 2022-23 and the out-years.

FIGURE 1
Actual and Projected General Fund Receipts and Disbursements
SFY 2021-22 through SFY 2026-27 (in millions of dollars)

	SFY 2021-22 Actual	SFY 2022-23 Projected	SFY 2023-24 Projected	SFY 2024-25 Projected	SFY 2025-26 Projected	SFY 2026-27 Projected	Average Annual Growth SFYs 23-27
Total Receipts	**112,810**	**88,306**	**106,499**	**112,850**	**109,614**	**113,213**	**6.4%**
Annual Dollar Growth		(24,504)	18,193	6,351	(3,236)	3,599	
Annual Percentage Growth		-21.7%	20.6%	6.0%	-2.9%	3.3%	
Total Disbursements	**88,918**	**96,103**	**103,986**	**109,884**	**111,940**	**115,805**	**4.8%**
Annual Dollar Growth		7,185	7,883	5,898	2,056	3,865	
Annual Percentage Growth		8.1%	8.2%	5.7%	1.9%	3.5%	
Disbursements by Major Program Area							
School Aid Local Assistance (SFY)	**24,783**	**25,791**	**29,522**	**31,352**	**32,701**	**34,123**	7.2%
Annual Dollar Growth		1,008	3,731	1,830	1,349	1,422	
Annual Percentage Growth		4.1%	14.5%	6.2%	4.3%	4.3%	
Medicaid Local Assistance	**16,153**	**18,941**	**21,072**	**23,453**	**25,210**	**26,990**	**9.3%**
Annual Dollar Growth		2,788	2,131	2,381	1,757	1,780	
Annual Percentage Growth		17.3%	11.3%	11.3%	7.5%	7.1%	
All Other Local Assistance	**17,448**	**21,577**	**20,905**	**21,904**	**21,921**	**21,597**	**0.0%**
Annual Dollar Growth		4,129	(672)	999	17	(324)	
Annual Percentage Growth		23.7%	-3.1%	4.8%	0.1%	-1.5%	
State Operations	**11,738**	**12,867**	**13,174**	**13,457**	**13,828**	**13,936**	**2.0%**
Annual Dollar Growth		1,129	307	283	371	108	
Annual Percentage Growth		9.6%	2.4%	2.1%	2.8%	0.8%	
General State Charges	**8,983**	**8,787**	**9,397**	**10,591**	**11,901**	**13,294**	**10.9%**
Annual Dollar Growth		(196)	610	1,194	1,310	1,393	
Annual Percentage Growth		-2.2%	6.9%	12.7%	12.4%	11.7%	
Transfers to Other Funds	**9,813**	**8,140**	**9,916**	**9,127**	**6,379**	**5,865**	**-7.9%**
Annual Dollar Growth		(1,673)	1,776	(789)	(2,748)	(514)	
Annual Percentage Growth		-17.0%	21.8%	-8.0%	-30.1%	-8.1%	

Source: Division of the Budget

DOB's projected growth in General Fund spending reflects continuing temporary funding for pandemic recovery and the health care and direct care workforce in SFY 2022-23, as well as significant growth in spending over the Financial Plan period for programs including School Aid, Medicaid, child care services, and to a lesser extent State Operations costs.

Non-Recurring Spending

DOB identifies non-recurring pandemic-related General Fund spending totaling at least $2.2 billion for a variety of needs in SFY 2022-23, including:

- $800 million for additional funding for the Emergency Rental Assistance Program (ERAP), administered by the Office of Temporary and Disability Assistance and intended to provide economic relief to low- and moderate-income tenants and help landlords obtain rents due;
- $800 million for safety-net hospitals in severe financial distress, as well as nursing homes and other health care providers. While the Enacted Budget does not define "severe financial distress," unrelated provisions of State Public Health Law have required facilities in severe financial distress to certify that they have less than 15 days of cash and equivalents, to demonstrate that they have no assets that can be monetized other than those vital to operations, and to show that they have exhausted all efforts to obtain resources from corporate parents and affiliated entities to sustain operations;
- $250 million to reduce gas and electric utilities obligations for residential customers with arrears accumulating from March 7, 2020 through March 1, 2022. Amounts must be disbursed to utilities and municipalities, on behalf of residential customers, based on their shares of statewide utility arrears. Up to 10 percent of remaining amounts must be used to incentivize enrollment in arrears management plans or deferred payment agreements;
- $125 million for small landlord assistance. Such landlords must have used best efforts to contact and assist tenants in applying for emergency rental assistance, without success; and
- $247 million for other purposes.[1]

In addition, the Enacted Budget includes $1.3 billion for front-line health care and mental hygiene worker bonuses that are expected to be non-recurring after SFY 2022-23. Workers earning annual salaries of $125,000 or less are eligible for a bonus payment of up to $3,000. The estimated State cost includes over $1.1 billion for non-State employees and $121 million for State employees.

Recurring Spending

Most of the General Fund spending growth in the Financial Plan period is driven by School Aid and Medicaid local assistance, and to a lesser extent, and General State Charges.

DOB projects that School Aid will grow from $25.8 billion in SFY 2022-23 to $34.1 billion by SFY 2026-27, representing average annual growth of 7.2 percent. This growth reflects the State's commitment to fully fund the Foundation Aid formula over three years, starting in SFY 2021-22. In addition, spending for pre-kindergarten is projected to increase by $125 million annually to support full-day programming. A portion of this spending is in the form of competitive grants. DOB also expects modest growth in formula-based reimbursement programs.

DOB projects Medicaid will grow from $18.9 billion in SFY 2022-23 to $27.0 billion in SFY 2026-27, representing average annual growth of 9.3 percent. (For growth rates on a State Operating Funds and All Funds basis, refer to Appendix A and B, respectively.) This growth results from factors including: higher service utilization and costs; rising costs of assuming local Medicaid growth (current year costs of $1.6 billion are anticipated to increase to $2.4 billion in SFY 2026-27); reimbursement of providers to cover minimum wage increases; the expected expiration of $2.1 billion in current year enhanced federal funding; increased costs and enrollment growth in managed long-term care; and payments to financially distressed hospitals.[2]

General Fund Medicaid spending growth will also be driven by an increase in wages for home care workers, which DOB expects will total $363 million in SFY 2022-23, increasing to more than $1.4 billion by SFY 2026-27. The minimum wage for home care aides will increase by $2 per hour starting October 1, 2022 and by an additional $1 per hour on October 1, 2023. In addition, significant funding intended to help the health care industry recover from the pandemic, hire workers and promote long-term financial sustainability includes a 1 percent increase in provider reimbursement rates ($318 million), restoration of the 1.5 percent across-the-board rate reduction implemented in SFY 2020-21 ($140 million), and funding to help nursing homes meet minimum staffing requirements ($61.5 million).

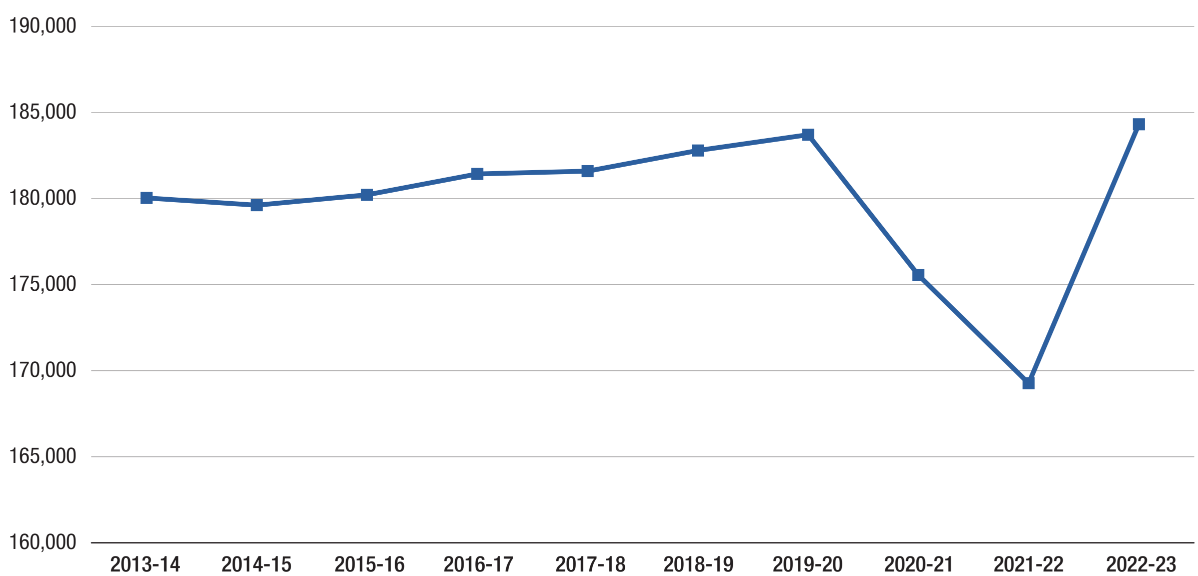
The Financial Plan projects child care spending to grow from $334 million in SFY 2022-23 to $1.2 billion in SFY 2026-27, representing a significant increase in the commitment of General Fund resources to this purpose. This growth results largely from expanding eligibility for child care subsidies to families with income levels up to 300 percent of the federal poverty level — up from the prior standard of 200 percent — as well as funding to increase State subsidies from 69 to 80 percent of the child care provider market rate. In addition to these subsidies, the Enacted Budget also included actions intended to stabilize providers and enhance child care capacity in New York City.[3]

DOB estimates that State Operations (both personal service [PS] and non-personal service [NPS] costs) and General State Charges (GSCs) combined will grow from $21.7 billion in SFY 2022-23 to $27.2 billion in SFY 2026-27, representing an average annual increase of 5.9 percent. Most of this increase is made up of a 10.9 percent rise per year in GSCs during this period, from $8.8 billion to $13.3 billion.

According to DOB, increases to GSCs are mostly in the health insurance program, due to application of medical inflation to health care costs and greater anticipated use of health care for addressing procedures that had been delayed during the pandemic. Pension costs are also projected to rise due to anticipated increases in employer contributions, as well as permanent and temporary actions affecting the New York State & Local Retirement System.

While average annual PS spending growth is minor (0.6 percent), NPS expenses are projected to grow 7 percent annually on average, reflecting increasing energy and commodity prices, and investment in information technology (IT) security. On an All Funds basis, the workforce of 169,272 full-time equivalent (FTE) employees at March 31, 2022 is projected by DOB to increase to over 184,000 (FTEs), approximately the pre-pandemic level, due to the suspension of the hiring freeze along with new funding to hire additional full-time faculty in the university systems, as well as staffing critical IT services and mental hygiene purposes.

FIGURE 2
State Full-Time Equivalent Employees, SFY 2013-14 through SFY 2022-23



Note: All Funds State workforce actual totals as of March 31. The SFY 2022-23 figure is estimated by DOB. These figures do not include workforce in the Judiciary or Legislature and do not match quarterly Office of the New York State Comptroller reports with adjusted FTE figures due to timing and definitional differences.

Source: Division of the Budget

Economic and Revenue Forecast

DOB's economic forecast shows continued, but slowing, national economic growth through 2023. Real Gross Domestic Product (GDP) is projected to grow by 3.0 percent in 2022 and 2.4 percent in 2023, while employment is projected to grow by 3.9 percent in 2022 and 1.7 percent in 2023. The forecast was revised from the Consensus Economic and Revenue Forecast Report (Consensus) on March 1 to reflect lower GDP growth, higher inflation, and slightly lower employment growth in 2023; however, DOB's economic forecast for the nation remains more optimistic than the Blue Chip Consensus, as well as individual economic forecasters that comprise the Blue Chip, as shown in Figure 3.

FIGURE 3
Forecasts of Select Economic Indicators, United States

U.S. Economic Indicators								
	Real GDP Growth		Consumer Price Index Growth		Employment Growth		Unemployment Rate	
	2022	2023	2022	2023	2022	2023	2022	2023
Consensus	3.8%	2.8%	5.0%	2.3%	3.8%	1.8%	N/A	N/A
DOB Enacted	3.0%	2.4%	7.1%	3.2%	3.9%	1.7%	3.6%	3.5%
Blue Chip	2.6%	2.1%	7.1%	3.2%	N/A	N/A	3.6%	3.6%
S&P Global	2.4%	2.4%	6.8%	2.8%	3.9%	0.9%	3.6%	4.0%

Sources: Division of the Budget; FY 2023 Consensus Economic and Revenue Forecast Report; May 22 Blue Chip Economic Indicators; S&P Global May 2022 National Forecast

Figure 4 shows that DOB also forecasts weaker growth for the New York economy in the current fiscal year as compared to the Consensus.[4] In SFY 2022-23, employment growth is projected to slow to 3.8 percent and wage growth to decline to 3.3 percent, while personal income is expected to grow by 1.2 percent.

FIGURE 4
Comparison of Select Economic Indicators, New York

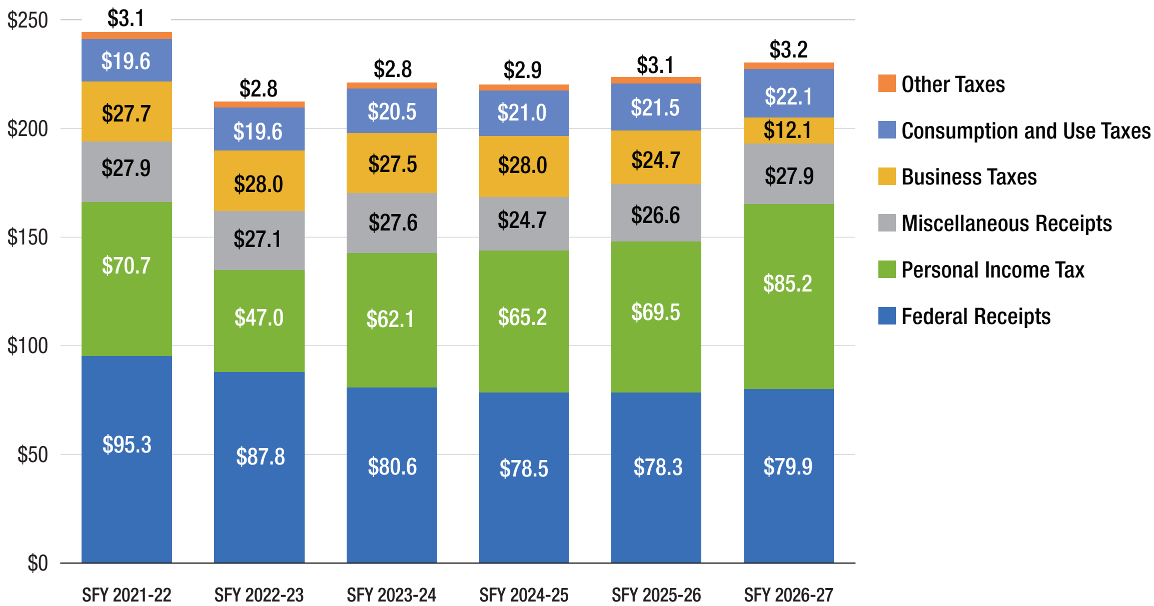
New York Economic Indicators						
	Personal Income Growth		Wage Growth		Employment Growth	
	SFY 21-22	SFY 22-23	SFY 21-22	SFY 22-23	SFY 21-22	SFY 22-23
Consensus	1.5%	1.5%	11.9%	3.7%	6.7%	4.2%
DOB Enacted	1.1%	1.2%	11.7%	3.3%	7.2%	3.8%
Blue Chip	2.6%	2.1%	7.1%	3.2%	N/A	N/A
S&P Global	2.4%	2.4%	6.8%	2.8%	3.9%	0.9%

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

Based on these economic forecasts, DOB is projecting All Funds receipts to total $212.3 billion in SFY 2022-23, a decline of $32.1 billion or 13.1 percent from actual collections in SFY 2021-22. The decline is primarily in personal income tax (PIT) collections, mostly attributable to credits related to the new Pass Through Entity Tax (PTET) enacted in 2021, which are expected to cease in SFY 2026-27. (PTET complicates the interpretation of PIT collection trends, and is explained in greater detail in the subsequent section.) In addition, DOB expects that federal aid receipts will decline in SFY 2022-23 and in subsequent years, as extraordinary federal aid provided for pandemic assistance will wane. Figure 5 shows collections over the life of the Financial Plan by revenue source.

Despite DOB's weaker economic forecast, SFY 2022-23 revenues are estimated by DOB to be $623 million higher than those projected in the Executive Budget (published in February). This is primarily due to federal receipts that are anticipated by DOB to be $3.3 billion higher, largely resulting from the timing of certain federal reimbursements that were expected to occur in SFY 2021-22 but are now expected in SFY 2022-23, partially offset by lower projected tax revenues and miscellaneous receipts.

FIGURE 5
All Funds Revenues by Source, SFY 2021-22 to SFY 2026-27



Source: Division of the Budget

Personal Income Tax

Compared to DOB's projections in the 30-Day Amended Executive Budget Financial Plan issued in February, PIT receipts in SFY 2022-23 are now expected to be $2.1 billion lower, mostly due to slower projected growth in employment and income. The lower estimate also reflects a reduction of $475 million for one-time supplemental earned income and child tax credits in SFY 2022-23 that were added in the Enacted Budget.

As compared to the prior year, PIT receipts are projected by DOB to decline by $23.8 billion or 33.6 percent in SFY 2022-23. A portion of this decline is attributable to provisions in the Enacted Budget that are expected to reduce collections by nearly $3 billion, including the one-time homeowner tax rebate credit, one-time supplemental earned income and child tax credits, and the acceleration of the final phase-in of the middle-class rate reductions.[5]

Most of the reduction, however, is due to the PTET, which allows pass-through entities (such as S-corporations and partnerships) to opt-in to having the business income of the entity taxed in its entirety, thereby allowing taxes paid to be fully deductible as a business expense under the federal tax code. Members of the entities are authorized to claim a commensurate State PIT credit for their share of the PTET paid.

The PTET was enacted in 2021 as a response to the federal Tax Cuts and Jobs Act (TCJA) of 2017, which capped the federal itemized deduction for state and local taxes (SALT) at $10,000. Participating pass-through entities made payments in SFY 2021-22, but affected individual taxpayers are claiming the PIT credit with the filing of their annual tax returns in April 2022.[6] This is projected to result in a $13.9 billion reduction in the income tax settlements for tax year 2021.[7] In addition, quarterly estimated payments made throughout SFY 2022-23 are anticipated to be reduced for a portion of PTET payments made for the 2022 tax year (potentially including $2.4 billion in prepayments made in March 2022). In other words, in SFY 2022-23, participating taxpayers are likely to be claiming PIT credits for both tax years 2021 and 2022, which accounts for the apparent sharp decline in PIT collections. Excluding the impact of these tax credits, PIT collections in SFY 2022-23 would increase by 1.9 percent, reflecting continued but slower economic growth, partially offset by the tax provisions included in the Enacted Budget. Similarly, the large projected growth in PIT collections in SFY 2026-27 reflects the expiration of the SALT cap at the end of 2025 and the anticipated discontinuation of PTET use.

Consumption/Use Taxes

Collections of consumption and use taxes are projected by DOB to decline slightly, by $36 million or 0.2 percent in SFY 2022-23. DOB estimates the State will lose $585 million from the suspension of State sales and excise taxes on motor fuel from June 1, 2022 to December 31, 2022. Offsetting most of this loss are projected growth in sales tax revenues (1.3 percent) due to increased consumption and inflation, and initial receipts from license fees ($40 million) and excise taxes ($16 million) on adult use cannabis.

Business Taxes

In SFY 2022-23, business tax collections are projected by DOB to increase by $255 million or 0.9 percent, due to a significant increase in corporate franchise tax revenues (21.2 percent). The higher collections reflect projected growth in corporate profits, as well as a larger amount of audit receipts. Businesses subject to the corporate franchise tax are required to “prepay” their tax liability for the current tax year in March; however, the March prepayment is based on the business’s tax liability of two tax years prior. As a result, the March 2023 prepayment for the 2023 tax year will be based off tax year 2021 liability, reflecting not only the strong profit growth of that year, but the increased tax rates that went into effect, as well.

Offsetting a portion of the increased corporate franchise taxes is a reduction in PTET receipts, an estimated decrease of $1.4 billion. For the 2021 tax year, businesses that opted into the PTET were required to make estimated and final return payments for the entire tax year as well as prepayments for the 2022 tax year (if they continued to participate in the program). This resulted in an extra quarter of payments in SFY 2021-22 that will not be repeated in SFY 2022-23. Also, the number of businesses that opted into the PTET for the 2022 tax year decreased from 96,000 to 87,000, which will reduce collections from this tax.

Gaming Receipts

Miscellaneous receipts include gaming receipts from the lottery, video lottery terminals (VLTs), commercial and Native American casinos, and mobile sports betting.[8] Collections from gaming receipts are projected by DOB to decline in SFY 2022-23 by 9.9 percent, or $474 million. Most of this decrease is from $418 million in outstanding Tribal/State Compact payments from prior fiscal years received in SFY 2021-22 as a result of a settlement with the Seneca Nation. DOB expects collections in SFY 2022-23 to resume at their regular annual payment levels.

Collections from mobile sports betting are projected by DOB to decline slightly in the current fiscal year. However, most of the collections in SFY 2021-22 ($200 million) were the result of one-time license fees paid by the platform providers; the tax on mobile sports wagers resulted in receipts of $157 million. Collections in the first full year of the tax on mobile sports betting are projected to reach $357 million in SFY 2022-23.

The Enacted Budget also authorized three remaining casino licenses to be located in New York City and/or the counties of Nassau, Putnam, Rockland, Suffolk, or Westchester. However, the Financial Plan does not identify any revenues associated with the awarding of these licenses over the life of the Plan.

Reserves

Principal Reserves

DOB defines "principal reserves" as: (1) the statutory rainy day funds (i.e., the Tax Stabilization Reserve and the Rainy Day Reserve); and (2) a portion of General Fund balance informally designated for "economic uncertainties." As shown in Figure 6, the Enacted Budget Financial Plan forecasts significant growth in these reserves. By SFY 2024-25, they are projected to total $19.4 billion, an amount equal to 15 percent of projected spending from State Operating Funds in that year.

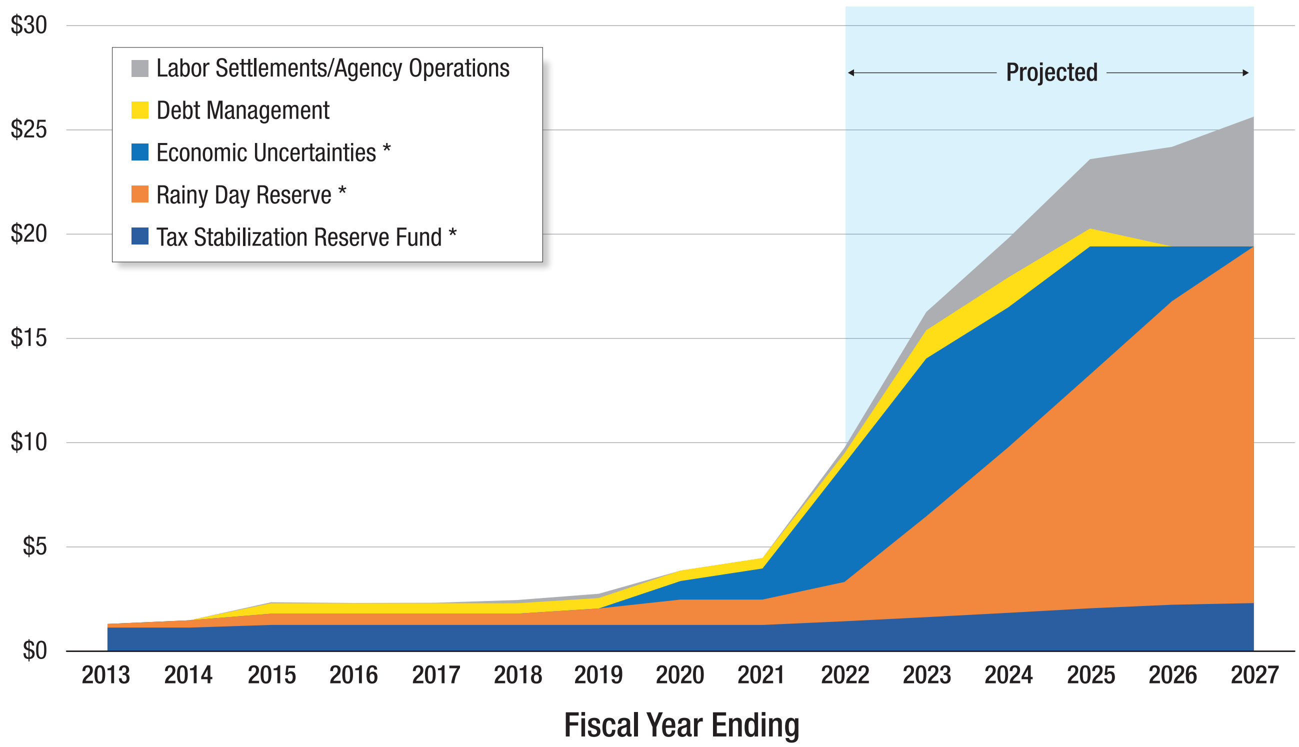
The Enacted Budget included provisions to increase the Rainy Day Reserve Fund's allowable balance to 15 percent (from 5 percent) and the maximum annual deposit to the reserve to 3 percent (from 0.75 percent), based on General Fund spending.[9] The Enacted Budget Financial Plan indicates annual deposits of more than $3 billion annually are planned for the statutory rainy day reserves, bringing the total to $13.3 billion by SFY 2024-25, or 12.1 percent of projected General Fund spending in that year.

In addition, $6.1 billion would be designated for "economic uncertainties." The greater reliance on statutory, rather than informal, reserves is a reversal from the Executive Budget proposal, which planned for only $6.1 billion in statutorily restricted reserve funds compared to $13.2 billion in informal reserves.

Other Reserves

The Financial Plan identifies resources in the General Fund that are targeted, though not statutorily or otherwise committed, for specific purposes; for example, funds have been set aside for debt management, labor costs and extraordinary monetary settlements.[10] The Enacted Budget Financial Plan forecasts that $6.25 billion will be set aside by the end of SFY 2026-27 for "labor costs" and "agency operations." While DOB has previously set aside funds to pay for labor costs (for example, retroactive costs associated with new labor contracts), very little information is provided for the $6.25 billion set-aside for labor contracts and agency operations to indicate how these funds might be used. Since the funds are set aside within the General Fund, they can be used for any appropriated purpose at any time, including offsetting lower-than-anticipated receipts or higher-than-anticipated spending. Figure 6 illustrates forecast balances of principal and certain other reserves.

FIGURE 6
Rainy Day Funds and Funds Set Aside for Certain Purposes in the General Fund
(in billions of dollars)



* Defined as "principal reserves" by the Division of the Budget.

Source: Division of the Budget

Risks and Causes for Concern

While DOB forecasts that the General Fund is balanced through SFY 2026-27, the Financial Plan identifies a number of risks that could negatively impact actual results, including climate change, the COVID-19 pandemic, and federal policy and funding changes. The Office of the State Comptroller identifies the following as notable concerns over the financial plan period and beyond.

Spending Risks

Spending may escalate beyond the current Financial Plan projections. For example, the Financial Plan assumes Medicaid enrollment will peak at nearly 7.7 million in SFY 2022-23 and return to near pre-pandemic levels of 6.1 million in SFY 2023-24. As detailed in the Office of the State Comptroller's report, "Medicaid: Enrollment Growth, COVID-19 and the Future," published in December 2021, if Medicaid enrollment declines at a slower rate than projected or fails to decline as much as projected, the State will incur significant additional costs.

There is also a risk that pandemic recovery initiatives such as the ERAP and health care bonus payments, currently expected to be non-recurring, will be continued. ERAP was initially funded by federal dollars in SFY 2020-21; State funds were added to supplement new federal funding in SFY 2021-22; and the program was extended in the current year using State-only funds to address continuing need. Health care bonus payments are currently planned only in SFY 2022-23, and included matching federal funds; as the pandemic continues to exert pressures on health care workers and facilities, there may be calls to reauthorize or continue the program.

Administration of some key relief programs has been challenging. For example, initial disbursement of resources for ERAP was slow, although funds were ultimately disbursed in SFY 2021-22.

The Office of the State Comptroller's COVID-19 Relief Program Tracker monitors disbursement of fiscal relief aid and pandemic recovery programs. Figure 7 shows that, through March 2022, funding for certain pandemic relief programs still had not been fully disbursed, including federal funding for child care, small business recovery, and homeowner assistance. The Enacted Budget Financial Plan anticipates disbursing most pandemic-related funds by April 2024.

FIGURE 7
Selected State and Federal Pandemic Relief Program Receipts and Spending
(in millions of dollars, through March 2022)

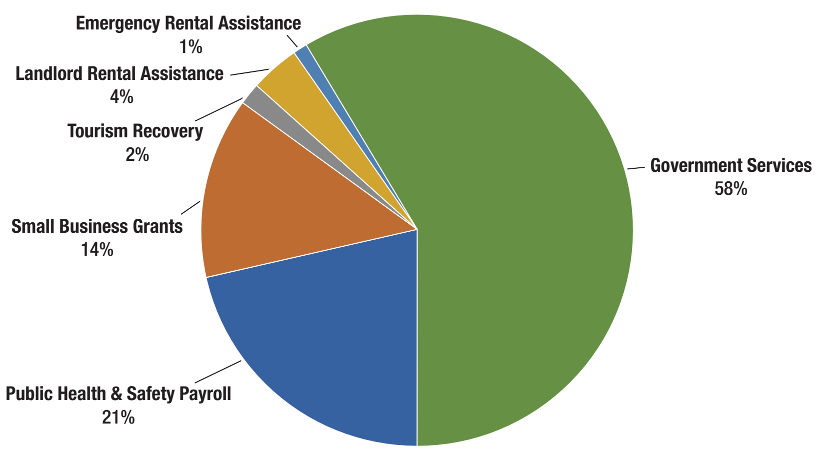
Program	Projected Receipts	Actual Receipts	Spending
ERAP	2,820	2,453	1,833
Child Care	2,500	1,040	1,045
Excluded Workers	2,100	2,100	2,047
Small Business Recovery	1,500	865	655
Homeowner Assistance	540	540	72

Source: Office of the State Comptroller COVID-19 Relief Program Tracker, available at https://www.osc.state.ny.us/reports/covid-relief-program-tracker

Revenue and Sustainability Risks

Over the longer term, the elevated level of General Fund spending may be difficult to sustain as temporary resources are depleted or expire. Notably, the American Rescue Plan included $12.7 billion for New York State that may be used for a wide range of purposes, including to cover loss of revenues due to the economic impacts of COVID-19. DOB intends to transfer this funding to the General Fund over four fiscal years: $4.5 billion in SFY 2021-22; $2.35 billion in the current year; $2.25 billion in SFY 2023-24; and $3.65 billion in SFY 2024-25. While spreading out the use of these funds over several years is prudent, DOB indicates that the majority of the SFY 2021-22 funding went to “government services.” (See Figure 8.) Without greater detail, it is difficult to assess to what extent the temporary funds are sustaining recurring spending; nevertheless, this funding is a significant factor in the projected General Fund balance throughout the Financial Plan period.

FIGURE 8
Spending Breakdown of American Rescue Plan State Fiscal Recovery Funds SFY 2021-22 – $4.5 billion

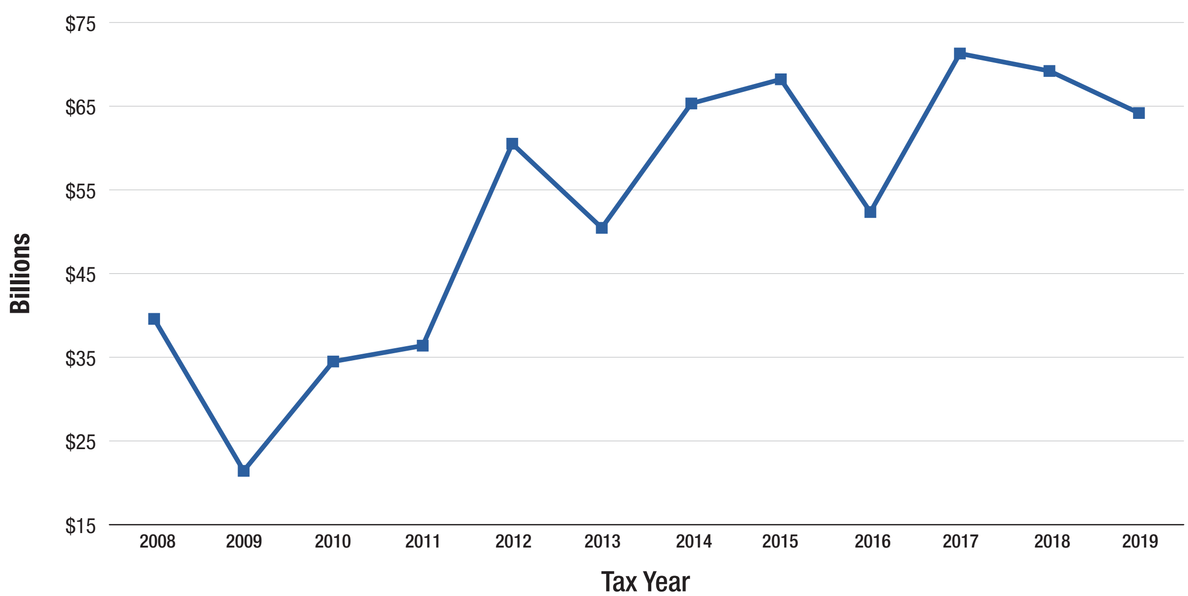


Source: Division of the Budget

In addition, the Financial Plan's reliance on certain SFY 2021-22 Enacted Budget actions, including temporary PIT and corporate franchise tax rate increases, entails a degree of risk. In 2019, taxpayers with incomes of at least $1 million represented 1.2% of total NY PIT taxpayers and provided 38.2% of PIT liability. The temporary PIT rate increase results in PIT revenues being more highly dependent on high-income taxpayers; these taxpayers typically have income from more volatile sources, such as capital gains. Figure 9 shows how the income from the net capital gains reported by high-income taxpayers has fluctuated annually since 2008. Some of the fluctuation can be attributed to financial market performance. For example, in 2009, when the S&P 500 declined by 22.5 percent, capital gains reported by high-income taxpayers fell by 45.9 percent.

These taxpayers also have flexibility regarding when they choose to realize some of this income. In 2012, capital gains realizations spiked (increasing 66 percent) as taxpayers sought to avoid the rate increases associated with the expiration of lower federal tax rates on January 1, 2013, resulting in a roughly $10 billion decline in capital gains the following year.

FIGURE 9
Net Capital Gains Reported by New York Residents with Incomes Over $1 Million, Tax Years 2008–2019



Source: NYS Department of Taxation and Finance

PIT revenues are also dependent upon taxpayers, particularly high-income taxpayers, continuing to be residents of New York. As shown in Office of the State Comptroller's report on taxpayer migration trends, a larger number of taxpayers moved out of New York than moved in annually from 2015 to 2019. While this occurred at every income level, the number of taxpayers with incomes over $1 million that left the State were nearly double those that moved in.

Figure 10 shows the annual impact of temporary and non-recurring sources, including federal COVID relief and State tax surcharges, as well as the share of General Fund spending these sources represent. The corporate franchise tax increase is scheduled to end December 31, 2023. With a current sunset date of December 31, 2027, the surcharge on high income PIT taxpayers is the longest lasting non-recurring resource; it is also the most significant. By the end of the plan period, when the rate increase is slated to expire, nearly $4.0 billion in annual resources would become unavailable. Over the life of the plan, the temporary tax rate increases and the largely unrestricted federal aid are expected to total $27.6 billion or more than 5 percent of General Fund spending over the Financial Plan period.

FIGURE 10
Non-Recurring Resources Supporting General Fund Spending
(in millions of dollars)

	State Fiscal Year					
	2022-23	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**Total**
American Rescue Plan	2,350	2,250	3,645	-	-	8,245
PIT Surcharge	3,253	3,426	3,433	3,573	3,827	17,512
Corporate Surcharge	1,073	796	-	-	-	1,869
Total	**6,676**	**6,472**	**7,078**	**3,573**	**3,827**	**27,626**
General Fund (GF) Spending	96,103	103,986	109,884	111,940	115,805	537,718
Percentage of GF Spending	6.9%	6.2%	6.4%	3.2%	3.3%	5.1%

Sources: NYS Division of the Budget; OSC analysis

Risks to Planned Reserve Fund Increases

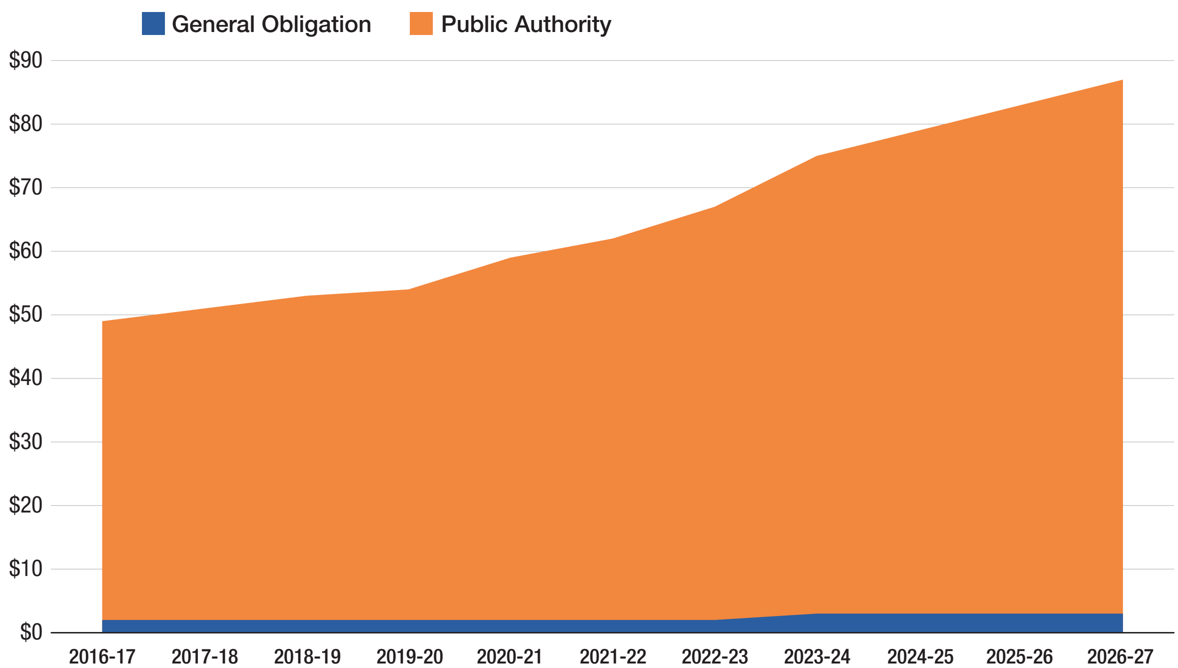
Spending pressures and other risks that exist over the Financial Plan period may make it difficult to fully implement the proposed increase in State reserve funds to the level indicated in the Financial Plan, particularly since deposits to rainy day reserves tend to be made at the end of the fiscal year, rather than during the course of the fiscal year.

Capital and Debt Service

"Backdoor" borrowing by public authorities contractually obligates the State to pay debt service, subject to appropriation, for bonds issued for State purposes, and circumvents the constitutional requirement for voter approval of State debt. The Enacted Budget includes nearly $22 billion in new backdoor borrowing debt authorizations. As this and other debt is issued over the next five years, it will add considerable new costs in the future. DOB estimates that the State's base costs for debt service (adjusted for prepayment actions) will increase by over 27.5 percent by SFY 2026-27, or an average annual increase of 6.3 percent.[11]

Total State-Supported debt outstanding is projected by DOB to grow from $61.9 billion in SFY 2021-22 to $87.7 billion in SFY 2026-27, a considerable increase of $25.8 billion or nearly 42 percent. (See Figure 11.)

FIGURE 11
State-Supported Debt Outstanding (in millions of dollars)



Source: Division of the Budget

The vast majority of the expected increase in the State's debt burden has been enabled by the practice of excluding new debt issuances from the Debt Reform Act during the two preceding years, which resulted in nearly $18 billion in new debt being excluded from the State-Supported debt limit. In SFY 2022-23 alone, 29 percent of the $67.6 billion total State-Supported debt outstanding is excluded, demonstrating how the debt limit has been rendered functionally meaningless.

Concerningly, the Enacted Budget continues the practice of circumventing the State's statutory debt caps by excluding the $2.35 billion federal transportation loan for the Gateway Program for the Hudson tunnel project for passenger rail. Since the Debt Reform Act only counts "bonds or notes" and the Gateway debt is to be structured as a "loan," this statutory authorization utilizes a loophole to incur debt outside of the State's debt cap.[12] The Enacted Budget Capital Plan reduces transparency and accountability even further by inappropriately suggesting that the State's obligations under the Gateway loan should instead be counted in a newly-modified definition of "State-related debt" that would be wholly inconsistent with current and past practices. Further, the Plan does not count any of this expected $2.35 billion in its projections of either measure of debt outstanding.

In addition, the Enacted Budget again includes authorizations for up to $5 billion in short-term cash flow borrowings during SFY 2022-23, through $3 billion in PIT Notes and $2 billion in lines of credit. Given the State's currently strong fiscal position, the authorizations for these more costly forms of borrowing otherwise serve only to circumvent the State's Local Government Assistance Corporation reforms, which require the declaration of emergency or extraordinary factors needed before issuing lower-cost State Tax and Revenue Anticipation Notes (TRANs).

Recommendations

The SFY 2022-23 Enacted Budget Financial Plan represents a multi-year plan to emerge from the COVID-19 pandemic while providing funding for critical sectors of the State's future, including education, health care, housing and human services. Against a backdrop of uncertainty, this plan will be challenging to execute, and will require careful and continuous attention. The Office of the State Comptroller offers the following recommendations to assist policy makers going forward and maximize the likelihood of success.

Implement Reserve Funds Plan – On or Ahead of Schedule

The Financial Plan proposes to increase "principal reserves" from $9 billion at the end of SFY 2021-22 to $19.4 billion in SFY 2024-25, which would result in reserve funds equal to 15 percent of State Operating Funds spending. Achieving this level of reserves would have a significant stabilizing effect on the State's long-term finances, and would reduce the likelihood of the State needing to take destabilizing actions to manage unexpected budget shortfalls. Every effort should be made to implement the reserve fund plan on schedule, or, to the extent that tax collections exceed forecast levels, ahead of schedule. The Office of the State Comptroller has previously advocated monthly deposits to build rainy day fund reserve levels gradually and consistently.

Effectively Implement Recovery Programs

DOB estimates that $40.1 billion of federal funding will be disbursed between SFY 2021-22 and SFY 2026-27 for pandemic-related assistance programs, including $15.1 billion in the current fiscal year. Given the importance of these funds to the economic and fiscal recovery of the State, a greater level of public disclosure regarding the intended uses of funds is needed to allow policy makers and the public to monitor the allocation of these resources. In particular, it is essential to ensure that funds are provided in an equitable fashion to the most impacted communities and that they are deployed as quickly as possible. The Office of the State Comptroller will continue to update and expand the COVID-19 Relief Program Tracker to support this effort.

Monitor Risks to Economic Growth

The current environment includes a number of risks that should be carefully monitored, including continuing supply chain disruptions, high levels of inflation, and uncertainty due to the conflict in Ukraine. These factors have further complicated the economic recovery in New York State, which has lagged the nation in job recovery—only 79 percent of jobs lost during the pandemic have been recovered here as compared to 96 percent nationally. New York employers also face increased costs in the years ahead as their tax bills will rise to repay debt of the Unemployment Insurance Trust Fund, which may be particularly challenging to small businesses.

Reform Capital and Debt Practices

With the State's financial condition stabilized, policy makers should seek to restore prudent debt policies, and enhance transparency and accountability. Policymakers should also further enhance the Enacted Budget's "pay-as-you-go" funding, to reduce future debt issuances and long-term debt service costs, as well as seek to limit the uses of debt to capital projects related to State assets. New York State should also work to better prioritize investments on critical asset maintenance and development.

Appendix A

Actual and Projected State Operating Fund Receipts and Disbursements SFY 2021-22 through SFY 2026-27 (in millions of dollars)

	SFY 2021-22 Actual	SFY 2022-23 Projected	SFY 2023-24 Projected	SFY 2024-25 Projected	SFY 2025-26 Projected	SFY 2026-27 Projected	Average Annual Growth SFYs 23-27
Total Receipts	**147,172**	**116,037**	**129,585**	**134,667**	**133,401**	**138,224**	**4.5%**
Annual Dollar Growth		(31,135)	13,548	5,082	(1,266)	4,823	
Annual Percentage Growth		-21.2%	11.7%	3.9%	-0.9%	3.6%	
Total Disbursements	**117,404**	**122,741**	**123,686**	**129,078**	**135,808**	**141,187**	**3.6%**
Annual Dollar Growth		5,337	945	5,392	6,730	5,379	
Annual Percentage Growth		4.5%	0.8%	4.4%	5.2%	4.0%	
Disbursements by Major Program Area							
School Aid Local Assistance (SFY)	**28,186**	**30,296**	**33,534**	**35,404**	**36,794**	**38,292**	**6.0%**
Annual Dollar Growth		2,110	3,238	1,870	1,390	1,498	
Annual Percentage Growth		7.5%	10.7%	5.6%	3.9%	4.1%	
Medicaid Local Assistance	**21,972**	**25,200**	**26,930**	**29,308**	**30,927**	**32,981**	**7.0%**
Annual Dollar Growth		3,228	1,730	2,378	1,619	2,054	
Annual Percentage Growth		14.7%	6.9%	8.8%	5.5%	6.6%	
All Other Local Assistance	**24,840**	**29,162**	**27,048**	**27,095**	**27,866**	**28,053**	**-1.0%**
Annual Dollar Growth		4,322	(2,114)	47	771	187	
Annual Percentage Growth		17.4%	-7.2%	0.2%	2.8%	0.7%	
State Operations	**19,836**	**20,521**	**20,689**	**21,012**	**21,467**	**21,665**	**1.4%**
Annual Dollar Growth		685	168	323	455	198	
Annual Percentage Growth		3.5%	0.8%	1.6%	2.2%	0.9%	
General State Charges	**10,025**	**9,950**	**10,581**	**11,789**	**13,116**	**14,529**	**9.9%**
Annual Dollar Growth		(75)	631	1,208	1,327	1,413	
Annual Percentage Growth		-0.7%	6.3%	11.4%	11.3%	10.8%	
Debt Service	**12,545**	**7,612**	**4,904**	**4,470**	**5,638**	**5,667**	**-7.1%**
Annual Dollar Growth		(4,933)	(2,708)	(434)	1,168	29	
Annual Percentage Growth		-39.3%	-35.6%	-8.8%	26.1%	0.5%	

Source: Division of the Budget

Appendix B

Actual and Projected All Funds Receipts and Disbursements
SFY 2021-22 through SFY 2026-27 (in millions of dollars)

	SFY 2021-22 Actual	SFY 2022-23 Projected	SFY 2023-24 Projected	SFY 2024-25 Projected	SFY 2025-26 Projected	SFY 2026-27 Projected	Average Annual Growth SFYs 23-27
Total Receipts	**112,810**	**212,261**	**221,032**	**220,372**	**223,574**	**230,390**	**2.1%**
Annual Dollar Growth		(32,114)	8,771	(660)	3,202	6,816	
Annual Percentage Growth		-13.1%	4.1%	-0.3%	1.5%	3.0%	
Total Disbursements	**209,339**	**222,189**	**219,771**	**220,407**	**225,278**	**231,996**	**1.1%**
Annual Dollar Growth		12,850	(2,418)	636	4,871	6,718	
Annual Percentage Growth		6.1%	-1.1%	0.3%	2.2%	3.0%	
Disbursements by Major Program Area							
School Aid Local Assistance (SFY)	**33,764**	**38,777**	**41,554**	**40,942**	**39,720**	**41,134**	**1.5%**
Annual Dollar Growth		5,013	2,777	(612)	(1,222)	1,414	
Annual Percentage Growth		14.8%	7.2%	-1.5%	-3.0%	3.6%	
Medicaid Local Assistance	**69,749**	**76,492**	**73,563**	**76,962**	**81,276**	**84,306**	**2.5%**
Annual Dollar Growth		6,743	(2,929)	3,399	4,314	3,030	
Annual Percentage Growth		9.7%	-3.8%	4.6%	5.6%	3.7%	
All Other Local Assistance	**50,425**	**53,198**	**52,227**	**49,872**	**49,943**	**50,944**	**-1.1%**
Annual Dollar Growth		2,774	(971)	(2,355)	71	1,001	
Annual Percentage Growth		5.5%	-1.8%	-4.5%	0.1%	2.0%	
State Operations	**24,374**	**23,942**	**23,351**	**23,482**	**23,753**	**23,963**	**0.0%**
Annual Dollar Growth		(432)	(591)	131	271	210	
Annual Percentage Growth		-1.8%	-2.5%	0.6%	1.2%	0.9%	
General State Charges	**11,060**	**10,336**	**10,967**	**12,176**	**13,504**	**14,918**	**9.6%**
Annual Dollar Growth		(724)	631	1,209	1,328	1,414	
Annual Percentage Growth		-6.5%	6.1%	11.0%	10.9%	10.5%	
Debt Service	**12,587**	**7,612**	**4,904**	**4,470**	**5,638**	**5,667**	**-7.1%**
Annual Dollar Growth		(4,975)	(2,708)	(434)	1,168	29	
Annual Percentage Growth		-39.5%	-35.6%	-8.8%	26.1%	0.5%	
Capital	**7,380**	**11,832**	**13,205**	**12,503**	**11,444**	**11,064**	**-1.7%**
Annual Dollar Growth		4,452	1,373	(702)	(1,059)	(380)	
Annual Percentage Growth		60.3%	11.6%	-5.3%	-8.5%	-3.3%	

Source: Division of the Budget

Endnotes

1 $25 million of spending for "all other" purposes continues in SFY 2023-24.

2 As of this writing, the enhanced Federal Medical Assistance Percentage (eFMAP) will expire after September 30, 2022.

3 The Enacted Budget also provides $343 million in federal funding for a second round of stabilization grants, at least 75 percent of which must be used for workforce initiatives. In 2021, the State awarded $900 million in stabilization grants to nearly 15,000 child care providers to help them cover unexpected business costs associated with the pandemic, and to help stabilize their operations so they may continue to provide care. At the request of the City of New York, the State also authorized a property tax abatement for property owners who construct or convert a space for child care in the City, and a business income tax credit for employers who provide new child care seats to their employees. Together, these actions are expected to cost the City $50 million annually starting in FY 2024.

4 Blue Chip Indicators only report at the national level. S&P Global only forecasts New York economic variables on a calendar year basis.

5 The homeowner tax rebate credit is a one-time PIT credit for property taxes paid by homeowners with incomes below $250,000, inclusive of New York City homeowners, for the 2022 tax year ($2.2 billion). Taxpayers who qualified for the Empire State Child Tax Credit and the Earned Income Tax Credit (EITC) in the 2021 tax year will be provided supplemental tax credits, calculated as a percentage of the State credit ($475 million). Middle Class tax rate reductions which were due to go into effect in tax year 2025 are accelerated into tax year 2023 for married filers with taxable income between $27,900 and $323,200, single filers with taxable income between $13,900 and $215,400, and head of household filers with taxable income between $20,900 and $269,300 ($162 million).

6 Statutorily, taxpayers who are members of entities who opted-in and paid the PTET for tax year 2021 were not allowed to reduce their January estimated payments by the amount of the associated PIT credit.

7 Settlements include payments made with final returns, estimated payments with requests for filing extensions, and refunds.

8 Gaming receipts from the Native American casinos consist of payments made through the Tribal-State Compact Program.

9 The Executive Budget proposed increases to both the maximum allowable balance and annual deposit to the Rainy Day Reserve based on State Operating Funds rather than the General Fund.

10 Most recently, DOB established a set-aside within the General Fund for the PTET due to the timing of the payout of related PIT credits.

11 DOB made $7.6 billion in debt service prepayments at the end of SFY 2021-22 and $1.1 billion in previous years that will provide savings over the life of the plan. Another $2 billion prepayment is planned for SFY 2022-23. As a consequence, savings are expected to total $2.2 billion, $3.1 billion, $2.4 billion and $2.9 billion annually from SFY 2023-24 through SFY 2026-27.

12 This loan would otherwise meet all of the criteria of being State-Supported debt by: a) incurring debt (albeit in the form of a loan, rather than "bonds or notes"); b) contractually obligating the State to repay such debt through a service contract mechanism, subject to legislative appropriation; and c) being issued for a State capital purpose.

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