
**Report on Estimated
Receipts and Disbursements
State Fiscal Years 2017-18 through 2019-20**



OFFICE OF THE NEW YORK STATE COMPTROLLER
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I. Overview

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2017-18 through SFY 2019-20, issued pursuant to Section 23 of the State Finance Law, is intended to enhance analysis and discussion of the State's economic condition and the State Budget.

The Office of the State Comptroller estimates that the State's tax revenues will grow by 2.0 percent in SFY 2017-18. Tax receipts are projected to grow by 3.4 percent in SFY 2018-19, and by 3.2 percent in SFY 2019-20.

The Office of the State Comptroller's projections for All Funds tax receipts are \$2.1 billion lower than estimates from the Division of the Budget (DOB) for SFY 2017-18, \$2.8 billion lower in SFY 2018-19 and \$3.5 billion lower in SFY 2019-20, based on DOB's projections from the First Quarterly Update to the SFY 2017-18 Enacted Budget Financial Plan (First Quarterly Update) issued in August 2017.

The Office of the State Comptroller's estimates for All Funds disbursements are \$4 million lower than estimates from DOB for SFY 2017-18, \$2 million higher in SFY 2018-19 and \$3 million higher in SFY 2019-20, based on DOB's most current projections from the First Quarterly Update.

Projections of revenues and disbursements are inherently subject to certain risks and uncertainties. Currently, analysis and projections of personal income tax (PIT) receipts are further complicated by questions related to taxpayer behavior in light of possible federal tax changes. Certain indications suggest State PIT receipts have been depressed this year by this factor. However, the extent of any such impact in the current and future years is difficult to estimate. Given such uncertainty, revenue projections in this report do not reflect adjustments for potential impacts from taxpayer behavior. If the realization of income relating to taxpayer behavior results in increased State receipts in any of the years for which projections are provided in this report, total tax receipts could be higher, and variances to DOB's August 2017 forecast lower, than currently projected by OSC. Further discussion of this topic appears within the sections on Receipts and on Risks.

Background: “Quick Start” Financial Information Review Process

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

The receipts forecast must include, but is not limited to, estimates of tax collections on an All Funds basis, lottery receipts and General Fund miscellaneous receipts. The disbursements forecast is required to include, but is not limited to, estimates for spending on Medicaid, public assistance and elementary and secondary education (school aid). The underlying factors and data upon which the disbursement estimates are based must be included as well. For purposes of providing estimates and projections on an All Funds basis, this Office’s figures reflect DOB’s projections for federal receipts and disbursements (except with respect to disbursements for public assistance).

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

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

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

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

The following tables summarize the Office of the State Comptroller’s estimates compared to DOB’s estimates for receipts and disbursements as contained in the First Quarterly Update. This Office’s estimates for All Funds receipts and disbursements reflect a variety of factors, including current law that provides for caps on growth in Medicaid and school aid spending, as well as the scheduled expiration of the temporary higher Personal Income Tax (PIT) rate on upper-income earners. Estimates for State Operating Funds are also provided because the statutory cap on Medicaid disbursements applies to disbursements from this fund category.

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

Figure 1

Actual and Estimated Receipts and Disbursements, All Funds
SFY 2016-17 through SFY 2019-20
(in millions of dollars)

	<u>2016-17</u>	<u>2017-18</u>	<u>Growth</u>	<u>2018-19</u>	<u>Growth</u>	<u>2019-20</u>	<u>Growth</u>
Receipts							
Office of the State Comptroller	156,372	160,014	2.3%	163,801	2.4%	166,625	1.7%
Division of the Budget	<u>156,372</u>	<u>161,865</u>	<u>3.5%</u>	<u>166,629</u>	<u>2.9%</u>	<u>170,174</u>	<u>2.1%</u>
Difference	-	(1,851)		(2,828)		(3,549)	
Disbursements							
Office of the State Comptroller	157,014	164,031	4.5%	172,423	5.1%	177,199	2.8%
Division of the Budget	<u>157,014</u>	<u>164,035</u>	<u>4.5%</u>	<u>172,421</u>	<u>5.1%</u>	<u>177,196</u>	<u>2.8%</u>
Difference	-	(4)		2		3	

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Figure 2

Actual and Estimated Receipts and Disbursements, State Operating Funds
SFY 2016-17 through SFY 2019-20
(in millions of dollars)

	<u>2016-17</u>	<u>2017-18</u>	<u>Growth</u>	<u>2018-19</u>	<u>Growth</u>	<u>2019-20</u>	<u>Growth</u>
Receipts							
Office of the State Comptroller	94,819	94,533	-0.3%	96,063	1.6%	98,478	2.5%
Division of the Budget	<u>94,819</u>	<u>96,380</u>	<u>1.6%</u>	<u>98,867</u>	<u>2.6%</u>	<u>102,025</u>	<u>3.2%</u>
Difference	-	(1,848)		(2,804)		(3,547)	
Disbursements							
Office of the State Comptroller	96,199	98,171	2.0%	103,376	5.3%	108,108	4.6%
Division of the Budget	<u>96,199</u>	<u>98,168</u>	<u>2.0%</u>	<u>103,373</u>	<u>5.3%</u>	<u>108,102</u>	<u>4.6%</u>
Difference	-	3		3		6	

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

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

II. Economic Overview

National Economy

In the first quarter of 2017, the nation's real Gross Domestic Product (GDP) increased by 1.2 percent, double the amount of growth in the first quarter of 2016. In the second quarter, the economy strengthened, with real GDP increasing by 3.1 percent. However, the impact of multiple hurricanes in different areas of the country and its territories is estimated to result in slightly slower economic activity in the third quarter. As rebuilding occurs, growth is projected to accelerate in the fourth quarter. Overall, the national economy is estimated to expand by 2.2 percent in 2017, faster than the 1.5 percent in 2016.²

Consumption expenditures, the largest contributor to the economy, have continued to grow in the first half of the year, after increasing by 2.7 percent in 2016. Growth in the other sectors of the economy, especially nonresidential fixed investment, also contributed to an accelerated year-over-year expansion in the overall economy. Over the second half of 2017, consumption is projected to decelerate from the second quarter, with growth of 1.9 percent and 3.0 percent in the third and fourth quarters, respectively.

Growth in exports outpaced that of imports in the first six months of 2017. The faster increase in exports partly reflected a depreciation in the dollar during the period, which made domestic goods less expensive overseas. This trend is projected to continue over the rest of the year, with only a slight acceleration in imports as the dollar is projected to appreciate modestly by the end of the year.

Through September, employment had increased by over 1.3 million jobs nationally, representing growth of 0.9 percent on a seasonally adjusted basis from December. Employment is estimated to increase 1.5 percent for the full year, slightly below the 1.7 percent growth in 2016.

Such a softening in employment growth does not necessarily mean that the economy is slowing, but could be an indication that the labor market is approaching the full employment stage, where cyclical unemployment has been minimized. This is represented by the continued decline in the unemployment rate to 4.4 percent in 2017, down from 4.9 percent in 2016.

While a tightening labor market appears to be reflected in the deceleration of employment growth, wages have continued to increase. Annually, wages are projected to increase by 3.4 percent in 2017, an acceleration from 2.9 percent in 2016.

² For purposes of this report, projections of economic variables are primarily drawn from the IHS Markit Macroeconomic Forecast, October 2017.

Continued expansion is anticipated for the national economy in 2018, with projected growth of 2.4 percent, up from 2.2 percent this year. The only expected drag on economic growth is federal government spending, which is projected to decrease by 1.5 percent in 2018.

Employment growth is projected to continue to slow, rising by 1.3 percent. With this employment growth, the unemployment rate is projected to decline to 4.3 percent. Wage growth is anticipated to continue to accelerate in 2018, rising by 4.7 percent.

New York State Economy

The New York State economy, as measured by the State's Gross Domestic Product (State GDP), grew by 0.8 percent in 2016. This represented a deceleration from 2014 and 2015 rates of 1.8 percent and 1.2 percent, respectively. Economic activity from the financial services sector, which comprises 30 percent of State GDP, was relatively flat in 2016, increasing by only 0.3 percent. The fastest growth was in construction, but that sector represents only 3 percent of the State's GDP.

Similar to the national economy, growth in New York slowed in the first quarter of 2017, with real State GDP increasing by only 0.3 percent as overall economic activity in the financial services sector experienced a decline. Unlike the acceleration projected for the national economy for 2017, the New York economy is estimated to expand at the same rate as in 2016 (0.8 percent).

Through September 2017, the State had added 61,300 jobs on a seasonally adjusted basis, from December 2016. This growth was down by more than one-third from the same period in 2016, which brought an increase of 93,600 jobs, or 1.0 percent. Job gains were primarily in the private sector, with only a slight increase in government employment. For all of 2017, job growth is estimated to decelerate slightly to 1.4 percent, from 1.5 percent in 2016. As has been the case in recent years, employment gains to date this year remain primarily concentrated in downstate regions.

According to the State Department of Labor's Quarterly Census of Employment and Wages, total wages paid in the first quarter of 2017 were 7.4 percent higher than those for the same quarter in 2016. IHS Markit projects overall wage growth in 2017 to reach 2.8 percent, an acceleration from 1.9 percent in 2016.

Along with the wage growth in the first quarter, personal income increased by 1.4 percent. On an annual basis, personal income is estimated to increase by 2.8 percent in 2017, up from the 2016 figure of 1.7 percent.

Employment growth is estimated to continue to slow in 2018, with overall jobs increasing by 0.8 percent. Similar to the national estimate, wages in New York are projected to accelerate in 2018, with a gain of 4.1 percent compared to 2.8 percent in 2017. Non-wage income, such as investment income, is projected to increase at the same 2.8 percent rate in 2018 as in 2017. This results in an increase of 3.5 percent in personal income in 2018.

III. Receipts

Overview

This report includes the Office of the State Comptroller's estimate of All Funds tax receipts through the end of the current fiscal year, as well as projections for All Funds tax receipts for SFY 2018-19 and SFY 2019-20. This forecast is consistent with a national economy that is projected to grow in excess of two percent in the current year and the next two years. Numerous variables affect the national and State economies, increasing the difficulty of forecasting tax collections. These factors include not only traditional influences such as trends in the financial markets, but current developments such as taxpayer behavior in relation to the impact of proposed federal tax changes, the potential of federal budget cuts, and rebuilding in the areas impacted by natural disasters. As a result, the State's actual tax revenues could deviate from these estimates and from those of the Division of the Budget. Close monitoring is critical to identify deviations in a timely way so that corrective actions can be taken.

In SFY 2016-17, All Funds tax receipts decreased by 0.4 percent. Through the first six months of SFY 2017-18, total taxes were \$768 million, or 2.1 percent, lower than the same period in SFY 2016-17. While the first half of the fiscal year generally benefits from strong collections from the filing of annual personal income tax returns, receipts in the second half of the fiscal year typically benefit from holiday sales, bonus payments for the finance and insurance sector, and prepayments for business taxes. With projected corporate profit growth and increased holiday sales, business and consumption taxes are estimated to increase by 5.6 percent in SFY 2017-18. However, total personal income tax (PIT) collections are estimated to grow only slightly as higher expected withholding receipts are offset by a decline in estimated payments. As a result, total tax receipts are estimated to increase by 2.0 percent in SFY 2017-18.

In SFY 2018-19, growth in tax collections is projected to accelerate to 3.4 percent. This stronger increase reflects expectations of faster growth in the overall economy as well as the reversion of estimated PIT tax collections to historical trend levels. However, the growth in tax collections is mitigated by the continued impact of State Tax Law changes, such as the increase in the estate tax exemption threshold and the conversion of certain STAR benefits to PIT credits, which results in increased refunds under the PIT. For SFY 2019-20, tax collections are projected to grow by 3.2 percent, a slightly slower pace than in SFY 2018-19. This growth reflects a slower projected expansion in the economy as well as the continued impact of Tax Law changes enacted in previous years.

Personal Income Tax

Personal income tax receipts are estimated to exhibit almost no growth in SFY 2017-18, increasing by only \$74 million, or 0.2 percent, from SFY 2016-17. This reflects lower estimated and final return payments, as well as payment of refunds returning to historical trend levels from a lower level the previous year.

Withholding tax collections in SFY 2017-18 are estimated to increase by 4.8 percent as a result of gains in both employment and wages over the course of the year. Collections from estimated payments in the current fiscal year are estimated to decrease by 3.5 percent from SFY 2016-17 levels. This decrease reflects the 7.6 percent reduction in receipts through the first half of the fiscal year compared to the same time frame from last year, primarily in lower collections from estimated payments included with requests for extensions to file annual returns. This decline is partially offset by an estimated increase in collections in the second half of the year, as growth in non-wage income is projected to accelerate during this period.

In SFY 2018-19, PIT collections are projected to increase by \$1.8 billion, or 3.7 percent. This increase reflects employment and wage growth as well as increased estimated payments in 2018, offset by increased refunds due in part to the impact of the conversion of STAR benefits to tax credits. In SFY 2019-20, PIT collections are projected to increase by nearly \$1.6 billion, or 3.2 percent.

Consumption and Use Taxes

Consumption and use tax receipts are estimated to increase by \$514 million, or 3.2 percent in SFY 2017-18. This growth primarily reflects an estimated increase of 4.5 percent in the largest source of receipts in this category, sales tax collections, resulting from continued gains in consumption and employment. That increase is partially offset by the continued decline in cigarette and tobacco taxes, increased refunds under the highway use tax resulting from litigation, and the reduction in the highway use registration/decal fee enacted in 2016.

For SFY 2018-19, tax collections in this category are projected to exhibit modestly stronger growth, increasing by \$576 million, or 3.4 percent. Sales and use tax collections are projected to grow more slowly, rising by 3.5 percent. Offsetting part of the slower sales tax growth is an expected return of highway use tax collections to their historical levels, as the impact of increased refunds is eliminated. In SFY 2019-20, growth in consumption and use tax collections is projected to slow, with growth of 3 percent due to a projected deceleration in personal consumption.

Business Taxes

Business tax receipts are estimated to increase by \$797 million, or 11.4 percent, in SFY 2017-18. Representing over half of the collections within this category; corporate franchise taxes are the main driver of this growth. While collections through the first half of the fiscal year are more than 3 percent lower than the same period in SFY 2016-17, receipts from corporate franchise taxes are estimated to increase by nearly 59 percent in the final six months. This significant growth reflects not only higher estimated corporate profits in 2017, but also an increase in audit collections as well as the elimination of a large refund for the 2015 tax year that was made in the fourth quarter of SFY 2016-17.

In SFY 2018-19, growth in business tax receipts is projected to slow, with an increase of \$217 million, or 2.8 percent. This reflects projected corporate profit growth and an expected rise in petroleum prices, partially offset by a reduction in audit collections under the corporate

franchise tax. Business tax receipts are projected to continue to increase in SFY 2019-20, by \$242 million, or 3.0 percent. This reflects continued corporate profit growth as well as a projected increase in petroleum prices.

Other Taxes

Other Tax receipts, including the MTA Payroll Mobility Tax, are estimated to increase by \$90 million, or 2.5 percent, in SFY 2017-18. This is due to growth in collections from real estate transfer taxes and the MTA Payroll Mobility Tax, offset by a slight decline in estate taxes.

In SFY 2018-19, such collections are projected to increase at a slower pace, by \$51 million, or 1.4 percent. This deceleration is due to a projected decline in estate and gift tax collections as a result of the final phase of the increase in the exemption threshold enacted in SFY 2014-15. Factors offsetting the decline include anticipated continued growth in collections from the real estate transfer tax and the MTA Payroll Mobility Tax resulting from projected increases in housing market activity and wages. In SFY 2019-20, collections are projected to increase by over \$195 million, or 5.2 percent. This increase reflects growth in estate tax collections, enhanced by the projected growth in both real estate transfer taxes and the MTA Payroll Mobility Tax.

General Fund Miscellaneous Receipts and Lottery Receipts

Miscellaneous receipts include fees, fines, reimbursements, bond proceeds from public authorities, Lottery revenues and interest on State investments.

General Fund miscellaneous receipts are estimated to decline by \$1.1 billion or 28.4 percent in SFY 2017-18, to \$2.7 billion, primarily because of the expected decline in non-recurring monetary settlements from various financial institutions.³ Miscellaneous receipts in the General Fund are anticipated to decline 21.9 percent or \$599 million in SFY 2018-19, again primarily due to an expectation of a continued decrease in monetary settlements. Miscellaneous receipts are anticipated to increase less than one percent in SFY 2019-20.

All Funds projections for miscellaneous receipts in SFY 2017-18 total \$26.8 billion (most of which is initially collected outside the General Fund), an increase of \$161 million or 0.6 percent, representing an increase in bond proceeds that is expected to offset the decline in monetary settlements. Miscellaneous receipts from Native American casinos collected in the Tribal State Compact fund are expected to total \$200 million. Of that amount, \$121.2 million is expected to be transferred to the General Fund after payments to local governments.⁴

All Funds miscellaneous receipts are projected to decline \$61 million or 0.2 percent in SFY 2018-19, primarily in the General Fund and special revenue funds, offset by growth in capital

³ The First Quarterly Update does not include \$225 million in General Fund settlement proceeds received on September 17, 2017 from Habib Bank, after the Update was published. This revenue is expected to be included in the Mid-Year Update to the Enacted Budget Financial Plan.

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

projects funds, as reimbursements from bond proceeds are anticipated to increase. Miscellaneous receipts are anticipated to decline 1.5 percent or \$388 million in SFY 2019-20, as prior year increases in bond issuance level off. Factors that may change such projections include the possibility of additional settlements from financial institutions as well as variance in reimbursements from bond proceeds, in part impacted by the amount of bonds issued.

Lottery revenues for education (not including administration) from traditional games are expected to increase by 1.5 percent to just under \$2.4 billion in SFY 2017-18, and revenues from video lottery terminals (VLTs) are expected to decline 3.3 percent to \$925 million. Total Lottery receipts are projected to decline by 4.8 percent in SFY 2018-19 and to fall marginally in SFY 2019-20. As of the date of this report, three of the four commercial casinos granted licenses in recent years have opened, and DOB anticipates the fourth will open in 2018. DOB projects new revenue for education from commercial casinos will total \$120 million in SFY 2017-18, increasing to \$228 million in SFY 2019-20 (both include funding to offset projected VLT losses associated with competition from the new casinos).

Federal Receipts

Federal grants support State spending for Medicaid, transportation, education, public health, and environmental and energy programs, as well as other activities. For the purpose of providing an All Funds receipts forecast, the Office of the State Comptroller's figures reflect DOB's federal receipts projections.

In SFY 2017-18, federal receipts are projected by DOB to increase \$1.8 billion, or 3.2 percent, from SFY 2016-17, largely due to increased funding associated with the Affordable Care Act, including Medicaid expansion. DOB projects federal receipts will increase just under \$1.5 billion or 2.6 percent in SFY 2018-19. The increase is made up almost entirely of grants for operating costs in health care and other areas, although DOB anticipates a non-recurring increase in federal funds for transportation in that year. Total federal receipts are projected by DOB to increase \$686 million in SFY 2019-20, with operating revenues increasing 1.6 percent and capital revenues declining after the increase in SFY 2018-19.

Monetary Settlements

Since April 2014, the State has received more than \$10.4 billion in various monetary settlements arising from allegations of misconduct by major financial institutions and other parties. In the SFY 2017-18 Enacted Budget Financial Plan, DOB included \$461 million in monetary settlements in its projections for General Fund use in SFY 2017-18, bringing the total amount used for budget relief since SFY 2014-15 to just over \$2.0 billion. An additional \$155 million has been set aside to offset labor costs in the General Fund in future years. General Fund miscellaneous receipts this fiscal year are anticipated by DOB to include \$416 million in non-recurring monetary settlements (approximately 17 percent of total projected General Fund miscellaneous receipts). As of the date of this report, an additional \$225 million from Habib Bank has been received but not yet acknowledged in the Financial Plan.

IV. Disbursements

Overview

This report includes forecasts for disbursements for SFY 2017-18 through SFY 2019-20. These estimates rely on a variety of data sources, including receipt and disbursement data from New York's Statewide Financial System and information from State agencies, including the State Education Department (SED), DOB, Department of Health (DOH), the Department of Labor (DOL), and the Office of Temporary and Disability Assistance (OTDA). All projections for growth reflect comparisons to the prior fiscal year.

The SFY 2017-18 Enacted Budget – like the prior year's – included appropriations intended to reflect two years' worth of spending in Medicaid. The Enacted Budget also provides a two-year appropriation for school aid, unlike the prior year. The Budget also left in place statutory limits on future spending growth for State-funded DOH Medicaid expenditures based on the ten-year average growth in the medical component of the Consumer Price Index (CPI), and for education assistance based on the rate of growth for personal income in the State. As a result of these limitations, projected disbursements in two of the largest categories of spending in the Budget are constrained, absent action by the Executive and the Legislature to supersede the spending targets. However, as with the previous four enacted budgets, school aid in the current fiscal year was increased by an amount that exceeded the statutory cap.

This report provides Medicaid and School Aid spending projections from the Financial Plan, including the effect of statutory spending caps. Estimated spending growth that could occur absent the spending limitations enacted in SFY 2011-12 is also provided for comparative purposes in each program area.

This report does not adjust for actual or planned actions that artificially and temporarily change growth rates, such as prepayments (which increase base year spending while decreasing subsequent year spending, thus resulting in lower reported growth).

For SFY 2017-18, the Office of the State Comptroller projects that Medicaid, school aid and public assistance spending from State Operating Funds will total \$45.5 billion, an increase of \$2.4 billion, or 5.6 percent, from SFY 2016-17 levels. Among other factors, this level of increase reflects the statutory limit on Medicaid enacted in SFY 2011-12 that was intended to constrain spending from State Operating Funds. All other State Operating Funds spending is projected to total \$52.7 billion, a decrease of \$455 million, or 0.9 percent, compared to SFY 2016-17. All other spending includes such categories as debt service, General State Charges and Departmental Operations outside of the categories listed above. It also reflects certain timing-related and other actions that limit reported spending growth.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$86.5 billion in SFY 2017-18, which is \$5 billion, or 6.1 percent, higher than SFY 2016-17 levels.

For SFY 2018-19, Medicaid, school aid and public assistance spending from State Operating Funds are estimated to total \$47.1 billion, an increase of \$1.6 billion, or 3.6 percent, from estimated SFY 2017-18 expenditures. The Office of the State Comptroller projects all other State Operating Funds spending to increase \$3.6 billion, or 6.8 percent, to \$56.2 billion.

Medicaid, school aid, and public assistance spending from All Funds is projected to total \$88.8 billion in SFY 2018-19, which is \$2.3 billion, or 2.7 percent, higher than projected SFY 2017-18 levels.

For SFY 2019-20, Medicaid, school aid, and public assistance spending from State Operating Funds are estimated to total \$49.3 billion, an increase of \$2.1 billion, or 4.5 percent, from the previous year. During this period, all other State Operating Funds spending is projected to increase \$2.6 billion, or 4.6 percent, to \$58.8 billion.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$91.8 billion in SFY 2019-20, which is \$3.0 billion, or 3.3 percent, higher than SFY 2018-19.

Supplemental Projections and Discussion

In the following section, Medicaid and school aid projections reflect increases consistent with enacted spending caps and other changes included in previous budgets. To provide an understanding of the impact of the spending caps on the Budget, this section also includes illustrative charts to show what spending could be without these caps.

School Aid

School Aid or General Support for Public Schools (GSPS) comprises a series of formulas that provide general operating support (for example, Foundation Aid) and reimbursement for a share of specific eligible expenses (for example, Building Aid or Excess Cost Aid), as well as grant programs that support specific activities for New York State's 674 major school districts.⁵ Factors that can impact School Aid growth include enrollment, school district property and income wealth, student demographics, and fluctuations in claims for various supported expenses. Claims and demographic data are generally updated three times annually.⁶ Policy makers also affect annual growth in School Aid through legislative changes.

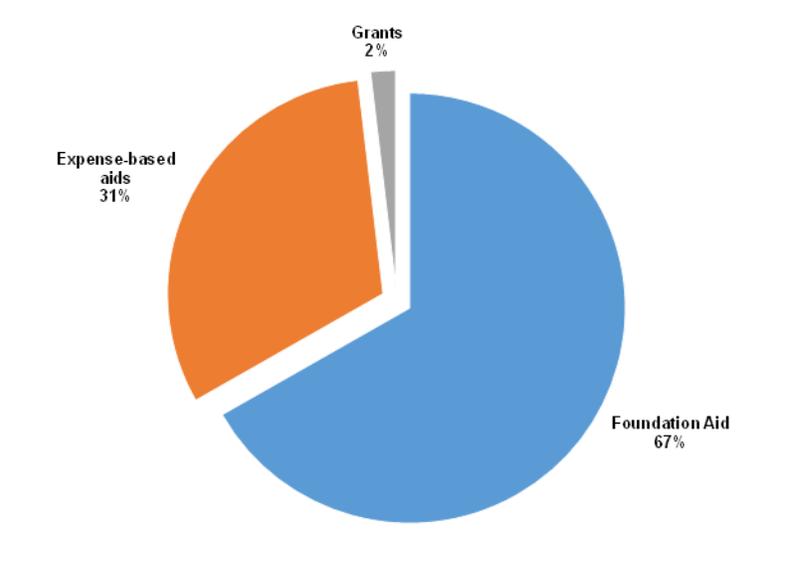
School Aid is generally negotiated and legislated on a school year (SY) basis. Because the school year begins on July 1 and ends on June 30, the State is funding portions of two school years in any given State Fiscal Year.

⁵ School districts receive support for certain programs outside of GSPS; funding for these programs is not a part of this forecast.

⁶ Pursuant to Section 305 of the Education Law, the State Education Department provides detailed School Aid data by district three times throughout the year – February 15, May 15 and November 15. November data is typically used to calculate aid in the Executive Budget proposal and February data is typically used to calculate aid for the Enacted Budget.

Figure 3

Total School Aid, SY 2017-18, \$25.7 Billion⁷



The SFY 2011-12 Enacted Budget included legislation limiting future growth in School Aid to growth in State personal income. School Aid growth in SFY 2012-13 was limited to the five-year average of personal income growth. The SFY 2012-13 Enacted Budget included an increase of 4.1 percent, equal to the calculated growth index. Since SFY 2013-14, when the limitation changed to one-year growth, the calculated limit has been below 4 percent and in some years below 2 percent. However, enacted budgets in each of the last five years have provided aid increases above the growth index level.

The Office of the State Comptroller includes estimates provided by DOB that project School Aid spending from State Operating Funds will total \$25.8 billion in SFY 2017-18, which is an increase of \$1.4 billion or 5.8 percent over SFY 2016-17. This projection equates to \$25.7 billion on a school-year basis.

The Office of the State Comptroller includes estimates provided by DOB that project School Aid from State Operating Funds would increase to \$26.8 billion in SFY 2018-19, an increase of \$1.0 billion, or 4 percent, over SFY 2017-18. This equates to \$26.8 billion on a school-year basis. The Office of the State Comptroller includes estimates provided by DOB that project School Aid from State Operating Funds would increase to \$27.9 billion in SFY 2019-20, an increase of \$1.1 billion, or 4.2 percent over SFY 2018-19. This equates to \$28 billion on a school-year basis.

DOB has indicated that the projections for SY 2018-19 through SY 2020-21 were consistent with projections for the personal income growth index. It is important to note that more recently

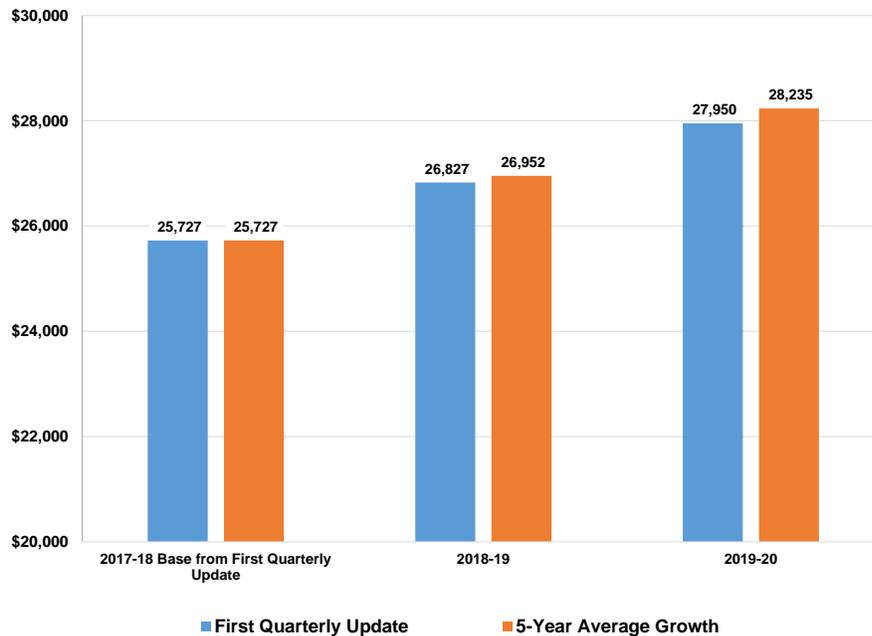
⁷ GSPS at the time of the Enacted Budget. For the purposes of this chart, certain other operating aids, including High Tax Aid and Universal Prekindergarten, have been included in "Expense-based" aids. "Grants" consists of \$195 million in competitive grants and all non-computerized aids.

released data from the U.S. Bureau of Economic Analysis indicates that the personal income growth index for the 2018-19 School Year may be substantially lower than previously estimated. However, given the history of enacted budgets exceeding the statutory cap in each of the last five years, it is unclear how this might affect actual School Aid levels. In addition, the November 15, 2017 School Aid data will provide the first estimates of GSPS for SY 2018-19 based on submitted claims and demographic information. It will also show revisions for the current school year. In some years, database revisions have resulted in significant changes in School Aid.

Figure 4 illustrates the levels School Aid could reach if growth continued at the 5-year average annual growth rate of GSPS, as compared to the forecasted personal income growth rate. These figures differ from the Office of the State Comptroller projections above.

Figure 4

Annual Projected School Aid – SY 2017-18 through SY 2019-20
Based on First Quarterly Update and Five-Year Average Annual Growth⁸
 (in millions of dollars)



Medicaid

The SFY 2017-08 Enacted Budget again includes two years' authority for Medicaid spending by DOH (including administration costs), with a specific limit in State Operating Funds spending for each year.

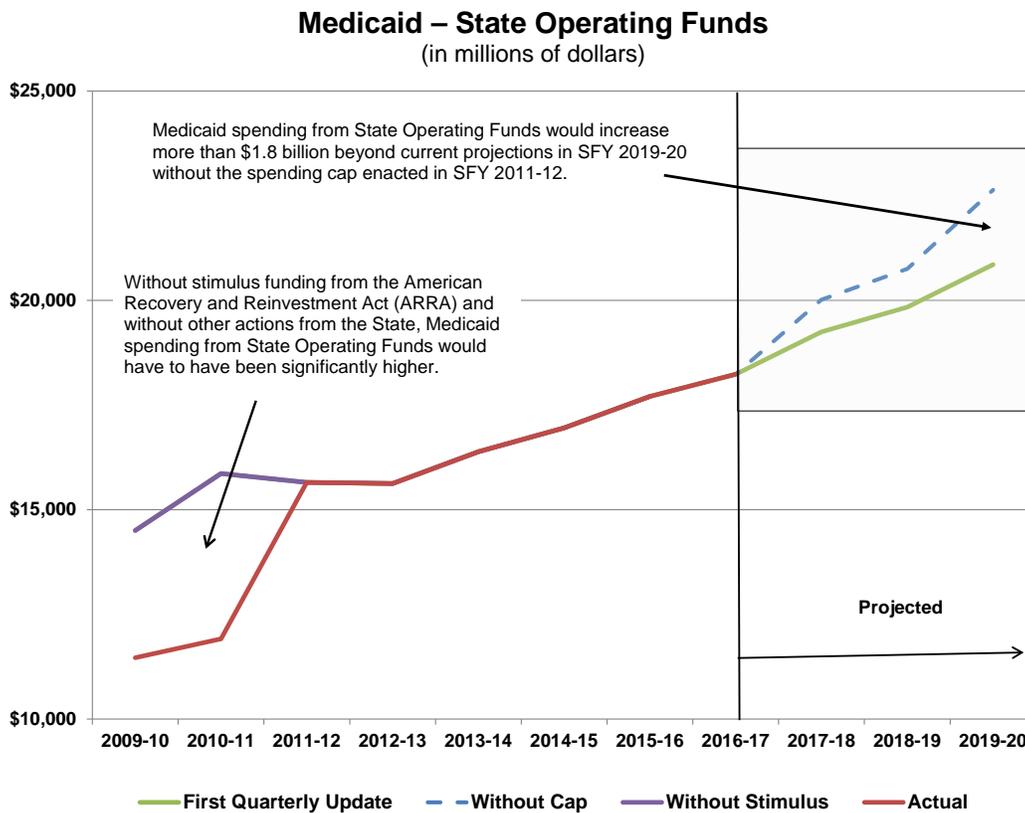
⁸ Office of the State Comptroller calculations using Division of the Budget and State Education Department data.

The SFY 2017-18 Enacted Budget continues the cost-containment measures from various actions recommended by the Medicaid Redesign Team (MRT) and first enacted in the SFY 2011-12 Budget. These measures are projected to hold future spending growth within the spending cap for DOH Medicaid expenditures, currently estimated by DOB at approximately 3.3 percent. Average annual growth before these changes was 4.6 percent from SFY 2007-08 through SFY 2011-12, not including additional Federal Medical Assistance Percentage (FMAP) funding that was part of the federal government’s economic stimulus program in response to the Great Recession.

Monthly global cap reports from the Department of Health imply that MRT savings targets are being met as spending rarely exceeds projections, although these reports do not detail actual savings associated with monthly spending. The authority given to the Health Commissioner to reduce Medicaid spending administratively expires at the end of SFY 2018-19.

The Office of the State Comptroller has used historical trends derived from service utilization data maintained by DOH, actual spending data reported by DOB, and annual spending data included with DOB’s quarterly Financial Plan Updates to estimate Medicaid spending for SFY 2017-18 and the ensuing two fiscal years in Figure 5 below. Spending data was adjusted to reflect known actions, such as delayed cycle payments, that would affect cash management.

Figure 5



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

The Office of the State Comptroller includes estimates provided by DOB that project DOH Medicaid spending (including administrative costs) in SFY 2017-18 would total \$19.2 billion from State Operating Funds, and \$55.9 billion from All Funds.

The Office of the State Comptroller includes estimates provided by DOB that project Medicaid spending would increase to \$19.8 billion from State Operating Funds in SFY 2018-19 (up by 3.1 percent or \$593 million from the previous year) and to \$57.2 billion from All Funds (an increase of 2.4 percent or \$1.3 billion). The Office of the State Comptroller includes estimates provided by DOB that project Medicaid spending would total \$20.9 billion from State Operating Funds in SFY 2019-20, an increase of \$1.0 billion or 5.1 percent, and \$59.1 billion from All Funds, representing an increase of just under \$1.9 billion or 3.3 percent.

Public Assistance

Projections of public assistance caseloads and spending are sensitive to economic fluctuations. As unemployment increases and income falls, the number of persons in need of public assistance typically increases. While national and State unemployment rates continue to decline, such rates are not a perfect measure of unemployment. For example, they do not capture people who are not actively looking for work or people who are employed in temporary or part-time positions paying significantly less than full-time jobs.

According to the federal Bureau of Labor Statistics (BLS), approximately 44 percent of the U.S. unemployed population (16 and older) had been unemployed for 15 weeks or more as of September 2017. As of September 2017, the unemployment rate in New York on a seasonally adjusted basis was 4.9 percent.⁹ BLS produces a measure of labor market underutilization that includes the unemployed population that has actively looked for work in the past four weeks as well as the number of people who are employed part-time (not by choice) and those unemployed who have not actively looked for work. This measure was 9.0 percent as of 2017.¹⁰ This rate is the lowest since the Great Recession began in December 2007 and 5.8 percentage points lower than the recent high of 14.8 percent in 2010.

Using historical trends for unemployment and employment, as well as caseloads and spending figures contained in monthly caseload reports issued by the Office of Temporary and Disability Assistance (OTDA), the Office of the State Comptroller estimates that in SFY 2017-18, All Funds spending for public assistance will total \$1.58 billion (including \$500 million from State Operating Funds), based on caseloads of 354,421 families and 205,146 single recipients.

For SFY 2018-19, public assistance spending from All Funds is estimated to decline by \$5 million, or 0.4 percent, to \$1.58 billion (including \$503 million from State Operating Funds), based on caseloads of 352,839 families and 206,103 single recipients.

⁹ New York State Department of Labor

¹⁰ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

For SFY 2019-20, All Funds spending for public assistance is estimated to total \$1.57 billion (including \$508 million from State Operating Funds), a decline of \$9 million or 0.6 percent, based on caseloads of 350,297 families and 207,680 single recipients.

Figure 6

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

TANF Families	2016-17	2017-18	Growth	2018-19	Growth	2019-20	Growth
Office of the State Comptroller	231,816	228,469	-1.4%	226,340	-0.9%	222,929	-1.5%
Division of the Budget	234,902	230,387	-1.9%	227,493	-1.3%	224,803	-1.2%
Difference	(3,086)	(1,918)		(1,153)		(1,874)	
Safety Net Families	2016-17	2017-18	Growth	2018-19	Growth	2019-20	Growth
Office of the State Comptroller	125,148	125,952	0.6%	126,499	0.4%	127,368	0.7%
Division of the Budget	123,264	121,194	-1.7%	119,638	-1.3%	118,217	-1.2%
Difference	1,884	4,758		6,861		9,151	
Safety Net Singles	2016-17	2017-18	Growth	2018-19	Growth	2019-20	Growth
Office of the State Comptroller	203,602	205,146	0.8%	206,103	0.5%	207,680	0.8%
Division of the Budget	204,947	207,139	1.1%	209,728	1.2%	212,134	1.1%
Difference	(1,345)	(1,993)		(3,625)		(4,454)	
Total Caseloads	2016-17	2017-18	Growth	2018-19	Growth	2019-20	Growth
Office of the State Comptroller	560,566	559,567	-0.2%	558,942	-0.1%	557,977	-0.2%
Division of the Budget	563,113	558,720	-0.8%	556,859	-0.3%	555,154	-0.3%
Difference	(2,547)	847		2,083		2,823	

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

Note: Amounts listed by the Office of the State Comptroller for SFY 2016-17 represent actual caseloads as per OTDA.

V. Risks

As with any financial plan, the SFY 2017-18 Enacted Budget Financial Plan is subject to various risks and uncertainties. In recent years, DOB has expanded its assessment of budget risks and uncertainties, and this year's Plan identifies a variety of issues, both general and specific, that could negatively affect the State's projections.

In addition to the broad-scoped risks and uncertainties identified with respect to revenue and economic projections, DOB has recognized many of the transactional risks identified by the Office of the State Comptroller in annual budget reviews in recent years.

Midway through the current fiscal year, personal income tax collections – the State's largest source of revenue, other than federal aid – continue to fall below projections. Figures on certain elements of the State's tax receipts, including estimated payments within the PIT, provide some indication that taxpayer behavior related to the possibility of federal tax changes may be among the factors keeping revenues below projected levels. Whether the tax debate in Washington will be resolved this year or extended into 2018 and beyond is unclear. While taxpayer behavior may be affecting the State's revenues, the extent of any such impact is difficult if not impossible to determine precisely. Certain potential changes to the federal tax code could result in changes to the State's tax receipts. The likelihood, timing and potential impact on the Financial Plan of any federal tax changes remain unclear. Such uncertainty reinforces the importance of monitoring receipts carefully. Under the current circumstances, exercising caution in projecting the State's revenues going forward is particularly advisable.

The First Quarterly Update projected a budget gap of \$4.1 billion for the coming fiscal year before any budgetary actions to address the gap. If tax receipts continue to fall below projections, next year's projected gap may grow. Also, the State continues to face an elevated risk of reductions in a wide range of federal assistance programs, including health care funding. Substantial cuts to federal health care programs, including the Children's Health Insurance Program and Disproportionate Share Hospital funding, remain under active discussion. More generally, the ongoing debate over the federal budget for the current federal fiscal year continues to generate uncertainty about New York's receipt of federal funding.

The SFY 2017-18 Enacted Budget created a process that could be used to address certain federal aid reductions of \$850 million or more during the current year. However, the enacted provision does not specify the circumstances under which the \$850 million threshold would be deemed to have been met. The impact of this process on the Financial Plan and on recipients of State funding under varying potential scenarios of federal aid reduction is unclear. Given the risk of such reductions, continued close monitoring of developments in Washington is essential. Any federal funding reductions not already assumed in the Financial Plan could place significant strain on the State's budget, and force difficult decisions regarding the availability of other resources and the funding of important programs and services.

Appendix - Financial Projections

Projections Based on Current Law, Including Enacted Spending Caps

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2017-18

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	47,639	49,383	(1,744)
Consumer Taxes	16,153	16,269	(116)
Business Taxes	7,145	7,349	(204)
Other Taxes (incl. MTA Payroll)	3,587	3,595	(8)
<i>Total Taxes</i>	<u>74,524</u>	<u>76,596</u>	<u>(2,072)</u>
General Fund Miscellaneous Receipts	2,730	2,505	225
Lottery	3,320	3,320	-
Subtotal	80,574	82,421	(1,847)
Other Miscellaneous Receipts	13,885	13,885	-
Federal Grants	74	74	-
Total Receipts	<u>94,533</u>	<u>96,380</u>	<u>(1,847)</u>
Disbursements:			
Elementary and Secondary Education	25,762	25,762	-
DOH Medicaid (incl. administration)	19,246	19,246	-
Public Assistance	500	497	3
Subtotal	45,508	45,505	3
All Other Disbursements	52,663	52,663	-
Total Disbursements	<u>98,171</u>	<u>98,168</u>	<u>3</u>

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

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements
State Operating Funds - State Fiscal Year 2018-19

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	49,399	51,873	(2,474)
Consumer Taxes	16,674	16,832	(158)
Business Taxes	7,369	7,484	(115)
Other Taxes (incl. MTA Payroll)	3,638	3,695	(57)
<i>Total Taxes</i>	<u>77,080</u>	<u>79,884</u>	<u>(2,804)</u>
General Fund Miscellaneous Receipts	2,131	2,131	-
Lottery	3,162	3,162	-
Subtotal	82,373	85,177	(2,804)
Other Miscellaneous Receipts	13,616	13,616	-
Federal Grants	74	74	-
Total Receipts	<u>96,063</u>	<u>98,867</u>	<u>(2,804)</u>
Disbursements:			
Elementary and Secondary Education	26,803	26,803	-
DOH Medicaid (incl. administration)	19,839	19,839	-
Public Assistance	503	500	3
Subtotal	47,145	47,142	3
All Other Disbursements	56,231	56,231	-
Total Disbursements	<u>103,376</u>	<u>103,373</u>	<u>3</u>

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

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements
State Operating Funds - State Fiscal Year 2019-20

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,977	53,918	(2,941)
Consumer Taxes	17,172	17,388	(216)
Business Taxes	7,605	7,950	(345)
Other Taxes (incl. MTA Payroll)	3,834	3,879	(45)
<i>Total Taxes</i>	<u>79,588</u>	<u>83,135</u>	<u>(3,547)</u>
General Fund Miscellaneous Receipts	2,135	2,135	-
Lottery	3,176	3,176	-
Subtotal	84,899	88,446	(3,547)
Other Miscellaneous Receipts	13,505	13,505	-
Federal Grants	74	74	-
Total Receipts	<u>98,478</u>	<u>102,025</u>	<u>(3,547)</u>
Disbursements:			
Elementary and Secondary Education	27,923	27,923	-
DOH Medicaid (incl. administration)	20,852	20,852	-
Public Assistance	508	502	6
Subtotal	49,283	49,277	6
All Other Disbursements	58,825	58,825	-
Total Disbursements	<u>108,108</u>	<u>108,102</u>	<u>6</u>

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2017-18

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	47,639	49,383	(1,744)
Consumer Taxes	16,726	16,857	(131)
Business Taxes	7,776	7,969	(193)
Other Taxes (incl. MTA Payroll)	3,706	3,714	(8)
<i>Total Taxes</i>	<u>75,847</u>	<u>77,923</u>	<u>(2,076)</u>
General Fund Miscellaneous Receipts	2,730	2,505	225
Lottery	3,320	3,320	-
Subtotal	81,897	83,748	(1,851)
Other Miscellaneous Receipts	20,930	20,930	-
Federal Grants	57,187	57,187	-
Total Receipts	<u>160,014</u>	<u>161,865</u>	<u>(1,851)</u>
Disbursements:			
Elementary and Secondary Education	29,061	29,061	-
DOH Medicaid (incl. administration)	55,877	55,877	-
Public Assistance	1,584	1,588	(4)
Subtotal	86,522	86,526	(4)
All Other Disbursements	77,509	77,509	-
Total Disbursements	<u>164,031</u>	<u>164,035</u>	<u>(4)</u>

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

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2018-19

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	49,399	51,873	(2,474)
Consumer Taxes	17,302	17,465	(163)
Business Taxes	7,993	8,127	(134)
Other Taxes (incl. MTA Payroll)	3,757	3,814	(57)
<i>Total Taxes</i>	<u>78,451</u>	<u>81,279</u>	<u>(2,828)</u>
General Fund Miscellaneous Receipts	2,131	2,131	-
Lottery	3,162	3,162	-
Subtotal	83,744	86,572	(2,828)
Other Miscellaneous Receipts	21,401	21,401	-
Federal Grants	58,656	58,656	-
Total Receipts	<u>163,801</u>	<u>166,629</u>	<u>(2,828)</u>
Disbursements:			
Elementary and Secondary Education	30,033	30,033	-
DOH Medicaid (incl. administration)	57,219	57,219	-
Public Assistance	1,579	1,577	2
Subtotal	88,831	88,829	2
All Other Disbursements	83,592	83,592	-
Total Disbursements	<u>172,423</u>	<u>172,421</u>	<u>2</u>

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

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2019-20

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	50,977	53,918	(2,941)
Consumer Taxes	17,814	18,023	(209)
Business Taxes	8,234	8,587	(353)
Other Taxes (incl. MTA Payroll)	3,952	3,998	(46)
<i>Total Taxes</i>	<u>80,977</u>	<u>84,526</u>	<u>(3,549)</u>
General Fund Miscellaneous Receipts	2,135	2,135	-
Lottery	3,176	3,176	-
Subtotal	86,288	89,837	(3,549)
Other Miscellaneous Receipts	20,995	20,995	-
Federal Grants	59,342	59,342	-
Total Receipts	<u>166,625</u>	<u>170,174</u>	<u>(3,549)</u>
Disbursements:			
Elementary and Secondary Education	31,116	31,116	-
DOH Medicaid (incl. administration)	59,112	59,112	-
Public Assistance	1,570	1,567	3
Subtotal	91,798	91,795	3
All Other Disbursements	85,401	85,401	-
Total Disbursements	<u>177,199</u>	<u>177,196</u>	<u>3</u>

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

Note: Figures may not total due to rounding.

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