
Report on the State Fiscal Year 2018-19 Executive Budget



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

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Message from the Comptroller

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The federal government has long been a key partner in New York State's efforts to deliver essential public services. In the \$168.2 billion Executive Budget for State Fiscal Year 2018-19, federal aid is projected to total \$57.9 billion, representing more than one of every three dollars overall. These resources are especially important in areas including health care, education, transportation, human services and other programs.



Now, unfortunately, decisions in Washington threaten serious damage to this vital partnership. Examples include cuts in the coming fiscal year of \$1.1 billion in federal aid for the Essential Plan, which provides health coverage for some 700,000 New Yorkers, and potential cuts to other health care funding. While Congress recently extended funding for the Children's Health Program, some leaders in Washington continue to call for changes to Medicaid that could weaken coverage for the program's 6.2 million beneficiaries in New York. The Executive Budget proposes certain measures to address these issues. Yet some of these solutions would be temporary, and risks to health coverage for many New Yorkers – and associated risks to the State's Financial Plan – are likely to remain for some time to come.

At the same time, the revised federal tax law is driving new uncertainty in the State's revenue outlook. Taxpayer behavior in response to the federal changes is one of multiple factors affecting New York's tax receipts, and the overall impact of those changes may not be known for some time. In this context, cautious revenue projections are especially advisable.

As State Comptroller, I am always concerned that the use of the public's dollars meets the highest standards of transparency, accountability and oversight. In this regard, certain Executive Budget proposals raise questions and issues. Such measures include: broad expansions of Executive authority to redirect or reduce funding after the enactment of the Budget and the shifting of billions of dollars in spending outside the Budget; the appropriation of significant amounts with little detail as to specific purposes or recipients; and reduction of the independent oversight of public resources.

In the context of increasingly difficult financial challenges, it is all the more important that New York State's budgetary choices not only address our highest priority needs, but also inspire public confidence at every step of the decision-making process.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

Recent changes to the federal government's spending and tax policies are driving immediate budgetary challenges for New York State, while also causing significant uncertainty looking forward. The \$168.2 billion State Fiscal Year (SFY) 2018-19 Executive Budget proposes a number of measures in response to federal issues as well as increasing State support for education, health care and other programs.

The State's cash position has been bolstered recently by higher-than-anticipated tax receipts, driven by taxpayer reaction to the federal tax revisions enacted in mid-December 2017. Those revisions can be expected to have unpredictable impacts on State tax receipts well into the coming fiscal year and beyond. The State's longer-term outlook also remains clouded by projected out-year budget gaps and rising debt levels, as well as continued uncertainty regarding federal aid.

The Budget includes a wide range of proposals that would expand Executive authority to manage spending and reshape programs during the fiscal year. The Executive cites risks to current projections of federal aid and tax receipts in support of certain such steps, while in other cases the goal is unclear. The Budget Director would be empowered to reduce certain Local Assistance spending by up to 3 percent if tax revenue projections decline by \$500 million or more from Executive Budget projections. Another proposal would extend and broaden a provision enacted in 2017 allowing the Budget Director to impose spending cuts, absent action by the Legislature, if certain reductions in federal assistance were to occur. Other proposals would broadly authorize shifts of funds among State agencies, public authorities and programs. While the wide-ranging array of measures to expand Executive flexibility could mitigate Financial Plan risks, the effects of their implementation on State programs, local governments and individual New Yorkers remain unclear. Such proposals also raise questions regarding checks and balances over major decisions involving public dollars.

The Executive also advances numerous policy proposals in a range of program areas. In criminal justice, these include authorization of geriatric parole for certain inmates age 55 and over, provisions to promote access to a speedy trial, and restrictions on the use of cash bail. Other proposals include steps to expand participation of minority- and women-owned businesses in certain State and municipal contracts; measures to address sexual harassment in public and private workplaces; and the DREAM Act, which would authorize higher education tuition assistance for certain undocumented immigrants.

All Funds tax receipts are projected at \$77.4 billion in SFY 2018-19, a decrease of 2 percent or nearly \$1.6 billion. This projected decline, according to the Executive, reflects the acceleration of some Personal Income Tax (PIT) payments into the 2017 tax year as well as a proposal to shift certain revenues off-budget. Adjusting for those changes, tax revenues would increase 4.8 percent in the coming fiscal year. Proposed revenue actions, as identified by the Division of the Budget (DOB), include measures that are projected to increase All Funds revenues by a net \$586 million in SFY 2018-19 and \$981 million in SFY 2019-20. In addition, a proposal to decouple the Empire State Child Tax Credit from the federal Child Tax Credit as a result of recent federal tax changes would preserve more than \$500 million in tax revenues annually, starting in SFY 2019-20. No other actions are proposed to address the various ways

that the federal tax changes affect the availability of certain State-level deductions, credits or other provisions that State Tax Law links to the federal tax code. In addition, the Financial Plan does not reflect revenue impacts that would result from such linkages, other than that of decoupling the Child Tax Credit. The Executive has announced plans to propose further revisions to State tax laws in response to the federal changes as part of the 30-day amendments to the Executive Budget.

All Funds spending in the coming fiscal year is projected to reach \$168.2 billion, an increase of 2.3 percent. State Operating Funds spending is projected to rise by 1.9 percent. This figure reflects a number of planned actions that would move spending off-budget, change the timing of disbursements or otherwise affect reported levels of spending and the year-over-year increase. After adjusting for such readily identifiable actions, State Operating Funds spending would increase by more than 4 percent in the coming year.

One such proposed change would direct revenues from the Payroll Mobility Tax (PMT) imposed by the State in the Metropolitan Transportation Authority (MTA) commuter district directly to the MTA, rather than through the State Treasury. As a result, these moneys, some \$1.5 billion in SFY 2018-19, would be spent off-budget without appropriation by the Legislature and would no longer be accounted for as receipts or disbursements in the Statewide Financial System (SFS). While this change could benefit the MTA in certain respects, it is unclear whether such considerations should outweigh the public accountability that results when decisions regarding State resources are subjected to the annual budget process and spending flows through SFS.

Certain other aspects of the Executive Budget raise additional concerns with respect to transparency, accountability and oversight. These include continued use of broadly scoped appropriations and off-budget spending for State costs, and proposals to bypass the independent oversight of public resources.

Risks to the Financial Plan include elevated uncertainty regarding federal funding for health care and other programs. In addition, the Budget assumes \$750 million in proceeds from health plan conversions or similar transactions in each of the coming four fiscal years. Whether and when such transactions may occur, and what resources would flow to the State as a result, remain open questions.

In addition, the State's revenue outlook is clouded by the uncertain effects of the recent federal tax changes. State tax revenues spiked during December 2017 compared to the same month in the preceding year, including an 85 percent or \$1.4 billion increase in PIT estimated payments believed to reflect an acceleration of payments by some taxpayers. The lingering uncertainty as to the overall impacts of the federal tax changes suggests a heightened need for caution in revenue projections for the coming year.

Other key points in this report on the SFY 2018-19 Executive Budget include:

- Federal Aid, comprising more than one in every three dollars in the Budget, is projected to total \$57.9 billion in SFY 2018-19, up 0.2 percent from the current year.
- The Financial Plan reflects the loss of over \$1 billion in federal health care funding for the State's Essential Plan in SFY 2018-19, rising to \$2 billion in SFY 2021-22. Several actions to offset already implemented or potential losses of federal health care funding include use

of Essential Plan fund balances and reductions in payments to health care plans. Revenue proposals include a 14 percent fee on for-profit health insurers that would generate an estimated \$140 million, and an excise tax on opioids expected to produce \$127 million, in SFY 2018-19.

- The Executive Budget Financial Plan relies on \$5.1 billion in non-federal temporary resources in SFY 2018-19. Projected out-year General Fund gaps total \$11.7 billion after proposed budget actions for the coming year but before actions to limit future annual State Operating Funds spending growth to 2 percent. Total General Fund reserves are projected to reach \$9.2 billion at the end of the current fiscal year, in part because of the timing of PIT receipts and the unanticipated influx of monetary settlement funds in recent years, before declining by more than half over the coming two years. No deposits to statutory reserves are planned.
- Debt authorizations for State-supported borrowing by public authorities would increase by \$5.3 billion, or 4.3 percent over current limits, including an increase of more than \$1.4 billion for economic development initiatives. The State's statutory debt capacity remains limited, with a projected decline to \$61 million in SFY 2020-21. State-supported debt service costs are projected to rise to \$7.3 billion in SFY 2022-23.
- School aid would rise by \$769 million or 3 percent for the 2018-19 school year. Certain school districts would be required to submit to the State detailed allocation plans showing the amount of funding provided to each school by funding source.
- Education aid to New York City would increase by \$248 million in the City's next fiscal year, approximately half the amount anticipated by the City in its current financial plan. Other proposals include measures that would require the City to fund both the capital needs of the New York City Transit Authority and half of the MTA's Subway Action Plan, which is designed to address certain immediate operational and capital needs.
- Most aid programs for local governments would be held flat for another year, including the general-assistance Aid and Incentives for Municipalities program and support for local highway and bridge projects.

Note: This report reflects the Executive Budget submitted to the Legislature on January 16, 2018 before any amendments.

II. Financial Plan Overview

State Fiscal Year 2017-18

Tax collections, particularly in the Personal Income Tax (PIT), were below Financial Plan projections through almost the entire first three quarters of State Fiscal Year (SFY) 2017-18. However, extraordinarily strong PIT estimated payments at the end of December and in early January bolstered year-to-date receipts, with total collections through December 31 nearly \$640 million over then current projections. The spike in receipts is believed to be the result of federal tax changes enacted in December, and questions remain regarding the continued impact of these changes on State revenues. Monetary settlements totaled \$838 million through December 31, lower than previous years, but still significantly higher than expected. Federal grants were \$846.3 million over projections through the end of December. More detailed discussion of receipts appears in the Economy and Revenue section of this report.

Spending has largely trailed projections throughout the year, especially in capital projects and local assistance grants. Through December 31, All Funds spending was \$710.6 million lower than previous projections in the FY 2018 Mid-Year Update (Mid-Year Update), with almost all of the variance in capital projects. Spending from State Operating Funds through the first three quarters was 1.1 percent or \$712.5 million higher than a year earlier and \$443.7 million below projections in the Mid-year Update, primarily because of local assistance grants made through the General Fund.

General Fund

General Fund tax receipts, not including transfers from other funds, are currently projected to total \$49.4 billion by the end of the fiscal year, \$3.9 billion higher than in SFY 2016-17 and \$808 million above initial projections from the SFY 2017-18 Enacted Budget Financial Plan. Including transfers from other funds as well as miscellaneous receipts, overall General Fund receipts are expected to total \$71.4 billion. This represents an increase of \$4.5 billion or 6.8 percent from the previous year, with unexpected settlement funds as well as PIT revenues contributing to the growth.

General Fund spending, including transfers to other funds, is now projected to total just over \$70 billion in SFY 2017-18, approximately \$1.2 billion less than initially anticipated, with the difference primarily in local assistance grants and transfers to other funds to support capital spending. General Fund spending is projected to increase \$1.9 billion from SFY 2016-17. The latest projection includes \$340 million in debt service prepayments (not anticipated in previous SFY 2017-18 Financial Plan updates) initially anticipated to be spent in SFY 2018-19 that instead will be disbursed in SFY 2017-18, lowering growth in State Operating Funds spending in the next year. The General Fund is now expected to end the year with a closing balance of \$9.2 billion, \$2.8 billion higher than initial estimates, largely because of unanticipated tax receipts as described above and \$1.4 billion below the SFY 2016-17 closing balance.

State Operating Funds

DOB projects SFY 2017-18 State Operating Funds receipts will increase approximately 3.4 percent from SFY 2016-17. Spending from such Funds in SFY 2017-18 is projected to total \$98.1 billion, just over \$1.9 billion or 2.0 percent higher than in SFY 2016-17. Prepayments and other actions affect reported growth. This issue is discussed in more detail below as it relates to SFY 2018-19.

All Funds

The Executive Budget Financial Plan update projects All Funds receipts for SFY 2017-18 will increase \$8.2 billion, or 5.2 percent. Federal receipts are anticipated to increase \$2.4 billion to \$57.8 billion, primarily reflecting growth in Medicaid grants, and miscellaneous receipts are expected to increase \$1.2 billion. Tax collections, including \$1.9 billion in PIT that DOB considers an acceleration from SFY 2018-19, are projected to increase \$4.6 billion or 6.2 percent from SFY 2016-17 collections, to just under \$79 billion. Updated projections show All Funds spending increasing this year by \$7.4 billion, or 4.7 percent, with \$5.5 billion occurring in Medicaid and other local assistance grants, mostly in federally funded programs.

State Fiscal Year 2018-19

As outlined in more detail in the Economy and Revenue section of this Report, economic growth is projected to continue both nationally and in New York in the coming year. Nonetheless, DOB projects total tax receipts to decline 2 percent in SFY 2018-19, compared to a 6.2 percent increase currently estimated in SFY 2017-18. That decline reflects factors including certain PIT payments having been accelerated into 2017, and the shift of Payroll Mobility Tax (PMT) receipts for the Metropolitan Transportation Authority off-budget.

General Fund

The SFY 2018-19 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will total \$71.2 billion, a decline of 0.3 percent or \$240 million, compared to updated SFY 2017-18 estimates. This includes the PIT timing issue, as well as the expected decline in monetary settlements (\$838 million in SFY 2017-18). General Fund tax collections are projected to fall 0.6 percent or \$307 million. Miscellaneous receipts are projected to decline nearly \$927 million.

General Fund disbursements are projected to total \$75.2 billion, an increase of \$5.2 billion, or 7.5 percent, from SFY 2017-18 estimated levels. The year-to-year increase includes a number of reclassifications and accounting actions that will result in a shifting of disbursements from various funds to the General Fund (detailed in the Mental Hygiene and Transportation sections of this report). These accounting actions have the effect of increasing General Fund receipts and disbursements, while lowering receipts and spending elsewhere. DOB states that changes in accounting of indirect costs for Mental Hygiene will result in a non-recurring reduction of approximately \$60 million.

DOB projects the General Fund balance will decline to \$5.1 billion as of March 31, 2019 from a projected \$9.2 billion at the end of the current fiscal year. Excluding resources from extraordinary monetary settlements, the General Fund balance is projected at less than \$2.5

billion. The Financial Plan reflects the use of \$383 million from this balance for General Fund budget relief in SFY 2018-19. No deposits to statutory reserves are planned.

Proposed General Fund Gap-Closing Plan

The Executive Budget projects a General Fund current services deficit (or gap) of \$4.4 billion in SFY 2018-19 before factoring in changes made since the Mid-Year Financial Plan Update and proposed new actions. As discussed earlier, DOB expects to prepay \$340 million in debt service in SFY 2017-18, thus providing non-recurring gap-closing relief in SFY 2018-19. The Executive's gap-closing plan for SFY 2018-19 includes an additional \$178 million in various sweeps and transfers from other funds.¹ Appendix A shows the projected gap-closing plan through SFY 2021-22.

State Operating Funds

The Financial Plan projects that State Operating Funds revenue will total \$96.1 billion, a decline of \$2 billion, or 2 percent, from estimated SFY 2017-18 receipts, primarily due to the timing of PIT receipts, a shift of PMT receipts (approximately \$1.5 billion in SFY 2018-19) to the MTA and the reduction in monetary settlements discussed earlier. No additional monetary settlements are expected in SFY 2018-19.

For SFY 2018-19, State Operating Funds spending is projected to total just under \$100 billion, an increase of 1.9 percent, or \$1.9 billion, over SFY 2017-18. Most of the increase is projected to occur in local assistance grants, primarily in Medicaid from the Department of Health; in school aid; and in DOT and DMV disbursements related to a shift of certain expenses from capital projects to the General Fund. The increases are offset in part by a reduction of approximately \$1.4 billion in spending as a result of moving the PMT off-budget.

In recent years, the Executive has set a goal of holding annual growth in State Operating Funds spending to 2 percent. As in certain previous years, a number of timing-related actions and other changes proposed in the SFY 2018-19 Executive Budget would affect the level of reported State Operating Funds spending growth in the Financial Plan. The SFY 2017-18 planned prepayment of \$340 million in debt service would reduce spending in SFY 2018-19. Such prepayments reduce the appearance of growth because the base year is higher and the following year is lower, but total costs are not affected. After adjusting for this debt service prepayment, SFY 2018-19 State Operating Funds spending would increase by 2.6 percent.

Other proposed budget actions that contribute to the appearance of lower State Operating Funds spending growth include: shifting expenditures to capital projects funds, which is outside the scope of State Operating Funds; moving expenditures off-budget to a public authority or an off-budget fund or account; specifically excluding certain spending from the calculated growth of State Operating Funds; restructuring programs such that the cost is reflected on the revenue side of the ledger rather than as spending; deferring expenditures to future years; and others.

¹ As in recent years, the Financial Plan includes a line called "reserve for transaction risks" in its accounting of transfers from other funds (in General Fund receipts – see page T-199 in the FY 2019 Executive Budget Financial Plan). This is not a formal reserve but provides the Executive with flexibility in managing the General Fund. If spending or receipts are lower than anticipated, this figure can be adjusted to increase projected General Fund receipts.

Examples of such readily identifiable actions in the SFY 2018-19 Executive Budget, along with their impact on State Operating Funds spending in the coming fiscal year as estimated by DOB, include:

- Directing that State imposed PMT receipts flow directly to the MTA without an appropriation, eliminating a \$1.4 billion disbursement. (See the Metropolitan Transportation Authority and Transportation sections of this report.)
- Using the State's share of revenue from the 1998 Master Settlement Agreement with participating cigarette manufacturers to pay certain State Medicaid costs off-budget. (See the Health/Medicaid section; this amount is estimated at \$103 million in SFY 2017-18 and \$329 million in SFY 2018-19.)
- Leveraging federal funds to help off-load State Medicaid costs to the Essential Plan in the amount of \$281.5 million in SFY 2018-19 and \$379 million the following year.
- Shifting certain funding for SUNY hospitals from the General Fund to the Capital Projects Fund (\$78.6 million in SFY 2018-19).
- Offsetting what otherwise would be State funding for the City University of New York with revenue from the sale of State-owned property used by CUNY (see the Higher Education section; up to \$60 million).
- Using \$41.6 million in funds from debt service reserve releases.
- Continued movement of operational costs from operating funds to capital funds (\$38.3 million in the coming fiscal year related to certain DEC and DOH costs).

The Executive Budget also includes certain actions that add spending to State Operating Funds. Examples include the movement of approximately \$390 million in operating costs out of the Dedicated Highway and Bridge Trust Fund and lower off-budget resources from the State Insurance Fund which have been used to lower State costs for workers' compensation.

Together, the actions summarized above are expected to reduce SFY 2018-19 State Operating Funds expenditures by a net of almost \$2.4 billion, including the offsetting changes and planned \$340 million debt service prepayment. Adjusting for such differences, State Operating Funds spending in the coming year would increase by over 4 percent. In addition, revisions made previously to the manner in which the School Tax Relief (STAR) benefit is provided to taxpayers shift certain fiscal impacts from the program from State disbursements to reductions in State revenues. Such changes result in on-going annual reductions in reported State Operating Funds spending.

The Budget includes various proposals that would provide flexibility for the Executive to manage spending under the 2 percent State Operating Funds cap. One example is language, contained within appropriations throughout the State Operations Budget Bill, which provides the Executive with unlimited authority to increase or decrease such appropriations by interchange or transfer with any appropriation of any other department, agency or public authority or by transfer or suballocation to any department, agency or public authority. This proposal provides the Executive with extraordinarily broad authority to move spending outside State Operating Funds and out of the cap on spending growth, in addition to having other implications.

Another example is an extension (to make permanent) of a provision enacted last year that exempted any amount disbursed from the Debt Reduction Reserve Fund (DRRF) from calculations of annual spending growth within State Operating Funds. Although no disbursements are anticipated from this Fund during the Financial Plan period, the Budget

provides for transfer of up to \$500 million from the General Fund to the DRRF. As in prior years, the appropriation language from the DRRF allows for the payment of routine debt service obligations. However, when considered with the exemption described above, this could be used to reduce amounts that would otherwise be paid during the year from State Operating Funds and lower reported growth. Further discussion of budget actions that change reported growth in State Operating Funds can be found in the Transparency, Accountability and Oversight Issues section of this report.

All Funds

The Financial Plan projects All Funds receipts will decline by \$1.4 billion, or 0.8 percent, to \$163.2 billion primarily reflecting lower tax receipts because of the timing of PIT receipts and the changes associated with the PMT. Miscellaneous receipts are expected to increase \$130 million, reflecting expected growth in bond proceeds and a decline in monetary settlements. Federal receipts, comprising more than one in every three dollars in the Budget, are projected to total \$57.9 billion, reflecting an overall increase of \$101 million, or 0.2 percent, including increased Medicaid reimbursements, a decline in funding for disaster assistance and a 7 percent increase in capital projects. Tax receipts are projected to decline \$1.6 billion, or 2 percent, mostly from the timing of PIT collections and the PMT moving off budget.

All Funds spending is projected to total \$168.2 billion, an increase of \$3.7 billion, or 2.3 percent. DOB projects inflation in SFY 2018-19, as measured by the Consumer Price Index, at 2.2 percent. Local assistance is projected to increase nearly \$1.4 billion, or 1.1 percent, primarily due to increased school aid spending (up \$952 million, or 3.3 percent, on an SFY basis, including a \$325 million increase in capital spending attributed to the Smart Schools Bond Act of 2014) and spending for Medicaid, including administration costs (up \$1.3 billion or 2.3 percent). Spending for capital projects is projected to increase \$1.1 billion or 13.6 percent. All Funds debt service spending is projected to increase \$15 million or 0.3 percent to \$5.6 billion. This projection reflects prepayments of \$340 million in SFY 2017-18. If prepayments are adjusted out of SFY 2017-18, debt service spending in SFY 2018-19 would increase by an estimated \$695 million, or 13.2 percent, over the prior year.

Structural Imbalance

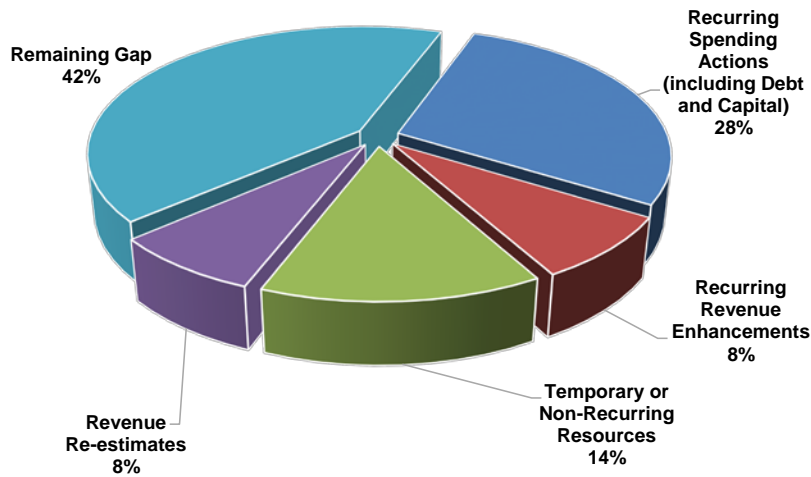
For decades, the State's annual budgets often included provisions that drove recurring spending to rise at a faster pace than recurring revenue, creating a structural imbalance and continual annual budget gaps. Such gaps have traditionally been closed largely through the use of short-term solutions, frequently addressing a single year, a practice which exacerbated the problem for subsequent years. While the State has taken some steps to restrain spending growth in recent years, for example in agency operating budgets, certain other budgetary actions have created revenues or spending reductions that are temporary, helping to balance annual budgets but leaving structural budget challenges unaddressed. In addition, the State has enacted certain increases in spending programs and tax reductions that add to the challenge of achieving structural balance.

The FY 2018 Mid-Year Update released by DOB in November 2017 projected cumulative out-year budget gaps for current services at \$27.3 billion, or an annual average of \$6.8 billion. The Executive Budget includes both revenue and spending actions that are intended to close the SFY 2018-19 gap and reduce projected gaps in future years. As shown in Figure 1,

approximately 44 percent of the value of such actions is recurring in nature, including re-estimates. However, the remaining 56 percent is addressed with temporary actions or left unaddressed, before factoring in the unspecified planned savings associated with the 2 percent benchmark for State Operating Funds spending growth.

Figure 1

Multi-year Composition of SFY 2018-19 Executive Budget Gap-Closing Plan
Total Cumulative Gap to be Closed - \$27.3 billion
 (in millions of dollars)



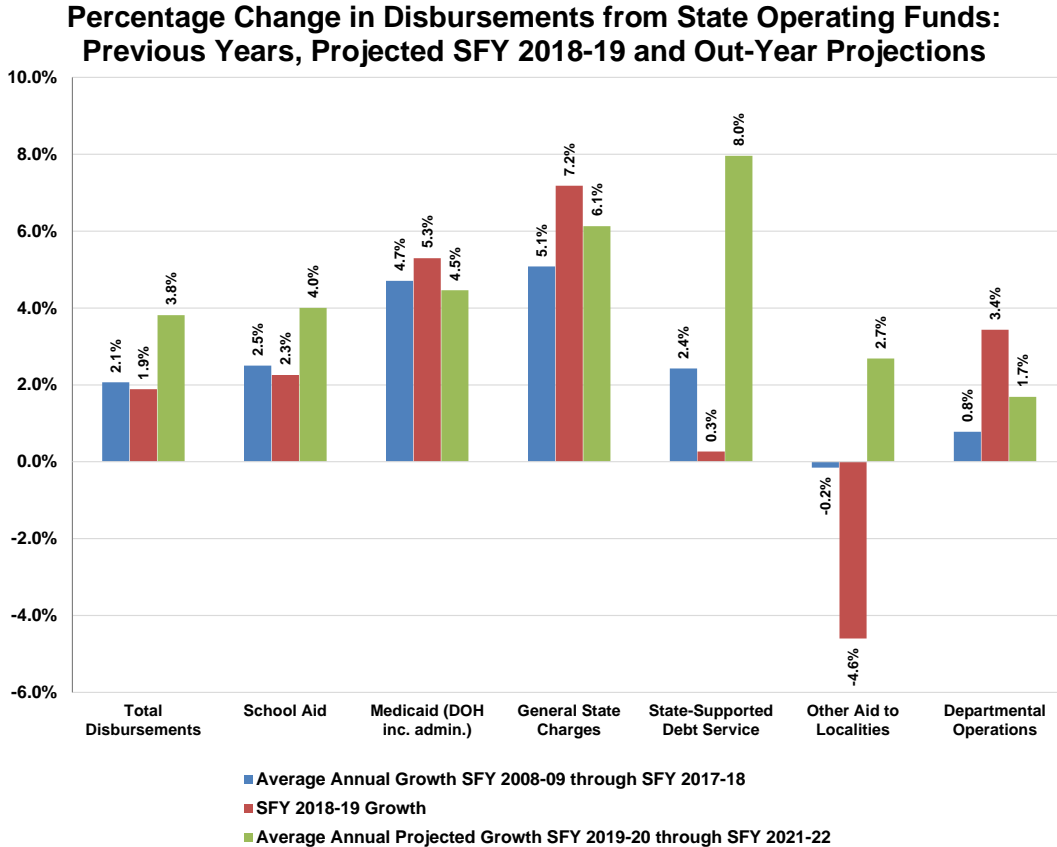
Sources: Division of the Budget and Office of the State Comptroller

Figure 2 illustrates the challenge of restraining State spending on a recurring basis. It summarizes disbursements in major areas for SFY 2008-09 through SFY 2017-18, projected spending for SFY 2018-19 and projected average annual spending in out-years – SFY 2019-20 through SFY 2021-22 – before actions to achieve the assumed 2 percent spending limitation. Projected average growth in total State Operating Funds spending (the group of bars on the left) is 3.8 percent over the three out-years, double the increase projected for the coming year. Projected growth in all the major categories that collectively make up State Operating Funds is above the 2 percent benchmark (with the exception of Departmental Operations), and well above that level in most cases.

Spending obligations in certain areas, such as General State Charges and debt service, can be difficult to change significantly on a recurring basis, because of legal, contractual or other commitments. However, modifying the timing of payments or shifting payments to other funds or off-budget and outside the scope of reported spending can affect the year over year growth without materially changing actual spending requirements.

The amounts for debt service in Figure 2 reflect the use of prepayments, which have helped ensure that overall State Operating Funds growth in recent years remained below 2 percent. The projected average annual growth of 8 percent in the out-years reflects a relatively low base year, in part the result of prepaying debt service in the years before, as well as increases in planned borrowing.

Figure 2



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

Note: Medicaid expenditures include State-funded administration costs as well as Medicaid spending that has been under the Global Cap from other agencies, but not costs associated with the Essential Plan.

The SFY 2018-19 Executive Budget Financial Plan includes projections of out-year gaps that remain after the gap-closing actions described above. Such projections reflect an ongoing structural imbalance between recurring spending and recurring revenue. General Fund gaps are projected at \$2.8 billion, \$4.5 billion and \$4.4 billion, respectively, in SFY 2019-20, SFY 2020-21 and SFY 2021-22, after gap closing actions but before further actions needed to stay within the 2 percent annual cap in State Operating Funds spending growth. The multiyear total of \$11.7 billion is up from an analogous three-year total of \$6.2 billion projected in the SFY 2017-18 Executive Budget Financial Plan for the three fiscal years ending in 2020-21. The increase results from factors including changes in revenue estimates and the enactment of a two-year extension rather than a three-year extension (as assumed in the SFY 2017-18 Executive Budget) of the top PIT rate of 8.82 percent on high-income earners

The Executive Budget Financial Plan estimates unspecified savings associated with limiting spending growth from State Operating Funds to 2 percent annually in coming years. For the three out-years in the Plan, starting in SFY 2019-20, such savings are estimated at just under \$2.7 billion, \$4.8 billion and \$5.6 billion, respectively, or a cumulative total of \$13.1 billion. After reflecting those projected but unidentified savings, as well as specifically outlined revenue and spending proposals, the Executive Budget Financial Plan projects a deficit of \$127 million in SFY 2019-20 and surpluses of \$256 million in SFY 2020-21 and \$1.2 billion in SFY 2021-22.

As has been the case in recent Executive Budgets, the proposed Financial Plan's savings estimates do not include any detail as to how such savings would be achieved. Rather, the estimated savings are labeled on a distinct line in the Financial Plan tables as "Adherence to 2 percent Spending Benchmark." The total disbursements in the Financial Plan tables, reflected in the out-year gap projections described above, do not assume these savings. As a result, the spending projections in the out-years of the Financial Plan for specific programmatic areas may or may not materialize, depending on whether and how the 2 percent State Operating Funds spending cap is achieved.

Non-Recurring and Temporary Resources

The Executive Budget includes \$5.6 billion in SFY 2018-19 resources that are either temporary (more than one year but not permanent) or non-recurring (one year), including \$524 million in federal disaster relief assistance. Figure 3 shows the Office of the State Comptroller's analysis of such resources. Of the \$5.1 billion total in non-federal temporary resources in SFY 2018-19, \$2.8 billion results from temporary actions in previous budgets (primarily the extension of the top PIT rate), and \$340 million represents prepayments. Over \$9.8 billion in non-federal resources projected over the Financial Plan period are one-time or temporary.

Figure 3

Temporary and Non-Recurring Resources (in millions of dollars)

	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2022-23	Total
Prepayments and Use of Reserves					
Use of Reserves	39	-	-	-	39
Debt Service Reserve Release	42	-	-	-	42
Use of Settlement Resources	577	-	-	-	577
SFY 2017-18 Debt Service Prepayment	340	-	-	-	340
<i>Subtotal</i>	998	-	-	-	998
Temporary or Non-Recurring Resources Proposed in SFY 2018-19					
Sweeps from Other Funds	178	-	-	-	178
Health Insurance Conversions	750	750	750	750	3,000
MTA Mobility Tax Timing	60	-	-	-	60
NYPA Transfer	20	-	-	-	20
Resources from Essential Plan Medical Loss Ratio	220	41	-	-	261
Indirect Cost Non-recurring Benefit	60	-	-	-	60
Business-Related Tax Credit Deferral	82	278	199	164	723
<i>Subtotal</i>	1,370	1,069	949	914	3,388
Previously in Law or Outside Budget Process					
High Income Charitable Deduction Limit	70	140	70	-	280
New York State Insurance Fund	100	-	-	-	100
Sales Tax Asset Receivable Corporation Refunding	200	17	-	-	217
CUNY Asset Sales	60	-	-	-	60
Mortgage Insurance Fund	44	-	-	-	44
NYPA Repayment Adjustment	(21)	(43)	(43)	(43)	(150)
Temporary PIT Bracket (1)	2,300	1,981	640	-	4,922
<i>Subtotal</i>	2,753	2,095	667	(43)	5,473
Total State Temporary, Non-Recurring and Prepayments	5,121	3,164	1,616	871	9,858
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (2)	524	420	429	429	1,801
Total State and Federal Temporary and Non-Recurring Resources	5,645	3,584	2,045	1,300	11,274

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

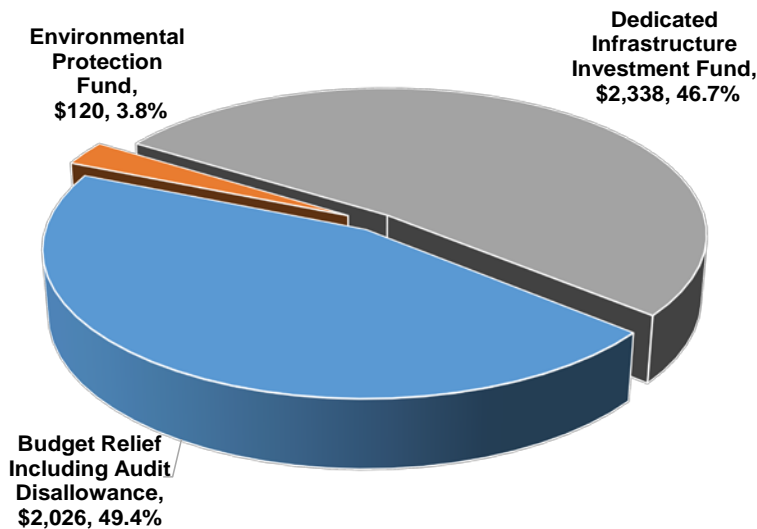
Notes: (1) Projections for the existing PIT provisions were not updated in the SFY 2018-19 Executive Budget Financial Plan. These projections are based on actual collections relative to Plan. (2) The Financial Plan does not detail spending for Disaster Assistance, but the projected spending is included in the Division of Homeland Security and Emergency Services disbursement totals. These figures assume approximately \$400 million annually for other federally funded Homeland Security costs.

Settlements

To date in SFY 2017-18, the State has received approximately \$838 million in non-recurring and largely unanticipated settlements from various financial institutions and insurance companies, compared to \$1.3 billion received in SFY 2016-17, \$3.6 billion in SFY 2015-16 and \$4.9 billion in SFY 2014-15. DOB expects to use \$383 million for General Fund budget relief in SFY 2018-19, after using \$461 million in SFY 2017-18. That would bring total spending of settlement resources for budget relief to more than \$2 billion, nearly half of all settlement funds projected to have been used by the end of the coming fiscal year. Figure 4 illustrates the use of settlement revenues over five years, including projections for the coming fiscal year. The Executive Budget allocates all settlement receipts that have not previously been designated for use.²

Figure 4

Sources and Uses of Monetary Settlements - SFY 2014-15 through SFY 2018-19
(in millions of dollars and percentage of total uses)



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

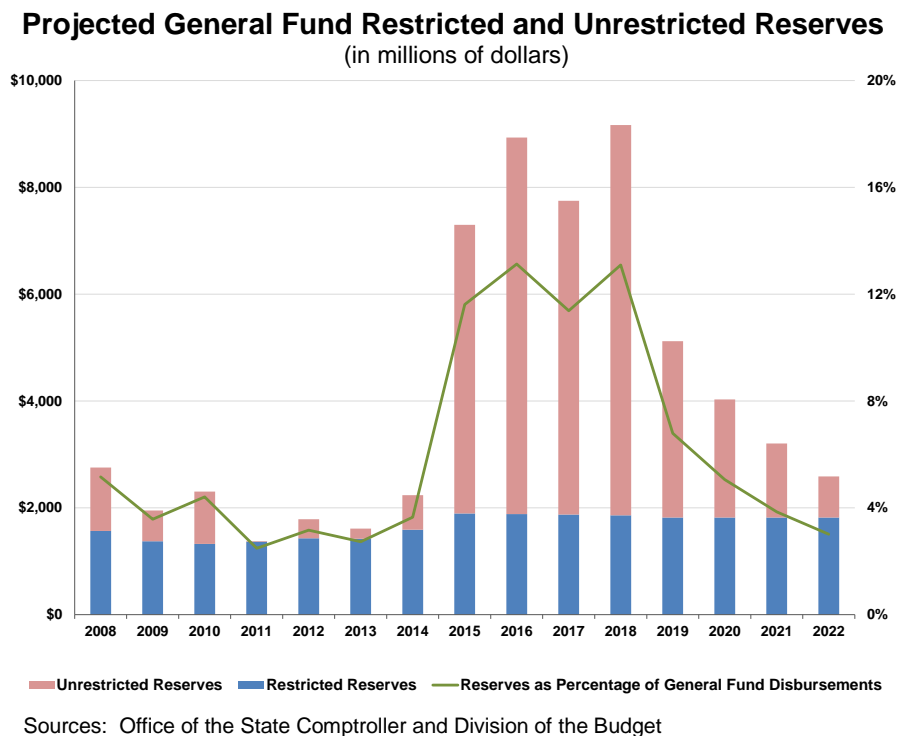
Using non-recurring resources for capital assets or for non-recurring expenditures appropriately applies one-time resources to one-time expenditures. Applying one-time resources to capital investments also avoids interest costs that would be incurred if debt were used to pay for such assets. Such resources should not be used to support spending that is expected to continue when the resources are depleted, and thus are not appropriately targeted to ongoing operating expenses or to certain capital expenditures such as ongoing maintenance costs.

² This statement does not apply to settlements that were announced after submission of the SFY 2017-18 Executive Budget on January 17, 2017. For example, on January 30, 2017, the Department of Financial Services announced a settlement totaling \$425 million with Deutsche Bank for money laundering activities.

Reserves

DOB projects that the combined balances in the State’s two largest statutory reserve funds – the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund – will total approximately \$1.8 billion as of March 31, 2018, representing approximately 2.6 percent of General Fund expenditures. No deposits to those reserves are planned for the coming fiscal year. In addition to the State’s restricted reserves, the General Fund also has unrestricted reserves, which include certain monetary settlement funds. Total reserves are projected to reach a recent historical high level of \$9.2 billion at the end of the current fiscal year before declining sharply in the coming year, in part because of the timing of PIT receipts as well as expected transfers to the Dedicated Infrastructure Investment Fund (DIIF) and use of such funds for General Fund budget relief. Figure 5 shows historic and projected General Fund reserves between SFY 2007-08 and SFY 2021-22, as well as reserves as a percentage of General Fund spending. By SFY 2021-22, reserves as a proportion of General Fund spending are expected to drop nearly to the level experienced in the aftermath of the Great Recession.

Figure 5



Proposals Affecting the Debt Reduction Reserve Fund

The Budget includes a proposal that would authorize an amount equal to 50 percent of the “cash basis surplus” within the General Fund, as calculated and certified by the Director of the Budget, to be transferred to the Debt Reduction Reserve Fund (DRRF). Cash-basis surplus is defined as estimated aggregate receipts over estimated aggregate disbursements at the end of the fiscal year, as calculated on or before March 25th by the Director of the Budget. Upon request by the Director of the Budget, the Comptroller would transfer such amount from the General Fund to the DRRF. In addition, funds could stay in the DRRF at the end of the fiscal year. Currently, funds are returned to the General Fund if not used during the fiscal year. The proposal would make permanent the exclusion of DRRF spending from the 2 percent cap on

annual growth in State Operating Funds that was enacted as part of the current Budget. This provision currently sunsets in June 2019. The Budget also includes both an authorization to transfer up to \$500 million to the DRRF and an associated appropriation of \$500 million, although the Executive does not indicate an intention to transfer resources into the DRRF or to spend from the DRRF.

Risks to the Financial Plan

As with any Financial Plan, the SFY 2018-19 Executive Budget Financial Plan is subject to various risks and uncertainties. As discussed earlier in this section and in the Revenue section, it appears that enactment of the federal Tax Cuts and Jobs Act in December drove a spike in PIT estimated payments in that month. Such receipts totaled more than \$3 billion, up 85 percent from the same month a year earlier. Taxpayer behavior in response to these federal changes is one factor that leads to increased volatility in State revenues. These federal changes can be expected to have unpredictable impacts on State tax receipts well into the coming fiscal year and beyond. Such uncertainty represents a risk that suggests a heightened need for caution in revenue projections for the coming year.

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

Risks to health care funding within the Financial Plan period include reductions in federal Disproportionate Share Hospital (DSH) payments to hospitals that treat large numbers of Medicaid recipients. The Financial Plan does not incorporate such reductions and any resulting impacts on hospitals and other entities remain unclear.

The Budget assumes \$750 million in proceeds from health plan conversions or similar transactions in each of the coming four fiscal years, with \$500 million to be used for General Fund budget relief and \$250 million to be put in a new Health Care Shortfall Account within the Health Care Reform Act (HCRA) program, in part for potential shortfalls in federal aid. Uncertainty regarding whether and when such transactions may occur, and what resources would flow to the State as a result, constitute another risk to the Budget.

The State has committed to provide \$8.3 billion in funding to the Metropolitan Transportation Authority for its 2015-19 capital plan no later than SFY 2025-26 or by the completion of the MTA capital program. However, the financing sources for the majority of this commitment have yet to be identified.

Transparency, Accountability and Oversight Issues

Transparency, accountability and independent oversight are keys to ensuring that taxpayer dollars are protected from waste, fraud and abuse, and that public access to important information regarding government activities is protected. These essential elements also help assure taxpayers that the State Budget is fiscally responsible and provides an honest representation of the State's spending plan. Provisions that weaken these protections leave

public resources more vulnerable to misuse, and may diminish New Yorkers' confidence in their State government.

Certain elements of the SFY 2018-19 Executive Budget fall short with respect to high standards of transparency, accountability and oversight. These include: broad grants of unilateral authority to the Executive to manage or reshape the Budget; broadly defined allocations of State resources; elimination of important checks and balances; and use of budget actions that obscure the level and growth of State revenues, spending and obligations. Examples of Budget proposals and actions that raise such concerns are described below.

Broad expansion of Executive discretion to manage and/or reshape the Budget.

The Executive Budget includes a number of new provisions and revises existing provisions, potentially involving billions of dollars, which provide significant flexibility to the Executive after enactment of the Budget. Such flexibility could be used, for example, to increase or decrease spending, or change the use of spending while bypassing the Legislature's role regarding the allocation of State resources. In certain cases, the Executive has indicated that such proposals are necessary to mitigate Financial Plan risk, while in other cases the goal is unclear. While these provisions may provide flexibility in managing the budget, they also leave uncertainty as to how their use might affect state agencies, local governments, nonprofits and individual New Yorkers who rely on State funding.

Such provisions include:

- **Aid to Localities Reduction Language.** Language is included in the Aid to Localities appropriations bill and in a separate Article VII proposal to authorize the Budget Director to uniformly reduce certain Local Assistance appropriations and disbursements by up to 3 percent to maintain a balanced budget if projected tax receipts for SFY 2018-19 are reduced by more than \$500 million from the Executive Budget projection. Such projections are established solely by the Executive. The reductions would begin within ten days following publication of a financial plan with such reduced projections. School aid, Medicaid, court orders or judgements, CUNY senior colleges, debt service, payments from the community projects fund and certain public assistance payments would be exempt from reduction, as would appropriations and spending where reductions would violate federal law. If actual tax receipts at the end of the year were not less than \$500 million below the Executive Budget estimates, the amounts withheld would be payable as soon as practicable in SFY 2020-21, more than a year after such reductions occurred. If this provision had been enacted with the SFY 2017-18 State Budget, the Budget Director could have invoked this authority within weeks after budget adoption since the Enacted Budget Financial Plan reduced tax revenue estimates for SFY 2017-18 by \$1.5 billion from the Executive Budget estimate.
- **Federal Funding Reduction Language.** The Budget would extend for one additional year, and broaden, language included in the SFY 2017-18 Enacted Budget that empowers the Director of the Budget to cut planned spending, absent action by the Legislature, if certain federal assistance is reduced by \$850 million or more, to include impacts from additional types of federal actions. This provision leaves unclear the specific circumstances under which the \$850 million threshold would be deemed to have been met.

- **State Operations Transfer Language.** Numerous State Operations appropriations provide the Executive broad authority to shift resources among departments, agencies or public authorities. While existing State Finance Law authorizes some transfer, interchange and suballocation authority, the new proposal would significantly expand such flexibility to restructure the Budget after enactment, potentially moving resources from one area to completely different programs or purposes. Any transfer of funds from State agencies to public authorities could reduce oversight and control of such resources.
- **Language Authorizing Changes to the Child Health Plus Program.** The Budget Director would be provided discretion to make changes to the Child Health Plus (CHP) program, pursuant to a plan submitted to the Legislature, if federal funding for the program is reduced or eliminated on and after October 1, 2017. Although Congress enacted a multi-year extension of the program after submission of the Executive Budget, the proposed Budget language is not time-limited and its long-term impact is unclear.
- **Linking State Operations and Aid to Localities Budgets.** Language included in certain Education and Department of Health State Operations appropriations would make appropriated funds unavailable until the Legislature's enactment of related Aid to Localities appropriations in an amount deemed sufficient for the fiscal year by the Budget Director.

Expanded use of alternative procurement methods without robust protections.

The Budget proposes to authorize additional entities to use design-build procurement, significantly expand the scope of eligible projects and make other amendments described in more detail in the Debt and Capital section of this Report. Certain proposed changes diminish independent oversight by removing the Comptroller's ability to review and approve State authority contracts. The proposal could also weaken or eliminate existing protections or requirements related to non-performance or payment, low bid and separate specifications. While design-build procurements may facilitate construction efficiency and cost savings, greater transparency, accountability and independent oversight would help ensure the safeguarding of public resources.

Lack of clarity with respect to the level of State Operating Funds spending and spending growth.

In recent years, the Executive has set a goal to limit annual growth in State Operating Funds spending to no more than 2 percent. As described earlier in the Financial Plan Overview section of this report, the Financial Plan includes several timing-related adjustments, shifts and categorizations of spending that cloud the reported rate of growth in State Operating Funds spending. The readily identifiable actions described in this report are expected to reduce SFY 2018-19 State Operating Funds expenditures by a net of almost \$2.4 billion. Adjusting for such differences, State Operating Funds spending in the coming year would increase by over 4 percent. Given this, it is unclear how effectively the 2 percent State Operating Funds benchmark serves to restrain overall spending. While budget management actions can be evaluated based on their individual merits, a clear delineation of such proposals, and their overall impact on State Operating Funds growth, would improve transparency related to the State's fiscal condition and budgetary trends. Shifting spending outside the scope of State Operating Funds, which otherwise would be counted within such measure, diminishes the reliability and meaning of any presentations of such spending and growth.

While the Executive Budget Financial Plan shows the amount of spending reductions that would be necessary to meet the 2 percent benchmark for State Operating Funds spending growth in the out-years, it does not show where such reductions would be made. Such information would provide greater assurance that the stated goal is achievable without use of budgetary gimmicks, and would help local governments and other entities dependent upon State assistance to plan more effectively.

Many appropriations throughout the State Operations and Aid to Localities budget bills include “net of refunds, reimbursements, credits, rebates and disallowances” language (and various combinations thereof). Use of this budgeting mechanism has been interpreted by the Executive to allow associated receipts to be reported as reductions in spending, thereby lowering reported receipts and spending of the State. However, this treatment of appropriations should only be used in circumstances that are appropriate from an accounting perspective, such as a return of an over-payment made in a prior year to a current year appropriation. It is unclear to what extent the new language could be used to manage spending growth using transactions that should not be classified in this manner.

Use of lump-sum and other broad-scoped appropriations for Executive and Legislative initiatives.

The proposed Budget would continue and expand the State’s use of lump sum and other broadly-scoped appropriations for yet-to-be-determined projects. In an effort to improve transparency and accountability in the State’s spending, the Budget Reform Act of 2007 prohibited the use of lump-sum appropriations by the Legislature, with more limited restrictions for the Executive.³ The statutory prohibition can, however, be circumvented in various ways. Examples of proposed lump sum appropriations in the Executive Budget include:

- **Spending authority from the Dedicated Infrastructure Investment Fund (DIIF).** The Budget anticipates the transfer of \$4.5 billion to the Fund over the life of the Capital Plan to support reappropriations, most of which are in lump sums, to be allocated based on broadly worded language.
- **The bond-financed State and Municipal Facilities Program.** Reappropriations for this multi-billion-dollar program are included in the Budget and \$13.5 million in new bonding authorization is proposed. The allowed uses of such moneys include a broad range of economic development, education, environmental and other purposes. The proposed reappropriations do not include specific language to outline the process by which such funds will be allocated, or purposes or entities to receive funding.
- **New lump sum or broad-scoped appropriations.** These include a \$1 billion broad-scoped appropriation for the proposed Health Care Shortfall Account within HCRA as described in the Health/Medicaid portion of the Program Area Highlights section of this report. Spending for certain broadly defined purposes would be made pursuant to a plan prepared by the Commissioner of Health and approved by the Budget Director and could be for payments previously or not yet accrued. Broad authority is provided to interchange, transfer or suballocate the funds to other State agencies. Although one stated purpose of the appropriation is to address shortfalls in federal reimbursement for health care funding,

³ See State Finance Law Sections 2-a and 24.

the broadly drafted language would encompass a wide range of programs and purposes that are left unspecified and which could be unrelated to reductions in federal aid.

New lump sum appropriations include \$200 million for the New York Works Economic Development Fund and \$300 million for the High Technology Innovation and Economic Development Infrastructure program. Such programs use less transparent mechanisms to distribute hundreds of millions of dollars, providing minimal disclosure of decision making regarding the allocation of funds, the intended recipients of such funding, specific expenditures and the potential benefits of such spending for New Yorkers.

Continued and expanded use of off-budget spending for State programs.

The Budget would continue the practice of “off-budget” spending of certain funds, and shifting out spending that had traditionally been included in the Budget and in State spending totals. It includes a proposal to direct revenues from the State Payroll Mobility Tax (PMT) directly to the MTA, outside of the State Treasury and without an appropriation as has been the practice in the past. The proposal would lower the reported level of State revenues and spending going forward. According to the Executive, approximately \$1.5 billion in receipts and \$1.4 billion in spending associated with this proposal would be shifted off-budget in SFY 2018-19. Although no projections of future year impacts are provided with the Budget, these figures would be expected to increase in future years with normal economic growth in the MTA region. The proposal would reduce oversight of and accountability for significant amounts of taxpayer resources.

Another example of off-budget spending is the use of certain State Insurance Fund revenues, estimated at \$100 million in SFY 2018-19, to pay for a portion of State employee workers’ compensation costs. If these programs were appropriated within the State Budget, the spending would be subject to greater oversight and control, and such spending would be counted within the appropriate fund and category (e.g., State Operating Funds, capital projects), providing a more accurate representation of the State’s use of public resources. Off-budget spending artificially makes spending for State-related purposes appear lower, and eliminates essential oversight, transparency and accountability.

The SFY 2018-19 Executive Budget proposes to bring certain “off-budget” capital spending (spending that is paid directly by a public authority from State-Supported bond proceeds) on budget. However, DOB has indicated that it will not change how it reports capital spending in the Financial Plan and Capital Plan until these provisions are enacted into law.

Bypassing of independent oversight and procurement integrity provisions.

The Executive Budget includes several proposals that would bypass existing statutory provisions that are intended to ensure independent oversight and procurement integrity. In certain instances, the competitive bidding process and the Office of the State Comptroller’s contract review authority would be eliminated. In one case the elimination of these protections is coupled with an authorization for the distribution of funds without a formally executed contract.

Under Section 112 of the State Finance Law, the Office of the State Comptroller conducts an independent review of most State agency contracts. Under Section 2879-a of the Public

Authorities Law, the Comptroller also has the authority to review certain public authority contracts, particularly where such contracts are funded with State tax dollars. This independent review reduces the risk of waste, fraud or abuse.

As noted above, the Comptroller's ability to review and approve State authority contracts in furtherance of projects authorized under the Infrastructure Investment Act would be eliminated. Other examples where such review or competitive bidding requirements would be bypassed include a proposed \$30 million federally funded Aid to Localities appropriation for services for persons with heroin and opiate use addiction disorders, \$2.9 million in DOH emergency assistance expenses, and certain spending for care coordination by the Office for People With Developmental Disabilities (OPWDD). With respect to such OPWDD spending, an unspecified portion of two of its Aid to Localities appropriations, totaling more than \$2 billion, would also authorize the disbursement of funds without a formally executed contract. Distribution of funds would instead be made pursuant to a "letter of agreement", raising questions regarding the protections intended to safeguard public resources that are inherent in a formally binding contract.

Competitive bidding would also be bypassed for: a proposed \$425 million capital projects appropriation for the Health Care Facility Transformation Program for health care institutions and community-based providers; \$46.4 million in OPWDD spending for capital projects; and certain OPWDD funds for supportive housing.

Inclusion of blanket fund sweep authorization related to dedicated funds.

The Budget would authorize \$800 million in unspecified transfers from dedicated funds to the General Fund, an increase of \$300 million from the SFY 2017-18 Enacted Budget. Any use of such sweeps could undermine the purposes for which dedicated funds and associated revenue streams were originally intended.

III. Economy and Revenue

Economic Outlook

At the end of 2017, the national economy was in the third longest expansion in recorded history of U.S. business cycles.⁴ This expansion is widely expected to continue in 2018. DOB projects acceleration in real GDP growth to 2.5 percent, compared to 2.3 percent in 2017. IHS Markit also projects stronger growth in 2018, at 2.7 percent.⁵

Nationally, employment grew by 1.5 percent in 2017, an increase of over 2.1 million jobs. In 2018, DOB projects employment growth to decelerate to 1.4 percent while IHS projects a slightly higher increase of 1.6 percent. IHS also projects more robust growth in both wages and personal income, at 4.4 percent in 2018, as compared to DOB's projections of 3.7 percent and 3.9 percent, respectively.

Figure 6

	New York Economic Indicators					
	(percentage change)					
	2017		2018		2019	
	DOB	IHS	DOB	IHS	DOB	IHS
Employment	1.2	1.3	1.1	0.9	1.1	0.9
Wages	6.1	3.9	2.1	4.1	5.0	4.9
Personal Income	4.7	2.6	3.1	3.7	4.9	4.8

Source: Division of the Budget, IHS January 2018 Regional Forecast
Note: 2017 figures are estimated, 2018 and 2019 figures are projected

New York's economy also continued to expand in 2017. According to IHS, the State's GDP is estimated to have increased by 1.4 percent, an acceleration from 0.4 percent the previous year. According to preliminary data from the State Department of Labor, employment in New York grew by 1.3 percent, an increase of just over 125,000 jobs, with over 118,000 of these in the private sector. This was a deceleration from a gain of 1.5 percent in 2016.

According to the Quarterly Census of Employment and Wages (QCEW), total New York wages paid in the first half of 2017 were 5.7 percent higher than those for the same period in 2016. Annual wage growth in 2017 is estimated by DOB to reach 6.1 percent, an acceleration from 2.2 percent in 2016. While increased employment is one factor in higher total wages, bonus growth in the securities industry during the first quarter of the year also played a role.

Both DOB and IHS expect employment growth in New York to slow further in 2018, as shown in Figure 6. While higher employment is projected to result in higher wages over the course of the year, this increase is mitigated by an estimated decline in bonuses. As a result, DOB projects wage growth to decelerate to 2.1 percent.

⁴The National Bureau of Economic Research reports business cycle expansions and contractions from December 1854 to present.

⁵ DOB does not include any impact from the federal Tax Cuts and Jobs Act on the national and state economies, while IHS' projections include a modest positive impact. IHS Markit is a consulting firm that produces economic forecasts.

Similar to the projections for wages, personal income is estimated by DOB to have realized fairly strong growth in 2017 but is also projected to slow in 2018. The slower increase in wages is the primary factor driving lower expected personal income growth, as both property income (dividends and capital gains) and proprietors' income (business income) are projected to grow at higher rates than in 2017.

Revenue

All Funds Revenues

DOB projects All Funds revenues in the current fiscal year (including Federal receipts) to total \$164.6 billion, an increase of 5.2 percent or \$8.2 billion from SFY 2016-17. All Funds tax collections are estimated at \$79.0 billion, up \$4.6 billion or 6.2 percent. Growth in both figures is higher than previously expected, largely due to estimated tax payments under the personal income tax (PIT) that some taxpayers accelerated into the 2017 tax year as a result of passage of the federal Tax Cuts and Jobs Act. Other factors in such growth include increased business tax audit collections and increased estate tax collections resulting from super-large estates. Figure 7 shows revenues as projected in the FY 2018 Enacted Budget Financial Plan, issued in May 2017, and as now projected in the Executive Budget.

Figure 7

All Funds Revenues (in millions of dollars)					
	SFY 2017-18 Enacted	SFY 2017-18 Estimated	Percent Change	SFY 2018-19 Projected	Percent Change
Personal Income Tax	49,382	50,935	3.1%	49,244	-3.3%
Consumption and Use Taxes	16,861	16,754	-0.6%	17,664	5.4%
Business Taxes	7,969	7,346	-7.8%	8,198	11.6%
Other Taxes	3,714	3,917	5.5%	2,263	-42.2%
Total Taxes	77,926	78,952	1.3%	77,369	-2.0%
Miscellaneous Receipts	26,509	27,829	5.0%	27,959	0.5%
Federal Grants	56,642	57,777	2.0%	57,878	0.2%
Total Revenues	161,077	164,558	2.2%	163,206	-0.8%

Source: Division of the Budget

In SFY 2018-19, All Funds revenues are projected at \$163.2 billion, a decrease of 0.8 percent or \$1.4 billion. According to the Executive, this projected decline largely reflects the acceleration of PIT payments into the 2017 tax year, as well as the proposal to shift off-budget the revenues from the Metropolitan Commuter Transportation Mobility Tax (also known as the MTA Payroll Mobility Tax or PMT). These factors are also projected to impact All Funds tax collections which are projected to decrease to \$77.4 billion, a decline of \$1.6 billion or 2.0 percent.

DOB estimates that taxpayers' shifting of payments moved \$1.9 billion of revenues from the 2018 calendar year into 2017. Adjusting for that amount, and for the PMT moving off-budget, All Funds tax collections would increase by 4.8 percent in the coming fiscal year.

Impact of Federal Tax Law Changes

Federal tax changes enacted in December will have numerous impacts on New Yorkers' State tax liability, in both the PIT and business taxes, under existing Tax Law. With one exception related to the Child Tax Credit, the Budget does not propose any action to address such impacts. In some cases, the Federal changes would increase State tax revenues while in other instances, they would decrease. The Financial Plan does not reflect such revenue impacts other than the impact of de-coupling the Child Tax Credit. (The Executive has announced plans to address such impacts further in Budget amendments.) Several specific examples of revenue effects from the federal changes are discussed later in this section. Appendix C of this report provides a listing of such impacts as identified by the Department of Taxation and Finance (T&F).⁶

Proposed Revenue Actions

The Executive Budget's proposed revenue actions, as identified by DOB, include measures that are projected to have a net increase on All Funds revenues of \$586 million in SFY 2018-19 and \$981 million in SFY 2019-20.

Figure 8

	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22
De-Couple Empire State Child Tax Credit with Federal Child Tax Credit	-	-	-	-
Revise Treatment of Carried Interest	-	-	-	-
Deferment of Business-Related Tax Credit Claims	-	8	66	48
Consumption/Use Taxes	318	486	469	453
Excise Tax on Opioids	127	171	154	138
Elimination of Sales Tax Exemption on Energy Services	96	128	128	128
Expansion of Sales Tax on Internet Purchases	80	159	159	159
Amended Tax Rate on Cigars	12	23	23	23
Tax on Vapor Products	3	5	5	5
Business Taxes	82	278	96	79
Deferment of Business-Related Tax Credit Claims	82	278	133	116
Extension of Hire-A-Vet Credit	-	-	(37)	(37)
Enhancement of NY Youth Jobs Credit	-	-	-	-
Miscellaneous Receipts	180	193	213	213
Fee on For-Profit Health Insurers	140	140	140	140
Simplification of Video Lottery Gaming Rate	22	20	20	20
Modernization of Highway Right of Way Fees	15	30	50	50
Imposition of Vehicle Safety Inspection Fee	3	3	3	3
Tax Enforcement	6	11	11	11
Warrantless Tax Debt Assessed Against Unclaimed Funds	3	3	3	3
Extension of Statute of Limitations on Amended PIT Returns	3	3	3	3
Tax & Finance Appeals of Tax Appeals Tribunal Decisions	-	5	5	5
All Other Revenue Actions	-	5	10	11
TOTAL ALL FUNDS IMPACT OF REVENUE ACTIONS	586	981	865	815

Source: Division of the Budget

Note: While the Division of the Budget estimates that re-classifying carried interest as business income would increase revenues by \$1.1 billion, the proposal is dependent upon New York's surrounding states enacting similar legislation. As a result, no increased revenue has been reflected in the Financial Plan.

⁶ Preliminary Report on the Federal Tax Cut and Jobs Act. New York State Department of Taxation and Finance. January 2018. See: www.tax.ny.gov/pdf/stats/stat_pit/pit/preliminary-report-tcja-2017.pdf.

These figures do not include the retention of more than \$500 million in annual tax revenues starting in SFY 2019-20 related to the de-coupling of the Empire State Child Tax Credit from the federal Child Tax Credit, as detailed below. These proposals include the deferral of business tax credits, expansion of the current tax base in the sales and use tax, new or increased taxes and fees, and enforcement actions. The proposals with the largest fiscal impacts in SFY 2018-19 are new fees that would be imposed on for-profit health insurance companies and an excise tax on opioid manufacturers and distributors. These two proposals would increase revenues by \$267 million in SFY 2018-19 and by \$311 million in SFY 2019-20. Figure 8 shows DOB's projection of fiscal impacts of proposed changes.

Personal Income Tax

Collections

For the current fiscal year, personal income tax collections are estimated at \$50.9 billion, an increase of \$3.4 billion, or 7.1 percent. Although wages and total bonuses for SFY 2017-18 are estimated to accelerate from the previous year, the primary driver for this large increase is the impact of the enactment of the federal Tax Cuts and Jobs Act. With the limitation on the itemized deduction for state and local taxes going into effect on January 1, 2018, many taxpayers made estimated payments in December 2017 rather than in January or April 2018. DOB now projects receipts from estimated payments will total \$17.7 billion in the current fiscal year, nearly 35 percent of net PIT receipts. For SFY 2018-19, estimated payments are projected at \$14.9 billion, a reduction in the share of PIT receipts to just over 30 percent.

Reflecting that expected decline, total PIT collections in SFY 2018-19 are projected to decrease by \$1.7 billion or 3.3 percent to \$49.2 billion. Wages and other items of personal income are projected to continue to increase, partly offsetting the decline in estimated payments.

New Revenue Actions

The proposals in the Executive Budget affecting PIT revenues, including enforcement actions, are projected to have a minimal impact on revenues in the coming year. The Budget proposes to de-couple the Empire State Child Tax Credit from the federal Child Tax Credit, eliminating an increase in the State credit that would otherwise occur and preserving more than \$500 million in annual revenues starting in SFY 2019-20, according to the Executive.

The Budget does not address any other flow-through provisions from the federal Tax Cuts and Jobs Act that will affect State PIT revenues absent changes to the State Tax Law. Major examples of such provisions that are not addressed include the definition of a single filer for purposes of the standard deduction, estimated by T&F to increase State revenues by \$840 million. In addition, the \$10,000 cap on federal itemized deductions for state and local tax (SALT) payments establishes a similar limit on property tax deductions taxpayers can claim on their State tax returns, which is estimated by T&F to increase tax revenues by over \$400 million.

The Budget includes a proposal to address the federal tax treatment of carried interest. Carried interest is the share of profits received by partners of private investment funds which are treated as capital gains and therefore are taxed for federal purposes at a preferential rate. At the State level, there is no preferential tax treatment of this income. The proposals would impose a State fee equal to the federal tax benefit afforded this type of income. However, the new fee would

only take effect if substantially similar legislation is enacted in Connecticut, New Jersey, Massachusetts and Pennsylvania. As a result, no increased revenue has been reflected in the Financial Plan.

Consumption and Use Taxes

Collections

For SFY 2017-18, All Funds collections from the sales and use tax, and other consumption and use taxes, are estimated at \$16.8 billion, an increase of \$542 million or 3.3 percent. The growth is driven primarily by a 4.6 percent increase in sales and use tax receipts reflecting overall economic factors. Mitigating the strong sales tax collections is an expected continued decline in cigarette and tobacco tax collections and the impact of increased refunds under the Highway Use Tax. In SFY 2018-19, consumption and use taxes are projected to increase to \$17.7 billion, up by \$910 million or 5.4 percent. This growth is largely due to a projected increase of 5.2 percent in the sales and use tax, driven by projected strength in the existing sales tax base as well as proposed new revenue actions.

New Revenue Actions

Proposals affecting consumption and use taxes are projected to increase revenues by \$318 million in SFY 2018-19 and by over \$450 million thereafter. They include measures that would:

- Require internet marketplace providers, such as Amazon, that provide a forum for transactions and receive payments for purchases, to collect sales tax on taxable sales made through such marketplaces to New York customers. The proposal would increase projected sales tax revenues by \$80 million in SFY 2018-19 and by \$159 million thereafter.
- Impose an excise tax on the first sale of opioids in New York at a rate of two cents per morphine milligram equivalent. The tax is projected to raise \$127 million in revenues in SFY 2018-19 and \$171 million in SFY 2019-20. Revenues are projected to decline in the following years based on an expectation that opioid use will decrease.
- Eliminate the sales tax exemption on energy services purchased from an energy service company (ESCO). Commercial customers that benefit from the current exemption would be subject to the sales tax. Residential customers would not be affected since all residential energy services are exempt. This proposal is projected to increase revenues by \$96 million in SFY 2018-19 and by \$128 million annually thereafter.
- Impose a tax on electronic cigarettes and other vapor products. The tax would be imposed at 10 cents per fluid milliliter and would increase revenues by \$3 million in SFY 2018-19 and by \$5 million annually thereafter.

Business Taxes

Collections

All Funds business tax collections are estimated at \$7.3 billion in SFY 2017-18, an increase of \$367 million or 5.7 percent. The growth is attributable to increased collections from the corporate, insurance and bank taxes.

For SFY 2018-19, All Funds business tax collections are projected at \$8.2 billion, rising \$852 million or 11.6 percent. This increase primarily reflects growth in the corporate franchise tax resulting from higher corporate profits and increased audit collections, partially offset by lower expected audit receipts under the bank tax.

New Revenue Actions

The Executive Budget proposes to defer the payment of existing business-related tax credits for three years. The aggregate annual amount of individual taxpayers' credits in excess of \$2 million would be deferred. The top three tax credits impacted by this proposal would be Empire Zone tax credits, brownfield tax credits, and the investment tax credit. This proposal would increase revenues by \$82 million in SFY 2018-19, by \$278 million in SFY 2019-20, and by \$199 million in SFY 2020-21, while reducing revenues in certain future years when the credits would be paid.

Other Taxes

Other taxes include the estate tax, the real estate transfer tax, pari-mutuel taxes, the boxing and racing exhibitions tax, and the MTA payroll tax. In SFY 2017-18, All Funds collections from these taxes are estimated to be \$3.9 billion, an increase of \$301 million or 8.3 percent. This is primarily due to an estimated increase in estate taxes of \$223 million due to collections from three super-large estates, as well as growth in MTA payroll tax collections. For SFY 2018-19, collections from other taxes are projected to decrease to \$2.3 billion, a drop of \$1.6 billion or 42.2 percent. This large decline reflects the proposal to move the MTA payroll tax off-budget. In the absence of that change, collections would decline by 3.8 percent.

Miscellaneous Receipts

All Funds miscellaneous receipts are estimated to increase by \$1.2 billion, or 4.6 percent, in SFY 2017-18. This increase is primarily due to higher bond proceeds deposited to capital projects funds. Such receipts are projected to increase by \$130 million, or 0.5 percent, in SFY 2018-19. This increase is primarily the result of the proposed new fee on for-profit health insurance companies, offset by the expected absence of one-time settlement payments received in SFY 2017-18.

New Revenue Actions

The Budget includes four proposals to increase revenues from miscellaneous receipts. The largest fiscal impact would be from the proposed new fee on for-profit health insurance companies and health maintenance organizations, which would be 14 percent on the net underwriting gain from the sale of health insurance in New York. The 14 percent rate reflects the reduction in the federal corporate tax rate that health insurance companies will realize under the federal Tax Cuts and Jobs Act, generating an estimated \$140 million annually, which would be deposited to the HCRA Resources Fund.

IV. Debt and Capital

The Executive Budget Five-Year Capital Program and Financing Plan (Capital Plan or Plan) projects total capital spending of \$64.9 billion through SFY 2022-23. This total includes \$61.7 billion that is reflected in the State's Financial Plan and an additional \$3.2 billion in "off-budget" spending directly from public authority bond proceeds.⁷ It represents a decline of nearly \$4.3 billion or 6.2 percent from the current Capital Plan.

State-Supported debt outstanding is expected to increase by 20.6 percent over the Capital Plan period, and debt service by 38 percent. Both increases are driven primarily by growth in public authority debt.

The SFY 2018-19 Executive Budget proposes increased bonding authorization for State-Supported debt of nearly \$5.3 billion, or 3.7 percent, over existing authorizations. It also proposes to continue a Statewide Capital Efficiency Plan. This Plan is intended to prioritize essential projects and reduce bonded capital spending by \$1.4 billion over the five-year period beginning in SFY 2018-19. The efficiency plan is one of several factors that DOB expects will hold the level of outstanding State-Supported debt within the statutory limit in coming years.

The State's statutory debt capacity remains limited, especially in the later years of the Capital Plan, even after accounting for the impact of reduced bond-financed capital spending associated with the Statewide Capital Efficiency Plan.

Since 2005, the Office of the State Comptroller has reported the level of State-Funded debt, which represents a more comprehensive accounting of the State's debt burden. This measure includes State-Supported obligations as defined in the Debt Reform Act of 2000, along with certain other obligations.⁸

This section of the report will provide analysis of State-Supported debt and debt service, as provided in the State Capital Program and Financing Plan. Figure 9 provides an illustration of the difference between State-Funded debt and State-Supported debt as expected in SFY 2018-19 and SFY 2022-23.⁹

⁷ The SFY 2018-19 Executive Budget proposes to bring certain "off-budget" capital spending (spending that is paid directly by a public authority from State-Supported bond proceeds) on budget. As a result, this spending will be accounted for in the Statewide Financial System. However, DOB has indicated that it will not change how it reports capital spending in the Financial Plan and Capital Plan until these provisions are enacted into law.

⁸ For further discussion of State-Funded debt, see *Debt Impact Study: An Analysis of New York State's Debt Burden*, December 2017, available at <http://osc.state.ny.us/reports/debt/debt-impact-study-2017.pdf>.

⁹ Issuance and related retirement figures for SUNY Dormitories and TFA Building Aid Revenue Bonds are only available through SFY 2020-21, therefore growth figures are likely understated in SFY 2021-22 and SFY 2022-23.

Figure 9

State-Supported and State-Funded Debt Outstanding
SFY 2018-19 and SFY 2022-23
(in millions of dollars)

	2018-19 Estimated	2022-23 Projected
General Obligation	3,152	3,439
Other State-Supported Public Authority	51,726	58,801
Total State-Supported	54,878	62,240
State-Funded Secured Hospitals	109	21
New SUNY Dormitories	1,562	1,685
TFA Building Aid Revenue Bonds	8,410	7,828
Sales Tax Asset Receivable Corporation	1,721	1,344
Municipal Bond Bank Agency	139	-
Total Other State-Funded	11,941	10,878
Total State-Funded	66,819	73,118

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY.
Note: TFA refers to the New York City Transitional Finance Authority.

Debt Outstanding and Debt Service

DOB projects that \$31.7 billion in new State-Supported debt will be issued over the five-year life of the Capital Plan. This compares to just under \$20.8 billion in retirements over the same period, resulting in a projected increase in State-Supported debt of approximately \$10.6 billion or 20.6 percent over SFY 2017-18 levels (an annual average increase of 3.8 percent). More than 54 percent of this increase is associated with economic development and housing.

Average annual State-Supported debt issuance is \$6.3 billion over the life of the proposed Capital Plan after the reductions associated with the efficiency plan, which is comparable to the current Capital Plan. Total State-Supported debt outstanding would increase by 20.6 percent to \$62.2 billion by the end of the Capital Plan period, as illustrated in Figure 10.

Figure 10

Projected State-Supported Debt Outstanding
(in millions of dollars)

	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2022-23	Increase Over Capital Plan Period
State-Supported Debt at Beginning of Period	51,605	54,878	57,574	58,563	60,327	N/A
New Issuance	6,779	6,731	5,915	6,096	6,171	31,771
New Retirement	3,505	3,982	4,809	4,197	4,258	23,185
Other	-	53	117	134	-	304
State-Supported Debt at End of Period	54,878	57,574	58,563	60,327	62,240	8,586

Source: Division of the Budget. Totals may not add due to rounding.

Currently, more than 95 percent of State-Supported debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the proposed Capital Plan, public authorities are projected to issue \$29.4 billion in State-Supported debt, or 92.9 percent

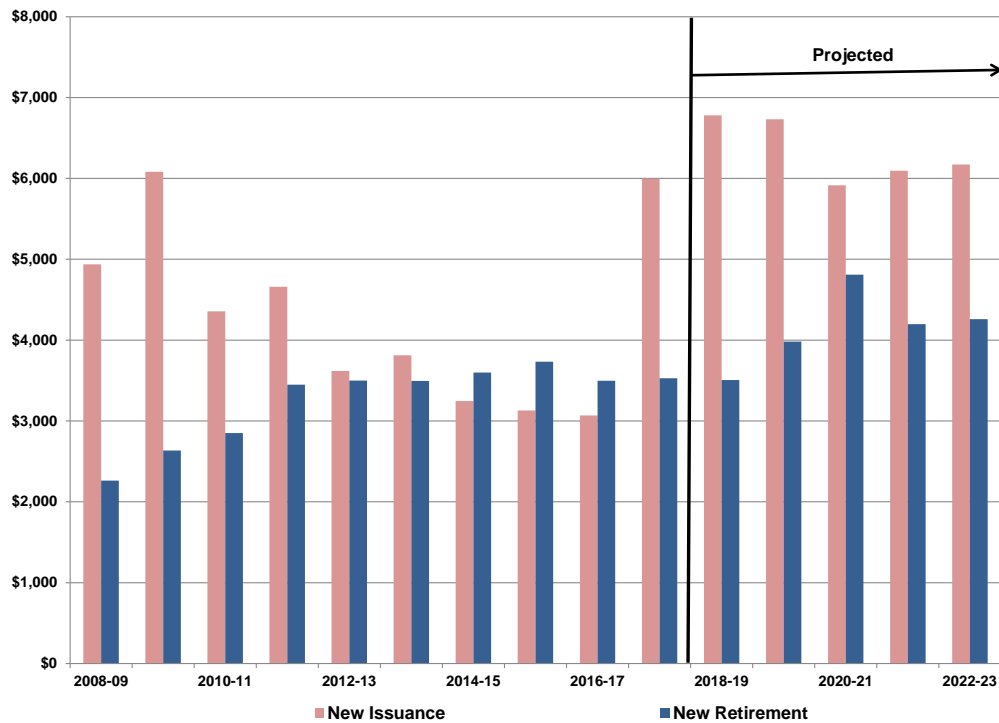
of total issuances. General Obligation (GO) bond issuances of \$2.2 billion represent 7.1 percent of projected total issuances.

Results from SFY 2012-13 through SFY 2016-17 show that State-Supported debt declined during that period. Issuance is expected to increase again in SFY 2017-18, ending this period of decline. Projections for the next five years show that debt issuances are planned to exceed retirements by 65.5 percent. This forecast growth in debt outstanding, together with DOB’s revised, lower projections for personal income, results in lower available debt capacity than previously expected.

As shown in Figure 11, average annual State-Supported debt issuance has been \$4.3 billion over the ten years from SFY 2008-09 through SFY 2017-18. This compares to average annual State-Supported debt retirement of \$3.3 billion over the same period. Under the Capital Plan, State-Supported debt service is expected to approach \$7.3 billion by SFY 2022-23, 29.7 percent more than estimated debt service in the current fiscal year, or an average annual increase of 5.3 percent. Excluding the SFY 2017-18 anticipated prepayment of \$340 million, debt service growth during this period would average about 6.7 percent annually.

Figure 11

Actual and Projected Issuance and Retirement of State-Supported Debt
(in millions of dollars)



Source: Division of the Budget

Debt Limits Under the Debt Reform Act of 2000

The Debt Reform Act of 2000 established a statutory cap on State-Supported debt outstanding. Under the cap, the State is prohibited from issuing new debt if outstanding debt issued after April 1, 2000 exceeds 4 percent of personal income. Because the cap on State-Supported

debt is based on New York personal income, available capacity under the cap can be volatile, especially when coupled with the somewhat variable nature of capital spending. DOB manages statutory debt capacity through a variety of actions including timing of capital spending and debt issuances, implementation of the Statewide Capital Efficiency Plan and moving debt outside the statutory cap.

The SFY 2017-18 Enacted Budget projected that the State would end SFY 2017-18 with nearly \$5.2 billion in available debt capacity, declining to just \$82 million in SFY 2020-21. The Executive Budget projects available capacity of \$3.9 billion at the end of SFY 2017-18, before declining to \$61 million in SFY 2020-21 and then increasing to \$221 million in SFY 2022-23. The revised estimates are based on current projections for personal income in New York State, as well as revised estimates for debt issuances, retirements and capital spending.

DOB projects that the personal income measure used to calculate the cap will increase annually at an average rate of 4.4 percent through SFY 2022-23. This represents the second lowest projection for average annual growth over the life of the Capital Plan since October 2009, and is down from a high estimate of 5.7 percent in the SFY 2013-14 Executive Budget Capital Plan. With this projected growth, along with the projected issuances and retirements of State-Supported debt, DOB expects that the State-Supported debt outstanding subject to the statutory cap will remain within the cap within the next five years.

IHS Markit projects that personal income will increase by an average of 4.3 percent annually over the life of the Plan. If these projections are realized, absent other actions, the cap on debt outstanding would be breached in SFY 2019-20 by \$261 million, at which point no additional State-Supported debt could be issued until debt outstanding was no longer above the cap.

Capital Program and Financing Plan

The SFY 2018-19 Five-Year Capital Program and Financing Plan includes \$64.9 billion in projected capital spending. Unlike in previous years, settlement proceeds are used only to partially fund one new capital appropriation, with \$125 million from settlements supplying part of a broader \$425 million investment in health care facilities.

Total spending in the proposed Capital Plan is \$4.3 billion, or 6.2 percent, lower than projected spending in the current Capital Plan (reflecting the SFY 2017-18 Enacted Budget). Figure 12 compares the SFY 2017-18 Enacted Capital Plan to the SFY 2018-19 Proposed Capital Plan by functional area. Capital spending is projected to average approximately \$13 billion annually, with a low of \$12 billion in SFY 2020-21 and a high of \$15.2 billion in SFY 2018-19.

Figure 12

Capital Program and Financing Plan by Functional Area
SFY 2017-18 through SFY 2021-22 Compared to SFY 2018-19 through SFY 2022-23
 (in millions of dollars)

Functional Area	SFY 2017-18	SFY 2018-19	Dollar Change	Percentage Change
	Through	Through		
	SFY 2021-22 Enacted	SFY 2022-23 Proposed		
Transportation	27,637	24,876	(2,762)	-10.0%
Education	2,210	1,963	(248)	-11.2%
Higher Education	7,117	6,976	(141)	-2.0%
Economic Development/Government Oversight	8,614	8,917	302	3.5%
Mental Hygiene	2,564	2,699	135	5.3%
Parks and Environment	5,399	5,612	213	3.9%
Health	3,513	3,614	101	2.9%
Social Welfare	2,818	3,033	216	7.6%
Public Protection	2,264	2,313	48	2.1%
General Government	1,064	1,249	185	17.4%
Other	5,978	3,632	(2,346)	-39.2%
Total	69,179	64,884	(4,295)	-6.2%

Source: Division of the Budget

Financing Sources

Figure 13 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years. Over the life of the Plan, DOB projects that pay-as-you-go or PAYGO financing will average approximately 32.8 percent of State capital financing. Planned spending of \$4.8 billion from settlement funds increases the use of PAYGO resources throughout the Plan period.

Figure 13

Financing Sources – SFY 2017-18 through SFY 2022-23
 (in millions of dollars)

	SFY 2017-18	Proposed Capital Program and Financing Plan					Average 2018-19 through 2022-23
		SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2022-23	
State Pay-As-You-Go (PAYGO)	4,208	4,337	3,848	3,708	3,120	2,674	3,537
Federal PAYGO	2,232	2,397	2,196	2,155	2,155	2,155	2,211
General Obligation (G.O.) Bonds	790	720	410	241	171	111	331
Authority Bonds	6,129	7,711	6,843	5,923	6,695	7,315	6,897
Total Capital Funding	13,359	15,165	13,296	12,027	12,140	12,255	12,977
Less Federal Funding	(2,232)	(2,397)	(2,196)	(2,155)	(2,155)	(2,155)	(2,211)
State Capital Funding	11,126	12,768	11,100	9,873	9,985	10,100	10,765
State PAYGO as Percentage of State Funding	37.8%	34.0%	34.7%	37.6%	31.2%	26.5%	32.8%
GO as Percentage of State Funding	7.1%	5.6%	3.7%	2.4%	1.7%	1.1%	2.9%
Authority Bonds as Percentage of State Funding	55.1%	60.4%	61.6%	60.0%	67.0%	72.4%	64.3%

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

New Capital Initiatives

The Executive Budget includes a number of new and expanded capital initiatives, including the following:

Transportation:

- \$836 million MTA Subway Action Plan over two years, with approximately half covered by the State (\$174 million in new bonding and \$254 million for operating aid, of which \$194 million is from monetary settlements).

Economic Development:

- \$1.45 billion for various economic development initiatives, including:
 - \$600 million to fund a life sciences lab, in addition to the \$150 million appropriated in SFY 2017-18;
 - \$300 million for High Technology and Innovation;
 - \$200 million for the New York Works Economic Development Fund;
 - \$150 million for an eighth round of Regional Economic Development Council grants;
 - \$100 million for Downtown Revitalization grants; and
 - Approximately \$100 million for a variety of smaller initiatives.

Health:

- \$425 million in new healthcare capital (\$300 million in new bonding and \$125 million from monetary settlements).

Parks and Environment:

- \$300 million for the Environmental Protection Fund (EPF);
- \$100 million in new funding for Superfund hazardous waste sites;
- \$90 million for Parks; and
- \$50 million for the State's share of the Hudson River Park.

New State-Supported Debt Authorizations

The Budget proposes to increase bond caps on programs financed with State-Supported debt by approximately \$5.3 billion, or 3.7 percent, over existing authorizations. Significant increases include \$1.45 billion for various economic development initiatives (27.3 percent of the total increase), \$605.9 million for SUNY Educational Facilities (11.4 percent) and \$487.4 million for local highways (9.2 percent). See the section on Public Authorities for more information on authority bond cap increases.

Debt Management and Potential Savings

DOB is assuming Financial Plan savings associated with various debt management actions totaling \$569 million in SFY 2018-19, as well as \$340 million for prepaying debt service otherwise due in SFY 2018-19. Savings proposals include the following:

- \$200 million through debt management actions including the refunding of bonds that meet savings thresholds and the release of \$41.6 million in debt service reserve funds; and

- Lower than previously forecasted transfers from the General Fund to capital funds using existing bond proceeds.

The Statewide Capital Efficiency Plan will require agencies to prioritize essential projects and defer non-essential projects, beginning in SFY 2019-20 and covering the next five years. The Plan describes essential projects as those that, if not completed, would present a threat to health or safety; violate a court order or federal, State or local law; or result in substantial reduction in federal aid. DOB anticipates that this plan will help maintain debt capacity under the Debt Reform Act caps and reduce bonded capital spending by approximately \$1.4 billion over the next five years. The Capital Plan does not identify specific projects or spending categories to be reduced.

Design-Build Procurement

The Budget includes a proposal to modify the Infrastructure Investment Act. Under current law, the Thruway Authority, the Bridge Authority, Department of Transportation (DOT), Office of Parks, Recreation and Historic Preservation (Parks) and the Department of Environmental Conservation (DEC) are authorized to use the design-build procurement method. In the SFY 2017-18 Enacted Budget, the Dormitory Authority of the State of New York (DASNY), the Urban Development Corporation (UDC), the Olympic Regional Development Authority (ORDA) and the Office of General Services (OGS) were designated as authorized state entities, but only for certain specified projects of \$5 million or more. The Executive proposes to expand the authorization for DASNY, UDC, ORDA and OGS and to add the Department of Health (DOH) as a State entity authorized to use design-build. OGS (with the exception of the specific projects authorized in the current year's Budget) and DOH would be subject to the same minimum cost threshold for design-build projects (\$10 million) as the other State agencies already designated as authorized entities (DOT, Parks and DEC).

The proposal notwithstanding several sections of law, including the Office of the State Comptroller contract review and approval provisions of Public Authorities Law (PAL) Section 2879-a, and deems any contract awarded to be a competitive contract for the purposes of 2879-a, thus narrowing the statutory scope of the Comptroller's oversight of these projects. In addition, numerous statutes including those pertaining to separate specifications, low bid and prohibitions of design-build are notwithstanding. However, the language permits compliance with provisions regarding separate specifications, if otherwise applicable, by requiring the contractor to prepare separate specifications when procuring subcontractors.

V. Program Area Highlights

Education

The Executive Budget proposes an increase in school aid from \$25.6 billion to \$26.4 billion for school year (SY) 2018-19. The \$769 million or 3 percent increase is less than the 3.9 percent increase forecast in the SFY 2017-18 Mid-Year update to the Financial Plan and generates reduced estimated school aid costs in each year of the Financial Plan. The \$769 million includes an additional:

- \$338 million, or a 2 percent increase, in Foundation Aid, for a total of \$17.51 billion in SY 2018-19. As with the current year's budget, \$50 million of this aid increase is an additional set-aside for community school programs, which would bring the total community school set-aside to \$200 million.
- \$317 million to support growth in various expense-driven aid programs and categorical grants (i.e. transportation, textbooks and school construction).
- \$64 million for a Fiscal Stabilization Fund. This funding is not distributed on the school aid run. Similar items included in recent years' Executive Budgets have been reallocated through school aid formulas in enacted budgets.
- \$50 million in new competitive grant programs, including:
 - \$15 million to expand three- and four-year-old prekindergarten in high-need school districts;
 - \$10 million to expand the Empire State After-School program in high-need communities, bringing total funding to \$45 million;
 - \$9 million to add 15 new early college high schools focused on in-demand industries;
 - \$6 million to fund the Smart Start program focused on expanding computer science and engineering education;
 - \$5 million to support "Breakfast after the Bell" (after the school day has begun), as part of a No Student Goes Hungry initiative; and
 - \$5 million to support a variety of smaller grant programs.

On a State fiscal year basis, projected school aid would total \$26.32 billion, an increase of \$581 million, or 2.3 percent in State Operating Funds.

Other Proposals:

- The Budget proposes a statutory change to limit the growth in Building, BOCES, and Transportation Aid to 2 percent annually beginning in the 2019-20 school year.
- Certain school districts (including the Big 5 city school districts of Buffalo, New York City, Rochester, Syracuse, and Yonkers) would be required to submit detailed allocation plans showing the amount of funding provided to each school by funding source. Plans would be submitted to the State Education Department and DOB for approval. School districts without approved plans would be ineligible for increases in School Aid.

- The Budget includes \$22.6 million in new direct aid to New York City charter schools, and would statutorily require the City to reimburse additional property-related costs for charter schools that are not offered appropriate space in City buildings.
- Reimbursement to New York City for charter school supplemental basic tuition would be eliminated beginning with costs incurred in the 2018-19 school year, and State reimbursement to the City under the charter facilities law would be limited to \$10 million.
- The Budget includes a 3 percent or \$5.4 million increase in funding to nonpublic schools for Mandated Services Aid (MSA) and the Comprehensive Attendance Policy (CAP) program, bringing total funding to \$186.4 million.
- The Budget proposes changing the reimbursement rate for Summer School Special Education programs from 80 percent to a wealth-adjusted sliding scale ranging from 25 to 90 percent.

STAR

Overall School Tax Relief (STAR) program costs, including both disbursements and tax credits, are projected at \$3.3 billion in SFY 2018-19, an increase of \$194 million from SFY 2017-18. The Executive Budget includes \$2.4 billion in estimated disbursements for the STAR program, a decrease of \$175 million, or 6.8 percent, from SFY 2017-18. The decrease primarily reflects the full-year impact of the conversion of the New York City personal income tax rate benefit to a State personal income tax credit, as well as proposals included within the Budget. The Budget projects that STAR personal income tax credits will total \$861 million in SFY 2018-19, an increase of \$369 million, or 75 percent, from the current fiscal year.

Proposed amendments to the STAR program include two with fiscal impacts, both of which have been included in prior Executive Budgets but never enacted. One such proposal would cap homeowners' STAR benefits at current levels rather than allowing annual growth up to 2 percent as in current law. The second would make enrollment in the income verification program for the Enhanced STAR benefit mandatory. These proposals would result in estimated State savings of \$49 million and \$35 million, respectively, in SFY 2018-19.

Higher Education

The Executive Budget projects All Funds spending of \$8.4 billion for the State University of New York (SUNY), \$1.6 billion for the City University of New York (CUNY), \$1.2 billion for the Higher Education Services Corporation (HESC), and \$13 million for other higher education purposes, an overall increase of 4.3 percent from estimated spending in SFY 2017-18, as shown in Figure 14.

On an academic year (AY) basis, the Budget includes \$4.3 billion in General Fund operating support for senior colleges at SUNY (\$3.0 billion) and CUNY (\$1.3 billion), reflecting a 0.4 percent and a 2.9 percent increase over AY 2017-18, respectively. It maintains base operating aid for SUNY and CUNY community colleges at \$2,747 per FTE student, the same level as in AY 2017-18. State Operating Funds support for community colleges in SFY 2018-19 would decrease by 2.7 percent and 1.2 percent, respectively, primarily due to lower enrollments.

Estimated spending for HESC in SFY 2018-19 includes \$1.1 billion for the Tuition Assistance Program, Excelsior Free Tuition, Enhanced Tuition Assistance and other awards. The proposed 26 percent increase in spending results in part from the timing of payments for these programs.

Figure 14

All Government Funds Spending for Higher Education

(in millions of dollars)

	2017-18	2018-19	Change	% Change
SUNY Subtotal	8,191	8,443	252	3.1%
Local Assistance Grants	482	468	(13)	-2.8%
State Operations	6,789	7,065	276	4.1%
Capital Projects	920	910	(11)	-1.1%
CUNY Subtotal	1,622	1,606	(16)	-1.0%
Local Assistance Grants	1,464	1,479	15	1.0%
State Operations	123	92	(31)	-25.1%
Capital Projects	35	36	1	1.4%
HESC Subtotal	943	1,169	226	24.0%
Local Assistance Grants	880	1,107	226	25.7%
State Operations	63	63	0	0.0%
Other Purposes	13	13	0	0.0%
Higher Education Total	10,770	11,232	462	4.3%

Source: Division of the Budget.

Note: State Operations includes General State Charges. Other Purposes is made up of Higher Education – Miscellaneous and the Higher Education Facilities Matching Grants Program.

Support for SUNY Hospitals totaling \$78.6 million is the same amount as provided in the current year, however, the funding source has been shifted from the General Fund to the Capital Projects Fund.

The Five-Year Capital Program and Financing Plan anticipates \$1.4 billion for capital disbursements (\$1.0 billion for SUNY and \$431 million for CUNY), unchanged from the current year. There are no proposed appropriations for the competitive NY SUNY 2020 and NY CUNY 2020 challenge grant programs, compared to \$55 million in such support for each system in SFY 2017-18; prior years' aid has been reappropriated.

As proposed in the last Executive Budget, proceeds from the sale of State-owned property would be used by CUNY in AY 2018-19 to offset State support for CUNY. Up to \$60 million would be used to reduce equally the State's net operating expenses.

The Budget further provides:

- \$30 million in competitive funding for the Higher Education Capital Matching Grants (HECap) program. Anticipated spending for this program would remain at the current year's level of \$12.5 million in SFY 2018-19, with projected annual decreases through SFY 2021-22.

- Bundy Aid to independent colleges and universities (\$35 million in SFY 2017-18) would be discontinued.
- \$5 million for apprenticeship programs established in the current State fiscal year, including \$3 million for SUNY and \$2 million for CUNY.
- \$1.8 million for child care centers at SUNY and CUNY community colleges.

Additional proposals include the New York State DREAM Act, which would make undocumented immigrants eligible for State tuition assistance and other State financial assistance programs, and a plan to address student loan debt. The latter proposal would create a Student Loan Ombudsman at the Department of Financial Services (DFS) and authorize DFS to license and regulate student loan servicers, require colleges to annually provide students with estimates of student loans incurred to date and prohibit State agencies from suspending or denying the issuance of professional licenses for individuals in default of, or behind on, student loan payments.

Health/Medicaid

The Executive Budget projects overall federal, State and local Medicaid spending in New York to increase by \$75.0 million or 0.1 percent to \$68.5 billion in SFY 2018-19, as shown in Figure 15.¹⁰ State-share spending would drop slightly in the coming year, in part due to the reclassification of certain Medicaid costs.

Figure 15

Total Medicaid Disbursement Estimates
(in millions of dollars)

	2017-18	2018-19	2019-20	2020-21	2021-22
Department of Health	19,431	20,649	21,737	22,616	23,505
Mental Hygiene	4,316	2,729	2,935	3,247	3,468
Foster Care	86	85	89	92	96
Education	50	50	50	50	50
State Share Total	23,884	23,513	24,811	26,005	27,119
Federal Share	36,736	37,079	38,021	38,514	39,619
Local Share	7,784	7,887	7,653	7,598	7,609
Total Medicaid Spending	68,404	68,479	70,484	72,118	74,346

Source: Division of the Budget

According to the Executive, the Financial Plan reflects the loss of approximately \$1.1 billion in federal cost sharing reduction payments annually in SFYs 2018-19 through 2020-21, rising to \$2 billion in SFY 2021-22. The State had used these payments to help fund Essential Plan health insurance coverage for lower income New Yorkers. The Financial Plan does not reflect

¹⁰ These figures reflect the reclassification of approximately \$1.4 billion in Medicaid spending associated with Mental Hygiene agencies' fringe benefits that, effective SFY 2018-19, would be paid for from the General Fund General State Charges appropriation. These figures also include \$103 million in estimated revenues related to the Master Settlement Agreement with certain tobacco manufacturers in SFY 2017-18, \$329 million in SFY 2018-19, \$327 million in SFY 2019-20 and \$371 million in each of SFYs 2020-21 and 2021-22. However, these funds are deposited into the Medicaid Management Information System (MMIS) escrow fund, an off-budget fund, to pay a portion of the State's share of local Medicaid growth. As a result, these amounts are not included in certain Financial Plan figures in this report.

cuts to the federal Disproportionate Share Hospital program currently scheduled to occur within the Plan period.

A number of budget management provisions are proposed which could be used to address potential reductions in federal aid. These include:

- Extension and expansion of a process included in the current year's budget to manage reductions of \$850 million or more in federal Medicaid funding;
- A Health Care Shortfall Account within the Health Care Reform Act (HCRA) program, which among other purposes, could be used to mitigate the loss of federal health care funding; and
- Language authorizing the Budget Director to make changes to the State's Child Health Plus program (CHP) if federal funding for it is reduced or eliminated on and after October 1, 2017. See the Transparency, Accountability and Oversight Issues portion of the Financial Plan Overview section of this Report for additional detail.

After introduction of the Executive Budget, Congress extended the federal Children's Health Insurance Program (CHIP) for a multi-year period. The extension reduces the enhanced federal reimbursement rate the State has been receiving for the program from 88 percent to 76.5 percent starting October 2019 and to 65 percent starting October 2020. Under the federal ACA, this rate had been scheduled to decrease to 65 percent in October 2019, as reflected in the Executive Budget Financial Plan. In recent years, the State has received approximately \$1 billion annually in federal funding for CHP.

The \$23.5 billion in State-funded Medicaid spending proposed for SFY 2018-19 is \$371 million, or 1.6 percent, lower than projected current year spending, due in part to the reclassification of certain Mental Hygiene Medicaid costs. Financial Plan projections indicate that State-funded Medicaid spending will grow by \$3.6 billion, or 15.3 percent, from SFY 2018-19 through SFY 2021-22. Adjusting for the reclassification of certain spending, State-share spending in the coming year would have grown by \$1 billion or 4.3 percent.

The Budget proposes a one-year extension of the cap on Department of Health (DOH) State funds Medicaid spending established in 2011, as well as the State Health Commissioner's authority to develop and implement a plan to reduce such spending if it is projected to exceed the cap in either SFY 2018-19 or SFY 2019-20. This authority has not been exercised to date.

For DOH, the Executive Budget Financial Plan reflects a projected State funds Medicaid spending cap (including the Essential Plan) of \$20.6 billion in SFY 2018-19, an increase of \$1.2 billion, or 6.3 percent, over current year projections. The indexed provisions of the Medicaid cap – \$18.9 billion – account for the majority of DOH State funds Medicaid spending in SFY 2018-19. These provisions limit the year-to-year growth in such spending to the ten-year average of the medical component of the Consumer Price Index (CPI). For SFY 2018-19, the Executive Budget projects this growth rate to be 3.2 percent, or \$593 million, reflecting increases in the costs of health care services, health care utilization and program enrollment. The cap is adjusted for certain other State costs, including those associated with the takeover of local governments' Medicaid cost increases and administration, as well as additional federal

Medicaid funding available under the ACA and statewide minimum wage increases authorized in the SFY 2016-17 Enacted Budget.

State DOH Medicaid spending on minimum wage increases for health care workers providing services reimbursed by Medicaid is projected to grow by 176 percent to \$703 million in SFY 2018-19, due to the impact of the increases, as well as higher Medicaid enrollment and an increased utilization of home care and personal care services.

The Budget projects Medicaid enrollment of 6,206,629 in SFY 2018-19, an increase of 27,922, or 0.5 percent, over SFY 2017-18. By SFY 2021-22, Medicaid enrollment is projected to total 6,231,060, approaching one in three New Yorkers. The Budget projects Essential Plan enrollment to reach 689,095 individuals in SFY 2018-19, an increase of 4,743, or 0.7 percent, over current year enrollment.

The Executive Budget provides \$694 million to operate the State's health insurance exchange in SFY 2018-19, an increase of \$145 million, or 26.4 percent, over current year projections. This increase largely reflects higher information technology and contract costs associated with enrolling additional New Yorkers in qualified health plans offered on the exchange, as well as Medicaid, the Essential Plan, and the CHP insurance program, all of which use the exchange for enrollment determinations.

The Financial Plan reflects various State DOH Medicaid administrative actions and statutory proposals that represent the eighth year of Medicaid Redesign Team (MRT) recommendations. A total of \$676.9 million in net savings actions are proposed to offset an identical amount of spending initiatives or impacts. The spending initiatives or savings actions include:

- \$425 million in additional OPWDD-related Medicaid expenses shifted to the State DOH Medicaid budget. This would bring the total amount of OPWDD Medicaid costs shifted to DOH to over \$1.7 billion in SFY 2018-19 compared to projected current year spending.
- \$220 million in additional Medicaid liabilities, including \$175 million in federal obligations related to federal audits and pharmacy rebates, \$35 million representing the first year of a four-year plan to supplement nursing home Medicaid rates by 1 percent annually as pay-back for an assessment nursing homes have been paying, and \$10 million to reconcile managed care enrollment discrepancies.
- \$45.4 million in additional funding for safety net hospitals in severe financial distress.

The net savings actions include:

- \$281.5 million largely related to leveraging existing or anticipated federal Essential Plan (EP) fund balances and various other EP-related actions to support State share Medicaid costs. The Financial Plan projects federal funding to support at least 97 percent of all EP costs through SFY 2021-22.
- \$180.1 million in long-term care actions, including increasing the eligibility threshold for providing managed long term care (MLTC) services, eliminating certain contracts with social adult day care providers, limiting the number of contracts health plans can have with licensed home care service agencies and implementing penalties on poorly performing nursing homes.

- \$70.3 million in managed care actions other than MLTC, including increasing penalties for plans that fail to meet value-based payment targets, reducing utilization of laboratory services, and reducing rates for plans without value-based payment provider contracts.
- \$44.8 million in pharmacy actions, including reducing coverage of over-the-counter products, reducing opioid dispensing by 20 percent by 2020 by encouraging access to non-opioid alternatives, and eliminating a prescriber's right of final determination for drugs whose use is not clinically supported.
- \$100.2 million in various other actions, including expanding the authority of the Office of the Medicaid Inspector General (OMIG) to recover overpayments to managed care organizations (MCOs), requiring adult day health care and MLTC transportation services to be coordinated by the State's transportation manager, and expanding Medicaid-covered telehealth services to home settings to allow for greater access to remote patient monitoring and alternative health care delivery models.

All Funds spending for the OMIG is proposed to decline by \$584,000, or 1.2 percent, to \$48.0 million in SFY 2018-19. This decrease is attributable to lower State and federal personal service spending, partially offset by an increase in GSC expenditures. Article VII proposals would:

- Allow the OMIG to impose fines on MCOs that are aware of acts of fraud and willfully fail to refer them to OMIG;
- Allow the OMIG to impose fines on providers or MCOs that fail to comply with Medicaid requirements, including instances when an MCO intentionally or systematically submits inaccurate encounter data to the State; and
- Require MCOs to recover overpayments from subcontractors or providers when a State audit or investigation identifies such overpayments.

A \$425 million capital projects fund appropriation is proposed for health care capital grants to facilitate mergers, consolidation, acquisition and other restructuring activities. The grants could be awarded without a competitive bid or request for proposal process. At least \$60 million would be available for community-based health care providers, with up to \$20 million of this amount available for up to 500 new assisted living program beds in counties with limited or no assisted living providers; at least \$45 million would be available for residential health care facilities (i.e., nursing homes).

The HCRA Financial Plan, encompassing total receipts, spending and transfers for various State health care initiatives, is projected to have a closing balance of \$250 million in SFY 2018-19. Such balance is projected to grow by an additional \$250 million annually until it reaches \$1 billion in SFY 2021-22. This revenue represents one-third of \$3 billion in proceeds anticipated in the Executive Budget Financial Plan to be received over the next four years from the conversion of not-for-profit health insurers to for-profit status or similar transactions. The revenue would be deposited into a new Health Care Shortfall Account within the HCRA program and could be used for existing or future HCRA programs, to address potential shortfalls in federal reimbursement for State health care programs or to improve health care delivery. The Budget includes a \$1 billion appropriation from this Account, but no spending is anticipated over the Financial Plan period. The remaining revenue anticipated from the

conversion(s) or other transactions would be used for General Fund budget relief through HCRA.

HCRA receipts are expected to increase by \$914 million, or 15.9 percent, to nearly \$6.7 billion in SFY 2018-19, largely due to the conversion revenue, as well as a fee on for-profit health insurers related to recent federal tax law changes. The Budget expects HCRA receipts for each succeeding State fiscal year to remain relatively constant through SFY 2021-22. Annual disbursements for each year of the Budget's HCRA Financial Plan are projected to total approximately \$6.4 billion from SFY 2018-19 through SFY 2021-22. The Budget proposes to shift \$15.3 million in HCRA funding for the Roswell Park Cancer Institute from operational accounts to the Capital Projects Budget, bringing total capital appropriations for Roswell to \$51.3 million in SFY 2018-19.

State Funds support for various DOH public health programs, several of which are financed with HCRA dollars, is proposed to increase by \$26.6 million, or 1.4 percent, to \$1.9 billion in SFY 2018-19. The increase reflects higher spending of \$87.8 million, or 21.9 percent, for State Operations functions (mostly non-personal service and indirect costs) and fringe benefits, offset in part by lower spending of \$61.3 million, or 4.1 percent, for various Local Assistance programs.

The increase in State Operations spending largely reflects the shift of \$62.5 million in New York State of Health Exchange spending from Medicaid to HCRA, as well as additional funding of \$16.1 million for 142 new Full-Time Equivalent (FTE) positions to support State surveillance and certification activities, \$6.7 million to operate the CHP program, and \$6.5 million for stem cell research, offset in part by various savings actions including \$850,000 related to eliminating audits on the working conditions of residents in teaching hospitals. The reductions in Local Assistance spending include \$19.9 million achieved by discontinuing cost-of-living adjustments for various DOH programs, \$13.1 million by shifting DOH family planning costs to the State Department of Financial Services, and \$9.2 million by consolidating 30 public health appropriations into four pools and reducing funding for them by 20 percent. Determinations on how to spend pool amounts are left to DOH.

The DOH workforce is anticipated to increase by 381 FTEs, or 7.5 percent, to 5,463 in SFY 2018-19. In addition to the 142 new FTEs for surveillance and certification, 239 are related to supporting the seventh year of the phased State takeover of local administration of the New York Medicaid program. The Executive indicates no timeframe for completing the takeover.

All Funds spending for the State Office for the Aging (SOFA) would be reduced by \$1.8 million, or 0.8 percent, to \$226.8 million in SFY 2018-19. This reduction reflects elimination of the statutory human services cost-of-living adjustment for various SOFA community-based services in SFY 2018-19, as well as the discontinuation of spending for items added in the current year Budget.

Mental Hygiene

All Funds spending for Mental Hygiene agencies would decrease by nearly \$1.7 billion, or 23.7 percent, from \$7.1 billion in the current fiscal year to \$5.4 billion in SFY 2018-19. This reduction is in part attributable to a shift in disbursements for general state charges (GSC) for certain agencies to the GSC budget. The Executive describes the shift of GSC spending as technical

in nature and indicates that it would have no impact on programmatic spending across Office of Alcoholism and Substance Abuse Services (OASAS), Office of Mental Health (OMH) and Office for People with Developmental Disabilities (OPWDD). The reduction also reflects the shift of \$492.4 million of additional OPWDD expenditures in SFY 2018-19 to State Department of Health (DOH) Medicaid spending, partially offset by other proposed spending actions. OPWDD-related spending in DOH would grow from nearly \$1.3 billion in SFY 2017-18 to over \$1.7 billion in SFY 2018-19.

The \$5.4 billion in All Funds spending proposed for SFY 2018-19 would support five State agencies whose funding levels are projected to change as follows:

- OPWDD spending would decrease by \$1.1 billion, or 36.6 percent, to \$1.9 billion.
- OMH spending would decrease by \$588.6 million, or 16.9 percent, to \$2.9 billion.
- OASAS spending would decrease by \$13.1 million, or 2.1 percent, to \$603.9 million.
- Justice Center for the Protection of People with Special Needs (Justice Center) spending would increase by \$2 million, or 4.7 percent, to \$44.3 million.
- Developmental Disabilities Planning Council (DDPC) spending would be held flat at \$4.2 million.

Consistent with federal requirements and the State's continuing plans to transition people with disabilities out of developmental and psychiatric centers into community-based settings, the Budget projects the potential closure of 100 OMH inpatient beds that have been vacant for at least 90 days. Article VII language is proposed to continue reinvesting State savings from such closures at a rate of \$110,000 per bed in community mental health services, for an additional three years. According to the Executive, the State would reinvest approximately \$11 million in such services when projected reinvestments are fully annualized in SFY 2019-20.

State share funding of \$30 million in SFY 2018-19 is also proposed to help additional individuals with intellectual and developmental disabilities living at home or in residential schools transition to adult services within the OPWDD system. This amount would rise to \$120 million when fully annualized in SFY 2019-20. The assistance would include housing support, day program and employment options, and respite services. The Budget also proposes \$10.4 million for an electronic health records system in OPWDD.

Within OMH, in addition to potential bed closures and the reinvestment of any resulting savings, the Budget proposes \$13.9 million for additional community bed development, including beds for the homeless, as well as an additional \$10 million for existing supported housing and single residence occupancy programs; \$8 million in new funding for adult home beds; and \$5 million in additional, specialized support for adult home residents. The OMH workforce is projected to decrease by 275 positions, or 2.0 percent, through attrition, to 13,628 FTEs in SFY 2018-19.

For OASAS, the Budget proposes \$26 million in additional operating and capital funding in SFY 2018-19, most of which supports additional expenditures associated with increases in direct care worker salaries and minimum wage hikes. The Budget also proposes to establish an excise tax on opioids, effective July 1, 2018, in an effort to discourage the use of such drugs. Proceeds from the excise tax, projected to total \$127 million in SFY 2018-19, would offset some of the State's costs of responding to the opioid epidemic.

The Budget proposes \$132 million in additional State spending related to a 6.5 percent salary increase for direct care professionals and a 3.25 percent increase for clinical staff employed by not-for-profit organizations delivering services on behalf of OPWDD, OMH and OASAS that was approved as part of the current year's budget. The increases were provided in lieu of cost-of-living adjustments for OPWDD, OMH and OASAS not-for-profits from April 2017 through March 2019. The Budget would also provide \$43.6 million in additional State spending for the three agencies to support higher costs associated with State minimum wage increases.

Human Services / Labor

The Executive Budget proposes nearly \$3.3 billion in State spending for programs operated by the Office of Temporary and Disability Assistance (OTDA) and the Office of Children and Family Services (OCFS) in SFY 2018-19, a reduction of \$21.1 million, or 0.6 percent, from SFY 2017-18 spending projections. All Funds spending for OCFS would be virtually flat, decreasing 0.1 percent, to \$2.9 billion. The Financial Plan contains savings from proposals that include:

- Eliminating \$31 million in State reimbursement of New York City's costs for the Close to Home initiative, enacted in 2012, involving residential placement services for youthful offenders;
- Capping State reimbursement of New York City child welfare services costs at \$320 million, which would reduce State costs by \$17 million in SFY 2018-19;
- Authorizing the closure of an OCFS reception center in Brooklyn on 30 days' instead of 12 months' notice. The closure is expected to reduce State costs by \$5.4 million from the elimination of 58 staff positions via attrition; and
- Eliminating the statutory human services cost-of-living adjustment (COLA) for SFY 2018-19 for various OCFS service providers, for savings of \$11.2 million. The current year's budget eliminated the human services COLA for SFY 2017-18, but included a provision authorizing annual adjustments from April 2018 through March 2021.

These and other savings would be partially offset by spending proposals that include:

- \$37 million to begin implementing the current year's budget initiative to raise the age of criminal responsibility from 16 to 17 on October 1, 2018; and to 18 a year later. This funding would support diversion, probation and programming services. The Budget also proposes \$50 million in capital funding to open approximately 100 program beds by October 2018; and
- \$30 million in increased State support for child care subsidies, offset in part by a \$23 million decrease in federal Temporary Assistance for Needy Families (TANF) child care subsidies proposed for OTDA. The net effect of these actions increases child care subsidies by \$7 million to \$806 million in SFY 2018-19, restoring funding for the program to its SFY 2016-17 level.

All Funds spending for OTDA would increase by \$279.1 million or 5.8 percent to \$5.1 billion in SFY 2018-19. The total number of public assistance recipients is expected to decline by 0.3 percent, to 543,893, reflecting a modest increase in Safety Net Assistance caseloads and a slight decrease in Family Assistance recipients.

State-funded spending for Safety Net Assistance is projected to increase by \$29.9 million, or 6.3 percent, to \$505.5 million. The State typically pays 29 percent and local governments 71 percent of the costs for Safety Net Assistance, which receives no federal funds. In SFY 2018-19, federal TANF block grant funding for Family Assistance benefits is projected to total nearly \$1.1 billion, a decrease of \$12 million, or 1.1 percent, from SFY 2017-18.

The Budget would increase State funding for homeless housing programs by \$4.6 million, or 19.2 percent, to \$28.4 million in SFY 2018-19. The Budget also proposes to authorize OTDA to withhold public assistance payments to any local social service districts that fail to implement an outreach or homeless services plan or to submit mandatory homeless services outcome reports to OTDA. The Financial Plan assumes no savings from this initiative.

The Executive proposes to increase federal TANF funding for the Summer Youth Employment Program by \$4 million to \$40 million to keep pace with minimum wage increases. Overall, federal TANF funding is projected to decrease by \$52.9 million, or 1.9 percent, to \$2.7 billion in SFY 2018-19.

All Funds appropriations of \$3.6 billion are proposed for the State Department of Labor (DOL) in SFY 2018-19, a reduction of \$85.5 million, or 2.3 percent, from SFY 2017-18. The Executive attributes the decrease to reductions in estimated unemployment insurance claims as a result of improving economic conditions. Article VII language is proposed to increase the tax credits available to employers hiring at-risk youth by 50 percent: from \$500 to \$750 a month for up to six months for each employee hired in a full-time job; and from \$1,000 to \$1,500 for each individual employed full-time for at least an additional six consecutive months.

Transportation

All Funds spending for the Department of Transportation (DOT), Department of Motor Vehicles (DMV) and Metropolitan Transportation Authority (MTA) would total \$10.1 billion in SFY 2018-19, a decrease of \$1.3 billion, or 11.5 percent. The decrease results primarily from the proposed direct remission of most of the Payroll Mobility Tax (PMT) receipts to the MTA, which would move both spending and revenue from the PMT off-budget.

Capital Projects

For federal and State funds appropriated through the above three agencies' budgets in SFY 2018-19, capital spending is anticipated to be \$5.05 billion for DOT and \$228.5 million for DMV. Along with spending of \$414 million by the MTA, this represents \$5.7 billion for the fourth year of the five-year \$29.2 billion State transportation capital plan, and is 8.5 percent, or \$532 million, less than in the current year. The plan includes spending for the Thruway Authority of \$453.5 million in SFY 2018-19 from prior years' appropriations totaling nearly \$2 billion.

A total \$477.8 million would be provided in SFY 2018-19 for local highway and bridge projects through the Consolidated Highway Improvement Program (CHIPS) (\$438.1 million) and the Marchiselli program (\$39.7 million). This funding has been maintained at the same level since SFY 2013-14. Executive Budget documents indicate that \$100 million each for the BRIDGE NY and PAVE NY initiatives will be available to localities in SFY 2018-19. However, the Budget

does not include appropriations or Article VII language specifically associated with these programs.

Statewide Mass Transit Operating Aid

On-budget operating aid to transit systems would be over \$3.95 billion, a 21 percent decrease from the current year due to the movement of PMT funding for this purpose off-budget. The MTA would receive over \$3.4 billion of this total amount while non-MTA systems would receive over \$525 million — over \$320 million downstate and almost \$205 million upstate. Including off-budget spending, the MTA would receive 7.4 percent or \$334.1 million more than the current year while there would be 3.6 percent (almost \$11.1 million) more for downstate and 1 percent (over \$2 million) more for upstate systems. A \$194 million DOT appropriation is provided for the MTA Subway Action Plan.

Dedicated Highway and Bridge Trust Fund

The Dedicated Highway and Bridge Trust Fund (DHBTF) was established in 1991 to provide funding for the construction and rehabilitation of State-owned roads and bridges. Initially, it was anticipated that the fund would rely primarily on pay-as-you-go financing to support its capital programs and purposes, using revenue from highway taxes, motor vehicle taxes and fees, petroleum business taxes and a number of smaller resources. Despite this intention, a growing portion of DHBTF resources has been diverted to pay for State operating costs and debt service.

The DHBTF also continues to rely on transfers from the General Fund and from the Federal Capital Projects Fund. The General Fund subsidy for the DHBTF in SFY 2018-19 is projected to be \$193.4 million, although \$265.9 million would be authorized. This reduced subsidy, 71 percent lower than estimated for the current year, is primarily due to the proposal to shift approximately \$390 million of certain DOT and DMV operating costs currently paid out of the DHBTF to the General Fund along with approximately \$24 million in accompanying DMV revenues, according to the Executive.¹¹ Additionally, required debt service payments are expected to be lower than in the current year.

Part of the large reduction in the General Fund subsidy is expected to be reversed in SFY 2019-20. The subsidy is expected at \$451 million that year, and to average \$452 million annually from SFY 2019-20 through SFY 2022-23. Total General Fund transfers into the DHBTF from the time they were first authorized in SFY 2004-05 through SFY 2016-17 have been \$4.6 billion. The projected total from SFY 2017-18 through SFY 2022-23 is anticipated to be an additional \$2.7 billion.

Total projected disbursements from the DHBTF in SFY 2018-19 are \$3.2 billion, 11.4 percent lower than the current year's estimate. Capital disbursements are projected to total \$708.3 million in SFY 2018-19, down 12.8 percent from the SFY 2017-18 estimated amount of \$812.7 million. However, such spending is about 22 percent of total disbursements in the current and upcoming years, the highest proportion since SFY 2009-10.

¹¹ Revenues associated with the regulatory DMV activities that are being shifted are also being moved to the General Fund. Such revenues are those raised from the DMV Point Insurance Reduction Program, DMV Motorcycle Safety Program, DMV Seized Assets Program and DMV Compulsory Insurance Program.

Debt service requirements from the DHBTF for SFY 2018-19 are projected to total \$1.27 billion, 2.2 percent lower than in the current year. As a proportion of all spending from the fund, debt service requirements are expected to increase from 35.8 percent in SFY 2017-18 to 39.6 percent in the upcoming year. State operations spending is expected to total \$1.24 billion in SFY 2018-19, or 38.5 percent of DHBTF disbursements. Projections for both through SFY 2022-23 indicate that the proportion spent on debt service will increase to 44.2 percent and the percentage spent on State operations will decrease to 35.1 percent.

Other transportation-related proposals in the Budget would:

- Make permanent authorization for the testing of autonomous vehicles in the State and remove the requirement for State Police supervision;
- Amend State Finance Law section 99-a to remove the requirement that the City of New York obtain approval of the State Comptroller in order to utilize the alternative reporting procedures set forth in that section;
- Allow DOT to charge utilities for use of State highway rights of way in the installation of fiber optic cables and to establish a process and fee structure for the siting of small cell wireless facilities. The new fees authorized to be imposed by DOT are estimated to generate \$15 million in SFY 2018-19, \$30 million in SFY 2019-20 and \$50 million annually thereafter;
- Authorize municipalities in the Metropolitan Commuter Transportation District and the MTA to establish demonstration programs that install and operate photo violation-monitoring devices at railroad grade crossings and to fine registered automobile owners for violations at such crossings;
- Require all back seat passengers to wear seat belts and children under the age of 8 to be properly restrained in school buses, prohibit hand-held or hands-free use of mobile phones and electronic devices by persons under 18 years of age, and allow junior drivers to drive between 5 and 9 p.m. in New York City under specified supervision; and
- Direct the Commissioner of Motor Vehicles to establish the Pre-Licensing Course Internet 5-year Pilot Program for use by New York State drivers' license applicants. The \$8 fee for this course is estimated to provide almost \$900,000 in annual revenue for the DHBTF.

Economic Development

The Executive Budget decreases All Funds spending for the State's economic development programs by over \$1.3 billion or 48 percent, from almost \$2.8 billion in SFY 2017-18 to \$1.4 billion in SFY 2018-19. Almost all of this decrease is attributable to a nearly \$1.3 billion decline in Capital Projects appropriations related to specific projects or programs, such as Moynihan Station and the SUNY Polytechnic Strategic Projects Program, that received funding in the current year's Budget but did not receive new appropriations in the proposed Budget. Appropriations for State Operations and Aid to Localities are decreased by \$32.2 million or 15.5 percent.

All Funds spending for the Department of Economic Development (DED) would decrease by \$9.9 million, or 10.7 percent, primarily due to the shifting of Market NY funding from DED to the

Urban Development Corporation (UDC) as well as the elimination of funding for the International Trade Program and other items added in the SFY 2017-18 Enacted Budget.

The appropriation for the promotion of agri-tourism and the State's food and beverage products is increased by \$2.1 million to \$3.6 million in SFY 2018-19. In the SFY 2017-18 Enacted Budget, this funding was allocated to three entities – the Cornell Cooperative Extension of Broome County, the Montgomery County Chapter of NYARC and the Cornell Cooperative Extension of Nassau County. The SFY 2018-19 appropriation would fund these three and five additional entities - the Cornell Cooperative Extension of Erie County, the Lake George Regional Chamber of Commerce, the Cornell Cooperative Extension of Columbia and Greene counties, the Thousand Islands Bridge Authority, and the Cornell Cooperative Extension of Orange County. The funding would be used to support the operations of Taste NY stores.

The Budget provides a new \$600 million in capital appropriations for a life sciences laboratory and public health initiative in the Capital District. This is in addition to the \$150 million provided in the SFY 2017-18 Enacted Budget for the relocation of the Wadsworth Lab and, according to the Executive, represents the balance of the funding for the project. A location for the lab has yet to be determined and disbursements for this new appropriation are not projected to be made until SFY 2020-21.

A new capital project fund appropriation of \$300 million is proposed for the High Technology Innovation and Economic Development Infrastructure Program. The appropriation states the funding would be used for loans and grants for projects and initiatives that foster research and development of innovative technologies, to leverage private investment in advanced science and technology and in regional projects that retain jobs, infrastructure, and manufacturing. The funding could be used to pay liabilities incurred prior to April 1, 2018. Although no specific projects have been identified, the Capital Program and Financing Plan reflects the full \$300 million in funding to be disbursed within SFY 2018-19.

The briefing book accompanying the Executive Budget indicates that \$30 million will be provided for the Photonics Attraction Fund in Rochester from the Upstate Revitalization Initiative which was appropriated in SFY 2015-16. The Fund would be administered by the Finger Lakes Regional Economic Development Council, but was not identified as a project to be awarded funds through the consolidated funding application process. The Fund is not lined out in the appropriation bills and no Article VII language is included to establish the Fund or parameters for use of the funding.

The Budget does not include new funding for the SUNY 2020/CUNY 2020 Challenge Grant Programs, which are intended to catalyze economic development in association with the universities' research and academic programs. Disbursements would continue under the Program through the re-appropriation of prior years' funding.

Housing

The Executive Budget proposes All Funds spending for the Division of Housing and Community Renewal (DHCR) of \$643.6 million, an increase of \$228.5 million or 55.1 percent over SFY 2017-18. A capital projects fund appropriation of \$132 million is proposed for capital subsidies, which when combined with other housing program capital funds from SFY 2016-17 and SFY

2017-18 would be intended to promote the development of 6,000 or more supportive housing units throughout the State over the next five years.

Article VII language authorizes the transfer of \$44 million from State of New York Mortgage Agency Mortgage Insurance Funds that is considered to be in excess of projected needs, for the following programs:

- \$23.6 million for the Rural Rental Assistance program;
- \$8.5 million for the Neighborhood Preservation program;
- \$3.5 million for the Rural Preservation program; and
- \$8.3 million for the State Supportive Housing program, the Solutions to End Homelessness program, or the Operational Support for AIDS Housing program.

A Budget proposal would allow the transfer of funds among three programs to aid victims of flooding established in the Lake Ontario-St. Lawrence Seaway flood recovery and International Joint Commission Plan 2014 mitigation grant program. The program provides grants to flood damaged municipalities, small businesses, owners of rental properties and homeowners who live on the shorelines of Lake Ontario, Oneida Lake, Seneca Lake, Cross Lake, the Seneca River, the Oswego River and the Oneida River.

New lead paint inspection, reporting and abatement requirements are proposed. Municipalities that administer the State Uniform Fire Prevention and Building Code would be required to report the results of inspection and remediation activities to the Department of Health (DOH). DOH would be authorized to conduct inspections and to ensure that necessary remediation measures are carried out. The legislation would require that paint on the inside or outside of residential structures built before 1978 and the exterior of similarly dated nonresidential structures be maintained in such a condition that the paint does not deteriorate except in “minimal” surface areas. DOH would be required to promulgate regulations requiring local code enforcement officers to conduct regular inspections of residential rental property and establish requirements for the remedy of violations of standards for the prevention of lead exposure in buildings. The legislation would establish new protections for tenants who report lead paint hazards against retributive actions by landlords.

Environment and Parks

Environment

The Executive Budget proposes \$1.3 billion in All Funds spending for the Department of Environmental Conservation (DEC) in SFY 2018-19, an increase of \$99.7 million, or 8.7 percent over estimated spending for SFY 2017-18.

A \$300 million appropriation is proposed for the Environmental Protection Fund (EPF), the same as in the current year’s Budget. Spending from the EPF is projected to increase by \$15 million to \$232.3 million. The FY 2019 Capital Program and Financing Plan indicates that the State will issue bonds for EPF projects over the Capital Plan period, although the specific amount and timing of borrowing for this purpose are not identified. An Article VII proposal would amend the law associated with the dedicated revenues from penalties collected for

certain violations of New York's container deposit law by removing the \$8 million minimum threshold.

A New York Works capital projects appropriation of \$40 million is proposed in DEC's capital budget, a reduction of \$30 million from SFY 2017-18 appropriations. New York Works supports a wide range of projects including: air monitoring technology; remediation of environmental contamination; a land acquisition project in the Town of North Hudson; demolition of unsafe structures on State-owned land; public access to open space; fish hatcheries; well plugging; water quality improvement projects; and, potentially other unidentified projects. The appropriation includes no specific language or criteria to identify the projects that would receive funding.

The Budget includes \$150 million for remediation of a plume of groundwater contaminants emanating from U.S. Navy and Northrup Grumman facilities in Bethpage. According to the Executive, the State will pursue reimbursement of these funds from the Navy and Northrup Grumman. In addition, the Budget includes \$65 million to remediate hazardous algal blooms in State water bodies.

Other environmental proposals included in the Executive Budget include:

- Requiring facilities that generate two tons per week or more of food waste to divert that waste to food banks, animal feed operations, or composting facilities, with certain exceptions. A \$2 million appropriation is included in the EPF to support municipal and not-for-profit food bank projects for food donations and the recycling of food scraps.
- Expanding eligibility criteria for the Brownfield Opportunity Area program to include groups engaged in community revitalization and simplify application requirements.
- Adding parcels of land to the Central Pine Barrens Area in the Town of Brookhaven and the Central Pine Barrens Core Preservation Area in the Village of Shoreham, and requiring local entities to identify properties in the Town that are suitable for solar farm development in a report to the Governor not later than January 1, 2020. This proposal is similar to legislation that was approved by the Legislature in 2017 but vetoed by the Governor, with the exception of the land parcels covered and the requirement for the above described report.
- As described in the Revenue section of this report, deferring the payment of a wide variety of business-related tax credits, including those related to brownfield redevelopment, solar equipment, green buildings and historic preservation, in tax years 2018 through 2020. This proposal would defer the aggregate annual amount of individual taxpayer's tax credits in excess of \$2 million.

Parks

All Funds spending for the Office of Parks, Recreation and Historic Preservation (OPRHP) would total \$356.3 million in SFY 2018-19, an increase of \$12.5 million, or 3.6 percent over SFY 2017-18. A New York Works appropriation of \$92.5 million is included in OPRHP's capital budget, \$90 million of which is directed to support infrastructure projects at State parks and historic sites and \$2.5 million of which is directed to the Olympic Regional Development Authority. A capital projects appropriation of \$67.2 million is proposed in support of

maintenance and improvement of existing parks facilities. An appropriation of \$50 million is proposed to complete the Hudson River Park, from Battery Park to 59th Street in Manhattan, while \$15 million is proposed to create a new 407-acre State park on the Pennsylvania and Fountain Avenue landfills in Brooklyn.

Agriculture

All Funds spending by the Department of Agriculture and Markets (Ag and Markets) is projected at \$116.4 million in SFY 2018-19, an increase of \$2.1 million over SFY 2017-18.

A New York Works capital appropriation of \$3.2 million and a \$3 million capital projects fund appropriation are proposed, including \$5.5 million for investments in State Fair infrastructure and the remaining amount for the purchase of vehicles and equipment. A \$1.1 million Aid to Localities appropriation is proposed for the Taste NY program with \$550,000 directed to the New York Wine and Culinary Center. A \$750,000 appropriation is proposed for farm to school programs. A \$20 million Aid to Localities appropriation is proposed for non-point source pollution control, farmland preservation and other agricultural programs.

Article VII language would make permanent the transfer of the Agricultural Market Orders program from Ag and Markets to the Empire State Development Corporation. This transfer, approved in the SFY 2016-17 Enacted Budget for a two-year period, currently expires at the end of SFY 2018-19.

Authorization for the development of commercial facilities at highway rest stops is proposed, with a stated intent to allow for the sale of locally sourced food products through the Taste NY program. Amendments to the forestry property tax exemption law would expand program eligibility to additional forest owners. A proposed grant program would support sustainable forestry and provide assistance to municipalities that are disproportionately affected by property tax exemptions authorized under the program. The proposal includes a procurement preference for New York wood products.

Energy

Spending in SFY 2018-19 for the Energy Research and Development Authority (NYSERDA) is proposed to decrease by \$1.5 million to \$22.9 million, while spending for the New York Power Authority (NYPA) would increase by \$10.4 million to support the Empire State Trail. A capital appropriation of \$17 million is proposed for NYSERDA to support the State's share of costs for remediation activities at the Western New York Nuclear Service Center. A State Operations appropriation of \$193 million is proposed for NYPA to repay funding transferred by NYPA to the General Fund.

Other energy-related items proposed in the Executive Budget include:

- Authorizing Ag and Markets, DEC, the Department of State and OPRHP to be reimbursed for the expenses of participating in Department of Public Service ratemaking proceedings with funding from the utility assessment authorized under Section 18-a of the Public Service Law.

- Authorizing NYSERDA to collect up to \$19.7 million in assessments on gas and electric utilities. This funding is not appropriated in the Budget, but billed to utilities by the Public Service Commission and transferred directly to NYSERDA. NYSERDA is directed to transfer to the State's General Fund \$1.0 million for DEC and \$150,000 for Ag and Markets while \$825,000 would be transferred directly to the University of Rochester Laboratory of Laser Energetics. Remaining funds are to be used for the NYSERDA energy research, development and demonstration program.
- Directing NYSERDA to transfer to the General Fund \$23 million in proceeds from the auction of carbon dioxide emission allowances under the Regional Greenhouse Gas Initiative, and \$913,000 to help offset debt service requirements related to the remediation of the Western New York Nuclear Service Center.
- Directing NYPA to transfer \$20 million to the General Fund for energy-related State activities.
- Authorizing NYPA to develop renewable energy generating facilities or procure renewable energy and then sell renewable energy to its customers. In addition, NYPA is authorized to provide energy-related services, including energy efficiency, to any of its customers.

Public Protection / Criminal Justice

The Executive Budget would increase State funding for public protection and criminal justice purposes, including General State Charges, by \$65.2 million or 1.7 percent, to over \$3.8 billion in SFY 2018-19. All Funds spending would decrease by \$272.3 million, or 4.7 percent, to approximately \$5.5 billion in SFY 2018-19. The difference between year-over-year changes in State-funded spending and All Funds spending primarily represents an expected decline in federal funding for the Division of Homeland Security and Emergency Services (DHSES).

All Funds spending for the Department of Corrections and Community Supervision (DOCCS), which represents more than two-thirds of State-funded Public Protection / Criminal Justice spending, would rise marginally (by 0.1 percent), to \$3.0 billion. The Budget attributes much of the projected increase to plans to address a backlog of preventive maintenance projects at DOCCS facilities, offset in part by lower hepatitis C drug costs and the closure of three solitary confinement units.

The DOCCS workforce is projected to decrease by 71 FTE positions, or 0.2 percent, to 29,183 FTEs, due to closure of the solitary confinement units, offset in part by implementation of various programs for inmates otherwise subject to solitary confinement and additional Parole Board members. The State prison population is projected to decrease to 50,300 individuals by March 2018, representing a 30 percent decline from its peak of approximately 72,000 in the late 1990s.

All Funds DHSES spending would decline by \$291.7 million, or 21.1 percent, to \$1.1 billion. The decrease largely reflects lower federal payments for Superstorm Sandy damage, offset in part by the cost of preventive maintenance projects at DHSES training facilities and 35 new positions that would increase the DHSES workforce by 6.2 percent to 599 FTEs.

Spending for the Division of State Police is projected to be \$766.4 million in SFY 2018-19, down \$49.8 million, or 6.0 percent. Increased spending for 30 new positions to discourage gang

activity on Long Island and to process sexual offense evidence kits in a more timely way would be more than offset by reductions from factors including the timing of fleet replacement and capital expenditures. A decrease in spending for DCJS largely reflects the elimination of funding for various legislative initiatives added to the SFY 2017-18 Enacted Budget. The DCJS workforce would remain at 436 positions in SFY 2018-19.

Projected spending for the Office of Indigent Legal Services would more than double, to \$166.4 million, largely reflecting the first-year costs of implementing a statewide initiative related to New York's system of public defense services. The Budget proposes \$50.7 million for this purpose, as well as \$23.8 million to add staff and other resources to comply with caseload and workload standards stipulated in a 2014 settlement agreement mandating reforms in Onondaga, Ontario, Schuyler, Suffolk and Washington counties.

The Budget also proposes statutory changes including authorization of geriatric parole for eligible inmates at least 55 years old who are certified by the DOCCS Commissioner to be suffering from a health condition exacerbated by age, unable to care for themselves within the correctional facility and who meet certain other criteria. Once such inmates are certified as affected by an age-related disability, the State Parole Board would have the power to release them on geriatric parole. Inmates convicted of murder or an attempt or conspiracy to commit murder or serving a sentence of life without parole would not be eligible for geriatric parole. The Executive does not attribute specific savings to the proposal, but indicates that it could lead to savings. The proposal also requires the Parole Board to submit an annual report on the number of inmates applying for and granted geriatric parole, as well as the nature of applicants' illness, the counties to which they have been released, the number of those released who return to prison and the reasons for return, and the categories of reasons for denial of geriatric parole. An April 2017 report by the Office of the State Comptroller pointed out the need to address issues associated with an aging prison population, including health care costs.¹²

Other proposed statutory changes included in the Executive Budget would be intended to ensure access to a speedy trial; require individuals facing misdemeanor or nonviolent felony charges to be released without cash bail; require prosecutors and the defense to share information before the start of a trial; require State court trial judges to operate their courtrooms for a full workday; ban asset seizures unless an arrest is made; expand merit time eligibility for inmates successfully completing two consecutive semesters of college programming; and eliminate the \$30 per month parole supervision fee that all parolees over 18 now pay.

Lottery and Gambling

The Executive Budget recommends a net increase in All Funds appropriations for the Gaming Commission of \$28.9 million, or 8.7 percent. This reflects an increase of \$29 million in Aid to Localities funding and a \$100,000 net decrease in State Operations funding for the Racing Fan Advisory Council.

Aid to Localities funding reflects a \$57 million increase in appropriations under the Tribal State Compact Revenue Program. Currently, the Seneca Nation has stopped making exclusivity

¹² Office of the State Comptroller, New York State's Aging Prison Population, April 2017, available at <http://osc.state.ny.us/reports/aging-inmates.pdf>.

payments to the State in relation to the Nation's gaming facilities under the Program, and is entering arbitration with the State to resolve the issue. DOB anticipates that arbitration will resolve the issue by March 2018. As a result, one payment relating to SFY 2017-18 is expected in the current fiscal year while the remaining payments are expected in SFY 2018-19, resulting in the need for additional appropriation authority.

While appropriations for the local governments' share of commercial gaming tax revenues are decreased by \$28 million, disbursements to local governments from commercial gaming tax revenues pursuant to the Commercial Gaming program are projected to increase from \$21 million in SFY 2017-18 to \$30 million in SFY 2018-19, reflecting factors including the opening of the State's fourth commercial casino, Resorts World Catskills, in February 2018. The decreased appropriation authority more closely reflects the projected local share of casino revenues.

The Budget projects lottery and gambling revenues in SFY 2018-19 to remain relatively flat at \$3.6 billion. While casino revenues are projected to increase by nearly \$62 million, this increase is expected to be almost entirely offset by a projected decrease in collections from video lottery terminals (VLTs) and the traditional lottery games. Currently, if VLT revenues in the State Lottery Fund are less than the statutorily required \$958.2 million, a transfer from the Commercial Gaming Revenue Fund to the State Lottery Fund is required. The Budget proposes to eliminate this transfer. A total of \$10.8 million of this year's State share of casino revenues is expected to be transferred to the State Lottery Fund for education due to the requirement.

State Workforce

The SFY 2018-19 Executive Budget Financial Plan indicates that the overall size of the State workforce (excluding the Legislature and the Judiciary) is projected to be 182,565 Full-Time Equivalents (FTEs) at the end of SFY 2018-19, an increase of 201 over the estimated total at the end of the current year. This increase is the net result of an estimated 7,877 attritions and 8,078 new hires. The major expected changes are:

- Department of Health, net increase of 381, including 200 related to the State's continued takeover of Medicaid administration from localities;
- Department of Motor Vehicles, net increase of 89 due to a peak in the license renewal cycle and implementation of the federal Real ID Act;
- Department of Transportation, net increase of 70 related to snow and ice services;
- Office of Mental Health, net decrease of 275 due to shifting of consumers to community-based settings and reduced need for institutional capacity; and
- Department of Corrections and Community Supervision, net decrease of 71 from reduced use of Special Housing Unit beds.

The Budget includes plans to change funding for nearly 35,000 FTE positions as follows:

- 32,149 FTEs in OMH, OPWDD and OASAS from Special Revenue Funds to the General Fund.

- 2,712 FTEs in DOT snow and ice removal; bus, truck and rail inspections and DMV regulatory functions from the Dedicated Highway and Bridge Trust Fund to the General Fund.
- 92 FTEs in OGS facility maintenance and operations from the General Fund to Capital Funds.

All Funds spending for personal services in SFY 2018-19 would increase by 3 percent to \$14.1 billion. (This excludes employee fringe benefit costs, which are paid separately through General State Charges, discussed below). The Budget includes language that would generally require that State judges certify each month to having worked full eight-hour days in the preceding month, and require the Comptroller to periodically audit such certifications. The Budget also includes a proposal, similar to one advanced previously but not enacted, that would authorize the Department of Civil Service to make up to 300 information technology appointments for up to 60 months without initial examination. These individuals would be required to pass civil service examinations to become eligible for permanent appointments.

General State Charges

The State's costs associated with employee fringe benefits and certain other expenses are known collectively as General State Charges (GSC). The Budget projects State Operating Funds spending for GSC will total \$8.5 billion in SFY 2018-19, an increase of 7.2 percent from SFY 2017-18. Within this total, employee fringe benefits are projected at \$8.1 billion, as shown in Figure 16. This includes almost \$4.3 billion in the coming year for health insurance benefit costs, an increase of 7.9 percent from SFY 2017-18, and workers compensation costs of \$476 million, up 46 percent. All Funds spending for GSC, including costs for federally funded State employees, is projected at \$8.9 billion.

Figure 16

State Operating Funds – General State Charges (disbursements in millions)

	2017-18	2018-19	% Change from 2017-18 to 2018-19	2021-22	% Change from 2017-18 to 2021-22
Health Insurance	3,968	4,283	7.9%	5,207	31.2%
Pensions	2,461	2,469	0.3%	2,918	18.6%
Social Security	1,028	1,030	0.2%	1,050	2.1%
Workers' Compensation	326	476	46.0%	752	130.7%
Employee Benefits	92	98	6.5%	101	9.8%
Dental Insurance	65	61	-6.2%	66	1.5%
Unemployment Insurance	12	12	0.0%	12	0.0%
All Other/Non-State Escrow	(421)	(319)	24.2%	(343)	18.5%
Fringe Benefits Subtotal	7,531	8,110	7.7%	9,763	29.6%
Fixed Costs	445	439	-1.3%	456	2.5%
General State Charges Total	7,976	8,549	7.2%	10,219	28.1%

Source: Division of the Budget

The General Fund Miscellaneous All State Departments and Agencies General State Charges appropriation of \$6.9 billion that appears in the SFY 2018-19 State Operations appropriations bill is 84 percent higher than in the current year Budget. Excluding transfers, spending from this appropriation in the upcoming year is projected at \$6.8 billion, \$1.9 billion or 39.2 percent more than the current year's amount of \$4.9 billion. The GSC General Fund appropriation no longer includes an offset for non-General Fund State agencies' support for fringe benefit spending, as such spending is proposed to be paid directly from General Fund appropriations. Changes are also proposed related to how indirect costs will be paid.

About \$1.4 billion of spending for Mental Hygiene fringe benefits would now be paid from the General Fund's GSC budget and just over \$100 million in fringe benefits from DOT and DMV operations. This results from the shift of revenues and disbursements from two State Special Revenue accounts, the Mental Hygiene Program Fund and the Patient Income Account, to the General Fund and the movement of certain DOT and DMV operations from capital funds to the General Fund.¹³

The Budget proposes to use up to \$145 million in transfers to the State Insurance Fund (SIF) for the State's workers' compensation obligations and to transfer \$100 million of this amount on or after April 1, 2018 to the State Insurance Fund. In addition, for the third consecutive year, the Executive Budget proposes changes to NYSHIP costs for State retirees through:

- Limiting reimbursement of Medicare Part B premiums for retirees and their dependents to \$134 per month, resulting in a projected reduction of the State's unfunded other post-employment benefits (OPEB) liabilities of approximately \$8 billion (if future reimbursement levels are not increased); and
- Stopping reimbursement of the Medicare Part B Income Related Monthly Adjustment Amount (IRMAA) for higher-income State retirees, reducing unfunded OPEB liabilities by approximately \$360 million.

Local Governments

The Executive Budget holds most direct municipal aid to amounts provided in the current year's Budget. Aid and Incentives to Municipalities (AIM), the largest appropriation of unrestricted aid to local governments, is held to \$715 million, unchanged since SFY 2011-12. Funding for local streets, highways and bridges is also held constant as detailed below.

Aid to Municipalities with Video Lottery Gaming Facilities would remain at \$28.9 million. Several counties are provided appropriations, including \$2.25 million for Madison County, \$124,000 for Essex County, \$72,000 for Franklin County and \$21,300 for Hamilton County. The Financial Plan identifies \$1 million in municipal aid for the City of Jamestown, however, no appropriation or Article VII language specifically identifies the source of funding for the assistance.

As in previous years, the Executive Budget proposes to eliminate the Village per Capita Aid (\$1.8 million in SFY 2017-18). Such proposed eliminations in previous years have not been enacted. There is no additional aid proposed for the City of Albany, which received \$12.5 million in special assistance in the SFY 2017-18 Enacted Budget.

¹³ The Financial Plan indicates this action conforms cash basis reporting with GAAP accounting and eliminates transfers from the General Fund to these two accounts.

The proposal continues several grant programs:

- \$75.8 million to fund municipal grants and loans by the Financial Restructuring Board for Local Governments;
- \$35 million to fund the Citizens' Re-Organization Empowerment Grants and Citizen Empowerment Tax Credits; and
- \$4 million for the Local Government Efficiency Grant Program.

Funding for local streets and highways is held flat, with the Consolidated Highway Improvement Program (CHIPS) at \$438.1 million and the Marchiselli Program at \$39.7 million. Funding of \$65 million included in the SFY 2017-18 Enacted Budget to help compensate local governments for severe winter weather damage is reappropriated. No new funding for this purpose is proposed. Executive Budget documents indicate that \$100 million each for the BRIDGE NY and PAVE NY initiatives will be available to localities in SFY 2018-19. However, the Budget does not include appropriations or Article VII language specifically associated with these programs.

A \$100 million Department of State appropriation is proposed for the third round of the Downtown Revitalization Initiative for “transformative housing, economic development, transportation, and community projects.” Thus far, 20 communities, two in each economic development region, have been awarded \$10 million each under this initiative.

As part of a shared services initiative, the SFY 2017-18 Enacted Budget required each county outside New York City to form a panel consisting of the chief executive officer of the county and representatives from each city, town and village in the county. Each panel was required to prepare a county-wide property tax savings plan intended to promote shared, coordinated and efficient services. The proposed Budget includes a \$225 million appropriation as a match from the State for the eligible net savings “actually and demonstrably realized” from approved 2017 and 2018 county-wide shared-services plans. In 2017, 34 counties and participating local governments submitted plans to the Division of Budget. The proposed Budget also contains language that would make the county-wide shared service panels permanent and allow for the participation of any fire district or fire protection district, school district, board of cooperative educational services or special improvement district in the county.

Additionally, the Budget proposes several measures to make it easier for local governments to share services:

- Upon the request of a city, town or village, the county would be authorized to regulate, administer and enforce planning, zoning and other land use regulations (after entering into an intermunicipal agreement with the municipality).
- The process for multiple adjacent towns to share one or more town justices is streamlined.
- The Department of Financial Services is directed to publish guidance and technical assistance to aid municipalities seeking to participate in health insurance pools.

The Executive has outlined a number of other initiatives that affect local governments, including:

- Proposed statutory language would authorize early voting that would cost local governments an estimated \$6.4 million for local fiscal years ending in 2019.
- The interest rate paid by the State and local governments on court judgements or accrued claims would change from the current fixed nine percent rate to a market rate.
- All county executives, county managers, chairs of county boards of supervisors, and any local official who receives at least \$50,000 compensation annually from a local government would be required to file annual statements of financial disclosure with the Joint Commission on Public Ethics (JCOPE).
- Payments for taxable parcels of State-owned land would grow by the rate of the allowable levy growth factor (the lesser of 2 percent or the rate of inflation) each year. The Comptroller would be responsible for performing these calculations.
- Local governments would be required to develop sexual harassment prevention policies that include instructions for how to file a complaint, standard complaint forms, and standardized investigation procedures.
- Local governments would be subject to Minority and Women-Owned Business Enterprise (MWBE) requirements pursuant to Article 15-A of the Executive Law when entering into purchase contracts for products or services over \$50,000, when funds for the contract come from State sources. (See the Other Issues section within Program Area Highlights of this Report for additional detail.)

New York City

The Executive Budget would increase education aid to New York City by \$248 million in FY 2019, \$247 million less than anticipated by the City in its current financial plan. The Executive Budget includes other initiatives, which according to DOB would have a net adverse budgetary impact of \$14 million in FY 2019. The Mayor estimates that Executive Budget proposals and certain actions adopted last year pose a budgetary risk to the City of more than \$750 million.

Metropolitan Transportation Authority

The Budget includes proposals to require New York City to fund the capital needs of the New York City Transit Authority (NYCTA) and allow the Metropolitan Transportation Authority (MTA) to establish transportation improvement subdistricts in New York City. Within these districts, the MTA would be permitted to levy an assessment of not more than 75 percent on the incremental property tax revenues generated from MTA capital improvements to provide funding for capital programs approved by the Capital Program Review Board. If the jurisdiction does not pay the assessment within 30 days of its receipt, the MTA could ask the Comptroller to withhold a State payment in that amount from the jurisdiction and pay it to the MTA.

The Budget also includes a proposal to require New York City to appropriate an identical sum provided by the State for a disaster emergency relating to the continuing failures and the condition of tracks, signals and other infrastructure of the NYCTA. The Executive Budget

includes \$428 million to fund half of the MTA Subway Action Plan, which was approved by the MTA board after the Governor declared a transportation emergency in June 2017. This consists of \$174 million of bond-financed capital support and \$254 million of operating aid. The Governor has proposed funding the operating budget portion of the Subway Action Plan with settlement funds (\$194 million) and from an acceleration of Payroll Mobility Tax revenues (\$60 million).

In addition, the Executive Budget provides a new \$1.5 billion appropriation related to the State's commitment to provide \$8.3 billion to the MTA's 2015-2019 capital program. This appropriation would cover a share of the State commitment in the event the State decides to meet its commitment through direct payments, bringing total State appropriations for this purpose to \$5.9 billion. No spending is planned from this appropriation throughout the Financial Plan period.

The Executive Budget provides the MTA's operating budget with almost \$5 billion in calendar year 2018, \$125 million less than anticipated in the MTA's financial plan. The Executive Budget does not restore, as the MTA had assumed, \$65 million that the State had provided in past years to offset exemptions to the MTA mobility tax that were granted to schools and small businesses. In addition, it provides the MTA with \$61 million less in Metropolitan Mass Transportation Operating Assistance (MMTOA) than assumed in the MTA's financial plan. The MTA is receiving a net increase of \$1 million more than planned from other State sources.

The Executive Budget also proposes legislation to direct revenues from the Payroll Mobility Tax (PMT, about \$1.5 billion annually) directly to the MTA, outside of the State Treasury and without the need for an appropriation. In the past, the MTA has suggested using the PMT revenues to secure a new bonding credit. It is unclear whether the State is counting this proposal as part of its increased contribution to the MTA's 2015-2019 program.

Public Authorities

Borrowing Authorizations

The Executive Budget increases statutory bond caps (authorizations to borrow) for 24 programs financed through State-Supported debt issued by public authorities. As shown in Figure 17, bonding authorizations would increase by \$5.3 billion or 4.3 percent over current limits.

The largest increase is \$1.45 billion for Economic Development Initiatives, representing 27 percent of total proposed increases. The proposal includes new language authorizing bonds for a high tech innovation and economic development infrastructure program, a downstate revitalization initiative and Roosevelt Island Operating Corporation capital projects. Bonding authorizations for the State and Municipal Facilities Program, which has also provided funding for economic development purposes, would be increased by \$13.5 million.

Figure 17

SFY 2018-19 State-Supported Bond Caps/Authorizations

(in millions of dollars; in order of amount of increase from current cap)

Program	Current Cap ¹	SFY 2018-19 Proposed Cap	Proposed	Proposed
			Change from Current Cap Dollars	Change from Current Cap Percentage
Economic Development Initiatives	6,708.3	8,158.6	1,450.3	21.6%
SUNY Educational Facilities	12,343.0	12,948.9	605.9	4.9%
Consolidated Highway Improvement Program (CHIPs)	9,699.6	10,186.9	487.4	5.0%
Mental Health Facilities	8,392.8	8,758.7	365.9	4.4%
Environmental Infrastructure Projects	4,951.8	5,296.2	344.4	7.0%
Prison Facilities	7,741.2	8,082.9	341.7	4.4%
CUNY Educational Facilities	7,982.0	8,314.7	332.7	4.2%
Housing Capital Programs	5,384.2	5,691.4	307.2	5.7%
Health Care Initiatives ²	2,700.0	3,000.0	300.0	11.1%
MTA Transportation Facilities	1,520.0	1,694.0	174.0	11.4%
Transportation Initiatives	4,364.0	4,480.0	116.0	2.7%
Information Technology	450.5	541.0	90.4	20.1%
State Office Buildings and Other Facilities	654.8	744.8	90.0	13.7%
Youth Facilities	682.9	769.6	86.7	12.7%
Division of State Police	173.6	220.1	46.5	26.8%
SUNY Upstate Community Colleges	914.6	953.3	38.7	4.2%
Water Pollution Control (State Revolving Fund)	875.0	910.0	35.0	4.0%
Higher Education Capital Matching Grants	240.0	270.0	30.0	12.5%
OGS State Buildings and Other Facilities	140.0	165.0	25.0	17.9%
Division of Military & Naval Affairs	47.0	67.0	20.0	42.6%
Library Facilities	183.0	197.0	14.0	7.7%
State and Municipal Facilities (SAM)	1,925.0	1,938.5	13.5	0.7%
Homeland Security and Training Facilities	250.0	253.0	3.0	1.2%
Food Laboratory	40.0	40.7	0.7	1.8%
Total Public Authority Bond Caps with Proposed Changes	78,363.2	83,682.2	5,319.0	6.8%
All Other Public Authority Bond Caps	44,327.4	44,327.4	-	-
Total Public Authority Bond Caps	122,690.6	128,009.6	5,319.0	4.3%
General Obligation Bond Act Authorizations³	19,185.0	19,185.0	-	-
Total State-Supported Bond Caps/Authorizations	141,875.6	147,194.6	5,319.0	3.7%

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

Note: Totals may not add due to rounding.

1. The current cap reflects the amount previously authorized, some or all of which may already have been issued.
2. This figure reflects the proposed statutory bond cap increase of \$300 million; however, the appropriation language for this purpose authorizes bonds to be issued up to \$425 million. Similarly, in the 2017-18 Enacted Budget, the statutory bond cap increase was \$300 million; however, the appropriation language for this purpose authorized bonds to be issued up to \$500 million.
3. This table reflects General Obligation Bond Acts for which there is a remaining authorized but unissued amount and/or a remaining debt outstanding balance.

Transfers and Other Budget Support

As shown in Figure 18, the Executive Budget authorizes a total of \$111 million in transfers and other uses of funds from public authorities. Of this, \$67.1 million is intended to provide General Fund support. The Budget also includes the transfer of \$44 million in “excess” reserves of the State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) to the Housing Trust Fund Corporation (HTFC) and the Homeless Housing and Assistance Corporation (HHAC) to pay for certain other programs off-budget.

Figure 18

SFY 2018-19 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
Dormitory Authority of the State of New York	22.0
Power Authority of the State of New York	20.0
New York State Energy Research and Development Authority*	25.1
Total to General Fund	67.1
Transfers for Various Purposes:	
State of New York Mortgage Agency	44.0
Total from Public Authorities	111.1

Source: Division of the Budget, Office of the State Comptroller
* See the Energy section within Program Area Highlights for additional detail.

The Budget includes a proposal to modify the Infrastructure Investment Act related to Design-Build Procurement. For additional detail regarding this proposal see the Debt and Capital Section of this Report.

Other provisions in the Executive Budget include:

- Authorization for DASNY to provide capital construction services to the Office of Children and Family Services (OCFS);
- An extension of Article 15-A of the Executive Law relating to participation by minority- and women-owned business enterprises in State contracts for five years and certain other revisions. See the Other Issues section within Program Area Highlights of this Report for additional detail.
- Authorization for the Thruway Authority to set fees for the use of its fiber optic system instead of requiring disposal through public auction or negotiation as required by PAL Section 2897;
- Elimination for all public authorities of the 15-day notice period for the purchase of goods or services valued at \$1 million or more from a foreign business enterprise and an increase in the threshold for sealed bidding for the Metropolitan Transportation Authority from \$100,000 to \$1 million; and
- Capital funding of \$62.5 million for ORDA, including \$50 million for an upgrade and modernization plan to support improvements to the Olympic, ski and other facilities, \$10 million for maintenance and energy efficiency projects and \$2.5 million appropriated from OPRHP, including \$500,000 for Belleayre Mountain Ski Center.

Other Issues

Minority and women business and workforce participation

The Executive Budget includes Article VII legislation that would respond to the latest statewide Disparity Study by amending State law requirements related to participation of minority

members and women in both State contracts and municipal contracts financed with State funds. In addition to existing aspirational goal requirements, State agencies would be required to set forth in each solicitation such goals for the composition of the workforce of companies seeking awards, broken down by nine categories of minority group members and women in each trade, profession and occupation. The proposal would create new criminal offenses related to minority or women-owned business enterprise fraud. It would also amend the Public Buildings Law, which governs construction and related work at certain State buildings, by providing a 10% price preference for MWBEs if their bids are \$1.4 million or less.

Retirement savings option for private sector employees

The Budget would create a New York State Secure Choice Savings Program Fund for employees of private-sector companies and nonprofit organizations that do not provide federally qualified retirement plans. The fund would be administered by the State's Deferred Compensation Board. Enrollees' accounts in the Fund would meet requirements for individual retirement accounts under federal tax law, providing workers with a vehicle to save for retirement.

Freestanding Article VII bills and Constitutional amendments

The Executive Budget includes two freestanding Article VII bills, each covering a range of issues, and is accompanied by four proposed Constitutional amendments.

The "Good Government and Ethics Reform" Article VII legislation includes several procurement-related proposals that appeared in identical or similar versions in previous years. These proposals, affecting State agencies, public authorities and other entities, include establishment of a State Chief Procurement Officer and provision of specific authority for the State Inspector General with regard to State procurements. Other proposals in the bill, versions of which have been advanced in previous years' Executive Budgets but not enacted, would:

- Institute public campaign financing and other campaign finance reforms, and establish new requirements regarding State legislators' outside income and financial disclosure by local elected officials;
- Authorize early voting and automatic voter registration; and
- Broaden the State's Freedom of Information Law.

The "Women's Agenda" Article VII legislation includes 13 parts with proposals to address sexual harassment in the workplace, provision of contraceptive coverage, codification of certain abortion rights in State law, removal of firearms from domestic abusers and a number of other issues. A newly advanced Constitutional amendment would add "sex" to the State Constitution's existing protections against discrimination. Three other proposed Constitutional amendments would advance same-day voter registration, limits on legislators' outside income and term limits for elected officials. Each of these has been included with previous years' Executive Budgets, but not acted upon by the Legislature.

VI. Appendices

Appendix A: Multiyear Gap-Closing Plan

SFY 2018-19 Executive Budget General Fund Gap-Closing Plan SFY 2018-19 through SFY 2021-22 (millions of dollars)

	2018-19	2019-20	2020-21	2021-22
Current Services Gap Reported in Mid-Year Update	(4,443)	(6,385)	(8,053)	(8,413)
Non-Recurring and Temporary Resources and Costs	1,716	778	699	664
Debt Service Prepayment	340	-	-	-
New Health Insurance Conversions	500	500	500	500
Use of Monetary Settlements as Budget Relief	383	-	-	-
Defer Certain Business-Related Tax Credits	82	278	199	164
Use of Monetary Settlement for Non-recurring MTA Operating	194	-	-	-
Non-Recurring Transfers	178	-	-	-
Reserves	39	-	-	-
Recurring State Operations Reductions	498	115	(36)	(77)
Executive Agencies	416	38	(39)	(170)
University Systems	82	77	80	93
Debt Management and Capital	569	(15)	21	(6)
Recurring Local Assistance Reductions	1,382	1,612	1,686	2,065
Health Care	396	304	282	225
Education	533	888	1,056	1,138
Mental Hygiene	181	108	(16)	(135)
Human Services	162	182	240	237
STAR	110	130	124	600
Recurring Revenue/Resources/Re-Estimates	-	695	694	719
Revised Tax Projections	-	695	694	719
Recurring New Tax Actions	444	604	587	571
Fee on For-Profit Health Insurers	140	140	140	140
Excise Tax on Opioids	127	171	154	138
Discontinue Energy Services Sales Tax Exemption	90	120	120	120
Expansion of Sales Tax on Internet Providers	75	150	150	150
Cigar Tax Enforcement	12	23	23	23
New Spending Initiatives	(246)	(48)	(52)	(52)
MTA Operating Aid	(194)	-	-	-
Elected Officials	(52)	(48)	(52)	(52)
All Other	80	(142)	(50)	127
Remaining Gap in Executive Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	-	(2,786)	(4,504)	(4,402)

Source: Division of the Budget

Note: Figures for SFY 2021-22 are not included in the Mid-Year Update and are newly presented in the Executive Budget

Appendix B: Capital Spending Plan Comparison

Comparison of Capital Spending SFY 2017-18 Enacted Capital Plan vs. SFY 2018-19 Proposed Capital Plan (in millions of dollars)

	SFY 2016-17	Enacted Capital Plan - SFY 2017-18 through SFY 2021-22					Average 2017-18 through 2021-22	Dollar Change 2017-18 through 2021-22	Percentage of Change 2017-18 through 2021-22
		SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22			
Transportation	5,354,153	6,139,113	5,781,469	5,601,670	5,127,778	4,987,314	5,527,469	27,637,344	40.0%
Education	70,077	643,780	554,787	448,000	338,957	224,606	442,026	2,210,130	3.2%
Higher Education	1,237,655	1,355,737	1,443,160	1,445,253	1,440,662	1,431,942	1,423,351	7,116,754	10.3%
Economic Development/ Government Oversight	1,032,759	1,718,471	1,960,476	1,697,615	1,721,120	1,516,802	1,722,897	8,614,484	12.5%
Mental Hygiene	409,013	559,787	505,322	497,441	500,821	500,821	512,838	2,564,192	3.7%
Parks and Environment	844,191	1,021,492	1,098,437	1,078,911	1,040,171	1,160,189	1,079,840	5,399,200	7.8%
Health	105,796	552,739	887,042	830,071	681,001	562,101	702,591	3,512,954	5.1%
Social Welfare	209,947	414,963	617,560	605,358	597,445	582,429	563,551	2,817,755	4.1%
Public Protection	469,041	595,235	471,683	403,776	395,940	397,632	452,853	2,264,266	3.3%
General Government	183,369	331,194	276,622	201,379	139,644	115,157	212,799	1,063,996	1.5%
Other	821,653	460,630	1,731,054	1,562,641	1,208,816	1,014,901	1,195,608	5,978,042	8.6%
Total	10,737,654	13,793,141	15,327,612	14,372,115	13,192,355	12,493,894	13,835,823	69,179,117	100.0%

	SFY 2017-18	Proposed Capital Plan - SFY 2018-19 through SFY 2022-23					Average 2018-19 through 2022-23	Dollar Change 2018-19 through 2022-23	Percentage of Change 2018-19 through 2022-23
		SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2022-23			
Transportation	6,225,342	5,693,279	5,234,265	4,737,458	4,612,637	4,597,996	4,975,127	24,875,635	38.3%
Education	443,780	815,300	476,800	289,807	228,849	151,863	392,524	1,962,619	3.0%
Higher Education	1,443,237	1,443,160	1,390,878	1,386,162	1,377,842	1,377,842	1,395,177	6,975,884	10.8%
Economic Development/ Government Oversight	1,594,423	2,041,405	1,905,198	1,836,298	1,635,188	1,498,783	1,783,374	8,916,872	13.7%
Mental Hygiene	535,950	524,912	525,449	532,474	533,768	582,770	539,875	2,699,373	4.2%
Parks and Environment	985,742	1,113,434	1,088,377	1,103,815	1,133,017	1,173,613	1,122,451	5,612,256	8.6%
Health	402,227	1,042,865	838,115	703,870	604,915	423,973	722,748	3,613,738	5.6%
Social Welfare	417,963	719,088	629,281	600,730	544,586	539,599	606,657	3,033,284	4.7%
Public Protection	606,530	540,237	461,209	432,748	440,253	438,135	462,516	2,312,582	3.6%
General Government	310,906	419,582	289,913	222,297	169,317	148,157	249,853	1,249,266	1.9%
Other	392,632	811,726	456,726	181,787	859,749	1,322,126	726,423	3,632,114	5.6%
Total	13,358,732	15,164,988	13,296,211	12,027,446	12,140,121	12,254,857	12,976,725	64,883,623	100.0%

Source: Division of the Budget

Appendix C: State Revenue Impact from Conformity

Estimated State Revenue Impacts from Conformity with Federal Tax Cuts and Jobs Act

(millions of dollars)

	State Revenue Impact
Personal Income Tax	
Definition of Single Filer for Purposes of Standard Deduction	\$840
\$10,000 Limit on Itemized Deduction for Property Taxes	\$400
Elimination of Itemized Deduction for Miscellaneous Expenses	\$281
Standard Deduction Requirement for Both State and Federal Returns	\$44
Elimination of Limit on Total Itemized Deductions	\$0
Limit on Itemized Deduction for Mortgage Interest	\$0
Tax Treatment of Alimony Payments	\$0
Limit on Deduction for Moving Expenses	\$0
Limit on Itemized Deduction for Personal Casualty Losses	\$0
Increased Itemized Deduction for Medical Expenses	(\$25)
Increase in Child Tax Credit	(\$500)
Business Taxes	
Limitation on Business Interest Expense and Other Deductions	\$70
Repatriation of Foreign Income	\$60
Global Low Taxed Intangible Income Inclusion	\$30
Foreign Source Portion of Dividends	\$4
Exclusion of Gains on Investments in Qualified Opportunity Funds	(\$7)
Immediate Expensing for Small Businesses	(\$18)
Eligibility Thresholds for Use of Cash vs. Accrual Accounting	(\$30)

Source: Preliminary Report on the Federal Tax Cuts and Jobs Act, Department of Taxation and Finance, available at https://tax.ny.gov/pdf/stats/stat_pit/pit/preliminary-report-tcja-2017.pdf. The report does not specify timing of estimated revenue impacts.

Note: Revenue impacts are for the individual provisions only and are not additive.

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