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# Report on the State Fiscal Year 2016-17 Executive Budget

February 2016

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**New York State Comptroller**

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# Executive Summary

Growth in tax receipts and lower-than-anticipated spending through the first three quarters of SFY 2015-16 have bolstered the State's fiscal position as it approaches a new fiscal year. More than \$8 billion in monetary settlements received in the current and last years have also benefitted the State, with most of these resources appropriated as part of this year's budget and an additional \$2.3 billion allocated for use in the Executive Budget for State Fiscal Year (SFY) 2016-17. The Budget proposes increased investments in capital assets, education and other areas, as well as major policy changes including certain ethics-related proposals and a boost in the State minimum wage.

While the economy continues to expand both nationally and in New York, the Division of the Budget (DOB) projects that growth in tax receipts will slow from 5.7 percent this fiscal year to 3.4 percent in the year starting April 1. DOB projects the General Fund balance as of March 31, 2017, will be \$3.2 billion – returning to a more historically typical level after reaching a recent end-of-year peak of \$7.3 billion two years earlier. Among other factors, the decline primarily reflects the transfer of non-recurring settlement revenues to other funds for designated uses.

The prospect of slowing revenue growth and the projected commitment of received settlement resources may foreshadow increasing budgetary challenges for the State in coming years as policy makers seek to continue investing in critically important areas. The Office of the State Comptroller estimates that DOB's projections of receipts and disbursements indicate potential budget gaps averaging more than \$2.6 billion annually during the three fiscal years ending in SFY 2019-20.

Adding to future uncertainty, the Executive Budget proposes or raises the prospect of multiyear spending in certain areas with little or no detail on specific funding. For example, legislation submitted with the Budget would statutorily "commit" the State to providing resources sufficient to fund approximately \$8.3 billion in capital costs of the Metropolitan Transportation Authority. However, the proposal does not provide any details regarding financing sources for this commitment beyond \$1 billion appropriated as part of the current year's budget, leaving questions as to how and when the majority of the State's commitment will be financed and what its impact will be. Similarly, an announced \$20 billion initiative for affordable housing and supportive services does not appear to have resources allocated or fully identified in the Executive Budget appropriations and proposed Article VII legislation.

Certain aspects of the Budget raise questions about the fiscal and institutional relationships between the State and its public authorities. Legislative reforms enacted in recent years have emphasized the need for authorities, which were created for a variety of purposes, to act independently in pursuit of their missions.

The proposed Budget would increase the Thruway Authority's dependence on State resources in the coming years, while leaving questions unanswered regarding financing of the Thruway's long-term capital and operational needs, including those for the New NY Bridge to replace the Tappan Zee Bridge. The Budget also assumes \$232 million in resources from various public authorities to support the State's overall proposed spending plan.

The Budget proposes the creation of a New York State Design and Construction Corporation, with sweeping powers to oversee and direct public works projects undertaken by State agencies and public authorities which are valued above \$50 million. The stated purposes

include providing additional project management oversight, with State agencies and public authorities required to comply with its directives. The new entity, with a three-member board appointed by the Governor, would be granted an extraordinary if not unprecedented range of powers, including authority to cancel contracts duly negotiated and executed by State agencies and authorities as well as unlimited eminent domain powers. This wide range of powers may increase uncertainty for potential bidders on State projects and thus reduce vendor participation, creating the risk of higher costs rather than savings. The proposal does not indicate what current shortcomings the new entity is intended to redress, or provide any assurance that the new corporation's decisions would be made in a transparent and accountable manner. As proposed, the new corporation would eliminate certain existing oversight provisions, diminishing rather than enhancing independent checks and balances.

The Executive's proposed Financial Plan estimates that All Funds disbursements will rise by 1.6 percent in SFY 2016-17, to \$154.6 billion. Spending from State Funds, including State capital project funds, is projected to increase 3.1 percent. DOB projects that spending from State Operating Funds, which excludes capital spending, will rise by 1.7 percent in SFY 2016-17. After adjusting for changes in the timing of certain debt payments, the Office of the State Comptroller estimates that such spending will grow by a projected 2.8 percent. This adjusted growth figure does not include certain other proposed actions that have the effect of shifting spending outside of State Operating Funds.

The proposed Capital Program and Financing Plan accompanying the Executive Budget projects total capital spending of \$60.7 billion through SFY 2020-21, an increase of \$4.2 billion or 7.5 percent from the current Capital Plan. The increase in capital spending is largely due to increases in housing and transportation expenditures, while spending for education and higher education would decline from the levels in the current Plan.

Proposed changes include far-reaching authorization for the Metropolitan Transportation Authority (MTA) and the New York City Transit Authority (NYCTA) to engage in broadly defined joint arrangements, including public-private partnerships (P3s), for a wide variety of transportation and other purposes. The proposal could allow public or private entities, through joint arrangements, to have extensive powers over transportation and transportation facilities, including establishment, levy and collection of fares, tolls, taxes, and other charges. The proposal does not establish any clear division of control between private and public entities over such taxes and other charges. The MTA and NYCTA would be authorized to issue bonds or notes to pay for project costs. Although P3 agreements can serve as an alternative means of constructing and maintaining facilities and providing services, any such proposal should include appropriate safeguards to protect the public interest and ensure the correct balance between public and private interests. The current proposal lacks well-defined mechanisms to protect the taxpayers, rate and toll payers and public assets, and appears to limit oversight by other entities.

The proposed Budget projects that State-Supported debt outstanding will increase by nearly \$10 billion, or 19.6 percent, over the five years from SFY 2016-17 to SFY 2020-21, bringing total State-Supported debt to \$60.8 billion. Certain borrowing, such as bonds issued under a recently authorized financing program for State University of New York dormitories, would not be counted as State-Supported debt. State-Funded debt outstanding, a broader measure including such borrowing, is expected to reach \$70.8 billion by the end of SFY 2020-21, an increase of 13.2 percent over the same period.

DOB projects that remaining capacity under the State's statutory debt limit will decline to \$189 million as of March 31, 2020. State-Supported debt service is estimated to rise to \$7.4 billion by SFY 2020-21, an increase of 37 percent from SFY 2016-17.

The SFY 2016-17 Executive Budget contains a wide variety of significant proposals. Among other measures, the Budget:

- Proposes tax changes that would reduce State revenues by a projected \$608 million as of SFY 2019-20, excluding changes to the School Tax Relief (STAR) program. Annual growth in tax receipts is projected at 3.4 percent in the coming year and 3.7 percent in SFY 2017-18, before weakening to 1.8 percent in SFY 2018-19, largely because of the scheduled expiration of higher Personal Income Tax rates on upper-income earners.
- Relies on more than \$1.0 billion in proposed new one-shot and temporary resources in the coming year. These include: \$200 million related to a refunding of bonds issued by the Sales Tax Asset Receivable Corporation; \$141 million from the State Insurance Fund; \$158 million due to a proposed change in the School Tax Relief program; and \$150 million from the Mortgage Insurance Fund.
- Transfers up to \$1.84 billion from the General Fund to the Dedicated Infrastructure Investment Fund (DIIF), which the Executive indicates comes from settlement resources. This is in addition to the \$4.55 billion authorized for transfer in the current year's budget. A projected \$1.3 billion would be spent from the DIIF in SFY 2016-17, and a total of \$4.3 billion will be spent over the four years following. The Executive further proposes to use settlement resources to provide \$340 million for a tax credit that would reimburse a portion of the tolls paid by certain Thruway users and \$120 million for the Environmental Protection Fund.
- Continues and expands the use of lump-sum appropriations, where planned uses of State resources are not specifically defined. Examples include certain appropriations and reappropriations from the DIIF and for the State and Municipal Facilities Program, as well as a total of \$200 million for additional Upstate Revitalization initiatives.
- Does not currently anticipate any deposits in the Rainy Day Reserve Fund or Tax Stabilization Reserve Fund. DOB projects that total reserves in these two statutorily designated funds will be just under \$1.8 billion as of March 31, 2016, which is equal to approximately 2.5 percent of projected General Fund spending for the coming year.
- Includes certain projections of available resources that should be considered uncertain. In addition to the \$232 million in public authority resources mentioned above, these include an authorization for \$750 million in unspecified sweeps from dedicated funds to the General Fund for budget relief.
- Would increase school aid by \$991 million or 4.3 percent in the coming school year, compared to the 3.9 percent increase that would be allowed under a statutory cap linked to growth of personal income in the State. The Gap Elimination Adjustment, which formulaically reduces districts' State aid from levels otherwise driven by other funding formulas, would be mostly eliminated in 2016-17 for high-need districts and entirely eliminated as of the 2017-18 school year. Other education-related proposals include several changes to funding for charter schools, and tax credits totaling \$150

million annually for donors to certain educational programs and scholarships, for lower-income families who have children enrolled in private school, and for teachers.

- Proposes to cap STAR benefits at the SFY 2014-15 levels, eliminating an existing growth factor that is capped at 2 percent annually, for State savings of \$56 million in the coming year. The Budget would also convert the STAR exemption, which reduces homeowners' school tax bills directly, to a refundable credit against State Personal Income Tax liability for first-time homebuyers and existing homeowners who move into a new home.
- Projects \$22.9 billion in State-funded Medicaid spending in SFY 2016-17, an increase of \$197 million or 0.9 percent from the current year. The Budget also includes \$484 million to operate the State's health insurance exchange, an increase of nearly 25 percent. Medicaid enrollment is projected to reach 6.3 million in the coming year, including certain newly eligible individuals whose costs are largely funded through the federal Affordable Care Act.
- Makes no change to the largest programs of direct municipal aid. Funding for the Aid and Incentives for Municipalities program, and for two major transportation assistance programs for localities, would be held flat. Budget proposals affecting Medicaid, the City University of New York and certain sales-tax proceeds would increase costs or result in lost revenues for New York City amounting to a projected \$985 million in the City's 2017 fiscal year and about \$1.2 billion in subsequent years.
- Proposes \$2 billion in capital appropriations for housing of the homeless. While Budget documents discuss a multiyear \$20 billion program to create new affordable and supportive housing, the Budget does not specify how such projects would be funded.

The Executive Budget includes measures to address projected budget gaps in the upcoming fiscal year, and contains several important policy proposals. However, the proposed Budget also raises questions regarding out-year budget gaps, the funding of key initiatives, and accountability in the use of public resources. This report provides information for use by legislators and other policy makers, advocates and the public in their evaluation of the Executive Budget.

*Note: This report generally reflects the Executive Budget, the Financial Plan, and the Capital Program and Financing Plan as submitted to the Legislature on January 13, 2016. Certain modifications to these proposals that were included in the 30-day amendments to the Executive Budget, which were released on February 12, 2016, are noted. Revisions to the Financial Plan, which were released on February 16, 2016, are summarized in Appendix C of this report.*



# Financial Plan Overview

The following section reflects the Executive Budget Financial Plan submitted to the Legislature on January 13, 2016. The Division of the Budget made modest changes to the Financial Plan to reflect the Governor's amendments and forecast revisions, which were released in February 2016. These changes are summarized in Appendix C of this report.

## ***State Fiscal Year 2015-16***

Through the first three quarters of State Fiscal Year (SFY) 2015-16, New York State's tax collections have exceeded the previous year's level by nearly \$4.7 billion or 9.4 percent. While much of this growth over the previous year occurred in April from Personal Income Tax (PIT) receipts, collections through December exceeded initial projections for the current year by an average of nearly \$300 million a month. At the same time, while monthly spending levels have been more variable relative to projections, total spending from All Funds through January 31 was \$1.1 billion below initial projections. Unanticipated monetary settlements have continued to flow to the State, although at lower levels than last year.

### *General Fund*

General Fund tax receipts, not including transfers from other funds, are projected to total \$46.4 billion, and to end the year \$652 million higher than expected when the SFY 2015-16 Budget was enacted. Most of this, \$397 million, is in "Other" tax collections, primarily Estate and Real Estate Transfer taxes, which are stronger than expected. In addition, business tax collections are currently expected to end the year \$305 million higher than initially anticipated, primarily because of Corporate Franchise tax collections. These increased projections are offset by lower estimates for consumption taxes, primarily in Sales tax collections.

Projections for PIT collections are only slightly higher (\$59 million) than originally estimated. However, this figure reflects the decision by the Division of the Budget (DOB), after initial revenue projections based on the SFY 2015-16 Enacted Budget were released, to increase the cap on PIT refunds to be paid in the fourth quarter of the current fiscal year, and pay \$500 million in PIT refunds that were initially anticipated for SFY 2016-17 during the current year instead. General Fund receipts, including transfers from other funds, are expected to total \$70.1 billion. By fiscal year end, the General Fund is expected to have received nearly \$3.4 billion in settlements, primarily from financial institutions, about \$1.6 billion less than was received in SFY 2014-15.

General Fund spending, including transfers to other funds, is now projected to total \$72.6 billion in SFY 2015-16, approximately \$485 million higher than initially anticipated. The latest projection includes \$550 million in debt service prepayments, approximately \$450 million higher than initially anticipated. The General Fund is now expected to end the year with a closing balance of \$4.8 billion, \$1.3 billion higher than initial estimates, including unanticipated monetary settlements. This is after accounting for use of an additional \$1.3 billion in resources from higher than anticipated receipts (not including higher than expected monetary settlements), lower than anticipated spending, and use of reserves. A total of \$350 million in unanticipated resources was identified by DOB in the Mid-Year Financial Plan Update and another \$951 million was identified in the Third Quarter Financial Plan Update included with the Executive Budget. These resources, as well as \$14 million in Community Projects Fund

reserves, are expected to be used to finance \$1.3 billion in additional actions planned by DOB. Without these additional actions, the General Fund would be projected to end the year \$2.6 billion higher than initially anticipated.

Figure 1 illustrates the sources of additional General Fund resources as estimated in the SFY 2015-16 Financial Plan Mid-Year Update and the Executive Budget (released in November 2015 and January 2016, respectively), as well as how the proposed Budget indicates such resources are expected to be used. In addition to the uses described above, these include \$250 million to replace federal resources that were initially anticipated as reimbursement for certain mental hygiene costs and transfer of \$117 million to Capital Projects funds.

**Figure 1**

**Unanticipated Non-Settlement Resources and Anticipated Uses**  
(in millions of dollars)

	November	January	Total
<i>Receipts (1)</i>	448	481	<b>929</b>
Tax Receipts	557	512	<b>1,069</b>
Miscellaneous Receipts and Other	(109)	(31)	<b>(140)</b>
<i>Disbursements (1)</i>	(98)	470	<b>372</b>
Local Assistance	(16)	294	<b>278</b>
State Operations	-	91	<b>91</b>
General State Charges	(12)	-	<b>(12)</b>
Transfers to Other Funds	(70)	85	<b>15</b>
Use of Reserve	-	14	<b>14</b>
<b>Reported Resources Before Actions</b>	<b>350</b>	<b>965</b>	<b>1,315</b>
<i>Anticipated Uses</i>			
Prepay PIT Refunds	(250)	(250)	<b>(500)</b>
Prepay Debt Service (2)	(100)	(348)	<b>(448)</b>
Additional Transfer to Capital	-	(117)	<b>(117)</b>
Replace Federal Resources	-	(250)	<b>(250)</b>
<b>Reported Resources After Actions</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Division of the Budget

- (1) In receipts, positive figures represent higher-than-anticipated results, while negative figures are lower than anticipated. With disbursements, positive figures represent lower-than-anticipated spending and negative figures are higher than anticipated.
- (2) The SFY 2015-16 Enacted Budget Financial Plan anticipated prepaying \$100 million of SFY 2016-17 debt service costs in SFY 2015-16. Including the additions shown above, anticipated debt service prepayments total approximately \$550 million.

**State Operating Funds**

The SFY 2015-16 Enacted Budget Financial Plan assumed State Operating Funds revenues (including the General Fund) would decline approximately 1.8 percent, primarily due to an expected drop in monetary settlements. Tax collections were expected to increase 5.1 percent, or \$3.6 billion, and miscellaneous receipts (including monetary settlements) were expected to decline 20.9 percent or \$5.3 billion. The growth in tax collections was primarily due to PIT collections, which were expected to increase 7.7 percent.

The approximately \$1.3 billion in unanticipated resources discussed above allowed certain PIT refunds and debt service obligations to be paid earlier than originally scheduled, and to make certain other payments that are not reflected in State Operating Funds spending because they are associated with capital funds. DOB now projects SFY 2015-16 State Operating Funds receipts will stay within \$1 million of the SFY 2014-15 level. The more

positive projection is primarily because of higher-than-anticipated growth in PIT collections (up 7.7 percent, including pre-payments) and other tax collections (up 15.3 percent), and because miscellaneous receipts did not decline as much as anticipated, due to the \$1.4 billion in unanticipated monetary settlements. If the increase in PIT refunds is adjusted out, receipts would show an increase of 0.5 percent, including PIT growth of 8.9 percent.

**Figure 2**

**State Operating Funds Receipts and Disbursements – Adjusted for Timing**  
(in millions of dollars)

	SFY 2014-15 Actual	SFY 2015-16 Estimate	Dollar Change	Percentage Change
<b>Unadjusted State Operating Funds Receipts</b>	<b>95,037</b>	<b>95,038</b>	<b>1</b>	<b>0.0%</b>
<b>Receipts:</b>				
Total Taxes	69,662	73,715	4,054	5.8%
Adjustment for SFY 2015-16 PIT Refund Prepayment	200	(200)		
Adjustment for SFY 2016-17 PIT Refund Prepayment		500		
<i>Total Adjusted Taxes</i>	<i>69,862</i>	<i>74,015</i>	4,154	5.9%
Miscellaneous Receipts	25,301	21,249	(4,052)	-16.0%
Federal Funds	75	74	(1)	-0.9%
<b>Adjusted State Operating Funds Receipts</b>	<b>95,237</b>	<b>95,338</b>	<b>101</b>	<b>0.1%</b>
<b>Unadjusted State Operating Funds Disbursements</b>	<b>92,426</b>	<b>94,282</b>	<b>1,856</b>	<b>2.0%</b>
<b>Disbursements:</b>				
Grants to Local Governments	61,052	63,032	1,980	3.2%
Adjustment for SFY 2015-16 Mental Hygiene Prepayment	(66)	66		
Adjustment for SFY 2015-16 Higher Education Prepayment	(205)	205		
<i>Total Local Assistance Adjusted</i>	<i>60,781</i>	<i>63,303</i>	2,522	4.1%
State Operations	18,157	18,478	321	1.8%
General State Charges	7,033	7,319	286	4.1%
Debt Service	6,183	5,452	(731)	-11.8%
Adjustment for SFY 2015-16 Debt Service Prepayment	(953)	953		
Adjustment for SFY 2016-17 Debt Service Prepayment	-	(550)		
<i>Adjusted Debt Service</i>	<i>5,230</i>	<i>5,855</i>	625	12.0%
Capital Projects	1	1	(0)	-23.1%
<b>Adjusted State Operating Funds Disbursements</b>	<b>91,203</b>	<b>94,956</b>	<b>3,753</b>	<b>4.1%</b>

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

DOB projects spending from State Operating Funds in SFY 2015-16 will total just under \$94.3 billion, for a projected increase of \$1.86 billion, or 2.0 percent, from SFY 2014-15. While restraint in certain spending programs has been one factor in the State Operating Funds spending benchmark, these results are also achieved, in part, by adjustments in timing of various payments and movement of spending to other Capital Project funds or off-budget.

For example, in SFY 2014-15, DOB projected SFY 2015-16 spending from State Operating Funds would total \$96.2 billion before actions to limit growth to 2 percent in subsequent years. The SFY 2014-15 Enacted Budget projected that limiting growth to 2 percent would produce \$2.1 billion in savings in SFY 2015-16, resulting in expenditures of \$94.1 billion. DOB now projects spending from State Operating Funds in SFY 2015-16 will total close to that figure, at \$94.3 billion, or \$1.9 billion lower than anticipated in the SFY 2014-15 Enacted Budget Financial Plan. However, as Figure 2 shows, after adjusting for nearly \$675 million in prepayments made in SFY 2014-15 and SFY 2015-16, State Operating Funds spending in

SFY 2015-16 would actually total \$95.2 billion. This figure remains lower than DOB's initial projection before any changes, but the difference becomes \$947 million, less than half of the originally projected "savings."

Figure 2 shows the prepayments that affect growth in SFY 2015-16. If prepayments are adjusted out, spending growth from SFY 2014-15 to SFY 2015-16 would rise to 4.1 percent. However, making additional prepayments to assist in staying within the 2 percent growth spending benchmark could become more difficult in the future. Other actions used by the Executive to alter State Operating Funds spending growth without actually lowering costs include removing debt service from the Budget for SUNY dormitories in SFY 2013-14 and thereafter, and moving certain State Operating funds spending to Capital Projects funds.

Between SFY 2014-15 and SFY 2015-16, nearly \$2.5 billion in revenue and spending timing adjustments took place, including prepayments for debt service and PIT refunds in both SFY 2014-15 and SFY 2015-16, as well as prepayments for certain mental hygiene costs and tuition assistance. Furthermore, because State Operating Funds do not include federal funds or capital funds, spending growth does not reflect the \$117 million in additional transfers to Capital Projects Funds that are expected to result from the additional resources identified in the Third Quarter Financial Plan Update (Figure 1).

#### *State Funds*

The SFY 2015-16 Enacted Budget Financial Plan projected that receipts collected in State Funds would decline by 0.4 percent, or \$421 million, similar to expected results in other fund groups, primarily because of a projected decline in monetary settlement revenue. However, as reported in the Third Quarter Update, State Funds receipts are now expected to increase \$622 million, or 0.6 percent, primarily from unanticipated monetary settlement revenues, as well as higher projections for tax collections.

DOB initially projected spending from State Funds (which includes State-funded capital spending but not federal spending) would increase 5.1 percent or just under \$5 billion. This was largely due to increased capital spending associated with settlement funds, as well as a \$3.4 billion increase in local assistance, much of which reflects payments made from capital funds. The Third Quarter Update lowered spending projections by nearly \$1 billion, so the projected increase for the fiscal year will total approximately \$4 billion or 4.1 percent. The majority of the change comes from lower than initially anticipated capital spending.

#### *All Funds*

All Funds receipts were initially projected to increase \$2.3 billion, or 1.5 percent, from SFY 2014-15, with most growth expected in federal receipts and tax collections. Miscellaneous receipts were projected to decline by \$4.0 billion, or 13.7 percent, because of lower monetary settlements. All Funds tax collections were projected to increase \$3.5 billion, or 5.0 percent. The Financial Plan Update projects All Funds receipts will increase \$4.3 billion, or 2.9 percent.

All Funds disbursements were initially projected to increase \$8.3 billion, or 5.7 percent. Local assistance grants were projected to increase 6.9 percent, to \$111.9 billion, primarily due to federally funded programs. The latest projections have All Funds spending increasing \$8.2 billion, or 5.7 percent, with most growth occurring in federally funded programs.

## ***State Fiscal Year 2016-17***

Tax receipts growth and more than \$8 billion in monetary settlements received by the State over the past two years have bolstered the State's fiscal position as it approaches SFY 2016-17. While economic growth is projected to continue both nationally and in New York, DOB projects a slowdown in tax receipts from growth of 5.7 percent this fiscal year to 3.5 percent in the year starting April 1. DOB projects the General Fund balance as of March 31, 2017, will be \$2.9 billion, down from a recent fiscal year-end high of \$7.3 billion, primarily due to unanticipated one-time settlement funds.

### *General Fund*

The SFY 2016-17 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will total \$68.8 billion, a decline of 1.8 percent or just less than \$1.3 billion, compared to updated SFY 2015-16 estimates. If \$3.4 billion in monetary settlement revenue is excluded from SFY 2015-16, growth in the coming year would be 3.2 percent, or approximately \$2.1 billion, primarily from PIT collections. Overall, General Fund tax collections are projected to increase 3.6 percent or \$1.7 billion. Changes to the administrative cap on PIT refunds, which results in refunds being paid in the year prior to when they were initially planned, complicates the picture. If these are adjusted out, tax revenue would increase just 1.4 percent or \$661 million. Miscellaneous receipts are projected to decline just under \$3 billion, primarily because of the expected drop in settlement revenue.

General Fund disbursements are projected to total \$70.6 billion, a decline of \$1.9 billion, or 2.7 percent, from SFY 2015-16 estimated levels. The decline is driven mainly by the large transfer of settlement revenue from the General Fund to the Dedicated Infrastructure Investment Fund (DIIF) and other funds in SFY 2015-16, which was \$3.4 billion higher than the transfers projected for SFY 2016-17. Without these transfers (which count as expenditures), spending would increase \$1.56 billion, or 2.2 percent. Local assistance is expected to grow by \$1.3 billion, including increases to school aid and Medicaid. Spending on State Operations is projected to increase only slightly from \$8.22 billion to \$8.23 billion.

### *Proposed General Fund Gap-Closing Plan*

The Executive Budget projects a General Fund current services deficit (or gap) of \$1.8 billion in SFY 2016-17 before factoring in changes made since the Mid-Year Financial Plan Update and proposed new actions. As discussed earlier, the Executive indicates that a projected General Fund operating "surplus" or additional resources of \$1.3 billion (including \$350 million identified in the Mid-Year Update) will be used to prepay an additional \$450 million in debt service in SFY 2015-16 and to prepay Personal Income Tax refunds totaling \$500 million, thus providing non-recurring gap-closing relief in SFY 2016-17. Such resources would also replace certain federal resources totaling \$250 million and additional transfers to capital funds totaling \$117 million. The Executive's gap-closing plan for SFY 2016-17 includes an additional \$120 million in various sweeps and transfers from other funds. Appendix A shows the projected gap-closing plan through SFY 2019-20.

### *State Operating Funds*

The SFY 2016-17 Executive Budget Financial Plan projects that State Operating Funds revenue will total just under \$95 billion, a decline of \$63 million, or 0.1 percent, from estimated

SFY 2015-16 receipts, primarily due to extraordinary settlement receipts in SFY 2015-16. Excluding settlements, State Operating Fund receipts would be anticipated to increase \$3.3 billion or 3.6 percent. The increase is primarily due to projected higher tax collections, which are expected to rise nearly \$2.6 billion, or 3.6 percent, primarily in PIT. If the change in the administrative cap on refunds are factored in, tax collections would be projected to increase \$1.6 billion or 2.2 percent.

For SFY 2016-17, State Operating Funds spending is projected to total just under \$95.9 billion, an increase of 1.7 percent, or \$1.6 billion, over SFY 2015-16. Most of the increase is projected to occur in Local Assistance payments, primarily in Medicaid from the Department of Health and in school aid. Spending on State Operations (a category within State Operating Funds that primarily reflects spending for State agencies and universities) is projected to increase \$2 million. General State Charges spending is projected to increase 2.6 percent, or \$146 million, primarily because of increases related to pension costs and health benefits.

Figure 3 illustrates how timing-related actions are expected to affect the depiction of spending growth from the current fiscal year to the next. The SFY 2015-16 planned prepayment of \$550 million in debt service would reduce reported spending in SFY 2016-17, offset partly by the planned acceleration of \$60 million in debt service payments from SFY 2017-18 to SFY 2016-17. 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 the debt service prepayments, SFY 2016-17 State Operating Funds spending would increase by 2.8 percent.

**Figure 3**  
**Adjusted Growth in State Operating Funds Receipts and Disbursements**  
(in millions of dollars)

	SFY 2015-16 Projected	SFY 2016-17 Projected	Dollar Growth	Percentage Change
<b>Unadjusted State Operating Funds Receipts</b>	<b>95,038</b>	<b>94,975</b>	<b>(63)</b>	<b>-0.1%</b>
<b>Receipts:</b>				
Total Taxes	73,461	76,340	2,879	3.9%
Adjustment for SFY 2015-16 PIT Refund Prepayment	500	(500)		
<i>Total Adjusted Taxes</i>	<i>73,961</i>	<i>75,840</i>	<i>1,879</i>	<i>2.5%</i>
Miscellaneous Receipts	21,249	18,561	(2,688)	-12.7%
Federal Funds	74	74	-	0.0%
<b>Adjusted State Operating Funds Receipts</b>	<b>95,284</b>	<b>94,475</b>	<b>(809)</b>	<b>-0.8%</b>
<b>Unadjusted State Operating Funds Disbursements</b>	<b>94,282</b>	<b>95,885</b>	<b>1,603</b>	<b>1.7%</b>
<b>Disbursements:</b>				
Grants to Local Governments	63,032	64,328	1,296	2.1%
State Operations	18,478	18,476	(2)	0.0%
General State Charges	7,319	7,623	304	4.2%
Debt Service	5,452	5,455	3	0.1%
Adjustment for SFY 2016-17 Debt Service Prepayment	(550)	550		
Adjustment for SFY 2017-18 Debt Service Prepayment		(60)		
<i>Adjusted Debt Service</i>	<i>4,902</i>	<i>5,945</i>	<i>1,043</i>	<i>21.3%</i>
Capital Projects	1	3	2	200.0%
<b>Adjusted State Operating Funds Disbursements</b>	<b>93,732</b>	<b>96,375</b>	<b>2,643</b>	<b>2.8%</b>

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

Other mechanisms that are used to give the appearance of lower State Operating Funds spending growth include: shifts of spending off-budget (as with certain public authorities); shifts of spending into Capital Projects funds (as is proposed with additional Department of Motor Vehicle receipts and spending moved to the Dedicated Highway and Bridge Trust Fund); and classification of certain local and operational spending as “Capital Projects” (as with many of the purposes under existing and new DIIF appropriations). Further discussion can be found in the Transparency, Accountability and Oversight Issues section of this report.

### *State Funds*

DOB projects that State Funds receipts will increase moderately, by 0.7 percent or \$709 million, to \$101.7 billion, primarily due to projected growth in tax collections. Miscellaneous receipts are expected to decline just under \$1.9 billion, primarily due to an anticipated reduction in monetary settlement proceeds, offset by a \$731 million increase in projected bond proceeds.

Spending from State Funds is anticipated to increase 3.1 percent, or \$3.1 billion, in SFY 2016-17, largely because of capital spending (up \$1.1 billion or nearly 20 percent) and local assistance spending from capital funds (up \$427 million or nearly 17.5 percent). Other local assistance is projected to increase 2.1 percent or \$1.3 billion.

### *All Funds*

The SFY 2016-17 Executive Budget Financial Plan projects All Funds receipts will decline \$471 million, or 0.3 percent, to just under \$153 billion. This projection largely reflects anticipated increases in tax collections offset by a reduction in miscellaneous receipts primarily due to the receipt of large, one-time settlement revenues in SFY 2015-16. Federal receipts totaling \$51.1 billion reflect a decline of \$1.2 billion, including reductions in federal capital aid (down \$503 million) and other special revenue funds (down nearly \$700 million). Without the decrease in settlement revenue, projected receipts would grow \$2.9 billion or 1.9 percent. Tax receipts are expected to increase \$2.6 billion, or 3.5 percent, mostly from PIT collections. Total PIT collections are projected to increase \$2.9 billion, or 6.1 percent.

All Funds spending is projected to total \$154.5 billion, an increase of \$2.4 billion, or 1.6 percent. These figures include disaster assistance, federally funded Medicaid spending associated with the Affordable Care Act, and the continuation of capital spending from settlement revenue, which DOB does not include in its presentation of a \$145.3 billion spending total in All Funds. While the disaster assistance is non-recurring in nature, the new Medicaid spending is expected to continue and grow in succeeding years. The latter increase represents almost \$6.8 billion in new, federally supported spending.

DOB expects the State will spend \$1.1 billion from federal disaster funds in SFY 2016-17 compared to \$1.8 billion in SFY 2015-16, and spend approximately \$1.3 billion in SFY 2016-17 on settlement funded capital projects compared to \$742 million in SFY 2015-16. When these three elements – federal disaster funds, Medicaid, and settlement-funded capital spending – are omitted, All Funds spending growth as reported by DOB shrinks significantly, increasing by 1.2 percent or \$1.7 billion. DOB projects inflation in SFY 2016-17, as measured by the Consumer Price Index, at 1.9 percent.

Local Assistance is projected to increase \$1.6 billion, or 1.4 percent, primarily due to increased school aid spending (up \$889 million, or 3.4 percent, on an SFY basis) and spending for federal health care reforms (up \$780 million or 47.6 percent). Spending for Capital Projects is projected to increase \$569 million or 8.3 percent.<sup>1</sup> All Funds Debt Service spending is projected to increase only \$3 million or 0.1 percent. This reflects prepayments of \$550 million in SFY 2015-16, as well as prepayments of \$60 million in SFY 2016-17. If prepayments are adjusted out of SFY 2015-16 and SFY 2016-17, (decreasing SFY 2015-16 and increasing SFY 2016-17), Debt Service spending in SFY 2016-17 would increase by an estimated \$1 billion, or 21.3 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 were traditionally closed largely through the use of short-term solutions that often addressed a single year, exacerbating the problem for subsequent years. In recent years, the State has taken steps to reduce its structural budgetary imbalance. Such steps include statutory limits on growth in State Department of Health Medicaid spending and in certain education spending, both first enacted in 2011, and certain tax changes that are in permanent law.<sup>2</sup> Other budgetary actions in recent years have created revenues or spending reductions that are temporary, helping to balance annual budgets but leaving structural budget challenges unaddressed.

The presentation of the SFY 2016-17 Executive Budget does not directly project potential out-year gaps that reflect the State's structural imbalance – an approach also used in the previous two years. Instead, the Budget provides projections for receipts and disbursements based on current economic projections and current service levels, and proposed actions that would change baseline expectations. Following a precedent established in SFY 2014-15, the Executive Budget provides a figure that reflects unidentified savings associated with limiting the growth in spending from State Operating Funds.

Such savings, using means that among other things may include the timing of payments and the manipulation of the movement of dollars throughout the State's governmental funds structure, are portrayed as holding State Operating Funds spending growth to 2 percent annually for the three Financial Plan out-years. The savings associated with the 2 percent target are estimated at \$1.7 billion, \$3.2 billion and \$4.6 billion, or a cumulative total of nearly \$9.5 billion, for the three fiscal years starting in SFY 2017-18.

As has been the case in the previous two Executive Budgets, the proposed Financial Plan's savings estimates do not include any detail as to how such savings would be achieved. Rather, the Financial Plan states: "Savings estimated from limiting annual spending growth in future years to 2 percent. Calculation based on current FY 2017 projections. The Governor is expected to propose, and negotiate with the Legislature to enact, budgets in each fiscal year that hold State Operating Funds spending growth to 2 percent. Assumes all savings from holding spending growth to 2 percent are made available to the General Fund. Total

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<sup>1</sup> Capital Projects spending, as detailed in the All Funds and State Funds Financial Plans, primarily occurs within Capital Projects Funds but does not include local assistance payments made from Capital Projects Funds.

<sup>2</sup> Overall school aid spending has exceeded the cap in each of the last three enacted budgets, and is proposed to increase by more than the cap in SFY 2016-17 as well.



disbursements in Financial Plan tables and discussion do not reflect these savings. If the 2 percent State Operating Funds spending benchmark is not adhered to, budget gaps may result.”<sup>3</sup> As a result, the spending projections in the out years of the Financial Plan for the specific programmatic areas may or may not materialize depending on how the 2 percent State Operating Funds spending cap is achieved.

Based on the projected but unidentified savings, as well as specifically outlined revenue and spending proposals, the Executive Budget Financial Plan projects modest surpluses, declining from \$533 million to \$114 million before increasing to \$949 million, in SFY 2017-18 through SFY 2019-20. As shown in Figure 4, the Office of the State Comptroller estimates that, based on DOB’s revenue and spending projections, but excluding the unspecified savings from the 2 percent spending limitation, potential out-year gaps of \$1.1 billion in SFY 2017-18, \$3.1 billion in SFY 2018-19, and \$3.6 billion in SFY 2019-20 could result.

**Figure 4**

**Calculated General Fund Out-Year Results - Two Percent Spending Limit**  
(in millions of dollars)

	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected
<b>Receipts:</b>				
Taxes:				
Personal Income Tax	34,242	35,891	36,510	38,459
Consumption/Use Taxes	7,089	7,424	7,712	7,983
Business Taxes	5,776	6,087	6,165	6,551
Other Taxes	986	912	876	926
Miscellaneous Receipts	2,642	2,522	2,561	2,390
Federal Receipts	-	-	-	-
<i>Subtotal</i>	<u>50,735</u>	<u>52,836</u>	<u>53,824</u>	<u>56,309</u>
Transfers from Other Funds:	18,051	18,636	18,612	19,117
<b>Total Receipts</b>	<b><u>68,786</u></b>	<b><u>71,472</u></b>	<b><u>72,436</u></b>	<b><u>75,426</u></b>
<b>Disbursements:</b>				
Local Assistance Grants	45,502	47,729	50,133	52,731
Departmental Operations:				
Personal Service	6,025	6,126	6,221	6,269
Non-Personal Service	2,209	2,518	2,344	2,430
General State Charges	5,459	5,825	6,048	6,424
<i>Subtotal</i>	<u>59,195</u>	<u>62,198</u>	<u>64,746</u>	<u>67,854</u>
Transfers to Other Funds:	11,444	10,503	10,923	11,312
<b>Total Disbursements</b>	<b><u>70,639</u></b>	<b><u>72,701</u></b>	<b><u>75,669</u></b>	<b><u>79,166</u></b>
<b>Use of Reserves</b>	<u>1,853</u>	<u>112</u>	<u>113</u>	<u>114</u>
<b>Current Services Gap</b> (including Executive Proposals)	-	(1,117)	(3,120)	(3,626)
<b>Adherence to 2% Spending Benchmark</b>	-	1,650	3,234	4,575
<b>Potential Surplus from Limiting Spending</b>	<u>-</u>	<u>533</u>	<u>114</u>	<u>949</u>

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

<sup>3</sup> FY 2017 Executive Budget Financial Plan, p. 57.

The cumulative projected out-year budget gaps totaling \$7.9 billion, or an average of \$2.6 billion annually, are considerably less than the gaps projected in the wake of the Great Recession. They compare favorably to potential out-year gaps averaging approximately \$3.3 billion in the SFY 2015-16 Executive Budget, as estimated by the Office of the State Comptroller based on DOB projections. This is due in part to changes made to formula-driven programs that had previously contributed to larger out-year gap calculation. Nonetheless, the estimates that remain reflect the State’s lingering structural imbalance and continued reliance on proposed gap-closing plans that only address a single year rather than multiple years.

Additional actions, beyond those specifically proposed in the Executive Budget as well as actions taken in previous budgets, would be necessary to meet the target of 2 percent spending growth and so to eliminate gaps in future years. More specificity with respect to plans or options for achieving the savings associated with the spending target would be desirable to provide greater clarity and assurance that such a target could be met. Such specificity would also enable local governments and others that depend on State assistance to better plan for the future.

Based on DOB projections, the Office of the State Comptroller estimates the four-year, baseline cumulative gaps for the period starting April 2016 at \$13.2 billion, before the fiscal impact of the Executive’s proposals are included, and \$7.9 billion after accounting for such actions, as shown in Figure 5.

**Figure 5**

**Composition of Gap-Closing Plans**

(in millions of dollars)

	Enacted SFY 2015-16 through SFY 2018-19	Proposed SFY 2016-17 through SFY 2019-20
<b>Total Cumulative Gap to Be Closed</b>	<b>(14,203)</b>	<b>(13,202)</b>
<b>Additions to Gap</b>		
Recurring Additions/Restorations/Initiatives	(2,992)	(1,266)
Recurring Revenue Reductions	-	(1,690)
Other	(797)	(336)
<b>Total After Gap Additions</b>	<b>(17,992)</b>	<b>(16,494)</b>
Re-Estimates	2,207	(9)
<i>Share of Total After Gap Additions</i>	12.3%	-0.1%
Recurring Spending Actions	5,930	7,159
<i>Share of Total After Gap Additions</i>	33.0%	43.4%
Recurring Revenue Enhancements	347	-
<i>Share of Total After Gap Additions</i>	1.9%	0.0%
Temporary or Non-Recurring Resources/Cost	592	1,481
<i>Share of Total After Gap Additions</i>	3.3%	9.0%
Remaining Gap	(8,916)	(7,863)
<i>Share of Total After Gap Additions</i>	49.6%	47.7%

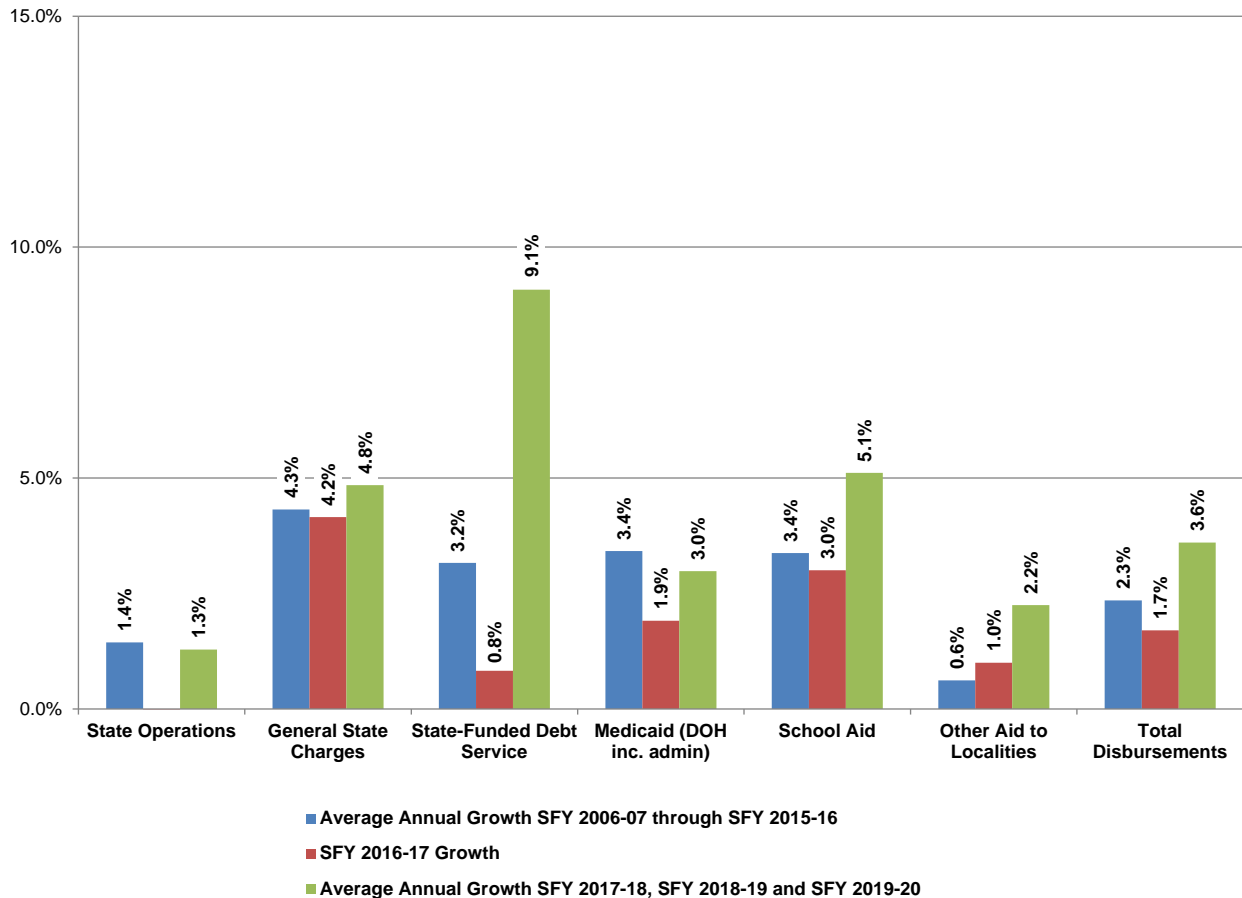
Sources: Division of the Budget and Office of the State Comptroller

As shown in Figure 5, approximately 43 percent of the value of the actions proposed to close these gaps is recurring in nature, including re-estimates, recurring spending actions and recurring revenue enhancements. However, nearly 48 percent of the projected outyear cumulative current services gap remains, before factoring in the potential, unspecified savings from the assumed 2 percent limit on State Operating Funds spending growth.

The Executive Budget Financial Plan’s gap-closing plan for the General Fund includes nearly \$1.5 billion in new non-recurring resources over the course of the four-year Plan. This level is up from recent years, largely because of prepayments, although most of the temporary and non-recurring resources enacted last year are still supporting the Financial Plan. Figure 6 illustrates the challenge of restraining State spending on a recurring basis. It summarizes disbursements in major areas for SFY 2006-07 through SFY 2015-16, projected spending for SFY 2016-17 and projected average annual spending in outyears – SFY 2017-18 through SFY 2019-20 – before actions to achieve the assumed 2 percent spending limitation.

**Figure 6**

**Percentage Change in Disbursements from State Operating Funds:  
Previous Years, Projected SFY 2016-17, and Outyear Projections**



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

Note: Medicaid expenditures include State-funded administration costs, but not costs associated with the Essential Plan.

Because of legal, contractual or other commitments, spending in certain areas, such as General State Charges and Debt Service, is more difficult to change significantly on a recurring basis, other than to modify the timing of payments or to shift payments to other funds or off-budget and outside the scope of reported spending in the Statewide Financial System, Financial Plan and Capital Program and Financing Plan. (Such modifications, used or planned each year from SFY 2012-13 through SFY 2017-18, affect the year-over-year growth but do not materially change spending obligations.)

The figures for debt service in Figure 6 reflect the use of prepayments, which have helped ensure that overall State Operating Funds growth remains below 2 percent. The projected average annual growth of 9.1 percent in the out-years is primarily due to a low base year, the result of prepaying payments in the years before, as illustrated in the minimal growth projected for SFY 2016-17.

In most of the spending categories shown, spending growth projected for SFY 2016-17 is lower than the average annual increase during the previous decade or the projected annual growth in the three out-years of the Executive Budget Financial Plan. Both historical growth levels and projected future spending growth reflect underlying factors that may provide a more complete picture of expenditure trends than projections for a single budget year.

State Operating Funds spending, based on current projections and not adjusted for timing (as reported in the Financial Plan), is projected to increase 1.7 percent in SFY 2016-17, and by an average of 3.6 percent annually between SFY 2017-18 and SFY 2019-20. Spending for Medicaid services from the Department of Health from State Operating Funds (not including federal or local spending) is statutorily limited to the 10-year rolling average of the medical component of the Consumer Price Index. This figure currently is approximately 3.4 percent, significantly higher than the Executive's target limit of 2 percent for overall State Operating Funds spending growth.

School aid is statutorily limited to the annual growth in New York State personal income. For the purpose of the cap, growth in school aid is measured on a school year basis rather than on a State Fiscal Year basis. Figure 7 shows spending on a State Fiscal Year basis. Over multiple years, the measures would produce similar results. Growth in New York State personal income is measured on a State Fiscal Year basis when calculating the cap.

For the next four State fiscal years, DOB projects this growth at well over twice the assumed 2 percent limitation on overall State Operating Funds increases. Enacted budget overall school aid spending figures have exceeded the allowable growth in each of the last three years, and this year's Executive Budget proposes to do so as well, with proposed growth of 4.3 percent compared to 3.9 percent growth in personal income.

While the Executive Budget Financial Plan assumes future surpluses will result from new spending restraint, better-than-anticipated revenues could also help close potential gaps. Over the past five years, DOB has used the availability of unanticipated resources to manipulate the timing of payments to stay within the Executive's policy of limiting spending from State Operating Funds to 2 percent annually. (Figures 2 and 3 adjust for annual prepayment actions relative to the previous base year, showing adjusted results in estimated State Operating Funds growth for SFY 2015-16 and SFY 2016-17 of 4.1 percent and 2.8 percent, respectively).

Figure 7 shows that when adjusting for prepayments back to SFY 2011-12, absent these timing changes, annual State Operating Funds spending growth averaged 2.2 percent.

**Figure 7**

**Annual Growth in Spending from State Operating Funds  
Adjusted and Unadjusted for Timing of Payments**  
(in millions of dollars)

	SFY 2010-11 Actual	SFY 2011-12 Actual	SFY 2012-13 Actual	SFY 2013-14 Actual	SFY 2014-15 Actual	SFY 2015-16 Estimate	SFY 2016-17 Proposed	Average Annual Growth
State Operating Funds Disbursements	84,417	87,181	88,844	90,631	92,426	94,282	95,885	
Growth		3.3%	1.9%	2.0%	2.0%	2.0%	1.7%	2.1%
<b>Net Prepayments</b>		(140)	(171)	(626)	(286)	673	490	
Debt Service		(140)	(64)	(464)	(285)	403	490	
Mental Hygiene					(66)	66		
School Aid			(107)	107				
Social Services				(150)	150			
Tuition Assistance Program					(204)	204		
Pension Amortization				(119)	119			
Adjusted Growth	84,417	87,041	88,673	90,005	92,140	94,955	96,375	2.2%
		3.1%	1.9%	1.5%	2.4%	3.1%	1.5%	

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

Figure 7 also shows that while State Operating Funds spending growth as reported in the Financial Plan has stayed very close to 2 percent since SFY 2012-13, after adjusting for timing, growth has varied. Available resources have been used to make the prepayments necessary to allow the presentation of spending growth within the desired range. In addition to prepayments, other mechanisms have been employed to hold down the appearance of growth. For example, on the spending side, the SFY 2013-14 Enacted Budget included provisions to remove debt service associated with SUNY dormitories from State spending, reducing annual spending totals by approximately \$150 million in SFY 2013-14, and by higher amounts in succeeding years.

The Executive Budget includes new provisions that could further reduce spending in State Operating Funds by authorizing the payment of certain obligations without an appropriation and outside of the Statewide Financial System. For example, the proposal to recoup savings realized by the City of New York from the recent refunding of certain bonds establishes a mechanism for funds to be used to pay debt service costs on State debt without an appropriation and without having the payment go through the State treasury. This action would obscure the real cost of the State's debt burden, and also give the appearance of lower State Operating Funds spending. For more on this issue, see the Transparency and Accountability and Debt and Capital sections of this report.

### **Temporary and Non-Recurring Resources**

The Executive Budget includes approximately \$6.3 billion in SFY 2016-17 resources that are either temporary (more than one year but not permanent) or non-recurring (one year), including federal disaster relief spending. Figure 8 shows the Office of the State Comptroller's analysis of such resources. Of the \$6.3 billion total, \$1.1 billion represents federally supported

disaster assistance, \$3.1 billion results from temporary actions in previous budgets, and \$1.1 billion represents prepayments. Aside from prepayments, nearly \$1.9 billion in resources for the proposed Budget are one-time or temporary over the life of the plan.

**Figure 8**

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

	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	Total
<b>Prepayments and Use of Reserves</b>					
PIT Refund Prepayment	500	-	-	-	<b>500</b>
SFY 2015-16 Debt Service Prepayment	550	-	-	-	<b>550</b>
SFY 2016-17 Debt Service Prepayment	-	60	-	-	<b>60</b>
Use of Reserves (not including settlement transfers or CUNY)	31	-	-	-	<b>31</b>
<i>Subtotal</i>	<i>1,081</i>	<i>60</i>	<i>-</i>	<i>-</i>	<i>1,141</i>
<b>Proposed in SFY 2016-17</b>					
Environmental Protection Fund From Settlement	120	-	-	-	<b>120</b>
Use of Settlement to Finance Thruway Toll Tax Credit	113	113	114	-	<b>340</b>
Other Sweeps	35	-	-	-	<b>35</b>
New State Insurance Fund	141	100	100	35	<b>376</b>
STAR Timing	185	-	-	-	<b>185</b>
Sales Tax Asset Receivable Corporation Refunding	200	200	200	-	<b>600</b>
Regional Greenhouse Gas Initiative (including SUNY)	38	-	-	-	<b>38</b>
Mortgage Insurance Fund	150	-	-	-	<b>150</b>
New York Power Authority (1)	20	-	-	-	<b>20</b>
Warrentless Wage Garnishment	15	-	-	-	<b>15</b>
<i>Subtotal</i>	<i>1,017</i>	<i>413</i>	<i>414</i>	<i>35</i>	<i>1,879</i>
<b>Previously in Law or Outside Budget Process</b>					
Temporary Utility Assessment	173	139	-	-	<b>312</b>
Mortgage Settlement	23	-	-	-	<b>23</b>
State Insurance Fund	250	-	-	-	<b>250</b>
Limit Deductions for Charitable Contributions (1)	70	70	-	-	<b>140</b>
Budget Relief from Monetary Settlements	102	-	-	-	<b>102</b>
Temporary PIT Provisions (2)	2,457	1,894	640	-	<b>4,990</b>
<i>Subtotal</i>	<i>3,075</i>	<i>2,103</i>	<i>640</i>	<i>-</i>	<i>5,817</i>
<b>Total State Temporary, Non-Recurring and Prepayments</b>	<b>5,173</b>	<b>2,576</b>	<b>1,054</b>	<b>35</b>	<b>8,837</b>
<b>Extraordinary Temporary Federal Funding</b>					
Temporary Federal Disaster Assistance (3)	1,100	549	264	264	<b>2,177</b>
<b>Total State and Federal Temporary and Non-Recurring Resources</b>	<b>6,273</b>	<b>3,125</b>	<b>1,317</b>	<b>299</b>	<b>11,014</b>

(1) Extended in SFY 2015-16 Enacted Budget.

(2) Projections for the existing temporary PIT surcharge were not updated in the Enacted Financial Plan. These projections are based on actual collections relative to Plan.

(3) The Financial Plan does not separately detail spending for Disaster Assistance, but the projected spending is included in the Division of Homeland Security and Emergency Services disbursement totals. These figures assume approximately \$400 million annually for other federally funded Homeland Security costs.

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

## Settlements

To date in SFY 2015-16, the State has received nearly \$3.4 billion in non-recurring and largely unanticipated revenue from various financial institutions and insurance companies, compared to \$4.9 billion received in SFY 2014-15. The SFY 2014-15 Enacted Budget Financial Plan

included \$275 million from settlements as miscellaneous receipts that were included with other General Fund revenues and the SFY 2015-16 Financial Plan included \$250 million. An additional \$102 million is anticipated for this purpose in SFY 2016-17. Figure 9 illustrates settlement revenues that have been received along with a general summary of uses, both already enacted and proposed. The Executive Budget allocates all settlement receipts that have not previously been designated for use.

**Figure 9**

**Sources and Uses of Monetary Settlements – SFY 2014-15 and SFY 2015-16**  
(in millions of dollars)

<b>Sources</b>		
<b>SFY 2014-15</b>		<b>Received</b>
BNP Paribas	2,243	Jun-14
Credit Suisse AG	715	May-14
Commerzbank	610	Mar-15
Bank of Tokyo Mitsubishi	315	Nov-14
Standard Chartered Bank	300	Aug-14
Bank of America	300	Aug-14
Bank Leumi USA	130	Dec-14
Ocwen Financial	100	Dec-14
Citigroup	92	Jul-14
Metropolitan Life	50	Mar-14
AIG	35	Oct-14
Price Waterhouse Coopers	25	Sep-14
AXA Life Insurance	20	Mar-14
Other	7	
<b>SFY 2014-15</b>	<b>4,942</b>	
<b>SFY 2015-16</b>		
BNP Paribas	1,050	May-15
Deutsche Bank	600	May-15
Barclays	485	May-15
Credit Agricole	459	Oct-15
BNP Paribas	298	May-15
Deutsche Bank II	200	Nov-15
Barclays II	150	Nov-15
Commerzbank	82	Apr-15
Goldman Sachs	50	Nov-15
Promontory	15	Sep-15
New Day	1	Dec-15
<b>SFY 2015-16</b>	<b>3,390</b>	
<b>Total SFY 2014-15 and SFY 2015-16</b>	<b>8,332</b>	
<b>Uses</b>		
SFY 2014-15 Budget Support	(275)	
SFY 2015-16 Budget Support	(250)	
SFY 2016-17 Budget Support	(102)	
Chemical Dependence Program	(5)	
Audit Disallowance - Federal Settlement	(850)	
Planned Deposits to Dedicated Infrastructure		
Investment Fund	(4,550)	
Additional Deposits to DIIIF (proposed)	(1,840)	
Thruway Toll Tax Credit (proposed)	(340)	
Environmental Protection Fund (proposed)	(120)	
<b>Total SFY 2014-15 and SFY 2015-16</b>	<b>(8,332)</b>	
<b>Remaining (undesignated)</b>	<b>-</b>	

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. Some capital

expenditures, such as ongoing maintenance costs, may not represent appropriate uses of one-time resources. Use of non-recurring resources to pay for operating expenses is also to be discouraged, because such resources temporarily support spending that is expected to continue when the resources are depleted. Applying one-time resources to capital investments also averts interest costs that are incurred if debt were used to pay for such assets.

## Reserves

The combined balances in the State’s two largest statutory reserve funds – the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund – are expected to total just under \$1.8 billion as of March 31, 2016, representing almost 2.5 percent of General Fund expenditures. In addition to the State’s restricted reserves, the General Fund also has unrestricted funds, which includes certain monetary settlement funds. Figure 10 shows projected General Fund reserves as of March 31 of SFY 2015-16 and SFY 2016-17.

**Figure 10**

### Projected General Fund Restricted and Unrestricted Reserves

(in millions of dollars)

	SFY 2015-16	SFY 2016-17	Difference
<i>Restricted Reserves</i>			
Tax Stabilization Reserve	1,258	1,258	-
Rainy Day Fund	540	540	-
Contingency Reserve	21	21	-
Community Projects Fund	60	44	(16)
<i>Unrestricted Reserves</i>			
Possible CUNY Labor Agreement	-	240	240
Prior Year Labor Agreements	15	-	(15)
Debt Management	500	500	-
Budgeted Monetary Settlements	2,402	340	(2,062)
Total Reserves (General Fund Balance)	4,796	2,943	(1,853)

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

Although DOB has identified over \$1.3 billion in unanticipated resources during the current fiscal year, the Executive Budget does not anticipate any new deposits in either the Rainy Day Reserve Fund or the Tax Stabilization Reserve Fund.

The Executive indicates an intention to transfer another \$1.84 billion of settlement funds to the Dedicated Infrastructure Investment Fund created in SFY 2015-16 and another \$120 million to the Environmental Protection Fund. The Executive proposes leaving \$340 million in the General Fund to offset lower revenue associated with a proposed toll tax credit that is expected to be used over the next three years, and anticipates using \$102 million to support General Fund spending.

### *Proposal Affecting Rainy Day Fund and Dedicated Infrastructure Investment Fund*

The Budget includes provisions that would change the components used to calculate the Index of Coincident Economic Indicators that was statutorily created in Chapter 1 of the Laws



of 2007. The Index is calculated and published monthly by the New York State Department of Labor. Under the 2007 statute, it is used to determine economic downturns when funding can be accessed for additional purposes from the Rainy Day Fund or the Dedicated Infrastructure Investment Fund. The changes are described by DOB as technical in nature.

## ***Risks to the Financial Plan***

As with any Financial Plan, the SFY 2016-17 Executive Budget Financial Plan is subject to various risks and uncertainties. DOB identifies matters that affect the Financial Plan, including “complex economic, social, financial, political, and environmental risks and uncertainties, many of which are outside the ability of the State to control.” In recent years, DOB has expanded upon its assessment of budget risks and uncertainties, and identifies a variety of issues, both general and specific, that could negatively affect the State’s projections. Such risks and uncertainties include, but are not limited to:

- general economic and business conditions;
- changes in political, social, economic, and environmental conditions, including climate change and extreme weather events;
- impediments to the implementation of gap-closing actions;
- regulatory initiatives and compliance with governmental regulations;
- litigation; and
- actions by the Federal government to reduce or disallow expected aid.

The Financial Plan appropriately notes that actual results may differ materially and adversely from DOB’s projections, and that in certain fiscal years collections of actual receipts have been substantially below forecasted levels. In addition to the broad-scoped risks and uncertainties identified with respect to revenue and economic projections, DOB has recognized many of the transactional risks identified by the Office of the State Comptroller in annual budget reviews in recent years.

Potential risks beyond those identified by DOB include the Budget’s reliance on revenue from certain public authorities (of which more than \$232 million is expected in SFY 2016-17), as well as transfers of available fund balances from dedicated funds to the General Fund (the Budget proposes the authorization of \$750 million in unspecified transfers, an increase of \$250 million from the SFY 2015-16 authorization).

Spending-side concerns identified by DOB include labor-related negotiations and settlements, cash flow projections, and funding of other postemployment benefits. The Financial Plan includes the limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service as a risk and/or uncertainty, although its expectation is that debt outstanding and debt service will continue to remain below the limits imposed by the Act. The Plan notes that capital spending and debt financing practices may be adjusted to preserve debt capacity and keep spending under the caps.

While the Executive proposal to increase the minimum wage throughout the State represents a laudable goal, and DOB indicates that it does not expect the change to have a material impact on State costs, budget documents do not provide any estimate of, and proposed appropriations do not include specific provisions to address, higher costs that would result for non-profit organizations and other employers providing contractual services for the State.

Looking out further, the Executive Budget includes a provision that the State will fulfill its commitment 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 vast majority of this commitment have yet to be identified, and the proposed Budget does not provide appropriation authority beyond the \$1 billion that was included in the SFY 2015-16 Enacted State Budget.

DOB also identifies areas of concern that are longer-term in nature. These would include additional costs associated with the threat of another federal government shutdown, expiration of the suspension of the federal debt ceiling (currently extended through March 15, 2017), as well as potential costs associated with a federal excise tax on high value health care plans currently scheduled to take effect in 2020.

## ***Transparency, Accountability and Oversight Issues***

Transparency, accountability and oversight are keys to ensuring that taxpayer dollars are protected from waste, fraud and abuse, and that public access to information is not diminished. These elements also help assure taxpayers that the State Budget is fiscally responsible and provides an honest representation of the State's spending plan. When provisions are enacted that weaken these protections, public resources are left vulnerable to misuse, and New Yorkers' confidence in their State government may suffer.

Certain aspects of various proposals in the SFY 2016-17 Executive Budget fall short with respect to high standards of transparency, accountability and oversight. These include broadly defined allocations of State resources; increased reliance on public authorities which, in some cases, are given expansive powers with insufficient oversight; and elimination of important checks and balances with respect to capital projects as well as other spending and revenue measures. Several of the new proposals lack critical detail with respect to funding sources and how spending decisions will be made. Examples of Budget proposals and actions that raise such concerns include:

- **Use of lump-sum appropriations for Executive and Legislative initiatives.** The Executive Budget continues and expands the State's use of lump sum 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.<sup>4</sup> The statutory prohibition can, however, be circumvented in various ways. Examples of proposed lump sum appropriations in the Executive Budget include:
  - **Spending authority for the Dedicated Infrastructure Investment Fund (DIIF).** The SFY 2016-17 Executive Budget reappropriates the \$4.55 billion in Capital Projects Fund appropriations from the DIIF initially enacted in SFY 2015-16, and provides

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<sup>4</sup> The Act defines a lump-sum appropriation as "an item of appropriation with a single related object or purpose, the purpose of which is to fund more than one grantee by a means other than a statutorily prescribed formula, a competitive process, or an allocation pursuant to subdivision five of section 24 of this chapter." Subdivision five relates to any appropriation added by the Legislature without designating a grantee. Such provision requires that such funds shall be allocated "only pursuant to a plan setting forth an itemized list of grantees with the amount to be received by each, or the methodology for allocating such appropriation. Such plan shall be subject to the approval of the chair of the senate finance committee, the chair of the assembly ways and means committee, and the director of the budget, and thereafter shall be included in a concurrent resolution calling for the expenditure of such monies, which resolution must be approved by a majority vote of all members elected to each house upon a roll call vote." The 2007 Act prohibited the use of lump sum appropriations by the Executive for Temporary Assistance for Needy Families, the Environmental Protection Fund, and the Medical Assistance Program.

additional appropriations of \$1.84 billion to support a wide range of new projects. A total of up to \$6.39 billion has been or is proposed to be transferred to the DIIF from the General Fund. Most of this \$6.39 billion is in lump sums to be allocated based on broadly worded language accompanying the appropriations, rather than through objective criteria and a clearly defined process established in statute.

For example, a new appropriation of \$170 million is provided for additional Upstate Revitalization initiatives under a plan to be developed by the Chief Executive Officer of the UDC (commonly known as ESDC). While the appropriation indicates that such funding will support initiatives based on anticipated job creation and economic development benefits, the language provides that the moneys will be awarded by UDC at its discretion. Another DIIF appropriation for \$85 million is for services and expenses, loans, grants, and costs associated with economic development or infrastructure. It provides no detail regarding which agency or authority will administer the program or how the funds will be allocated.

- **The bond-financed State and Municipal Facilities Program (SAM) first enacted in SFY 2013-14.** Budgets enacted in each of the three previous years added \$385 million in appropriation and bonding authority for the SAM program, bringing total appropriations enacted over three years to \$1.155 billion. These funds are proposed to be reappropriated in SFY 2016-17. The allowed uses of such moneys include a broad range of economic development, education, environmental and other purposes. However, the Budget does not include specific language to provide for the distribution of these moneys among the various purposes or among the various entities authorized to receive funding, or even the process by which such funds will be allocated.

While DASNY has released limited information regarding the administration of the funding it has received pursuant to this program, comprehensive information regarding project criteria and the funding determination process has not been made available. Appropriations pursuant to this program were made as Miscellaneous – All State Departments and Agencies appropriations, meaning that the funds could flow to any State agency or public authority.

- **Economic development funds allocated by MOU.** The Executive Budget includes more than \$519 million in economic development reappropriations to be allocated pursuant to a memorandum of understanding (MOU) among the Governor, the Temporary President of the Senate, and the Speaker of the Assembly. The process by which the decisions are made on how to spend these hundreds of millions of dollars is not specified. In addition, the MOUs that execute such spending are not made public, and information regarding how such dollars are used and what return they provide taxpayers is not readily available.
- **Funds reappropriated for the \$400 million Transformative Investment Program (TIP).** This program was created in the SFY 2015-16 Enacted Budget to provide bonded capital funding for projects on Long Island or in New York City. With no specific provisions regarding an allocation process, or defined eligibility criteria, other than a requirement that the portion of any project that is funded with this program be no less than \$5 million, it is difficult to determine how decisions will be made regarding the allocation and use of the funding, or to assess its benefits.

The SAM Program, the TIP, the economic development programs allocated by MOU, and the DIIF are examples of programs that use less accountable spending mechanisms to distribute billions of dollars, providing minimal disclosure of decision making regarding specific expenditures and the potential benefits of such spending for New Yorkers. State dollars should be allocated in a fair, objective, and transparent manner, with actual information about expenditures made public in a timely and detailed manner.

- **Continued shift of State governmental functions to public authorities.** The Executive Budget continues and expands upon the practice of moving State governmental responsibilities, functions and spending off-budget and beyond the traditional checks and balances that apply to State agencies. The use of this practice has increased in recent years, most notably in the areas of economic development, housing, the environment, higher education and transportation.

Public authorities are not subject to the same oversight and control as State agencies with respect to spending, procurement, employee compensation and other matters. In addition, as State spending is shifted off-budget to public authorities, such spending is generally not included in DOB's Financial Plan, the Statewide Financial System, or the Office of the State Comptroller's monthly and annual cash basis accounting spending reports. This is because public authorities operate largely outside these control systems. Such spending shifts may also obscure overall State spending levels, as described in the Financial Plan section of this report. In addition, off-budget spending can undermine capital planning efforts, as it makes it more difficult to assess whether the State's critical infrastructure needs are being met.

For example, a new proposal would shift control of major State capital projects to a public authority. The Executive proposes to create a new subsidiary of the Dormitory Authority of the State of New York (DASNY) called the New York State Design and Construction Corporation (DCC) governed by a three-member board appointed by the Governor. This new entity would have far-reaching and in some cases unprecedented authority to oversee and direct public works projects in excess of \$50 million undertaken by State agencies, departments, public authorities and public benefit corporations. Such powers include, but are not limited to, the ability to review and direct:

- modification of plans, specifications, designs and cost estimates for construction and equipping of facilities;
- detailed analysis of project schedule, project budget, change orders to and/or payments to contractors and others;
- records of construction observations inspections and deficiencies;
- termination of contracts, contractors, subcontractors and other consultants;
- procurement of independent auditors, project managers, legal counsel or other professionals for the benefit of the project;
- reporting of project status; and,
- periodic project review and audit by the Corporation.

The power to terminate contracts, with no definition as to circumstances when such power could be used, as well as certain other aspects of the proposal could create uncertainty among potential contractors and thus reduce vendor participation, creating the risk of higher costs rather than savings. The DCC would be granted a number of additional

powers and duties including the ability to fix and collect fees and other charges for services provided and, without limitation, the power to exercise eminent domain. It is unclear what provisions, if any, in the State Finance Law, the Public Authorities Law, and other relevant statutes would apply to this new entity. In addition, the proposal says that all entities that are subject to DCC's review and control "shall implement any and all recommendations of the corporation in any manner without approval or authorization of any state officer or agency." It is unclear what statutory, regulatory or other provisions this language is intended to dispense with.

The proposal does not indicate what current shortcomings the new entity is intended to redress, how it would bring new expertise to bear on capital projects compared to existing agencies and authorities, or provide any assurance that the new corporation's decisions would be made in a transparent and accountable manner. Further, as proposed, the new corporation could diminish or eliminate independent oversight, and raises questions whether it is an appropriate mechanism to accomplish the stated goals of the proposal.

- **Continued use of off-budget actions for important programs.** The Executive Budget continues and expands the practice of "off-budget" spending of certain funds and shifting out spending that had traditionally been included in the State Budget and in State spending totals. More than \$4.0 billion in certain off-budget capital spending is projected to be spent from SFY 2016-17 through SFY 2020-21, including \$852.5 million in SFY 2016-17, according to DOB. (This figure does not include capital spending for SUNY dormitories funded pursuant to a new financing program established in SFY 2013-14.)

Also, hundreds of millions of dollars for energy programs continue to be spent off-budget. The New York State Energy Research and Development Authority (NYSERDA) Budget for Fiscal Year 2016-17 includes \$589 million in receipts, with more than 91 percent continuing to be spent off-budget for State energy programs. State appropriations comprise 8.4 percent of revenues received by NYSERDA. The Executive Budget continues a practice started in the SFY 2015-16 Enacted Budget, where \$19.7 million in funds collected through assessments on electric and gas utilities in New York State was shifted off-budget to NYSERDA.

As with prior budgets, the Executive proposes to transfer important State functions from longstanding administering agencies off-budget. For example, the statutory authorization for agricultural, aquatic and dairy products market administration is proposed to be transferred from the Department of Agriculture and Markets to UDC (dba ESDC). New provisions would eliminate competitive procurement requirements and permit UDC to retain funds collected through the marketing orders. In addition to reducing protections and spending oversight through the shift to a public authority, this proposal creates uncertainties for the entities that will be impacted by this change.

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 category (e.g. State Operating Funds, capital projects), providing a more accurate representation of State spending. Off-budget spending artificially makes spending for State-related purposes appear lower, and eliminates important oversight, transparency and accountability measures.

- **Use of debt-related proposals to lower the appearance of State spending and obscure the State’s debt burden.** The Executive Budget continues and expands the use of debt and debt service obligations as a major element of various spending maneuvers that have or could have the effect of lowering the appearance of spending, often without reducing the State’s interest costs. In some cases, the intended action is clear, and in other instances, flexibility is written into the proposal, but the specific action to be taken is not identified.

For example, in SFY 2013-14, SUNY dormitory debt service costs were restructured so that they would no longer be paid through a State appropriation. This move took debt service spending for SUNY dormitories off-budget and allowed new debt to be excluded from the State’s statutory debt caps. The action increased the State’s capacity under its debt cap by placing this and future new borrowing outside the statutory limit. However, the resources used for repayment of the debt remain the same. Estimated debt service costs of \$61.8 million in SUNY’s current fiscal year that relate to bonds outstanding under the old dormitory bonding program counts against the State’s cap on debt service but not in its reported spending totals. Debt service in SUNY FY 2016-17 for SUNY dormitory debt under the SUNY dormitory bond program that was established in the SFY 2013-14 Enacted Budget is \$84.0 million.<sup>5</sup> This amount does not count either against the cap or in State spending totals. DOB has the capacity to refund bonds from the old appropriation-backed program with bonds under the new program, which allows further reduction in the amount of debt outstanding and debt service that is counted under the caps. Since the new program was authorized, \$995.1 million has been issued, including amounts necessary to refund \$710.6 million from the old program.

Several new proposals in the Executive Budget could shift debt-related spending off-budget, including for statutorily defined State-Supported debt or for other debt that is or could be repaid with State resources. These include:

- **State capture of certain New York City sales tax collections.** The Executive Budget includes a proposal for the State to capture a total of \$600 million over the next three State fiscal years from New York City-related sales tax collections. The proposal would allow for these resources to be paid, as directed by the Director of the Budget, to any issuers of State-related debt for debt service retiring or defeasing bonds previously issued, and certain other debt-related expenses for any State-related bonding programs. This could result in the “off-budget” payment of these obligations without an appropriation, outside of the Constitutional requirements and provisions associated with funds paid from the State Treasury and outside the State’s accounting system and financial and capital plans. Such use of these resources would provide minimal transparency regarding which entities will receive these funds and how or when the funds are ultimately used.

According to DOB, at this time, sales tax proceeds are expected to be deposited in the General Fund and are included in the Executive Budget’s multiyear gap closing plan. Currently, neither the Financial Plan nor the Capital Program and Financing Plan include any reduction in spending for debt service or reduction in debt associated with

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<sup>5</sup> Debt service amounts represent debt service due for the fiscal years ending June 30, 2016 and June 30, 2017 as provided in the Official Statement for the Dormitory Authority of the State of New York, State University of New York Dormitory Facilities Revenue Bonds, Series 2015B dated December 2, 2015. Debt service figures are not provided on a State Fiscal Year basis.

this provision of this proposal. However, if these resources are used this way, as authorized, this provision could have the effect of obscuring the reported level and growth of State Operating Funds and debt service or other expenses.

- **Thruway Authority use of settlement funds.** The proposed funding from the DIIF includes a Capital Projects Fund appropriation of \$700 million for the Thruway Authority for a broad variety of purposes, including for debt service, defeasance of debt previously issued by the Thruway Authority or certain other debt-related expenses. The language does not include any details regarding how much of the appropriation would be devoted to this purpose, which bonds would be impacted or the timing of the use of the funds.

Further, the broad language could capture any bonds issued by the Thruway (e.g. bonds issued for the Thruway system, or bonds issued on behalf of the State for other purposes). Among other things, it is unclear if this language will be used to leverage the issuance of new bonds. This open-ended appropriation, which lacks a specific plan for its use, makes it difficult to evaluate this proposal in the context of the financial impact on the Thruway. Also, the placement of language related to the payment of debt service and/or related expenses and defeasance of bonds in a Capital Projects Fund appropriation makes it challenging to determine its impact on the State's debt burden and could have the effect of obscuring the reported level and growth of State Operating Funds and debt service.

- **MTA bond cap increase and other bonding authorization.** The Executive Budget includes several provisions to increase the MTA's bonding authorization. These include: an increase of \$13.62 billion in the MTA's current bond cap; authorization for the MTA to issue notes or other obligations in the event the MTA exhausts currently available sources of funding, secured solely by the Executive Budget's proposed commitment of State resources sufficient for the MTA to pay \$7.336 billion of capital costs related to the MTA's 2015-2019 Capital Program; and authorization to issue bonds or notes to finance all or any part of the costs of any project pursuant to the proposed new authority to enter into joint arrangements, including public private partnerships. No specific bond caps are provided in the latter two proposals.

Since the Executive Budget proposal does not include a specific plan to address how the State commitment of funds to the MTA will be financed or structured, or provide details regarding specific projects to be undertaken pursuant to the proposal authorizing joint arrangements, it is not possible to determine how these provisions will impact the State financial plan and State debt outstanding, debt service and debt capacity. It is also unclear whether any debt resulting from these proposals will be included as part of the State's debt burden.

- **Reduced procurement oversight and transparency.** The Executive Budget includes several proposals that would bypass existing statutory provisions that are intended to ensure procurement integrity. In certain instances, the competitive bidding process, notice provisions and the Office of the State Comptroller's contract review authority are proposed to be eliminated. In addition, the 30-day amendments extend for five years the ability for SUNY to enter into certain contracts without the prior review and approval of the Office of the State Comptroller.

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 high value public authority contracts, particularly where such contracts are funded with State tax dollars. This review reduces the risk that the State will encounter waste, fraud or abuse. Pre-audit review has an important deterrent effect. Although the Comptroller's constitutional authority allows withholding or recovery of moneys arising from fraud or illegality while a contract is implemented, the Comptroller's review and approval before contract execution is a critical step in preventing flawed agreements which could waste taxpayer money and diminish the quality of essential services for residents of the State.

A new Executive proposal would infringe upon existing Office of the State Comptroller oversight with respect to high dollar value MTA procurements and contracts. The bill proposes to cut in half the Office of the State Comptroller's review time for MTA contracts subject to its approval. In addition, this proposal would amend current law to require the Office of the State Comptroller to call for review of eligible MTA contracts within 45 days of "written notice" by the Authority of the contract in its annual or amended reports. Currently, the Office of the State Comptroller can exercise its discretion to review eligible Authority contracts until the contract has been executed by the parties.

This proposed change would reduce procurement oversight and transparency and would unnecessarily create an inconsistency with the timeframe for other authorities subject to these provisions. This proposal would also eliminate certain notice requirements, as well as legal provisions governing the disposal of property, raising additional transparency and accountability concerns.

The Budget also proposes to eliminate competitive bidding, notice of procurement and/or local planning requirements in several program areas. These include local assistance funding for certain initiatives at the Office for People With Developmental Disabilities, \$2.7 million for rape crisis centers funded within the Division of Criminal Justice Services, as well as additional capital funding and reappropriations for loans or grants for development of supported housing units for the developmentally disabled. Elimination of such provisions diminishes oversight, transparency and the ability to obtain the best value in the State's procurement process.

The Executive also proposes to eliminate competitive bidding on capital reappropriations of \$300 million for health care facility transformation originally intended for Utica, which is modified to include up to \$200 million for statewide health care projects, up to \$100 million for Nano Utica, and up to \$5 million for mobile mammography units.

Several appropriations and reappropriations in the Aid to Localities budget bill would eliminate the Comptroller's oversight and competitive bidding procedures for certain contracts. These include \$2.8 billion in remaining federal funds associated with the State's Medicaid waiver program and \$2.9 million in emergency assistance grants distributed by the Commissioner of Health.

Also, a proposed \$50 million appropriation from the DIIF to address homelessness includes a provision that such funds shall be made available notwithstanding provisions of the State Finance Law, the Public Authorities Law or any other provision of law to the



contrary, to fund grants without a competitive bid or request for proposal process, pursuant to a plan approved by the Director of the Budget.

- **Expanded use of alternative procurement mechanisms without robust protections.** The Executive proposes broad new authority for the MTA, the New York City Transit Authority (NYCTA) and their subsidiaries to enter joint arrangements, including public-private partnerships (P3s). In addition, the proposed Budget would provide design-build authorization to the UDC (commonly known as ESDC), the New York Convention Center Development Corporation, and their subsidiaries related to the proposed Javits Convention Center expansion, the Empire Station Complex, the James A. Farley Building Replacement and Penn Station New York Redevelopment projects. These proposals are summarized in the Design-Build and Public-Private Partnerships section of this report.

The P3 proposal does not appear to include safeguards that have been recommended by the Office of the State Comptroller in previous reports on public-private partnerships, and which are necessary to ensure that taxpayer and toll payer interests are protected.<sup>6</sup> The authorization is not project-specific, and may be used for any purpose in support of, associated with, derivative from or incidental to transportation in whole or in part in or upon one or more transportation facilities located in whole or in part within the metropolitan commuter transportation district. It includes open-ended financing provisions and authorizations for new and increased taxes, assessments, tolls, fares and other charges by the MTA and other entities within a broadly defined geographical area. The proposal does not appear to impose any financial limits on the use or size of projects undertaken pursuant to the authorization.

The 30-day amendments clarify that the MTA is not being given new authority to charge taxes or assessments. However, new language extends to the “joint arrangement” the taxing power of entities (such as municipalities) that enter into a joint arrangement. The joint arrangement “may use such entity’s power to establish, levy and collect taxes and assessments for the benefit of such joint arrangement...” As such, the cost impact of any project appears to be open-ended. In addition, the proposal does not make clear the specific roles that public and private entities would have in establishment, levy and collection of taxes and other charges.

The broad language of the proposal could set a precedent for other public entities to follow, setting forth a structure in the State for the use of the P3 model that lacks any well-defined mechanisms to protect the State, municipalities, public authorities or other public entities, their infrastructure and taxpayers, rate payers and toll payers. The proposed language appears to limit oversight by other entities, thus reducing accountability and important checks and balances.

The SFY 2015-16 Enacted Budget re-established and extended for two years the Infrastructure Investment Act first enacted in December 2011, which authorized design-build contracts and other alternative methods of procurement for certain projects through

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<sup>6</sup> Details of the Comptroller’s P3 recommendations are contained in *Controlling Risk Without Gimmicks: New York’s Infrastructure Crisis and Public-Private Partnerships* and *Private Financing of Public Infrastructure: Risks and Options for New York State*, available at [www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf](http://www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf) and [www.osc.state.ny.us/reports/infrastructure/p3\\_report\\_2013.pdf](http://www.osc.state.ny.us/reports/infrastructure/p3_report_2013.pdf), respectively.

five specified State agencies and public authorities and had expired in December 2014. The UDC design-build proposal would build on that authorization.

While design-build may provide opportunities for budget savings and construction efficiency, greater transparency and accountability should also be required to ensure that the use of these alternative procurement methods is justified, to provide greater clarity with respect to eligible projects, to establish more robust public notification and participation processes before projects could move forward, and to introduce greater public protections, such as cost-benefit analyses and financing plans, particularly for projects that are not funded in the State Budget. The current proposal does not provide for these protections. Further, UDC is required to submit a report to the Governor and legislative leaders no later than June 30, 2016 with various data and information regarding the use of design-build previously authorized. Consideration of this information would be useful and appropriate before design-build authorization is extended further, to better inform the potential risks and benefits associated with its use for New York State projects.

- **Major local funding announcements without any funding source or allocation information.** The Executive announced three programs described as initiatives to provide additional funding over several years for local highways and bridges: PAVE NY and BRIDGE NY (\$1 billion each) and Extreme Weather Infrastructure Hardening (\$500 million). However, the Budget does not contain any specific appropriations or Article VII budget language directly related to these proposals. Funding for these announced programs may simply be drawn from existing programs and appropriations, rather than from new resources. Similarly, an announced \$20 billion supportive and affordable housing initiative does not appear to have the resources allocated or fully identified in the Executive Budget appropriations and Article VII legislation to support a program of that magnitude.

In addition to leaving New Yorkers in the dark with respect to the impact of the Executive Budget on their local infrastructure, the lack of information makes it difficult for local governments throughout the State to effectively develop their own spending and capital plans. Greater transparency and clarity with respect to allocations of infrastructure funds is critical to ensure that these resources are being properly prioritized and to help local governments move important capital projects forward.

- **Lack of clarity with respect to 2 percent limit on spending growth.** As described in the Financial Plan section of this report, the resources necessary to fund certain new initiatives in the Executive Budget and to close projected out-year gaps are dependent on holding State Operating Funds spending growth to 2 percent. However, no specificity is provided as to how this goal would be achieved. Additional specificity with respect to proposals to limit spending would provide greater assurance to New Yorkers that the stated goal is realistic, would indicate areas being targeted for budget savings, and would help local governments and other entities dependent upon State assistance to plan more effectively and adjust their future expectations appropriately.

In addition, the Financial Plan has come to depend on the use of timing-related adjustments, shifts and categorizations of spending, within the Budget and off-budget, to present a lower rate of growth in spending than would otherwise be the case, clouding the actual change in State spending. Other actions, such as program restructurings, can also

have the effect of obscuring growth in State spending. Provisions of the Executive Budget that cloud the picture of actual spending growth include those related to the STAR property tax relief program, debt service prepayments, potential spending for operations purposes from the DIIF that is instead classified as capital spending, and shifting of certain CUNY costs to the City of New York.

The Financial Plan identifies where planned SFY 2016-17 spending is moved by DOB into the current fiscal year (prepayments). This has the effect of reducing the appearance of spending growth in the coming fiscal year by increasing spending in the first year and lowering it in the second, but does not change the obligations. DOB has thus far identified \$550 million in debt service prepayments in SFY 2015-16. As shown in the Financial Plan section of this report, adjusting for prior year prepayments would result in State Operating Funds growth of 4.1 percent in SFY 2015-16 and 2.8 percent growth in SFY 2016-17.

The Executive proposes to restructure the STAR property tax relief program from a local government reimbursement program to a Personal Income Tax (PIT) credit. This would remove the program cost from State spending and instead shift that cost to the revenue side of the ledger (as lower PIT revenue). Most of the “savings” associated with the proposed STAR changes simply reflect this shift of spending. DOB estimates this proposal would reduce State spending by \$185 million in SFY 2016-17, \$478 million in SFY 2017-18, and growing thereafter, and would reduce receipts by the same amount beginning in SFY 2017-18.

In addition, the creation of the DIIF as a Capital Projects fund means that spending from the fund will not count against the 2 percent State Operating Funds spending growth limit, as capital spending is excluded from that measure. However, several new and reappropriated DIIF purposes are constructed in such a way that they may be used for various purposes that appear operational in nature. Since the DIIF is established as a capital fund, any operational spending from the fund would not be recognized for the purpose of the Executive’s 2 percent State Operating Funds spending growth target. This raises transparency issues related to reported levels of State Operating Funds spending growth.

The Executive’s proposal to require New York City to pay 30 percent of the expenses related to CUNY Senior College operating support, debt service and capital project administration expenses is structured so that the entire amount, including the capital spending, will lower the State Operating Funds spending total. DOB projects the overall impact of this proposal to be nearly \$400 million in SFY 2016-17.

An overall measure of the changes being made to lower the appearance of spending is difficult, in part because several of these actions are not clearly delineated, and leave sole discretion to DOB to make such spending determinations and adjustments, as well as the final presentation of budget projections. In any event, spending growth figures included in the Executive Budget are not as straightforward as they may appear and should be.

- **Reduced transparency with respect to capital plan reporting.** From SFY 2013-14 through the current fiscal year, DOB’s Capital Program and Financing Plans provided rolling ten-year capital commitment and disbursement projections for State agencies, including State financial assistance for the capital activities of certain State authorities (e.g., MTA), as well as projections for personal income and certain State debt in the Capital

Program and Financing Plan. The Plan indicated that these projections were made, in part, to meet long-term planning goals and that the commitments and disbursements over the ten-year period were calibrated to help ensure compliance with the State's debt limit.

DOB had indicated in past Plans that the projections reflected a uniform set of capital planning assumptions for all State agencies, making it easier to compare and prioritize investments. Although the ten-year projections were of a high level summary nature and provided minimal detail related to uniform criteria that were used, they offered a longer term outlook and perspective with respect to the direction of the State's Capital Plan and certain related debt. The rolling ten-year projections were provided in Capital Program and Financing Plans from SFY 2013-14 through SFY 2015-16, but have been omitted from the SFY 2016-17 Capital Program and Financing Plan. Loss of this information reduces transparency surrounding the State's disbursement of capital funds and its debt burden.

- **Reduced transparency with respect to debt and certain debt-related reporting.** In recent years, the Executive has moved to consolidate the issuance of bonds under fewer bonding programs including the Personal Income Tax (PIT) Revenue Bond Program (authorized in 2001), the Sales Tax Revenue (STR) Bond Program (authorized in 2013) and State General Obligation (G.O.) bonds. PIT bonds, STR bonds and G.O. bonds are now the primary mechanisms used to finance the State's capital program.

With the consolidation of debt issuance, DOB has changed its presentation of debt outstanding, issuance, retirement and debt service within the Capital Program and Financing Plan. This presentation was initially revised in the SFY 2013-14 Enacted Budget Capital Program and Financing Plan. Debt is no longer reported in detail by program, but rather by bond type – G.O., revenue and service contract, and broad programmatic area. These changes reduce the level of information available regarding the State's use of borrowing, its current debt burden, and the payment of costs for essential capital projects. While debt consolidation may make the State's process more efficient, transparency in the use of taxpayer-funded borrowing is also essential.

- **Discretion to move funding among agencies.** The Executive Budget contains language in appropriation bills – first authorized in the SFY 2012-13 Enacted Budget – that gives DOB significant power to reallocate spending among agencies for various management and administrative functions within the Office of General Services (OGS), as well as changes to the State's provision of information technology services. Appropriations totaling more than \$4.8 billion from the General Fund, and \$6.9 billion in Special Revenue funds, are authorized to be interchanged among agencies. In addition, proposed Article VII language allows the sweep of up to \$100 million across all agencies from non-General Fund accounts for the information technology initiative, and up to \$350 million in sweeps from non-General Fund accounts for the business services initiative at OGS. These reallocations could be made at the discretion of DOB without regard to the appropriated amounts approved by the Legislature in the Enacted Budget.

While a certain degree of spending flexibility may be needed, DOB should work toward providing each agency with the appropriate and necessary levels of spending authority each year, instead of continuing to rely on shifting hundreds of millions of dollars. Additional reporting by DOB regarding the impact, by agency, of these fund shifts would clarify the effects of this authorization and improve transparency.

- **Inclusion of blanket fund sweep authorization without transparency and contrary to the intended use of the funds.** The Executive Budget proposes an authorization for \$750 million in unspecified transfers from dedicated funds to the General Fund. Since SFY 2007-08, budget language has authorized DOB to transfer or “sweep,” at its discretion, available, unencumbered resources from other State funds to the General Fund. The unidentified programs which may be affected are generally programs that have dedicated revenue streams. Any use of such sweeps could undermine the purposes for which the funds were originally generated and dedicated.

# Economy and Revenue

## *Economic Outlook*

### *National Economy*

#### **2015**

The current economic expansion entered its sixth year in calendar 2015 and is the fourth longest economic expansion since the end of World War II. However, this expansion has been one of the slowest, with average quarterly growth in the real Gross Domestic Product (GDP) of 2.2 percent. In comparison, quarterly economic growth in the last two economic expansions averaged 2.8 percent and 3.7 percent, respectively.

Similar to 2014, harsh winter weather conditions in the first quarter of 2015 served to dampen economic growth. Unlike 2014, where real GDP declined by almost 1 percent in the first quarter, real GDP continued to increase in 2015, although growth was only 0.6 percent.

Stronger economic growth returned in the second quarter with an increase in real GDP of 3.9 percent, but this rate could not be maintained throughout the rest of the year. Growth decelerated in the third quarter, with real GDP increasing by 2.0 percent, and further slowed to 0.7 percent in the fourth quarter. On an annual basis, real GDP growth is estimated to remain at the same level as in 2014, increasing by 2.4 percent.

While the economy benefitted from continued gains in employment and consumption, headwinds resulted from slowdowns in the global economy, especially due to the slowdown in China and continued slow growth in the Eurozone. Also constraining economic growth was the continued decrease in oil prices. Although lower oil and gasoline prices put additional spending money in consumers' pockets, they also contributed to significant stock market volatility and decreased investment spending by businesses, especially those in the energy sector.

The labor market continued to improve in 2015. Employment growth accelerated to 2.1 percent from 1.9 percent in 2014, an increase of over 2.9 million jobs. Similarly, the unemployment rate declined from 6.2 percent to 5.3 percent.

Along with the decrease in the unemployment rate, there were other signs the labor market was beginning to tighten in 2015. The underutilization rate, which encompasses the short-term unemployed as well as discouraged workers who have dropped out of the labor force and those who work part time but want to work full time, fell from 12.0 percent in 2014 to 10.4 percent. While the labor market participation rate continued to decline in 2015, decreasing to 62.6 percent, the rate of decline was slower than in previous years.

With some slack remaining in the labor market, and the slowdown in economic growth in the second half of the year, wage growth has remained sluggish. Total wages are estimated to have increased by 4.8 percent during the year, compared to 5.1 percent in 2014.

Driven by an improved labor market, continued if weaker wage growth, and lower oil and gas prices, consumer spending increased by an estimated 3.1 percent during 2015. As the

housing market continued to grow, consumer spending on durable goods was strong, increasing by 6.1 percent. This included an increase of nearly 6 percent in sales of light vehicles.

In December 2015, the Federal Reserve increased its federal funds rate for the first time in almost a decade, increasing the rate by a quarter of a percentage point. Since the Fed had telegraphed the likelihood of a rate hike over the course of the year, the financial markets took the rate increase in stride. However, the continued declines in oil prices and slow global economic growth caused stock market volatility in the second half of 2015.

The slowdown in the global economy coupled with fairly stable growth in the domestic economy caused the value of the dollar to appreciate in 2015, increasing by 12.6 percent in relation to the currencies of the nation's major trading partners. While the stronger dollar increases U.S. consumers' buying power, especially in relation to lower priced, imported goods, the stronger dollar also makes the cost of U.S. exports more expensive. Partly as a result, growth in exports is estimated to have slowed in 2015, increasing by only 1.4 percent.

## **2016**

DOB projects continued but slower growth in the national economy in calendar 2016, with real GDP growing 2.3 percent. (However, DOB also projects the economy to strengthen further in calendar 2017, and forecasts slightly higher GDP growth in State Fiscal Year 2016-17 than in the current fiscal year.) In contrast to DOB, IHS Global Insight projected economic growth to accelerate in calendar 2016, increasing by 2.7 percent. However, both of these projections were made before release by the U.S. Bureau of Economic Analysis (BEA) of its real GDP estimate for the fourth quarter of 2015. While both had anticipated a slowdown in growth in the fourth quarter, the slowdown as reported by BEA was greater than either DOB or IHS had estimated. Based on this data, IHS lowered its forecast to 2.4 percent, and it is likely that DOB's projections of real GDP growth for 2016 will be revised downward as well.

With the projected slowdown in the economy, the labor market is projected to decelerate as well, with non-agricultural employment and wages projected to grow by 1.7 percent and 4.6 percent, respectively. Still, continued growth in employment is expected, in turn, to reduce the unemployment rate to 4.9 percent.

With oil prices projected to remain low in 2016, inflation is also projected to remain low in comparison to average inflation growth over the course of the expansion of nearly 2.0 percent. DOB projects inflation to increase from 0.2 percent in 2015 to 1.8 percent in 2016. Similarly, IHS Global Insight projects the Consumer Price Index to increase in 2016, albeit at a slower pace of 1.2 percent.

While inflation and oil prices are projected to remain low, the slower growth in wages and employment is projected to translate into slower consumption growth. DOB projects consumption to increase by 2.7 percent, down from an estimated 3.1 percent the previous year, with continued strength in the consumption of durable goods including increased light vehicle sales.

As corporations return to profitability in 2016, corporate profits are projected to grow by 2.9 percent. Along with this profit growth, non-residential fixed investment is projected to strengthen, growing by 4.2 percent from 3.2 percent in 2015.

While IHS Global Insight projects the Eurozone and Japan to have accelerated economic growth in 2016, such growth is projected to remain below 2 percent. However, economic growth in China is projected to continue to slow. This continued weakness in the global economy is projected to result in a continued appreciation of the dollar. As a result, exports are projected to increase by 2.8 percent while imports are projected to increase by 4.9 percent.

### ***New York State Economy***

The New York economy, as represented by the State's real GDP, is estimated to have grown 1.6 percent in 2015, according to IHS Global Insight. This was a deceleration from 2.7 percent in 2014. Unlike the national economy, where growth is projected to decelerate in 2016, growth in the State's real GDP is projected to accelerate to 2.7 percent.

According to the New York State Department of Labor, total employment in the State increased by nearly 157,000 jobs or 1.7 percent in 2015. As a result of the employment growth, the unemployment rate decreased from 6.3 percent in 2014 to 5.5 percent in 2015. Similar to employment at the national level, employment growth in New York is projected to slow in 2016, increasing by 1.3 percent. The unemployment rate is projected to remain the same at 5.5 percent.

Since the securities industry is centered in New York City, fluctuations in the securities markets resulting from declining oil prices, the slowdown in the global economy and other factors have an impact on the New York State economy, especially in terms of the compensation of employees in the securities industry.

Wage growth in New York in 2015, 3.7 percent, lagged the national pace of 4.8 percent. With the concentration of the securities industry in New York, the level of wage growth is influenced by the level of bonuses for this industry. DOB estimates these bonuses to have remained flat in 2015, increasing by only 0.2 percent. Excluding bonus compensation, all other wages in New York are estimated to have grown by 4.2 percent.

In 2016, wage growth is projected to continue to accelerate, increasing by 4.3 percent. While bonus growth is projected to be higher than in 2015, bonus wages are projected to still be a modest drag on overall wage growth. When bonus wages are excluded, wages are projected to grow by 4.4 percent.



# Revenue

## All Funds Revenues

In the current fiscal year, DOB projects All Funds revenues (including federal receipts) will total \$153.4 billion, an increase of 2.9 percent or \$4.3 billion. This increase is primarily due to growth in tax collections and federal receipts. While the State continued to receive nearly \$3.1 billion in monetary settlements in the current fiscal year, receipts from these settlements were \$1.8 billion lower than in SFY 2014-15, limiting year-over-year growth in All Funds revenues.

Figure 11

	SFY 2015-16 Enacted	SFY 2015-16 Estimated	Dollar Change	SFY 2016-17 Projected	Percent Change
Personal Income Tax	47,075	47,093	18	49,960	6.1%
Consumption and Use Tax	15,850	15,641	(209)	16,194	3.5%
Business Taxes	8,137	8,406	269	8,018	-4.6%
Other Taxes	3,500	3,944	444	3,512	-11.0%
Miscellaneous Receipts	25,410	26,035	625	24,159	-7.2%
Federal Grants	51,396	52,328	932	51,133	-2.3%
<b>Total Revenues</b>	<b>151,368</b>	<b>153,447</b>	<b>2,079</b>	<b>152,976</b>	<b>-0.3%</b>

Source: Division of the Budget

In SFY 2016-17, All Funds revenues are projected at \$153.0 billion, a decrease of 0.3 percent or \$0.5 billion (as shown in Figure 11). This decline primarily reflects the loss of settlement funds, mitigated by projected growth in tax revenues.

Excluding miscellaneous receipts and federal grants, All Funds tax collections in SFY 2015-16 are estimated to increase to \$75.1 billion, up \$4.05 billion or 5.7 percent. The gain is primarily realized in personal income tax collections through increased estimated payments as well as withholding growth.

For SFY 2016-17, All Funds tax collections are projected to increase to \$77.7 billion, rising by \$2.6 billion or 3.5 percent. This increase is projected to result from growth in both personal income and sales taxes due to continued growth in the economy, offset by a decline in business taxes due to the impact of the first full year of corporate tax changes enacted in 2014.

The net All Funds revenue impact of the Executive's proposed tax law changes includes an estimated net increase of \$21 million in SFY 2016-17, followed by net decreases of \$596 million in SFY 2017-18, \$1.1 billion in SFY 2018-19, and \$1.2 billion in SFY 2019-20. These figures include changes to STAR that move benefits for property taxpayers from the expenditure side of the Budget to the revenue side. Excluding the impact of the STAR changes, the net decreases are as follows: \$411 million in SFY 2017-18, \$623 million in SFY 2018-19, and \$602 million in SFY 2019-20.

## **General Fund Revenues**

For SFY 2015-16, General Fund revenues (including transfers from other funds) are estimated to increase to \$70.1 billion, up 3.2 percent or \$2.15 billion. Similar to revenue collections on an All Funds basis, this increase is primarily due to the settlement funds as well as the growth in personal income tax collections.

In SFY 2016-17, General Fund revenues are projected to decline to \$68.8 billion, a decrease of 1.8 percent or \$1.3 billion. Although tax revenues are projected to increase as a result of projected economic growth, these increased revenues are more than offset by the decrease in settlement funds described above.

## **Personal Income Tax**

### *Collections*

Withholding tax collections are primarily a reflection of wage and employment growth during the fiscal year. Due to the strong presence of the financial industry in New York, bonuses paid to industry employees also contribute significantly to total withholding collections, especially in the fourth quarter of the fiscal year. Withholding collections for the current fiscal year are estimated to increase to \$36.8 billion, rising 5.5 percent or \$1.9 billion. This increase reflects estimated wage and employment growth of 4.2 percent and 1.6 percent, respectively. Bonus payments for the finance and insurance sector, which are factored into overall wage growth, are estimated to remain nearly flat, increasing by only 0.7 percent.

For SFY 2016-17, withholding collections are projected to continue to grow to \$38.7 billion, an increase of 5.0 percent, or \$1.9 billion. DOB bases this increase on projected wage growth of 4.5 percent and employment growth of 1.3 percent. Bonus growth is projected to resume, with 5.0 percent growth projected for SFY 2016-17.

Estimated payments are paid either quarterly or with a taxpayer's request for an extension to file an annual tax return. Estimated payments are primarily based upon a taxpayer's non-wage income, such as business income earned by a sole proprietor or the realization of capital gains upon a sale of stock. Estimated payments tend to exhibit the most volatility of the PIT components. They are particularly reliant on taxpayer behavior, especially those estimated payments made as a result of a taxpayer realizing capital gains (see discussion of capital gains realizations below).

Years in which a large increase in the amount of capital gains realizations occurs, whether as a result of a tax law change or financial market activity, are usually followed by a decline in such realizations the next year. In subsequent years, capital gains realizations, and estimated tax payments, rebound to their more typical levels, with some fluctuations as a result of economic performance within that year.

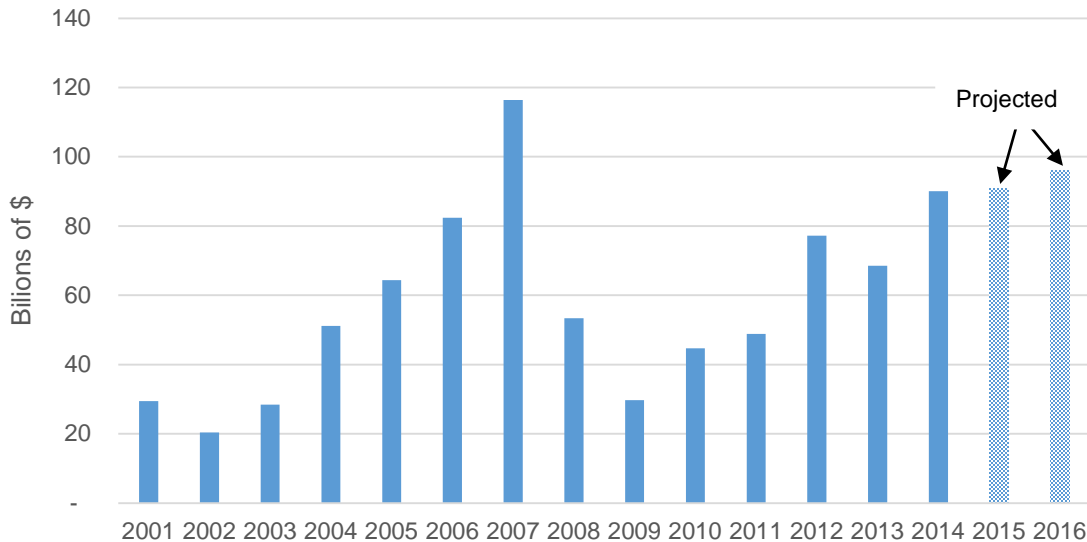
Capital gains are realized when a sale of an asset is made, such as a share of stock or a piece of property. Income from capital gains is subject to significant swings due to inherent volatility in the asset markets, as well as changes in fiscal and monetary policy.

Figure 12 shows capital gains realizations in New York from 2001 through 2016. As shown, capital gains in New York grew throughout the previous economic expansion, as the stock

market enjoyed continued growth and the housing market was strong. As the housing bubble burst and the country was thrown into the Great Recession, capital gains realizations plummeted.

**Figure 12**

**Capital Gains Realizations, New York State, 2001-2016**



Source: Division of the Budget

As in the previous expansion, growth in capital gains realizations returned with the resumption of economic growth in 2010. However, in 2012, there was a spike in capital gains realizations which was not due to economic or financial market growth, but to a change in federal fiscal policy. As of January 1, 2013, a new Medicare tax on unearned income, inclusive of capital gains, went into effect and certain lower tax rates expired. This resulted in taxpayers realizing income from capital gains in 2012 to take advantage of the lower tax rates. Due to this income shift, capital gains realizations decreased in 2013 even though the economy and the financial markets were growing.

In 2014, the impact of the income shift was eliminated. The growth in capital gains realizations in 2014 reflects this adjustment, as well as strong financial market activity which included several large stock buy-back programs. As shown in Figure 12, DOB estimates that capital gains in 2015 will remain flat, reflecting factors including the financial market volatility that occurred in the second half of the year. DOB currently projects that growth in both the financial markets and the housing markets will continue in 2016, and capital gains realizations will increase by 5.7 percent.

For SFY 2015-16, DOB projects total estimated payments at \$15.7 billion, an increase of \$1.9 billion or 14.1 percent. Estimated payments made with requests for filing extensions increased nearly 35 percent due to the rebound in collections from the artificially low collections of SFY 2014-15, as well as strong financial market performance in 2014. In

addition, quarterly estimated payments for the 2015 tax year, which comprise approximately three-quarters of total estimated payments, are estimated by DOB to increase by 7.4 percent. This increase is the result of growth in proprietors' income and property income of 4.4 percent and 4.9 percent, respectively.

For SFY 2016-17, DOB projects estimated payments will increase to \$16.7 billion, up by 6.8 percent or \$1 billion. Both quarterly payments and payments with extension requests are projected to increase, with overall growth in extension payments moderating to 3.4 percent. The increase in quarterly payments is a result of stronger projected growth in property income and proprietors' income, where increases are projected at 6.4 and 5.5 percent, respectively. The increase in extension payments is driven in part by projected growth in personal income of 4.1 percent.

Payments from final returns are those payments made by taxpayers who owe additional taxes above what they had withheld or remitted with quarterly estimated payments over the course of the tax year. Conversely, refunds are payments made by the State to taxpayers whose tax liability for the entire tax year is less than their total withholding and estimated tax payments.

For the current fiscal year, collections from final returns are estimated to increase by 18.8 percent. Similar to the increase in estimated payments made with extensions to file, the increase in final return payments is due to increased capital gains realizations as well as strong financial market performance in the 2014 tax year.

In SFY 2016-17, collections from final returns are projected to increase by 3.3 percent. The growth in final return payments reflects estimated personal income growth of 4.1 percent, among other factors, similar to the growth in extension payments.

Refund payments are estimated to increase 9.2 percent in SFY 2015-16. A portion of this growth is due to an increase in the amount of advanced credit payments received by taxpayers for the property tax freeze credit. The amount of refunds paid to taxpayers who file their annual returns within the January through March period also affects projected growth.

To manage the State's cash flow and to minimize imbalances at the end of the fiscal year, the State uses a cap on the amount of refunds that can be paid in the fourth quarter of the fiscal year, administratively set by the Tax Department. Prior to SFY 2013-14, the administrative cap on refunds was held steady at \$1.75 billion. An exception was made in SFY 2009-10, when the cap was reduced to \$1.25 billion, a result of declining revenues due to the Great Recession and a need to manage cash flow. Since SFY 2013-14, the amount of the cap, which directly impacts the timing of taxpayer refunds, has been adjusted for various reasons, including to manage unanticipated resources and cash flow, as follows: in SFY 2013-14 \$2.08 billion, in SFY 2014-15 \$1.95 billion, and in SFY 2015-16 \$2.25 billion. Actual PIT revenues each fiscal year are affected by such administrative decisions regarding the cap, in addition to economic activity and any legislated changes.<sup>7</sup>

With the increase in the cap from \$1.95 billion to \$2.25 billion in SFY 2015-16, the estimate for total refunds for the year is inflated by \$300 million, resulting in a commensurate decrease

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<sup>7</sup> DOB states that if the Tax Department did not withhold refunds to taxpayers through the use of the administrative cap, total refunds paid in the fourth quarter would be approximately \$3 billion.

in overall PIT revenues. If the cap were maintained at SFY 2014-15 levels, refunds in the current fiscal year would be estimated to increase by 5.7 percent.

For SFY 2016-17, refunds are projected to increase by 2.2 percent. This increase is due to several factors, including: the shift of the payment of the Family Relief Tax Credit from an advanced credit payment to being paid with the filing of annual returns; the impact of the enhanced circuit breaker credit as well as advanced payments associated with the final year of the property tax freeze credit; and the new property tax relief credit enacted in SFY 2015-16.

However, the impact of these tax credits is mitigated by the increase in the administrative cap in the current fiscal year, which lowers the amount of refunds paid in April 2016, as well as the expectation of a \$500 million decrease in the cap for the January through March 2017 period. The latter, in turn, would increase the amount of refunds paid in April 2017. If the cap were maintained at the \$1.95 billion level in both the current fiscal year and the next, total refunds would be projected to increase in SFY 2016-17 by 11.2 percent.

### *New Revenue Actions*

There are seven proposals in the Executive Budget that would impact personal income tax revenues. None of these proposals is projected to have a fiscal impact in SFY 2016-17. By SFY 2018-19, however, these proposals are projected to decrease PIT revenues by over \$1 billion, \$478 million of which is attributable to the STAR changes described earlier.

- Parental Choice in Education Act – This proposal consists of three different tax credits effective on January 1, 2017. This Act is projected to decrease revenues by \$150 million starting in SFY 2018-19.
  - Education Scholarship and Program Tax Credit. The Act would establish nonrefundable corporate income or personal income tax credits equal to 75 percent of an authorized contribution. The maximum credit per taxpayer would be \$1 million, with the overall program capped at \$50 million for donations to educational scholarship organizations and \$20 million for donations to public education entities or school improvement organizations.
  - Instructional Materials and Supplies Credit. This refundable personal income tax credit for the purchase of materials and supplies used in the classroom would allow a maximum credit of \$200, with overall program costs capped at \$10 million.
  - Family Choice Education Credit. This refundable personal income tax credit for the cost of pre-kindergarten programs or elementary or secondary school tuition would provide a maximum credit of \$500. Unlike the other two credits, this program's total value would not be capped.
- School Tax Relief (STAR) credit – The current STAR exemption would be converted to a refundable personal income tax credit. First time homebuyers and homeowners who move into a new residence would qualify for the new credit and would no longer qualify for the STAR exemption. All other homeowners would continue to receive the STAR exemption. Existing homeowners would be able to choose to receive the new STAR credit instead of the existing exemption. The credit would be calculated similar

to the tax savings under the STAR exemption. This proposal is projected to reduce PIT revenues by \$98 million in SFY 2017-18 and by \$194 million in SFY 2018-19.

- New York City School Tax Reduction credit – The current New York City STAR personal income tax credit would be converted to a refundable State personal income tax credit. New York City homeowners and renters with incomes below \$250,000 would be eligible for the credit, which is \$62.50 for individual taxpayers and \$125 for married, joint taxpayers. The change would apply to the 2016 tax year and thereafter. This proposal is projected to reduce State PIT revenues by \$87 million in SFY 2017-18 and by \$284 million in SFY 2018-19.
- Thruway Tolls Tax Credit – The proposed Budget would authorize a personal income or corporate income tax credit for tolls paid on the New York State Thruway. The non-refundable credit would be available to both individuals and businesses and would be equal to 50 percent of tolls paid. To qualify for the credit, individuals must spend at least \$50 annually and businesses must spend at least \$100 but less than \$10,000 annually. Participating individuals and businesses would be required to have EZ-Pass accounts. The credit would be effective for the 2016, 2017, and 2018 tax years, and would have a total fiscal impact of \$340 million.
- Small Business Tax Cut – Businesses which pay under the personal income tax would be allowed to deduct 15 percent of their business income. Eligible businesses would have less than \$250,000 in net business income. This change, effective January 1, 2017, would reduce revenues by a projected \$276 million in SFY 2018-19.
- Enhanced earned income tax credit extension – Permanent extension of the enhanced earned income tax credit for non-custodial parents.
- Clean heating fuel tax credit extension – Extension of the clean heating fuel credit for three years.

## ***Consumption and Use Taxes***

### *Collections*

All Funds consumption and use taxes are made up of the sales and use tax, the auto rental tax, cigarette and tobacco excise taxes, the motor fuel tax, alcoholic beverage taxes, the highway use tax, and the MTA taxicab tax as well as the new excise tax on medical marijuana. Of these taxes, a portion of the sales tax and the cigarette and tobacco taxes, as well as all of the alcoholic beverage taxes, are deposited to the General Fund.

For SFY 2015-16, All Funds collections from the sales and use tax are estimated to increase to \$13.3 billion, an increase of \$326 million or 2.5 percent. This increase is due to an increase in taxable sales, which in turn has been driven largely by growth in employment and wages over the last year as well as increased disposable income due to lower oil and gas prices. However, such growth is partly offset by a transfer of \$218 million in sales taxes to New York City due to an administrative error; sales tax collections were recorded by taxpayers on the wrong line of the sales tax remittance form, resulting in a higher distribution to the State. In SFY 2016-17, sales tax collections are projected to grow to \$13.9 billion, an increase of \$559

million, or 4.2 percent, over SFY 2015-16. Similar to the current fiscal year's estimate, the estimated level of growth for SFY 2016-17 is based on projections for continued economic growth, low inflation rates, and the absence of the one-time redistribution of sales tax collections mentioned above.

All other consumption and use taxes are estimated to decrease to \$2.32 billion in SFY 2015-16, falling \$70 million, or 2.9 percent, from SFY 2014-15. This decline is primarily as a result of a drop in cigarette and tobacco tax collections due to the accumulated refunds paid due to the change in the administration of the cigar tax. The decline is also due to decreased collections from the MTA taxicab tax, due primarily to the proliferation of Uber and other ride-sharing services which are not subject to the tax. All other taxes in this category are estimated to exhibit small growth during the year.

In SFY 2016-17, all other consumption and use taxes are projected to decrease by \$6 million. While projected cigarette and tobacco tax collections are projected to remain flat, this category benefits from the first full year impact of the medical marijuana excise tax (projected at \$4 million) as well as minimal growth in collections from the other taxes.

### *New Revenue Actions*

Four proposals in the Executive Budget would impact consumption and use tax revenues. Overall, these proposals are projected to decrease revenues by \$3 million in SFY 2016-17 and by \$4 million when fully effective.

- Extension of the alternative fuels tax exemption for five years.
- Exemption of alcoholic beverages used in tastings from the alcoholic beverage tax and the use tax.
- Provision for jeopardy assessments under the cigarette and tobacco excise tax. This proposal would allow for the cigarette and tobacco tax to be assessed and collected prior to the filing of a tax return for taxpayers with a high level of tax avoidance in order to promote compliance.
- Exemption of the purchase of hotel room occupancies by room remarketers from the sales and use tax.

## ***Business Taxes***

### *Collections*

All Funds business taxes are made up of the corporate franchise tax (Article 9-A), corporation and utilities taxes, insurance taxes, the bank tax, and the petroleum business tax. Collections from the corporate franchise tax, corporation and utilities taxes, insurance taxes, and the bank tax are deposited to the General Fund and special revenue funds. The petroleum business tax is deposited to special revenue funds and the Dedicated Highway and Bridge Trust Fund. Collections from these taxes vary year to year not only because of changes in the economy, but also based on the number and results of audits conducted by the Department of Taxation and Finance.

All Funds business tax collections are estimated to be \$8.4 billion in SFY 2015-16, a decrease of \$97 million or 1.1 percent. The decrease is attributable to the first full year of corporate tax changes which eliminated the bank tax and shifted the taxation of financial entities to the

corporate franchise tax, as well as other factors such as declines in oil prices which result in lower petroleum business tax (PBT) receipts.

For SFY 2016-17, All Funds business tax collections are projected to be \$8.0 billion, a decrease of \$388 million or 4.6 percent. This decrease is primarily due to the impact of the decrease in the net income tax rate from 7.1 percent to 6.5 percent, and the first year of the phase-out of the capital base tax under the corporate franchise tax. In addition, continued low oil prices are expected to continue to depress PBT receipts.

### *New Revenue Actions*

Seven proposals in the Executive Budget would impact business tax revenues. None of these proposals is projected to have a fiscal impact in SFY 2016-17. When fully phased in, these proposals are projected to decrease revenues by \$30 million.

- Small Business Tax Cut – The net income tax rate for businesses which pay their taxes under the corporate franchise tax and earn less than \$390,000 in net business income would be reduced from 6.5 percent to 4 percent.
  - Businesses with fewer than 100 employees would be eligible for the reduction, effective January 1, 2017. The fiscal impact of the rate cut is projected to be \$22 million in SFY 2017-18.
- Increase in the cap on the low income housing tax credit, by \$8 million per year over the next five years.
- Extension of the Hire-A-Vet tax credit for two years.
- An additional credit allocation of \$30 million for the Urban Youth Opportunity Program tax credit.
- Extension of the Empire State Commercial Production Tax Credit for two years.
- Extension of the credit for companies that provide transportation services to individuals with disabilities for six years.
- Extension of the Excelsior Jobs Program for five years.

### **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 2015-16, All Funds collections from these taxes are estimated to be \$3.9 billion, an increase of \$507 million or 14.8 percent. This increase is a result of estate tax growth of over 30 percent due to collections from six super-large estates (estates with over \$30 million in estate tax liability).

This growth was partly offset by a decline in collections from small estates (those with estate tax liability of less than \$500,000) due to the continued phase-in of the increased exemption threshold. In addition to strong estate tax collections, receipts from the real estate transfer tax are estimated to increase by 10.5 percent. This increase is due to continued strength in the housing market, as well as an increase in building permits and housing starts in New York City ahead of the expected expiration of the 421-a affordable housing property tax abatement program.

For SFY 2016-17, collections from other taxes, including the MTA payroll tax, are projected to decrease to \$3.5 billion, a drop of \$432 million or 11.0 percent. This decrease is primarily



due to a projected decline in estate tax collections from fewer super-large estates, as well as the effect of increasing the exemption threshold for the tax from \$3.125 million to \$4.188 million on April 1, 2016.

### *New Revenue Actions*

The Executive Budget includes a proposal to authorize mixed martial arts and other combative sports. As a result of this authorization, receipts for admissions to these events would be subject to the boxing and wrestling exhibitions tax. This proposal is projected to add \$1 million to receipts in SFY 2016-17.

### *Miscellaneous Receipts*

Miscellaneous receipts encompass a wide variety of other revenues collected by the State, including abandoned property, motor vehicle fees, alcoholic beverage license fees, surcharges, and fines. All Funds miscellaneous receipts are estimated to decrease by \$3.4 billion, or 11.6 percent, in SFY 2015-16. This decline is primarily due to the decrease in monetary settlements received in the current fiscal year as well as a \$750 million decrease in the deposit from the State Insurance Fund (SIF).

Since the settlement funds and the deposit from SIF are non-recurring revenues, All Funds miscellaneous receipts are projected to decrease by \$1.9 billion, or 7.2 percent, in SFY 2016-17. The loss of these non-recurring revenues would be partially offset by increased authority bond proceeds, which are reflected as miscellaneous receipts in capital projects funds.

### *Federal Grants*

Federal grants are estimated to increase by \$3.7 billion, or 7.6 percent, in SFY 2015-16. These increases are primarily due to enhanced federal Medicaid funding as a result of the Affordable Care Act. In SFY 2016-17, federal grants are projected to decrease \$1.2 billion, or 2.3 percent. While growth in Medicaid funding is projected to continue, this growth is more than offset by an anticipated decrease in federal disaster assistance aid.

## ***Tax Enforcement Actions***

The Executive Budget proposes two new or extended tax enforcement initiatives projected to increase revenues by \$18 million in SFY 2016-17. The proposals would:

- Make certain tax shelter reporting requirements permanent; the program is currently set to expire on July 1, 2015.
- Conform State business tax filing deadlines and New York City business tax filing deadlines with federal tax filing deadlines.

## ***30-Day Amendments***

- The Executive proposes to clarify that secrecy provisions related to tax returns do not apply to the disclosure of aggregated tax information related to the excise tax on medical marijuana to the Comptroller or to counties entitled to receive an allocation of the tax revenues.

- The Executive proposes to amend the recoupment of improperly received STAR benefits to apply the three year look-back period to school years rather than assessment rolls.
- The Executive proposes to reduce the Highway Use Tax registration and decal fee from \$19 to \$1.50, effective April 1, 2016. This proposal would also redirect this fee from the Dedicated Highway and Bridge Trust Fund to a new Highway Use Tax Administration Account to be used for the costs of issuing the registrations and other administrative costs.

# Debt and Capital

The proposed Five-Year Capital Program and Financing Plan (Capital Plan or Plan) projects total capital spending (including certain spending that occurs outside of the Capital Plan) of \$60.7 billion through SFY 2020-21. This is an increase of \$4.2 billion or 7.5 percent from the current Capital Plan, due in large part to proposed increases in housing and transportation, while spending for education and higher education would decline from the current Plan. The SFY 2016-17 Executive Budget proposes increased bonding authorization for State-Supported debt of approximately \$5.6 billion, or 4.5 percent, over existing State-Supported bond cap authorizations. The Budget also proposes:

- New Design-Build authorization for certain public authority projects;
- New authorization for the Metropolitan Transportation Authority (MTA) and the New York City Transit Authority (NYCTA) to engage in broadly defined joint arrangements with any other public or private entity, using methods including public private partnerships (P3s) for a wide variety of purposes related to and, in some cases, broader than transportation; and
- Far-reaching authority for a proposed new subsidiary of DASNY related to project management and oversight of large capital projects undertaken by State entities, including unusual power to terminate contracts.

Several new proposals in the Executive Budget could shift debt-related and/or capital spending off-budget, in certain instances without an appropriation, including for statutorily defined State-Supported debt or for other debt or financing arrangements that are or could be repaid with State resources. Moving spending off budget reduces transparency and accountability for such expenditures. Such measures include a proposal to capture \$600 million of certain New York City Sales Tax collections as a means to allow the State to recoup savings the City realized from a refunding of Sales Tax Asset Receivable Corporation (STARC) Bonds, as well as potential uses by the New York State Thruway Authority of \$700 million of Dedicated Infrastructure Investment Fund (DIIF) resources. (See this report's sections on Transparency, Accountability and Oversight Issues and New York City for additional information on the proposal related to capture of NYC Sales Tax collections.)

The lack of specificity regarding the financing and other aspects of several major capital and debt-related proposals, coupled with broad new grants of authority proposed in the Executive Budget, leave questions as to whether and how these new authorizations will be used. Unanswered questions include how the Executive intends to fulfill the proposed commitment of State resources to the MTA's 2015-2019 Capital Plan, and how the Thruway Authority's financing plan for the replacement of the Tappan Zee Bridge and the remainder of the Thruway System would be affected.

There are also unanswered questions related to the proposal to authorize the MTA, NYCTA and its subsidiaries to engage in joint arrangements, including public private partnerships, including what the implications are for State and local taxpayers, toll payers and fare payers, how public assets will be protected, how financial risks will be minimized, what the impact will be on the State's debt burden, and how the resources generated by this proposal will be accounted for either within the State's Budget, the Statewide Financial System, the Financial Plan, the Capital Plan or elsewhere.

Beyond the proposed \$5.6 billion increase in State-Supported bonding authorizations, the Budget also includes several other new debt and financing authorizations that omit important details regarding what specific projects would be undertaken pursuant to such authorization and how the specific transactions related to such authorizations would be structured. Lack of such information makes it difficult to determine whether the borrowing or financing arrangements would be State-Supported debt and counted in, or excluded from, State-Supported debt totals and also subject to the State's statutory caps on outstanding debt and debt service. These proposals include:

- an increase of \$13.6 billion for the MTA, or 32.5 percent over the currently authorized amount, to finance MTA capital projects that are approved by the MTA Capital Program Review Board;
- an authorization for the MTA, with the approval of the Director of the Budget, to issue anticipation notes or other obligations secured solely by the commitment of additional State resources in the event the MTA exhausts currently available sources of funding; and
- broad new authorization for the MTA and NYCTA and their subsidiaries to engage in joint arrangements with any other public or private entity, using P3s or other methods, including the option of financing such projects, without a specific bond cap.

The State's statutory debt capacity remains limited, especially in the later years of the Capital Plan. The growth in debt and debt service anticipated from the Executive Budget is almost entirely due to the use of public authority debt, both on-budget and off-budget. Given the State's limited resources, shrinking statutory debt capacity and unmet capital needs, it is critical that the State prioritize its use of debt and capital resources, including the resources deposited in the DIIF, to ensure that they are used as effectively as possible.

## ***Debt Outstanding and Debt Service***

In the Capital Plan, DOB projects that \$30.2 billion in new State-Supported debt will be issued over the five-year life of the Plan. This compares to \$20.3 billion in retirements over the same period, resulting in a projected increase in State-Supported debt of just under \$10 billion or 19.6 percent (an annual average increase of 3.6 percent). Approximately 53 percent of this increase is associated with education purposes. Average annual State-Supported debt issuance is \$6.0 billion over the life of the proposed Capital Plan, compared to \$5.7 billion in the current plan.

Significant borrowing over the past decades, coupled with recent weak economic conditions, has depleted much of the State's statutory debt capacity. Over the last five years, projected debt capacity under the statutory cap on State-Supported debt outstanding, as established in the Debt Reform Act of 2000, has declined significantly, both because of increased issuance of new State-Supported debt and because the sometimes sluggish economy reduced personal income results and projections, particularly in 2009, when personal income actually declined for the first time since 1938. The statutory cap is based on certain outstanding debt relative to personal income in the State.

In November 2015, DOB projected that by the end of SFY 2019-20, there would be only \$363 million in available capacity for additional State-Supported debt. These projections have been updated in the Executive's proposal, with projected available capacity reaching a low point of \$206 million at the end of SFY 2019-20 and then increasing to \$602 million in SFY 2020-21.

The revised estimates are based on current projections for personal income in New York State, which were lowered slightly from November, as well as projected issuance and retirement of State-Supported debt issued after April 1, 2000.

The definition of State-Supported debt and the debt included within the statutory cap on outstanding debt do not include approximately \$11.6 billion in additional debt projected to be outstanding at the end of SFY 2015-16 that was issued after enactment of the Debt Reform Act of 2000. This debt was authorized outside the narrow definition of State-Supported debt included in the Debt Reform Act. Much of that borrowing was undertaken to finance non-capital costs, including deficit financing and budget relief. These obligations are included in the Office of the State Comptroller's more comprehensive definition of State-Funded debt.<sup>8</sup>

The proposed Capital Plan projects that State-Supported debt outstanding will increase by nearly \$10 billion, or 19.6 percent, from SFY 2016-17 through SFY 2020-21. Based on current Capital Plan projections, State-Funded debt is projected to increase \$8.3 billion or 13.2 percent over the same time frame, as indicated in Figure 13.

**Figure 13**

**Projected State-Funded Debt Outstanding**  
(in thousands of dollars)

	Proposed Capital Plan						Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2016-17 through SFY 2020-21	SFY 2016-17 through SFY 2020-21
General Obligation	3,201,566	3,507,942	3,864,386	4,063,693	4,178,288	3,902,691	21.9%	701,125
Other State-Supported Public Authority	47,676,626	49,716,753	51,795,828	53,998,935	55,944,350	56,931,975	19.4%	9,255,349
<b>State-Supported</b>	<b>50,878,192</b>	<b>53,224,695</b>	<b>55,660,214</b>	<b>58,062,628</b>	<b>60,122,638</b>	<b>60,834,666</b>	<b>19.6%</b>	<b>9,956,474</b>
State-Funded Secured Hospitals	180,950	156,680	142,480	127,500	111,715	95,090	-47.4%	(85,860)
New SUNY Dormitories	699,215	795,430	855,551	1,031,412	1,084,047	1,035,718	48.1%	336,503
TSFC	1,374,720	1,035,335	680,080	-	-	-	-100.0%	(1,374,720)
TFA BARBs	7,231,799	7,397,259	7,585,820	7,633,025	7,442,660	7,238,750	0.1%	6,951
STARC	1,926,475	1,853,680	1,776,525	1,695,365	1,609,880	1,519,950	-21.1%	(406,525)
MBBA	233,670	203,375	171,605	138,605	104,165	67,985	-70.9%	(165,685)
<b>Total Other State-Funded</b>	<b>11,646,829</b>	<b>11,441,759</b>	<b>11,212,061</b>	<b>10,625,907</b>	<b>10,352,467</b>	<b>9,957,492</b>	<b>-14.5%</b>	<b>(1,689,337)</b>
<b>Projected Outstanding (State-Funded)</b>	<b>62,525,021</b>	<b>64,666,454</b>	<b>66,872,275</b>	<b>68,688,535</b>	<b>70,475,105</b>	<b>70,792,158</b>	<b>13.2%</b>	<b>8,267,137</b>

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY  
Note: Figures reflect SFY 2015-16 end through SFY 2020-21 end. Totals may not add due to rounding.

Projections for new debt issuance for SUNY dormitories and for the New York City Transitional Finance Authority (TFA) Building Aid Revenue Bonds (BARBs) are only available

<sup>8</sup> State-Funded debt was defined by the Office of the State Comptroller in its February 2005 report, *New York State's Debt Policy: A Need for Reform*. State-Funded debt represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include bonds issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation (TSFC) to finance deficits in SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency (MBBA); Building Aid Revenue Bonds issued by New York City's Transitional Finance Agency (TFA BARBs); new debt issued by the Dormitory Authority of the State of New York (DASNY) under the SUNY dorm financing program authorized in the SFY 2013-14 Enacted State Budget; and a portion of the secured hospital program. Not all State-Funded debt appears in the Capital Program and Financing Plan; some is illustrated separately in the tables in this section of the report. See the Office of the State Comptroller's January 2013 report, *Debt Impact Study*, for more information on State-Funded debt.

through SFY 2019-20.<sup>9</sup> Therefore, the growth figures cited for State-Funded debt are likely to be understated in SFY 2020-21, as additional debt issuance may occur. The TFA plans to issue approximately \$976 million in new BARBs, and DASNY anticipates that it will issue \$533.6 million for SUNY dormitories through SFY 2019-20. This would bring the projected five-year issuance level of State-Funded debt to \$31.8 billion, representing an increase of \$249 million above the level in the current Capital Plan. Bonds issued by the Tobacco Settlement Financing Corporation are scheduled to be fully retired in SFY 2017-18.

Average annual State-Supported debt issuance is projected to be \$6 billion over the five year period from SFY 2016-17 through SFY 2020-21, compared to projected average annual State-Supported debt retirements of \$4.1 billion over the same time frame.

**Figure 14**

**Projected State-Funded Debt Issuance – SFY 2015-16 through SFY 2020-21**  
(in thousands of dollars)

	Proposed Capital Plan						Total Capital Plan SFY 2016-17 through SFY 2020-21
	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	
General Obligation	474,106	599,487	649,531	488,536	414,672	34,534	2,186,760
Other State-Supported Public Authority	3,130,850	5,389,159	5,719,490	5,816,937	5,681,158	5,449,154	28,055,898
<b>Total State-Supported Issuances</b>	<b>3,604,956</b>	<b>5,988,646</b>	<b>6,369,021</b>	<b>6,305,473</b>	<b>6,095,830</b>	<b>5,483,688</b>	<b>30,242,658</b>
SUNY Dormitories	186,286	124,690	94,195	217,753	96,978	-	533,616
TFA BARBs	683,000	304,000	343,000	222,000	107,000	-	976,000
<b>Total State-Funded Issuances</b>	<b>4,474,242</b>	<b>6,417,336</b>	<b>6,806,216</b>	<b>6,745,226</b>	<b>6,299,808</b>	<b>5,483,688</b>	<b>31,752,274</b>

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

Currently, more than 95 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the five-year life of the proposed Capital Plan, public authorities are projected to issue \$29.6 billion in debt, or 93.1 percent of the total issuances, as compared to projected issuances of \$2.2 billion, or 6.9 percent of total issuances, in voter-approved General Obligation bonds. Most of the currently remaining authorization for the issuance of voter-approved General Obligation bonds is projected to be exhausted by the end of the Capital Plan period.

Projections for the current fiscal year and actual figures for the three preceding years show debt retirement levels close to those for new issuances, as shown in Figure 15. Projections for the next five years included in the Executive Budget Capital Plan reflect a return to the practice of planning to issue significantly more debt than will be retired, with a projected retirement-to-issuance ratio of 67.1 percent. The resumption of this practice, together with DOB’s projections for personal income, results in lower projections for available debt capacity.

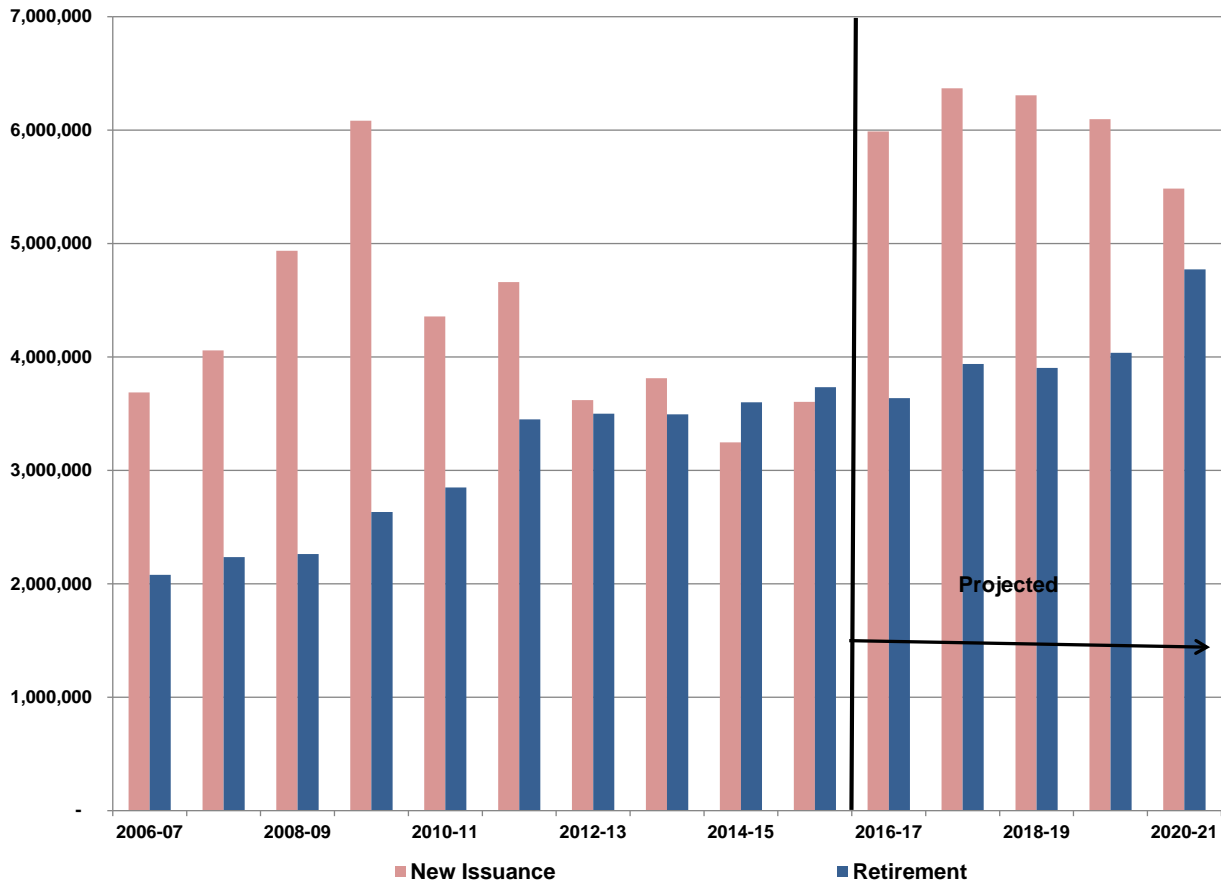
Figure 15 also illustrates the actual and projected issuance and retirement of State-Supported debt over the life of the proposed Capital Plan. Average annual State-Supported debt issuance has been \$4.2 billion over the ten years from SFY 2006-07 through SFY 2015-16.

<sup>9</sup> Projections throughout this report for TFA BARBs incorporate issuance projections from the New York City Fiscal Year 2016 Proposed Budget released in January 2016. Issuance projections for SUNY dormitories are from DASNY Board materials dated October 15, 2015.

This compares to average annual State-Supported debt retirement of \$3 billion over the same time frame, representing a retirement-to-issuance ratio of 70.9 percent. The ratio of State-Funded debt retirement to State-Funded debt issuance is slightly lower, at 67.8 percent, over the same period.

**Figure 15**

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



Source: Division of the Budget

As shown in Figure 16, under the proposed Capital Plan, State-Funded debt service is expected to approach \$8.5 billion by SFY 2020-21, with growth of approximately 25.7 percent between SFY 2015-16 and SFY 2020-21, or 4.7 percent annually on average. This reflects the current assumption contained in the Capital Plan that bonds issued by the Tobacco Settlement Financing Corporation will be retired in SFY 2017-18.

The proposed Capital Plan indicates that State-Supported debt service is projected to increase very slightly (only \$3 million) in SFY 2016-17 from SFY 2015-16. This is largely due to \$550 million in debt prepayments planned to be made in SFY 2015-16 that would otherwise be made in SFY 2016-17, offset by another \$60 million prepayment expected to be made in SFY 2016-17. Prepayments have the effect of making year-over-year changes in spending appear smaller, because the base year is inflated and the following year lowered. If these payments were made as initially anticipated, and when they are actually due, State-Supported

debt service would have increased by 21.3 percent from SFY 2015-16 to SFY 2016-17. Prepayments of debt service have been made in each of the last five years.

**Figure 16**

**Projected State-Funded Debt Service – SFY 2015-16 through SFY 2020-21**  
(in thousands of dollars)

	SFY 2015-16	Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
		SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2016-17 through SFY 2020-21	SFY 2016-17 through SFY 2020-21
General Obligation	413,509	427,143	442,465	458,516	482,833	501,827	21.36%	88,318
Other State-Supported Public Authority	5,012,622	5,002,268	5,855,666	6,317,744	6,741,177	6,934,316	38.34%	1,921,694
<b>2016-17 Capital Plan (State-Supported)</b>	<b>5,426,131</b>	<b>5,429,411</b>	<b>6,298,131</b>	<b>6,776,260</b>	<b>7,224,010</b>	<b>7,436,143</b>	<b>37.0%</b>	<b>2,010,012</b>
State-Funded Secured Hospitals	33,402	33,584	22,212	22,221	22,213	22,211	-33.5%	(11,191)
SUNY Dorms (All)	148,141	153,752	163,253	170,750	180,137	189,608	28.0%	41,466
TSFC	447,488	399,294	398,022	247,909	-	-	-100.0%	(447,488)
TFA BARBs	477,374	524,952	562,487	586,277	606,485	619,458	29.8%	142,084
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	40,780	40,966	40,986	40,964	41,204	41,263	1.2%	483
<b>Total Other State-Funded</b>	<b>1,317,185</b>	<b>1,322,548</b>	<b>1,356,960</b>	<b>1,238,122</b>	<b>1,020,039</b>	<b>1,042,540</b>	<b>-20.9%</b>	<b>(274,645)</b>
<b>Projected Debt Service (State-Funded)</b>	<b>6,743,316</b>	<b>6,751,959</b>	<b>7,655,091</b>	<b>8,014,382</b>	<b>8,244,049</b>	<b>8,478,683</b>	<b>25.7%</b>	<b>1,735,367</b>

Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY  
Note: Figures reflect SFY 2014-15 end through SFY 2019-20 end. Totals may not add due to rounding.

*Debt Limits Under the Debt Reform Act of 2000*

The Executive Budget includes lower projections for New York State personal income for SFY 2016-17 through SFY 2019-20, compared to November 2015 estimates. The projection for SFY 2020-21 is new. DOB currently projects that there will be approximately \$4.4 billion of available debt capacity at the end of SFY 2016-17, approximately \$808 million higher than projected in November 2015. However, debt capacity is projected to decline to approximately \$206 million at the end of SFY 2019-20, staying under \$1 billion for the last three years of the Plan.

DOB projects that personal income will increase annually at an average rate of 4.8 percent through 2021, representing its lowest projection for average annual growth over the life of the Plan since November 2011, down from a recent high estimate of 5.7 percent in the SFY 2013-14 Executive Budget. With this projected growth, along with the projected issuances and retirements of State-Supported debt, DOB expects that the level of State-Supported debt outstanding subject to the statutory cap will remain within the statutory cap within the next five years. Figure 17 illustrates the impact that different projections for personal income by DOB and IHS Global Insight have on the projected level of New York’s statutory debt capacity.

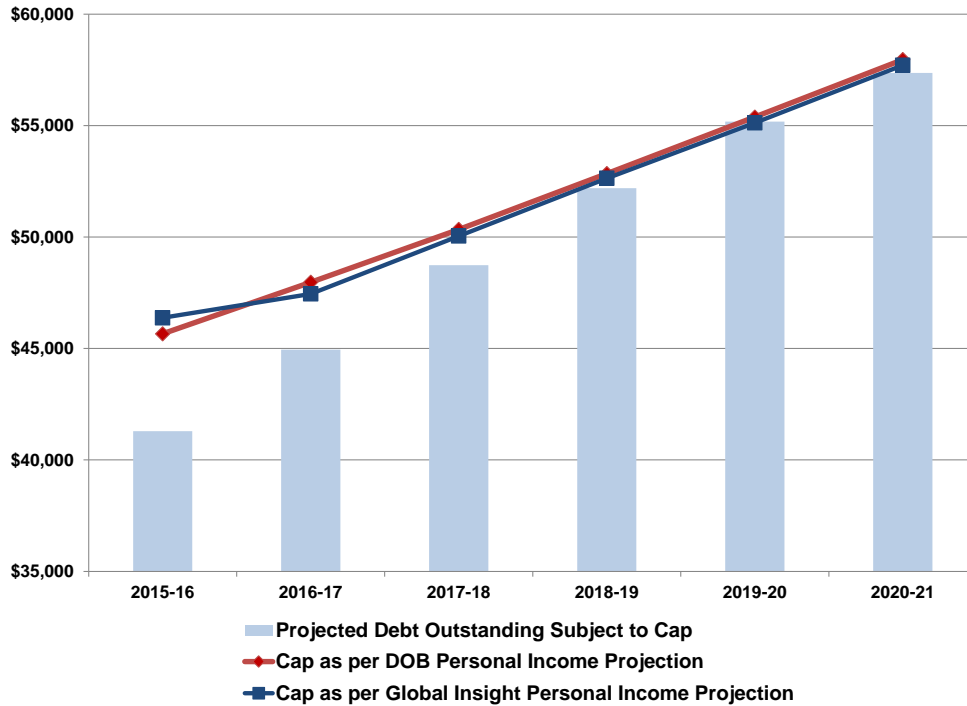
IHS Global Insight projects personal income will increase by an average of 5 percent annually over the life of the Plan. However, after the first year (SFY 2015-16, which would represent personal income in calendar 2015), IHS's projections dip below DOB’s throughout the rest of the Plan. If the IHS Global Insight projections are used, absent other actions, the cap on debt outstanding would be breached in SFY 2019-20 by \$54 million. If projected new debt issued for SUNY Dormitories were included (as was the case before SFY 2013-14, when it was



considered State-Supported debt), and the personal income projections from IHS Global Insight are used, the cap on State-Supported debt outstanding would be breached by \$592 million in SFY 2018-19.

**Figure 17**

**Debt Subject to Cap: Comparison of Projections and Impact on Debt Outstanding Cap**  
(in millions of dollars)



Sources: Division of the Budget; IHS Global Insight; Office of the State Comptroller

## **Capital Program and Financing Plan<sup>10</sup>**

The Executive Budget’s proposed SFY 2016-17 Five-Year Capital Program and Financing Plan includes \$60.7 billion in projected capital spending, of which \$4.1 billion would be spent off-budget (whereby bond proceeds are spent directly by public authorities, outside the Financial Plan and the Statewide Financial System).

Total spending in the proposed Capital Plan is \$4.2 billion, or 7.5 percent, higher than projected spending in the current Capital Plan (reflecting the SFY 2015-16 Enacted Budget). The difference is largely because of proposed new capital spending for transportation and housing, some of which is financed with settlement resources. At the same time, planned capital spending for higher education and K-12 education would decline from estimates within the current Capital Plan. Figure 18 compares the SFY 2015-16 Capital Plan to the proposed Plan by functional area.

<sup>10</sup> The Capital Program and Financing Plan reflects all spending from Capital Projects Funds, one of the four fund groups that make up All Governmental Funds, including local assistance disbursements made from Capital Projects Funds such as payments to local governments to help finance their capital programs. The Capital Plan also includes capital spending that is considered “off-budget” in that it represents direct spending by public authorities from bond proceeds.

**Figure 18**

**Capital Program and Financing Plan by Functional Area**  
**SFY 2015-16 through SFY 2019-20 Compared to SFY 2016-17 through SFY 2020-21**  
(in thousands of dollars)

<b>Functional Area</b>	<b>SFY 2015-16 Through SFY 2019-20</b>	<b>SFY 2016-17 Through SFY 2020-21</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Transportation	22,774,801	24,252,713	1,477,912	6.5%
Education	2,304,751	2,054,419	(250,332)	-10.9%
Higher Education	8,257,273	7,516,517	(740,756)	-9.0%
Economic Development/ Government Oversight	5,996,690	6,447,448	450,758	7.5%
Mental Hygiene	2,251,172	2,245,862	(5,310)	-0.2%
Parks and Environment	3,769,362	4,214,362	445,000	11.8%
Health	2,150,500	2,791,445	640,945	29.8%
Social Welfare	956,794	2,596,265	1,639,471	171.4%
Public Protection	1,662,224	1,892,250	230,026	13.8%
General Government	761,913	856,918	95,005	12.5%
Other	5,615,910	5,844,261	228,351	4.1%
<b>Total</b>	<b>56,501,390</b>	<b>60,712,460</b>	<b>4,211,070</b>	<b>7.5%</b>

Source: Division of the Budget

As shown in Figure 19, the largest dollar increase in sources of capital spending is public authority borrowing, which is estimated to increase by more than \$1.8 billion. Federal funds represent the largest percentage increase. State pay-as-you-go (PAYGO) funding from settlement funds, dedicated taxes and other sources is also estimated to increase, while spending from State General Obligation bonds would decline from the level in the current Capital Plan. Figure 19 also shows a comparison between the current five-year Capital Plan and the proposed Capital Plan by financing source.

**Figure 19**

**Capital Program and Financing Plans by Financing Source**  
**SFY 2015-16 through SFY 2019-20 Compared to SFY 2016-17 through SFY 2020-21**  
(in thousands of dollars)

<b>Financing Source</b>	<b>SFY 2015-16 Through SFY 2019-20</b>	<b>SFY 2016-17 Through SFY 2020-21</b>	<b>Dollar Change</b>	<b>Percent Change</b>
State Pay-as-You-Go (PAYGO)	17,476,094	18,830,391	1,354,297	7.7%
Federal PAYGO	6,856,403	8,323,229	1,466,826	21.4%
General Obligation Bonds	2,671,041	2,186,760	(484,281)	-18.1%
Authority Bonds	29,497,852	31,372,080	1,874,228	6.4%
<b>Total Capital Funding</b>	<b>56,501,390</b>	<b>60,712,460</b>	<b>4,211,070</b>	<b>7.5%</b>
Less Federal Funding	(6,856,403)	(8,323,229)	(1,466,826)	21.4%
<b>State Capital Funding</b>	<b>49,644,987</b>	<b>52,389,231</b>	<b>2,744,244</b>	<b>5.5%</b>

Source: Division of the Budget

On average, capital spending is projected to be approximately \$12.1 billion annually in each year of the Plan, with a low of \$11.2 billion in SFY 2020-21 and a high of \$12.8 billion in SFY 2017-18.

The Capital Plan includes \$950 million in spending for “core capital investments,” which is approximately \$137 million lower than the amount included in the current Capital Plan. Although there are no appropriations or bonding authorizations in the Executive Budget for this purpose, the Plan includes anticipated future appropriations totaling \$1.9 billion. According to DOB, this planned spending through the issuance of new bonds is counted under projected debt caps, providing a level of cushion for future debt needs. Appendix B illustrates the differences between annual spending anticipated in the proposed Capital Plan and the current Capital Plan.

### Financing Sources

Figure 20 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years. The new proposed Thruway funding and all other proposed and existing appropriations from the DIIF are funded with monetary settlement revenue received in SFY 2014-15 and SFY 2015-16, and are considered State PAYGO financing.

Over the life of the Capital Plan, DOB projects that PAYGO financing will average approximately 35.9 percent of total State-funded capital financing (not including federal funding). PAYGO financing would represent just less than 39 percent in SFY 2016-17. Both figures are higher than the ten year average of 32.4 percent. If the \$6.4 billion in enacted and proposed spending funded with settlement revenue were not included, the percentage of State-funded capital spending financed with PAYGO resources would decline to 31 percent.

**Figure 20**

**Financing Sources – SFY 2015-16 through SFY 2020-21**  
(in thousands of dollars)

	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	Average 2016-17 through 2020-21
State Pay-as-You-Go (PAYGO)	3,349,617	3,982,065	4,164,128	3,979,973	3,567,749	3,136,476	3,766,078
Federal PAYGO	2,146,237	1,626,560	1,634,034	1,642,131	1,710,426	1,710,078	1,664,646
General Obligation Bonds	474,106	599,487	649,531	488,536	414,672	34,534	437,352
Authority Bonds	4,799,066	5,648,488	6,308,342	6,502,979	6,569,863	6,342,408	6,274,416
<b>Total Capital Funding</b>	<b>10,769,026</b>	<b>11,856,600</b>	<b>12,756,035</b>	<b>12,613,619</b>	<b>12,262,710</b>	<b>11,223,496</b>	<b>12,142,492</b>
Less Federal Funding	(2,146,237)	(1,626,560)	(1,634,034)	(1,642,131)	(1,710,426)	(1,710,078)	(1,664,646)
<b>State Capital Funding</b>	<b>8,622,789</b>	<b>10,230,040</b>	<b>11,122,001</b>	<b>10,971,488</b>	<b>10,552,284</b>	<b>9,513,418</b>	<b>10,477,846</b>
<b>State PAYGO as Percentage of State Funding</b>	<b>38.85%</b>	<b>38.93%</b>	<b>37.44%</b>	<b>36.28%</b>	<b>33.81%</b>	<b>32.97%</b>	<b>35.9%</b>
<b>GO as Percentage of State Funding</b>	<b>5.50%</b>	<b>5.86%</b>	<b>5.84%</b>	<b>4.45%</b>	<b>3.93%</b>	<b>0.36%</b>	<b>4.1%</b>
<b>Authority Bonds as Percentage of State Funding</b>	<b>55.66%</b>	<b>55.21%</b>	<b>56.72%</b>	<b>59.27%</b>	<b>62.26%</b>	<b>66.67%</b>	<b>60.0%</b>

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

Figure 21 illustrates how spending is planned to be distributed across various functional areas, as defined by DOB. According to DOB, the decline in transportation spending from SFY 2015-16 to SFY 2016-17 is due to the timing of federally funded projects.

Projected disbursements from certain new and existing appropriations from the DIIF, totaling \$4.3 billion, do not appear in their specific areas, with the exception of certain housing and certain economic development spending. For example, the \$1.985 billion in spending for the Thruway Authority from the DIIF is included within the category entitled “Other” and not within the Transportation category. Other examples include \$50 million for homeless housing and \$355 million for hospitals and hospital systems.

**Figure 21**  
**Capital Spending by Functional Area – SFY 2015-16 through SFY 2020-21**  
(in thousands of dollars)

	SFY 2015-16	Proposed Capital Plan - SFY 2016-17 through SFY 2020-21					Average 2016-17 through 2020-21	Total Dollar 2016-17 through 2020-21	Total Percentage 2016-17 through 2020-21
		SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21			
Transportation	5,357,524	4,871,682	4,761,342	4,911,255	5,072,238	4,636,196	4,850,543	24,252,713	39.9%
Education	267,732	411,923	678,947	508,749	437,400	17,400	410,884	2,054,419	3.4%
Higher Education	1,491,691	1,535,999	1,530,399	1,495,899	1,489,619	1,464,601	1,503,303	7,516,517	12.4%
Economic Development/ Government Oversight	713,308	1,119,799	1,318,648	1,328,021	1,381,082	1,299,898	1,289,490	6,447,448	10.6%
Mental Hygiene	437,638	470,232	482,646	430,328	431,328	431,328	449,172	2,245,862	3.7%
Parks and Environment	704,290	792,401	894,203	911,052	851,853	764,853	842,872	4,214,362	6.9%
Health	144,500	285,289	660,289	865,289	425,289	555,289	558,289	2,791,445	4.6%
Social Welfare	160,562	273,558	440,942	648,273	666,123	567,369	519,253	2,596,265	4.3%
Public Protection	447,033	450,436	398,949	355,717	346,074	341,074	378,450	1,892,250	3.1%
General Government	158,678	295,133	229,836	144,583	108,683	78,683	171,384	856,918	1.4%
Other	886,070	1,350,148	1,359,834	1,014,453	1,053,021	1,066,805	1,168,852	5,844,261	9.6%
<b>Total</b>	<b>10,769,026</b>	<b>11,856,600</b>	<b>12,756,035</b>	<b>12,613,619</b>	<b>12,262,710</b>	<b>11,223,496</b>	<b>12,142,492</b>	<b>60,712,460</b>	<b>100.0%</b>

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

## ***New Debt Authorizations***

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by approximately \$5.6 billion, or 4.5 percent, over existing State-Supported bond cap authorizations. The proposed increases by program area, including borrowing for new capital initiatives and ongoing capital programs, are:

- Housing Programs \$1.544 billion
- Transportation Initiatives \$1.035 billion
- Economic Development \$765 million
- Local Highway Projects \$488.4 million
- SUNY Educational Facilities \$375 million
- Mental Health Services Facilities \$299 million
- Correctional Facilities \$261.6 million
- Environmental Infrastructure \$232.5 million
- CUNY Senior and Community Colleges \$155.7 million
- SUNY/CUNY 2020 \$110 million
- Information Technology \$95.7 million
- State Office Buildings/Facilities \$39.8 million
- Youth Facilities \$35.85 million

- Water Pollution Control \$35 million
- Higher Education Capital Matching Grants \$30 million
- SUNY Community Colleges \$23 million
- Library Facilities \$14 million
- State Police Capital Facilities \$12 million.

The Executive Budget also includes several other new debt and financing authorizations that, absent additional details regarding how the specific transactions related to such authorizations would be structured, are not clearly identifiable as State-Supported debt or other types of borrowing or financing arrangements. Such lack of specificity leaves questions regarding how these proposals would ultimately impact the State's debt burden. There are also questions about how or if these proposals will be accounted for in the State's budget, Financial Plan, Capital Plan, Statewide Financial System and State financial reports. These proposals include:

- Increasing the MTA's bonding authorization to \$55.497 billion, up \$13.62 billion over the current level, to finance MTA capital projects that are approved by the MTA Capital Program Review Board. Although these bonds could be repaid with MTA revenues, the proposal could also be used as a mechanism to fulfill all or a portion of the State's commitment of resources toward the MTA's 2015-2019 Capital Program if the bonds are repaid with State resources.
- Authority for the MTA, in the event it exhausts currently available sources of funding, and with the approval of the Director of the Budget, to issue anticipation notes or other obligations, including amounts to fund capitalized interest without limitation, secured solely by the commitment of additional State resources related to the MTA's 2015-2019 Capital Program.
- Broad new authorization for the MTA and the NYCTA and their subsidiaries to engage in joint arrangements, using P3s and other methods, including authorization for financing all or any part of such projects (without a specific bond cap), with any other public or private entity. Although the memo in support indicates that this provision would assist the MTA with its 2015-2019 Capital Program, the proposed language appears to have potential consequences for public entities other than the MTA. For more information on this proposal, see the Transparency, Accountability, and Oversight Issues section and the Public Authorities section of this report.

## ***Debt Management and New Initiatives***

The Executive Budget Financial Plan anticipates savings of \$439 million to the General Fund in SFY 2016-17 related to capital projects and debt management initiatives. The Financial Plan indicates that savings are anticipated to be derived through a number of actions, including but not limited to debt service prepayments, continuing to sell at least 50 percent of new bond issuances through a competitive sale process, refunding higher cost debt as market conditions allow, attaining efficiencies from consolidating bond sales, and revisions in spending estimates and bond sale assumptions. Competitive bond sales provide increased transparency in the bond sale process and generally result in lower borrowing costs than negotiated sales.

The Budget includes an authorization to transfer \$500 million into the Debt Reduction Reserve Fund, although the Financial Plan and the Capital Plan do not include such a transfer or spending from that Fund. Instead, the Financial Plan again designates \$500 million in General Fund balance as available for “debt management.” However, without an actual deposit to the Debt Reduction Reserve Fund, the funds would remain unrestricted and available for any use.

*New York: Built to Lead Program - \$100 billion Capital Investment*

In his 2016 State of the State and Budget Address the Governor referenced the New York: Built to Lead Program, which is characterized as a \$100 billion investment in “transformative” projects statewide. While budget bills do not refer to or make appropriations specifically from the New York: Built to Lead program, the press release accompanying the State of the State Address and the Executive Budget links to a table of major infrastructure items which total \$100.2 billion.<sup>11</sup> The table indicates that these funds are assumed to be spent “roughly over a five year period,” and provides a breakout of funding sources indicating that \$29.1 billion, or approximately 29 percent, of the \$100.2 billion is State-funded, as shown in Figure 22. Certain projects included on the list were previously fully or partially funded in the prior budget and / or multiyear capital plans.

**Figure 22**

**Built to Lead Program Funding Sources**  
(in billions of dollars)

	Dollar	Percent of Total
State Funds	29.1	29.1%
Federal Funds	24.8	24.7%
MTA/Port Authority/Other Authorities	28.4	28.4%
Local Funds	2.5	2.5%
Private Funds	15.4	15.4%
<b>Total</b>	<b>100.2</b>	<b>100.0%</b>

Source: New York State Governor’s Office

The collection of projects in the table does not appear to align with the proposed Five-Year Capital Program and Financing Plan, which includes disbursements totaling \$60.7 billion (for new and previously approved capital projects) or to the Ten-Year State of New York Statewide Capital Plan (New York Works Plan). The New York Works Task Force released its first (and only) New York Works Plan on June 6, 2013, totaling \$174.4 billion.<sup>12</sup> Major projects on the list that have no clear connection to the State’s budget or its Capital Plan include \$20 billion for the Gateway Tunnel Project, which is to be developed under the aegis of the Port Authority of New York and New Jersey with a combination of its resources and federal aid.

<sup>11</sup> To see this table, visit [https://www.governor.ny.gov/sites/governor.ny.gov/files/atoms/files/Capital\\_Investment\\_Menu\\_0.pdf](https://www.governor.ny.gov/sites/governor.ny.gov/files/atoms/files/Capital_Investment_Menu_0.pdf).

<sup>12</sup> The New York Works Plan, which covered a 10-year period from SFY 2013-14 through SFY 2022-23, expanded the scope of capital planning by providing high-level summary information from 47 State agencies and public authorities, although it did not include projections for the New NY Bridge or spending associated with various repairs and upgrades as a result of Superstorm Sandy.

## MTA Capital Program

Proposed budget-related legislation accompanying the Executive Budget includes a proposal entitled the Metropolitan Transportation Authority (MTA) Capital Financing Act of 2016. This proposal is intended to commit the State and the City of New York to fund, over a multiyear period, \$10.8 billion in capital costs related to the MTA's 2015-2019 Capital Program. The legislation, which would take effect more than a year into the MTA's five-year capital planning cycle, expresses a "commitment" related to the State share. This would comprise \$1 billion in reappropriations initially included in the SFY 2015-16 Enacted Budget and other, unspecified funds sufficient to support \$7.3 billion of additional MTA capital costs. New York City's share of the overall commitment is just under \$2.5 billion.

The proposal indicates that the State resources would be available after all other MTA resources planned for the Capital Program, not including the additional State and City funds, are exhausted or not available, with the State fulfilling its commitment no later than SFY 2025-26 or by the completion of the MTA capital program. The proposal provides an anticipated distribution schedule for the additional \$7.3 billion of State resources as shown in Figure 23.

**Figure 23**

**Anticipated Distribution of State Resources for MTA 2015-2019 Capital Plan**  
(in billions of dollars)

	<b>Amount</b>
First year after planned MTA resources are exhausted	1.5
Second year after planned MTA resources are exhausted	2.6
Third year after planned MTA resources are exhausted	1.8
Fourth year after planned MTA resources are exhausted	1.4
<b>Total</b>	<b>7.3</b>

Source: SFY 2016-17 Executive Budget legislation, A.9008/S.6408 Part A, Section 2(a)

The proposed language indicates that State funding amounts would be subject to appropriation within applicable annual State budgets. Despite the proposed statutory "commitment" of State resources sufficient for the MTA to pay \$8.3 billion in capital costs, the Executive Budget advances no specific plan to address how the bulk of this commitment will be financed (for example, through State PAYGO, State-Supported bonds, dedicated revenue or financing mechanisms undertaken by the MTA, or public-private partnerships). Only the \$1 billion of reappropriations are included as projected disbursements to support the State commitment to the MTA 2015-2019 Capital Program.

No new appropriations are included to support the remaining \$7.3 billion State share. DOB indicates that the Capital Plan includes \$51 million in SFY 2020-21 (although this is not specifically outlined in the Plan). Given the lack of specificity regarding how and when the State's commitment will be financed, it is difficult to evaluate how this commitment of State

resources will impact the State's ability to finance other critical capital needs and how it will impact the Financial Plan and State debt outstanding, debt service and debt capacity.

#### *Monetary Settlements and Capital Projects Fund Appropriations*

The Executive Budget proposes \$1.96 billion in Capital Projects Fund appropriations to be financed from monetary settlements received by the State, in addition to those appropriated in the SFY 2015-16 Enacted Budget. Proposed new appropriations include an additional \$120 million from the Environmental Protection Fund (EPF) and \$1.84 billion from the DIIF. The latter represents an increase of approximately 40 percent over the \$4.55 billion that was appropriated from the DIIF in the current year's Budget. Proposed new authorizations include:

- \$900 million for transportation (\$700 million for the Thruway, \$200 million for DOT);
- \$640 million for homeless housing programs;
- \$255 million for economic development programs;
- \$25 million for initiatives aimed at reducing poverty; and
- \$20 million to promote municipal consolidation.

See the Transparency, Accountability, and Oversight Issues section of this report for further discussion of the DIIF appropriations and reappropriations.

#### *Private Activity Bond Cap*

Article VII language accompanying the Executive Budget includes a proposal to make permanent certain provisions related to the State's allocation of federally authorized private activity bond capacity among State and local issuers. The language also adds a provision to require local issuers, including New York City, to receive approval from the Public Authorities Control Board before issuing private activity bonds.

In addition, the proposal revises the current requirements related to reallocation by a local political subdivision of all or a portion of the private activity cap previously allocated to a local agency to either itself or to another local agency. The new provision would require that the reallocation must receive prior approval by the Commissioner of the State Department of Economic Development. By contrast, current law requires only that the Commissioner be notified of such change. Chapter 49 of the Laws of 2014, which provides the current authorization for the allocation of the private activity bond capacity until July 1, 2016, would be repealed.

### ***Design-Build and Public-Private Partnerships***

The Infrastructure Investment Act passed by the Legislature in December 2011 authorized the Thruway Authority, the New York State Bridge Authority, the Department of Transportation, the Office of Parks, Recreation and Historic Preservation and the Department of Environmental Conservation to use design-build contracts and alternative methods of procurement, including "best value," "cost plus," and "lump sum" awards for construction contracts, as well as incentive clauses, for certain infrastructure projects. The authorization expired in December 2014, and was re-established, with modifications, in the SFY 2015-16 Enacted Budget. The new two-year authorization included language requiring that authorized entities may use design-build in consultation with local labor organizations and the



construction industry, and requiring UDC to submit a report to the Governor and legislative leaders no later than June 2016 with various data regarding the usage of design-build.

The Executive Budget proposes the Transformational Economic Development Infrastructure and Revitalization Projects Act to provide design-build authority for UDC, the New York Convention Center Development Corporation and their subsidiaries related to the proposed Javits expansion, the Empire Station Complex, the James A. Farley Building Replacement and Penn Station New York Redevelopment projects. This proposal restricts contract awards to "best value," which is defined in the same way as in the State's existing design-build law, and requires the same two-step process (a Request for Qualifications followed by a Request for Proposals only given to qualified entities). The proposal also notwithstanding certain General Municipal Law provisions related to competitive bidding and awarding to lowest cost, provides exemptions from certain Education Law sanctions related to engineering and architectural services performed by licensed professionals, and requires a Project Labor Agreement to be "performed" in order for this design-build authorization to be used.

The Budget would authorize the MTA and the NYC Transit Authority, and their subsidiaries, to enter into "joint arrangements" on such terms and conditions as they deem necessary or appropriate using, among other methods, public-private partnerships (P3s) for a broad range of activities. Among other provisions, the proposal could allow public or private entities to have extensive powers over transportation and transportation facilities, including the establishment, levy and collection of fares, user fees, tolls, rentals, rates or other charges.

The proposed authorization is extensive. Newly authorized joint arrangements could be in the form of a contract, concession, license, lease, alliance, joint venture, corporation, including a limited liability corporation, a partnership, or other arrangement in support of, associated with, derivative from, or incidental to the planning, acquisition, design, establishment, construction, rehabilitation, reconstruction, improvement, extension, renewal, repair, operation, maintenance, development or financing of transportation in or upon one or more transportation facilities located in whole or in part within the Metropolitan Commuter Transportation District.

The term transportation facility is broadly defined already in the MTA's enabling act to mean: "any transit, railroad, omnibus, marine or aviation facility and any person, firm, partnership, association, or corporation which owns, leases or operates any such facility or any other facility used for service in the transportation of passengers, United States mail or personal property as a common carrier for hire and any portion thereof and the rights, leaseholds or other interest therein together with routes, tracks, extensions, connections, parking lots, garages, warehouses, yards, storage yards, maintenance and repair shops, terminals, stations and other related facilities thereof, the devices, appurtenances, and equipment thereof and power plants and other instrumentalities used or useful therefor or in connection therewith." The proposal broadens this term to also include agreements related to intermodal or shared facilities, the distribution of fare and toll payment media and electronic payment devices, or the collection of fares, tolls and other charges.

The language broadly defines "transportation purpose" as a purpose that supports, directly or indirectly, the missions of the authorities, including the production of revenues for the costs and expenses of all transportation facilities. Provisions pertaining to the imposition and collection of revenue, including fares and tolls, are modified to include taxes and assessments and permit the use of these revenues for the joint arrangement. The 30-day amendments

clarify that the MTA is not being given new authority to charge taxes or assessments. However, new language extends to the "joint arrangement" the taxing power of entities (such as municipalities) that enter into a joint arrangement. The joint arrangement "may use such entity's power to establish, levy and collect taxes and assessments for the benefit of such joint arrangement."

Other provisions would provide an exemption from several articles of Environmental Conservation Law, including those related to environmental quality review, air pollution control, freshwater wetlands and tidal wetlands, in regard to the acquisition or condemnation of real property. In addition, the transfer of personal or real property pursuant to a joint arrangement is permitted without conforming to the requirements of Public Authorities Law § 2897, which includes provisions for disposal of property by competitive bidding, as well as parameters governing instances where a public authority seeks to transfer property by negotiation or at less than fair market value. Further, the language would permit the use of the authority's eminent domain powers to acquire property for the joint arrangement.

The proposal includes language to permit the authorities to issue bonds or notes to finance all or any part of the costs of any joint arrangement.

The proposal would also amend General Municipal Law to permit certain municipal corporations to finance mass transportation projects, in addition to current permitted actions such as acquisition, construction, maintenance and operation, among others. In addition, provisions would authorize municipal corporations to generate revenue using several methods and further, exempting them from the tax limit and the tax cap, including:

- Fares, tolls, rentals, rates, taxes, assessments, charges and other fees.
- Designating a portion of revenues through tax increment financing, special transportation assessment, transportation utility fee, land value taxation or some combination thereof.

Provisions also provide for unsolicited proposals and the criteria for entering into a joint arrangement through an unsolicited proposal, which include that the estimated cost and delivery of transportation service is "reasonable," further that the financing of the proposed joint arrangement is "feasible." There are no clarifications of what should constitute "reasonable" and "feasible." The contents of any proposals would also be exempted from the Freedom of Information Law (FOIL).

The proposal includes language which states that if an entity materially defaults on its obligations under a joint arrangement, the MTA is authorized to acquire all or any portion of any such arrangement with any damages suffered as a result of the default being deducted from the compensation to acquire the joint arrangement.

In short, the proposed authorization could result in an extraordinary degree of responsibility for and control over public services and assets being assigned to other public or private entities, with little assurance that the public interest would be protected.

# Program Area Highlights

## *Education*

The SFY 2016-17 Executive Budget proposes increasing “school aid” (representing the bulk of total education aid) from \$23.2 billion to \$24.2 billion in school year (SY) 2016-17. The increase of \$991 million, or 4.3 percent, exceeds the 3.9 percent allowed under the statutory school aid cap passed in the SFY 2011-12 Enacted Budget. Enacted budgets in the last three fiscal years have all authorized an increase in spending on school aid above the growth in personal income that would otherwise be used to calculate the school year increase.

On a State fiscal year basis, projected school aid spending would total \$24.0 billion, an increase of \$701 million, or 3.0 percent, over SFY 2015-16 in State Operating Funds. The proposed school aid increases are allocated as follows:

- \$407 million to support growth in various expense-driven aid programs and categorical grants, such as transportation, textbooks and school construction.
- \$266 million in Foundation Aid, for a total of \$16.1 billion in SY 2016-17. Although the Enacted Budgets for the last three years have included increases in this area, this is the first Foundation Aid increase proposed by the Executive since funding was first frozen in SFY 2009-10.
- \$189 million in Gap Elimination Adjustment (GEA) restoration, for a remaining net GEA of \$244.2 million in SY 2016-17. (The GEA reduces aid from levels otherwise determined by statute, so a restoration of GEA is an increase in total aid.) The Executive proposes a formula that would restore at least 30 percent of each district’s remaining GEA, and eliminate the GEA entirely in 200 high-need school districts. The proposal would eliminate the GEA statewide in SY 2017-18.
- \$100 million in new Community Schools Aid, meant to transform school buildings into community hubs that would provide co-located or school-linked academic, health, mental health, nutrition, counseling, legal and other services to students and their families. Although competitive grants have been appropriated for this purpose before, this is the first time allocations of such aid have been made on a district-by-district basis and included as part of school aid.
- \$28 million in competitive grants, including:
  - \$22 million to expand pre-kindergarten programs for three-year olds.
  - \$4 million to continue to support early college high school and career and technical educational programs. This is in addition to the \$12 million that is reappropriated from prior year budgets that provided grants for this program as well as the P-TECH (Pathways in Technology and Early College High School) program.
  - \$2 million for the QUALITYstarsNY program that assesses, improves and communicates the level of quality in early education and child care setting programs throughout the State. In addition, \$3 million was reappropriated from the SFY 2015-16 Enacted Budget.

Excluding building aids, changes in proposed distributions of school aid to particular districts would range from an 11.6 percent decrease to an 18.1 percent increase, with an overall statewide average increase of 3.4 percent. Other education funds in the SFY 2016-17 Executive Budget, separate from school aid, include:

- \$2 billion from the Smart Schools Bond Act, passed by voters in November 2014, which, according to the FY 2017 Capital Program and Financing Plan, will provide \$200 million to school districts in SFY 2015-16, and the remaining \$1.8 billion over the ensuing five State fiscal years. The amount is allocated to eligible districts according to a formula based on a district's share of total formula-based school aid in SY 2013-14, with some exclusions. It can be used to acquire educational technology equipment and facilities, install high-speed broadband or wireless internet connectivity for schools and communities, construct pre-kindergarten classroom space, provide instructional space to replace transportable classroom units and install high-tech security features in school buildings and on school campuses.
- \$340 million in funding for the Statewide Universal Full-Day Pre-Kindergarten program, \$300 million of which is designated for New York City, the same as in SY 2015-16.

The Budget proposes to establish a new Empire State Pre-Kindergarten grant program, run by a three-member grant board. The board would be in charge of awarding grants to all school districts seeking to expand existing pre-kindergarten programs or establish new pre-kindergarten placements. Funding for these awards could come from the \$340 million for Statewide Universal Full-Day Pre-Kindergarten, the \$22 million in new three-year-old pre-kindergarten funding proposed by the Executive, \$25 million of reappropriated grant money from SFY 2013-14, and \$30 million reappropriated from SFY 2015-16 for pre-kindergarten expansion intended for both three and four-year-olds.

The Budget also proposes a three-year extension, until June 30, 2019, of the New York City Mayor's governing authority over the City's public school system. In the SFY 2015-16 Enacted Budget, the Mayor received a one-year extension that is set to expire on June 30, 2016.

The Executive proposes new tax credits related to education that total \$150 million:

- Education Scholarship and Program Tax Credit: This would be a nonrefundable income tax credit of up to a maximum of \$1 million annually, for donations that support public school educational programs or scholarships for low- and middle-income students to attend non-public schools or public schools that are outside their districts.
- Family Choice Education Tax Credit: Aimed at low- and middle-income parents (those who earn \$60,000 or less), this would be a \$500 refundable tax credit for private school tuition.
- Instructional Materials and Supplies Credit: Teachers in public, private or charter schools would be eligible for a refundable credit of up to \$200 to reimburse them for out-of-pocket costs on instructional materials and classroom supplies. This credit is capped at \$10 million and would only be available on a first-come, first-served basis.

Once again, the Executive Budget proposes that a local school district, an approved private school or a board of cooperative educational services (BOCES) be given the option to request

a waiver allowing for flexibility in implementing innovative special education programs. This waiver request was included in the Executive Budget in SFY 2015-16 but was not included in the SFY 2015-16 Enacted Budget.

The Executive Budget also contains several proposals that would govern school safety. These include additional training on designing safety plans, the establishment of a chief emergency officer in each school district, replacing some fire drills with preparation for other types of emergency situations (i.e., lock-down drills), and permitting the payment of State aid that would otherwise be withheld from a school district that had under 180 days of classes due to a school closure resulting from an emergency situation.

The Budget contains language withholding school aid increases unless districts have approved annual teacher and principal evaluation systems in place by September 2016 that fully implement the standards and procedures mandated by State statute.

The Executive Budget proposes several charter school initiatives as follows:

- \$27.4 million in grants to charter schools statewide. Each charter school will be allocated funding based on the number of students enrolled in the charter school. These grants do not come with any requirements and can be used for any purpose designated by the charter school. In the SFY 2015-16 Enacted Budget, \$25 million was provided “for additional grants in aid to certain school districts” that could be allocated by the majority leader of the Senate upon approval of a resolution passed by the Senate. The Senate voted for the entire \$25 million to be allocated to charter schools. The \$27.4 million would continue that grant at the same amount per pupil, with an assumption that the number of charter school pupils will increase in SY 2016-17.
- Unfreezing charter school tuition rates exclusively for charter schools located in New York City for SY 2016-17. Before SY 2014-15, charter school tuition paid by a school district was frozen at SY 2010-11 rates. From SY 2014-15 forward, charter school tuition increases paid by a school district have been offset by the State through a “supplemental basic tuition” program that statutorily rises with each school year. For SY 2016-17, the supplemental basic tuition rate is \$500 per pupil. However, the Executive proposes that New York City would potentially be liable to pay charter schools for tuition that is above and beyond what the City is given by the State in supplemental basic tuition.
- Making permanent the practice under which New York City makes charter facilities aid payments to charter schools for their rental costs to operate in privately owned spaces.

The 30-day amendments modify certain appropriations to reflect revised estimates for Lottery and Video Lottery Terminal (VLT) revenue. Total appropriations are unchanged.

## **STAR**

The Executive Budget includes six proposals to amend the School Tax Relief (STAR) program, two of which were proposed in the SFY 2015-16 Executive Budget but not included in the Enacted Budget. The first of these two proposals is the conversion of the STAR exemption into a refundable personal income tax credit. First-time homebuyers and existing

homeowners who move into a new home would be eligible for the new credit. All other STAR-eligible homeowners would have the option of continuing to receive the existing exemption as long as they own their current home, or converting the benefit to the proposed tax credit.

Under this proposal, the STAR program would transition from its current structure, in which taxpayers' school bills are reduced by exemptions when they receive the bills, to one in which taxpayers would pay the entire school bill and recoup the STAR benefit in the following year on their State tax return. This transition, which could influence school district residents' perceptions of the cost of local school taxes by removing the STAR benefit from the tax bill they pay directly, would likely take several decades.

The Budget also proposes to convert the current New York City STAR personal income tax credit into a refundable New York State personal income tax credit. Currently, both homeowners and renters with incomes less than \$250,000 are able to claim a STAR Credit on their City tax returns, equal to \$62.50 for individuals and \$125 for married taxpayers. Similar to the STAR property-tax exemption where the State reimburses the school districts for lost property tax revenues associated with the exemption, the State reimburses New York City for the total amount of the STAR credit claimed by City personal income tax payers. The shift of both these programs would move approximately \$185 million in SFY 2016-17 STAR benefits from the spending side of the State ledger to the revenue side.

The second proposal, which was also included in the SFY 2015-16 Executive Budget, is a provision to cap homeowners' SFY 2016-17 STAR benefits at the SFY 2015-16 levels, eliminating an existing growth factor that is capped at 2 percent annually. This proposal would reduce STAR costs by \$56 million. The remaining STAR proposals, which are projected to have little or no fiscal impact, include:

- making the income verification program for an Enhanced STAR benefit mandatory;
- allowing for the late filing of renewal applications for Enhanced STAR due to hardship; and
- allowing the Tax Department to make direct payments of STAR savings to eligible taxpayers.

Overall STAR disbursements are projected at \$3.2 billion, down \$109 million or 3.3 percent from the current fiscal year.

## ***Higher Education***

The Executive Budget projects All Funds spending of \$7.9 billion for the State University of New York (SUNY), \$1.2 billion for the City University of New York (CUNY), \$1.2 billion for the Higher Education Services Corporation (HESC), and \$20.4 million for other purposes, an overall decrease of 2.6 percent from estimated spending in the current State fiscal year. Proposed State Operations costs for SUNY of \$6.1 billion represent 59.4 percent of total spending. See Figure 24.

The Budget proposes a \$69 million General Fund transfer for SUNY Hospitals, 27.5 percent lower than SFY 2015-16. The Executive Budget Five-Year Capital Program and Financing Plan anticipates \$1.54 billion in disbursements for higher education capital projects in SFY 2016-17, including \$981 million for SUNY and \$535 million for CUNY.

The Executive proposes to extend the NYSUNY 2020 and NYCUNY 2020 programs for another five years, through Academic Year (AY) 2020-21. Under those programs, SUNY and CUNY may increase New York resident tuition up to \$300 per year if they identify and implement administrative cost savings, and such increases are based on inflation measures. A portion of the resulting additional tuition revenue will provide tuition credits for students eligible for the Tuition Assistance Program (TAP). Allocation of remaining additional tuition revenue will be based on plans that support investments in faculty and instruction. The 30-day amendments extend for five years the ability for SUNY to enter into certain contracts without the prior review and approval of the Office of the State Comptroller.

The extension of NYSUNY 2020 and NYCUNY 2020 would be accompanied by an increase of \$400 million in State funding over this period, including \$110 million for a new round of competitive challenge grants, and \$55 million for each university system, giving priority to plans for “improving academic outcomes, finding efficiencies, and promoting innovation and economic development.”

**Figure 24**

**All Government Funds Spending for Higher Education**  
(in millions of dollars)

	2015-16	2016-17	Change	% Change
<b>SUNY Subtotal</b>	<b>7,818</b>	<b>7,851</b>	<b>33</b>	<b>0.4%</b>
Local Assistance Grants	512	504	-9	-1.7%
State Operations	5,955	6,073	118	2.0%
General State Charges	415	393	-23	-5.5%
Capital Projects	935	882	-53	-5.7%
<b>CUNY Subtotal</b>	<b>1,551</b>	<b>1,174</b>	<b>-378</b>	<b>-24.3%</b>
Local Assistance Grants	1,426	1,047	-379	-26.6%
State Operations	84	86	2	2.3%
General State Charges	6	6	0	0.0%
Capital Projects	35	35	0	0.0%
<b>HESC Subtotal</b>	<b>1,112</b>	<b>1,170</b>	<b>58</b>	<b>5.2%</b>
Local Assistance Grants	1,053	1,111	58	5.5%
State Operations	48	48	-1	-1.1%
General State Charges	11	11	0	3.2%
<b>Other Purposes*</b>	<b>5</b>	<b>20</b>	<b>15</b>	<b>278.3%</b>
<b>Higher Education Total</b>	<b>10,487</b>	<b>10,215</b>	<b>-272</b>	<b>-2.6%</b>

Source: Division of the Budget

\* Other Purposes is made up of Higher Education – Miscellaneous and the Higher Education Facilities Matching Grants Program.

The Executive proposes that New York City pay a share of net operating and debt service expenses for CUNY senior colleges that is equal to the City’s 30 percent share of control over appointments to the CUNY Board of Trustees. In City Fiscal Year 2016-17, this amount would be \$485 million, or 30 percent of an approximately \$1.62 billion total. Within the latter, 76 percent is general operations support and fringe benefits costs, and 24 percent is debt service and capital administration.<sup>13</sup>

<sup>13</sup> The \$1.62 billion total represents net operating expenses in the upcoming academic year and debt service and capital construction administrative expenses from SFY 2014-15. The proposal by the Executive is reflected in the Aid to Localities

On a State fiscal year basis, the Financial Plan estimates an impact of \$393 million in SFY 2016-17, with the annual amount represented by the 30 percent share increasing to more than \$500 million in upcoming years. The Executive also provides an appropriation of \$240 million for retroactive salary increases at CUNY Senior Colleges, with appropriation language making the funding conditional upon the Legislature enacting, by March 31, 2016, the Executive's Article VII proposal related to New York City assuming greater financial responsibility for CUNY senior colleges.

The Executive proposes to make certain qualified undocumented immigrants eligible for TAP and other State financial assistance programs under the New York State DREAM Act. This Act would require such students to have lived in the State while attending and graduating from a New York State high school (or obtaining a GED diploma) and to attend college within five years of graduation. Students would be required to show they have begun or will begin legalization of their immigration status.

The Executive Budget further provides:

- \$18 million to SUNY and \$12 million to CUNY for investment and performance improvement funds to be allocated to each campus for implementing plans that track the progress in student access and certain other areas.
- Up to \$15 million for the Clean Energy Workforce Opportunity Program, to expand and develop clean energy education and workforce training programs, from the sale or auction of carbon dioxide emission allowances by the New York State Energy Research and Development Authority. Up to \$5 million of this amount may be made available to SUNY community colleges.
- \$3 million for a new SUNY Advanced Manufacturing Apprenticeship Program for community colleges to develop relevant classroom instruction and practical training through manufacturing apprenticeships for 2,000 students through public-private partnerships.
- \$1.8 million for child care centers at SUNY and CUNY community college campuses to support students' child care needs.
- \$1.5 million for community schools that provide support services to improve student outcomes, including \$1 million to SUNY and \$500,000 to CUNY.

The Budget further proposes to:

- extend for five years certain scholarship and loan forgiveness programs to continue financial aid opportunities and respond to approved interruptions in study or employment or in circumstances of death and extreme financial hardship.
- establish the SUNY Stony Brook Affiliation escrow fund to be composed of revenue generated through this school's activities at Southampton Hospital.

The Executive announced a phased-in minimum wage increase for SUNY employees in January 2016, projected to affect 28,000 SUNY employees, at a cost to SUNY of approximately \$28 million annually when fully phased in. Wages will increase to \$9.75 an hour beginning in February, and reach \$15 an hour on December 31, 2018 in New York City, and July 1, 2021 statewide. The Executive's minimum wage announcement applied to SUNY employees but not to CUNY employees.

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appropriation for CUNY Senior Colleges. In the SFY 2015-16 Enacted Budget, this amount is \$1.213 billion. In the Executive Budget, it is \$826.7 million, a decrease of \$386 million.



## Health/Medicaid

The Executive Budget proposes \$22.9 billion in State-funded Medicaid spending, which is \$197.3 million, or 0.9 percent, higher than in SFY 2015-16. From SFY 2015-16 through SFY 2019-20, the Budget projects State-funded Medicaid spending to grow by approximately \$2.7 billion, or 11.9 percent, to \$25.4 billion in SFY 2019-20.

Department of Health (DOH) Medicaid spending from State Funds (including the Essential Plan) would increase by \$590.6 million, or 3.3 percent, to \$18.3 billion in SFY 2016-17. Of this amount, \$17.7 billion reflects legislation enacted in 2012 to limit the year-to-year growth in DOH State Funds Medicaid services spending to the ten-year average of the medical component of the Consumer Price Index (CPI), known as the Medicaid global spending cap. For SFY 2016-17, the Executive Budget projects this growth rate to be 3.4 percent, or \$588 million. This amount reflects underlying growth in DOH State Funds Medicaid services spending of \$768 million, offset by the impact of the Executive Budget proposal to increase the City of New York's local Medicaid contribution by a net \$180 million in SFY 2016-17 (see below).

Certain DOH administrative costs are not indexed to the growth in the medical CPI, but increases in the costs of health care services, health care utilization and program enrollment are all reflected in the global spending cap. The global spending cap is also adjusted for State costs associated with the takeover of growth in local Medicaid costs, the assumption of local Medicaid administration responsibilities and the management of the Essential Plan, as well as additional federal Medicaid funding available under the federal Affordable Care Act (ACA). The global spending cap excludes State payments not appropriated within DOH, as well as most services provided at facilities of the Office of Mental Health (OMH), the Office for People With Developmental Disabilities (OPWDD), and the Office of Alcoholism and Substance Abuse Services (OASAS).

The Executive Budget increases State and federal (All Funds) Medicaid spending by \$265.9 million, or 0.5 percent, to \$55.3 billion in SFY 2016-17; most of this increase is due to higher State costs for managing the Essential Plan. Total Medicaid spending, including local Medicaid costs, is projected to equal \$63.7 billion in SFY 2016-17, a decrease of \$100.5 million or 0.2 percent from SFY 2015-16, as shown in Figure 25.

**Figure 25**

### Total Medicaid Disbursement Estimates (in millions of dollars)

	2015-16	2016-17	2017-18	2018-19	2019-20
Department of Health	17,610	17,954	18,402	19,013	19,595
Mental Hygiene	4,816	4,421	4,808	5,054	5,248
Foster Care	89	90	92	92	94
Education	50	50	50	50	50
Essential Plan	130	377	384	395	406
<b>State Share Total</b>	<b>22,695</b>	<b>22,892</b>	<b>23,736</b>	<b>24,604</b>	<b>25,393</b>
Federal Share	32,332	32,400	33,778	34,546	35,372
Local Share	8,759	8,393	8,667	8,722	8,769
<b>Total Medicaid Spending</b>	<b>63,786</b>	<b>63,685</b>	<b>66,181</b>	<b>67,872</b>	<b>69,534</b>

Source: Division of the Budget

The Essential Plan, authorized by the ACA, is a health insurance program for individuals with incomes between 138 and 200 percent of the poverty level who are ineligible for Medicaid or Child Health Plus and do not have access to affordable employer coverage. It also covers individuals with incomes below 138 percent of poverty who are ineligible for federal Medicaid subsidies due to immigration status.

In April 2015, New York began shifting about 260,000 legally residing immigrants from Medicaid coverage funded solely by the State to the Essential Plan and, starting in January 2016, moved another 181,000 New Yorkers who enrolled or were eligible for coverage in the State's health insurance exchange, New York State of Health, to the Essential Plan. State savings from shifting these individuals to the Essential Plan are projected to total \$703 million in SFY 2015-16, an increase of \$58 million over previous estimates due to updated rate and enrollment projections.

In SFY 2016-17, the State expects Essential Plan enrollment to exceed 472,000, an increase of nearly 32,000 individuals, or 7.2 percent, over SFY 2015-16. The Executive Budget provides \$484 million to operate the State's health insurance exchange in SFY 2016-17, an increase of \$95.6 million, or 24.6 percent, over SFY 2015-16. This increase reflects the costs of enrolling additional New Yorkers in qualified health plans offered on the exchange itself, as well as Medicaid, the Essential Plan and the Child Health Plus insurance program, all of which use the exchange for enrollment determinations.

The Budget proposes to extend the global spending cap on State-funded DOH Medicaid spending for an additional year, through SFY 2017-18. The Executive Budget also proposes a one-year extension of the State Health Commissioner's authority to develop and implement a plan to reduce State DOH Medicaid expenditures if they are projected to exceed the spending cap in either SFY 2016-17 or SFY 2017-18. This authority for the Commissioner was first enacted in SFY 2011-12 and has not been exercised to date.

The Medicaid global spending cap for SFY 2015-16 is \$17.7 billion. Through November 2015 (the latest available monthly Medicaid global spending cap report on the DOH website), DOH State Funds Medicaid spending was \$35 million or 0.3 percent over projections. This is only the third time since July 2011 (the first two times were September and October 2015, when spending was \$51 million and \$23 million, respectively, over projections) that actual expenditures have exceeded estimates.

Completing a multi-year initiative, the State assumed all annual growth in the local share of Medicaid spending for all counties and New York City, effectively capping their contribution to the Medicaid program starting in 2015. The Executive proposes to modify the City's local Medicaid contribution by reinstating the City's contribution to the annual growth in Medicaid costs. This would increase the City's net local share by \$180 million or 3.6 percent in SFY 2016-17, \$296 million or 5.8 percent (to \$476 million) in SFY 2017-18 and \$119 million or 2 percent (to \$595 million) in SFY 2018-19. The City currently spends about \$5.6 billion on Medicaid claims.

The Budget also includes appropriation language that would reduce State reimbursement of the City's Medicaid administration costs by \$180 million in SFY 2016-17 and \$337.6 million in SFY 2017-18 if the Legislature does not enact legislation to require an increase in the City's local Medicaid contribution identical to the Article VII proposal submitted by the Governor.

The Executive Budget includes various State Medicaid spending and savings actions, which represent the sixth year of Medicaid Redesign Team (MRT) recommendations that are described as intended to contain Medicaid spending and improve the program's quality of care. The package proposes \$314 million in State spending actions, including increases of:

- \$114 million for higher Medicare Part D prescription drug program cost-sharing payments which states are required to make to the federal government, as a result of rising drug prices.
- \$75 million for hospitals in severe financial distress under criteria determined by the State Health Commissioner.
- \$69 million for higher Medicare Part B premiums for recipients eligible for Medicaid and Medicare.
- \$10 million to help to end AIDS as an epidemic in New York State.
- \$800,000 to encourage more women to get screened for breast cancer and inform men of prostate cancer risks.

These spending increases are offset by \$314 million in State savings actions, including decreases of:

- \$118 million in Medicaid managed care, such as proposals to reduce the profit margins of private health plans participating in State health insurance coverage programs and to accelerate the transition to managed care for all Medicaid services.
- \$65.6 million in Medicaid prescription drug spending, such as proposals to eliminate a prescriber's right of final determination (excluding mental health medications) when the justification of use is not clinically supported, to reduce reimbursement rates for specialty drugs, and to cap the cost of certain high-cost prescription drugs for conditions such as hepatitis C, cystic fibrosis and high cholesterol.
- \$36.4 million in long-term care expenditures, such as requiring a community spouse to contribute toward the cost of care of a Medicaid recipient and expanding the management of Medicaid transportation services.
- \$50.1 million in various other actions, such as limiting State cost-sharing payments for Medicaid recipients enrolled in Medicare managed care plans and reducing State payments to transition behavioral health populations to Medicaid managed care.

The Executive Budget Capital Plan proposes to continue \$2.5 billion in support for health facility transformation programs to complement the State's \$8 billion MRT waiver program. Funding over the five-year plan includes the \$1.2 billion Capital Restructuring Financial Program enacted in 2014 and \$900 million out of a \$1 billion Health Care Facility Transformation Program enacted in 2015, as well as \$355 million in additional health care capital funded in 2015 from monetary settlements reached with financial institutions in recent years.

The Executive proposes to modify the \$1 billion Health Care Facility Transformation Program by redirecting \$300 million originally allocated for health care facility projects in Utica. Of this amount, up to \$200 million is available for statewide projects to renovate or replace inefficient or outdated health care facilities as part of a merger, consolidation, acquisition or corporate restructuring plan, up to \$100 million is available for an economic development project at Nano Utica, and up to \$5 million is available to buy mobile mammography vehicles. The

remaining \$700 million continues to be committed to renovating or replacing inefficient or outdated hospital facilities in Brooklyn.

The Executive Budget projects overall spending for health care capital projects to increase by \$140.8 million, or 97.4 percent, to \$285.3 million in SFY 2016-17, primarily due to implementation of the Capital Restructuring Financing and Health Care Facility Transformation programs. The Executive Budget Capital Program and Financing Plan anticipates disbursements of \$50 million from the Capital Restructuring and \$65 million from the Health Care Facility Transformation programs in SFY 2016-17; neither program is expected to disburse any funding in SFY 2015-16.

The Budget projects Medicaid enrollment to reach 6.3 million recipients in SFY 2016-17, an increase of nearly 180,000 eligible individuals, or 2.9 percent, over SFY 2015-16. Enrollment is expected to reach 6.47 million, roughly one-third of all State residents, in SFY 2019-20. The Executive attributes the growth in Medicaid recipients to expanded eligibility and enrollment under the ACA.

The Medicaid enrollment projections in the Executive Budget are lower than enrollment estimates published in November 2015 in the Executive’s Mid-Year Update to the Financial Plan for SFY 2015-16, as shown in Figure 26. The changes largely reflect the shift of certain legally residing immigrants receiving State-only Medicaid coverage to the Essential Plan.

**Figure 26**

**Medicaid Enrollment Growth Projection Changes –  
November 2015 Compared to January 2016**

	<b>SFY 2015-16</b>	<b>SFY 2016-17</b>	<b>Percentage</b>
	<b>Mid-Year Update</b>	<b>Executive Budget</b>	<b>Change</b>
2014-15	6,176,400	6,176,400	0.0%
2015-16	6,355,725	6,140,813	-3.4%
2016-17	6,490,350	6,320,438	-2.6%
2017-18	6,557,662	6,408,439	-2.3%
2018-19	6,591,318	6,451,522	-2.1%
2019-20	N/A	6,474,592	N/A

Source: Division of the Budget

The Budget increases State and federal spending for administering the New York Medicaid program by \$35.0 million, or 2.3 percent, to \$1.6 billion in SFY 2016-17. This increase primarily reflects the State and federal costs of hiring 300 new State employees to replace local administrative workers as part of the continued phase-in of the State takeover of local government Medicaid administration responsibilities enacted in 2012. This takeover was originally scheduled for completion by March 2018, but has been delayed to March 2020.

State and federal costs of reimbursing local governments for Medicaid administration are projected to decrease by \$93.4 million, or 9.3 percent, to \$914.6 million in SFY 2016-17, and to continue to decrease in each of the following three State fiscal years, reaching \$820.4 million by SFY 2019-20. State Operations costs for administrative personnel, non-personal services and various indirect costs are projected to increase by \$128.4 million, or 23.5 percent, to \$674.9 million in SFY 2016-17 and to rise to \$688.9 million in SFY 2019-20.

The Executive Budget reduces funding for the Office of the Medicaid Inspector General (OMIG) by \$2.0 million, or 3.8 percent, to \$51.2 million in SFY 2016-17, primarily by reducing the agency’s workforce by 26 positions to 453. OMIG’s audit target of State-share Medicaid cash recoveries and cost avoidance for SFY 2016-17 remains \$1.1 billion, unchanged from SFY 2015-16.

Health Care Reform Act (HCRA) revenue and spending for various State health care initiatives, including a significant portion of State-share Medicaid spending, are projected to remain in balance, totaling nearly \$5.6 billion in SFY 2016-17, essentially unchanged from current year revenue and spending. A projected decrease in cigarette tax receipts (lower by \$39 million or 4.3 percent) is offset by an increase in patient care surcharge receipts (higher by \$41 million or 1.3 percent). As in previous years, the HCRA Financial Plan does not anticipate receipt of any proceeds from conversion of Emblem Health to for-profit status.

General Fund off-loads of Medicaid spending to HCRA are projected to increase by \$121 million, or 3.3 percent, to nearly \$3.8 billion in SFY 2016-17, while HCRA spending associated with the Child Health Program (CHP) is projected to decrease by \$139 million, or 38.4 percent, to \$223 million in SFY 2016-17. The change is largely due to an increase in the federal matching rate for the program, which rose from 65 to 88 percent for New York in October 2015. As shown in Figure 27, State-funded Medicaid spending that would otherwise be financed with General Fund proceeds, or “off-loads,” accounts for the largest portion of annual HCRA disbursements in the Executive Budget proposal.

**Figure 27**

**HCRA Spending and General Fund Off-Loads**  
(in millions of dollars)

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Medicaid	3,655	3,776	3,682	3,739	3,621
EPIC	138	144	145	140	140
Roswell Park Cancer Institute	87	103	103	103	103
<b>Total Off-Loads</b>	<b>3,880</b>	<b>4,023</b>	<b>3,930</b>	<b>3,982</b>	<b>3,864</b>
As a Share of Total HCRA Spending	69.5%	72.1%	71.2%	71.8%	69.4%
<b>Total HCRA Spending</b>	<b>5,584</b>	<b>5,579</b>	<b>5,519</b>	<b>5,544</b>	<b>5,569</b>

Source: Division of the Budget

Funding for the Roswell Park Cancer Institute in SFY 2015-16 also included \$15.5 million in non-HCRA resources financed by a portion of the proceeds from the State’s monetary settlements with financial institutions.

State Funds support for various DOH public health programs, several of which are financed with HCRA dollars, would decrease by \$123.2 million, or 5.9 percent, to approximately \$2.0 billion in SFY 2016-17. In addition to the decrease in CHP funding previously mentioned, the Executive Budget reduces State support for the Early Intervention program by \$5 million, or 3.1 percent, to \$154 million by streamlining eligibility determinations and increasing reimbursement by private health insurers. The Budget also reduces State support for medical malpractice coverage by \$25 million, or 19.6 percent, to \$102.4 million by prioritizing funding for doctors and dentists in high-risk specialties. As a result of this reduction, the number of

professionals benefiting from the program is projected to decline by nearly two-thirds, from 23,000 to approximately 8,000.

All Funds expenditures on programs for elderly New Yorkers administered by the State Office for the Aging (SOFA), including in-home services and nutrition assistance, would increase by \$1.2 million, or 0.5 percent, to \$224.9 million in SFY 2016-17, reflecting a planned cost-of-living increase for certain aging service providers in SFY 2016-17 and maintenance of certain additional funding provided by the Legislature in last year's budget.

The Executive Budget also reduces funding for Naturally Occurring Retirement Community (NORC) and Neighborhood NORC programs by \$951,000, or 27.3 percent, to \$2.5 million in SFY 2016-17. The change would target funds to only those programs meeting statutory requirements such as the number, concentration and demographic characteristics of the older adults they serve. NORC and NNORC programs provide support services to approximately 11,000 older persons, most of them in New York City, to allow them to continue living in designated community residential settings as they age.

## ***Mental Hygiene***

Major factors affecting the Mental Hygiene budget include the loss of an expected \$500 million in federal aid over two years that the State had anticipated using to support transformation of services for developmentally disabled individuals, as detailed below. The Executive Budget reduces State-funded mental hygiene spending, including General State Charges, by \$226.6 million, or 3.3 percent, to \$6.6 billion in SFY 2016-17. All Funds spending, including federal funds and Capital Projects, would decrease by \$218.7, or 3.0 percent, to \$7.0 billion. Five State agencies are supported by this funding, with All Funds support in SFY 2016-17 projected to change as follows:

- Office for People With Developmental Disabilities (OPWDD) spending would decrease by \$218.0 million, or 6.7 percent, to \$3.0 billion.
- OMH spending would decrease by \$10.7 million, or 0.3 percent, to \$3.4 billion.
- Office of Alcoholism and Substance Abuse Services (OASAS), spending would increase by \$9.2 million, or 1.5 percent, to \$603.6 million.
- Justice Center for the Protection of People with Special Needs (Justice Center) spending would increase by \$749,000, or 1.8 percent, to \$42.7 million.
- Developmental Disabilities Planning Council (DDPC), with disbursements of \$4.2 million, would be held flat.

The All Funds reductions are largely driven by the shift of a portion of OPWDD Medicaid costs to DOH, where they are financed within the Medicaid global cap. Other factors include the absence of one-time Mental Hygiene costs in the current year that are related to a 53<sup>rd</sup> Medicaid cycle, a 27<sup>th</sup> institutional payroll and certain information technology services. Adjusting for the funding shift and the one-time costs, All Funds Mental Hygiene spending is projected to increase by \$259.6, or 3.3 percent, to \$8.2 billion in SFY 2016-17.

Funding for OPWDD reflects the shift of nearly \$1.2 billion in certain State-share Medicaid costs (an increase of \$282.5 million, or 31.1 percent, over SFY 2015-16) for the developmentally disabled to DOH under the Medicaid global spending cap. This cost shift is part of the State's continuing plan to mitigate the annual impact of a \$1.1 billion reduction in

federal Medicaid revenue for State-operated facilities for the developmentally disabled imposed on the State by the federal government in SFY 2013-14.

As part of the agreement with the federal government to reduce OPWDD Medicaid payment rates for services in SFY 2013-14, the State began implementing a multiyear plan intended to improve employment opportunities, integrated living and self-directed services for individuals with developmental disabilities, including those in institutional settings. Under this agreement, the State had expected to receive \$250 million a year in federal funding as part of a three-phase plan to achieve certain milestones. New York received an initial \$250 million amount in SFY 2014-15, but negotiations over phases two and three have not resulted in approval of further federal payments. As a result, the Executive Budget Financial Plan replaces \$250 million in federal funding anticipated for SFY 2015-16 with \$250 million in General Fund resources and, beyond the current State fiscal year, does not count on receiving any additional federal funding under the agreement.

Consistent with both federal requirements and the State’s own plans to transition people with disabilities out of segregated settings such as developmental and psychiatric centers into community-integrated settings, the Executive Budget continues to close beds at State-operated facilities and use the savings from anticipated bed closures for new community services. The Budget provides \$24 million to transition 52 individuals from OPWDD developmental centers and 100 individuals from OPWDD intermediate care facilities to more integrated, community-based support systems. The Budget also provides \$120 million in new services for individuals with developmental disabilities who are currently living at home or in residential schools.

The Budget also proposes \$16 million in additional community services that are expected to reduce the need for inpatient beds at OMH psychiatric centers by 200 beds in SFY 2016-17. OPWDD closed the Brooklyn Developmental Center in December 2015 and plans to close the Broome Developmental Center in Binghamton in 2016 and the Bernard Fineson Development Center in Queens in 2017. In addition, the Executive proposes to close 25 State forensic beds for individuals involved with the criminal justice system by establishing jail-based programs intended to restore felony-level defendants to competency as they await trial.

The Budget anticipates staff reductions through attrition at both OPWDD and OMH as a result of the State inpatient bed closures, with no layoffs of State employees expected. As shown in Figure 28, the Budget projects a total of 355 fewer positions across all five State mental hygiene agencies in SFY 2016-17, a decrease of 1.0 percent from current year staffing levels.

**Figure 28**

**State Mental Hygiene Agency Staff Level Estimates**

	<b>2015-16</b>	<b>2016-17</b>	<b>Change</b>	<b>% Change</b>
<b>OPWDD</b>	18,637	18,382	-255	-1.4%
<b>OMH</b>	14,400	14,278	-122	-0.8%
<b>OASAS</b>	741	741	0	0.0%
<b>JUSTICE CENTER</b>	428	450	22	5.1%
<b>DDPC</b>	18	18	0	0.0%
<b>TOTAL</b>	34,224	33,869	-355	-1.0%

Source: Division of the Budget

The Executive Budget increases the Justice Center's workforce by adding 12 new investigative positions and transferring 10 investigators from OPWDD. The Justice Center is responsible for investigating abuse and neglect allegations at certain facilities and programs that are operated, certified or licensed by OMH, OPWDD, OASAS, DOH, the Office of Children and Family Services (OCFS) and the State Education Department (SED). The Executive Budget also proposes 50 new full-time equivalents (FTEs) to staff 25 additional beds in OMH's sex offender and treatment management program and, under the Raise the Age initiative, 9 new FTEs to provide mental health services to 16- and 17-year olds removed from adult prisons to a renovated facility in Hudson for youthful offenders.

The Executive Budget proposes \$50 million for 1,700 OMH community residential beds that were partially phased-in during SFY 2015-16, and to open or phase in 2,000 new community beds in SFY 2016-17. In addition, the Executive Budget provides \$7 million for 300 new OASAS beds scheduled to be developed over the next two years, including 170 beds in New York City and 130 new beds in Suffolk, Albany and Westchester counties and in the Southern Tier to combat the State's heroin and opiate epidemic. The Executive also proposes to increase heroin and opiate prevention, treatment and recovery funding by \$6 million to \$141 million in SFY 2016-17. The Budget provides no additional funding to help non-profit agencies providing mental hygiene services absorb the costs of a proposal to increase the minimum wage to \$15 per hour in New York City in December 2018 and in the rest of the State in July 2021.

Mental hygiene capital spending is projected to increase by nearly \$33 million, or 7.4 percent, to \$470 million in SFY 2016-17. This increase is primarily due to the reconstruction of the South Beach Psychiatric Center in Staten Island, which was flooded during Hurricane Sandy. Plans call for rebuilding the facility on higher ground, but outside of the flood zone, in the same general area.

The Executive Budget also proposes Article VII legislation authorizing the commissioners of OMH and OPWDD to appoint a temporary operator for mental health and developmental disability programs that:

- Exhibit serious financial instability,
- Require State funds to prevent the closure of essential community services,
- Are unable or unwilling to ensure proper operation, or
- Endanger or jeopardize access to necessary community services.

Serious financial instability would include bond default, missing mortgage payments, untimely debt repayments, failure to pay employees or vendors, and insufficient funds to meet general operating expenses.

## ***Human Services / Labor***

The Executive Budget proposes \$3.2 billion in State funding for human services programs operated by the Office of Temporary and Disability Assistance (OTDA) and OCFS in SFY 2016-17, a reduction of \$88 million, or 2.6 percent, from SFY 2015-16 spending projections. All Funds spending of \$8.1 billion for the two agencies, including federal funds, Capital Projects and General State Charges, is \$111.1 million, or 1.4 percent, lower than in SFY 2015-16.



All Funds spending for OCFS, whose responsibilities include maintaining a system of residential facilities for juvenile delinquents and offenders, as well as supervising a system of family support and child welfare services in the State, would decrease by \$145.9 million, or 4.6 percent, to \$3.0 billion in SFY 2016-17 under the Executive Budget. A reduction of approximately \$100 million in General Fund support for child care subsidies is offset by an equivalent increase in federal Temporary Assistance for Needy Families (TANF) funding for child care subsidies included in All Funds spending for OTDA for transfer to OCFS.

Much of the overall decrease in OCFS All Funds spending reflects \$23.9 million in lower projected State Operations administrative spending, the elimination of \$23 million in appropriations added by the Legislature in SFY 2015-16, and the transfer of \$10 million in funding to the Office for Information Technology Services. These decreases are offset in part by increases that include \$10 million for child care provider inspection activities, \$5 million in post-adoption and preventive services for children at risk of entering foster care, and \$1.4 million to implement a 0.2 percent cost-of-living adjustment for various OCFS programs.

The Executive Budget again proposes Article VII legislation to raise the age of juvenile jurisdiction from age 16 to age 18, by January 2019. It also proposes to expand services for 16 and 17 year olds involved in the juvenile justice system, and to place newly sentenced youth in OCFS facilities instead of prison. The 30-day amendments include certain modifications to this proposal. The Legislature did not act upon a similar proposal in 2015. The Budget includes a \$110 million capital appropriation to address the need for additional OCFS facility capacity associated with raising the age of juvenile jurisdiction, but does not anticipate spending any cash from this appropriation in SFY 2016-17. Executive Budget documents estimate full implementation costs of the "Raise the Age" initiative of \$375 million in SFY 2021-22.

Executive Order 150, issued in December 2015, directs the Department of Corrections and Community Supervision (DOCCS) to work with OCFS, OMH and the Office of General Services to move 16- and 17-year old nonviolent criminal offenders from adult prisons to separate facilities at the Hudson Correctional Facility starting in August 2016. Under this initiative, OCFS will provide specialized training of DOCCS staff and consultation services. The Budget provides \$492,000 within OMH for nine new staff to be assigned to the facility. According to the Executive Budget Capital Plan, retrofitting Hudson Correctional to house the 16- and 17-year-olds will require a DOCCS capital investment of approximately \$30 million.

The Budget assumes full implementation of the Close to Home program in SFY 2016-17. Started in SFY 2012-13, this program moves New York City youth placed in OCFS non-secure and limited-secure settings outside of the City to residential settings run by New York City.

All Funds spending for OTDA, whose responsibilities include providing temporary cash and other assistance for needy families and individuals, would increase by \$34.8 million, or 0.7 percent, to nearly \$5.1 billion in SFY 2016-17 in the Executive Budget. This amount includes the \$100 million in federal TANF funding for child care subsidies proposed for transfer to the OCFS budget. The Budget also includes about \$24 million in additional funding for homeless housing and assistance program spending and \$10 million in additional State Supplemental Security Income payments reflecting a projected caseload increase, offset in part by eliminating approximately \$24 million in appropriations added by the Legislature in SFY 2015-16 and \$5.6 million in State Operations administrative spending. The Executive Budget

expects public assistance caseloads to decrease by 7,279 recipients, or 1.3 percent, to 557,159 in SFY 2016-17.

The 30-day amendments propose to authorize the commissioners of OTDA and OCFS to investigate shelters and designate a "temporary operator" for homeless shelters and residential programs for victims of domestic violence and runaway and homeless youth where the established operator is found to have serious financial, health or safety issues.

The Budget proposes \$25 million in new funding to expand an anti-poverty initiative started in Rochester, Syracuse and Broome County in 2015. Funded with additional monetary settlement money received by the State, the Empire State Poverty Reduction Initiative will make planning grants totaling \$5 million available in ten communities with high concentrations of poverty: Syracuse, Binghamton, Oneonta, Buffalo, Utica, Elmira, Jamestown, Oswego, Troy and Albany. \$20 million will also be available for grants to match private sector and foundation funding for related services. The 30-day amendments modify this proposal to specifically identify the ten cities the Executive indicated would be eligible for the funds, and to eliminate reference to a plan to be developed by OTDA. Instead, such funds may be available pursuant to a plan approved by the Director of the Budget.

The Budget also proposes to use \$640 million in additional monetary settlement money for homeless and affordable housing in SFY 2016-17. This spending is described as part of a five-year, \$20 billion plan announced by the Executive to expand housing opportunities for individuals in need of supportive services and help vulnerable populations secure stable housing. DOB estimates that various State agencies, including OTDA, currently spend about \$1.5 billion a year on homeless services such as rental subsidies and homeless shelters.

The Executive Budget proposes All Funds appropriations of nearly \$3.8 billion for the State Department of Labor (DOL) in SFY 2016-17, a reduction of \$324.5 million, or 7.9 percent, from SFY 2015-16 appropriations. The Executive attributes the decrease to reductions in Unemployment Insurance benefit payments and associated administrative funding, driven by the improving economy.

The Budget proposes labor-related Article VII legislative initiatives to:

- Incrementally increase the minimum wage to \$15 per hour in New York City on December 31, 2018 and in the rest of the State on July 1, 2021. The Executive Budget provides no additional funding to help nonprofit agencies or other State contractors absorb the costs of increasing the minimum wage to \$15 per hour.
- Increase the allocation for the Urban Youth Jobs Program tax credit from \$20 million to \$50 million in program years 2016 and 2017. This program is designed to encourage businesses to hire unemployed, disadvantaged youth, ages 16 to 24, who live in Albany, Buffalo, New York City, Rochester, Schenectady, Syracuse, Mount Vernon, New Rochelle, Utica, White Plains, Yonkers, Brookhaven and Hempstead. Certified eligible businesses could receive tax credits up to \$5,000 per eligible youth starting work between January 1, 2016 and December 31, 2017.
- Establish a statewide program that provides employees up to 12 weeks a year in paid family leave to care for an infant or ill family member, to be funded by employee payroll contributions. Benefits would phase in over four years beginning in 2018 and grow to 50 percent of the employee's average weekly wage capped at 50 percent of the State's average weekly wage by 2021. The program would apply to all private employees and

allow State and local government employees to opt in. The legislation includes job protections and protection against retaliatory actions. The 30-day amendments modify this proposal to increase the benefit to 67 percent of an employee's average weekly wage, up to 67 percent of the State average weekly wage, in 2021 and thereafter. The amendments also provide that during any period of family leave, the employer shall maintain existing health benefits for the duration of the leave.

The Executive Budget also proposes Article VII legislation to extend for five years an exemption from licensure for certain individuals working in programs and providing services that are regulated, operated, funded or approved by OCFS and OTDA, as well as OMH, OPWDD, OASAS, SOFA, DOH, DOCCS and/or local governmental units or local social services districts. According to Executive Budget documents, the purpose of the exemption is to allow for greater State and local government flexibility to deliver services.

### *Workers Compensation*

The Executive proposes changes to the Workers' Compensation Law including changes to authorizations related to physicians, medical bureaus and laboratories; payment of bills for medical care; certain kinds of care and treatment of injured employees; weekly wages as the basis of compensation; determination of claims for compensation; appeals; deposits of future payments; and other aspects of compensation. It also proposes changes to administration, public groups acting as self-insurers, and to the Public Authorities Law and Insurance Law. The proposal also provides revised and new financing provisions.

The proposal provides for the use of \$375 million in certain State Insurance Fund (SIF) assessment reserves through SFY 2019-20 for the payment of the State's obligations to SIF under the Workers' Compensation Law for General Fund relief. It also provides that all remaining assessment reserve funds may, at the discretion of the Director of the Budget, either remain with the Workers' Compensation Board or be transferred to the General Fund to reduce budget gaps. The 30-day amendments modify several aspects of the proposal.

### ***Transportation***

The Executive Budget projects All Funds transportation spending for the Department of Transportation (DOT), the Department of Motor Vehicles (DMV), the Thruway Authority and the Metropolitan Transportation Authority (MTA) to total \$10 billion in SFY 2016-17. This is a decline of \$330 million, or 3.2 percent, from the current State fiscal year. Spending in this area from State Operating Funds is projected to increase by \$154 million, or 3.1 percent, to \$5.1 billion. The Executive Budget projects spending from All Governmental Funds for DOT to be \$9.2 billion in SFY 2016-17, including \$6.1 billion for local assistance and \$3.1 billion for capital projects. This is a decline of 3.0 percent compared to the current State fiscal year.

### *Capital Projects*

For State and federal funds appropriated through the above four agencies' budgets, spending from the State's transportation capital program is projected at \$4.9 billion in SFY 2016-17, a 9.1 percent decrease from current year spending. Spending by DOT represents \$4.2 billion of this total, a 10.3 percent decrease from the current year.

The Executive Budget reflects a five-year, \$22.1 billion capital plan for transportation outside of the MTA composed of DOT fund obligations and State funding for Thruway Authority projects. SFY 2016-17 will be the second year of this capital plan. Along with the previously planned \$18.3 billion for DOT's capital projects and \$1.3 billion in monetary settlement funds provided to the Thruway Authority in the SFY 2015-16 Enacted Budget, new funding proposed over the remaining five-year plan comes from:

- \$900 million in financial settlement funds: \$700 million for Thruway capital work and \$200 million for a range of transportation infrastructure improvements through DOT;
- \$900 million in other new State funds, including an increase of over \$334 million in New York Works appropriations; and
- \$700 million in new federal funds, including an increase of \$135 million in appropriations for SFY 2016-17.

The Executive Budget provides \$477.8 million in SFY 2016-17 for local highway and bridge projects through the Consolidated Highway Improvement Program (CHIPS, \$438.1 million) and Marchiselli program (\$39.7 million), both of which are flat compared to SFY 2015-16. Funding for Extreme Winter Recovery, included in the last two enacted budgets, is not included in the Executive Budget.

The Budget includes \$200 million in new funding for upstate airport revitalization, although the appropriation language provides that "all or a portion of the funds appropriated herein may be interchanged or transferred from this appropriation to any other capital projects appropriation or appropriations of the department of transportation." Executive Budget documents indicate that DOT could also make funding available to localities through the BRIDGE NY and PAVE NY initiatives, totaling \$1 billion each, as well as \$500 million for an Extreme Weather Infrastructure Hardening Program. However, the Executive Budget does not include appropriations or Article VII language specifically associated with these proposals.

#### *Statewide Mass Transit Aid*

All Funds spending for statewide mass transit costs under the Executive Budget would total \$5 billion in SFY 2016-17. Of the total, \$4.49 billion is allocated for the MTA, \$303.5 million for downstate non-MTA transit agencies and the remaining \$193.7 million will be shared by upstate transit systems. Such aid is \$223.8 million, or 4.7 percent, higher than spending in the current State fiscal year. About 45 percent of the MTA total comprises MTA Aid Trust funds made up of dedicated taxes and fees imposed and collected in the Metropolitan Commuter Transportation District (and interest from the State's Short-Term Investment Pool) and directly remitted to the MTA.

#### *Department of Motor Vehicles*

The Executive Budget proposes \$302.3 million in total spending for DMV in SFY 2016-17. This includes \$204.5 million from Capital Projects funds that would be used for Department operations. The Executive Budget also proposes to deposit revenues from four DMV Special Revenue Funds into the Dedicated Highway and Bridge Trust Fund, a Capital Projects Fund. These four funds are: the Seized Assets Fund, the Compulsory Insurance Fund, the Internet Point Insurance Reduction Program (IPIRP) Fund, and the Motorcycle Safety Fund, which together constitute approximately \$28 million total revenues in the current State fiscal year.

This proposal will allow the State to pay for these programs through the Dedicated Highway and Bridge Trust Fund (DHBTF) capital appropriations, thereby decreasing disbursements from State Operating Funds. Also, this action will improve the DHBTF's debt service coverage ratio for bonds and lower the required transfer from the General Fund to the DHBTF.

### *Thruway Authority*

In addition to the \$1.285 billion provided to the Thruway Authority from financial settlement funds under the SFY 2015-16 Enacted Budget, the Budget provides \$1.04 billion in financial settlement funds as follows:

- \$340 million to pay for a three-year non-refundable tax credit for 50 percent of electronic tolls paid by commercial and passenger drivers over a certain level of usage, and a non-refundable tax credit for 100 percent of electronic tolls paid by farmers; and
- \$700 million to pay for Thruway Authority infrastructure improvements, including work on the New NY (Tappan Zee) Bridge and other core system needs, and to freeze tolls up to at least 2020.

The Executive Budget proposes to transfer control of the Canal Corporation to the New York Power Authority. As a result, the Executive Budget eliminates \$85 million in operating subsidies to the Thruway Authority. This amount includes: State support for Thruway operating costs (\$21.5 million was appropriated for this purpose in SFY 2015-16), and State Police activities on the Thruway (a \$58 million State Operations appropriation for this purpose is in the Executive Budget as reimbursement from the State Police Internal Service Fund). Additionally, the Budget proposes to repeal provisions authorizing a waiver from the State cost recovery charge for the Thruway Authority, which was enacted in SFY 2013-14. In SFY 2012-13, the proposed billing for the Thruway Authority was \$5.6 million.

### *Dedicated Highway and Bridge Trust Fund*

The Dedicated Highway and Bridge Trust Fund (DHBTF), established in 1991, was intended to be the primary funding source for the construction and rehabilitation of State-owned roads and bridges. Initially, it was anticipated that the DHBTF 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 the DHBTF has been diverted to pay for State operating costs and debt service.

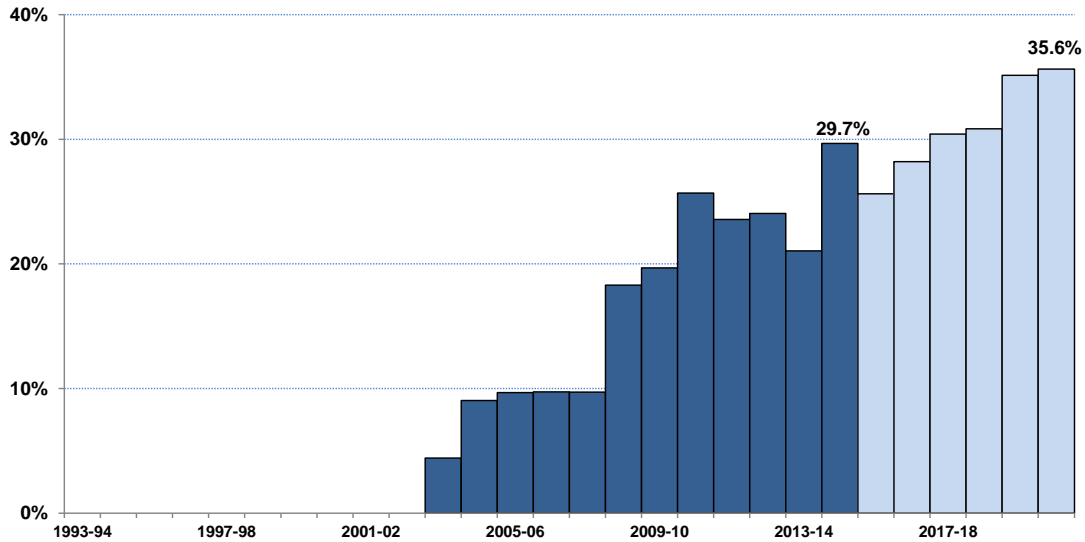
The DHBTF also continues to rely on transfer amounts, both from the General Fund and from the Federal Capital Fund. The Financial Plan identifies a General Fund subsidy for the DHBTF of \$700 million in SFY 2016-17 (with authorization for up to \$750 million). The General Fund subsidy is expected to grow annually, reaching \$1.05 billion in SFY 2020-21. Total General Fund transfers into the DHBTF since their establishment in SFY 2004-05 through SFY 2014-15 have been \$3.35 billion. The projected total from SFY 2015-16 through SFY 2020-21 is anticipated to be an additional \$5.0 billion. The 30-day amendments increase the authorized SFY 2016-17 General Fund transfer to \$810 million.

As Figure 29 shows, the percentage of Fund revenues comprising and estimated to comprise transfers from other funds has grown steadily since SFY 2003-04. This trend moderates slightly after spikes in SFY 2010-11 and SFY 2014-15, but projections indicate this

dependence will grow through SFY 2020-21 when transfers are projected to represent 35.6 percent of all Fund revenues.

**Figure 29**

**Transfers as a Percentage of All Funds DHBTF Revenues**

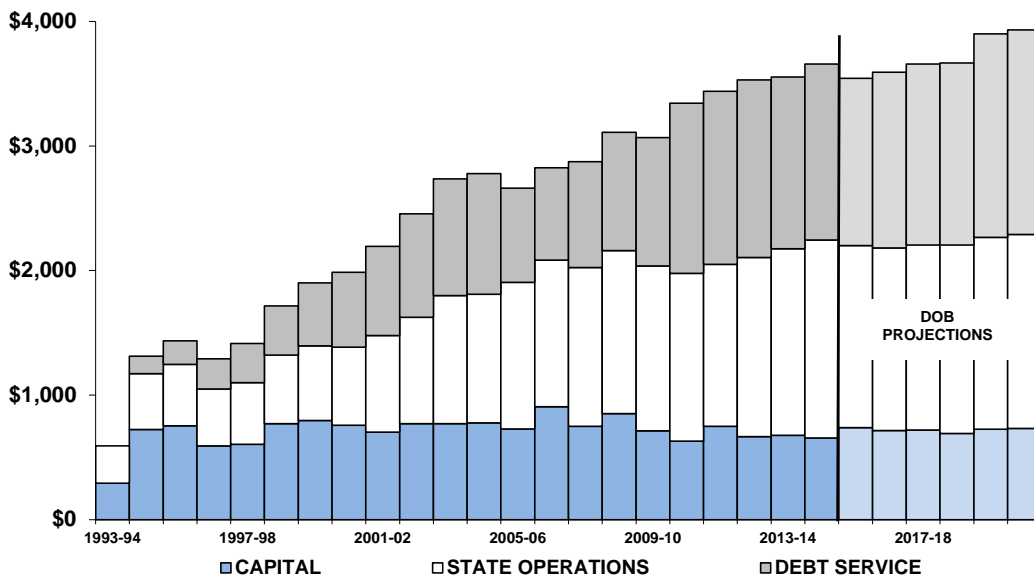


Sources: Division of the Budget, Office of the State Comptroller  
 Note: DOB estimates are presented in lighter shade.

Total projected disbursements from the DHBTF in SFY 2016-17 are \$3.6 billion. Capital disbursements, the ostensible purpose for the existence of the DHBTF, are projected to total \$714.2 million in SFY 2016-17, down 3.3 percent from the SFY 2015-16 amount of \$738.6 million (Figure 30). Capital spending represents one-fifth of total DHBTF spending.

**Figure 30**

**Dedicated Highway and Bridge Trust Fund Disbursements**  
 (annual disbursements in millions)



Sources: Division of the Budget, Office of the State Comptroller  
 Note: DOB estimates are presented in lighter shades.

Total Debt Service disbursements from the DHBTF for SFY 2016-17 is projected to total \$1.41 billion, or \$69 million more than SFY 2015-16. As a proportion of all spending from the DHBTF, Debt Service will increase from 37.9 percent in SFY 2015-16 to 39.3 percent in SFY 2016-17. This is due in part to use of the DHBTF to pay for Debt Service on CHIPS and Marchiselli aid bonds.

State Operations spending is expected to account for slightly more than debt service at \$1.47 billion, or 40.8 percent, of DHBTF disbursements. Projections for both through SFY 2020-21 indicate that the proportion spent on Debt Service will increase to 41.8 percent and the percentage spent on State Operations will decrease to 39.6 percent.

## ***Economic Development***

The Executive Budget decreases All Funds spending for the State's economic development programs by \$1.88 billion, from nearly \$3 billion in SFY 2015-16 to \$1.09 billion in SFY 2016-17. The majority of the decrease is realized in lower capital spending, which declines \$1.92 billion from SFY 2015-16 due to decreased new funding for the Upstate Revitalization Initiative and the elimination of new funding under the Transformative Investment Program.

In addition, funding through the Department of Economic Development (DED) is decreased by \$3.1 million primarily due to the elimination of Aid to Localities appropriations added by the Legislature in the SFY 2015-16 Enacted Budget. While State Operations appropriations for DED remain unchanged from SFY 2015-16, cash spending associated with these appropriations decreases by \$570,000 as a result of the elimination of five FTEs through attrition and decreased spending on travel and temporary staffing.

This decrease is mitigated by an increase of \$51.6 million in Aid to Localities funding for the Urban Development Corporation (UDC), commonly known as Empire State Development Corporation (ESDC). The Budget includes \$66.5 million for tourism marketing and business marketing, including the Open for Business marketing campaign and marketing for START-UP New York, as well as funding for the Global NY initiative and the Innovation Venture Capital Fund. In SFY 2015-16, these programs were funded through a transfer from the New York Power Authority to ESDC. While \$27 million of this funding is to be used for tourism marketing, there is no further allocation of the funds for the other programs. Similar to the reductions in Aid to Localities funding for DED, the Budget eliminates funding added by the Legislature in SFY 2015-16. However, the Executive Budget continues funding for various other economic development initiatives at the SFY 2015-16 levels, including the Empire State Economic Development Fund, the Urban and Community Development Program, the Entrepreneurial Assistance Program, and the Community Development Financial Institutions Program.

In addition to the \$27 million in tourism funding mentioned above, the Executive Budget provides funding for the I ♥ NY program and local tourism matching grants at SFY 2015-16 levels, totaling \$2.5 million and \$3.8 million, respectively. The Budget also increases funding for the Market NY program, which provides funding for the marketing of and capital improvements to the State's tourist destinations, to \$13 million, providing \$5 million in Aid to Localities funding and a new capital appropriation of \$8 million.

The Executive includes approximately \$38.85 million to support the High Technology Program administered by DED, which supports ongoing university-based matching grants and high

technology research at various institutions. This funding includes \$8.7 million in support for the ten Centers of Excellence, \$13.8 million in support for the 15 Centers of Advanced Technology, and \$5 million for the Innovation Hot Spots/New York State Incubators Program.

In relation to the capital spending, the Executive Budget includes \$445 million in new funding for five new projects. Of this funding, nearly three-quarters is for the benefit of the SUNY Polytechnic Institute Colleges of Nanoscale Science and Engineering for facilities in Chautauqua and Clinton counties. However, there are no additional details as to where the facilities will be located or the purpose of the facilities. New capital funding also includes \$100 million for Nano Utica for a wafer fabrication facility, \$10 million for the Brookhaven National Laboratory, and \$10 million for Riverbend in Buffalo. Both the funding for the Brookhaven National Laboratory and the Riverbend projects are the first installment of multiyear commitments for these projects. The commitment for Brookhaven is a total of \$50 million to be paid over a period of five years. For the high technology manufacturing hub at Riverbend, the total funding commitment is \$100 million to be paid over a period of ten years. This funding is in addition to the funding provided to this project as part of the Buffalo Regional Innovation Cluster (“Buffalo Billion”).

The Executive Budget funds the second year of the State’s \$135 million commitment for the New York Power Electronics Manufacturing Consortium, and the third year of the State’s \$35 million commitment for the Clarkson-Trudeau Partnership at \$33.5 million and \$12 million, respectively. In addition, the Executive Budget continues the funding for the ten year contract for the retention of professional football in Western New York at \$2.25 million.

In addition to the funding for the SUNY Polytechnic Institute Colleges of Nanoscale Science and Engineering mentioned above, the Executive Budget includes funding of \$15 million for SUNY Polytechnic, reflecting part of the State’s \$400 million commitment for the Albany Nano G450C facility. Funding was previously provided for this project in SFY 2012-13 and in SFY 2014-15 at \$250 million and \$50 million, respectively.

The remaining \$389 million in capital spending in the Executive Budget would fund existing programs, including an additional \$110 million for the NY CUNY and SUNY 2020 Challenge Grant Programs and an additional \$150 million for the Regional Economic Development Capital Fund to be awarded by the Regional Economic Development Councils (REDCs). In addition to this capital funding, the Executive Budget allocates an additional \$70 million in Excelsior Jobs Program tax credits to be awarded by the REDCs.

The Executive Budget also continues funding for the New York Works Economic Development Fund (EDF), increasing the funding to \$99 million from \$45 million in SFY 2015-16. Unlike the Empire State Economic Development Fund, the NY Works EDF does not exist in statute, and, as a result, does not have a statutory set of eligible uses for the funds. This allows the Executive to utilize these funds for projects and purposes outside the traditional economic development realm.

The Executive Budget provides \$200 million for a second round of funding under the Upstate Revitalization Initiative. The four regions not awarded funding under the \$1.5 billion first round – the Capital Region, North Country, Mohawk Valley, and the Mid-Hudson Region – would be eligible for this second round of funding. While the Executive has indicated an intention to provide \$50 million to each region, the funding would be awarded at the discretion of ESDC. Of the \$200 million in funding, \$30 million is included in capital spending of ESDC and will be



bond financed. The remainder of the funding will be spent from the settlement funds through an appropriation from the Dedicated Infrastructure Investment Fund (DIIF).

In addition to providing funding through appropriations within DED and ESDC, the Executive Budget funds economic development within appropriations of other agencies or accounts. The DIIF provides \$170 million for a second round of the Upstate Revitalization Initiative, and \$85 million in funding for economic development projects. However, there is no additional detail as to the types of projects to which this funding will apply. In the SFY 2015-16 Enacted Budget, the DIIF provided \$150 million in funding for “transformative economic development projects” in Nassau and Suffolk counties. The Executive Budget amends the reappropriation for this program to allocate \$106 million of this program for three specific projects: \$50 million for a center for bioelectronic medicine in Nassau, \$50 million for infrastructure improvements and a parking structure in Ronkonkoma, and \$6 million for an expansion at MacArthur Airport to include a federal inspection station.

Included in the reappropriations for the Department of Health is an amendment to a capital appropriation made in the SFY 2015-16 Enacted Budget for the Health Care Facility Transformation Program. The original appropriation provided \$300 million in capital funding for the consolidation of health care facilities in Oneida County. Under the Executive Budget, \$100 million of the \$300 million in funding would be redirected to the project at Nano Utica, as mentioned above, resulting in total funding for the project of \$200 million.

The Executive proposes the extension of the Economic Development Fund and the general loan powers of UDC for one year. The Executive proposes to create the Transformational Economic Development Infrastructure and Revitalization Projects Act to establish design-build authority related to development at the Jacob Javits Convention Center and the redevelopment of Penn Station.

In addition, the Executive proposes to transfer the authority to administer market orders for dairy and agricultural products from the Department of Agriculture and Markets to ESDC. For more information about that proposal, see the Agriculture section of this report.

## ***Housing***

The Executive Budget proposes \$309.5 million in All Funds spending for the Division of Homes and Community Renewal (DHCR) in SFY 2016-17, a \$76.6 million increase in spending from projected SFY 2015-16 levels.

The Executive Budget provides \$2.0 billion in capital appropriations to DHCR for a housing program with the stated purpose of preventing and addressing homelessness across the State. The program includes appropriations of \$590 million in settlement funds and \$1.4 billion in bonded funds. All awards under this program would be subject to approval by the Public Authorities Control Board. The appropriations are scheduled for award over succeeding State fiscal years as follows:

- \$590 million
  - Not more than \$344 million in SFY 2016-17.
  - Not more than \$246 million in SFY 2017-18.
- \$1.4 billion
  - Not more than \$303.4 million in SFY 2017-18.

- Not more than \$354.7 million in SFY 2018-19.
- Not more than \$359.6 million in SFY 2019-20.
- Not more than \$365.8 million in SFY 2020-21.

Executive Budget documents discuss a five-year \$20 billion program to create 94,000 units of affordable housing, 6,000 units of supportive housing, and 1,000 new emergency shelter beds. There is currently not a comprehensive description of the sources of funding and the specific programs by which this goal will be accomplished. However, DOB has indicated that all DHCR capital appropriations in the Executive Budget proposal for SFY 2016-17 and outyears would count toward the \$20 billion program total.

The Executive Budget proposes to transfer a total of \$150 million in excess Mortgage Insurance Funds to certain agencies in support of housing and homeless assistance programs. The following transfers are proposed:

- To the Housing Trust Fund Corporation:
  - \$35.3 million for the Rural and Urban Community Investment Fund.
  - \$22.3 million for the Rural Rental Assistance Program.
  - \$12.8 million for the Homes for Working Families Program.
  - \$10 million for the Low Income Housing Trust Fund.
  - \$8.5 million for the Neighborhood Preservation Program.
  - \$3.5 million for the Rural Preservation Program.
- To the Housing Finance Agency, \$42 million in support of rehabilitation of Mitchell Lama housing projects.
- To the Homeless Housing and Assistance Corporation, \$15.7 million for the following programs:
  - New York State Supportive Housing Program.
  - Solutions to End Homelessness Program.
  - Operational Support for AIDS Housing Program.

In the reappropriation of funding from the J.P. Morgan settlement in the DHCR Local Assistance Budget, the Executive Budget proposes to repurpose \$74.5 million for supportive housing programs as well as programs to provide services to people who are homeless or at risk of becoming homeless and individuals diagnosed with HIV/AIDS.

## ***Environment and Parks***

### *Environmental Conservation*

The Executive Budget proposes \$998.2 million in All Funds spending for the Department of Environmental Conservation (DEC) in SFY 2016-17, a \$75.8 million increase from projected spending levels for SFY 2015-16.

The Budget includes \$300 million in Environmental Protection Fund (EPF) appropriations, an increase of \$123 million over SFY 2015-16 appropriations. The Executive proposes to fund a number of programs that did not receive EPF appropriations in SFY 2015-16, including environmental justice grants, environmental health centers, Brownfield Opportunity Areas, Cornell Pro-Dairy and integrated pest management, and 6 multistate environmental

commissions. The 30-day amendments reallocate \$500,000 of a \$2 million EPF Executive Budget appropriation for sewer improvement projects in Suffolk County to the Cornell Cooperative Extension of Suffolk County for nutrient planning and implementation activities.

In addition, under the Executive's proposal, a new Climate Change Mitigation and Adaptation funding category would be created in the EPF. The majority of funding for this category, \$23 million, is allocated to adaptive infrastructure projects awarded competitively through the Climate Smart Communities program. The Budget also increases the State share of Local Waterfront Revitalization Projects from 50 percent to 90 percent for economically distressed municipalities with populations under 300,000.

The Budget transfers \$146 million from the General Fund to the EPF. However, Executive Budget documents state that funding to increase the EPF will come from monetary settlement funds. Funding is allocated to funding program categories as follows: \$156.9 million for open space; \$76.8 million for parks and recreation; \$33.9 million for solid waste; and \$32.5 million for climate change mitigation and adaptation.

The Executive proposes to permanently extend the waste tire fee, which is scheduled to expire on December 31, 2016. The fee of \$2.50 per tire sold in New York State provides funding for the New York State Waste Tire and Recycling Fund, which supports DEC actions to mitigate waste tire stockpiles. The fee has historically generated approximately \$24 million per year and the fee extension is projected to produce \$6 million in additional revenues in SFY 2016-17.

The Executive proposes to shift \$7.9 million in personal service costs from DEC State Operating Funds to DEC Capital Funds. These costs are for the services of Environmental Facilities Corporation staff working on the Clean Water State Revolving Fund program.

The Budget appropriates \$40 million in New York Works capital funds in the DEC budget. Executive Budget documents state that this funding is to be allocated to hunting and fishing access and information technology, as well as health and safety repairs to State infrastructure including dams, wetland restoration, State lands and fish hatcheries.

### *Parks*

The Executive Budget proposes \$326.0 million in All Funds spending in SFY 2016-17 for State Parks, a \$3.2 million increase from projected spending for SFY 2015-16. The Budget appropriates \$92.5 million in New York Works capital projects funds to the Office of Parks, Recreation and Historic Preservation (OPRHP). Of these funds, \$2.5 million is to be provided to the Olympic Regional Development Authority.

The Budget proposes to reduce State reimbursement of local government expenditures on programs to patrol waterways and enforce New York State Navigation Law. Municipalities are currently eligible for reimbursement of 50 percent of expenditures on this activity. The Executive Budget proposes to reduce the reimbursement to 25 percent of municipal expenditures, producing a projected savings of \$900,000.

## ***Agriculture***

The Executive Budget proposes \$85.7 million in All Funds spending for the Department of Agriculture and Markets, a \$15.3 million decrease from projected spending levels in SFY 2015-16.

The Budget proposes to shift authority to administer dairy market orders from the Department of Agriculture and Markets to UDC (commonly known as ESDC). In addition, the Executive Budget proposes to transfer authority for UDC to administer market orders for producers of agricultural and aquatic products. The market orders provide for an assessment on producers to raise funds for marketing efforts and research and development of products. Under the Executive proposal, UDC would be authorized to promulgate and enforce regulations governing product quality and the volume of production. This transfer of authority is projected to reduce expenditures at the Department of Agriculture and Markets by approximately \$12.4 million, according to Executive Budget documents. UDC would be empowered to request and receive assistance from the Department of Agriculture and Markets in administering market orders.

The proposal makes several additions to the market order program. In administering market orders, UDC would not be required to procure services competitively and would be able to retain funding derived from market orders to defray the costs of administering the program. The Executive Budget also proposes to indemnify UDC, its directors, officers and employees from claims arising from the administration of market orders.

The Executive proposes to create a New York State Certified High Quality Initiative. This program would fund marketing, branding, food safety, environmental management and economic development initiatives. Commodities produced by farmers certified under this program will be identified by a unique label. The Budget includes \$1.1 million for the Taste NY program, \$350,000 for the FreshConnect farmer's market program, \$250,000 for the Farm to School program and \$40,000 for a program to evaluate and test varieties of hops in New York State.

The Budget appropriates \$2.5 million in New York Works capital funds for alterations, rehabilitation and improvements at the New York State Fair grounds. In addition, \$3 million in State Fair capital funds are appropriated for energy conservation as well as the purposes addressed by the New York Works funds.

## ***Energy***

### *NYSERDA*

The Executive Budget proposes \$23.5 million in All Funds spending for the New York State Energy Research and Development Authority (NYSERDA), a \$5.1 million increase from projected spending levels in SFY 2015-16. The Budget authorizes NYSERDA to receive \$19.7 million in funds collected through a special assessment on electric and gas utilities in New York State. As in the Enacted Budget for SFY 2015-16, this funding would not be appropriated through the State Budget process, but would be remitted directly to NYSERDA.

The NYSERDA Budget for SFY 2016-17 includes \$588.8 million in receipts, the vast majority of which is spent off-budget. Of this amount, \$208.1 million, or 35.3 percent, is derived from

Clean Energy Fund programs funded primarily by assessments on utility sales; \$176.6 million or 30.0 percent comes from the auction of greenhouse gas emission allowances under the Regional Greenhouse Gas Initiative (RGGI); and \$82.8 million, or 14.1 percent, is drawn from revenues of bonds issued to finance loans issued under the Green Jobs, Green New York program, as well as repayment of bond principal and interest on these loans. State appropriations comprise \$49.6 million, or 8.4 percent, of NYSERDA's budgeted revenues.

The Executive Budget authorizes two sweeps of revenue from the auction of allowances to emit greenhouse gases under RGGI. A sweep of \$23 million to the General Fund is authorized to offset the cost of certain renewable energy/low carbon tax credits as follows: biofuel production credit, clean heating fuel credit, alternative fuels and electric vehicle recharging property credit, green buildings credit, sales tax exemption for residential solar energy system, sales and use tax exemption for commercial solar energy systems, and the residential solar energy system personal income tax credit.

An additional sweep of \$15 million in RGGI funds is proposed to the State University of New York (SUNY) Clean Energy Workforce Opportunity Program.

### *Department of Public Service*

The Executive Budget proposes \$73.7 million in All Funds spending for the Department of Public Service (DPS), a decrease of \$1.1 million from SFY 2015-16 projected spending levels. In addition, the Budget proposes a decrease in DPS staffing of 17 FTEs for a FTE staffing level of 508.

The Budget proposes to streamline review and approval of service rate changes sought by municipally owned electric and gas utilities, by eliminating the requirement for a hearing on rate increases proposed by these entities. Current law requires DPS to hold a hearing if a proposed rate increase would increase a utility's aggregate revenues by the greater of \$300,000, or 2.5 percent. This requirement would remain in effect for investor-owned utilities. In addition, under the new proposal the Public Service Commission would receive an additional four months to review and approve rate changes sought by New York State utilities. The review and approval period would increase from 11 to 15 months.

In addition, the Executive proposes to transfer the New York State Canal Corporation from the New York State Thruway Authority to the New York Power Authority (NYPA), and to authorize the transfer of \$20 million from NYPA to the General Fund.

### ***Public Protection / Criminal Justice***

The Executive Budget includes All Funds support of:

- \$2.9 billion for the Department of Corrections and Community Supervision, a decline of 1.8 percent from SFY 2015-16 primarily reflecting one additional institutional pay period in SFY 2015-16;
- \$1.7 billion for the Division of Homeland Security and Emergency Services (DHSES), a decrease of 29.7 percent from SFY 2015-16, largely reflecting the reduction in federal disaster assistance associated with Superstorm Sandy;
- \$729.9 million for the Division of State Police, a decrease of 0.6 percent from SFY 2015-16;

- \$235.7 million for the Division of Criminal Justice Services, an increase of 1.5 percent;
- \$139 million for the Division of Military and Naval Affairs, an increase of 34 percent, primarily reflecting increases in capital projects; and
- \$102 million for the Office of Indigent Legal Services, an increase of 54 percent, primarily reflecting an increase in local assistance.

The Executive proposes to transfer the Intelligence and Analysis Unit from DHSES to the State Police. The Budget proposes that \$7.5 million in criminal forfeiture funds from the Manhattan District Attorney be used to expand college level education programs for incarcerated individuals. In addition, the Executive proposes Article VII legislation to raise the age of juvenile jurisdiction from age 16 to age 18, expand services for 16- and 17-year-olds involved in the juvenile justice system, and place newly sentenced youth in OCFS facilities instead of prison. See the Human Services section of this report for more information.

The Executive proposes the Criminal Justice Reform Act of 2016. The Governor would be authorized to appoint an independent special counsel to review allegations of the use of deadly force by a police officer that resulted in the death of an unarmed person where the district attorney declines to present evidence to a grand jury or where a grand jury declines to return an indictment. The Governor would also have the authority to appoint special prosecutors to investigate allegations and prosecute cases. The Act would require State law enforcement agencies to report annually to DCJS the number of certain violations and misdemeanors, including the age, sex, race and ethnicity of pertinent individuals, as well as any arrest-related death. Other provisions relate to search warrants, sharing of evidence, and a use of force policy for law enforcement agencies statewide.

## ***Lottery and Gambling***

The Executive Budget recommends a net increase in All Funds appropriations for the Gaming Commission of \$93.75 million, a 64.1 percent increase. This reflects an increase of \$92.3 million in Aid to Localities funding as well as an increase in State Operations funding of \$1.45 million.

The Aid to Localities increase primarily reflects the inclusion of the appropriation for the Tribal State Compact Revenue Program under the Gaming Commission. Previously, the Tribal State Compact Revenue Program was a miscellaneous, stand-alone appropriation. While the Budget increases funding for the Tribal State Compact Revenue Program by \$30.8 million, this increase is due to the elimination of reappropriations for the program and the incorporation of the outstanding reappropriation authority into the SFY 2016-17 appropriation.

The increase in Aid to Localities funding due to the inclusion of the Tribal State Compact Revenue Program is offset by a \$30.2 million decrease in the Gaming Program. As part of the statute authorizing the creation of up to seven commercial casinos throughout the State, there is a provision to require the State to provide a share of the commercial gaming tax revenue to the local host governments of the casinos as well as the non-host counties within the region. As a result, SFY 2015-16 funding included \$34.2 million for the municipalities awarded the first three commercial casino licenses. The Executive expects one license to be issued in SFY 2016-17 to Tioga Downs, providing \$4 million to the affected local governments.

The Budget estimates revenues of \$151 million in SFY 2015-16 from the commercial gaming license fees that were recently issued and expects these fees to be paid by the end of the fiscal year. Revenues are projected to be \$20 million in SFY 2016-17 as a result of the projected issuance of a casino gaming license to Tioga Downs.

The Executive proposes to extend statutory provisions impacting gaming in the State, as follows:

- a one-year extension of the authorization for video lottery gaming operators to earn capital awards, which encourage facility upgrades and improvements;
- a one-year extension of certain tax rates and simulcasting provisions; and
- a one-year extension of the current commission rate for video lottery gaming revenue at Monticello.

In addition, the Executive Budget proposes to amend the entities who provide equine testing in the State to allow for a competitive procurement process. Currently, only Morrisville College is qualified to provide equine testing. The Executive also proposes to increase the purse surcharge and regulatory fee to support racehorse health and safety.

The 30-day amendments increase the Commission's Aid to Localities appropriations by \$4 million to provide for the payment of the local share of gaming facility license fee revenue in the event the Tioga Downs VLT facility is converted to a commercial casino in SFY 2016-17.

## ***State Workforce***

The Executive Budget projects the overall size of the State workforce to increase in SFY 2016-17 by 253 Full-Time Equivalent (FTEs). This increase is the net result of an estimated 1,773 attritions and 2,026 new hires. Total FTEs at the end of SFY 2016-17 are projected to be 180,505, compared to an estimated 180,252 at the end of SFY 2015-16 (these figures do not include members or staff of the Legislature or the Judiciary.) Figure 31 presents agencies expected by the Executive to show changes of 10 FTEs or more.

The Budget estimates a total \$13.5 billion in All Funds personal services expenditures for the upcoming fiscal year, 0.6 percent lower than in SFY 2015-16. This includes the phased-in minimum wage increase for State employees and SUNY employees. The first phase of the increase affects 2,000 State employees, and the statewide costs in SFY 2016-17 are anticipated by DOB to be less than \$2 million.

The fully phased-in minimum wage increase of \$15 on July 1, 2021 is projected to affect about 38,000 State employees – 28,000 SUNY and 10,000 non-SUNY State employees. According to DOB, the increase will represent approximately \$48.8 million in costs per year when fully phased in, including \$28 million at SUNY and \$20.6 million for the remaining State workforce. The Executive's announcement related to the minimum wage applied to SUNY employees but not to CUNY employees.

**Figure 31****SFY 2016-17 Estimated Agency Workforce Changes (Changes of 10 or more FTEs)**

	<b>March 2016</b>	<b>March 2017</b>	<b>Number Change</b>	<b>Percent Change</b>
<b>Agencies with Increases</b>				
Health, Department of	4,926	5,169	243	4.93%
Corrections and Community Supervision, Department of	28,869	29,089	220	0.76%
General Services, Office of	1,754	1,869	115	6.56%
Children and Family Services, Office of	2,875	2,954	79	2.75%
Transportation, Department of	8,228	8,258	30	0.36%
Justice Center for the Protection of People with Special Needs	428	450	22	5.14%
State Education Department	2,672	2,692	20	0.75%
Office of the State Comptroller	2,643	2,663	20	0.76%
Military and Naval Affairs, Division of	337	354	17	5.04%
Homeland Security and Emergency Services, Division of	466	478	12	2.58%
<b>Agencies with Decreases</b>				
People with Developmental Disabilities, Office for	18,655	18,400	(255)	-1.37%
Mental Health, Office of	14,400	14,278	(122)	-0.85%
Department of Taxation and Finance	4,359	4,267	(92)	-2.11%
Medicaid Inspector General, Office of	479	453	(26)	-5.43%
Public Service Department	525	508	(17)	-3.24%

Source: Division of the Budget

## **General State Charges**

The Executive Budget's presentation of costs associated with employee fringe benefits and certain other State expenses is known collectively as General State Charges (GSC). The General Fund Miscellaneous All State Departments and Agencies General State Charges appropriation of \$5.5 billion that appears in the SFY 2016-17 State Operations appropriations bill accounts for 69.1 percent of the Financial Plan's estimated GSC spending of \$7.9 billion from All Governmental Funds. Estimated spending trends by agency vary and generally are related to projected changes in the size of workforce.

The Executive Budget Financial Plan projects that State Operating Funds spending for GSC will total \$7.62 billion in SFY 2016-17. The overall increase in such spending from SFY 2015-16 through SFY 2019-20 is estimated to be 20.0 percent. This is due primarily to growth in health insurance and pension costs. Such spending is projected to increase 6.6 and 7.6 percent, respectively, from the current to the upcoming State fiscal year. See Figure 32.

For the first time since amortization of certain pension costs was initially authorized in SFY 2010-11, the Executive Budget Financial Plan assumes the State will not amortize any portion of such costs in SFY 2016-17 or in any of the three following years. From SFY 2010-11 through its current fiscal year, the State has amortized a total of \$3.6 billion in such costs. The Financial Plan projects repayments of approximately \$432 million in each of the next four years for amounts amortized from SFY 2010-11 through SFY 2015-16.



**Figure 32**

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

	2015-16	2016-17	% Change from 2015-16 to 2016-17	2019-20	% Change from 2015-16 to 2019-20
Employee Health Insurance	2,187	2,337	6.9%	2,805	28.3%
Retiree Health Insurance	1,292	1,373	6.3%	1,647	27.5%
<b>Health Insurance Subtotal</b>	<b>3,479</b>	<b>3,710</b>	<b>6.6%</b>	<b>4,452</b>	<b>28.0%</b>
Pensions	2,202	2,370	7.6%	2,546	15.6%
Social Security	981	966	-1.5%	984	0.3%
All Other Fringe Benefits	274	182	-33.6%	396	44.5%
<b>Fringe Benefits Subtotal</b>	<b>6,936</b>	<b>7,228</b>	<b>4.2%</b>	<b>8,378</b>	<b>20.8%</b>
<b>Fixed Costs</b>	<b>383</b>	<b>395</b>	<b>3.1%</b>	<b>408</b>	<b>6.5%</b>
<b>General State Charges Total</b>	<b>7,319</b>	<b>7,623</b>	<b>4.2%</b>	<b>8,786</b>	<b>20.0%</b>

Source: Division of the Budget.

Executive Budget documents indicate the Executive’s intent to use \$375 million in resources from the State Insurance Fund to pay certain workers compensation costs over the next four years, including \$140 million in SFY 2016-17. The Budget also proposes several changes that would reduce the State’s costs for retiree health coverage and shift costs to retirees. These proposals would: apply different New York State Health Insurance Plan (NYSHIP) premiums to new State retirees based on years of service; limit reimbursement of Medicare Part B premiums to \$104.90 per month for new State retirees;<sup>14</sup> and stop reimbursement for the Medicare Part B Income Related Monthly Adjustment Amount (IRMAA) for new and existing higher-income State retirees in NYSHIP. The first two proposals would take effect as of October 1, 2016 and the last as of January 1, 2016. DOB estimates State savings from these proposals to total \$10.1 million.

***Campaign Finance, Ethics and Government Reform***

The Executive Budget proposes Article VII legislation devoted to “Good Government and Ethics Reform.” It includes provisions in these areas:

*Campaign finance and elections*

The Budget proposes campaign finance reforms similar to those in previous Executive proposals, including a system of voluntary public campaign financing for all State-level candidates, reduced limits on campaign contributions, and expanded disclosure of contributions.

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<sup>14</sup> Retirees who enroll in Medicare Part B in 2016 will be charged a total base premium of \$121.80. Other retirees who will be paying the same higher Part B premium in 2016 are Medicare enrollees who are not enrolled in Social Security and higher-income enrollees subject to IRMAA. These three groups would not be reimbursed the amount above \$104.90.

The public financing proposal would authorize transfers of “remaining available monies” in the Abandoned Property Fund, at the direction of the Director of the Budget, as well as a voluntary tax checkoff system. The proposal includes limited liability corporations (LLCs) within the list of corporate entities whose political contributions are restricted by the Election Law, thus closing what has been called the “LLC loophole.”

Among various other provisions, the Budget also proposes measures to promote voter registration and participation, including requiring the DMV to automatically forward voter registration applications to local boards of elections unless the customer opts out, and requiring early voting up to 12 days before special, primary and general elections in at least one site in each county, with up to seven sites in larger counties.

#### *Limit on legislators’ outside earned income*

Outside earned income for members of the Legislature would be limited to 15 percent of “member base compensation,” as set forth in the Legislative Law. Violation of the provision would be punishable as a Class A misdemeanor and carry a civil penalty of up to \$50,000.

#### *Public Officers Law and lobbying changes*

Disclosure requirements and associated penalties in the Public Officers Law would be strengthened. Among other changes, certain violations would be punishable as Class A misdemeanors.

#### *Expansion of the Freedom of Information Law*

The Freedom of Information Law (FOIL) would be extended to cover the Legislature. It would also extend, with certain limits, to records of the Joint Commission on Public Ethics.

Where a collective bargaining agreement between a public employer and an employee organization requires ratification by employees or the employer, proposed terms would be required to be made publicly available no later than when such proposed terms are presented for ratification.

Current law allows courts to assess attorneys’ fees and other litigation costs incurred by a successful litigant in a FOIL-related case against a public agency. The proposed legislation would require a court to assess such costs when it finds that an agency has denied access to records “in clear disregard” of the law “and had no reasonable basis for denying access.”

#### *Study of a ‘single identifying code’ for contractors/vendors*

The Budget proposes that the Comptroller, the Attorney General, the State’s Chief Information Officer and the Commissioner of General Services be directed “to review, examine and make recommendations concerning the feasibility of assigning a single identifying code to contractors, vendors and other payees to track such entities and expenditures.” The group would be required to submit a report to the Governor and the legislative leaders by January 1, 2017.

#### *Pension Forfeiture*

The Executive also proposes a Constitutional amendment to authorize the forfeiture of pension rights for a public official who is convicted of a crime related to his/her public office.

## **Local Governments**

The Executive Budget proposes holding most direct municipal aid flat. Aid and Incentives to Municipalities (AIM), the largest regular appropriation of unrestricted aid to local governments, is held flat at \$715 million, as it has been since SFY 2011-12. The Budget proposes to continue several grant programs:

- A reappropriation of \$80 million (no new funding) for grants and loans made by the Local Government Financial Restructuring Board from an allocation of settlement funds. These funds can be awarded to applicants through existing programs.
- A \$35 million appropriation from the General Fund to be shared by the Citizen's Reorganization Empowerment Grants and the Citizen Empowerment Tax Credits. Both of these programs are intended to encourage consolidation, service sharing and other cooperative initiatives among municipalities.
- A \$4 million appropriation from the General Fund for the Local Government Efficiency Grant Program (same as SFY 2015-16).

Funding for local streets and highways would remain flat, with the Consolidated Highway Improvement Program (CHIPS) at \$438 million, and the Marchiselli Program at \$39.7 million. The Executive Budget does not include discrete additional funding to help compensate local governments for damage from severe winter weather, as the last two Enacted Budgets did. Executive briefing documents state that the Department of Transportation's capital plan includes three new initiatives that could provide additional funding over several years for State and local highways and bridges: PAVE NY and BRIDGE NY (\$1 billion each over five years) and Extreme Weather Infrastructure Hardening (\$500 million over five years). It is not clear where funding for these programs would come from, as there are no specific appropriations for these initiatives in the Executive Budget.

Aid to Municipalities with Video Lottery Gaming Facilities would be held flat at \$29.3 million. The Budget cuts a number of relatively small appropriations (primarily reflecting appropriations added by the Legislature in SFY 2015-16), including Village per Capita Aid (to \$0 from \$2 million last year), and a number of Miscellaneous Financial Assistance appropriations. The proposed Budget maintains a Small Government Assistance appropriation of \$0.2 million to be shared among Essex, Franklin and Hamilton counties.

The Budget proposes a number of new competitive grants and other initiatives that could benefit local governments and communities, and continues others from SFY 2015-16:

- Downtown Revitalization Initiative. Ten communities, including one in each economic development region, identified based on population loss or other indicators of economic decline, could submit proposals for shares of \$100 million of settlement money.
- Upstate Airport Economic Development and Revitalization Competition. \$200 million would be awarded, with funding from the capital projects fund. Municipalities, public authorities, public benefit corporations and other owners of public-use airports could be eligible for funding. The appropriation language notes that the funds could be interchanged or transferred to other capital projects.
- Empire State Poverty Reduction Initiative. \$25 million in settlement funds would be used for hunger prevention and nutrition assistance. Ten communities would share a pool of \$5 million for planning grants and an additional \$20 million would be available for matching grants.

- **Municipal Consolidation Competition.** This is a new allocation of \$20 million in settlement money for municipal consolidation or shared services.
- **Clean Water Infrastructure.** The Budget proposes an additional \$100 million in capital funding over two years, for a total commitment of \$250 million in addition to \$50 million that was committed in 2015-16. Entities other than local governments, including State agencies and public authorities, would also be eligible for this funding. Funding would be provided through a revolving loan program administered by the Environmental Facilities Corporation.

In addition to traditional aid and competitive or categorical grants, the Budget includes several proposals that could affect local governments' bottom line:

- **Elimination of the Medicaid Cap for New York City.** The Executive Budget would continue the State takeover of Medicaid growth for counties, but proposes requiring New York City to again pay for a portion of growth in Medicaid costs beginning October 1, 2016. (See the sections of this report on Medicaid and New York City for more details.)
- **Binding Arbitration.** Current law regarding binding arbitration for police and fire unions, including provisions enacted in 2013 that were intended to require greater consideration of a local government's ability to pay, would be extended for three years.
- **Early Voting.** Counties would be required to open early voting sites before special, primary and general elections. This proposal is estimated to cost counties \$2.8 million.
- **Cuts to Reimbursement for Patrolling State Waterways.** The Budget reduces reimbursement to municipalities for patrolling State waterways from 50 percent to 25 percent. This is expected to save the State nearly \$1 million.

The 30-day amendments increase funding to the City of Albany by \$12.5 million in SFY 2016-17. A related Article VII proposal modifies the current schedule of State payments to Albany to eliminate the SFY 2032-33 payment of \$7.15 million, and reduce the SFY 2031-32 payment to \$1.8 million.

## ***New York City***

The Executive Budget increases education aid to New York City by \$365 million for the school year beginning in September 2016, which is \$123 million less than the amount anticipated in the City's current financial plan. The City would also receive \$60 million from the Smart Schools Bond Act. As discussed below, the Executive Budget includes three proposals that would increase the City's costs by \$985 million in CFY 2017 and by about \$1.2 billion in subsequent years.

- The Executive proposes that the City fund 30 percent of the cost of CUNY senior four-year colleges, matching its share of board appointees. The State took over the cost of the senior colleges beginning in 1979 as part of its efforts to help the City recover from the fiscal crisis of the 1970s. This proposal would cost the City \$485 million in CFY 2017 and increasing amounts in subsequent years.
- The Budget requires the City to fund a larger share of the Medicaid program, reversing a three-year phased takeover of the growth in the local share that was nearly complete. The City would be the only locality in the State to fund a portion of the growth in the local share of Medicaid. If implemented, the initiative would cost the City \$299 million in CFY 2017 and the cost would grow to more than \$700 million by CFY 2020.

- To assist the City in 2003, the State effectively assumed financial responsibility for debt issued during the 1970s fiscal crisis by the Municipal Assistance Corporation (MAC). The State authorized annual payments of \$170 million from a portion of the State sales tax in the Local Government Assistance Tax Fund (a State fund), which were assigned by the City to the Sales Tax Asset Receivable Corporation (STARC). STARC securitized the State funds to pay all principal and interest on outstanding MAC bonds. In October 2014, the City refinanced outstanding STARC bonds and realized savings of \$650 million. The Executive believes the savings should have accrued to the State since the State funds the debt service on the bonds, and seeks to recoup the savings over a three-year period. The State Comptroller would be required to intercept \$16.7 million a month in sales tax receipts intended for the City for a period of 36 months (for a total of \$600 million over three years).

The City's current financial plan projects balanced budgets for City fiscal years 2016 and 2017, but projects budget gaps of \$2.3 billion in CFY 2018, \$2.9 billion in CFY 2019 and \$2.7 billion in CFY 2020. The City financial plan does not reflect the potential impact of the Executive Budget, and the Mayor has expressed concern over its potential budgetary impact. Subsequent to the release of the Executive Budget, the Governor indicated that efficiencies would be identified to mitigate the impact of the Executive Budget Medicaid and CUNY proposals.

### ***Metropolitan Transportation Authority***

The Executive has proposed legislation that would commit the State and New York City to provide \$10.8 billion to the Metropolitan Transportation Authority's \$29 billion capital program for 2015-2019 (\$26.1 billion excluding bridges and tunnels), which is consistent with the agreement reached between the Governor and the Mayor in October 2015.

As enacted in the SFY 2015-16 State Budget, the State will provide \$750 million in State bond proceeds and \$250 million in financial settlement funds. The City will provide \$657 million in capital grants in City Fiscal Year (CFY) 2016 through CFY 2020. The Executive has not identified the sources of the remaining \$7.3 billion in State funding and the City has not yet identified the sources of its remaining contribution of \$1.8 billion. However, the Executive Budget does increase the MTA bond cap by \$13.6 billion, which includes enough authority for the MTA to issue bonds to cover the State's remaining share of \$7.3 billion.

The State and the City will provide the MTA with the remaining \$9.2 billion after the MTA has effectively exhausted all other existing sources of capital funding. The State would fulfill its commitment no later than SFY 2025-26 or by the completion of the capital program. While the State could provide direct capital grants, the MTA could issue its own bonds backed by an existing or new State revenue source. With approval from the Director of the Budget, the MTA would be allowed to issue anticipation notes if it requires the additional funds and the State has not made a timely appropriation and other resources have been exhausted. According to DOB, the issuance of bonds by the MTA is one of numerous options to cover the State share currently being discussed.

The Executive Budget also provides the MTA with \$4.5 billion in dedicated tax revenues and State subsidies in 2016, which is consistent with the amount anticipated in the MTA's operating budget. In addition, the Executive Budget does not include a transfer of monies

intended for the MTA's operating budget to pay debt service on State service contracts, a practice that has been criticized in the past

## Public Authorities

The Executive Budget estimates that \$5.6 billion in capital projects will be financed using public authority bond proceeds in SFY 2016-17. The Budget increases bond caps (which generally reflect authorizations to borrow) for 18 State-Supported programs. In addition, there is an increase of \$13.6 billion in bonding capacity for the MTA related to its 2015-2019 capital program, which could also be used to address a portion of the Executive's proposed commitment of funds.

As shown in Figure 33, the net proposed increase in bonding authorizations for public authorities is \$5.6 billion, an increase of 5.4 percent over SFY 2015-16. The proposal amends the bond cap language for Economic Development Initiatives to include certain SUNY Polytechnic Institute Colleges of Nanoscale Science and Engineering projects, including a commercialization center in Chautauqua County and an industrial scale research and development facility in Clinton County, as well as Upstate Revitalization Initiative projects and Market New York projects, while increasing the cap by \$765 million.

Figure 33

### FY 2016-17 State-Supported Bond Caps / Authorizations (dollars in millions)

Program	Current Cap <sup>1</sup>	Proposed SFY 2016-17 Cap	Proposed	Proposed
			Change from Current Cap Dollar	Change from Current Cap Percent
Housing Capital Programs	3,153.8	4,697.5	1,543.7	48.9%
Transportation Initiatives	1,690.0	2,725.0	1,035.0	61.2%
Economic Development Initiatives	2,888.3	3,653.3	765.0	26.5%
Consolidated Highway Improvement Program (CHIPs)	8,658.9	9,147.2	488.4	5.6%
SUNY Educational Facilities	11,228.0	11,603.0	375.0	3.3%
Mental Health Facilities	7,722.8	8,021.8	299.0	3.9%
Prison Facilities	7,163.4	7,425.0	261.6	3.7%
Environmental Infrastructure Projects	1,775.8	2,008.3	232.5	13.1%
CUNY Educational Facilities	7,392.8	7,548.4	155.7	2.1%
SUNY 2020 Challenge Grants	440.0	550.0	110.0	25.0%
Office of Information Technology Services	269.1	364.8	95.7	35.6%
State Office Buildings and Other Facilities	469.8	509.6	39.8	8.5%
Youth Facilities	611.2	647.1	35.9	5.9%
Water Pollution Control (SRF)	805.0	840.0	35.0	4.3%
Higher Education Capital Matching Grants	210.0	240.0	30.0	14.3%
SUNY Upstate Community Colleges	838.5	861.5	23.0	2.7%
Library Facilities	140.0	154.0	14.0	10.0%
Division of State Police Facilities	155.6	167.6	12.0	7.7%
<b>Total Public Authority Bond Caps with Proposed Changes</b>	<b>55,612.8</b>	<b>61,164.0</b>	<b>5,551.2</b>	<b>10.0%</b>
<b>All Other Public Authority Bond Caps</b>	<b>47,856.4</b>	<b>47,856.4</b>	<b>-</b>	<b>0.0%</b>
<b>Total Public Authority Bond Caps</b>	<b>103,469.2</b>	<b>109,020.4</b>	<b>5,551.2</b>	<b>5.4%</b>
<b>General Obligation Bond Act Authorizations <sup>2</sup></b>	<b>19,185.0</b>	<b>19,185.0</b>	<b>-</b>	<b>0.0%</b>
<b>Total State-Supported Bond Caps/Authorizations</b>	<b>122,654.2</b>	<b>128,205.4</b>	<b>5,551.2</b>	<b>4.5%</b>

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

Note: Totals may not add due to rounding.

<sup>1</sup> The current cap reflects the amount currently authorized, some or all of which may already have been issued.

<sup>2</sup> This table reflects General Obligation Bond Acts where there is a remaining authorized but unissued amount and/or a remaining debt outstanding balance.

As shown in Figure 34, the Budget authorizes \$46.9 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. The Budget also includes the transfer of excess State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) reserves totaling \$150 million to the Housing Trust Fund Corporation (HTFC), the Homeless Housing and Assistance Corporation (HHAC), or the Housing Finance Agency (HFA), to fund various housing programs. The proposed transfer amount is \$25 million higher than the amount authorized in the SFY 2015-16 Enacted Budget.

**Figure 34**

**SFY 2016-17 Transfers and Miscellaneous Receipts from Public Authorities**  
(in millions of dollars)

<b>Public Authority</b>	<b>Amount</b>
<b>Transfers and Receipts to the General Fund:</b>	
Dormitory Authority of the State of New York	22.0
New York State Energy Research and Development Authority	24.9
<b>Total to General Fund</b>	<b>46.9</b>
<b>Miscellaneous Receipts for Energy Related Purposes:</b>	
New York Power Authority	20.0
New York State Energy Research Development Authority	15.0
<b>Total for Energy Related Purposes</b>	<b>35.0</b>
<b>Transfers to Various Housing Funds:</b>	
State of New York Mortgage Agency	150.0
<b>Total from Public Authorities</b>	<b>231.9</b>

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

\* The NYSERDA transfer includes \$23 million from the proceeds of auctions of carbon dioxide emission allowances under the Regional Greenhouse Gas Initiative (RGGI), and up to \$913,000 to help offset debt service requirements related to the remediation of the Western New York Nuclear Service Center. In addition, \$1 million in support for the Department of Environmental Conservation's Office of Climate Change is authorized to be transferred to the General Fund while \$750,000 for the University of Rochester Laboratory for Laser Energetics is authorized to be transferred directly. These items were historically funded through State Operations and Aid to Localities appropriations for NYSERDA but the appropriations were eliminated in the SFY 2015-16 Enacted Budget.

The Executive proposes to transfer up to \$20 million in funds from the New York Power Authority (NYPA) to the General Fund for energy-related initiatives. The Budget also authorizes a \$15 million transfer from NYSERDA to support the Clean Energy Workforce Opportunity Program to expand clean energy education and workforce training through SUNY, including up to \$5 million in support of these programs at SUNY community colleges.

The Executive proposes the New York State Design and Construction Corporation Act with the stated intent of providing project management expertise and oversight on public works projects in excess of \$50 million undertaken by State agencies, departments, public authorities and public benefit corporations. The Act forms the New York State Design and Construction Corporation (DCC) as a subsidiary of DASNY with a three-member board appointed by the Governor. The DCC would have broad powers including authority to review and direct changes in projects, including procurement of independent auditors and termination of contracts. In addition, this entity would be empowered to collect fees and charges for services it renders and to exercise, without limitation, eminent domain. It is

unclear what provisions in State Finance Law, Public Authorities Law, and other relevant statutes would apply to this new entity. The proposed Act provides for “regular reporting” of project status and milestones to the public, but does not provide information on specific data required, at what intervals reporting should be provided or how the information would be disseminated to the public. A related provision in the proposal extends, for two years, DASNY’s ability to form subsidiary corporations for certain purposes. Additional discussion of this proposal appears in the Transparency, Accountability and Oversight Issues and the Debt and Capital sections of this report.

The Executive also proposes authorization for the MTA and the New York City Transit Authority (NYCTA) to utilize public-private partnerships for an extensive range of activities including design, construction, financing and maintenance, among others. The proposal is not project-specific and includes broad provisions for new and increased taxes, assessments, tolls, fares and other charges that are authorized to be imposed by entities that enter into a “joint arrangement.” In addition, this proposal would require any public service corporation to pay for the costs associated with the removal, protection, or replacement of any pipes, mains or conduits of the corporation, in connection with the improvement, construction, reconstruction or rehabilitation of a transportation facility, including as part of a joint arrangement, whether performed by the MTA or the public service corporation. Additional discussion of this proposal appears in the Transparency, Accountability and Oversight Issues and the Design-Build and Public-Private Partnerships sections of this report.

The Budget proposes the Transformational Economic Development Infrastructure and Revitalization Projects Act which would provide design-build authority for the New York State Urban Development Corporation (UDC), New York Convention Center Development Corporation and their subsidiaries related to the proposed Javits expansion, the Empire Station Complex, the James A. Farley Building Replacement and Penn Station New York Redevelopment projects.

Article VII language accompanying the Executive Budget includes a proposal for the State to capture \$200 million annually over the next three State fiscal years (SFY 2016-17, SFY 2017-18 and SFY 2018-19) in New York City sales tax revenue. The language directs the payment of \$16.7 million per month from the intercepted funds either to issuers of State-related debt, which would result in a shift of the funds off-budget and without an appropriation, for the payment of debt service, related expenses or retiring or defeasing debt previously issued or to a governmental fund or funds of the State Treasury. The Executive indicates that this would permit the State to recoup a portion of the estimated debt service savings that will be otherwise realized by the City, as a result of the issuance of approximately \$2 billion in refunding bonds by the Sales Tax Asset Receivable Corporation (STARC) in October 2014. However, one of the options for use of the funds would allow for the ultimate use of these funds outside of the State Treasury.

The Budget authorizes the transfer of the New York State Canal Corporation and all of the powers and duties relating to the canal from the Thruway Authority to the Power Authority of the State of New York (NYPA). Provisions in the proposal require NYPA to reimburse the Thruway Authority for costs associated with the operation and maintenance of the canal system and the Canal Corporation from April 1, 2016 through January 1, 2017, when the transfer becomes effective. In addition, the proposal would eliminate the Thruway Authority’s



operating subsidy of \$21.5 million and repeals provisions that exempt the Thruway Authority from the State's cost recovery charge.

The Budget proposes amendments to language enacted in SFY 2013-14 requiring the Division of State Police to provide enforcement assistance on the Thruway at a level consistent with historical precedents and requiring the Thruway Authority to provide goods and services in connection with those enforcement activities. The language would be modified to specify that enforcement activities will be provided at the request of the Thruway Authority, and shall be reimbursed by the Thruway Authority to the State Police through an internal service fund established for this purpose. The Executive anticipates \$85 million in State savings associated with eliminating these Thruway subsidies.

Also included in the proposal is a nonrefundable tax credit for all or a portion of Thruway tolls paid through an individual, business, or commercial E-ZPass account. Individuals would be eligible for a credit of 50 percent of tolls paid if they have paid \$50 or more in tolls in the taxable year. Business and commercial E-ZPass holders would also be eligible for a credit of 50 percent of tolls paid if they have paid \$100 or more but less than \$10,000 in tolls in the taxable year. The credit for business or commercial E-ZPass holders operating a farm vehicle would be 100 percent of tolls paid, as long as the tolls were incurred in connection with farm operations. The credits would be in effect for tax years 2016, 2017 and 2018. The Executive estimates the credit would result in a reduction in revenue totaling \$340 million over three years, to be funded through settlement funds.

The Executive proposes the Private Activity Bond Allocation Act of 2016, which would repeal the Private Activity Bond Allocation Act of 2014 created by Chapter 49 of the Laws of 2014. The new Act would require Public Authority Control Board (PACB) approval of any private activity bonds issued using the local set-aside by local agencies, including local development corporations, industrial development agencies and the New York City Housing Development Corporation. The new Act requires any local reallocation to be approved by the Commissioner of the Department of Economic Development and makes the provisions of the Act permanent. Current law only requires notification to the Commissioner of a local reallocation and requires periodic extensions of the expiration date.

The Executive Budget authorizes NYSERDA to receive utility assessment funds, not to exceed \$19.7 million, directly from utilities. The funds would be used to support expenditures for the authority's energy research, development and demonstration program, energy policy and planning program, and Fuel NY program. In addition, NYSERDA is directed and authorized to transfer \$1 million to the General Fund in support of the DEC's Office of Climate Change and \$750,000 to the University of Rochester Laboratory for Laser Energetics. Each of these purposes were typically appropriated in the State Operations and Aid to Localities budgets, but as a result of the direct payments, these appropriations were eliminated for NYSERDA in the SFY 2015-16 Enacted Budget, reducing reported State Operating Funds spending and reducing transparency and accountability for these funds.

The Budget proposes to transfer the statutory authorization for agricultural, aquatic and dairy products marketing administration from the Department of Agriculture and Markets to UDC. In addition to the transfer, several new provisions would be added, which include eliminating the requirement for competitive procurements and permitting UDC to retain funds collected through the marketing orders to defray the costs of administering the program. Additional information about this proposal can be found in the Agriculture section of this report.

Other proposals related to public authorities in the Executive Budget include:

- an extension for one year of UDC's authorization to administer the Empire State Economic Development Fund and of UDC's power to grant general loans;
- modifications to permit OASAS-sponsored Delivery System Reform Incentive Payment (DSRIP)-like integrated health facilities to receive funding for infrastructure projects through State-supported bonds issued by DASNY;
- modifications to Public Authorities Law Section 2879-a to exempt certain MTA contracts from Office of the State Comptroller review and approval provisions; and
- capital funding for the Olympic Regional Development Authority (ORDA) including \$7.5 million for maintenance and energy efficiency upgrades and \$2.5 million through the Office of Parks, Recreation and Historic Preservation as part of New York Works.

# Appendices

## Appendix A: Multiyear Gap-Closing Plan

### SFY 2016-17 Executive Budget General Fund Gap-Closing Plan SFY 2016-17 through SFY 2019-20 (in millions of dollars)

	SFY 2015-16	2016-17	2017-18	2018-19	2019-20
<b>Current Services Gap Reported in Mid-Year Update</b>	-	(1,781)	(2,802)	(4,414)	(4,205)
Receipt Revisions (not including additional settlement revenue)	481	-	-	-	-
Other Revisions	470	-	-	-	-
<b>Current Services Gap Before Proposed Revisions</b>	<b>951</b>	<b>(1,781)</b>	<b>(2,802)</b>	<b>(4,414)</b>	<b>(4,205)</b>
<b>Non-Recurring and Temporary Resources and Costs</b>	<b>(951)</b>	<b>709</b>	<b>345</b>	<b>313</b>	<b>114</b>
Additional Debt Service Prepayment	(348)	348	60	-	-
Additional Personal Income Tax Refund Prepayment	(250)	250	-	-	-
Fund Sweeps and Other Transfers	(117)	120	-	-	-
Replace Federal Mental Hygiene Resources	(250)	-	-	-	-
STARC Refunding	-	200	200	200	-
Charter School Tuition Funding	-	-	(27)	-	-
Reserves	14	(209)	112	113	114
<b>Recurring State Operations Reductions</b>	-	<b>397</b>	<b>145</b>	<b>40</b>	<b>(357)</b>
Executive Agencies, University and Judicial	-	216	134	162	106
Other Benefits and Costs	-	181	11	(122)	(463)
<b>Debt Management and Capital</b>	-	<b>91</b>	<b>107</b>	<b>152</b>	<b>88</b>
<b>Recurring Local Assistance Reductions</b>	-	<b>1,177</b>	<b>1,801</b>	<b>1,679</b>	<b>1,839</b>
STAR (including resource change)	-	240	409	270	323
Mental Hygiene	-	215	173	101	32
Department of Health	-	308	539	603	738
Medicaid/HCRA	-	84	39	55	94
Human Services/Housing	-	154	110	110	110
Higher Education	-	176	531	540	542
<b>Recurring Revenue/Resources/Re-Estimates</b>	-	<b>(229)</b>	<b>(44)</b>	<b>164</b>	<b>100</b>
Revised Tax Projections	-	(229)	(44)	164	100
<b>Recurring New Tax Actions</b>	-	<b>17</b>	<b>(435)</b>	<b>(647)</b>	<b>(625)</b>
<b>New Spending Initiatives</b>	-	<b>(21)</b>	<b>(220)</b>	<b>(577)</b>	<b>(448)</b>
Juvenile Justice Reform	-	(2)	(161)	(403)	(385)
Dream Act	-	(19)	(27)	(27)	(27)
SUNY/CUNY Performance Incentive	-	-	(30)	(30)	(30)
Public Campaign Financing	-	-	(2)	(117)	(6)
<b>All Other</b>	-	<b>(360)</b>	<b>(14)</b>	<b>170</b>	<b>(132)</b>
<b>Remaining Gap In Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark</b>	-	-	<b>(1,117)</b>	<b>(3,120)</b>	<b>(3,626)</b>

Source: Division of the Budget

## Appendix B: Capital Spending Plan Comparison

### Comparison of Capital Spending SFY 2015-16 Enacted Capital Plan vs. SFY 2016-17 Proposed Capital Plan (in millions of dollars)

	SFY 2015-16	Proposed Capital Plan - SFY 2016-17 through SFY 2020-21					Average 2016-17 through 2020-21	Total Dollar 2016-17 through 2020-21	Total Percentage 2016-17 through 2020-21
		SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21			
Transportation	5,357,524	4,871,682	4,761,342	4,911,255	5,072,238	4,636,196	4,850,543	24,252,713	39.9%
Education	267,732	411,923	678,947	508,749	437,400	17,400	410,884	2,054,419	3.4%
Higher Education	1,491,691	1,535,999	1,530,399	1,495,899	1,489,619	1,464,601	1,503,303	7,516,517	12.4%
Economic Development/ Government Oversight	713,308	1,119,799	1,318,648	1,328,021	1,381,082	1,299,898	1,289,490	6,447,448	10.6%
Mental Hygiene	437,638	470,232	482,646	430,328	431,328	431,328	449,172	2,245,862	3.7%
Parks and Environment	704,290	792,401	894,203	911,052	851,853	764,853	842,872	4,214,362	6.9%
Health	144,500	285,289	660,289	865,289	425,289	555,289	558,289	2,791,445	4.6%
Social Welfare	160,562	273,558	440,942	648,273	666,123	567,369	519,253	2,596,265	4.3%
Public Protection	447,033	450,436	398,949	355,717	346,074	341,074	378,450	1,892,250	3.1%
General Government	158,678	295,133	229,836	144,583	108,683	78,683	171,384	856,918	1.4%
Other	886,070	1,350,148	1,359,834	1,014,453	1,053,021	1,066,805	1,168,852	5,844,261	9.6%
<b>Total</b>	<b>10,769,026</b>	<b>11,856,600</b>	<b>12,756,035</b>	<b>12,613,619</b>	<b>12,262,710</b>	<b>11,223,496</b>	<b>12,142,492</b>	<b>60,712,460</b>	<b>100.0%</b>

	SFY 2014-15	Enacted Capital Plan - SFY 2015-16 through SFY 2019-20					Average 2015-16 through 2019-20	Total Dollar 2015-16 through 2019-20	Total Percentage 2015-16 through 2019-20
		SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20			
Transportation	4,423,815	4,676,454	4,659,557	4,384,933	4,456,586	4,597,271	4,554,960	22,774,801	40.3%
Education	59,259	470,232	481,923	476,447	458,749	417,400	460,950	2,304,751	4.1%
Higher Education	1,462,298	1,674,836	1,722,894	1,631,810	1,635,210	1,592,523	1,651,455	8,257,273	14.6%
Economic Development/ Government Oversight	509,624	849,069	1,246,199	1,293,137	1,242,953	1,365,332	1,199,338	5,996,690	10.6%
Mental Hygiene	390,284	442,638	472,232	481,646	427,328	427,328	450,234	2,251,172	4.0%
Parks and Environment	637,258	748,753	767,951	767,003	764,652	721,003	753,872	3,769,362	6.7%
Health	117,463	406,500	493,500	433,500	433,500	383,500	430,100	2,150,500	3.8%
Social Welfare	134,450	165,562	199,558	201,558	198,558	191,558	191,359	956,794	1.7%
Public Protection	327,511	455,285	320,312	299,574	295,079	291,974	332,445	1,662,224	2.9%
General Government	148,763	158,678	205,133	222,836	96,583	78,683	152,383	761,913	1.3%
Other	76,549	1,154,225	827,900	948,260	1,309,450	1,376,075	1,123,182	5,615,910	9.9%
<b>Total</b>	<b>8,287,274</b>	<b>11,202,232</b>	<b>11,397,159</b>	<b>11,140,704</b>	<b>11,318,648</b>	<b>11,442,647</b>	<b>11,300,278</b>	<b>56,501,390</b>	<b>100.0%</b>

Source: Division of the Budget

## ***Appendix C: Updates to the Executive Budget Financial Plan***

### **SFY 2016-17 Executive Budget Financial Plan Updated for Governor's Amendments and Forecast Revisions**

On February 12, 2016, the Governor submitted 30-day amendments to the Executive Budget for SFY 2016-17, which was initially released on January 13, 2016. On February 16, 2016, an updated Financial Plan was released, incorporating the fiscal impact of the proposed amendments and revising the forecast for the period from SFY 2015-16 through SFY 2019-20.

#### ***SFY 2015-16 – Updated for Amendments and Forecast Revisions***

In the Financial Plan Update, DOB modifies projections made in the SFY 2015-16 Third Quarter Financial Plan Update included with the Executive Budget. These adjustments result in a net increase of \$300 million in higher PIT collections, reflecting higher estimated payments (up \$410 million) and lower collections from withholding (down \$110 million). The increase in receipts is offset by an increase of \$300 million in PIT refunds to be paid in SFY 2015-16 that were initially planned to be paid in SFY 2016-17, leaving the estimate for overall PIT collections unchanged. Actual January PIT collections were \$531.7 million higher than Executive Budget projections for the month.

The Third Quarter Update projected the State would receive just under \$3.4 billion in monetary settlements for the current fiscal year. The updated Plan increases this projection by \$215 million. Executive Budget amendments do not include new appropriations to spend the additional revenue or provide authority to transfer the revenue out of the General Fund. The General Fund year-end balance is projected to increase by \$215 million, primarily reflecting this additional settlement revenue being retained as an unrestricted reserve.

#### ***SFY 2016-17 – Updated for Amendments and Forecast Revisions***

##### ***General Fund***

General Fund receipts, including transfers from other funds, are projected to total \$68.8 billion in SFY 2016-17, nearly unchanged from January Financial Plan estimates. In the updated Financial Plan, DOB reduces projections for estimated payments and for collections from withholding within PIT by a total of \$300 million, offset by an equal reduction in SFY 2016-17 refunds, which are now expected to be paid in SFY 2015-16. Compared to the Third Quarter Financial Plan, additional Lottery revenues anticipated totaling \$75 million in SFY 2015-16 are expected to lower General Fund costs for education in SFY 2016-17. The lower General Fund costs are partially offset by a \$60 million increase in the General Fund transfer to the Dedicated Highway and Bridge Trust Fund (DHBTF). This increase is driven by anticipated lower revenue from the proposed reduction in the Highway Use Tax and certain additional costs associated with a recent State Supreme Court summary judgment which found the State's highway use and registration fee structure to have a discriminatory impact on interstate commerce.

General Fund spending, including transfers to other funds, is projected to decline 2.7 percent in SFY 2016-17 to \$70.6 billion. This projection is minimally changed overall from the Third

Quarter Update to the Financial Plan. Changes in the Updated Plan include lower local assistance grants, primarily reflecting the increased estimate for Lottery receipts, and the increased transfer to the DHBTf, as discussed above. An additional \$12.5 million is added for the City of Albany.

### All Funds

All Funds receipts are projected to decline slightly from SFY 2015-16 to \$152.9 billion. This change is primarily driven by the expected decline in miscellaneous receipts, which are projected to decrease 8.3 percent compared to 7.2 percent in the Third Quarter Update, as a consequence of the increased settlement revenue now expected in SFY 2015-16. All Funds tax collections are projected to increase 3.4 percent, or \$2.5 billion. This primarily reflects growth in PIT, which is still expected to increase 6.1 percent or just under \$2.9 billion (even though projections for collections from the components within PIT were changed in the updated Financial Plan), offset by declines in business tax collections and the Estate tax.

All Funds spending is projected to increase nearly \$2.5 billion, or 1.6 percent, to \$154.6 billion. This is approximately \$63 million higher than anticipated in the Third Quarter Update, primarily because of slightly higher projected spending for General State Charges and capital projects.

### Financial Plan Comparison: Executive Proposal (Jan.) and Updated for Amendments (Feb.) SFY 2015-16 and SFY 2016-17 – All Funds (in millions of dollars)

All Funds	SFY 2015-16 January	SFY 2015-16 February	Difference	SFY 2016-17 January	SFY 2016-17 February	Difference
<b>Receipts:</b>						
<b>Taxes</b>						
Personal Income Tax	47,093	47,093	-	49,960	49,960	-
Consumption and Use	15,641	15,640	(1)	16,194	16,135	(59)
Business Taxes	8,406	8,406	-	8,018	8,018	-
Other Taxes	3,944	3,944	-	3,512	3,512	-
<i>Total Taxes</i>	<i>75,084</i>	<i>75,083</i>	<i>(1)</i>	<i>77,684</i>	<i>77,625</i>	<i>(59)</i>
<b>Miscellaneous Receipts</b>	26,035	26,333	298	24,159	24,159	-
<b>Federal Grants</b>	52,328	52,328	-	51,133	51,133	-
<b>Total Receipts</b>	<b>153,447</b>	<b>153,744</b>	<b>297</b>	<b>152,976</b>	<b>152,917</b>	<b>(59)</b>
<b>Disbursements:</b>						
<b>Local Assistance</b>	111,853	111,849	(4)	113,450	113,439	(11)
<b>State Operations</b>						
Personal Service	13,581	13,581	-	13,498	13,498	-
Non-Personal Service	6,722	6,709	(13)	6,752	6,801	49
<i>Total State Operations</i>	<i>20,303</i>	<i>20,290</i>	<i>(13)</i>	<i>20,250</i>	<i>20,299</i>	<i>49</i>
<b>General State Charges</b>	7,625	7,632	7	7,942	7,955	13
<b>Debt Service</b>	5,452	5,452	-	5,455	5,455	-
<b>Capital</b>	6,851	6,855	4	7,420	7,432	12
<b>Total Disbursements</b>	<b>152,084</b>	<b>152,078</b>	<b>(6)</b>	<b>154,517</b>	<b>154,580</b>	<b>63</b>

Source: Division of the Budget

## **Debt Reform Act Limit Update**

The updated SFY 2016-17 Executive Budget Financial Plan makes certain downward revisions to the projected available statutory capacity for State-Supported debt outstanding, under the limit imposed by the Debt Reform Act of 2000, in each of the years from SFY 2016-17 through SFY 2020-21. This lower projected capacity is the result of downward revisions to projections of personal income in New York State. Projections related to statutory capacity under the limit on State-Supported debt service remain unchanged from those provided in the Executive Budget Financial Plan. The Executive Budget had projected that remaining capacity under the State's statutory debt limit would decline to \$206 million as of March 31, 2020, a low point for debt capacity over the five-year period. This figure has been revised downward to \$189 million with the release of the Updated Financial Plan.

## **Economic Forecast Update**

As a result of the release of the Bureau of Economic Analysis's estimate of real GDP for the fourth quarter of 2015, which showed a greater slowdown in the economy, DOB reduced its estimate for real GDP growth in 2015 from 2.5 percent to 2.4 percent. This weaker state of the economy, as well as the recent financial market volatility and deceleration in business investment and exports, resulted in DOB reducing its projection for real GDP growth in 2016 from 2.3 percent to 2.0 percent in the 30-day amendments. Accompanying the lower projections of real GDP growth, DOB has lowered its 2016 projections for personal income growth at the national level from 4.7 percent to 4.4 percent. However, national employment is projected to be stronger in 2016, increasing by 1.8 percent as compared to the 1.7 percent projected in the Executive Budget.

At the State level, projections for wage growth are adjusted downward in the 30-day amendments for both SFY 2015-16 and SFY 2016-17. For SFY 2015-16, wage growth is estimated at 4.0 percent, as opposed to the growth of 4.2 percent that was estimated in the Executive Budget. While there is no change to estimates for non-bonus wage growth in the current fiscal year, DOB estimates bonuses in the finance and insurance sector will decline by 2.5 percent, resulting in a drag on overall wage growth. Similarly, wage growth for SFY 2016-17 is adjusted downward from 4.5 percent to 4.3 percent, primarily due to weaker projected growth in finance and insurance bonuses, while projected employment growth remains unchanged.