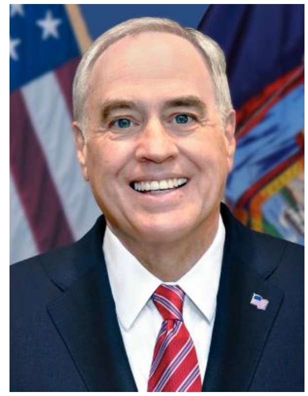
New York State Comptroller
THOMAS P. DiNAPOLI

Report on the State Fiscal Year 2024-25 Executive Budget

February 2024

Message from the Comptroller



February 2024

After years of disruption caused by the COVID-19 pandemic, New York State finances appear to have stabilized. Concerns about an imminent national economic downturn have diminished, inflation has come down to more manageable levels and the Division of the Budget's forecasted State budget gaps have been reduced from recent projections.

At the same time, there are many challenges, including how to provide a high quality, broadly accessible and affordable health care system; how to ensure that State education aid is directed equitably for students, school districts and taxpayers; and how to improve the affordability of New York for all its residents.

The State must also continue to improve its readiness for future economic downturns. As COVID demonstrated, the unexpected can happen at any time, and we must ensure that our finances are strong enough to weather the next storm. In recent years, progress has been made increasing State reserve funds, but additional steps can be taken to ensure that reserves are retained for emergencies and only used in clearly defined situations.

The Budget contains several concerning proposals detailed in this report related to transparency, debt and the independent oversight exercised by my Office. At least $160 million in spending has been exempted from the Office of the State Comptroller's contract oversight and the competitive procurement process, and an additional $1.4 billion in spending is proposed for distribution without a competitive procurement process.

In addition, the Executive Budget includes a new proposal to severely restrict the State Comptroller's terms and conditions approval of certain State bond issuances. This critical oversight and approval role protects taxpayers from short-sighted financing decisions that too often burden taxpayers with debt that is risky and costly. Other proposals obfuscate the State's true debt burden and would permit unwise financing choices. These proposals should be rejected, and underscore the need for comprehensive debt reform.

Thomas P. DiNapoli
State Comptroller

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Financial Plan Overview

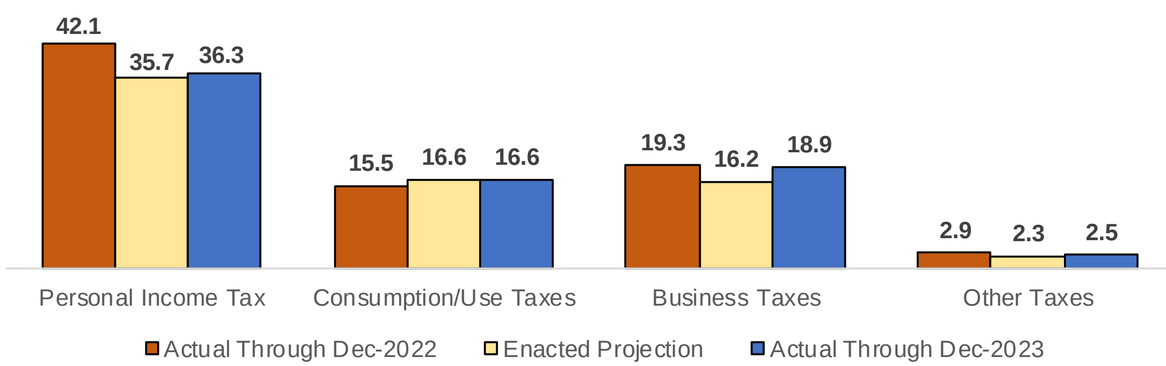
This report details provisions of the New York State Fiscal Year (SFY) 2024-25 Executive Budget proposal submitted on January 16, 2024. As of the time of publication, the Division of the Budget (DOB) had not released 30-Day Amendments to the Executive Budget.

State Fiscal Year 2023-24

Results Through December

Tax collections in All Governmental Funds (All Funds) totaled $74.4 billion through the first three quarters of SFY 2023-24, a decrease of $5.4 billion or 6.3 percent from the same period of the previous year. This reflects a year-over-year decrease of $5.8 billion in Personal Income Tax (PIT) collections due, in part, to lower settlement payments related to the 2022 tax year, as well as the volatility in the financial markets which has produced lower quarterly estimated payments over the course of the year relative to the year prior. Year-over-year collections from consumption and use taxes increased due, in part, to the resumption of sales and excise taxes on motor fuel that were suspended from June 1 to December 31, 2022.

Figure 1
SFY 2023-24 All Funds Tax Collections Through December 31, 2023 as Compared to Prior Year Results and Enacted Budget Projections (in billions of dollars)



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

However, collections are well ahead of initial estimates made in the Enacted Budget Financial Plan; through December 31, total tax collections were nearly $3.6 billion over these projections. Actual tax collections have exceeded projections throughout the year, primarily from higher business tax collections.

All Funds spending through December 31, 2023, totaled $163.5 billion, 2.6 percent or $4.4 billion below DOB's projections included with the Enacted Budget Financial Plan, with $1.2 billion of the variance from lower spending for local assistance payments and $2.4 billion from lower spending for capital projects. Spending from the General Fund (including transfers to other funds) totaling $66.4 billion was $3.3 billion, or 4.8 percent, below initial projections, primarily related to lower-than-expected expenditures for local assistance.

All Funds

Updated DOB projections show All Funds spending, including spending from federal funds, will total $231.6 billion in SFY 2023-24, an increase of $11.1 billion or 5.1 percent from SFY 2022-23. This increase is largely due to the State's two biggest spending categories, Medicaid and School Aid; Department of Health (DOH) Medicaid spending is projected to increase by $7.2 billion, or 8.5 percent, and School Aid is projected to increase by $3.4 billion, or 8.8 percent, in SFY 2023-24 as compared to SFY 2022-23. All other local assistance spending, some of which falls under Medicaid but is spent by other State agencies aside from DOH, is projected to increase by $3.7 billion, or 8.3 percent. These increases are offset by a $7.9 billion decline in debt service spending, or 75.1 percent. This is largely the result of prior years' prepayment actions, including $6 billion in additional debt service paid in SFY 2022-23 to prepay future years' expenses.

The FY 2025 Executive Budget Financial Plan estimates All Funds receipts for SFY 2023-24 to total $231.3 billion, a decrease of $1.8 billion or 0.8 percent from SFY 2022-23 results. Tax collections (inclusive of the Pass Through Entity Tax, or PTET) are projected to total $104.4 billion, a decrease of nearly $7.3 billion or 6.5 percent. Federal receipts are anticipated to increase $6.4 billion (7.1 percent) to $95.9 billion, primarily reflecting an increase in Medicaid and Federal Emergency Management Agency (FEMA) reimbursements related to federal pandemic-related aid. Miscellaneous receipts are expected to decline by $842 million (2.6 percent), primarily reflecting lower fee and reimbursement revenues deposited to the State's various special revenue funds.

State Operating Funds

DOB presented State Operating Funds (SOF) spending in an adjusted and unadjusted form,[1] which provides more transparency relating to the actual growth in SOF spending that can otherwise be obscured or distorted by prepayments and other financial management maneuvers. The adjusted SOF spending (before factoring in the impact of such management actions) in the current year is projected to be $130.2 billion, which would be an increase of $10.0 billion or 8.4 percent from the previous year's adjusted spending. On an unadjusted basis (including the net impact of the cash management actions), current year SOF spending is projected to be $126.6 billion, which would be an increase of $2.6 billion, or 2.3 percent from the prior year's unadjusted spending. DOB estimates SFY 2023-24 SOF receipts will total $128.7 billion, a decrease of nearly $9.0 billion or 6.5 percent from SFY 2022-23.

General Fund

General Fund (including transfers to other funds) spending is projected by DOB to total $103.5 billion in SFY 2023-24, representing an increase of $10.7 billion or 11.5 percent from the previous year, with increases in local assistance (17.8 percent) and State operations (11.5 percent) offset by lower transfers to other funds (13.8 percent). Extraordinary federal aid relating to the public health emergency, which supplanted General Fund spending in SFY 2022-23, is continuing to wane and the effect is seen in these large year-over-year increases.

Total General Fund receipts (including transfers from other funds, as well as the PTET) are currently estimated to total just over $105 billion, representing an increase of $1.8 billion or 1.8 percent from SFY 2022-23. This increase partly reflects growth in miscellaneous receipts resulting from higher investment income, as both interest rates and fund balances have risen.

The Executive Budget Financial Plan forecasts a current-year General Fund surplus of $2.2 billion. Relative to the Mid-Year Update, the surplus has been generated mostly by a modest upward revision of tax receipts ($890 million) and an additional $2 billion from an unrestricted reserve category DOB calls the Transaction Risk Reserve. These funds are set aside by DOB in every year of the Financial Plan, with the stated intent of offsetting revenue errors or increased spending. Partially offsetting these increased receipts are $1.1 billion in additional costs relating to the timing of repayment from distressed health care providers, which were advances the State made to distressed providers in response to initial delays in the federal approval of planned SFY 2021-22 through SFY 2023-24 State-directed payments.

DOB proposes using the forecasted surplus to make a $1.7 billion prepayment of SFY 2024-25 pension costs, which DOB projects would save approximately $110 million in interest savings. In addition, DOB plans on reserving $500 million for costs related to asylum seekers to be used in SFY 2025-26.

State Fiscal Year 2024-25

All Funds spending is expected to total $232.7 billion, an increase of $1.0 billion or 0.5 percent, as compared to DOB's updated SFY 2023-24 projections. Unadjusted SOF spending is expected to grow by $2.7 billion, or 2.1 percent, while adjusted SOF spending is expected to grow by $5.9 billion or 4.5 percent. General Fund spending is expected to grow by $4.1 billion, or 4.0 percent. General Fund spending growth is driven primarily by increased local assistance payments ($3.4 billion, or 4.6 percent year-over-year growth) and transfers to other funds ($1.6 billion, or 22.4 percent year-over-year growth) that include a $1.3 billion increase, or 35.9 percent increase, in capital projects spending. State operations spending decreases by $890 million, or -4.0 percent, year-over-year.

The Executive Budget Financial Plan projects All Funds receipts will total $227.7 billion in SFY 2024-25, a decline of $3.1 billion or 1.6 percent. This is primarily due to a decline in federal receipts. DOB projects All Funds tax receipts to total nearly $108.0 billion, an increase of $3.6 billion or 3.4 percent from SFY 2023-24, largely reflecting continued economic growth on collections.

Miscellaneous receipts are expected to total $27.9 billion, a decrease of $3.1 billion or 10 percent, reflecting growth in bond proceeds more than offset by declines in all other receipts. Federal receipts, comprising over 40 percent of revenues in the Financial Plan, are projected to total $91.8 billion, a decline of $4.1 billion or 4.3 percent as pandemic assistance continues to decline.

Budget Gaps

The State's structural budget gap is projected to worsen over the next few years. As shown in Figure 2, DOB projects growth in disbursements to rapidly outpace that of receipts throughout the Financial Plan period. Over the five-year Plan period, General Fund receipts are projected to grow 4.2 percent compared to disbursements that are projected to grow over four times as fast (17.7 percent). The Financial Plan forecasts cumulative gaps of $20.1 billion from SFY 2025-26 through SFY 2027-28, as shown in Figure 3.

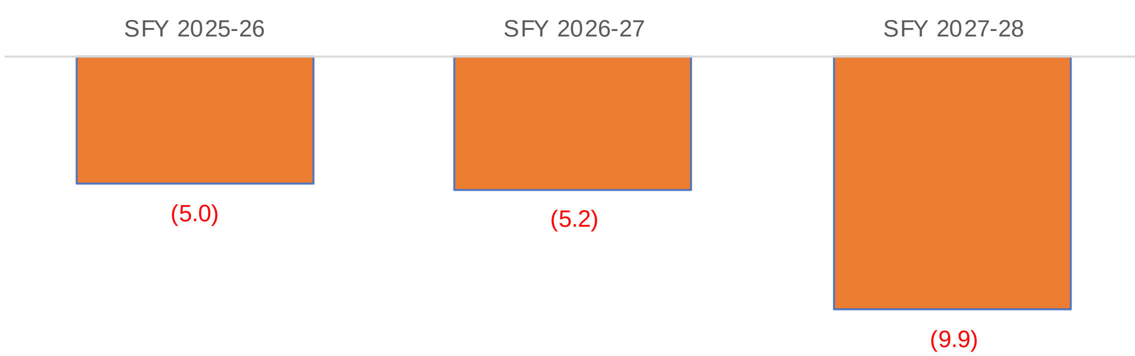
Figure 2
Projected Changes in Receipts and Disbursements by Fund, SFY 2023-24 – SFY 2027-28 (in millions of dollars)

	SFY 2023-24 Estimate	SFY 2024-25 Projection	SFY 2025-26 Projection	SFY 2026-27 Projection	SFY 2027-28 Projection	$ Change SFY 2023-24 to SFY 2027-28	% Change SFY 2023-24 to SFY 2027-28
General Fund Receipts	105,006	106,480	102,665	100,014	109,404	4,398	4.2%
General Fund Disbursements	103,489	107,586	113,071	117,304	121,779	18,290	17.7%
SOF Receipts	128,742	129,251	129,416	127,553	138,535	9,793	7.6%
SOF Disbursements	126,610	129,268	140,181	145,313	150,755	24,145	19.1%
All Funds Receipts	231,302	227,668	230,880	229,382	239,469	8,167	3.5%
All Funds Disbursements	231,604	232,652	241,061	246,241	251,122	19,518	8.4%

Note: SOF disbursements reflect DOB's unadjusted SOF spending projections.

Source: Division of the Budget

Figure 3
Projected Budget Gaps, SFY 2025-26 – SFY 2027-28 (in billions of dollars)



Source: Division of the Budget

Reserves

The State currently holds $6.3 billion in statutorily restricted reserve funds: $1.6 billion in the Tax Stabilization Reserve Fund (TSRF) and $4.6 billion in the Rainy Day Reserve Fund (RDRF). The Executive Budget proposes no additional deposits to these statutory reserves before the end of the current fiscal year. Cumulatively, these statutory reserves constitute 4.9 percent of unadjusted SOF spending in SFY 2023-24.

DOB also sets aside dollars in the General Fund and states that they are "reserved" for a specific purpose. There is no statutory basis for such designated funds and no accompanying guidelines or restrictions on deposits, balance levels, how or when the funding can be used or replenished. Such funds can be used at the Executive's discretion at any time for any appropriated purpose. The largest such unrestricted reserve contained in the Executive Budget Financial Plan is for "economic uncertainties."

DOB has designated $13.3 billion for economic uncertainties, and the Financial Plan indicates that an additional $500 million will be designated in the current fiscal year. However, budget documents reference using this $500 million set-aside in SFY 2025-26 for costs related not to an unexpected economic event, but for assistance to asylum seekers. For now, there is a little over a combined $20 billion in what DOB describes as "principal reserves," which consist of the statutorily restricted rainy day reserves and the unrestricted economic uncertainties funds.

The Executive Budget proposal would result in principal reserves being an estimated 14.7 percent of adjusted SOF spending levels, or 15.5 percent of unadjusted SOF spending levels, for SFY 2024-25. As previously mentioned, total principal reserves are projected to return to $19.5 billion as the $500 million allocation planned for SFY 2023-24 is utilized in SFY 2025-26; this, combined with the projected increases in SOF disbursements over the Financial Plan period, results in the reduction of the percentage of principal reserves relative to projected SOF disbursements, as shown in Figure 4. SFY 2023-24 marks the highest percentage of principal reserves relative to projected unadjusted SOF spending at 15.8 percent.

Beginning in SFY 2025-26, however, the principal reserves percentage dips below 15 percent to 13.9 percent, and would require an additional deposit of approximately $1.5 billion to get back to 15 percent. As projected SOF spending increases and there are no additional planned additions to reserves, the percentage of principal reserves to projected disbursements drops to 13 percent in SFY 2027-28. The estimated cumulative gaps over the Financial Plan period of $20.1 billion would exceed the planned level of principal reserves by approximately $600 million.

Figure 4
Statutory Reserves and Reserves Designated for Economic Uncertainties, Estimated and Projected Year End, SFY 2023-24 – SFY 2027-28
(in millions of dollars)

	SFY 2023-24 Estimate	SFY 2024-25 Projected	SFY 2025-26 Projected	SFY 2026-27 Projected	SFY 2027-28 Projected
Unadjusted SOF Spending	**126,610**	**129,268**	**140,181**	**145,313**	**150,755**
Statutory Reserves	**6,256**	**6,256**	**6,256**	**6,256**	**6,256**
As a Share of SOF Spending	4.9%	4.8%	4.5%	4.3%	4.1%
Unrestricted Reserve Designated for Economic Uncertainties	**13,782**	**13,782**	**13,282**	**13,282**	**13,282**
As a Share of SOF Spending	10.9%	10.7%	9.5%	9.1%	8.8%
Total Principal Reserves as Defined by DOB	**20,038**	**20,038**	**19,538**	**19,538**	**19,538**
As a Share of SOF Spending	**15.8%**	**15.5%**	**13.9%**	**13.4%**	**13.0%**
Additional Principal Reserves Needed to Achieve 15%	**n/a**	**n/a**	**1,489**	**2,259**	**3,075**

Note: SOF disbursements reflect DOB's unadjusted SOF spending projections.

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

In addition to those funds designated for economic uncertainties, the Financial Plan includes several other set asides within the General Fund, including designations for debt management, labor agreements and agency operations, transaction risks and funds from extraordinary monetary payments.

Economy and Revenue

Economic Outlook

At the beginning of 2023, many economists projected the national economy would go into recession within the first half of the year, with recovery potentially occurring by the fourth quarter.[2] However, a recession did not materialize. In the first half of the year, economic growth remained above 2 percent and accelerated in the third and fourth quarters, increasing by 4.9 percent and 3.3 percent, respectively.[3] According to the U.S. Bureau of Economic Analysis (BEA), the real Gross Domestic Product (GDP) for 2023 increased by 2.5 percent, stronger than the 1.9 percent growth in 2022.

DOB projects the economy will slow considerably in the first half of 2024, growing by less than 1 percent. Stronger growth is forecasted for the second half of the year, but at rates below 2023 levels. As a result, DOB projects economic growth nationwide to be 1.3 percent in 2024 with a somewhat stronger increase of 1.9 percent in 2025.

After peaking at a 40-year high of 9.1 percent in June 2022, inflation, as measured by the change in the Consumer Price Index, has slowly declined. In 2023, the inflation rate of 4.1 percent was almost half of the rate in 2022. DOB projects inflation to continue to fall in 2024 and 2025 to rates of 2.8 percent and 2.3 percent, respectively.

Due to the rapid rise in inflation, the Federal Open Market Committee (the Fed) began raising its federal funds rate in March 2022. By the end of the year, the Fed increased rates six more times, an increase of 425 basis points. Through July 2023, four additional rate hikes of 100 basis points occurred. Since then, the Fed has maintained the fed funds rate at a range between 5.25 percent and 5.50 percent.

At its January 2024 meeting, the Fed continued to maintain rates at their current levels. DOB anticipates a rate cut of 25 basis points in June with two more occurring by the end of the year, with rates forecast to decrease by 75 basis points. Rate cuts are projected to continue in 2025, one each quarter, for a total of 175 basis points over the two-year period.

National employment over the course of 2023 increased, on average, by nearly 225,000 jobs per month, ending the year with over 3.5 million more jobs than in 2022. DOB estimates national employment growth to slow in 2024 and 2025, increasing by 0.9 percent and 0.7 percent, respectively.

At the end of 2023, New York had yet to recover all jobs lost during March and April 2020; only 94.7 percent were regained. In addition, the State's employment growth in 2023 was slower than that nationally, 1.9 percent vs. 2.3 percent, respectively. DOB estimates job growth in New York to slow considerably in 2024, increasing by just 0.1 percent. While projected to accelerate in 2025, an increase of 0.5 percent, State employment growth is still forecasted to lag that of the nation.

While remaining at the same rate in 2023 as in 2022, 3.6 percent, DOB projects national unemployment to increase in 2024, a rate of 4.1 percent, and maintain that level in 2025. For New York, unemployment was slightly lower in 2023 than 2022, 4.2 percent vs. 4.3 percent.

DOB projects New York's unemployment rate to continue to exceed that of the nation in 2024, 4.6 percent, and remain at that level in 2025.

With the increased employment, total wages nationwide grew in 2023, 6.3 percent as estimated by DOB. With slowing employment and higher unemployment rate, wage growth is also projected to decelerate in both 2024 and 2025, increasing by 4.3 percent and 4.0 percent, respectively.

In New York, wages in the current fiscal year are estimated to increase at a slower rate than those nationally, 3.2 percent. This is primarily due to DOB's estimated 2.7 percent decrease in finance and insurance industry bonuses for the 2023 calendar year that are mostly paid in the first quarter of 2024 (this follows a decline of 15.1 percent in SFY 2022-23). For SFY 2024-25, wage growth is projected to accelerate, increasing by 3.8 percent, primarily reflecting a return to growth in finance and insurance industry bonuses augmenting the slower increase in other wages.

DOB estimates personal income growth in 2023 nationally to be higher, increasing by 5.2 percent from 2.0 percent in 2022. The year-over-year change in personal income in 2022 reflected lower personal current transfer receipts resulting from the absence of the federal fiscal stimulus provided in 2021, primarily the economic impact payments ("stimulus checks") and the federal pandemic unemployment programs. Personal income in 2023 exhibited the return to trend levels of personal transfer receipts as well as increases in wages and non-wage income.

As wage growth is projected to slow over the next two years, DOB also anticipates slower personal income growth nationwide. For both 2024 and 2025, personal income is forecasted to increase by 4.1 percent.

With finance and insurance bonuses projected by DOB to decrease at a slower rate and with growth in non-wage income, personal income in New York is estimated to be much higher in the current fiscal year, an increase of 3.5 percent compared to 0.7 percent in SFY 2022-23. As bonus growth is projected to turn positive in SFY 2024-25, personal income growth is anticipated to increase at a faster rate, 4.0 percent.

DOB's economic forecast for the nation is slightly more pessimistic for economic growth and inflation than the Blue Chip Consensus, as well as many of the individual economic forecasters that comprise the Consensus, on a calendar year basis. (See Figure 5.) While DOB projects the economy to be stagnant in the first quarter, the Consensus estimates continued albeit slower growth. Both forecast similar growth in the second quarter and an acceleration in the second half of the year. For New York, DOB's projections are also more pessimistic for personal income and wage growth as compared to S&P Global Market Intelligence.[4]

Figure 5
Comparison of Select Economic Indicators, U.S. and New York, Calendar Years 2023 - 2025

U.S. ECONOMIC INDICATORS

	REAL GDP			CONSUMER PRICE INDEX			UNEMPLOYMENT RATE		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
DOB	2.4	1.3	1.9	4.1	2.8	2.3	3.6	4.1	4.1
Blue Chip	2.4	1.6	1.7	4.1	2.6	2.2	3.6	4.1	4.2
S&P Global	2.4	1.7	1.5	4.1	2.7	2.0	3.6	4.0	4.1

NEW YORK ECONOMIC INDICATORS

	PERSONAL INCOME			WAGES			EMPLOYMENT		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
DOB	4.0	3.6	4.2	4.2	3.1	4.0	1.8	0.1	0.5
S&P Global	4.6	4.5	4.7	5.2	3.9	3.9	1.9	0.4	0.1

Note: Amounts are annual percentage changes for the calendar year. 2023 figures are preliminary actuals; 2024 and 2025 are projections. Discussion in text for the New York indicators describes changes on a fiscal year basis.

Source: Division of the Budget, January 2024 Blue Chip Economic Indicators, S&P Global Market Intelligence January 2024 National and Regional Forecasts.

Revenue

DOB's revisions to the economic forecast led to a $5.7 billion upward revision in projected All Fund tax receipts over the Financial Plan period. Figure 6 details the Executive Budget forecast over the Financial Plan period by source.

Figure 6
Projected All Funds Revenues by Source, SFY 2023-24 – SFY 2027-28 (in millions of dollars)

	SFY 2023-24		SFY 2024-25		SFY 2025-26		SFY 2026-27		SFY 2027-28	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Personal Income Tax	$52,200	-11.2%	$55,504	6.3%	$59,566	7.3%	$70,492	18.3%	$80,082	13.6%
Consumption/ Use Taxes	$21,936	6.6%	$22,431	2.3%	$22,985	2.5%	$23,604	2.7%	$24,123	2.2%
Business Taxes	$27,167	-5.1%	$27,544	1.4%	$25,165	-8.6%	$11,844	-52.9%	$12,290	3.8%
Other Taxes	$3,076	-16.4%	$2,501	-18.7%	$2,634	5.3%	$2,782	5.6%	$2,963	6.5%
Miscellaneous Receipts	$31,000	-2.6%	$27,894	-10.0%	$32,608	16.9%	$32,611	0.0%	$30,924	-5.2%
All Funds State Revenues	**$135,379**	**-5.7%**	**$135,874**	**0.4%**	**$142,958**	**5.2%**	**$141,333**	**-1.1%**	**$150,382**	**6.4%**
Federal Receipts	$95,923	7.1%	$91,794	-4.3%	$87,922	-4.2%	$88,049	0.1%	$89,087	1.2%
Total All Funds Revenues	**$231,302**	**-0.8%**	**$227,668**	**-1.6%**	**$230,880**	**1.4%**	**$229,382**	**-0.6%**	**$239,469**	**4.4%**

Source: Division of the Budget

DOB estimates All Funds revenues in the current fiscal year exclusive of federal receipts to total $135.4 billion, a decrease of 5.7 percent or $8.1 billion from SFY 2022-23. This decline is attributable, in part, to the decline in personal income for tax year 2022, continued volatility in the financial markets over the past year, as well as the impact of lower personal income tax rates on middle-class taxpayers.

For SFY 2024-25, All Funds revenues exclusive of federal receipts are projected by DOB to total $135.9 billion, an increase of 0.4 percent or $495 million. Tax collections are forecasted to increase by 3.4 percent, $2.6 billion, reflecting continued but slow economic growth. However, the higher tax collections are mostly offset by the projected decline in miscellaneous receipts. Some of the decrease is attributable to a decline in investment income due to the combination of both lower anticipated interest rates and fund balances. Gaming receipts are also forecasted to decline due to a decrease in collections from the lottery and video lottery terminals (VLTs).

The Executive Budget includes proposed revenue actions that are projected to produce a minimal net increase in All Funds revenues in SFY 2024-25, but a net increase of $214 million in SFY 2025-26 growing to $396 million in SFY 2027-28, as shown in Figure 7.

Figure 7
Projected Revenue Impacts from Proposed Revenue Actions, SFY 2024-25 – SFY 2027-28 (in millions of dollars)

	SFY 2024-25	SFY 2025-26	SFY 2026-27	SFY 2027-28
Personal Income Tax	**-**	**$175**	**$350**	**$350**
Make the Itemized Deduction Limit for High Income Filers Permanent	-	$175	$350	$350
Consumption/Use Taxes	**-**	**$14**	**$16**	**$16**
Impose State and Local Sales Taxes on Vacation Rentals	$8	$16	$16	$16
Extend the Sales Tax Exemption on Vending Machine Sales	($8)	($2)	-	-
Business Taxes	**-**	**($5)**	**($5)**	**-**
Tax Credit for Retail Theft Prevention Expenses	-	($5)	($5)	-
Tax Enforcement Actions	**$3**	**$30**	**$30**	**$30**
TOTAL ALL FUNDS IMPACT OF REVENUE ACTIONS	**$3**	**$214**	**$391**	**$396**

Source: Division of the Budget

<u>Limit on Itemized Deductions</u>: Under current law, itemized deductions of personal income taxpayers with adjusted gross income (AGI) of $10 million or more are limited to just 25 percent of the charitable contributions claimed at the federal level. However, this provision is due to sunset on December 31, 2024. The Budget proposes to make the limit permanent.

<u>State and Local Sales Taxes on Vacation Rentals:</u> The Executive Budget proposes to impose State and local sales taxes as well as the $1.50 New York City hotel unit fee on vacation rentals and require those entities that facilitate vacation rentals, such as Airbnb and VRBO, to collect and remit the taxes.

Tax Credit for Retail Theft Prevention Expenses: The Executive Budget proposes to allow retailers to claim a refundable tax credit equal to $3,000 of retail theft prevention expenses for tax years 2024 and 2025. Only businesses with 100 or fewer employees would be eligible and the total amount of tax credits to be claimed would be capped at $5 million per year.

Major Spending & Policy Areas

While DOB projects a balanced budget in SFY 2024-25, significant gaps – totaling $20.1 billion – are forecast for the remainder of the Financial Plan period. These gaps are a product of multiple factors, including $18.3 billion of General Fund spending growth forecast to occur through SFY 2027-28 and the loss of federal pandemic aid after SFY 2024-25. School Aid and Medicaid are the two largest General Fund spending categories, comprising 47.7 percent of General Fund spending in the current fiscal year, and forecast to grow to 52.4 percent by the end of the Financial Plan.

Figure 8
Projected General Fund School Aid, Medicaid, and All Other Spending, SFY 2023-24 – SFY 2027-28
(in millions of dollars)

Category	SFY 2023-24	YOY Growth %	SFY 2024-25	YOY Growth %	SFY 2025-26	YOY Growth %	SFY 2026-27	YOY Growth %	SFY 2027-28	YOY Growth %
School Aid (SFY)	28,880	12.6%	29,852	3.4%	31,399	5.2%	32,222	2.6%	33,163	2.9%
Medicaid	20,489	5.7%	24,132	17.8%	27,124	12.4%	28,913	6.6%	30,620	5.9%
All Other	54,120	13.3%	53,602	-1.0%	54,548	1.8%	56,169	3.0%	57,996	3.3%
Total	**103,489**		**107,586**		**113,071**		**117,304**		**121,779**	

Source: Division of the Budget; Office of the State Comptroller Analysis

Education

The Executive Budget proposes $35.3 billion in total School Aid for School Year (SY) 2024-25, an increase of $825 million from $34.5 billion (2.4 percent).[5] Foundation Aid is proposed to increase by $507 million from $24 billion in SY 2023-24 to $24.5 billion in SY 2024-25, a 2.1 percent increase.

Foundation Aid

The Executive Budget proposes eliminating the "hold harmless" provision under which school districts receive either the greater of the amount allocated to the school district by the Foundation Aid formula calculation or a fixed minimum increase – guaranteeing that Foundation Aid would not decrease. The Executive proposal would modify the State Sharing Ratio, which would increase the maximum amount of Foundation Aid that high-need school districts could receive, and in some cases, lower Foundation Aid totals for other districts.

In addition, the Executive Budget proposes a modification of the statutory Foundation Aid inflation factor from being calculated as a one-year change in the Consumer Price Index (CPI) to the average annual change in CPI over the last 10 calendar years (2014 through 2023), excluding the highest and lowest years, which results in a lower inflation factor of 2.4 percent.

As a result of the proposed changes to Foundation Aid, 336 districts' Foundation Aid would increase, while 337 districts' Foundation Aid would decrease by a total of $375 million in SY 2024-25 relative to the previous year. To offset some of these losses, the Foundation Aid formula for SY 2024-25 includes a "Transition Adjustment" that would provide $207 million in total funding to negatively impacted school districts. The net effect of these changes is a $168 million reduction in Foundation Aid for these 337 school districts for SY 2024-2025. For the districts that would gain Foundation Aid, the average increase is $2,008,974 (4.5 percent), and for those that would lose Foundation Aid, the average decrease is $498,325 (-10.6 percent). In terms of total aid, 379 districts (56 percent) would gain funding, while 294 (43 percent) would lose funding.

Formula Based Aid Programs

The Executive Budget would amend the Transportation Aid formula to exclude any grants or vouchers provided by the Clean Water, Clean Air and Green Jobs Environmental Bond Act for costs associated with the purchase of or conversion to zero-emission school buses and supporting infrastructure. It would also remove the "supplement not supplant" requirement that would allow school districts to be awarded Statewide Universal Full-Day Pre-kindergarten (SUFPK) grant funding prior to exhausting previously dispersed Universal Pre-Kindergarten (UPK) allocations. Currently, funding allocated or awarded through UPK Aid must only be used in addition to and not in place of SUFPK funding. In addition, $100 million in aid is appropriated to school districts through Supplemental Assistance Grants.

Charter Schools

The Executive Budget proposes to decrease State funding for reimbursement of Supplemental Basic Tuition payments to charter schools made by school districts from $185 million to $150 million, with the $35 million decrease allocated to New York City upon certification by the Director of the Division of Budget of the availability of a grant in the same amount from the City's federal American Rescue Plan Act (ARPA) funding to cover the shortfall. Also, Charter Schools Facilities Aid to New York City would be increased by $20 million, from $100 million to $120 million.

Reading Curriculum

The Executive Budget proposes reforming the reading curriculum by requiring the State Education Department (SED) to promulgate instructional best practices in reading instruction. By September 2025, all school districts will need to certify to SED that their curriculum, instructional strategies, and teacher professional development align with these best practices. Also, $10 million will be provided for teacher training programs to prepare them to use evidence-based reading standards in the classroom.

Medicaid

The Executive Budget proposes $96.1 billion in All Funds spending for Medicaid, a decrease of $3.5 billion (3.5 percent) over the current year projection. The State-funded portion of Medicaid decreases by $703 million (1.9 percent) to $35.5 billion, while federal Medicaid funding decreases by $2.9 billion (5.3 percent) to $52.0 billion in SFY 2024-25. The local share of Medicaid spending increases by $133 million (1.6 percent) to $8.6 billion in SFY 2024-25. The local share has been capped since 2015 but fluctuates due to supplemental payments made by local districts.

The decrease in State-funded Medicaid largely reflects Executive Budget savings actions totaling over $1.2 billion that include:

- $400 million in “unallocated” actions that require health care industry leaders and stakeholders to work with the Executive to identify $200 million in savings for long-term care programs, as well as an additional $200 million in recurring savings;
- $204 million from eliminating the 1 percent across-the-board rate increase for Medicaid managed care organizations enacted in SFY 2022-23;
- $200 million by eliminating wage parity for personal assistants in the Consumer Directed Personal Assistance Program in New York City and in Nassau, Suffolk, and Westchester counties;
- $112 million by eliminating quality incentive funding for Medicaid managed care and managed long term care plans;
- $100 million by increasing the Office of Medicaid Inspector General audit target; and
- $75 million by reducing funding for nursing homes in financial distress.

The decrease is also due to the expected recoupment in SFY 2024-25 of $1.1 billion in State-only payments made to providers with cash flow needs in prior fiscal years that was originally expected in SFY 2023-24.

These actions are offset in part by Executive Budget spending that includes $591 million in higher costs associated with increases in price and utilization, $495 million to implement the State’s recently approved Medicaid waiver amendment and initiatives announced during the Executive’s State-of-the-State address, as well as $402 million due to higher-than-expected enrollment projections.

Over the next three years, the Medicaid waiver uses $7.5 billion – nearly $6 billion in federal funding and $1.7 billion in State funds – to support actions that are intended to connect high-need members to nutritional and housing services, enhance access to treatment for substance use disorders, transition financially distressed hospitals to a reimbursement system that shifts away from being based on the volume of care provided, and create a loan repayment program for health care professionals who commit to working in community-based practices in underserved areas.

The higher enrollment costs reflect re-estimates of how many people will remain enrolled in the program since New York resumed eligibility determinations in June 2023. Due to unemployment triggered by the pandemic and federal limitations on disenrollment, Medicaid enrollment in the State increased by more than 1.9 million people from March 2020 to over 8 million in June 2023.

Based on the first several months of eligibility redeterminations, as explained in a recent Office of the State Comptroller report on the process, the Executive expects disenrollment to be less than initially projected by DOB and "estimates over 600,000 people will remain enrolled relative to pre-COVID-19 levels of enrollment, driving $1.5 billion in new enrollment costs through SFY 2027-28." [6]

The Executive Budget extends the two-year Medicaid global cap budgeting construct for an additional year through March 2026, but – unlike previous budgets that included two-year appropriations for the program – it only contains a one-year appropriation for Medicaid.

Mental Hygiene

The Executive Budget proposes $4.8 billion in All Funds spending for the Office of Mental Health (OMH), which would result in a $569.8 million (13.4 percent) increase over the current year projection and a cumulative increase of $904.6 million (23.1 percent) since SFY 2022-23. The Budget proposal includes nearly $4.1 billion in State Funds support for OMH, resulting in an increase of $436.5 million (12.0 percent) over the current year projection and a cumulative increase of $597.8 million (17.2 percent) since SFY 2022-23. These increases reflect the continuation of the $1 billion, multi-year plan intended to expand mental health services in New York announced by the Executive during last year's State-of-the-State address.

Increases in State Funds spending for OMH include:

- $86.9 million in annualizations of prior year initiatives.
- $43 million in stipends for supported housing units.
- $35 million for a 1.5 percent cost-of-living adjustment for OMH service providers.
- $25.1 million for people with mental illness who are involved in the criminal justice system.
- $24.5 million in capital funding to build two transition-to-home units in community settings. These units provide inpatient psychiatric care to individuals with serious mental illness who are experiencing homelessness.
- $20.5 million to expand crisis services.
- $18.6 million in State funds ($3.6 million) and capital funding ($15.0 million) to implement a new electronic health record system.
- $16.5 million to open another 125 State-operated inpatient psychiatric beds, including 85 for adults, 25 for forensic patients, and 15 for children and youth. The current year budget funded 150 new State-operated beds.

The Executive Budget increases the OMH workforce by 273 Full Time Equivalent (FTE) positions (1.8 percent) to 15,268. Most of the new FTEs result from current year and Executive Budget initiatives to expand inpatient bed capacity.

The Executive Budget also proposes Article VII legislation to require commercial insurers to reimburse for outpatient treatment services provided in OMH licensed or operated facilities, as well as crisis stabilization centers, at or above the Medicaid rate for such services. According to the Executive, many commercial plans do not adequately compensate mental health providers for their services, despite State and Federal parity laws.

Housing

The SFY 2024-25 Executive Budget continues the five-year housing plan enacted in the SFY 2022-23 Enacted Budget and includes $182.2 million in capital spending on housing in SFY 2024-25 as well as $7.4 billion in capital reappropriations. As part of the capital program, the SFY 2024-25 Executive Budget proposes to utilize $94.95 million of "excess reserves" in the Mortgage Insurance Fund (MIF) as follows:

- $12.8 million for the Neighborhood Preservation Program;
- $5.36 million for the Rural Preservation Program;
- $23.2 million for the Rural Rental Assistance Program; and,
- $53.6 million for the following programs or to qualified grantees under these programs: the New York State Supportive Housing Program, the Solutions to End Homelessness Program or the operational support for the AIDS Housing Program.

The Executive Budget also includes various other proposals intended to expand and protect the State's housing supply. Appropriations include $40 million for the Resilient and Ready program, which would provide capital projects funding for home repairs and permanent retrofits in response to damage caused by or preventative measures in relation to natural disasters, as well as $8.75 million for the Division of Housing and Community Renewal (DHCR) to administer the Blue Buffers Voluntary Buyout Program funded through the 2022 Clean Water, Clean Air, and Green Jobs Bond Act.

In addition, the SFY 2024-25 Executive Budget includes language in the following appropriations relating to Executive Order 30,[7] which was issued in July 2023, and relates to DHCR's designation of localities as a "Pro-Housing Community":

- $200 million for the Downtown Revitalization Initiative and NY Forward Program within the Department of State's capital projects appropriation;
- $150 million for the Regional Economic Development Councils within Empire State Development's Urban Development Corporation (UDC's) capital projects appropriation;
- $50.4 million for non-Metropolitan Transportation Authority (MTA) mass transit systems capital projects and facilities within the Department of Transportation's (DOT's) capital projects appropriation;
- $18.5 million for non-MTA mass transit systems capital projects and facilities within the DOT's capital projects appropriation;
- $8 million for the Market New York Program within UDC's capital projects appropriation; and,

- $4.2 million for the Main Street Program within DHCR's capital projects appropriation.

Specifically, the language included in these appropriations indicates that the "receipt of funding from this appropriation to a municipality may be conditional upon a certification" by DHCR that the municipality is a "Pro-Housing Community."[8] In effect, the inclusion of this appropriation language gives DHCR additional authority to enforce the Executive Order, which gives priority consideration to funding for localities that received the "Pro-Housing Community" designation. According to DHCR, the specific conditions of approval are that the municipality can demonstrate through permitting documentation that it has approved permits increasing their housing stock by:

- 1 percent (downstate) or 0.33 percent (upstate) over the past year; [9] or,
- 3 percent (downstate) or one percent (upstate) over the past three years.[10]

The Executive Order covers additional funds aside from those identified above that have explicit language within the SFY 2024-25 Executive Budget appropriations including the Long Island Investment Fund and the Mid-Hudson Momentum Fund.

The SFY 2024-25 Executive Budget also authorizes the repurposing of real property owned by the State University of New York (SUNY) and the DOT. This proposal, intended to result in the development of approximately 15,000 units of new housing, would authorize the transfer and/or repurposing of parcels owned by SUNY and DOT. The SUNY lands are approximately 8.7 acres of vacant land at SUNY Farmingdale and approximately 10 acres of land at SUNY Stony Brook. Any development projects occurring at the SUNY parcels would be subject to prevailing wage laws under Article 8 of the Labor Law, as well as laws relating to participation of Minority and Women-owned Business Enterprises (MWBEs) under Article 15-A of the Executive Law. The two identified parcels owned by DOT comprise approximately 12.5 acres and are located in the Town of Babylon, Suffolk County. The SFY 2024-25 Executive Budget Financial Plan proposes a first installment of $250 million for these purposes, with a total projected State cost of $500 million.

The SFY 2024-25 Executive Budget would also establish the crime of deed theft in New York State and make changes to the Real Property Actions and Proceedings Law to protect from predatory investors family members who jointly inherit property after a homeowner dies without a will, among other changes. In addition, the SFY 2024-25 Executive Budget includes a proposal that would prohibit insurance companies from increasing rates or denying coverage to a policy holder due to their ownership of affordable housing, including the level or source of income of the renters, such as Section 8 housing vouchers. The SFY 2024-25 Executive Budget also includes a new $1.6 million appropriation within the Division of Human Rights (DHR) specifically for Fair Housing Assistance, which would help DHR enforce existing laws relating to source of income discrimination, particularly as it relates to Section 8.

The Executive Budget includes several housing proposals specific to New York City:

- Establishing the Affordable Housing from Commercial Conversion Tax Incentive Benefits Program, which would authorize DHCR, in consultation with the New York City Department of Housing Preservation (NYC HPD), to promulgate regulations relating to the specific benefits of this tax credit intended to spur conversions of commercial office space to housing. A minimum of six housing units would need to be created, with at least 20 percent of the units being affordable with a weighted average affordability of 80 percent area median income (AMI), including at least five percent affordable to households at or below 40 percent AMI.[11] Hotel conversions or other Class B building conversions would not be eligible for this credit. Construction must commence between December 31, 2022, and December 31, 2033, with a completion date on or before December 31, 2039. Affordable units would be rent stabilized during the benefit period. Prevailing wages would apply to construction and, for buildings with 30 or more units, prevailing wages would apply to building service workers.

- Authorizing New York City to legalize the conversion of existing basement and cellar apartments, including providing amnesty to owners of existing basement or cellar dwelling units.
- Authorizing New York City and the New York State Urban Development Corporation (UDC) to override the requirement to maintain a ratio of 12.0 (i.e., the measurement of a building's total floor area relative to the total area of the building's lot) for the floor space of a building and the area of the lot the building is built on.
- Extending the completion deadline for vested projects in the 421-a tax abatement program. Currently, vested projects must be completed by June 15, 2026; this proposal would extend the completion deadline by five years, to a new completion deadline of June 15, 2031.
- Establishing a new affordable housing tax incentive program called the "Affordable Neighborhoods for New Yorkers Tax Incentive Program" (ANNY), which would provide a full property tax exemption during construction for up to three years. Following the construction period, homeownership developments would then receive 40 years of full tax exemption. Rental units would receive 25 years of full tax exemption following construction, followed by 10 more years with the exemption percentage determined by the percentage of units in the building that are affordable units. All affordable rental units would be rent stabilized and, in buildings of 30 or more units, the rental units would be permanently affordable at levels prescribed by NYC HPD. Eligible sites must make reasonable efforts to spend at least 25 percent of costs with MWBEs over the course of the design and construction. Building service workers in ANNY developments would receive prevailing wage during the benefit period. Construction wage requirements would be established by a memorandum of understanding (MOU) between the largest trade association of real estate developers and the largest building and construction worker trade association with membership in New York City. If an MOU is not executed by January 1, 2025, the ANNY program would not go into effect. This program would be a successor to the 421-a program.

Asylum Seekers

As part of the State's extraordinary funding for asylum seeker assistance, the SFY 2024-25 Executive Budget would appropriate $2.4 billion through the Office of Temporary and Disability Assistance for services and expenses for migrant individuals and families. Purposes in the appropriation include but are not limited to:

- Aid to New York City for providing humanitarian aid, including short-term shelter services, case management and legal services;
- Programs to provide services and assistance;
- Provision of immunizations and communicable disease testing;
- Relocation and resettlement assistance; and
- Expenses of the National Guard or other departments or authorities of the State.

The Director of the Budget may transfer any amount of the appropriation to any other fund, agency, department or authority for these purposes.

The Office of Temporary and Disability Assistance Local Assistance Budget further proposes to provide $25 million for resettlement of migrants and asylum seekers and $122 million for other costs including temporary shelter at Floyd Bennett Field. The Executive Budget also provides a $15 million special emergency appropriation through the Office of General Services for costs related to temporary shelter at Floyd Bennett Field.

The funding proposed by the 2024-25 Executive Budget is in addition to the $1.9 billion made available as of the Mid-Year Update to the 2023-24 Enacted Budget Financial Plan. The Mid-Year Update notes that $358 million to support New York City for shelter assistance to asylum seekers was added to the $1.5 billion included in the Enacted Budget Financial Plan. This included a $1 billion appropriation for reimbursing 29 percent of expenditures incurred by New York City in providing short-term shelter services and the costs of emergency response and relief centers. Reimbursement was made available for costs incurred on or after April 1, 2022 and before April 1, 2024, and claimed by August 15, 2024.

The SFY 2024-25 Financial Plan identifies the general uses of $4.3 billion in proposed spending. It also notes the State will use $500 million of General Fund resources designated for economic uncertainties to provide additional funding for migrants and asylum seekers in SFY 2025-26. (See Figure 9.)

Figure 9
Summary of Proposed SOF Spending for Asylum Seekers, SFY 2022-23 – SFY 2025-26
(in millions of dollars)

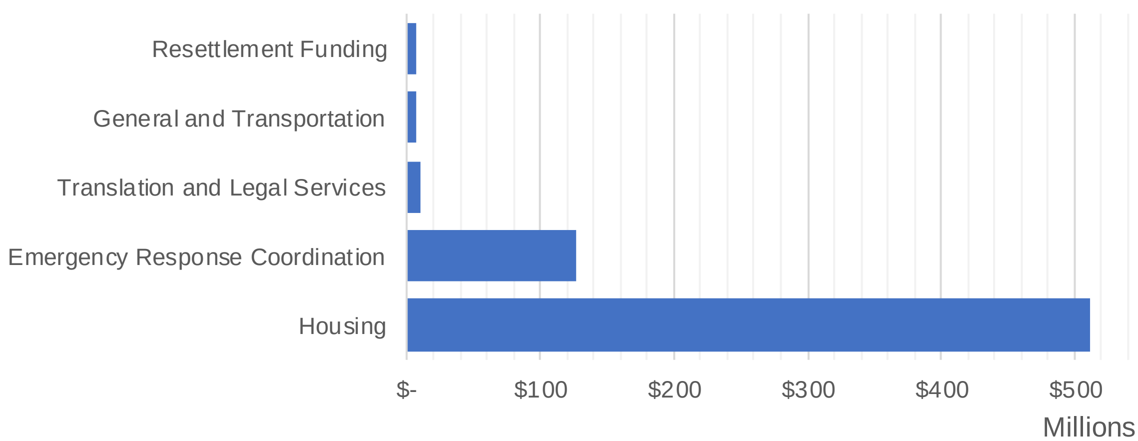
	SFY 2022-23	SFY 2023-24	SFY 2024-25	SFY 2025-26	Total
Original Support to New York City	$0	$741	$355	$0	$1,096
Additional Support to New York City	$0	$0	$530	$530	$1,060
Additional Aid to NYC and Costs at Specified Locations	$0	$89	$724	$146	$959
Safety Net Assistance	$0	$26	$67	$67	$160
National Guard Deployment	$27	$162	$262	$0	$451
Medicaid/Vaccines/Disease Testing	$0	$149	$162	$15	$326
Asylum Seeker Resettlement	$0	$30	$5	$5	$40
All Other	$0	$98	$106	$10	$214
Total State Funding	**$27**	**$1,295**	**$2,211**	**$773**	**$4,306**
Use of Economic Uncertainties Reserves		$0	$0	($500)	($500)

Notes: Specified locations include Randall's Island, Creedmoor Psychiatric Center and Floyd Bennett Field. All other category includes case management, legal services and other uses.

Source: Division of the Budget

The Office of the State Comptroller's Asylum Seeker Spending Report, updated monthly, indicates that emergency spending for this purpose totaled $662 million through January 31, 2024 (including only spending specifically identified by agencies as related to asylum seekers). This includes $511.2 million for housing and $126.6 million for emergency response coordination. The remaining spending was for translation and legal services, transportation and resettlement and other purposes.

Figure 10
Summary of Spending for Asylum Seekers, SFY 2023-24
(in millions of dollars)



Note: These figures reflect the latest amounts and purposes identified by Executive agencies as related to emergency spending for asylum seekers. These figures only include spending specifically coded by agencies as spending related to asylum seekers.

Source: Office of the State Comptroller, https://www.osc.ny.gov/reports/asylum-seeker-spending-report

Capital Plan and Debt

The Executive Budget proposes a $94.7 billion five-year Capital Plan, an increase of $757 million or 0.8 percent from the prior Enacted Plan. Transportation and transit spending, at $41.7 billion, makes up the largest component at 44.1 percent of total capital plan spending. The next-largest functional area of capital spending is for economic development at $11.6 billion, or 12.3 percent of spending. Economic development also represents the area of greatest spending growth relative to the prior Enacted Plan, over $1.7 billion higher (a 17.3 percent increase). Over the five-year period, more than $10.8 billion would be dedicated to parks and the environment (11.5 percent of total spending) and $10.4 billion for higher education (11.0 percent).

A total of $18.8 billion in capital spending is proposed in SFY 2024-25 alone, the largest share of which is nearly $8 billion for transportation and transit spending. This includes spending for the third year of the current five-year DOT capital plan. $2.5 billion of spending is for economic development capital funding, a 57.7 percent increase. This reflects new authorizations of funding for the Empire NY Artificial Intelligence initiative (Empire NY AI, $250 million), Redevelopment of Underutilized Sites for Housing (NY-Rush, $250 million), and the One Network for Regional Advanced Manufacturing Partnership ($110 million), as well as continued annual funding for existing programs such as NY Creates ($500 million), the New York Works Economic Development Fund ($400 million), the Downtown Revitalization Initiative ($200 million) and Regional Economic Development Councils ($150 million). Also, $2.1 billion of spending is proposed for parks and environmental projects and $2.1 billion for higher education.

Figure 11
Functional Areas – Comparison of Five-Year Capital Plans
(in millions of dollars)

Functional Area	SFY 2023-24 Enacted Budget	SFY 2024-25 Executive Budget	Change $	Change %
Transportation & Transit	$41,648	$41,743	$95	0.2%
Education	1,972	1,598	(374)	-19.0%
Higher Education	10,661	10,391	(270)	-2.5%
Economic Development	9,904	11,618	1,714	17.3%
Mental Hygiene	4,612	4,392	(220)	-4.8%
Parks & Environment	10,559	10,844	285	2.7%
Health	7,088	7,025	(63)	-0.9%
Social Welfare	7,598	7,708	110	1.4%
Public Protection	3,013	3,078	65	2.2%
General Government	2,715	2,480	(235)	-8.7%
Other	(5,839)	(6,187)	(348)	6.0%
Total	**$93,932**	**$94,689**	**$757**	**0.8%**

Note: Negative figures in "Other" reflect DOB's anticipated underspending during the course of the plan.

Source: Division of the Budget

Financing Sources

Over the life of the Executive Budget's five-year Capital Plan, spending financed by public authority bonds ("backdoor borrowing") comprises the largest share of capital spending by far, at $47.6 billion, or 50.3 percent of the total. It also represents the largest increase in spending relative to the prior five-year Enacted Plan, growing by $3.4 billion or 7.7 percent. DOB expects to use State Pay-As-You-Go (PAYGO) to finance approximately $25.6 billion, or 27.0 percent of the Plan. This is a decline of $2.2 billion or 7.8 percent, relative to the prior Enacted Plan. Federal PAYGO of $19.7 billion is expected to comprise 20.8 percent of the proposed Plan, remaining roughly flat. Spending financed from State General Obligation bonds, at only $1.8 billion or 1.9 percent of total spending, is expected to decline by $671 million, or 27.0 percent.

Figure 12
Financing Sources - Comparison of Five-Year Capital Plans
(in millions of dollars)

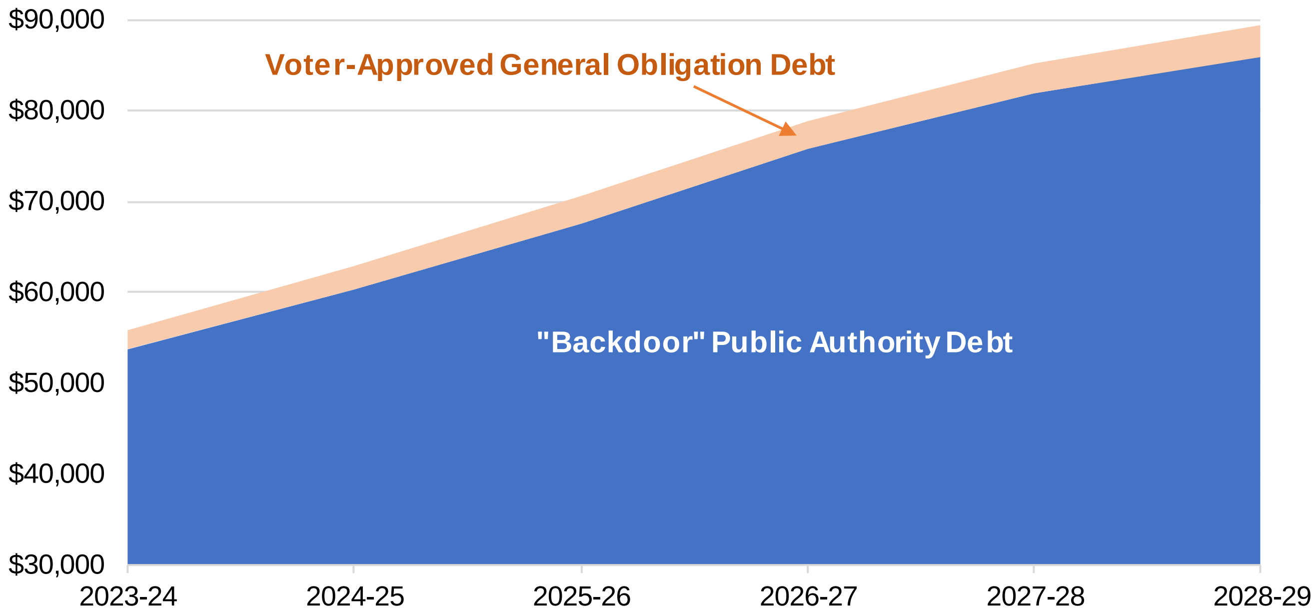
Financing Source	SFY 2023-24 Enacted Budget	SFY 2024-25 Executive Budget	Change $	Change %
Authority Bonds	44,194	47,593	3,399	7.7%
Federal Pay-As-You-Go (PAYGO)	19,495	19,687	192	1.0%
State PAYGO	27,760	25,598	(2,162)	-7.8%
General Obligation Bonds	2,483	1,812	(671)	-27.0%
Total Capital Funding	**93,932**	**94,689**	**757**	**0.8%**
Less Federal Funding	(19,495)	(19,687)	(192)	1.0%
State Capital Funding	**74,437**	**75,002**	**565**	**0.8%**

Source: Division of the Budget

Debt Outstanding

Over the five years of the Executive Budget Capital Plan, total State-supported debt grows from $55.9 billion in SFY 2023-24 to $89.5 billion in SFY 2028-29, an increase of $33.6 billion or 60.0 percent. The vast majority of State-supported debt outstanding has been - and is projected to continue to be - "backdoor borrowing" issued by public authorities, which circumvents the constitutional requirement for voter approval of State debt. As of SFY 2023-24, over 96 percent of State-supported debt outstanding will have been issued by public authorities, primarily PIT and Sales Tax Revenue Bonds.

Figure 13
State-Supported Debt Outstanding, SFY 2023-24 – SFY 2028-29
(in millions of dollars)



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

Debt Service

State-supported debt service costs reflect prepayments made in prior fiscal years that will lower payments annually through SFY 2027-28. These prepayment actions distort the annual spending values for debt service costs, considerably so for the overall growth trends and percentages during the Capital Plan years. When adjusted for these prepayment actions, debt service costs are projected to rise from $6.3 billion in SFY 2023-24 to $8.7 billion in SFY 2028-28, an increase of nearly $2.4 billion or 37.5 percent. No additional debt service prepayments are assumed in DOB's Executive Budget Financial Plan.

Figure 14
Debt Service Spending - Adjusted for Prepayments, SFY 2023-24 – SFY 2028-29
(in millions of dollars)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Change $	Change %
Executive Budget Debt Service	$2,607	$3,022	$4,906	$4,946	$6,161	$8,676	$6,069	232.8%
Prior Prepayments	(2,255)	(2,395)	(1,630)	(2,360)	-	-		
FY 2023 Prepayment	(1,450)	(1,300)	(750)	(500)	(2,000)	-		
Total Prepayments	($3,705)	($3,695)	($2,380)	($2,860)	($2,000)	-		
Debt Service Adjusted for Prepayments	$6,312	$6,717	$7,286	$7,806	$8,161	$8,676	$2,364	37.5%

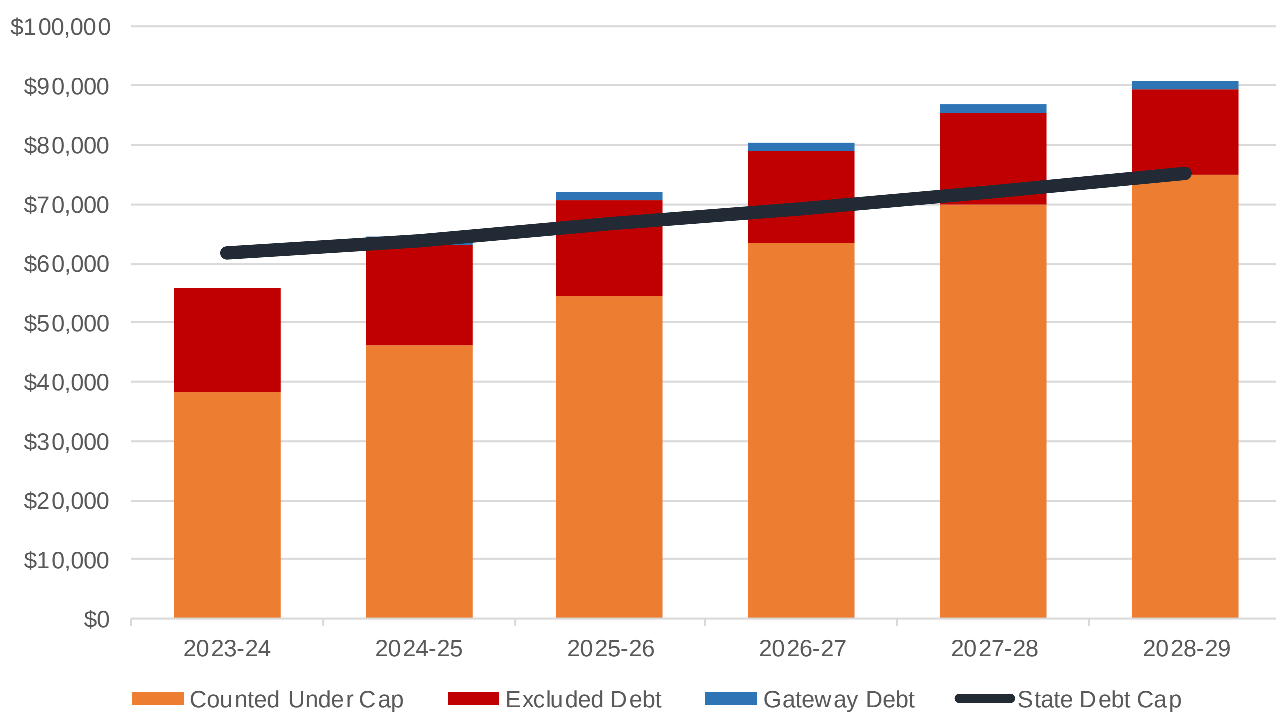
Source: Division of the Budget

State Debt Limits and Capacity

Under Executive Budget projections, remaining capacity available under the State's debt limit is projected to decline from $23.5 billion in SFY 2023-24 to $352 million by SFY 2028-29. Not reflected is the fact that the guardrails originally embodied in the State's Debt Reform Act cap were significantly eroded by actions in the SFY 2020-21 and SFY 2021-22 Enacted Budgets - these excluded any debt issued during those two years (about $18 billion) from the State's debt limit. Combined with debt that had been initially excluded from the Act, nearly one-third (31.5 percent) of total State-supported debt outstanding has been excluded from the State's debt limits as of SFY 2023-24 – a total of $17.6 billion in debt. Without these debt exclusions, the State's debt limit would be breached in nearly every one of the Capital Plan's five years.

The Executive Budget continues the practice of circumventing the State's statutory debt caps for the Gateway Project for the Hudson passenger rail tunnel. This utilizes a loophole in the Debt Reform Act – which only counts "bonds or notes" – by structuring the Gateway debt with a federal loan repaid by the State through a service contract, rather than issuing bonds. This further reduces transparency and accountability by inappropriately classifying the Gateway loan in a modified definition of "State-related debt" that is inconsistent with past practice.[12] State-supported debt would be $1.4 billion greater if the federal loan for the Gateway Project were appropriately classified. When combined with other debt issued outside the cap, total State-supported debt will exceed the State's debt limit by $15.7 billion in SFY 2028-29.

Figure 15
State Debt Outstanding and Debt Cap, SFY 2023-24 – SFY 2028-29
(in millions of dollars)



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

Additional Debt Proposals

Debt Structuring

The Executive Budget proposes to reauthorize the ability to issue State-supported bonds with final maturities of up to 50 years for MTA purposes, in contravention to the Debt Reform Act's otherwise 30-year final maturity limit. This authorization has been deployed with "backloaded" bond structures, inappropriately trading marginal short-term budget relief for drastically higher total long-term fixed costs to taxpayers.

Restricting State Comptroller Approval of Terms and Conditions of Bond Sales

The terms and conditions of many public authority bond issues conducted through private (negotiated) sales are subject to the approval of the State Comptroller. This requirement appears in the various statutes governing each such public authority and/or their respective borrowing programs, including those for State PIT and Sales Tax Revenue Bonds. The State Comptroller's terms and conditions review ensures that the interest costs, costs of issuance, underwriter's discount, refunding savings and other matters affecting borrowing costs are reasonable and appropriate. This statutory authority empowers the State Comptroller to examine all bond structuring choices and other aspects that may impact a bond issue's cost of funds.

The Executive Budget includes a new proposal to severely restrict the State Comptroller's terms and conditions approval of State PIT and Sales Tax bond issues by limiting review to certain specified criteria that omit several important bond structuring considerations that can have serious cost implications for taxpayers. Restricting the Comptroller's long-standing oversight and approval role would permit a nearly unfettered ability to engage in more costly and more risky bonding choices.

Short-Term Cash Flow Borrowing

Despite high General Fund cash balances, strong reserves and no anticipated need, the Executive Budget again proposes to reauthorize short-term cash flow borrowings with up to $4 billion of PIT Notes. The legislation is now proposed to be made permanent, rather than through annual extenders that have been enacted in recent budgets. This authorization is redundant to the existing ability to issue constitutionally-authorized full faith and credit Tax and Revenue Anticipation Notes (TRANs) and circumvents the reforms embodied in the Local Government Assistance Corporation (LGAC) Act, which requires the Governor and Legislative leaders to certify the emergency or extraordinary factors needed before issuing lower-cost TRANs for any short-term cash flow needs. Lines of credit, which had also been annually reauthorized in recent budgets, are not proposed this year.

Bond Redemption

The Executive Budget proposes to amend the enabling statutes for the State's PIT and Sales Tax Revenue Bonds to authorize the redemption of such bonds so long as it provides a "demonstrated economic benefit", as certified by a financial advisor to the State. While tendering existing bonds may generate savings for the State, the meaning of this "economic benefit" is questionable, as it is not defined in the proposal. This is not a recognized convention in the municipal bond market or under State Finance Law. Using an objective standard from current law and municipal bond conventions, such as net present value savings, would be more appropriate. The requirement for a certification by a financial advisor is also concerning. Since such financial advisors provide services under contract to the State, this could create a conflict of interest for such firms, who rely on their business relationships with the State and its public authority bond issuers. Together, these provisions would create a subjective standard that may be open to misuse in debt refinancings.

Eligible Purposes for Bonding

The Executive Budget proposes to amend the State Finance Law's definition of "fixed assets" to include long-term interests in land, such as conservation easements. This will permit such costs to be bond-financed for State law purposes.

Bond Issuance Charge

The Executive Budget proposes to reduce the Bond Issuance Charge (BIC) to 0.35 percent of the principal amount of bonds and exclude any bond issue of $20 million or less. Current law imposes a sliding scale of 0.168 to 0.84 percent, depending on the amount of bonds issued. The practice of bond financing these administrative costs runs counter to the principles in the Debt Reform Act, which says that bonds should only be issued to finance capital works or purposes.

Assessment and Risks

As with any projections, the Financial Plan is subject to various risks and uncertainties, which are extensive. Many of these risks are defined in the FY 2025 Executive Budget Financial Plan. The Office of the State Comptroller identifies the following notable risks associated with the Executive Budget and current economic environment and also highlights areas of concern with the Executive Budget and Financial Plan.

Economic and Revenue Risks

As noted, DOB's economic forecast for the nation is slightly more pessimistic compared to the Blue Chip Consensus, as well as many of the individual forecasters involved with the Consensus. Nevertheless, the predominant risks for this forecast are the geo-political landscape, particularly the Russia-Ukraine war and conflicts in the Middle East, as well as the pace of inflation and direction of federal monetary policy. While inflation has slowed considerably from its June 2022 peak, it crept higher in December and is still above the Federal Reserve's target rate of 2 percent. Continued inflation levels above this target rate would reduce spending power, resulting in lower consumption.

With moderating inflation levels, the Fed has kept the Fed Funds interest rates at their current levels since July 2023. If inflation stays at its current rate or accelerates, the Fed could forego expected rate cuts, instead, retaining the current rates or returning to rate hikes. Not only would higher rates restrain business and residential investment, reversing the growth seen in the second half of 2023, but potentially continue the volatility in the financial markets that were seen in the past two years.

The changes in the labor market as well as the overall population are also a risk to the New York economy and, in turn, its revenues. While the nation's employment exceeds its pre-pandemic levels, New York has still not recovered all the jobs that were lost. Similarly, the national labor force has recovered, while the State's has not. DOB does not expect a return to pre-pandemic employment levels until the second half of 2026; S&P Global's forecast is more pessimistic, projecting that a full recovery will not occur within its forecast horizon.

According to the most recent U.S. Census estimates, New York's population declined by nearly 102,000 people from 2022 to 2023; the State has led the nation in population loss since April 2020. In addition, the Office of the State Comptroller has also reported that the net-outmigration of personal income taxpayers in tax year 2021, while lower than the year prior, remained elevated from pre-pandemic levels. These erosions of population and taxpayers have concerning implications for future economic growth.

Structural Balance

Reliance on Temporary Resources

The State Budget has often included provisions that caused recurring spending to rise at a faster pace than recurring revenue, creating structural imbalances and budget gaps. Such gaps are often closed with short-term solutions, frequently addressing only a single year, a practice which exacerbates the problem of structural imbalance in subsequent years.

The Executive Budget includes $14.2 billion in resources that the Office of the State Comptroller identifies as either temporary (more than one year but not permanent) or non-recurring (one year), as shown in Figure 15. While this list may not reflect the entirety of the Executive Budget's reliance on temporary resources, it presents the most significant items. About 98.9 percent results from temporary federal assistance related to the pandemic (61.8 percent) and temporary tax rate increases enacted in SFY 2021-22 and, in the case of the Corporate Franchise Tax increases, extended in SFY 2023-24 (37.2 percent).

Figure 16
Temporary and Non-Recurring Resources in SFY 2024-25
(in millions of dollars)

	SFY 2024-25
New Actions	**150**
Various Fund Sweeps	50
Mortgage Insurance Fund Excess Reserves	95
NYSERDA Transfer to the Env. Protection Fund	5
Prior Continuing Actions	**5,282**
Personal Income Tax Top Rate Surcharge	4,472
Corporate Franchise Tax Rate Increases	810
Federal Assistance	**8,780**
Education Funding	3,830
American Rescue Plan State Fiscal Relief	3,650
Child Care Funds	300
Other Federal Pandemic Assistance	1,000
Total Temporary and Non-recurring Resources	**14,212**

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

Use of Federal Relief Funds

The American Rescue Plan Act of 2021 provided the State with $12.7 billion of funding from the State and Local Fiscal Recovery Funds program that could be used for a broad range of purposes, including replacement of lost tax revenue due to the pandemic. Since SFY 2021-22, each year's budget has utilized these funds. The SFY 2024-25 Financial Plan is the final year of utilization, with a projected $3.65 billion in remaining funds available. While this funding has been critical to meeting pandemic recovery needs and providing stability to the Financial Plan, little information is available to determine whether the funding has been used equitably, efficiently, and with the proper balancing of short-term need with long-term sustainability. DOB has provided a high-level overview of reported uses for the first two years of funding. As shown in the Office of the State Comptroller's COVID-19 Relief Program Tracker, the available information shows a total of $4.0 billion has been used to support "Government Services" and $1.8 billion has been used to support public health and safety payroll over the two years. No additional details have been provided about uses of funding in SFY 2023-24 or SFY 2024-25. Increased transparency about the use of these funds is needed.

Similarly, school districts are faced with the challenge of deploying federal pandemic resources swiftly to help students that are most in need to make up for learning loss. For SFY 2024-25, nearly $4 billion in federal education funding is expected to be spent, which is expected to be the last year of extraordinary federal aid due to the pandemic. If a significant portion of these funds is dedicated to programs with recurring expenses, then the State may need to continue such recurring spending with its own resources once these federal resources are no longer available, which could add to the State's structural imbalance.

School Aid

Most school aid is allocated through the Foundation Aid formula, which was first implemented in 2007. SY 2023-24 represented the first year in its 17-year history that the formula was fully funded. As the State moved toward full funding, SOF School Aid has increased to $33.4 billion in SFY 2023-24 from $26.4 billion in SFY 2018-19.

When the formula was implemented, it was based on research of that time and constructed with some inputs that are now dated. For example, the poverty metric is based on the results of the 2000 Census. Districts have experienced numerous changes in this period, including enrollment changes, learning loss and mental health challenges produced by the pandemic, as well as a trend towards providing greater services in schools (e.g. nutritional, social, and medical).

The goal of the Foundation Aid formula was to ensure all students have the resources needed to receive a good education. A holistic, comprehensive review is needed to make changes that ensure all students have the resources needed to meet today's demands and challenges while ensuring equity and adequacy in the provision of funds.

Public Health Insurance Programs

As discussed earlier, enrollment in Medicaid continues to exceed projections as the process of recertifying eligibility continues. In January 2024, the Office of the State Comptroller highlighted the continuing Financial Plan risks and advised the Executive to carefully account for people disenrolled from Medicaid, make every effort to help them renew their health insurance coverage and work to understand why certain enrollees fail to renew. The report also directed the Executive to clearly account for any additional spending required to support elevated enrollment levels.

Elevated enrollment is one reason that Medicaid is projected to exceed initial Budget cost projections. The Executive estimates over 600,000 COVID-era enrollees will remain enrolled in the program, driving approximately $1.5 billion in new costs over the Financial Plan period. These costs could escalate if the State retains an even greater proportion of these enrollees.

The Executive also continues to try to mitigate growth in Medicaid spending by managing the timing of payments across State fiscal years, a practice that started in SFY 2014-15, to ensure compliance with the Medicaid global cap. At the end of SFY 2018-19, DOH deferred $1.7 billion in certain State-share Medicaid costs, including the final cycle payment to Medicaid Managed Care Organizations as well as other payments, for three business days to SFY 2019-20. In SFY 2019-20, approximately $1.1 billion was deferred to SFY 2020-21 and $1.7 billion was deferred into SFY 2021-22. The following year, approximately $1.7 billion was deferred from SFY 2021-22 into SFY 2022-23. Most recently, just over $1.8 billion was deferred from SFY 2022-23 spending and instead made in SFY 2023-24. DOB has not expressed whether the deferral will continue, but Financial Plan projections do not indicate that spending would return to original patterns.

Transparency in the Medicaid program remains problematic, not only in understanding the program's cost drivers, but also in accounting for the impact of Medicaid savings actions, most notably the $400 million in undefined savings included in the Executive Budget. More information is needed to identify how the Executive expects to achieve these and other savings.

Reserve Funds

The State has laudably increased the size of its statutory rainy day reserves to approximately $6.3 billion. In addition, it has another $13.2 billion set aside in an informal reserve for "economic uncertainties," for a total of $19.5 billion, or an estimated 15.1 percent of unadjusted SOF spending levels. Because there are no additional plans to expand these reserves, the percentage of the reserves relative to SOF spending is expected to decrease over the Financial Plan period.

The Executive Budget proposes to add an additional $500 million to the informal "economic uncertainties" reserve, while also proposing to use the same amount in SFY 2025-26 for anticipated costs relating to assisting asylum seekers. This underscores the flexibility and ease of using these funds for other priorities, rather than for economic or other emergencies.

Greater priority should be placed on building statutory rainy day reserves, which are governed by rules for deposits, withdrawals and repayments, rather than relying on informal reserves which are under Executive control. Additional funds from the "economic uncertainties" reserve should be transferred to the statutory Rainy Day Reserve Fund. Recommendations in the Comptroller's report on improving reserves[13] call for a disciplined, consistent approach to building these reserves on a monthly basis, which would help to ensure that more robust reserves are built over time to be available during the next economic downturn or catastrophic event.

In addition, given the heavy reliance on unrestricted funds as reserves, clear criteria and guidelines should be established to define the circumstances under which use of such undesignated reserves would be considered and then repaid.

Debt Practices

Restricting State Comptroller Approval of Terms and Conditions of Bond Sales

The Executive Budget proposal to severely restrict the State Comptroller's terms and conditions approval of State PIT and Sales Tax bond issues should be eliminated. The Comptroller's legally required terms and conditions approval provides a critical check and balance to counteract poor fiscal management and bond issuance choices that may otherwise occur, and greatly enhances accountability to State taxpayers. This function squarely aligns with the Comptroller's constitutional and statutory role to provide independent and objective oversight of the State's finances and financial practices.[14]

The Executive Budget proposal would significantly expand the Executive's powers, allowing for costlier and riskier bonding choices with State PIT and Sales Tax bond issues. It would also create a dangerous legislative precedent, likely to be sought by other public authority bond issuers, such as the MTA, which has a history of poor debt practices. A lack of oversight by the State Comptroller would inevitably lead to more bad bond structuring decisions that will cost New York State taxpayers over the long run.

Debt Structuring & Short-Term Borrowing

The Executive Budget proposal to reauthorize the ability to issue up to 50-year maturities for State-supported bonds issued for MTA purposes should be eliminated. This authorization has been irresponsibly deployed with "backloaded" bond structures, inappropriately trading marginal short-term budget relief for drastically higher total long-term fixed costs to taxpayers. This results from both higher interest costs from longer-maturity bonds, as well as paying interest on such bonds over a significantly extended period of time.

Similarly, the Executive's proposal to reauthorize and make permanent short-term cash flow borrowings of up to $4 billion should be eliminated. Given the State's strong cash position, high level of reserves, and no reasonable expectation for its use in the foreseeable future, there is no demonstrated need for this authorization. Furthermore, this more costly "backdoor" public authority borrowing would otherwise only serve to circumvent the reforms embodied in the Local Government Assistance Corporation (LGAC) Act,[15] which requires the Governor and Legislative leaders to certify the emergency or extraordinary factors needed before issuing lower-cost TRANs.

Debt Transparency and Accountability

The Executive Budget continues recent practices to circumvent the State's debt cap by utilizing a loophole in the Debt Reform Act – which only counts "bonds or notes" – to structure the Gateway debt (authorized up to $2.85 billion, currently estimated at $1.4 billion) with a federal loan to be repaid by the State through a service contract.

The Budget further reduces transparency and accountability by inappropriately classifying the Gateway loan as State-related debt, inconsistent with past practice for this category of debt classification.[16] Despite the fact that this debt now requires an appropriation in the SFY 2024-25 debt service bill and spending is assumed in the State's Financial Plan, the Budget misleadingly portrays the Gateway debt as if it is not a part of the State's direct debt burden.

Collectively, these and other actions demonstrate how the State's current statutory debt limits are too easily bypassed. The Comptroller's Roadmap for State Debt Reform shows how caps and other debt restrictions set in statute have not worked to rein in State debt or stop inappropriate borrowing practices, and offers a roadmap for comprehensive and binding constitutional State debt reform to restore accountability to State taxpayers.[17]

Procurement, Transparency and Independent Oversight

The Executive Budget includes several problematic provisions, similar to those included both in the proposed SFY 2023-24 Executive Budget as well as in the Enacted Budget for SFY 2023-24. The proposed Budget exempts a minimum of $160 million from the Office of the State Comptroller's contract oversight and a competitive procurement process, as well as an additional $1.4 billion in spending that will be distributed without a competitive procurement process. The Executive Budget also adds language that would allow DOB to allocate nearly $1.9 billion in spending based on a plan that it approves but does not require that the funds be distributed based on a competitive process or objective criteria. These proposed changes reduce transparency, competition, and Office of the State Comptroller oversight over a significant amount of taxpayer supported State spending.

Endnotes

[1] The Division of the Budget (DOB) indicates that "[s]pending growth is routinely impacted by planned prepayments, timing-related transactions and reimbursements, as well as extraordinary assistance and grants. Adjusted State Operating Funds spending excludes these large transactions and prepayments, as well as the extraordinary spending and Federal offsets related to the COVID-19 pandemic." See SFY 2024-25 NYS Executive Budget Financial Plan, page 7.

[2] In January 2023, the economists who comprise the Blue Chip Consensus Economic Indicator panel attached a 65 percent probability the national economy would fall into a recession in 2023, Blue Chip Economic Indicators, Top Analysts' Forecasts of the U.S. Economic Outlook of for the Year Ahead, Vol. 48, No.1, January 10, 2023.

[3] Percentages are on an annualized basis, U.S. Bureau of Economic Analysis, Fourth Quarter and Year 2023 Advance Estimate, at https://www.bea.gov/news/2024/gross-domestic-product-fourth-quarter-and-year-2023-advance-estimate.

[4] Blue Chip Consensus does not provide projections at the state level. S&P Global and DOB use different data sets in their New York forecasts resulting in some of the variation in the projections. S&P Global uses BEA's definitions of personal income and the U.S. Bureau of Labor Statistics, Current Employment Statistics for employment. DOB uses the Quarterly Census of Employment and Wages to construct its employment and wage projections.

[5] Beginning in SY 2024-25, the State will fully take over funding for pre-kindergarten expansion grants previously supported by the federal American Rescue Plan Act (ARPA) funds, which are already reflected on the School Aid runs. Including these $96 million in grants, the total School Aid increase would be $921 million, or a 2.7 percent increase from SY 2023-24.

[6] Office of the New York State Comptroller, "Unwinding" Continuous Enrollment in Medicaid Presents Coverage and Financial Risks, January 2024, at https://www.osc.ny.gov/files/reports/pdf/medicaid-unwinding-financial-plan-risk.pdf.

[7] Governor Kathy Hochul, Executive Order 30, at https://www.governor.ny.gov/sites/default/files/2023-07/EO_30.pdf (accessed January 23, 2024).

[8] One such example is found on page 375 of the SFY 2024-25 Capital Projects bill (S.8304/A.8804).

[9] DHCR defines "Upstate" as those counties outside of the Metropolitan Commuter Transportation District (MCTD) and "Downstate" as those counties within the MCTD; the MCTD is comprised of the following counties: New York (Manhattan), Bronx, Kings (Brooklyn), Queens, Richmond (Staten Island), Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.

[10] Division of Housing and Community Renewal, Pro-Housing Community Program, at https://hcr.ny.gov/pro-housing-community-program (accessed January 24, 2024).

[11] For 2023 in New York City, 80 percent area median income for a family of four is $112,960 and 40 percent area median income for a family of four is $56,480.

[12] Traditionally, State-related debt previously reflected debt repaid from non-State sources in the first instance, where State appropriations are contingently available – but typically not expected to be needed – to make payments. This did not reflect debt where the State is contractually obligated to repay in the first instance, which is classified as State-supported debt.

[13] Office of the State Comptroller, *The Case for Building New York State's Rainy Day Reserves*, Dec. 2019, at https://www.osc.state.ny.us/reports/budget/2019/rainy-day-reserves-2019.pdf.

[14] To superintend the fiscal concerns of the State, audit all State payments and revenue collections, and supervise the accounts of every public corporation, among other things (i.e. New York State Constitution, Article V §1 and Article X §5; State Finance Law §8). It is also consistent with the Comptroller's function with respect to approving State contracts (State Finance Law §112).

[15] Public Authorities Law §3241-a.

[16] The Gateway loan otherwise meets all of the criteria of being State-supported debt by a) incurring debt (albeit in the form of a loan, rather than "bonds or notes"), b) contractually obligating the State to repay such debt through a service contract, subject to legislative appropriation, and c) being issued for a State capital purpose, New York's capital commitment share of the total project costs.

[17] Office of the State Comptroller, A Roadmap for State Debt Reform, January 2023, at https://www.osc.ny.gov/files/reports/pdf/roadmap-for-state-debt-reform.pdf.

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