2015 Opportunity Agenda

1. Financial Plan Overview

Overview

Governor Cuomo has forged a bipartisan consensus with the Legislature to enact four on-time, fiscally responsible budgets. The passage of the 2014-15 Budget on March 31, 2014 marked the first time since 1978 that New York has enacted four consecutive on-time budgets. The Governor's budgets embrace the principle that State spending must grow more slowly than the overall economy to leave more money in the hands of the people and to discipline the government to use its resources prudently. This principle has been put into practice with the establishment of the 2 percent spending benchmark at the State level, and with the 2 percent property tax cap at the local level.

The effort to control State government spending is working. In the fifty years prior to Governor Cuomo taking office, the annual State Budget grew faster than income 60 percent of the time (or three out of every five budgets), and spending over the entire period grew at an average rate of approximately 7 percent, compared to income growth of 6.2 percent. With the adoption of the 2 percent spending benchmark, the unsustainable trend has been reversed. Since 2011, State spending has grown more slowly than income each year – and will again with the Executive Budget for 2015-16.

Importantly, the fiscal actions of the past four years have reduced volatility from the budget-making process. Rather than including large spending increases in good economic times that cannot be sustained when the economy slows, the past four budgets have allowed for sustainable, affordable increases in spending.

The budgets of the last four years have instituted fundamental reforms that have reduced the cost of State and local government in New York. These reforms include:

- Limiting the annual growth in State Operating Funds to 2 percent or less;
- Eliminating unsustainable inflators for major programs;
- Negotiating landmark collective bargaining agreements that provide fair and affordable wages and benefits;

- Creating a new tier of fair and affordable pension benefits, which is expected to save the State and local governments $80 billion over 30 years;
- Relieving localities of the growth in the Medicaid program, and all the costs of administering it;
- Controlling and targeting new borrowing to keep debt service affordable and within the State's debt limit; and
- Setting aside nearly $800 million in reserves to reduce debt and meet unforeseen "rainy day" needs.

The policy of spending restraint – and the reforms that have accompanied it – have led to measurable improvements in the State's financial position.

- General Fund deficits totaling tens of billions of dollars have been eliminated and turned into operating surpluses. In the current year, the State is on track to record another surplus, estimated at $525 million. The surplus, which excludes funds received in the current year from monetary settlements with financial institutions, will be used to make the maximum allowable deposit to rainy day reserves and to prepay high cost debt that is due in 2015-16.
- State debt measured as a percent of personal income stands at 4.9 percent – the most favorable debt to income ratio since the 1960s – and is expected to decline annually over the next decade, even as the State makes targeted capital investments for health care, transportation, and economic development.

- Total State debt has declined in each of the last two fiscal years, and will decline again in 2014-15. This is the first time in modern times that New York's debt has declined for three consecutive years. Debt outstanding at the end of 2014-15 is on track to be lower than when the Governor took office in 2011.
- The accumulated GAAP-basis deficit of $3.5 billion inherited when the Governor took office has been reduced in just three years to less than $600 million, and is on pace to be eliminated completely by the end of 2014-15.

In the summer of 2014, all three major credit rating agencies, Standard and Poor's, Fitch, and Moody's, recognized the State's outstanding financial performance by upgrading the State to its highest credit rating since 1972. The State now enjoys the second highest investment-grade credit rating possible from all three raters on its general obligation bonds (S&P rates the State's Personal Income Tax Bonds and Sales Tax Bonds at AAA, the highest rating possible).

2015-16 Executive Budget Highlights

- The Executive Budget continues the disciplined approach to fiscal matters that has defined the Governor's first four budgets. It proposes recurring savings through targeted reforms, as well as continuation of the spending controls and cost-containment put in place in prior years.

Agency operations are generally expected to remain at current levels across the Financial Plan period. The projections for receipts and disbursements continue to be based on conservative assumptions.

- The Budget again limits the annual growth in State Operating Funds spending to 2 percent or less, consistent with the spending benchmark adopted in 2011-12. In addition, the Governor is expected to propose, and the Legislature is expected to enact, balanced budgets in future years that continue to limit annual growth in State Operating Funds to no greater than 2 percent.

- The $5.4 billion windfall from settlements with financial institutions is set aside for one-time investments and reserves. The budget proposes $3 billion in loans and grants for special infrastructure projects, including transportation, health care, disaster preparedness, and other one-time investments, and $1.5 billion for competitive upstate revitalization grants. In addition, $850 million is reserved to address risks.

- The combination of effective budget management and adherence to the 2 percent spending benchmark in each of the next four fiscal years will produce surpluses in future years, based on current projections. The Executive Budget proposes a multi-year property tax and business tax reduction plan, which has been sized to absorb much of the surplus that would otherwise occur using current projections. The following table summarizes the multi-year impact of the Executive Budget Financial Plan on General Fund operations.

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS
EXECUTIVE BUDGET
GAP-CLOSING PLAN
(millions of dollars)

	FY 2016	FY 2017	FY 2018	FY 2019
MID-YEAR BUDGET SURPLUS/(GAP) ESTIMATE[1]	**(1,814)**	**(2,578)**	**(4,034)**	**(5,777)**
Spending Changes	**1,441**	**2,913**	**5,018**	**6,420**
Agency Operations	92	13	79	257
Local Assistance	1,404	1,003	1,119	1,211
Capital Projects/Debt Management	121	385	329	335
Initiatives/Investments	(176)	(378)	(666)	(831)
Adherence to 2% Spending Benchmark[2]	n/a	1,890	4,157	5,448
Resources	**373**	**217**	**815**	**1,479**
BUDGET SURPLUS/(GAP) BEFORE TAX ACTIONS	**0**	**552**	**1,799**	**2,122**
Tax Reduction Plan	0	(386)	(989)	(1,492)
EXECUTIVE BUDGET SURPLUS/(GAP)	**0**	**166**	**810**	**630**

1 Before actions to adhere to the 2 percent benchmark.

2 Savings estimated from limiting annual spending growth in future years to 2 percent. Calculation based on current FY 2015 estimate. 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.

- Consistent with the Governor's approach in balancing his first four budgets, all of which emphasized spending restraint, the Executive Budget Financial Plan reduces spending in 2015-16 by $1.4 billion compared to prior projections.

  - **Agency Operations.** Since the Governor took office in January 2011, State agency operating costs have been significantly reduced through ongoing State agency redesign and cost-control efforts. These efforts have included closures and consolidations of facilities to reduce excess capacity; strict controls on attrition and hiring; enterprise-wide consolidation of procurement, information technology, and workforce management functions; and a range of operational measures to improve efficiency. The 2015-16 Executive Budget overall holds spending for Executive agency operations constant over the Financial Plan period. In addition, the State's projected costs for health insurance and pensions have been lowered based on market conditions.

  - **Local Assistance.** General Fund savings are expected from, among other things, consolidation of certain local aid programs, targeted reforms to STAR, and updated cost estimates for a range of State programs, and reflect the impact of cost-containment and spending controls enacted in prior years.

    Medicaid and School Aid are the State's largest aid programs, comprising over 40 percent of the State Operating Funds budget. Medicaid will grow at the indexed rate of 3.6 percent, consistent with the Global cap. In addition, the State will invest $1.4 billion in capital resources to continue the transformation of the State's health care delivery system.

School Aid is recommended to increase by $1.1 billion (4.8 percent) on a school year basis. The increase, which is in excess of the 1.7 percent rate driven by the current education aid index, is tied to the implementation of education reforms, including improvements to the systems for teacher evaluation, tenure, certification and preparation, as well as providing new authority to improve failing schools and providing increased support and accountability to charter schools.

- **Capital Projects/Debt Management.** Savings are expected through continued use of competitive bond sales, refundings, and consolidation of debt issuances.

- **Initiatives/Investments.** The Executive Budget proposes new initiatives that have a budgetary impact. Among the most significant is juvenile justice reform which, over time, will increase the age of juvenile jurisdiction to 18, establish a continuum of diversion services, and treat youth in age-appropriate OCFS facilities rather than in adult facilities. In addition, the Budget proposes a new student loan forgiveness program that will allow New York residents who graduate from college and continue to live in the State to pay little or nothing on their student loans for the first two years out of school if their income is not high enough to cover their student debt burden without significant financial hardship.

- The forecast for tax receipts has been revised upward in each year of the Financial Plan, reflecting strong tax collections to date. However, estimates remain conservative for 2015-16 and beyond, reflecting volatile economic conditions at home and globally. In addition, new resources in 2015-16 include the savings from prepaying certain 2015-16 expenses in 2014-15.

- The Executive Budget proposes a real property tax relief credit for homeowners and renters that meet income and tax burden thresholds. The relief program is expected to cost approximately $1.66 billion when it is fully phased in. In addition, the Budget includes a new Education Tax Credit, an Urban Youth Jobs Program tax credit, and a tax reduction for small businesses.

Annual Spending Growth

The Executive Budget holds 2015-16 annual spending growth in State Operating Funds to 1.7 percent, below the 2 percent spending benchmark. All Funds spending, which includes spending from capital funds and Federal funds, is expected to increase by 2.8 percent from the level estimated for 2014-15, excluding extraordinary aid.[1] The growth is driven in large part by increased capital investments.

[1] Extraordinary aid consists of aid related to (a) Federal health care reform, which includes the Affordable Care Act, the new Basic Health Plan and the Federal waiver to transform the State's health care system, all of which increases the flow of Federal Funds through the State's Financial Plan; (b) Federal aid that is expected to pass through the State's Financial Plan to local governments, public authorities, and not-for-profits over the next three years for recovery from Superstorm Sandy; and (c) capital spending from windfall monetary settlements with financial institutions.

TOTAL DISBURSEMENTS
(millions of dollars)

	FY 2014 Results	FY 2015 Current	Annual Change	% Change	FY 2016 Proposed	Annual Change	% Change
STATE OPERATING FUNDS	90,631	92,407	1,776	2.0%	93,984	1,577	1.7%
General Fund (excluding transfers)	52,148	54,877	2,729	5.2%	57,356	2,479	4.5%
Other State Funds	32,046	31,654	(392)	-1.2%	31,055	(599)	-1.9%
Debt Service Funds	6,437	5,876	(561)	-8.7%	5,573	(303)	-5.2%
ALL GOVERNMENTAL FUNDS (EXCL. EXTRAORDINARY AID)	135,874	137,744	1,870	1.4%	141,630	3,886	2.8%
State Operating Funds	90,631	92,407	1,776	2.0%	93,984	1,577	1.7%
Capital Projects Funds	7,751	7,995	244	3.1%	9,375	1,380	17.3%
Federal Operating Funds	37,492	37,342	(150)	-0.4%	38,271	929	2.5%