



Report on the State Fiscal Year 2015-16 Executive Budget

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New York State Comptroller

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Table of Contents

EXECUTIVE SUMMARY	1
FINANCIAL PLAN OVERVIEW	6
State Fiscal Year 2014-15	6
State Fiscal Year 2015-16	8
Settlements	12
Structural Imbalance	14
Temporary and Non-Recurring Resources	18
Reserves	19
Risks to the Financial Plan	20
Transparency, Accountability and Oversight Issues	22
ECONOMY AND REVENUE	32
Economic Outlook	32
Revenue	34
DEBT AND CAPITAL	42
Debt Outstanding and Debt Service	42
Capital Program and Financing Plan	48
New Debt Authorizations	50
Debt Management and New Initiatives	50
Dedicated Infrastructure Investment Fund	51
PROGRAM AREA HIGHLIGHTS	55
Education	55
Higher Education	58
Health/Medicaid	60
Mental Hygiene	65
Human Services	67
Economic Development	69
Lottery and Gambling	71
Transportation	72
Housing	76
Environment and Parks	77
Agriculture	80
Energy	80
Homeland Security / Public Protection	82
State Workforce	82
General State Charges	84
Public Authorities	86
Local Governments	90
New York City	92
Metropolitan Transportation Authority	93
Campaign Finance Reform	93
Design-Build	94
APPENDICES	95

Executive Summary

As the national economy gains momentum in its sixth year of inconsistent recovery from the Great Recession, New York State's fiscal condition also continues to improve. Increased tax revenues, generated by strengthened economic conditions and legislated changes, and policy actions that restrain spending growth are driving such progress. Non-recurring resources have also contributed to the State's stronger short-term budgetary position, including an extraordinary level of receipts from financial settlements this fiscal year.

The Executive Budget for State Fiscal Year (SFY) 2015-16 proposes steps that would build on recent progress toward structural budgetary balance. These include continued spending restraint, particularly in State agency operations and certain local assistance programs, and deposits to State budget reserves in the current year along with statutory changes to significantly increase the legally allowable level of such reserves. The proposed Budget also includes major new initiatives intended to ease the property tax burden on millions of homeowners and renters, and to increase investment in economic development and essential infrastructure projects.

Still, the State continues to face the challenge of establishing structural budgetary balance while addressing key policy goals that may necessitate increases in spending or cuts in revenue.

One measure of this challenge is the level of potential budget gaps in future years. The Office of the State Comptroller estimates that the Executive's projections of out-year receipts and disbursements indicate gaps averaging nearly \$3.3 billion annually in SFY 2016-17 through SFY 2018-19. These potential gaps are more than one-third larger than those the Office of the State Comptroller estimated based on the SFY 2014-15 Executive Budget.

Assessment of potential out-year gaps is complicated by the Executive Budget Financial Plan's presentation of the multiyear outlook. The proposed Budget for SFY 2015-16 includes a gap-closing plan that identifies the changes in spending and revenue which are expected to produce the projected closing balance and hold reported State Operating Funds spending growth within 2 percent, a goal established by the Executive. However, proposed Budget projections of out-year surpluses rely on billions of dollars of unspecified savings to meet the 2 percent goal, leaving a lack of clarity about potential out-year gaps. This presentation also leaves open questions regarding the changes to either revenue or spending that may be needed to achieve the stated targets, creating uncertainty for entities that rely on State resources.

The State expects to collect nearly \$5.7 billion this fiscal year in largely unanticipated financial settlements. The Executive Budget includes a proposal for the creation of a new Capital Projects Fund which would receive a portion of these funds. The Executive has indicated that these monies should be used for one-time purposes and has identified capital investments (including the replacement of the Tappan Zee Bridge, other transportation infrastructure, and a \$500 million broadband initiative). To the extent that

expenditures are clearly identifiable one-time investments in long-term assets, such projects would be appropriate uses for the settlement funds.

However, proposed Budget legislation related to the Dedicated Infrastructure Investment Fund (DIIF), through which a large portion of the settlement dollars could flow, includes language providing virtually no limits on the use of Fund resources, and would allow the transfer of monies in the Fund back to the General Fund. As proposed, such funds could be spent on purposes including, for example, Medicaid costs and employee salaries and benefits at State agencies and public authorities. The proposed structure of the Fund, and proposed appropriations and transfers to and from such Fund, would allow it to be used essentially as an additional undesignated reserve for the State.

Operational expenditures generally are inappropriate uses of one-time resources. Given the State's limited resources, shrinking statutory debt capacity and unmet capital needs, it is critical that the State prioritize its use of debt and capital resources – including the resources deposited in the DIIF – to ensure that they are used as effectively as possible, and with appropriate levels of transparency and accountability.

The Division of the Budget (DOB) plans to deposit \$315 million into the State's two reserve funds that are intended for use in periods such as depressed economic conditions or emergencies, the Rainy Day Reserve Fund and the Tax Stabilization Reserve Fund. Another \$210 million would go to debt prepayments previously scheduled for the following fiscal year, bringing total debt prepayments for SFY 2014-15 to \$560 million. Including settlement resources, the General Fund is projected to end SFY 2014-15 with a closing balance of \$7.8 billion, the highest level in years. Excluding settlement revenues, the General Fund is expected to end the year with a balance of nearly \$2.4 billion, \$313 million higher than anticipated when the Budget was enacted.

The Budget proposes laudable improvements in the State's provisions for budgetary reserves. The Rainy Day Reserve Fund would be authorized to rise from its current limit, 3 percent of General Fund spending, to 8 percent. This increase would allow – but would not require – larger reserve funds. Creation of more robust reserves would improve the State's ability to respond to fiscal emergencies, as has been advocated by Comptroller DiNapoli. The Budget also proposes to increase the maximum annual deposit in the Rainy Day Reserve Fund from 0.3 percent to 1 percent of General Fund spending, another positive step.

The Budget also proposes to ease the State's ability to withdraw monies from the Rainy Day Reserve Fund. This change, if in effect now, would permit the use of the reserve fund as of January 2015, despite the State's relatively high General Fund balance.

The Executive Budget reduces transparency, accountability and oversight in certain ways. For example, the Budget includes several measures to bypass existing statutory provisions that promote integrity in State procurement, including the elimination of competitive bidding, public notice requirements and Office of the State Comptroller review in certain instances.

Other aspects of the proposed Budget that raise concerns regarding transparency, accountability and oversight include: the lack of individual public school district funding

estimates; blurred lines of functions and responsibilities between State agencies and public authorities; expanded authority for the DOB to move funding among agencies; continued use of off-budget actions for important programs; elimination of independent oversight for the State's Oil Spill Fund Program; and authorization to expand access to New Yorkers' private information among State agencies.

New York State's economic momentum, like the nation's, is expected to accelerate in the coming year with improvement in employment, Personal Income and other key indicators. Still, DOB projections indicate that the State's gains in total employment will lag the national pace for a fourth consecutive year.

The Executive forecasts that State tax collections will strengthen in SFY 2015-16, with projected growth of \$3.6 billion, or 5.1 percent, compared to expected growth of 1.7 percent in the current fiscal year. The projected increase results primarily from stronger economic growth and an expected rebound from the sharp decline in Personal Income Tax (PIT) receipts during April 2014 that resulted from income shifting in response to previous federal tax changes.

Spending from State Operating Funds would rise by 1.7 percent in SFY 2015-16, according to DOB. Based on DOB's revenue and spending projections and after adjusting for prepayments and other proposed changes, the Office of the State Comptroller estimates that State Operating Funds spending would increase by 3.1 percent. All Funds spending would rise by 4.9 percent, including spending associated with the Affordable Care Act and Superstorm Sandy. DOB projects inflation during SFY 2015-16 at 1.3 percent.

The Executive Budget projects increases in the State's new debt issuances, outstanding debt and annual debt service payments over the five-year Capital Plan period, along with shrinking debt capacity in the years ahead. New debt issuances have been below \$4 billion and nearly matched by retirement of existing debt for three consecutive years, including SFY 2014-15, according to DOB. However, the Budget projects new issuances of \$6.2 billion in SFY 2015-16, some \$2.5 billion above the expected level of outstanding debt retired. Available debt capacity under the State's statutory cap is now projected to reach a low point of \$604 million at the end of SFY 2018-19.

In November 2014, New York voters approved the Smart Schools Bond Act, authorizing up to \$2 billion in State General Obligation (G.O.) bonds for classroom technology and other purposes. The Executive Budget includes a proposal to authorize the use of backdoor borrowing by State public authorities instead of voter-approved debt for the purposes included in the Smart Schools Bond Act. This proposal reduces transparency with respect to the State's borrowing and authorizes such debt to be issued without the controls governing issuance, structure and retirement of G.O. bonds. This may result in bonds being issued in a manner that may not align with the voters' approval and could ultimately result in higher costs to taxpayers.

Other major findings of this report include the following:

- Savings associated with the target of limiting annual increases in State Operating Funds spending to 2 percent are estimated at \$1.9 billion, \$4.2 billion and \$5.4 billion in SFYs 2016-17, 2017-18 and 2018-19, respectively. Expected annual increases

in spending on education, Medicaid, debt service and State employee benefit costs are above the 2 percent target. Absent changes to projected spending in those areas, achieving the 2 percent target may require particular restraint in other areas such as transportation, mental hygiene, social services, higher education and State agency operations.

- The Budget proposes to increase education aid by \$1.1 billion, or 4.8 percent, but conditions any increase on legislative enactment of certain statutory changes involving teacher evaluations, governance of struggling schools and other matters. In contrast to longstanding practice, Budget documents this year are not accompanied by School Aid estimates (or “runs”) that project funding for individual school districts based on the proposed Budget, nor does the proposed Budget legislation drive any increases to specific program areas. The lack of such information impedes analysis of the proposed changes in overall school funding, as well as school districts’ development of their proposed budgets for the 2015-16 school year. This omission also minimizes the ability of New Yorkers to understand and assess the impact of the Executive Budget on their schools.
- The Budget would convert the existing School Tax Relief (STAR) exemption, which reduces homeowners’ property tax bills directly, to a credit against State income tax liability for first-time homebuyers and existing homeowners who move into a new home. If enacted, the change could influence school district residents’ perceptions of the cost of local school taxes, given that the STAR benefit would be received several months later than the tax bill. Over time, this proposal would move the STAR program from the spending side of the State ledger to the revenue side. It would also provide a \$100 million benefit to the State in SFY 2015-16 by pushing costs to the following year, with additional benefits accruing in the following years. The Budget also proposes to cap existing STAR benefits at the SFY 2014-15 level and to eliminate the New York City PIT reduction element of STAR for City residents with incomes over \$500,000. These latter two proposals would reduce STAR costs by a projected \$97 million annually.
- The Budget projects State-funded Medicaid spending would rise by 2 percent, or \$439 million, in the coming fiscal year. Overall Medicaid spending in New York, including federal funding and local government expenditures, is projected to total more than \$62 billion in SFY 2015-16, an increase of 5.6 percent. This growth is primarily due to new federal funding associated with the Affordable Care Act and the federal Medicaid waiver. The Executive projects Medicaid enrollment in the State to surpass 6.1 million by the end of the current fiscal year and 6.4 million by SFY 2016-17.
- The Budget would increase total spending for State economic development programs by nearly 45 percent, primarily reflecting a \$585 million increase in capital spending, to just over \$2 billion. A proposed new Upstate Revitalization Program could provide \$1.5 billion to fund infrastructure projects along with various other purposes including workforce development and tourism promotion.

- The Budget proposes to reinstate authorization of design-build and other alternative methods of procurement, after the expiration of the Infrastructure Investment Act in December 2014. The proposal would expand this authorization to all State agencies and public authorities, add public buildings as authorized projects, and make the law permanent. While design-build may allow opportunities for savings and efficiency, enhanced protections such as required cost-benefit analyses should be considered to enhance transparency and accountability.
- The Budget proposes a public campaign finance system for elections to statewide offices and the Legislature, starting in 2018. Funding would be authorized from a proposed new Campaign Finance Fund check-off program and the transfer of Abandoned Property revenue. Proposed changes to State Election Law would impose tighter limits on certain campaign contributions and new restrictions on the use of campaign funds.
- The proposed Budget relies on approximately \$3.1 billion in temporary or non-recurring funds, excluding federally supported disaster assistance, which derives primarily from actions taken in previous years. Temporary resources include more than \$2.2 billion in higher PIT rates on upper-income taxpayers and a \$250 million transfer from the State Insurance Fund.
- Risks to the Budget include uncertainty regarding federal assistance for Medicaid and State transportation, transfers from public authorities, and a projected transfer from the Abandoned Property Fund that is for a higher amount than historical patterns suggest would be available.

Note: As of the issuance of this report, amendments to the Executive Budget had not yet been released. Therefore, any amendments made in accordance with the 21-day or 30-day amendment periods, as well as any corresponding updates to either the Financial Plan or the Capital Program and Financing Plan, are not reflected in this report.

Financial Plan Overview

State Fiscal Year 2014-15

As the end of State Fiscal Year (SFY) 2014-15 approaches, New York State's tax collections are on track to exceed Executive projections made when the Budget was enacted for the second year in a row, after several consecutive years of lower than projected collections. This additional revenue, along with lower than expected spending and extraordinary receipts from financial settlements, leaves the State in a stronger than expected position as it nears the start of a new fiscal year.

General Fund

General Fund tax receipts, not including transfers from other funds, are now projected to total \$43.2 billion, and end the year \$574 million higher than anticipated when the SFY 2014-15 Budget was enacted. Most of this, \$507 million, is in PIT receipts that are stronger than expected. Total General Fund receipts including transfers from other funds, are expected to total \$69.1 billion. By fiscal year end, the General Fund is expected to have received nearly \$5.7 billion in settlements primarily from various financial institutions. General Fund spending, including transfers to other funds, is now projected to total \$63.5 billion in SFY 2014-15.

The General Fund closing balance is now expected to end the year \$5.7 billion higher than initially anticipated. Excluding settlement funds, the General Fund is projected to end the year \$313 million higher than anticipated in May 2014.

State Operating Funds

The SFY 2014-15 Enacted Budget Financial Plan assumed revenue growth in State Operating Funds (including the General Fund) of approximately 0.3 percent. The majority of this projected growth was expected in tax collections (projected to increase 0.7 percent or \$491 million), partly offset by an anticipated decline in miscellaneous receipts (projected to decline \$243 million or 1.2 percent). The low anticipated growth in tax collections was primarily due to an expectation of weakness in PIT collections. This reflected newly enacted tax credits totaling \$785 million, along with significantly lower than anticipated prior year estimated PIT payments, resulting from a greater than expected impact of federal tax actions that occurred in December 2012.

The Division of the Budget (DOB) had anticipated prior year estimated PIT collections in April 2014 to decline approximately 20 percent, but the actual decline was closer to 35 percent. Through December 31, 2014, withholding collections were \$1.3 billion, or 6.1 percent, higher than the same period last year. The updated Financial Plan projects withholding receipts for SFY 2014-15 to be \$1.8 billion, or 5.3 percent, higher than the previous year. Business tax collections have exceeded projections throughout the year. Through December 31, 2014, these receipts were \$532.5 million higher than initial projections.

On an unadjusted basis, State Operating Funds spending has risen at a higher rate during SFY 2014-15 than anticipated in the SFY 2014-15 Enacted Budget. Such spending was initially projected to increase 1.8 percent, or \$1.6 billion, in SFY 2014-15 (unadjusted for timing changes). DOB now projects spending from State Operating Funds will total just over \$92.4 billion, or a projected increase of \$1.8 billion, or 2.0 percent, from SFY 2013-14. This is primarily due to a \$560 million prepayment of debt service in SFY 2014-15 that was initially planned for SFY 2015-16. However, the SFY 2014-15 Enacted Budget Financial Plan also reflected prepayments in the preceding year, thus changing the apparent level of growth. If spending were adjusted to reflect those prepayments (as well as the \$350 million prepayment planned for SFY 2014-15), spending was initially planned to increase 3.5 percent.¹

Figure 1
State Operating Funds Receipts and Disbursements – Adjusted for Timing
(in millions of dollars)

	SFY 2013-14 Actual	SFY 2014-15 Projected (1)	Dollar Growth	Percentage Change
Unadjusted State Operating Funds Receipts	88,927	89,672	745	0.8%
Receipts:				
Total Taxes	68,335	69,505	1,170	1.7%
Less SFY 2014-15 Personal Income Tax Refund Prepayment	328	(328)		
<i>Total Taxes Adjusted</i>	<i>68,663</i>	<i>69,177</i>	<i>514</i>	<i>0.7%</i>
Miscellaneous Receipts (1)	20,521	20,093	(428)	-2.1%
Federal Funds	71	74	3	4.2%
Adjusted State Operating Receipts	89,255	89,344	89	0.1%
Unadjusted State Operating Funds Disbursements	90,631	92,407	1,776	2.0%
Disbursements:				
Grants to Local Governments	59,402	61,100	1,698	2.9%
Plus SFY 2014-15 Social Services Prepayment	(150)	150		
Less SFY 2015-16 Mental Hygiene Prepayment		(66)		
<i>Total Local Assistance Adjusted</i>	<i>59,252</i>	<i>61,184</i>	<i>1,932</i>	<i>3.3%</i>
State Operations	17,864	18,382	518	2.9%
General State Charges	6,958	7,092	134	1.9%
Debt Service	6,400	5,833	(567)	-8.9%
Plus SFY 2014-15 Debt Service Prepayment	(688)	688		
Less SFY 2015-16 Debt Service Prepayment	-	(560)		
<i>Adjusted Debt Service</i>	<i>5,712</i>	<i>5,961</i>	<i>249</i>	<i>4.4%</i>
Capital Projects	7	-	(7)	-100.0%
Adjusted State Operating Funds Disbursements	89,793	92,619	2,826	3.1%

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

(1) Does not include settlement revenue that was not anticipated when the SFY 2014-15 Budget was enacted. The SFY 2014-15 Enacted Budget anticipated \$275 million in settlement revenue.

¹ New York State Office of the State Comptroller, Report on State Fiscal Year 2014-15 Enacted Budget Financial Plan and Capital Program and Financing Plan, July 2014, page 11.

As shown in Figure 1, starting with adjustments for prior year prepayments and adjusting for the \$210 million additional debt service prepayment and \$66 million mental hygiene-related prepayment expected to be made before the end of the current fiscal year (for a total of \$626 million in SFY 2015-16 prepayments), adjusted State Operating Funds spending growth in SFY 2014-15 would total 3.1 percent.

All Funds

All Funds receipts are projected to increase \$10.4 billion, or 7.6 percent, from SFY 2013-14, including settlement revenue. Miscellaneous receipts are projected to increase \$6.1 billion, or 25.1 percent, and All Funds tax collections are projected to increase \$1.2 billion or 1.7 percent.

All Funds disbursements are projected to increase \$5.5 billion, or 4.0 percent. Local assistance grants are projected to increase 5.4 percent, to \$103.9 billion, primarily due to federally funded programs (anticipated to increase \$3.6 billion). Unadjusted debt service is projected to decline \$567 million or 8.9 percent. Capital spending is projected to increase \$241 million or 4.4 percent.

State Fiscal Year 2015-16

For the second year, the presentation of the SFY 2015-16 Executive Budget represents a departure from previous presentations in that it does not directly project out-year gaps that result from the State's structural imbalance. As other budgets in recent years have done, the Budget provides projections for both receipts and disbursements based on current economic projections and current service levels, and proposed actions that would change baseline expectations. Following a precedent established in SFY 2014-15, the Executive Budget proposal provides a figure that illustrates potential savings associated with limiting the growth in spending from State Operating Funds to 2 percent annually for the three Financial Plan out-years.

The Office of the State Comptroller estimates that, without this adjustment, current law and current services as revised by the Executive's various proposals would result in out-year gaps ranging from \$1.7 billion in SFY 2016-17 to \$4.8 billion in SFY 2018-19, based on DOB estimates. By including the 2 percent spending adjustment, DOB projects surpluses beginning in SFY 2016-17 (\$166 million) through SFY 2018-19 (\$630 million). DOB states in the Financial Plan "if the 2 percent State Operating Funds benchmark is not adhered to, budget gaps may result."²

The proposed Budget uses approximately \$3.1 billion in non-recurring or temporary resources to support ongoing spending needs, \$1.9 billion of which were enacted in previous budgets. The Executive's proposal includes approximately \$572 million in new non-recurring resources in the SFY 2015-16 gap-closing plan.

² FY 2016 Executive Budget Financial Plan, page 60.

General Fund

The SFY 2015-16 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will total \$66.1 billion, a decrease of 4.3 percent, or just under \$3 billion, compared to updated SFY 2014-15 estimates. If settlement revenue is excluded from SFY 2014-15, growth would be 3.9 percent, or nearly \$2.5 billion, primarily from PIT collections. Overall, General Fund tax collections are projected to increase 6.1 percent or \$2.6 billion. Miscellaneous receipts are projected to decline nearly \$6 billion, because of the expected drop in settlement revenue and a \$750 million decrease in non-recurring receipts from the State Insurance Fund (SIF).

General Fund disbursements are projected to total \$70.6 billion, an increase of \$7.1 billion, or 11.2 percent, over SFY 2014-15. The increase is driven primarily by spending associated with the large transfer of settlement revenue from the General Fund to the proposed DIIF in SFY 2015-16. Without this transfer, spending would increase \$2.6 billion, or 4.0 percent. Local assistance is expected to grow by \$1.9 billion, including increases to school aid and Medicaid. State Operations spending is projected to increase \$333 million or 4.2 percent.

Proposed General Fund Gap-Closing Plan

The Executive Budget projects a General Fund current services deficit (or gap) of \$1.8 billion in SFY 2015-16 before factoring in changes made since the Mid-Year Financial Plan and proposed new actions. The Executive indicates a projected General Fund operating surplus of \$525 million will be used to prepay an additional \$210 million in debt service in SFY 2014-15, thus providing non-recurring gap-closing relief in SFY 2015-16, and to make payments totaling \$315 million (close to the statutory maximum) to the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund.

The Executive's gap-closing plan for SFY 2015-16 includes an additional \$159.9 million in various sweeps and transfers from other funds. In all, 83 percent of the gap-closing plan is recurring in nature, according to DOB figures. Appendix A provides an outline of the projected gap-closing plan through SFY 2018-19.

State Operating Funds

The SFY 2015-16 Executive Budget Financial Plan projects that State Operating Funds revenue will total \$92.6 billion, a decline of \$2.5 billion, or 2.6 percent, from estimated SFY 2014-15 receipts, primarily due to extraordinary settlement receipts in SFY 2014-15. Without such receipts, State Operating Fund receipts are anticipated to increase \$2.9 billion or 3.3 percent. The increase is primarily due to projected higher tax collections, which are expected to rise nearly \$3.6 billion, or 5.2 percent, primarily in PIT.

For SFY 2015-16, State Operating Funds spending is projected to total just under \$94.0 billion, an increase of 1.7 percent, or \$1.6 billion, over SFY 2014-15. Most of the increase is projected to occur in Local Assistance payments, primarily in Medicaid from the Department of Health and in school aid. State Operations spending (a category within State Operating Funds that primarily reflects spending on State agencies and universities) is projected to increase 1.1 percent, or \$202 million, primarily in the Department of Health

and the Office for Technology. General State Charges spending is projected to increase 3.7 percent, or \$262 million, primarily because of increases related to pension costs and health benefits.

Figure 2
Adjusted Growth in State Operating Funds Receipts and Disbursements
(in millions of dollars)

	SFY 2014-15 Estimate	SFY 2015-16 Proposed	Dollar Growth	Percentage Growth
Receipts:				
Personal Income Tax	44,338	46,888	2,550	5.8%
Consumption and Use Taxes	14,799	15,377	578	3.9%
Business Taxes	7,069	7,460	391	5.5%
Other Taxes	3,299	3,379	80	2.4%
Total Taxes	69,505	73,104	3,599	5.2%
Miscellaneous Receipts	25,493	19,384	(6,109)	-24.0%
Federal Grants	74	74	-	0.0%
Total Receipts	95,072	92,562	(2,510)	-2.6%
Local Assistance				
	61,099	62,519	1,420	2.3%
Economic Development/Government Oversight	419	232	(187)	-44.7%
Parks and Environment	20	11	(9)	-46.2%
Transportation	4,841	4,839	(2)	0.0%
DOH Medicaid (incl. Admin.)	16,279	17,095	816	5.0%
Other Health	2,306	2,132	(174)	-7.5%
Social Welfare	2,834	2,925	90	3.2%
Mental Hygiene	2,933	2,582	(351)	-12.0%
<i>Plus SFY 2015-16 Prepayment</i>	<i>(66)</i>	<i>66</i>	<i>132</i>	<i>-200.0%</i>
<i>Adjusted Mental Hygiene</i>	<i>2,867</i>	<i>2,648</i>	<i>(219)</i>	<i>-7.6%</i>
Public Protection/Criminal Justice	333	279	(53)	-16.0%
Higher Education	2,902	2,972	70	2.4%
School Aid	21,609	23,026	1,418	6.6%
Other Education	5,569	5,376	(193)	-3.5%
<i>STAR Transition to Tax Credit</i>	<i>100</i>	<i>100</i>	<i>0</i>	<i>0.0%</i>
<i>Adjusted Other Education</i>	<i>5,569</i>	<i>5,476</i>	<i>(93)</i>	<i>-1.7%</i>
General Government	164	204	40	24.3%
Local Government Assistance	778	766	(12)	-1.5%
Other	113	80	(33)	-29.2%
Total Local Assistance	61,033	62,685	1,652	2.7%
State Operations				
Personal Service	12,596	12,881	285	2.3%
Non-Personal Service	5,786	5,703	(83)	-1.4%
Total State Operations	18,382	18,584	202	1.1%
General State Charges	7,092	7,354	262	3.7%
Debt Service				
	5,833	5,526	(307)	-5.3%
<i>Plus SFY 2015-16 Debt Service Prepayment</i>	<i>(560)</i>	<i>560</i>	<i>1,120</i>	<i>200.0%</i>
<i>Less SFY 2016-17 Debt Service Prepayment</i>	<i>(100)</i>	<i>(100)</i>	<i>0</i>	<i>0.0%</i>
<i>Adjusted Debt Service</i>	<i>5,273</i>	<i>5,986</i>	<i>713</i>	<i>13.5%</i>
Capital Projects	-	1	1	100.0%
Total Disbursements	92,406	93,984	1,578	1.7%
Total Adjusted Disbursements	91,780	94,610	2,830	3.1%

Note: See text for discussion of adjustments. These amounts do not reflect actual receipts or disbursements or Financial Plan projections. Unless otherwise noted, the figures provided throughout the remainder of this report reflect unadjusted amounts.

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

Figure 2 illustrates how timing-related actions change year-to-year growth – in this case, the SFY 2014-15 planned prepayment of \$560 million in debt service due in SFY 2015-16 as well as the acceleration of certain SFY 2015-16 Mental Hygiene-related payments into SFY 2014-15. When a prepayment is made on the spending side, growth is reduced because the base year is higher and the upcoming year is lower. In addition, the Executive proposes to restructure the STAR program to eventually shift program costs from the spending side of the Budget to the revenue side, which DOB estimates would provide a \$100 million Financial Plan benefit in SFY 2015-16. After adjusting for these actions, spending from State Operating Funds in SFY 2015-16 would increase by 3.1 percent.

Other factors that alter the appearance of spending growth include shifts of spending off-budget (as with public authorities), and classification of certain spending as “Capital Projects” (as with many of the purposes under the new DIIF). A further discussion of this issue can be found in the Transparency, Accountability and Oversight Issues section of this report.

All Funds

The SFY 2015-16 Executive Budget Financial Plan projects All Funds receipts will increase \$1.1 billion, or 0.8 percent, to \$149.3 billion. This estimate largely reflects projected increases in federal receipts and tax collections, offset by a reduction in miscellaneous receipts primarily due to the receipt of large, one-time settlement revenues in SFY 2014-15. Without settlement revenue, projected receipts would grow \$6.6 billion or 4.6 percent. Tax receipts are expected to increase \$3.6 billion, or 5.1 percent, mostly from PIT collections. Total PIT collections are projected to increase \$2.6 billion, or 5.8 percent.

All Funds spending is projected to total just under \$150 billion, an increase of \$6.96 billion, or 4.9 percent, including disaster assistance, new federally funded Medicaid spending associated with the Affordable Care Act, and the first year of proposed capital spending from settlement funds (\$540 million). While the disaster assistance is non-recurring in nature, the new Medicaid spending is expected to continue and grow in succeeding years. The latter increase represents almost \$6.1 billion in new, federally supported spending. DOB expects the State will spend \$1.7 billion from federal disaster funds in SFY 2015-16 compared to \$2 billion in SFY 2014-15. Without these three elements, All Funds spending increases 2.8 percent or \$3.9 billion. DOB projects inflation in SFY 2015-16, as measured by the Consumer Price Index, at 1.3 percent.

Local Assistance is projected to increase \$5.8 billion, or 5.6 percent, primarily due to increased Medicaid spending. Spending for Capital Projects is projected to increase \$1.1 billion or 19.4 percent.³ All Funds Debt Service spending is projected to decline \$307 million or 5.3 percent. This reflects prepayments of \$560 million in SFY 2014-15, as well as another prepayment of \$100 million in SFY 2015-16. If those amounts are adjusted out of the projected level of Debt Service spending for SFY 2014-15 (decreasing SFY 2014-15 and increasing SFY 2015-16), Debt Service in SFY 2015-16 would increase by an estimated \$713 million, or 13.5 percent, over the prior year.

³ Capital Projects spending, as detailed in the All Funds Financial Plan, primarily occurs within Capital Projects Funds but does not include local assistance payments made from Capital Projects Funds.

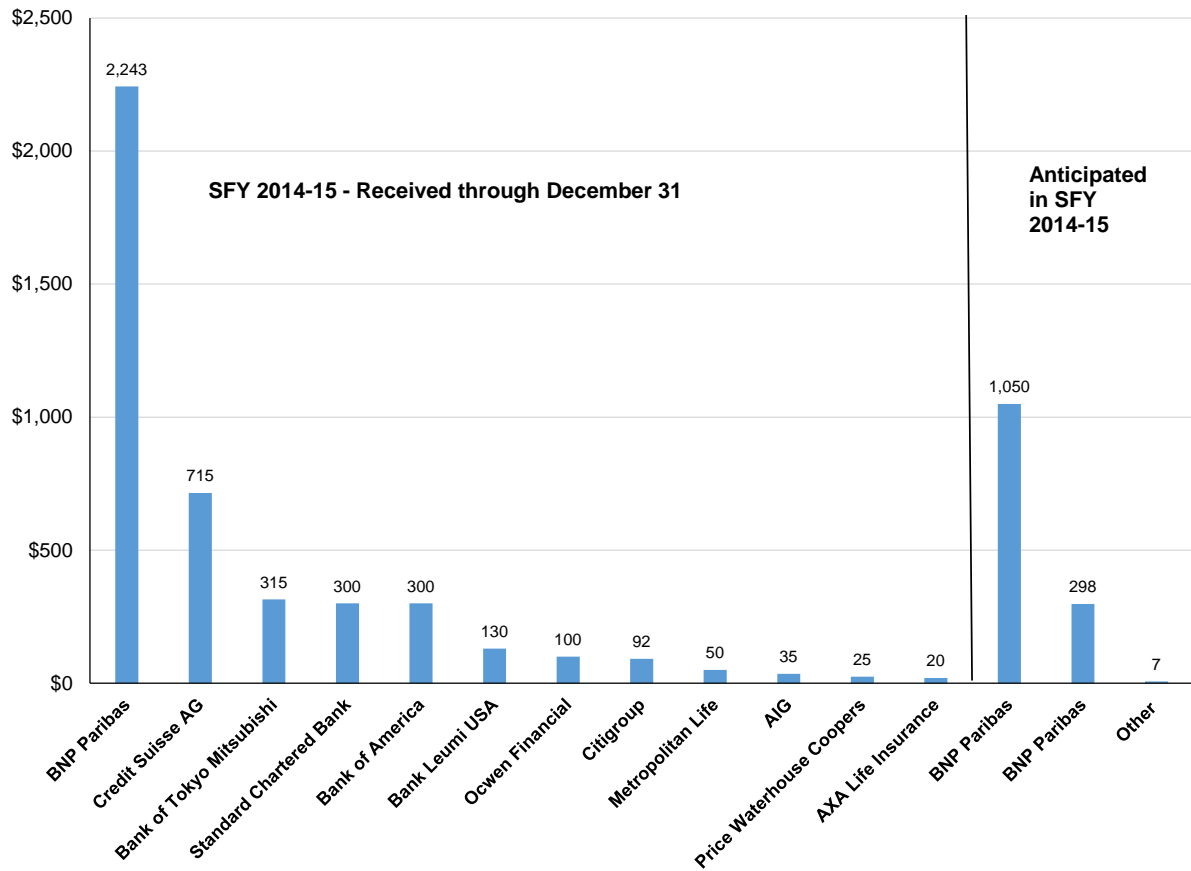
Settlements

In SFY 2014-15, the State has received or expects to receive nearly \$5.7 billion in non-recurring and largely unanticipated revenue from various financial institutions and insurance companies. The SFY 2014-15 Enacted Budget Financial Plan included \$275 million from settlements as miscellaneous receipts that were included with other General Fund revenues. The majority (all but \$5 million) has been or is expected to be deposited in the State's General Fund. Figure 3 illustrates revenues that have been or are expected to be received.

Figure 3

Selected Settlements, Fines and Forfeitures – SFY 2014-15

(in millions of dollars)



Source: Division of the Budget

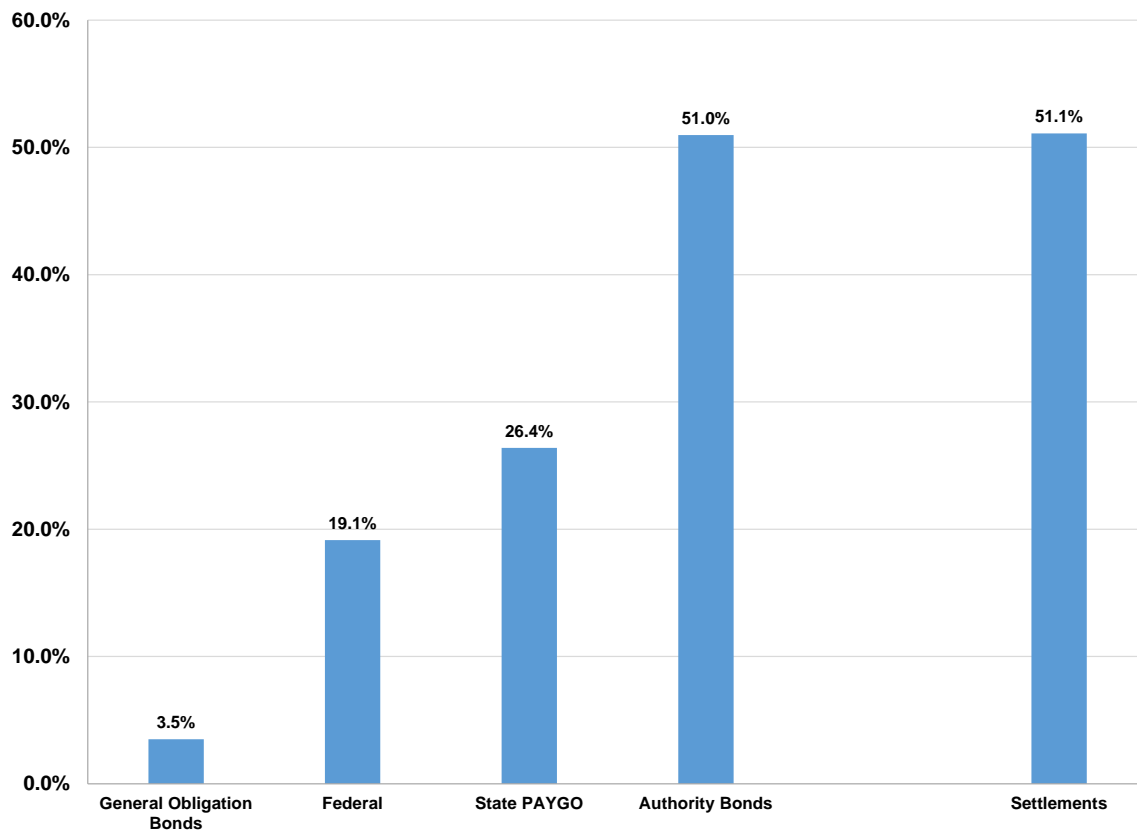
Unlike the use of non-recurring resources to pay for operating expenses, where they temporarily support spending that will continue when the resources are depleted, using non-recurring resources for long-term capital assets more appropriately applies one-time resources to one-time expenditures (such as capital investments that are not for ongoing maintenance costs). Applying one-time resources to capital investments also averts interest costs that are incurred if debt is used. Similarly, non-recurring resources could be

used to decrease existing high cost debt, thus also reducing out-year debt costs in addition to lowering current year needs.

For comparison purposes, in SFY 2014-15, DOB projects the State will have spent approximately \$8.9 billion for Capital Projects from all sources. These include federal funds, voter approved General Obligation bond proceeds, authority-issued bond proceeds – of which approximately \$911 million is considered off-budget and not included in the Financial Plan – and current State resources, also known as pay-as you-go – PAYGO. Settlement revenue of \$4.55 billion that is proposed to be deposited in the DIIF equates to more than 50 percent of projected capital spending for the year. Figure 4 illustrates the scale of the anticipated settlement revenue as compared to the anticipated revenue from all sources for capital spending. While the settlement revenue is expected to be spent over a period of several years, this comparison provides perspective with respect to the State's Capital Projects budget.

Figure 4

**SFY 2014-15 Capital Budget by Revenue Category
Compared to Anticipated Settlement Revenue**
(percentage of total)



Source: Division of the Budget

Structural Imbalance

For decades, the State's annual budgets have typically included provisions that have driven projections for recurring spending to rise at a faster pace than projected recurring revenue, creating a structural imbalance and continual annual budget gaps. Such gaps were traditionally closed largely through the use of short-term solutions that often addressed a single year, exacerbating the problem for subsequent years.

In recent years, the State has taken steps to reduce its structural budgetary imbalance. Such steps include statutory limits on growth in State Department of Health Medicaid spending and in education spending, both first enacted in 2011, and certain tax changes that are in permanent law.⁴ Other budgetary actions in recent years have created temporary revenues or spending reductions.

As detailed further above, the SFY 2015-16 Executive Budget assumes savings in future years that would result from limiting State Operating Funds spending growth to 2 percent. The savings associated with the 2 percent target are estimated at \$1.9 billion, \$4.2 billion and \$5.4 billion, or a cumulative total of nearly \$11.5 billion, for the three fiscal years starting in SFY 2016-17.

Budget documents do not indicate how such savings would be realized. Rather, the Financial Plan states: "Savings estimated from limiting annual spending growth in future years to 2 percent. The Governor is expected to propose, and negotiate with the Legislature to enact, budgets that hold State Operating Funds spending growth to 2 percent. Assumes all savings from holding spending growth are made available to the General Fund."⁵ Separately, the Financial Plan states: "If the 2 percent State Operating Funds spending benchmark is not adhered to, budget gaps may result."⁶ Based on those projected savings as well as specifically outlined proposals to change certain expenditures and revenues, the Executive Budget Financial Plan projects modest surpluses, increasing from \$166 million to \$810 million before declining to \$630 million, in SFY 2016-17 through SFY 2018-19.

As shown in Figure 5, the Office of the State Comptroller estimates that DOB's General Fund revenue and spending projections, excluding the unspecified savings from the 2 percent spending limitation, show out-year gaps of \$1.7 billion in SFY 2016-17, \$3.3 billion in SFY 2017-18, and \$4.8 billion in SFY 2018-19.

The cumulative projected out-year budget gaps totaling \$9.9 billion are considerably less than the gaps projected five years ago in the wake of the Great Recession. However, these potential gaps, averaging nearly \$3.3 billion annually, compare to potential out-year gaps averaging approximately \$2.4 billion in the SFY 2014-15 Executive Budget, as estimated by the Office of the State Comptroller. These estimates reflect the State's lingering structural imbalance and its continued reliance on a proposed gap-closing plan that definitively addresses a single year rather than multiple years.

⁴ Education aid in the SFY 2014-15 Enacted Budget increased by more than the amount allowed by the statutory cap, and is proposed to increase by more than the cap in SFY 2015-16 as well.

⁵ *SFY 2015-2016 Executive Budget Financial Plan*, p. 41.

⁶ *Ibid*, p. 60.

Figure 5

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

	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19
Receipts:				
Taxes	45,872	48,002	50,053	51,433
Personal Income Tax	31,935	34,005	35,748	36,805
Consumer Taxes and Fees	6,979	7,261	7,517	7,792
Business Taxes	5,834	5,705	5,807	5,910
Other Taxes	1,124	1,031	981	926
Miscellaneous Receipts	2,903	2,633	2,366	2,277
Federal Grants	-	-	-	-
Sub-Total	48,775	50,635	52,419	53,710
Transfers from Other Funds	17,315	17,894	18,524	18,772
Total Receipts	66,090	68,529	70,943	72,481
Disbursements:				
Grants to Local Governments	43,916	46,456	49,149	51,595
State Operations	8,227	8,299	8,677	8,526
General State Charges	5,213	5,710	6,032	6,349
Sub-Total	57,356	60,465	63,858	66,470
Transfers to Other Funds (not including settlements)	8,723	9,776	10,422	10,819
Total Disbursements	66,079	70,241	74,280	77,289
Operating Surplus/(Gap)	11	(1,712)	(3,337)	(4,808)
Reserve Actions (not including settlements)	(11)	(12)	(10)	(11)
Current Services Gap (including Executive Proposals)	-	(1,724.0)	(3,347.0)	(4,819.0)
Adherence to 2% State Operating Funds Spending Limit	-	1,890	4,157	5,448
Potential Surplus Resulting from Spending Limit	-	166	810	629

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

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

Based on DOB projections, the Office of the State Comptroller estimates the four-year cumulative gaps for the period starting April 2015 at \$14.2 billion, before the fiscal impact of the Executive's proposals are included. As shown in Figure 6, approximately 47 percent of the value of the actions proposed to close these gaps is recurring in nature, including reestimates, recurring spending actions and recurring revenue enhancements. However,

more than 50 percent of the projected out-year cumulative current services gap remains, before factoring in the potential, unspecified savings from the assumed 2 percent limit on State Operating Funds spending growth.

Figure 6

Composition of Gap-Closing Plans
(in millions of dollars)

	Enacted SFY 2014-15 through SFY 2017-18	Proposed SFY 2015-16 through SFY 2018-19
Total Cumulative Gap to Be Closed	(11,466)	(14,203)
Additions to Gap		
Recurring Additions/Restorations/Initiatives	(4,647)	(1,847)
Recurring Revenue Reductions	(4,078)	(2,867)
Other	183	(505)
Total After Gap Additions	(20,008)	(19,422)
Re-Estimates	(815)	2,415
<i>Share of Total After Gap Additions</i>	-4.1%	12.4%
Recurring Spending Actions	12,356	6,440
<i>Share of Total After Gap Additions</i>	61.8%	33.2%
Recurring Revenue Enhancements	-	259
<i>Share of Total After Gap Additions</i>	0.0%	1.3%
Temporary or Non-Recurring Resources/Cost	958	419
<i>Share of Total After Gap Additions</i>	4.8%	2.2%
Remaining Gap	(7,509)	(9,889)
<i>Share of Total After Gap Additions</i>	37.5%	50.9%

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

The Executive Budget Financial Plan gap-closing plan includes \$419 million in new non-recurring resources over the course of the four-year Plan. This level is down from recent years, although most of the temporary and non-recurring resources enacted last year are still supporting the Financial Plan.

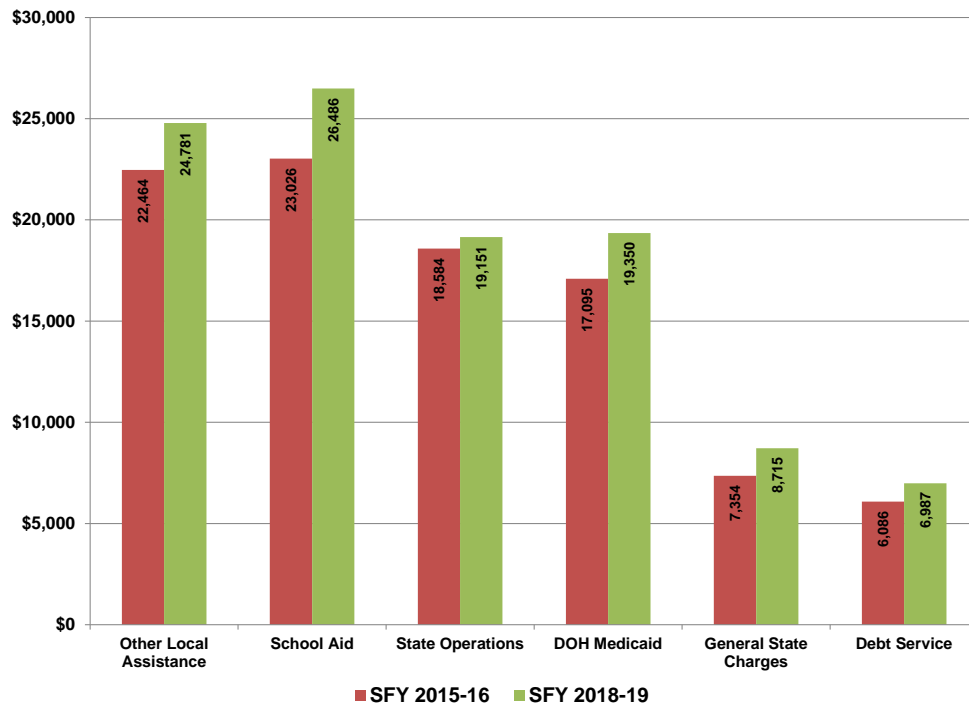
Figure 7 illustrates adjusted disbursements in major areas proposed for SFY 2015-16 and projected for SFY 2018-19, before application of the assumed 2 percent spending limitation. Certain areas, such as General State Charges and Debt Service, are difficult to change significantly, other than to modify the timing of payments. (Such modifications, used or planned each year from SFY 2012-13 through SFY 2016-17, affect the year-over-year growth but do not materially change spending obligations).

State Operating Funds spending, adjusted for timing and based on current projections excluding the Executive's 2 percent growth target, is projected to increase 3.1 percent in SFY 2015-16, and by an average of 3.5 percent annually through SFY 2018-19. Spending for Medicaid services from the Department of Health from State Operating Funds (not including federal or local spending) is statutorily limited to the 10-year rolling average of the medical component of the Consumer Price Index. This figure currently is approximately 3.8 percent, nearly twice the Executive's target limit of 2 percent for overall State Operating

Funds spending growth. School aid is statutorily limited to the annual growth in New York State Personal Income.⁷ For the next four State fiscal years, DOB projects this growth at well over twice the assumed 2 percent limitation on overall State Operating Funds increases.

Figure 7

Projected Disbursements from State Operating Funds - Adjusted for Timing Changes
(in millions of dollars)



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

While the Executive Budget Financial Plan assumes future surpluses will result from new spending restraint, better-than-anticipated revenues could also help close potential gaps. The proposed Financial Plan eliminates certain revenue risks that have characterized budgets in recent years. For instance, the Plan does not include revenue associated with insurance conversions that had been projected previously but did not materialize. In addition, the proposed Plan reduces projected revenue from Abandoned Property to \$550 million beginning in SFY 2016-17. This reduction, from \$655 million in SFY 2014-15 and SFY 2015-16, addresses a risk that has been identified in these reports for many years.

As has been the case in the last two years in particular, litigation settlements may provide higher-than-anticipated one-time revenue, as could unexpectedly higher tax collections. Conversely, any unanticipated downturn in the economy or changes in major revenue sources or spending needs could have the opposite effect on budget balance and projected gaps.

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

Temporary and Non-Recurring Resources

The Executive Budget includes approximately \$4.8 billion in SFY 2015-16 resources that are either temporary (more than one year but not permanent) or non-recurring (one year). Figure 8 shows the Office of the State Comptroller's analysis of such resources.

Figure 8

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

	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	Total
Prepayments and Advances					
Mental Hygiene Prepayment	66	-	-	-	66
SFY 2014-15 Debt Service Prepayment	560	-	-	-	560
SFY 2015-16 Debt Service Prepayment	(100)	100	-	-	-
Total Prepayments and Advances	526	100	-	-	626
State Temporary and Non-recurring Resources					
Proposed					
Fund Sweeps	137	-	-	-	137
STAR - Movement from Payment to Tax Credit (1)	100	-	-	-	100
Environmental Protection Fund Sweep	25	-	-	-	25
Environmental Protection Fund Sweep from RGGI	13	-	-	-	13
Regional Greenhouse Gas Initiative	36	-	-	-	36
Financial Settlements	250	100	100	-	450
Reserves	11	12	10	11	44
<i>Subtotal</i>	<i>572</i>	<i>112</i>	<i>110</i>	<i>11</i>	<i>805</i>
Currently in Law					
Temporary Utility Assessment	173	126	-	-	299
Property Tax Freeze	(783)	(342)	-	-	(1,125)
New York City Circuit Breaker	(85)	(85)	-	-	(170)
State Insurance Fund	250	250	-	-	500
Abandoned Property	125	125	-	-	250
Mortgage Settlement (2)	23	23	-	-	46
Dormitory Authority of the State of New York	22	-	-	-	22
New York Power Authority (3)	90	-	-	-	90
PIT Surcharge Extension (4)	2,252	2,422	1,862	567	7,103
Job Growth Package	(115)	(196)	(95)	-	(406)
Tax Modernization	22	17	-	-	39
Middle Class Family Tax Credit	-	(410)	(410)	-	(820)
<i>Subtotal</i>	<i>1,974</i>	<i>1,930</i>	<i>1,357</i>	<i>567</i>	<i>5,828</i>
Total State Temporary and Non-Recurring	2,546	2,142	1,467	578	6,633
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (5)	1,749	1,079	549	264	3,641
Total State and Federal Temporary and Non-Recurring Resources (not including Prepayments and Advances)	4,295	3,221	2,016	842	10,273
Total State and Federal Temporary and Non-Recurring Resources including Prepayments and Advances	4,821	3,321	2,016	842	10,899

(1) Note that additional benefit will accrue in later years as a result of the difference between when STAR payments were made and when tax credits are realized as STAR is shifted from a spending program to a tax credit program.

(2) Represents the General Fund share of the JP Morgan civil settlement dated November 19, 2013, from a total deposit of \$531.5 million. Of this deposit, a total \$393.9 million is appropriated. Note that the State also received \$81.5 million in SFY 2013-14 from this settlement, of which \$58 million was returned to the Mortgage Settlement Proceeds Trust Fund in SFY 2014-15.

(3) The total amount proposed in S.2005/A.3005 Public Protection and General Government, Part P, Section 19(i) is \$90 million, however, the language directs that the funds be credited to the General Fund, or as otherwise directed, in writing, by the Director of the Division of Budget to be utilized for energy-related initiatives for certain economic development purposes including, but not limited to, the Open for Business initiative and advertising and promotion for START-UP NY.

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

(5) The Financial Plan does not separately detail spending for Disaster Assistance past SFY 2014-15, but the projected spending is included in the Division of Homeland Security and Emergency Services disbursement totals. These figures assume approximately \$400 million annually for non-federally funded Homeland Security costs.

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

Of the \$4.8 billion total, \$1.7 billion represents federally supported disaster assistance, \$2 billion results from temporary actions in previous budgets, and \$526 million represents prepayments. Revenue from all the State temporary provisions is projected to decline more than 77 percent, from \$2.55 billion in SFY 2015-16 to \$578 million in SFY 2018-19.

Reserves

The combined balance in the State's two largest statutory reserve funds – the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund – totaled less than \$1.5 billion as of March 31, 2014, representing about 2.4 percent of General Fund expenditures. In addition to the Contingency Reserve Fund and the Community Projects Fund, the General Fund also has unrestricted (and unencumbered) funds, including settlement funds. Figure 9 shows projected General Fund reserves for SFY 2014-15 and SFY 2015-16.

Figure 9

Projected General Fund Restricted and Unrestricted Reserves (in millions of dollars)

	SFY 2014-15 Estimate	SFY 2015-16 Proposed	Dollar Growth
Statutory Reserves - Restricted	1,817	1,817	-
Tax Stabilization Reserve Fund	1,256	1,256	-
Rainy Day Reserve Fund	540	540	-
Contingency Reserve Fund	21	21	-
Community Projects Fund	-	-	-
Refund Reserve - Unrestricted	5,951	1,412	(4,539)
Prior Year Labor Agreements	51	62	11
Debt Management	500	500	-
Financial Settlements	5,400	850	(4,550)
Total General Fund Closing Balance and Reserves	7,768	3,229	(4,539)

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

DOB anticipates depositing \$315 million in the Rainy Day Reserve Fund and Tax Stabilization Reserve Fund in SFY 2014-15. By the close of the current fiscal year, the State is expecting to have received \$5.68 billion in settlements, including \$275 million that was already anticipated. The Executive indicates intent to transfer up to \$4.55 billion of these funds to a new infrastructure fund in SFY 2015-16, although language related to this action provides significant flexibility and discretion on the part of the Executive. The Executive proposes leaving \$850 million in the General Fund for undesignated reserves, and using \$275 million to support General Fund spending.

Reserve Fund Proposals

The Executive Budget proposes to increase the maximum allowable balance in the Rainy Day Reserve Fund from three to eight percent of State General Fund spending, bringing the maximum combined allowable balance that can be held in the Rainy Day Reserve Fund and the Tax Stabilization Reserve Fund to 10 percent of General Fund spending. The proposed Budget would also increase the maximum allowable deposit in the Rainy Day

Reserve Fund from 0.3 percent of General Fund spending to 1 percent of General Fund spending.

The proposal also would lower the threshold for the State to access the funds, by reducing from five months to three months the consecutive declines in the State's Coincident Economic Index that must occur before money in the Rainy Day Reserve Fund may be borrowed. Under this proposal, this lower threshold would have been met as of January 2015, and such reserves would be allowed to be drawn down, despite the relatively high balance currently in the General Fund. This raises the question as to whether it is prudent to lower the bar to access the funds.

DOB also has access to unrestricted reserves within the General Fund that are not deposited to either of the State's formal budgetary reserve funds. In SFY 2015-16, this amount is projected by DOB to be over \$1.4 billion, nearly 80 percent of the amount that is contained within the two formal statutory reserve funds combined. These informal reserves are not subject to the same constraints or levels of accountability and transparency with respect to their use.

Risks to the Financial Plan

As with any budget, the SFY 2015-16 Enacted Budget presents certain risks. The Financial Plan appropriately notes that actual results may differ materially and adversely from DOB's projections, and that in certain fiscal years collections of actual receipts have been substantially below forecasted levels. (SFY 2013-14 was the first year in the past seven in which actual tax receipts met initial projections; collections in SFY 2014-15 are projected to surpass initial projections as well.)

In addition to the broad-scoped risks and uncertainties DOB identifies with respect to revenue projections, DOB identifies specific areas of concern. Examples of such revenue risks include uncertainty regarding federal aid. The Office of the Inspector General for the federal Department of Health and Human Services continues to review the allowability of Medicaid costs for services provided in certain prior years to developmentally disabled individuals in New York. Changes to the reimbursement for such services resulted in a reduction of an estimated \$1.1 billion in annual federal aid. As a result of ongoing review, the federal Centers for Medicare and Medicaid Services (CMS) could seek to recover federal funds for additional prior years. The Executive proposal reserves \$850 million for this purpose, as well as authorizing transfers from settlement funds if additional funds are needed.

As part of the agreement with the federal government to reduce Office for People With Developmental Disabilities (OPWDD) Medicaid payment rates for services in SFY 2013-14, the State began implementing a multiyear OPWDD transformation plan to improve employment opportunities, integrated living and self-directed services for individuals with developmental disabilities. Under this agreement, the State had expected to receive \$250 million annually in additional federal Medicaid funding in SFY 2013-14 and SFY 2014-15 to help finance the first phase of the transformation plan. However, the federal government has agreed to pay only \$250 million total for both years. As a result, the State plans to

submit annual claims for \$250 million in federal funding in each of the next three State fiscal years beginning in SFY 2015-16 as part of phase two of the transformation plan.

New York and other states face the risk of a potential slowdown of federal transportation aid in the current fiscal year. The Federal Highway Trust Fund provides dedicated funding for state highway programs and local mass transit capital projects. The primary source of revenues for the Trust Fund is federal excise taxes on motor fuels – primarily an 18.4 cent per gallon tax on gasoline and ethanol blend motor fuels, and a 24.4 cent per gallon excise tax on diesel fuel.

These excise tax rates have not changed since 1993. In recent years, collections have not kept pace with disbursements, as highway and mass transit construction costs have increased over time. As a result, at some point in the near future, the Trust Fund may not be able to meet all its obligations, absent action by Congress, and promised reimbursement payments from the federal government may be jeopardized. If that happens, New York's Department of Transportation might then be forced to slow its schedule for the State's highway projects, and local transit agencies might have to curtail their capital projects.

The Executive Budget also contains a number of projections that should be considered uncertain because of a vulnerable economy or other variables. These include the following:

- Public Authority Transfers – The Executive Budget relies on \$295 million in revenue from various public authorities to support the proposed spending plan. In addition to issues of accountability and transparency raised by such transfers, it is unclear whether public authority resources will be available for State purposes as planned.
- Unspecified Fund Sweeps – The Executive Budget proposes an authorization for \$500 million in unspecified transfers from dedicated funds to the General Fund for budget relief, as has been provided since SFY 2007-08, although the Financial Plan does not indicate that DOB plans to use this authorization. This budget language authorizes DOB to transfer or “sweep,” at its discretion, available, unencumbered resources from other State funds to the General Fund. After several years of these blanket sweeps, it is unclear whether resources will continue to be available for budget relief.
- Abandoned Property Transfer – Pursuant to the State Finance Law, all moneys in the Abandoned Property Fund in excess of \$750,000 are transferred to the General Fund by the end of each fiscal year. For SFY 2014-15 and SFY 2015-16, the Executive proposes a transfer of \$655 million, which is approximately \$125 million more than historical patterns suggest would be available for transfer. The number and value of abandoned property claims paid also continue to rise. Furthermore, the Executive Budget proposes to redirect certain Abandoned Property revenue to a new Campaign Finance Fund. It is unclear what impact this proposal would have on the availability of these resources for the General Fund in the future.

On the spending side, DOB notes that the Financial Plan projections generally assume that school aid disbursements will be limited to the growth in State Personal Income, which DOB presents as 1.7 percent for the 2015-16 school year, reflecting a spending limitation enacted in SFY 2012-13. However, the SFY 2014-15 Enacted Budget increased school aid by more than the Personal Income-related limit, and the SFY 2015-16 Enacted Budget

authorizes school aid spending growth of 4.8 percent on a school year basis, conditional on the enactment of certain changes to State laws affecting teacher evaluations and other issues. It is not clear that Financial Plan projections of school aid growing at the level of personal income in future years are realistic.

Other spending-side concerns identified by DOB include labor-related negotiations and settlements, cash flow projections, pension amortization, and funding of other postemployment benefits. The Financial Plan includes the limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service as a risk and/or uncertainty, although its expectation is that debt outstanding and debt service will continue to remain below the limits imposed by the Act. The Capital Program and Financing Plan projects that debt capacity under the statutory cap on debt outstanding will decline from \$3.7 billion in SFY 2014-15 to a projected Plan low of \$604 million in SFY 2018-19. The Plan notes that capital spending and debt financing practices may be adjusted to preserve debt capacity and keep spending under the caps.

Transparency, Accountability and Oversight Issues

Transparency, accountability and oversight are key elements to help ensure that taxpayer dollars are protected from waste and abuse and public access to information is not diminished. When provisions are enacted that weaken these protections, public resources are left vulnerable to misuse and inefficiency.

The SFY 2015-16 Executive Budget includes positive steps with respect to improving transparency and accountability in the Budget, such as the continuation of the “on-budget” status of funding for local highway funding programs, which had been off-budget for several years and were brought back on-budget in SFY 2014-15. However, certain aspects of the proposed Budget, such as the language associated with a new infrastructure fund that will use a portion of one-time settlement resources, fall short with respect to accountability, transparency and oversight. Examples include:

- **Dedicated Infrastructure Investment Fund (DIIF).** The proposed Budget includes a new Capital Projects Fund, the DIIF, with appropriations for a wide range of new projects. Up to \$4.55 billion is proposed to be transferred to the DIIF. As proposed, there is very little clarity with respect to the intended use of these funds, including whether the monies are for one-time purposes or for ongoing expenses. Also, the proposed language would diminish the ability to monitor how the State’s settlement funds are used. The language does not provide for any mechanism to track spending of these dollars, or any required reporting with respect to their use. Furthermore, the Executive is authorized to transfer large sums to public authorities for spending, which would eliminate the oversight and checks and balances that would apply to State agency spending. (For further information, see the subsection on the DIIF in the Debt and Capital section of this report.)
- **Expanded use of alternative procurement mechanisms.** The Executive Budget proposes to re-establish the Infrastructure Investment Act enacted in December 2011, which expired in December 2014. That Act authorized design-build contracts and other alternative methods of procurement for certain projects through five specified State

agencies and authorities. The Budget proposes to expand this authorization to all State agencies and public authorities and their subsidiaries, add public buildings as a possible projects for design-build contracting, and make the law permanent.

While this procurement mechanism may provide opportunities for budget savings and construction efficiency, greater transparency and accountability should also be required to ensure that the use of these alternative procurement methods is justified, to provide greater clarity with respect to eligible projects, to establish more robust public notification and participation processes before projects could move forward, and to introduce greater public protections, such as cost-benefit analyses and financing plans, particularly for projects that are not funded in the State Budget.

There has been minimal financial and other information made available to the public about certain aspects of the State's design-build procurements pursuant to the 2011 legislation. The largest procurement undertaken under that Act – the replacement of the Tappan Zee Bridge – has come under criticism for the lack of action by the Thruway Authority and the State to make public a financing plan for the project. Provisions to require greater disclosure of information would be beneficial, and would improve confidence that this alternative procurement method actually saves public dollars and safeguards public resources.

The proposal adds new language that would deem any contract awarded under this Act to have been awarded under a competitive procurement for purposes of Public Authorities Law Section 2879-a, which relates to the Comptroller's authority to review and approve certain public authority contracts. The implications of this language are unclear but could potentially diminish oversight.

- **Expanded use of “emergency” procurement.** The Budget would expand the authority of the Office of General Service (OGS) to enter into emergency contracts for public work or the purchase of supplies, materials or equipment for a construction “emergency” without complying with formal competitive bidding requirements by raising the threshold from \$300,000 to \$1 million (subject to approval of the Attorney General and the State Comptroller after the contractor has been authorized to begin the work), through June 30, 2017. The Office of the State Comptroller reports annually on OGS's emergency construction contracts. These reports show a substantial reliance by the State on these contracts in the past few years, with a significant uptick in calendar year 2013, the year after Superstorm Sandy.

A "construction emergency" is broadly defined in law to be any damage to or malfunction in buildings or property of the State of New York caused by a sudden and unexpected occurrence which involves a pressing necessity for immediate repair, reconstruction or maintenance to permit the safe continuation of a necessary public use or function, or to protect the property of the State, or the life, health or safety of any person. While these contracts are awarded through a modified bid process, they are often more expensive relative to contracts let in accordance with the State's competitive bidding requirements.

Increasing the threshold under which this authorization could be used may result in unnecessary costs for New Yorkers. In public procurement, competition typically provides the optimal means of securing the best goods or services at the most reasonable prices, and provides greater openness and transparency to the public. While certain emergencies may necessitate expediency, existing law already provides for such situations.

- **Reduced procurement oversight and transparency.** The Executive Budget includes several proposals that would bypass existing statutory provisions that are intended to ensure procurement integrity. In certain instances, the competitive bidding process, notice provisions and the Office of the State Comptroller's contract review authority are proposed to be eliminated.

Under Section 112 of the State Finance Law, the Office of the State Comptroller conducts an independent review of most State agency contracts. This review reduces the risk that the State will encounter waste, fraud or abuse. Pre-audit review has an important deterrent effect. Although the Comptroller's constitutional authority allows withholding or recovery of moneys arising from fraud or illegality, the Comptroller's review and approval before contract execution is a critical step in preventing flawed agreements which could waste taxpayer money, and diminish the quality of essential services for residents of the State.

The Budget proposes to eliminate the Comptroller's review and/or competitive bidding requirements in several program areas. These include local assistance funding for certain initiatives at the Office for People With Developmental Disabilities and capital funding for loans or grants for development of supported housing units for the developmentally disabled. Elimination of such provisions diminishes oversight, transparency and openness in the State's procurement process.

Additionally, several appropriations and reappropriations in the Aid to Localities budget bill would eliminate the Comptroller's oversight and competitive bidding procedures for certain contracts, including \$2.9 million in emergency assistance grants and \$4 billion in federal funds associated with the State's Medicaid waiver program, respectively.

- **A lower threshold for access to and use of budgetary reserves.** As discussed earlier in this report, the Executive Budget proposes to increase the maximum allowable balance in the Rainy Day Reserve Fund and increase the maximum allowable deposit into the Rainy Day Reserve Fund from 0.3 percent of General Fund spending to 1 percent of General Fund spending. These increases reflect prudent policy moves that have long been advocated by the State Comptroller.

However, the proposal would also allow the State easier access to the reserve funds, by reducing from five months to three months the consecutive declines in the State's Coincident Economic Index that must occur before money in the Rainy Day Reserve Fund may be borrowed. Although at present such reserves appear to be unneeded, legislative authorization of the proposal would reduce Executive accountability for the use of reserve funds in the future.

- **Discretion to move funding among agencies.** The Executive Budget contains language in appropriation bills – first authorized in the SFY 2012-13 Enacted Budget – that gives DOB significant power to reallocate spending among agencies (through transfers, suballocations, or interchanges). Through the SFY 2014-15 Enacted Budget, these transfers were primarily related to the Executive’s consolidation of procurement, real estate and facility management, fleet management, business and financial services, administrative services, payroll administration, time and attendance, benefits administration and other transactional human resources functions, contract management, and grants management, to the Office of General Services (OGS), as well as changes to the State’s provision of information technology services.

Current law provides additional interchange authority among the Office of Mental Health, the Office for People With Developmental Disabilities, the Office of Alcoholism and Substance Abuse Services, the Department of Health, and the Office of Children and Family Services to allow such agencies to “better coordinate and improve the quality and efficiency” of certain oversight activities.

The SFY 2015-16 Executive Budget adds a new interchange category – the “Lean Certification Bonus Authority” – eligible for reallocated funds. According to language in appropriations for DOB, these funds would be used “for the purpose of developing additional skills within the state workforce to systematically analyze business processes to reduce waste and increase efficiencies,” including “for the payment of semi-annual bonuses to eligible state employees who hold Lean Empire Belt or Lean Master Empire Belt certifications.” The plan for bonus payments would be developed by a “Lean oversight committee” composed of the Secretary of State and the commissioners of the State Liquor Authority, the Department of Motor Vehicles and the Department of Health, or their designated representatives, and administered solely by the agency employing such certified individuals. Bonus payment terms would be subject only to consultation with the Department of Civil Service and approval by the Director of the Division of the Budget. Appropriations in almost every State agency include this language.

The Budget provides no information regarding how much funding may be used for such bonuses. Appropriations totaling more than \$3.1 billion from the General Fund, and \$7.0 billion in Special Revenue funds, are authorized to be interchanged among agencies for the purposes described above. In addition, proposed Article VII language allows the sweep of up to \$100 million across all agencies from non-General Fund accounts for the information technology initiative, and up to \$300 million in sweeps from non-General Fund accounts for the business services initiative at OGS. These reallocations could be made at the discretion of DOB without regard to the appropriated amounts approved by the Legislature in the Enacted Budget.

The reallocation language is included by reference in certain proposed State Operations appropriations for most agencies. It has reappeared year after year, with the exception of the authorization to reallocate State agency funds for the Lean bonus payments, which is new. While a certain degree of spending flexibility may be needed in the initial years of a new initiative, DOB should work toward providing each agency with the appropriate and necessary levels of spending authority each year, instead of

continuing to rely on shifting hundreds of millions of dollars in spending authority, which diminishes transparency.

- **Authorization to expand access to New Yorkers’ private information among State agencies.** The Executive Budget proposes new language authorizing the creation of a new database to allow Executive agencies to “ensure effective oversight and regulation of individuals and entities subject to regulatory jurisdiction.” The Department of Taxation and Finance, the Department of Labor, the Department of State, and the Workers’ Compensation Board would develop the information-sharing database and guidelines, including provisions to protect the confidentiality of shared data.

According to the proposed law, data from each “member agency,” defined as any Executive agency of the State, would be available to all member agencies, regardless of the relevance of that data to the agency’s responsibilities. Member agencies would be allowed to submit agency data to the shared database even if other State laws specifically prohibit the sharing or disclosure of such data (with one specific exception for the Department of Taxation and Finance to protect certain taxpayer information).

While member agencies are required to preserve any privilege or confidentiality regarding the shared data, this broad-scoped, open-ended and expansively defined initiative raises questions whether individuals’ and other entities’ personal and private information would be adequately protected in such an extensive and accessible system, particularly given the loosely defined parameters provided to protect such information. Furthermore, it is unclear why all such data must be made available to all Executive agencies, particularly given the limited financial benefit the Executive indicates is expected to accrue to the State as a result (\$1 million annually in All Funds and “off-budget” revenue).

- **Transfer of the Oil Spill Fund Program from the Office of the State Comptroller to the Department of Environmental Conservation.** In accordance with the Navigation Law, the Office of the State Comptroller (OSC) maintains responsibility for administration of the New York Environmental Protection and Spill Compensation Fund (the Fund). The Fund has been administered by OSC since its inception in 1977. During this time, OSC has provided oversight of the operations of the Fund and has effectively coordinated Fund operations among the Department of Environmental Conservation, the Office of the Attorney General and the Department of Health.

This oversight and control includes review and payment authorization of expenditures, authorizing settlements of legal cases against responsible parties, and ensuring that license and bulk storage fees are collected on a timely basis. OSC staff also have the requisite expertise to issue monthly and annual financial statements and information reports as required by law. Finally, OSC has developed technology systems and business processes to efficiently track and manage Fund operations. Fund administration by OSC ensures well-focused oversight of the Fund and its assets. This approach ensures that disbursements from the Fund are for Fund-related purposes only.

It is unlikely that operational efficiencies or program improvements would be achieved should DEC administer the Fund. The proposed move raises concerns regarding weakened oversight and potential loss of dedicated funding to other purposes. Furthermore, in addition to the transfer of this function to DEC, the Executive Budget proposes a reduction in Fund oversight staff. These factors could combine to diminish the Fund's ability to fulfill its mission of protecting the health and safety of the public and the environment by ensuring timely cleanup of oil spills.

- **Blurred lines between State agencies and public authorities.** The Executive Budget continues and expands upon the practice of merging responsibilities and functions of State agencies and authorities. The use of this practice has increased in recent years, most notably in the areas of economic development, housing, the environment, and transportation.

Public authorities are not subject to the same oversight and control as State agencies with respect to spending, procurement, employee compensation and other matters. In addition, as State spending is shifted off-budget to public authorities, such spending is no longer included in the State's Financial Plan published by DOB, the Statewide Financial System, or the Office of the State Comptroller's monthly and annual cash basis accounting spending totals. This practice obscures overall State spending levels, including adherence to the 2 percent State Operating Funds spending cap, and diminishes transparency, accountability and oversight. In addition, off-budget spending can undermine capital planning efforts, as it makes it more difficult to assess whether the State's critical infrastructure needs are being met.

The Executive Budget includes a broadly written proposal to allow the Thruway Authority and the Department of Transportation to enter into a shared services agreement to share employees, services, or resources, including, but not limited to, for the performance of work and activities on the facilities and property under the jurisdiction of each entity. The Budget provides no clarity with respect to what functions this agreement is intended to cover, how many employees may be affected, or how such resources will be shared. There is also no assessment of how services, the infrastructure under the jurisdiction of either entity or collective bargaining agreements may be affected.

The Thruway Authority faces major, ongoing financial challenges, including the recent need for annual infusions of State assistance, the continuing lack of a public financing plan for the replacement of the Tappan Zee Bridge, downgrades by major credit rating agencies, and the Authority Board's approval of an unbalanced annual operating budget. These issues, as well as the proposed \$1.285 billion Thruway Stabilization Program included in the Executive Budget, suggest that further State actions, such as shared services agreements with DOT, should have more specificity than this language provides, especially with respect to the immediate and long-term impact on public resources.

- **Withholding of school aid “runs” from the public and school districts.** Through January 2015, the Executive had not released any breakdown of school aid funding by district, or outlined statewide funding for major areas of education spending, with the

Executive Budget. In addition to leaving New Yorkers in the dark with respect to the impact of the Executive Budget on their schools, the lack of school aid information makes it more difficult for school districts throughout the State to plan their proposed 2015-16 budgets, since these figures are used in developing school district budgets as well as completing tax cap calculations. The Budget proposal does not explain why this significant diminishment in transparency, unprecedented in recent years, is necessary or desirable.

- **Continued use of off-budget actions for important programs.** The Executive Budget continues the practice of shifting “off-budget” certain funds and spending that had traditionally been included in the State Budget and in State spending totals. In recent years, these off-budget items have included administrative spending for the Environmental Facilities Corporation, SUNY dormitory debt service, and housing programs.

The housing programs that are continued off-budget, despite being created for important State purposes related to affordable housing, are proposed to be paid for in SFY 2015-16 using a fund sweep of \$125 million in mortgage insurance funds held in the State of New York Mortgage Insurance Pool to the Housing Trust Fund Corporation (HTFC) and the Housing Finance Agency (HFA).

In addition, the Capital Plan identifies \$1 billion in off-budget capital spending for SFY 2015-16. This figure does not include the capital spending for SUNY dormitories, which used to be included in the off-budget capital spending totals but was removed in SFY 2013-14 and is no longer counted in any State budget, Financial Plan or Capital Plan documents.

In SFY 2013-14, SUNY dormitory debt service costs were restructured so that they would no longer be paid through a State appropriation. This move took debt service spending for SUNY dormitories off-budget and allowed new debt to be excluded from the State’s statutory debt caps. The action increased the State’s capacity under its debt cap by placing this new borrowing outside the legal limit. Debt service in SUNY’s Fiscal Year (SUNY FY) 2015-16 (which ends June 30) for bonds outstanding under the old SUNY dormitory bonding program is estimated to be \$107.4 million. This debt service counts against the debt service cap but not in State spending totals. Debt service in SUNY FY 2015-16 for SUNY dormitory debt under the SUNY dormitory bond program that was established in the SFY 2013-14 Enacted Budget is \$31.6 million.⁸ This amount does not count either against the cap or in State spending totals.

In SFY 2015-16, the Executive proposes to shift off-budget \$19.7 million in funding for the New York State Energy Research and Development Authority (NYSERDA) for the energy research, development and demonstration program, energy policy and planning program, and the Fuel NY program. This revenue comes from assessments on sales of gas and electricity by New York State utilities and is ultimately borne by New York

⁸ Debt service amounts represent debt service due for the fiscal years ending June 30, 2015 and June 30, 2016 as provided in the Official Statement for the Dormitory Authority of the State of New York, State University of New York Dormitory Facilities Revenue Bonds, Series 2013A dated August 22, 2013. Debt service figures are not provided on a State Fiscal Year basis.

State consumers. The proposed NYSERDA budget for SFY 2015-16 includes \$962.5 million in revenue, the vast majority of which is spent off-budget. Of this amount, \$682 million in revenue, or 70.9 percent, are derived from Clean Energy Fund programs funded primarily by assessments on utility sales. In SFY 2015-16, \$40.3 million in NYSERDA revenues, or 4.2 percent, is derived from State appropriations. This proposed action continues a pattern of shifting off-budget funds and spending that had traditionally been included in the Budget and in State spending totals.

Arguably, these programs should be appropriated within the State Budget and counted as State spending. Off-budget spending artificially makes spending for State-related purposes appear lower, and eliminates important oversight, transparency and accountability measures.

- **Reduced transparency with respect to debt and certain debt-related reporting.** In recent years, the Executive has moved to consolidate the issuance of bonds under fewer bonding programs including the Personal Income Tax (PIT) Revenue Bond Program (authorized in 2001), the Sales Tax Revenue (STR) Bond Program (authorized in 2013) and State G.O. bonds. PIT bonds, STR bonds and G.O. bonds are now the primary mechanisms used to finance the State's capital program. The Dormitory Authority of the State of New York (DASNY) and the Empire State Development Corporation (ESDC) are authorized to issue both PIT and STR bonds for any purpose (except any G.O. bond act purposes). The Thruway Authority is also authorized to issue STR bonds for any purpose (except any G.O. Bond Act purpose). The provision related to the expanded authority for DASNY and ESDC issuance of PIT bonds is set to expire on March 31, 2015. These changes facilitated the consolidation of bond sales under fewer issuers and bonding programs.

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

The SFY 2015-16 Executive Budget includes a new proposal to authorize DASNY and ESDC to issue PIT and STR bonds for Smart School Bond Act purposes. The Executive Budget also contains a provision to allow all authorized issuers of PIT bonds (DASNY, ESDC, HFA, Thruway and the Environmental Facilities Corporation (EFC)) to issue PIT bonds for any authorized purpose. This provision would represent a move away from the consolidation of issuers able to issue PIT bonds for any authorized purpose. Further, this proposal, when read in conjunction with the Executive proposal to allow DASNY and ESDC to issue PIT bonds for Smart Schools Bond Act purposes, could allow other authorized issuers of PIT bonds to also issue PIT Bonds for such purposes.

The Smart Schools Bond Act, which authorized the issuance of \$2 billion in State G.O. bonds, was approved by the voters in November 2014. No G.O. bonds have yet been issued for this purpose. The Executive indicates that authorization of PIT and STR bonds for this purpose provides additional flexibility to reimburse capital spending and use of a higher rated credit, and that final decisions have not been made regarding use of PIT, STR, and/or G.O. bonds.

However, using public authority “backdoor borrowing” for purposes approved by the voters to be paid for with G.O. bonds could reduce transparency with respect to these bonds. Further, G.O. bonds are subject to strict statutory and constitutional provisions that govern their issuance, structure and retirement. PIT and STR bonds are not subject to the same legal provisions as G.O. bonds. As a result, under this proposal, bonds may be issued in a manner that does not align with the approval granted by the voters, and may ultimately result in overall higher costs to the taxpayers.

- **Lack of clarity with respect to 2 percent limit on spending growth.** The resources necessary to fund certain new initiatives in the Executive Budget, including the property tax circuit breaker, and to close projected out-year gaps are dependent on holding State Operating Funds spending growth to 2 percent. However, no specificity is provided as to how this goal would be achieved. Based on DOB revenue and spending projections, and absent the 2 percent adjustment, the proposed Budget leaves a cumulative \$9.9 billion potential gap from SFY 2016-17 through SFY 2018-19, according to Office of the State Comptroller estimates. Additional specificity with respect to proposals to limit spending would provide greater assurance to New Yorkers that the stated goal is realistic, would indicate areas being targeted for budget savings, and would help local governments and other entities dependent upon State assistance to plan more effectively and adjust their future expectations appropriately.

In addition, the Financial Plan has come to depend on the use of timing-related adjustments, shifts and categorizations of spending, within the Budget and off-budget, to present a lower rate of growth in spending than would otherwise be the case, clouding the actual change in State spending. Other actions, such as program restructurings, can also have the effect of changing the spending growth picture. An overall measure of such changes is difficult, in part because several of these actions are not clearly delineated, and leave sole discretion to DOB to make such spending determinations and adjustments, as well as the final presentation of budget projections. Given such changes, spending growth figures included in the Executive Budget are not as straightforward as they may appear.

For example, the Financial Plan identifies at least two areas where SFY 2015-16 spending is moved by DOB into the prior fiscal year (“prepayments”). This has the effect of reducing the appearance of spending growth by increasing spending in the first year and lowering it in the second, but does not change the obligations. Prepayments include \$560 million in debt service and at least \$66 million in mental hygiene-related costs.

Certain expenditures that had previously been included in the State Operating Funds measure of the Budget but now occur entirely “off-budget” involve public authorities. For example, the Executive directs \$125 million from SONYMA to various housing

authorities for affordable housing purposes, the bulk of which will be spent off-budget. Other budget language directs NYPA to provide up to \$90 million to the General Fund, “or as otherwise directed in writing by the director of the budget” for certain economic development purposes. The Executive has indicated that \$50 million of this total will be used by ESDC for Open for Business. This is in addition to the SUNY dormitory debt service costs and the NYSERDA spending identified earlier in this section of the report.

The creation of the DIIF as a Capital Projects fund means that spending from the fund will not count against the 2 percent State Operating Funds spending limit, as capital spending is excluded from that measure. However, several components of the proposed DIIF spending may warrant being counted, at least in part, as State Operating Funds spending, including \$150 million for local governments and school districts for expenses related to shared services, cooperation agreements, mergers, and other related actions. In addition, the permissible uses of the \$1.5 billion upstate revitalization monies, and other appropriations from DIIF, include elements that do not appear to be capital projects.

Finally, the Executive proposal to restructure the STAR property tax relief program would shift the program to a personal income tax credit, thereby removing its cost from State spending and instead having its impact appear on the revenue side of the ledger (as lower PIT revenue). DOB values this move at \$100 million in SFY 2015-16, \$200 million in SFY 2016-17, and growing thereafter.

- **Reduction in public access to certain election information.** The Executive Budget proposes to eliminate the requirement that certified copies of election results be published, and instead requires a three-day posting on local board of election websites. It would also eliminate the requirement that certain information regarding ballot initiatives and constitutional amendments be published, and instead allows for a three-day website posting, and would further eliminate the requirement that the State Board of Elections annually print and distribute the full text of the Election Law to all County boards of election and to the public when requested.

Timely and widespread access to election information is critical to facilitate public participation in the State’s elections. Efforts should be made to improve dissemination of information and access to election information, not diminish it. At a minimum, any move from required printed dissemination to website posting should take advantage of the generally low cost of such communication by providing a more significant length of time for online information to remain available.

Economy and Revenue

Economic Outlook

National Economy

2014

In 2014, the national economy was entering its fifth year of slow and often erratic recovery from the Great Recession. Although the threat of government shutdown had passed and issues with the federal debt ceiling were once again postponed to the future, harsh winter weather conditions served to dampen economic growth once more as real GDP declined by 2.1 percent in the first quarter of the year. The economic decline was short-lived and disappeared with the winter snows.

By the spring, the economy rebounded with real GDP growth of 4.6 percent in the second quarter. This growth accelerated in the third quarter, with real GDP growing by 5 percent. However, fourth quarter growth slowed to an estimated 2.6 percent. For all of 2014, the national economy is estimated to have grown by 2.4 percent.

For many observers, the main focus of the economy during 2014 was the decrease in oil prices through much of the year. Crude oil prices hit their peak in June but, by the end of 2014, prices were half that level. The drop in oil prices resulted in sharp decreases in gasoline and home heating oil prices as well.

The labor market exhibited continued improvement in 2014. Year over year, the private sector added over 2.3 million jobs and the unemployment rate declined from 7.4 to 6.2 percent. However, the unemployment rate only encompasses those workers who are available for work and who have actively sought employment in the past four weeks. It does not count discouraged workers who have dropped out of the labor force or those who work part time but want to work full time. For these reasons, the drop in the unemployment rate may paint a rosier picture of the labor market than what is actually occurring.

Although the unemployment rate declined over the year, this positive news occurred at the same time as a continued decline in the labor participation rate, a negative factor for the economy. The labor market participation rate is the percentage of the working age population (those aged 16 and older) who are either employed or looking for a job. According to the Bureau of Labor Statistics, the labor market participation rate fell from 63.0 percent in January to 62.7 percent in December.

Along with erratic overall economic growth during the national recovery, wage growth has been erratic as well. In 2014, wage growth accelerated to an estimated 4.1 percent, compared to 2.8 percent in 2013.

With the improved labor market and accelerated wage growth, consumer spending increased by an estimated 2.4 percent during 2014. Consumer spending was also buoyed by the decline in oil prices, which not only dampened inflation but also acted similar to a tax cut by boosting consumers' disposable incomes. Although the harsh weather

conditions weakened consumer spending at the beginning of the year, such spending accelerated throughout the rest of the year. Consumer spending on durables exhibited strong growth for the remainder of the year, and the sales of light vehicles in 2014 increased by over 7 percent

Corporate profits are estimated to have increased by 0.5 percent in 2014. This relatively low growth did not hinder businesses from making investments in facilities and equipment as well as in their workforces (as indicated by the jobs figures mentioned above). Nonresidential fixed investment increased by an estimated 6.2 percent during the year. In addition, growth in these investments was not concentrated in just upgrading equipment. Businesses were upgrading their facilities as well, with large growth in investments to manufacturing facilities and power and communication equipment.

2015

Similar to IHS Global Insight projections, DOB projects continued growth in the national economy in 2015, with real GDP growth estimated at 3.1 percent. The growth in the labor market is projected to continue to accelerate, with both nonagricultural employment and wages projected to grow by 2.1 percent and 4.6 percent, respectively. DOB expects the continued growth in employment will, in turn, reduce the unemployment rate to 5.5 percent.

While oil prices are not projected to remain at their current levels throughout 2015, neither are they projected to return to the levels of \$100 or more per barrel as seen during the first half of 2014. Instead, IHS Global Insight projects the Brent Crude spot price to average \$64 per barrel over the course of 2015. With continued lower oil prices, inflation is projected to remain low as well. DOB projects inflation to decline from 1.6 percent in calendar 2014 to 1.0 percent in 2015. However, IHS Global Insight projects the Consumer Price Index to remain stagnant in 2015, with inflation of only 0.1 percent.

As inflation and oil prices are projected to remain low and wages and employment are projected to increase, DOB projects consumption to increase by 3.3 percent, with continued strength in durable goods as well as increased light vehicle sales.

As the U.S. economy headed into 2015 with positive momentum, the global economy, in turn, was slowing. The Eurozone suffered a double dip recession in 2013 and little economic growth in 2014, and faced increased volatility in early 2015. Japan's economy had similarly slow growth in 2014. While IHS Global Insight projects both economies to exhibit growth in 2015, such growth is projected to remain weak.

The weakness in the global economy has resulted in the appreciation of the dollar compared to other major currencies. This appreciation is projected to continue into 2015. As a result of the dollar appreciation, prices of U.S. goods become more expensive abroad. Similarly, the prices of foreign goods become less expensive for American consumers. As a result, exports are projected to increase by 3.9 percent while imports are projected to increase by 5.3 percent.

New York State Economy

Since New York produces little oil, the direct impact of the decline in oil prices has little to no impact on the State's economy compared to states such as Texas, North Dakota, and Alaska. Given the importance of the securities industry centered in New York City, however, fluctuations in the securities markets resulting from falling oil prices do have an impact on employee compensation and other factors.

New York's economy, as represented by real Gross State Product (GSP), grew by 1.7 percent in 2014, according to IHS Global Insight. This was an acceleration in growth from 2013, when real GSP rose by 0.7 percent. Similar to projections for the national economy, continued acceleration is projected for 2015, with growth in real GSP of 2.3 percent.

According to the New York State Department of Labor, private sector employment rose by 114,400 jobs in 2014, an increase of 1.5 percent. Since the end of the recession, private sector employment has increased by 633,800 jobs, an increase of 8.2 percent. Concomitant with such growth, the unemployment rate decreased from 7.7 percent in 2013 to 6.4 percent in 2014. For 2015, private sector employment growth is projected to continue, with an increase of 1.7 percent, and unemployment is expected to decline to 6.0 percent, according to DOB. DOB forecasts that New York's employment gains will lag the national growth rate of 2.1 percent.

Wage growth in New York in 2014 was 5.7 percent, outpacing the nation's 4.3 percent growth rate. Wage growth in New York is buoyed by bonuses paid to the finance and insurance sector which, as estimated by DOB, increased by 21.0 percent in 2014. Exclusive of this bonus growth, wages in New York are estimated to have grown by 4.1 percent. In 2015, wage growth is projected by DOB to continue to grow but, at a slower rate of 4.7 percent. This slowdown in growth is primarily the result of a decrease in the growth of bonuses paid to the finance and insurance sector. Wage growth without the bonuses is projected to be 4.5 percent.

Revenue

All Funds Revenue

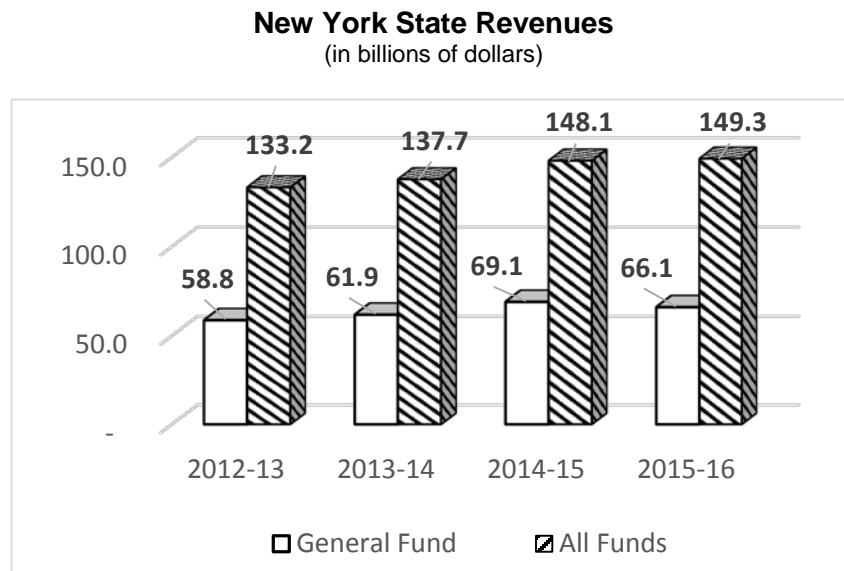
In the current fiscal year, the Executive Budget projects that All Funds revenues (including Federal receipts) will total \$148.1 billion, an increase of 7.6 percent or \$10.4 billion from SFY 2013-14. This increase is due to one-time settlement funds, an increase of \$750 million in the deposit from the State Insurance Fund (SIF) to a total deposit of \$1 billion, and higher Federal Medicaid spending related to the Affordable Care Act. Absent the settlement funds and the SIF deposit, All Funds revenues are estimated to increase by 2.7 percent.

In SFY 2015-16, All Funds revenues are projected to increase to \$149.3 billion, rising by 0.8 percent or \$1.1 billion. This lower level of growth reflects the loss of extraordinary settlement funds and the decline in SIF revenues, offset by increased tax revenues due to projected economic growth and continued enhanced federal Medicaid funding.

All Funds tax collections in SFY 2014-15 are projected at \$70.9 billion, an increase of \$1.2 billion or 1.7 percent. This increase is primarily realized in personal income tax (PIT) collections through stronger withholding tax growth.

For SFY 2015-16, All Funds tax collections are projected to increase to \$74.5 billion, rising by \$3.6 billion or 5.1 percent. This increase results from strong projected growth in both PIT and business taxes due largely to continued growth in the economy. The proposed tax law changes in the Executive Budget would result in a net increase in All Funds tax receipts of \$81 million in SFY 2015-16, and in net decreases in each of the following three years of \$227 million, \$822 million, and \$1.4 billion, respectively.

Figure 10



Source: Division of the Budget

General Fund Revenues

In SFY 2014-15, General Fund revenues (including transfers) are estimated to increase 11.6 percent, or \$7.2 billion, to \$69.1 billion. Similar to revenue collections on an All Funds basis, this increase is primarily due to the settlement funds and the increased deposit of reserves from SIF, which are accounted for in General Fund miscellaneous receipts.

In SFY 2015-16, General Fund revenues are projected at \$66.1 billion, a decrease of 4.3 percent or \$3.0 billion. Although tax revenues are projected to increase as a result of economic growth, these increased revenues are more than offset by the loss of the increased SIF revenues and the settlement funds.

Personal Income Tax

Collections

Withholding tax collections are primarily a reflection of wage and employment growth during the fiscal year. Due to the strong presence of the financial industry in New York, bonuses paid to industry employees also contribute to withholding collections, especially

in the fourth quarter of the fiscal year. Withholding collections for the current fiscal year are estimated to increase to \$35.15 billion, a gain of 5.3 percent or \$1.8 billion. This increase reflects estimated wage and employment growth of 4.6 percent and 1.6 percent, respectively. Bonus payments, which are factored into overall wage growth, are estimated to increase by 6.2 percent.

For SFY 2015-16, withholding collections are projected to continue strong growth, rising to \$37.4 billion, an increase of 6.4 percent or \$2.3 billion. This increase is based on projected wage growth of 4.7 percent and employment growth of 1.4 percent. Included in wage growth is projected bonus growth of 5.8 percent.

Estimated payments are either paid quarterly or paid with a taxpayer's request for an extension to file an annual tax return. Estimated payments are primarily based upon a taxpayer's non-wage income, such as business income earned by a sole proprietor or the realization of capital gains upon a sale of stock. Estimated payments for SFY 2014-15 are estimated to decrease by 3.6 percent to \$14.1 billion, a decline of \$529 million. This decrease is driven by a \$1.8 billion decrease in payments made with extension requests, partially offset by other factors.

Due to federal tax law changes that went into effect on January 1, 2013, a large number of taxpayers realized capital gains towards the end of 2012 in order to avoid a higher tax bill. Extension payments made in 2013 were inflated due to these increased capital gains realizations.

However, the projected decrease in 2014-15 estimated payments with the extension request is estimated to be partially offset by an increase in the quarterly estimated payments made throughout the year. These increased payments are the result of growth in proprietors' income and property income of 4.8 percent and 3.2 percent, respectively. In addition, with the strong stock market growth during the past year, capital gains were realized earlier in the tax year, resulting in increased quarterly payments.

For SFY 2015-16, estimated payments are projected at \$15 billion, an increase of 6.2 percent or \$888 million. Both quarterly payments and payments with extension requests are projected to increase. The increase in quarterly payments is a result of stronger projected growth in property income and proprietor's income, with expected gains of 4.9 and 5.4 percent, respectively. The increase in extension payments is due to projected growth in personal income of 4.6 percent.

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

For the current fiscal year, collections from final returns and refund payments are estimated to decline by 8.5 percent and 2.8 percent, respectively. Both declines are attributable to the income shift of capital gains realizations into the 2012 tax year. The decline in refunds is also attributable to a decline in the amount of refunds paid in the January through March period that is administratively set by the Department of Taxation and Finance. These

declines are partially offset by the advanced credit payments received by taxpayers in the fall of 2014 for the property tax freeze credit and the family tax relief credit.

In SFY 2015-16, collections from final returns and refunds are projected to increase by 8.5 percent and 10.3 percent, respectively. The growth in final return payments is a reflection of the estimated Personal Income growth of 4.6 percent, similar to the growth in extension payments. The projected increase in refunds is due to tax benefits enacted in previous fiscal years, in addition to an increase in the amount of advanced payments for the property tax freeze credit.

New Revenue Actions

Four proposals in the Executive Budget would impact PIT revenues in future years. None of these proposals is projected to have a fiscal impact in SFY 2015-16.

- Education Tax Credit – This would authorize a personal income tax and corporate franchise tax credit for donations made to public school programs, public school organizations or organizations that grant scholarships to non-public schools. The amount of the credit would be equal to 75 percent of the taxpayer’s donation, capped at \$1 million. Taxpayers would be required to receive authorization for the qualifying contribution from the Department of Taxation and Finance. School organizations and scholarship organizations would be required to receive authorization from the State Education Department to receive contributions under this program. Public schools would be automatically authorized. Tax credits would be capped at a total of \$100 million annually and would be non-refundable.
- The limitation on charitable contribution deductions claimed by taxpayers with incomes over \$1 million would be made permanent. This deduction is currently due to expire on December 31, 2015. The provision is projected to increase revenues by \$70 million in SFY 2016-17, \$140 million in SFY 2017-18, and \$125 million in SFY 2018-19.
- School Tax Relief (STAR) credit – The current STAR exemption would be converted to a refundable PIT credit. First time homebuyers and homeowners who move into a new residence would qualify for the new credit and would no longer qualify for the STAR exemption. All other homeowners would have a choice of continuing to receive the STAR exemption or change to the new credit, which would be calculated similar to the tax savings under the STAR exemption. This is projected to reduce PIT revenues by \$97 million in SFY 2016-17, \$197 million in SFY 2017-18, and \$298 million in SFY 2018-19.
- Residential Real Property Tax Credit (Circuit Breaker Tax Credit) – The Budget would establish a credit against taxpayers’ State PIT to effectively reduce the cost of local property taxes. The credit would be refundable, meaning its value could be more than the taxpayer’s liability, and would be available to both homeowners and renters. It would be phased in over four years. Taxpayers claiming the credit would qualify if their incomes are \$250,000 or less for homeowners, or \$150,000 or less for renters. The credit would range from 15 percent to 50 percent of property taxes paid, depending on income. This is projected to reduce PIT revenues by \$350 million in SFY 2016-17, \$850 million in SFY 2017-18, and \$1.35 billion in SFY 2018-19.

Figure 11

Regional Allocation of the Proposed Residential Real Property Tax Credit

Region	Homeowners		Renters	
	Beneficiaries	Average Credit	Beneficiaries	Average Credit
Upstate	543,299	\$781	328,460	\$304
Downstate Suburbs	558,684	\$1,159	19,634	\$491
New York City	209,584	\$872	671,393	\$445
Total	1,311,567	\$956	1,019,487	\$400

Source: Division of the Budget

Consumption and Use Taxes

Collections

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

For SFY 2014-15, All Funds collections from the sales and use tax are projected at \$13.03 billion, an increase of \$446 million or 3.5 percent. This increase is due largely to the improvement in the domestic economy over the last year as well as increased disposable income due to lower oil and gas prices. In SFY 2015-16, sales tax collections are projected to continue to grow, reaching \$13.6 billion, an increase of \$569 million or 4.4 percent over SFY 2014-15. Similar to the current fiscal year's estimate, growth for SFY 2015-16 is due to continued projected economic growth, low projected inflation rates, and the projection of low oil and gas prices.

All other consumption and use taxes are estimated to decrease to \$2.36 billion in SFY 2014-15, a decline of \$151 million or 6 percent from SFY 2013-14. This decline primarily results from a decline in cigarette and tobacco tax collections due to the accumulated refunds paid due to a change in the administration of the cigar tax. All other taxes are estimated to exhibit modest growth.

In SFY 2015-16, all other consumption and use taxes are projected to increase by \$17 million to \$2.38 billion. Cigarette and tobacco tax collections are projected to remain flat with minimal growth in collections from the other taxes.

New Revenue Actions

Seven proposals in the Executive Budget would impact consumption and use tax revenues. These proposals, projected to have a net fiscal impact of \$4 million in SFY 2015-16, would:

- Exempt other alcoholic beverages as well as wine from the use tax when used for tastings, resulting in a minimal fiscal impact on sales and use tax revenues.

- Require the Department of Economic Development to approve any project of an Industrial Development Agency (IDA) that provides a State sales tax exemption, increasing revenue by a projected \$4 million.
- Exempt electricity generated under a power purchase agreement with a solar energy provider from the sales and use tax. The cost to the State of this exemption is projected to be minimal. Localities would also be allowed the option of providing the exemption.
- Require marketplace providers, such as Amazon, to register as a sales tax vendor and collect the sales tax on sales they facilitate for small businesses, generating a projected \$59 million in new revenue after SFY 2015-16.

Business Taxes

Collections

All Funds business taxes comprise the corporate franchise tax (Article 9-A), corporation and utilities taxes, insurance taxes, the bank tax, and the petroleum business tax. Collections from the corporate franchise tax, corporation and utilities taxes, insurance taxes, and the bank tax are deposited to the General Fund and special revenue funds. The petroleum business tax is deposited to special revenue funds and the Dedicated Highway and Bridge Trust Fund. Collections from these taxes vary year to year because of changes in the economy as well as factors such as the number of audits conducted by the Tax Department.

All Funds business tax collections are estimated to be \$7.7 billion in SFY 2014-15, a decrease of \$542 million or 6.6 percent. The decrease is attributable to increased refunds due to the payback of certain business tax credits that were deferred in the 2010-2012 tax years, and the reduction in the tax on manufacturers that was enacted in previous years' budgets. Although audit receipts from the corporate franchise tax are estimated to decline by \$633 million, this decline is offset by an estimated increase in audit collections under the bank tax of \$676 million.

For SFY 2015-16, All Funds business tax collections are projected to be \$8.1 billion, an increase of \$366 million or 4.7 percent. The projected year-over-year increase primarily reflects increased audit collections as well as decreased refunds for the payback of the deferred credits.

Collections for SFY 2015-16 also reflect the repeal of the bank tax as a result of corporate tax reform enacted in SFY 2014-15. Banks will now be subject to the corporate franchise tax.

New Revenue Actions

Eight proposals in the Executive Budget would impact business tax revenues. None of these proposals is projected to have a fiscal impact in SFY 2015-16. The Budget would:

- Extend and reform the Brownfields Cleanup Program.
- Limit the investment tax credit for the creation of master tapes for films, television shows, or commercials to those costs incurred in New York.

- Authorize entertainment companies to participate in the Excelsior Jobs Program.
- Rename the Youth Works Tax Credit Program as the Urban Youth Jobs Program and provide an additional credit allocation of \$10 million.
- Reduce the net income tax rate on small businesses from 6.5 percent to 2.5 percent over a three-year period, starting in the 2016 tax year.
 - Small businesses are those with net incomes less than \$390,000 and fewer than 100 employees.
 - This reduction would impact approximately 42,000 small businesses.
- Apply the transportation and transmission tax to wireless telecommunications businesses.
- Allow for the refund of petroleum business taxes paid on highway diesel fuel used in farm production.
- Create an Employee Training Incentive Tax Credit – Employers would be authorized to receive a tax credit equal to 50 percent of eligible training costs. Total credits available would be capped at \$5 million.

Other Taxes

Other taxes include the estate tax, the real estate transfer tax, parimutuel taxes, the boxing and racing exhibitions tax, and the MTA payroll tax. In SFY 2014-15, All Funds collections from these taxes are estimated to be \$3.4 billion, an increase of \$47 million or 1.4 percent. This increase is primarily the result of increased collections from the MTA payroll tax due to increased wage growth, as well as increased collections from the real estate transfer tax due to both growth in home prices and increased real estate transactions in New York City. Offsetting the collection growth in these two taxes is a decline in collections from the estate tax. This decline is primarily due to the increased exemption threshold of \$2.063 million which was included in the SFY 2014-15 Enacted Budget.

For SFY 2015-16, collections from other taxes, including the MTA payroll tax, are projected at \$3.5 billion, an increase of \$80 million or 2.3 percent. Similar to the estimated increase in collections in SFY 2014-15, this increase is due to projected increases in collections from the payroll tax and the real estate transfer tax as a result of employment and wage growth and continued improvements in the housing market, respectively. Offsetting these increased collections are decreased projected collections from the estate tax as a result of increasing the exemption threshold from \$2.5 million to \$3.125 million on April 1, 2015.

Miscellaneous Receipts

Miscellaneous receipts encompass a wide variety of other revenues collected by the State including abandoned property, motor vehicle fees, alcoholic beverage license fees, surcharges, and fines. All Funds miscellaneous receipts are estimated to increase by \$6.1 billion, or 25.2 percent, in SFY 2014-15. This increase is primarily due to the \$1 billion deposit from the State Insurance Fund (SIF) and settlement funds.

Since the settlement funds and the deposit from SIF are non-recurring revenues, All Funds miscellaneous receipts are projected to decrease by \$5.3 billion, or 17.4 percent, in SFY

2015-16. The loss of these non-recurring revenues is partially offset by increased authority bond proceeds which are reflected as capital projects fund miscellaneous receipts.

Federal Grants

Federal grants are estimated to increase by \$3.15 billion or 7.2 percent in SFY 2014-15. Similarly, federal receipts are projected to increase \$2.83 billion, or 6.0 percent, in SFY 2015-16. These increases are primarily due to enhanced federal Medicaid funding as a result of the Affordable Care Act.

Tax Enforcement Actions

The Executive Budget proposes eight new or enhanced tax enforcement initiatives. These initiatives are projected to increase revenues by \$35 million in SFY 2015-16. They would:

- Make the warrantless wage garnishment permanent; the program is set to expire on April 1, 2015.
- Reduce the outstanding tax debt threshold from \$10,000 to \$5,000 for the suspension of delinquent taxpayers' driver licenses.
- Allow New York to enter into reciprocal tax collection agreements with other states.
- Require physicians and dentists applying for excess medical malpractice coverage to be tax-compliant.
- Require grantees of State or local grants to be tax-compliant.
- Allow for the sharing of child care data between the Office of Children and Family Services (OCFS) and the Department of Taxation and Finance, as well as multiagency data sharing.
- Disallow the renewal or issuance of a professional or business license if past due tax liabilities are owed.
- Require new State employees to be tax-compliant.

Figure 12 provides a summary of General Fund and All Funds revenue projections for SFY 2014-15 and SFY 2015-16.

Figure 12

Total Revenues

(in millions of dollars)

	GENERAL FUND					ALL FUNDS				
	SFY 2014-15			SFY 2015-16		SFY 2014-15			SFY 2015-16	
	Enacted	Estimated	Dollar Change	Projected	Percent Change	Enacted	Estimated	Dollar Change	Projected	Percent Change
Personal Income Tax	43,735	44,338	603	46,888	5.8%	43,735	44,338	603	46,888	5.8%
Consumption and Use Tax	12,698	12,750	52	13,333	4.6%	15,364	15,394	30	15,981	3.8%
Business Taxes	5,438	5,516	78	5,834	5.8%	7,671	7,717	46	8,083	4.7%
Other Taxes	1,197	1,168	(29)	1,124	-3.8%	3,418	3,418	-	3,498	2.3%
Miscellaneous Receipts	3,815	8,861	5,046	2,903	-67.2%	25,672	30,329	4,657	25,054	-17.4%
Federal Grants	-	-	-	-	-	45,789	46,937	1,148	49,763	6.0%
Total Revenues	66,883	72,633	5,750	70,082	-3.5%	141,649	148,133	6,484	149,267	0.8%

Source: Division of the Budget

Note: PIT and Consumption and Use Tax figures are gross collections before deposits to debt service funds.

Debt and Capital

The SFY 2015-16 Executive Budget proposes increased bonding authorization for State-Supported debt by approximately \$5.3 billion. Statutory debt capacity remains limited, especially in the later years of the Five-Year Capital Program and Financing Plan (Capital Plan). The growth in debt and debt service anticipated from the Executive Budget is almost entirely due to the use of public authority debt, both on-budget and off-budget. Projected increases in debt and debt service attributable to authority bonds may be understated in the Capital Plan if the Executive proposal to have public authorities issue Personal Income Tax (PIT) bonds and/or Sales Tax Revenue (STR) bonds for Smart Schools Bond Act purposes is approved.

In November 2014, New York voters authorized the \$2 billion Smart Schools Bond Act, to be issued as New York State General Obligation (G.O.) bonds. The Executive's Five Year Capital Program and Financing Plan indicates that these bonds will be issued as General Obligation debt. However, if the proposal to allow uses of PIT or STR bonds is enacted, all or a portion of the \$2 billion voter approved G.O. debt authorization for Smart Schools purposes could be issued as backdoor borrowing by State public authorities. Such borrowing could be conducted without the strict statutory and constitutional controls governing issuance, structure and retirement of voter-approved G.O. bonds and in a manner that may not align with the voters' approval, and may ultimately result in higher overall costs to the State's taxpayers. Including the \$2 billion figure, bonding authorizations for State-Supported debt by public authorities would increase by \$7.3 billion.

The Executive Budget creates the Dedicated Infrastructure Investment Fund (DIIF), a new Capital Projects Fund that is proposed to be funded with up to \$4.55 billion from non-recurring financial settlements anticipated to be received in SFY 2014-15. The Executive indicates that a large portion of monetary settlements from SFY 2014-15 will be used to finance projects from the DIIF. However, over \$1 billion of the settlement resources are to be kept in the General Fund as reserves or used to finance General Fund spending.

The Executive proposes appropriations from the proposed new fund for a wide range of projects. The stated purposes of the DIIF are broad, and provisions allow the transfer of some or all of the funds back to the General Fund on request of the Director of the Budget if certain conditions are met and/or certain purposes are involved. These provisions raise the prospect that the DIIF is being treated at least in part as another undesignated reserve for the State.

The proposed Five-Year Capital Program and Financing Plan (Capital Plan) projects total capital spending (including spending that occurs outside of the State Capital Plan) of \$21.8 billion in SFY 2015-16. This compares to \$17.8 billion projected less than two years ago, representing an increase of nearly \$4 billion or 22 percent.

Debt Outstanding and Debt Service

In the Capital Plan, DOB projects that \$28.5 billion in new State-Supported debt will be issued over the life of the Plan. This compares to \$20.2 billion in retirements over the same period, resulting in a projected increase in State-Supported debt of \$8.3 billion or 15.8

percent. Approximately 68.1 percent of this increase is associated with education purposes.

Average annual State-Supported debt issuance is \$5.7 billion over the life of the proposed Capital Plan, compared to \$5.2 billion in the current Five-Year Capital Program and Financing Plan.

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

In November 2014, DOB projected that by the end of SFY 2016-17, there would be only \$438 million in available capacity for additional State-Supported debt. These projections have been updated in the Executive's proposal, with projected available capacity reaching a low point of \$604 million at the end of SFY 2018-19. The revised estimates are based on current projections for Personal Income in New York State, which were lowered slightly from November, as well as projected issuance and retirement of State-Supported debt issued after April 1, 2000.

Given the State's limited resources, shrinking statutory debt capacity and unmet capital needs, it is critical that the State prioritize its use of debt and capital resources, including the resources deposited in the DIIF, to ensure that they are used as effectively as possible.

The definition of State-Supported debt and the debt included within the statutory cap on outstanding debt do not include approximately \$11.8 billion in additional debt projected to be outstanding at the end of SFY 2014-15 that was issued after enactment of the Debt Reform Act of 2000. This debt was authorized outside the narrow definition of State-Supported debt included in the Debt Reform Act. Much of that borrowing was undertaken to finance non-capital costs, including deficit financing and budget relief. These obligations are included in the Office of the State Comptroller's more comprehensive definition of State-Funded debt.⁹

The proposed Capital Plan projects that State-Supported debt outstanding will increase by approximately \$8.3 billion, or 15.8 percent, from SFY 2015-16 through SFY 2019-20. State-Funded debt is projected to increase \$9.9 billion or 15.3 percent over the same time frame, as indicated in Figure 13.

⁹ State-Funded debt was defined by the Office of the State Comptroller in its February 2005 report, *New York State's Debt Policy, a Need for Change*. State-Funded debt represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include bonds issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation (TSFC) to finance deficits in SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency (MBBA); Building Aid Revenue Bonds issued by New York City's Transitional Finance Agency (TFA BARBs) and new debt issued by the Dormitory Authority of the State of New York (DASNY) under the new SUNY dorm financing program authorized in the SFY 2013-14 Enacted State Budget. Not all State-Funded debt appears in the Capital Program and Financing Plan; some is illustrated separately in the tables in this section of the report. See the Comptroller's January 2013 report, *Debt Impact Study*, for more information on State-Funded debt.

Figure 13

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

	SFY 2014-15	Proposed Capital Plan					Total Percentage Change Capital Plan SFY 2015-16 through SFY 2019-20	Total Dollar Change Capital Plan SFY 2015-16 through SFY 2019-20
		SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20		
General Obligation	3,198,826	3,614,670	3,765,904	3,898,396	4,045,296	4,183,195	30.8%	984,369
Other State-Supported Public Authority	49,370,742	51,426,977	52,900,622	54,012,326	55,441,759	56,701,073	14.8%	7,330,331
State-Supported	52,569,568	55,041,647	56,666,526	57,910,722	59,487,055	60,884,268	15.8%	8,314,700
New SUNY Dormitories	394,562	560,393	716,139	916,501	900,319	880,345	123.1%	485,783
TSFC	1,744,905	1,374,720	1,035,335	680,080	-	-	-100.0%	(1,744,905)
TFA BARBs	7,447,495	8,720,770	9,982,189	11,220,618	11,026,774	10,801,301	45.0%	3,353,806
STARC	1,996,545	1,926,475	1,853,680	1,776,525	1,695,365	1,609,880	-19.4%	(386,665)
MBBA	262,650	233,670	203,375	171,605	138,605	104,165	-60.3%	(158,485)
Total Other State-Funded	11,846,157	12,816,028	13,790,718	14,765,328	13,761,063	13,395,691	13.1%	1,549,534
Projected Outstanding (State-Funded)	64,415,725	67,857,675	70,457,244	72,676,050	73,248,118	74,279,959	15.3%	9,864,234

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

Projections for new debt issuance for SUNY dormitories and for the New York City Transitional Finance Authority (TFA) Building Aid Revenue Bonds (BARBs) are only available through SFY 2017-18.¹⁰ Therefore, the growth figures cited for State-Funded debt are likely to be understated as additional debt issuance is anticipated. The TFA plans to issue approximately \$4.2 billion in new BARBs and DASNY anticipates that it will issue \$547.1 million for SUNY dormitories through SFY 2017-18, bringing the projected five-year issuance level of State-Funded debt to \$33.3 billion, representing an increase of \$878 million associated with the current Capital Plan. Bonds issued by the Tobacco Settlement Financing Corporation are scheduled to be fully retired in SFY 2017-18.

Figure 14 illustrates the actual and projected issuance and retirement of State-Supported debt over the last 10 years and the next five (the latter representing the life of the proposed Capital Plan). Average annual State-Supported debt issuance has been \$4.2 billion over the ten year period from SFY 2005-06 through SFY 2014-15, compared to average annual State-Supported debt retirement of \$2.8 billion over the same time frame, representing a retirement to issuance ratio of 69.8 percent.

The retirement to issuance ratio in the five years between SFY 2005-06 through SFY 2009-10 was 54.7 percent, while the retirement to issuance ratio in the latter five years of the ten year period was 84.9 percent. The decline in issuances from the high point of SFY 2009-

¹⁰ Projections throughout this report for NYC TFA BARBs incorporate issuance projections for NYC TFA BARBs from the New York City Fiscal Year 2015 Enacted Budget reported on May 9, 2014. The planned issuance schedule will require either legislation to increase the current \$9.4 billion cap or other actions to stay within the cap. Issuance projections for SUNY dormitories are from DASNY State University of New York Dormitory Facilities Revenue Bonds, Series 2013A Official Statement dated August 22, 2013.

10 through SFY 2014-15 and the improvement in the retirement to issuance ratio reflects, in part, debt management associated with declining debt capacity. For example, in the SFY 2012-13 Enacted Budget Capital Program and Financing Plan, DOB projected \$5.4 billion in new issuances for SFY 2012-13. Only \$3.6 billion was actually issued.

Figure 14

Projected State-Funded Debt Issuance – SFY 2014-15 through SFY 2019-20
(in thousands of dollars)

	Estimate SFY 2014-15	Proposed Capital Plan					Total Capital Plan
		SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2015-16 through SFY 2019-20
General Obligation	311,926	710,215	470,940	437,081	428,336	418,671	2,465,243
Other State-Supported Public Authority	3,393,891	5,485,507	5,047,643	4,972,599	5,277,427	5,274,415	26,057,591
Total State-Supported Issuances	3,705,817	6,195,722	5,518,583	5,409,680	5,705,763	5,693,086	28,522,834
SUNY Dormitories	78,774	170,494	164,368	212,297	-	-	547,159
TFA BARBs	1,500,000	1,400,000	1,400,000	1,400,000	-	-	4,200,000
Total State-Funded Issuances	5,284,591	7,766,216	7,082,951	7,021,977	5,705,763	5,693,086	33,269,993

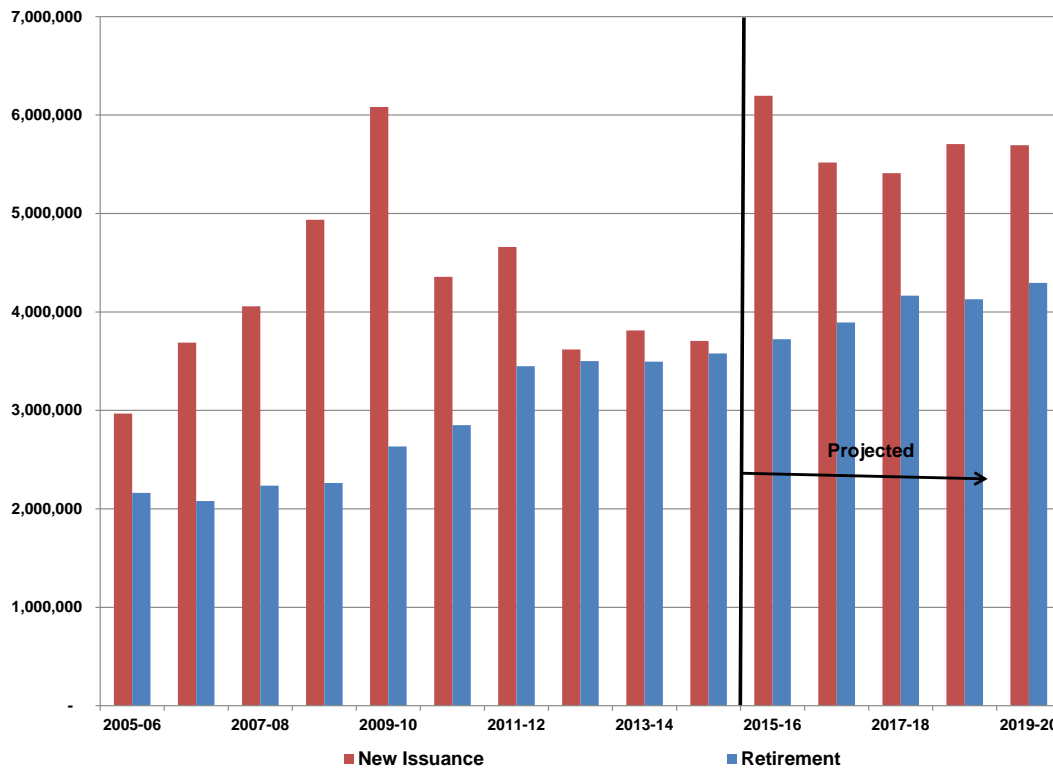
Sources: Office of the State Comptroller; Division of the Budget; New York City Office of Management and Budget; DASNY
Note: Totals may not add due to rounding.

Average annual State-Supported debt issuance is projected to be \$5.7 billion over the five year period from SFY 2015-16 through SFY 2019-20, compared to projected average annual State-Supported debt retirements of \$4.1 billion over the same time frame. Projections for the current fiscal year and actual figures for the two preceding years show debt retirement levels close to those for new issuances, as shown in Figure 15. Projections for the next five years included in the Executive Budget Capital Program and Financing Plan illustrate a return to the practice of issuing significantly more debt than is retired, with a projected retirement to issuance ratio of 71.1 percent. This is also illustrated in lower projections for available debt capacity.

Currently, more than 95 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the five-year life of the proposed Capital Plan, public authorities are projected to issue \$30.8 billion in debt, or 92.6 percent of the total issuances, as compared to projected issuances of \$2.7 billion, or 7.4 percent of total issuances, in voter-approved General Obligation bonds, including \$2 billion for the Smart Schools Bond Act.

Figure 15

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



Source: Division of the Budget

DOB has indicated that no final decision has been made regarding whether G.O. bonds or public authority bonds will be issued to finance Smart School Bond Act purposes. While it is clear that the Executive proposal would authorize DASNY and UDC to issue PIT and STR bonds for such purposes, the proposal could be read, in conjunction with another Executive proposal, to allow other authorized issuers of PIT bonds to also issue PIT bonds for these purposes.

As shown in Figure 16, under the proposed Capital Plan, State-Funded debt service is expected to approach \$8.5 billion by SFY 2019-20 with growth of approximately 21.3 percent between SFY 2014-15 and SFY 2019-20, or 3.9 percent annually on average. State-Supported debt issued by public authorities makes up approximately 96 percent of the total growth in State-Funded debt service.

The proposed Capital Plan indicates that State-Supported debt service is projected to decline in SFY 2015-16 by 5.2 percent from SFY 2014-15. This is largely due to a \$560 million debt prepayment planned to be made in SFY 2014-15 that would otherwise be made in SFY 2015-16. Prepayments have the effect of making year-over-year changes in spending appear smaller because the base year is inflated and the following year lowered. If this payment were made as initially anticipated, State-Supported debt service will have increased by 15.6 percent, as opposed to the 5.2 percent decline as reported. Prepayments have been made in each of the last three years.

Figure 16

Projected State-Funded Debt Service – SFY 2014-15 through SFY 2019-20
(in thousands of dollars)

	SFY 2014-15	Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
		SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2014-15 through SFY 2019-20	SFY 2013-14 through SFY 2018-19
General Obligation	435,907	425,419	466,000	461,351	449,167	461,353	5.84%	25,446
Other State-Supported Public Authority	5,365,432	5,075,541	5,792,158	6,248,930	6,523,455	6,798,282	26.71%	1,432,850
2014-15 Capital Plan (State-Supported)	5,801,339	5,500,960	6,258,158	6,710,281	6,972,622	7,259,635	25.1%	1,458,296
SUNY Dorms (All)	146,865	153,814	158,882	160,938	175,251	177,414	20.8%	30,549
TSFC	400,423	447,488	399,294	398,022	247,909	-	-100.0%	(400,423)
TFA BARBs	448,590	497,892	591,005	687,459	781,695	839,966	87.2%	391,376
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	31,211	40,780	40,966	40,986	40,964	41,204	32.0%	9,993
Total Other State-Funded	1,197,089	1,309,973	1,360,146	1,457,405	1,415,819	1,228,584	2.6%	31,495
Projected Debt Service (State-Funded)	6,998,428	6,810,933	7,618,304	8,167,686	8,388,441	8,488,219	21.3%	1,489,791

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

Debt Caps Under the Debt Reform Act of 2000

DOB’s projections for New York State Personal Income for SFY 2015-16 through SFY 2018-19 were lowered from November 2014 projections. The projection for SFY 2019-20 is new. DOB projects that the State will remain within the statutory cap on State-Supported debt outstanding over the life of the Plan. DOB currently projects that there will be approximately \$3.7 billion of available debt capacity at the end of SFY 2014-15, approximately \$864 million higher than projected in November 2014. However, projected capacity is projected to decline to approximately \$604 million at the end of SFY 2018-19 and stay under \$1 billion for the last three years of the Plan.

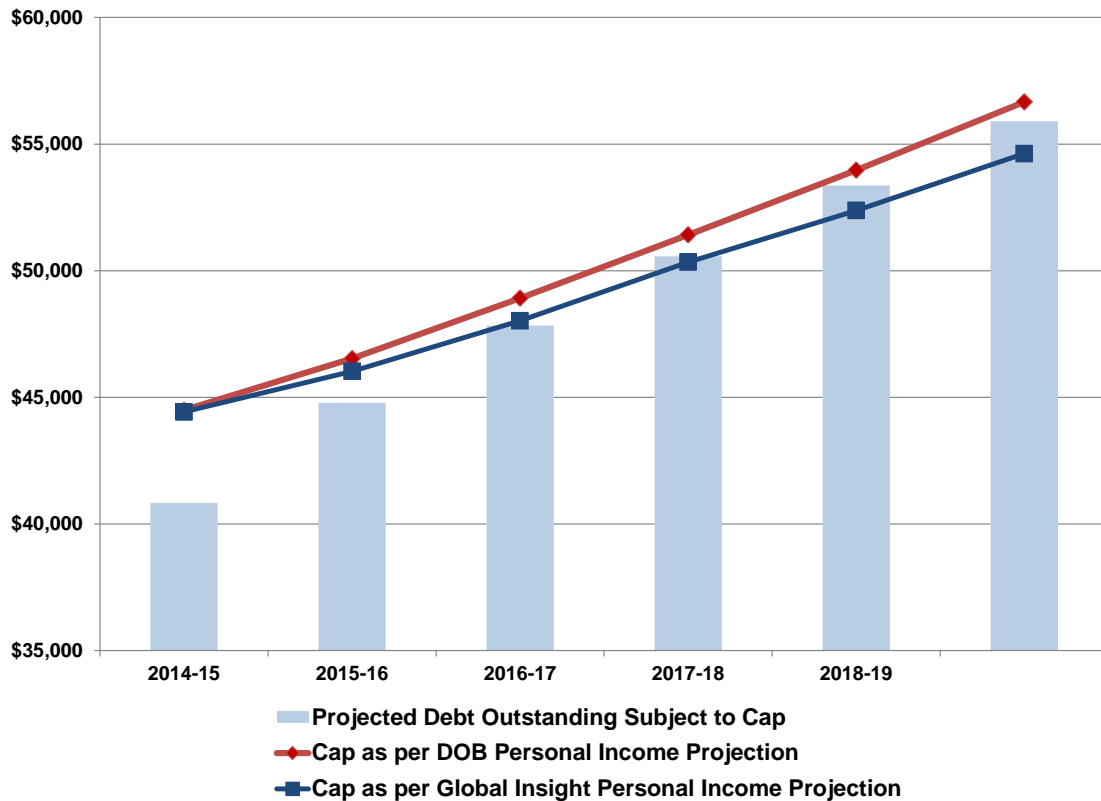
DOB projects that Personal Income will increase annually at an average rate of 5.1 percent through 2019. With this projected growth, along with the projected issuance and retirement of State-Supported debt, DOB expects that the level of State-Supported debt outstanding subject to the statutory cap will remain within the statutory cap within the next five years. Figure 17 illustrates the impact that different projections for Personal Income, by DOB and IHS Global Insight, have on the level of New York’s statutory debt capacity.

IHS Global Insight projects Personal Income will increase by an average 4.6 percent annually over the life of the Plan. If the IHS Global Insight projections are used, absent other actions, the cap on debt outstanding would be breached in SFY 2017-18 by \$229 million, with this figure increasing to nearly \$1.3 billion in SFY 2019-20. If projected new debt issued for SUNY Dormitories were included (as was the case historically when it was considered State-Supported Debt), along with the more conservative Personal Income

projections from IHS Global Insight, the cap on State-Supported debt outstanding would be breached by \$528 million in SFY 2016-17.

Figure 17

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



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

Capital Program and Financing Plan¹¹

The Executive Budget’s proposed SFY 2015-16 Five-Year Capital Program and Financing Plan includes \$54.3 billion in projected capital spending, of which \$4.6 billion would be spent off-budget (whereby bond proceeds are expended directly by public authorities, outside the Financial Plan and the Statewide Financial System).

Total spending in the proposed Capital Plan is \$6.4 billion higher than spending in the current Capital Plan, primarily because of new capital spending funded with non-recurring financial settlement revenue received in SFY 2014-15. Without this additional spending, the proposed Capital Plan would total \$49.7 billion, an increase of \$1.9 billion over the current Plan.

¹¹ The Capital Program and Financing Plan reflects all spending from Capital Projects Funds, one of the four fund groups that make up All Governmental Funds, including local assistance disbursements made from Capital Projects Funds such as payments to local governments to help finance their capital programs. The Capital Plan also includes capital spending that is considered “off-budget” in that it represents direct spending by public authorities from bond proceeds.

Overall, capital spending is projected to exceed \$10 billion annually in each year of the Plan. The Capital Plan includes \$1.1 billion in spending for “core capital investments,” although there are no appropriations or bonding authorizations in the Executive Budget for this purpose. The Plan includes anticipated future appropriations totaling \$1.175 billion for this purpose. The \$1.1 billion for “core capital investments” is approximately \$156 million lower than the amount included in the current Capital Plan. According to DOB, this planned spending and bond issuance is counted under projected debt caps, providing a level of cushion for future debt needs. Appendix B illustrates the differences between annual spending anticipated in the proposed Capital Plan and the current Capital Plan.

Financing Sources

Figure 18 illustrates the proposed financing sources for the Capital Plan in the current year and over the next five years. The proposed Upstate Revitalization program and all proposed programs from the Special Infrastructure Account are funded with a portion of the financial settlement revenue received or anticipated to be received in SFY 2014-15, and are considered State pay-as-you-go (PAYGO) financing.

Over the life of the Capital Plan, DOB projects that PAYGO financing will average approximately 36.6 percent of total State-funded capital financing, not including federal funding. This is slightly higher than the average of 31.9 percent over the last ten years. If the \$4.55 billion in spending funded with settlement revenue is not included, the percentage of State-funded capital spending funded with PAYGO resources declines to 30 percent.

Figure 18
Financing Sources – SFY 2014-15 through SFY 2019-20
(in millions of dollars)

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	Average 2015-16 through 2019-20
State Pay-as-You-Go (PAYGO)	2,351	3,218	3,607	3,703	3,505	3,456	3,498
Federal PAYGO	1,705	1,348	1,298	1,281	1,263	1,318	1,302
General Obligation Bonds	312	710	471	437	428	416	493
Authority Bonds	4,539	5,650	5,516	5,375	5,674	5,590	5,561
Total Capital Funding	8,906	10,927	10,892	10,796	10,871	10,781	10,853
Less Federal Funding	(1,705)	(1,348)	(1,298)	(1,281)	(1,263)	(1,318)	(1,302)
State Capital Funding	7,202	9,579	9,594	9,515	9,608	9,462	9,552
State PAYGO as Percentage of State Funding	32.64%	33.60%	37.60%	38.92%	36.48%	36.53%	36.6%
GO as Percentage of State Funding	4.33%	7.41%	4.91%	4.59%	4.46%	4.40%	5.2%
Authority Bonds as Percentage of State Funding	63.02%	58.99%	57.49%	56.49%	59.06%	59.08%	58.2%

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

New Debt Authorizations

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by public authorities by approximately \$7.3 billion, including borrowing for new capital initiatives and ongoing capital programs, as follows:

- \$2.0 billion – Smart Schools Bond Act purposes;
- \$1.46 billion – CHIPs and other transportation;
- \$1.00 billion – Healthcare facility restructuring;
- \$750 million – MTA capital;
- \$426 million – SUNY and CUNY infrastructure needs;
- \$287 million – Mental health facilities;
- \$285 million – Other economic development;
- \$177.5 million – Environmental infrastructure, including EPF;
- \$154.7 million – Housing;
- \$152 million – State facilities including the Harriman Campus in Albany;
- \$145.85 million – Youth facilities, including those related to the “Raise the Age” juvenile justice initiative;
- \$110 million – SUNY/CUNY 2020;
- \$100 million – Superfund;
- \$86.7 million – Information technology;
- \$50 million – Non-profit infrastructure capital for human services;
- \$30 million – Higher Education Capital (HECap) grants for private colleges and universities;
- \$15.3 million – Prison facilities;
- \$14 million – Libraries; and
- \$6 million – State Police.

Debt Management and New Initiatives

The Executive Budget anticipates savings of \$121 million to the General Fund in SFY 2015-16 related to capital projects and debt management initiatives. The savings associated with capital projects and debt management initiatives are projected to increase significantly in SFY 2016-17 through SFY 2018-19, with \$385 million, \$329 million and \$335 million budgeted in each of the three years. The Executive Budget Financial Plan indicates that savings are anticipated to be derived through a number of actions, including but not limited to continuing the issuance of 50 percent of new bonds through a competitive sale process, refunding higher cost debt as market conditions allow, attaining efficiencies from consolidating bond sales, and revisions in spending estimates and bond sale assumptions. Competitive bond sales provide increased transparency in the bond sale process and generally result in lower borrowing costs than negotiated sales.

The Budget includes an authorization to transfer \$1 billion into the Debt Reduction Reserve Fund, although the Financial Plan and the Capital Plan do not include such a transfer. Neither the Financial Plan nor the Capital Plan anticipate spending from the Debt Reduction Reserve Fund. Instead, the Financial Plan designates \$500 million in General

Fund balance as available for “debt management”; however, without an actual deposit to the Debt Reduction Reserve Fund, the funds are unrestricted and available for any use.

The Executive Budget proposes to authorize ESDC and DASNY to issue PIT or STR Bonds for Smart Schools Bond Act purposes. In November 2014, New York voters authorized the \$2 billion Smart Schools Bond Act, to be issued as New York State General Obligation (G.O.) bonds. Although the Executive’s Five-Year Capital Program and Financing Plan indicates that these bonds will be issued as General Obligation debt, if this proposal is enacted, all or a portion of the \$2 billion voter approved G.O. debt authorization for Smart Schools purposes could be issued instead as backdoor borrowing by State public authorities.

General Obligation bonds are subject to strict statutory and constitutional provisions that govern their issuance, structure and retirement. PIT and STR bonds are not subject to the same legal provisions as G.O. bonds. As a result, under this proposal, PIT and STR bonds could be issued without the corresponding controls governing issuance of G.O. bonds and in a manner that may not align with the voters’ approval, and may ultimately result in higher overall costs to the State’s taxpayers.

Dedicated Infrastructure Investment Fund

The Executive Budget includes the creation of a new Capital Projects Fund, the Dedicated Infrastructure Investment Fund (DIIF), from which the Executive proposes appropriations for a wide range of new projects. Two separate accounts are created within the DIIF, the Special Infrastructure Account (SIA) and the Upstate Revitalization Account (URA).

The stated purpose of the DIIF is very broad. Resources in the SIA are to be used to finance projects, works, activities or purposes to support statewide investments. Monies in the URA are to be used to finance projects, works, activities or purposes necessary to promote economic development. However, even with these broadly defined purposes, language related to the use of monies in each of the accounts indicates that “Nothing contained within this section shall be construed to limit in any way, the projects, works, activities or purposes that can be financed from this account . . .”¹²

The Executive has indicated that the DIIF will receive \$4.55 billion, or approximately 80 percent of the \$5.68 billion in financial settlements DOB identifies as having been received or anticipates to be received in SFY 2014-15. However, there is no specific reference to these settlement monies in the language creating the DIIF or in the transfer language that directs deposit of monies into the DIIF. Article VII language provides authorization for the transfer, upon the request of the Director of the Budget, of up to \$4.55 billion from the General Fund. In addition, the SFY 2014-15 Financial Plan previously anticipated \$275 million in settlement funds, which will be used in support of General Fund spending. Another \$5 million will be retained in a special revenue fund for chemical dependency services for use by the Office of Alcohol and Substance Abuse Services (OASAS).¹³ The

¹² Additional language in the latter part of the sentence related specifically to the URA is even more open-ended: “...including but not limited to loans of monies to public corporations or authorities under terms approved by the Director of the Budget.”

¹³ In accordance with State forfeiture laws, a portion of the settlement with BNP Paribas is required to be deposited into the Chemical Dependence Service Fund. The First Quarter Update to the SFY 2014-15 Financial Plan identified a transfer

Executive proposes to hold the remaining \$850 million of settlement funds within the General Fund as an unrestricted reserve.

The Executive suggests that the monies in the DIIF are intended to finance one-time purposes rather than recurring expenses. However, neither the language creating the DIIF nor the appropriations or transfers from the DIIF limit the use of the funds to one-time purposes. For example, the proposal includes language that allows the Director of the Budget to authorize the transfer of funds, in an unlimited amount to the extent that monies are available, from the DIIF to the General Fund in case of economic downturn, to prepare for, prevent, deter or respond to acts of terrorism, natural or man-made disasters or public safety, health or other emergencies and/or to offset declines in federal Medicare or Medicaid revenues in excess of \$100 million, and related State share, from anticipated levels.

This suggests that, to a certain degree, monies in the DIIF are being treated in the Executive proposal as an additional undesignated reserve for the State, since many of the outlined intended uses are broadly defined. Further indication of the status of the Fund is that the trigger related to the transfer of DIIF monies back to the General Fund in the event of an economic downturn is the same as the trigger that is being proposed by the Executive to allow a withdrawal of monies from the State's Rainy Day Reserve Fund.

In addition, the Executive Budget includes a \$150 million appropriation from the DIIF to prepare for, prevent, deter or respond to acts of terrorism, natural or man-made disasters or public safety, health or other emergencies, which is essentially the same language as one of the provisions that would allow for the transfer of monies from the DIIF to the General Fund.

Another example is the appropriation of \$1.285 billion from the DIIF for the Thruway Stabilization Program which includes language that allows funds to be used for "payment of costs related to the New NY Bridge and bridge-related transportation improvements, and for other costs of the Thruway Authority, including, but not limited to, its core capital program Costs may include . . . personal services, nonpersonal services, fringe and indirect costs . . ."

Furthermore, the \$1.5 billion appropriation for Upstate Revitalization is vague and could be used for either recurring or one-time expenses. The language says that funds "shall be for services and expenses, loans, grants, workforce development, business and tourism plan development, costs associated with program administration and the payment of personal services . . ." The language also states that "Funding will be pursuant to a plan developed by the chief executive officer of the New York State Urban Development Corporation and based in part on a competitive selection process among the regional development councils. [...] . . . Such moneys will be awarded by the New York State Urban Development Corporation at its discretion. All or a portion of the funds appropriated hereby may be sub-allocated or transferred to any department, agency, or public authority."

of \$297.9 million from this special revenue fund to the General Fund, which could be accomplished under the "blanket sweep" authorization. The Executive Budget anticipates the retention of \$5 million in the Chemical Dependence Service Fund, with the remainder used as part of the overall allocation of settlement funds.

While the DIIF is described as being for capital purposes, certain spending or transfers from the Fund could be used for previous or future operating purposes. The specific amount of such spending – which could impact growth in State Operating Funds expenditures – is not projected in the Executive Budget. DOB anticipates that the spending from the DIIF will occur over the next five years. Figure 19 provides a listing of the Executive’s allocation of selected SFY 2014-15 settlement revenues.

Figure 19

Allocation of Selected SFY 2014-15 Settlement Revenues
(in millions of dollars)

SFY 2014-15 Financial Plan	
<i>Support of General Fund</i>	275
<i>Support of Chemical Dependence Service Fund</i>	5
Total SFY 2014-15 Financial Plan	280
<hr/>	
Dedicated Infrastructure Investment Fund (DIIF)	
<i>Upstate Revitalization Account</i>	
Upstate Revitalization	1,500
<i>Special Infrastructure Account</i>	
Thruway Stabilization Program	1,285
Broadband and Other Telecommunications	500
Health Care/Facilities	400
Penn Station Access	250
Transit Oriented Development	150
Resiliency, Mitigation, Security, and Emergency Response	150
Municipal Restructuring	150
Other Infrastructure Improvements and Economic Development	115
Farm and Agricultural Investment - Southern Tier and Hudson Valley	50
<i>Total Special Infrastructure</i>	3,050
Total DIIF	4,550
<hr/>	
General Fund Reserve	850
<hr/>	
Total	5,680

Source: Division of the Budget

“Capital Projects” funds are described by DOB in Note 2 of the Financial Plan Tables and Accompanying Notes section of the Financial Plan as follows:

These funds finance a variety of capital construction costs including: (1) planning, land acquisition, design, construction, construction management and supervision, and equipment costs; (2) highway, parkway and rail preservation projects; outdoor recreation and environmental conservation projects, and buildings and other capital facilities required by various State departments and agencies; (3) payments to local governments to help finance their capital programs, including highway, parkway, bridge, mass transportation, aviation, economic development, port development, community college, community and State mental health, outdoor recreation, State-assisted housing, and environmental quality; and (4) advances for capital construction costs reimbursable by public authorities, instrumentalities of the State, the Federal government or local governments. Sources of revenue for this fund type include transfers from other State funds such as the General Fund, dedicated taxes and other revenues, reimbursement of advances, bond proceeds, and Federal capital grants.

However, the proposed language for the DIIF includes three provisions that provide authority for it to be used for purposes outside of the capital projects described above. First, similar to the Rainy Day Reserve Fund, funds can be transferred back to the General Fund to address a broad range of circumstances including economic downturns, disasters, and other emergencies, or to replace federal Medicare or Medicaid revenues. Second, the proposed authorization of the DIIF includes the following language for both the Special Infrastructure Account and the Upstate Revitalization Account:

Nothing contained in this section shall be construed to limit in any way the projects, works, activities or purposes that can be financed from this account.

Finally, appropriation language for many of the projects listed in Figure 19 contains statements such as “shall be used for services and expenses, loans, grants, workforce development, business and tourism plan development, costs associated with program administration, and the payment of personal services, nonpersonal services and contract services provided by private firms to support economic development projects” and “for payments to local governments and school districts for capital and other expenses related to the implementation of local government and school district shared services, cooperation agreements, mergers, and other actions.”

Program Area Highlights

Education

The SFY 2015-16 Executive Budget proposes to increase total education aid from \$22.1 billion to \$23.1 billion in school year (SY) 2015-16. The increase of \$1.1 billion, or 4.8 percent, exceeds the 1.7 percent growth allowed under the statutory school aid cap, linked to growth in Personal Income in New York State, that was enacted with the SFY 2011-12 Enacted Budget.¹⁴ On a State fiscal year basis, projected school aid spending in State Operating Funds would total \$23.0 billion, an increase of \$1.4 billion, or 6.6 percent, over SFY 2014-15.

School aid (which excludes certain categories of education aid, as detailed below) would amount to \$1.0 billion of the \$1.1 billion SY increase. However, this \$1.0 billion in school aid is tied to the legislative enactment of education-related changes that the Executive proposes. If these changes are not passed by the Legislature, the Executive has indicated that school aid would revert to the increase in the Personal Income growth formula, which would be 1.7 percent or \$377 million, although proposed budget legislation stipulates that aid would be held flat with the SY 2014-15 year. In addition, each school district would have to submit documentation to the State Education Department that it has adopted the updated Annual Professional Performance Reviews (APPR) standards by September 1, 2015, to receive its portion of the increase. Also, the Legislature would have to approve extending mayoral control of New York City schools for three years in order for the City to receive its allocation of any aid increase.

In contrast to longstanding practice, the Executive has not released any breakdown of proposed school aid funding by district, or detailed proposed changes in major areas of the aid formula such as Gap Elimination Adjustment (GEA) restoration or Foundation Aid. The lack of school aid estimates for individual school districts has important implications for districts throughout the State, since these figures are used when school boards develop proposed budgets and calculate maximum property tax levies under the State's statutory tax cap. The State Education Department has instructed districts to use Executive Budget school aid runs in calculating their tax cap capital exclusions. Tax cap calculations must be submitted by March 1st, although the capital exclusion calculation may be updated in April with Enacted Budget numbers. Omission of the customary level of detail in the school aid proposal also represents a lack of transparency for taxpayers, who may wish to see how much the proposed Budget is funding particular school districts as well as specific statewide programs.

The changes advanced by the Executive that would be required to be passed by the Legislature for the school aid increase to take effect include:

- Educator evaluation changes – Teachers and principals would have 50 percent of their APPR ratings based on their students' scores on State examinations, and 50 percent on classroom evaluations (a minimum of 35 percent of this component must be from independent classroom evaluations). Currently, 20 or 25 percent of an APPR can be from State examinations, and 15 or 20 percent from locally selected measures of

¹⁴ Rounding leads to the \$1.1 billion figure.

student achievement, while the remaining percentage is based on “other” measures of teacher or principal effectiveness as determined at the district level. A teacher who receives an “ineffective” APPR rating for two consecutive years would be removed from the classroom.

- Change in educator tenure designation – Teachers and principals who are newly appointed on or after July 1, 2015 would enter a probationary period of five years. These newly hired educators would need to have APPR ratings of “effective” or “highly effective” in each of the five years to be considered for tenure. State law currently allows for a three year probationary period, after which an educator may be considered for tenure, with no consideration of APPR ratings during that period.
- New teacher certification requirements – Graduate-level teacher education programs registered with the State would be required to adopt new selection criteria in accepting potential candidates in their programs. The State would deregister and suspend teacher preparation programs, if for three consecutive academic years fewer than 50 percent of graduating students were able to pass State teacher certification examinations. Teacher certificates that are currently valid for life would have to be registered with the State every five years (for a fee), and certificate holders would have to satisfy continuing teacher education requirements.
- Takeover and restructuring of failing school districts – The State would be able to take over a “failing” school district, one that has scored in the lowest 2.5 percent of all school districts statewide when comparing metrics on student achievement. Also eligible for takeover would be school districts that are designated among the lowest achieving 5 percent of public schools in the State for at least three years. The State Education Department would form a district review team to assess the reasons for the school district’s underperformance and designate a receiver for the school district. This receiver could be a non-profit entity, another school district or an individual that would be granted full managerial and operational control of the failing school district. The receiver, a concept used in Massachusetts, would be responsible for constructing a turnaround plan for the district.
- Provisions related to charter schools, as follows:
 - Students in “failing” schools would have preference in charter school lotteries.
 - Raising the cap on the number of charter schools to 560 statewide, and eliminating the caps on the number of charters in New York City, or on the number issued by any specific chartering entity. Instead, the Board of Regents would coordinate the process, accepting recommendations from the State University of New York’s (SUNY) Charter Schools Institute as well as take applications directly.
 - “Anti-creaming” legislation would require charter schools to teach a certain proportion of high-need student populations, such as those who are eligible for free or reduced price lunch, are English language learners or have learning disabilities.
 - Increase in charter school tuition payments, along with funding to reimburse school districts that pay these "supplemental" increases.

- Other proposed changes linked to the increase in school aid include a new scholarship program for certain SUNY and City University Of New York (CUNY) graduate students who commit to teaching in a New York public school, and revisions to disciplinary procedures involving teachers accused of physical or sexual abuse.

The Executive Budget continues the practice started in the SFY 2011-12 Enacted Budget of including a two-year school aid appropriation. The SFY 2016-17 appropriation would support an increase of \$923 million (4.0 percent) over SY 2015-16, for a total of \$24.1 billion. By SY 2018-19, the Financial Plan projects that school aid would total \$26.5 billion.

The proposal for \$23.1 billion in total education aid for SY 2015-16 excludes funding from the Smart Schools Bond Act and the Statewide Universal Full-Day Pre-Kindergarten program. In November 2014, voters approved the \$2 billion “Smart Schools Bond Act of 2014,” which is intended to fund: enhanced technology in schools and the local community; construction, enhancement and modernization of preschool instructional space; provision of instructional space to replace transportable classroom units; and installation of high technology security features in schools and on school campuses. The SFY 2015-16 Capital Program and Financing Plan projects that bond proceeds will be disbursed over the Five Year Capital Program and Financing Plan period, beginning in SFY 2015-16. (For additional information, see this report’s section on Debt and Capital.)

The SFY 2014-15 Enacted Budget committed \$1.5 billion over five years to support the phase-in of the first-ever State-funded full day prekindergarten program. The Executive Budget appropriates \$340 million for this initiative statewide, of which \$300 million is allocated for New York City, for each school year from 2014-15 through 2016-17.

Although there is no breakdown of how school aid will be allocated among school districts, the Executive Budget for SY 2015-16 proposes that \$50 million in education aid be allocated as follows:

- \$25 million in grants to establish new full-day and half-day prekindergarten programs for three-year-old children. The grants would be awarded based on various factors, including the needs of school districts and students who would be served by the program.
- \$8 million to implement the takeover and turnaround strategies of “failing” school districts, mentioned above.
- \$5 million for an expanded Master Teacher program. This program would now be open to teachers who are licensed in English as a Second Language (ESL), bilingual teachers, and those who are dually certified in special and general education. Master Teachers would be eligible for a \$15,000 annual stipend for four years to mentor teachers who are new to the profession.
- \$3 million to expand the Pathways in Technology and Early College High School (P-TECH) program. P-TECH uses a “grades 9-14” model to enable high-performing at-risk students to earn both a high school diploma and an associate’s degree, and establishes partnering efforts with high-tech companies to provide students with internships and job opportunities.

- \$3 million each: to fund the Masters-In-Education Teacher Incentive Scholarship program; to start a New York Teacher Residency program that would combine Masters-level course work with classroom training; and to fund a “QUALITYstarsNY” program to assess, improve and communicate the level of quality in early education and care settings throughout the State.

The Budget also proposes phasing in regional reimbursement rates for preschool special education itinerant teachers (SEIT) over four years. Regional reimbursements were proposed in last year's Executive Budget but were rejected in the Enacted Budget. The Executive Budget would also allow for a local school district, an approved private school or a board of cooperative educational services (BOCES) to be granted a waiver allowing for flexibility in implementing innovative special education programs.

STAR

The Executive Budget proposes to convert the School Tax Relief (STAR) program exemption into a refundable personal income tax credit. First time homebuyers and existing homeowners who move into a new home would be eligible for the new credit. All other STAR-eligible homeowners would have the option of continuing to receive the existing exemption as long as they own their current home, or converting the benefit to the proposed tax credit.

Under this proposal, STAR would transition from its current structure, in which taxpayers' school bills are reduced by exemptions when they receive the bills, to one in which taxpayers would pay the entire school bill and recoup the STAR benefit in the following year on their State tax return. This transition, which could influence school district residents' perceptions of the cost of local school taxes by removing the STAR benefit from the tax bill they pay directly, would likely take several decades. Over time, this proposal would move the STAR program from the spending side of the State ledger to the revenue side. It would also provide a \$100 million State Financial Plan benefit in SFY 2015-16 by pushing costs to the following year, with additional benefits accruing in the following years.

The Budget proposes to cap homeowners' SFY 2015-16 STAR benefits at the SFY 2014-15 levels, eliminating an existing growth factor that is capped at 2 percent annually, and to eliminate the New York City STAR personal income tax reduction for New York City residents with incomes over \$500,000. These proposals would reduce STAR costs by \$97 million. The proposed Budget also recaptures STAR benefits retroactively from taxpayers found ineligible for STAR during the re-registration process. Overall STAR disbursements are projected at \$3.2 billion, down \$143 million or 4.2 percent from the current fiscal year.

Higher Education

The SFY 2015-16 Executive Budget includes All Funds support of \$10.6 billion for higher education purposes, including \$7.9 billion for the State University of New York (SUNY), \$1.5 billion for the City University of New York (CUNY), \$1.1 billion for the Higher Education Services Corporation (HESC), and \$16.3 million for other purposes, an overall decrease of 1.5 percent from SFY 2014-15.

On an academic year (AY) basis, the proposed Budget includes \$1.5 billion in General Fund operating support for SUNY (\$987 million) and CUNY (\$537 million), reflecting a 0.7 percent and a 1.9 percent increase over AY 2014-15, respectively. Proposed General Fund support for SUNY hospitals is \$69 million.

The proposed Budget accommodates 2015-16 tuition increases by providing \$155 million in additional spending authority for SUNY and \$61 million for CUNY. The proposed Budget also includes \$110 million for a new round of NYSUNY 2020 and NYCUNY 2020 grants, \$55 million for each university system, giving priority to plans that: use technology, including but not limited to the expansion of online learning to improve academic success and job opportunities for students; leverage economic and academic opportunities through the START-UP NY program; and provide experiential learning opportunities.

The Budget includes provisions geared toward shifting the basis of funding for SUNY and CUNY colleges from enrollment to performance by making 10 percent of certain funding allocations contingent on the colleges completing performance improvement plans, which will serve as the basis for future funding allocations, by December 31, 2015. The performance plans are required to include, but are not limited to:

- criteria to improve access, completion, academic and post-graduation success, research, and community engagement;
- experiential learning as a requirement for graduation;
- a master researcher program in partnership with the University Research Foundations to pay bonuses to professors who generate the greatest research and development and commercialization opportunities; and
- financial incentives for campus presidents who lead new initiatives to commercialize research through the StartUp NY program.

Base operating aid for community colleges totals \$701 million, with \$480 million allocated to SUNY Community Colleges and \$221 million to CUNY Community Colleges. The allocation of 10 percent of the total base operating aid support for each community college is made contingent upon completion of a performance improvement plan, to serve as the basis for performance funding allocations in future years. Each campus performance plan would be required to address criteria including access, completion and post-graduation success; job placement of graduates; new programs aligned with needs of local businesses; and alignment with the regional economic development councils.

The Executive Budget Five-Year Capital Program and Financing Plan anticipates \$1.8 billion in disbursements for higher education-related capital projects in SFY 2015-16, including \$1.2 billion for SUNY and \$585 million for CUNY.

The proposed Budget provides All Funds support of \$1.1 billion for HESC in SFY 2015-16, an increase of 4.9 percent from SFY 2014-15, reflecting increased Tuition Assistance Program payments and scholarship programs.

The Executive Budget proposes to make undocumented immigrants eligible for State tuition assistance through TAP and other programs under a New York DREAM Act, subject

to enactment of a new \$100 million education tax credit program. The tax credit program would benefit individuals and businesses who make contributions to public schools, school improvement organizations, and organizations that award scholarships to students who attend non-public schools or public schools outside of their district, worth 75 percent of the donation, with a maximum credit of \$1 million.

The proposed Budget includes a new student loan forgiveness program (Get On Your Feet) for undergraduate students who graduated from a New York high school or high school equivalent program, graduate from a New York State college or university in or after AY 2014-15, apply to the program within two years of graduation, participate in the federal Pay as You Earn (PAYE) income-based loan repayment program, live and work (if employed) in New York, and earn less than \$50,000 annually. The State would pay the difference between what the federal Pay as You Earn (PAYE) income-based loan repayment program covers and the total loan payment for eligible students for two years.

The Budget also requires SUNY and CUNY to jointly develop a back office consolidation plan to combine administrative functions between the two university systems, including human resources, financial management, information technology services and other administrative functions, and submit such plan to the State and City University trustees, and, for approval, to the Director of the Division of the Budget by November 1, 2015.

Other higher education-related proposals in the Executive Budget include:

- an authorization for HESC and the Superintendent of Financial Services to develop a standardized financial aid award letter to include aid and debt amount and data regarding institutional performance related to student access, degree completion and post-graduate success;
- a requirement that all colleges and universities in New York State implement uniform sexual violence prevention and response policies and procedures; and
- \$50 million in capital resources to complete the new School of Pharmacy at Binghamton University.

Health/Medicaid

The Executive Budget proposes to increase State-funded Medicaid spending by \$438.8 million, or 2.0 percent, to nearly \$22.5 billion in SFY 2015-16. From SFY 2014-15 through SFY 2018-19, the Budget projects State-funded Medicaid spending to grow by approximately \$2.8 billion, or 12.7 percent, to \$24.8 billion in SFY 2018-19.

Department of Health (DOH) State Medicaid spending would increase by \$608.9 million, or 3.6 percent, to nearly \$17.6 billion in SFY 2015-16. Such spending, which has been capped under law since SFY 2011-12, excludes State payments not appropriated within DOH as well as most services provided at facilities of the Office of Mental Health (OMH), the Office for People With Developmental Disabilities (OPWDD), and the Office of Alcoholism and Substance Abuse Services (OASAS). This level of funding is consistent with Budget provisions enacted in SFY 2011-12, which limited the annual growth rate of DOH State Medicaid services spending to the 10-year rolling average of the medical component of the U.S. Consumer Price Index (CPI).

The proposed Budget reflects an increase in All Governmental Funds Medicaid spending, including State and federal shares, of \$3.2 billion, or 6.3 percent, to \$53.2 billion in SFY 2015-16. Approximately \$2.7 billion of this increase represents additional federal Medicaid funds, much of it resulting from enhanced matching rates for single, childless adults authorized by the federal Affordable Care Act (ACA), and a federal Medicaid waiver to transform the State's health care system. In April 2014, the federal government and New York State announced agreement on the Medicaid waiver, which authorizes up to \$8 billion in federal funding over five years to reform the State's health care system and improve the quality of care in New York's Medicaid program. The Executive Budget estimates that the State will spend \$3.3 billion in additional federal aid received under the ACA and the federal waiver in SFY 2014-15 and \$6.1 billion in SFY 2015-16.

This additional federal aid also includes funding for the new Basic Health Plan (BHP) program, authorized by the ACA, which the Executive Budget proposes to implement starting April 2015. Under the BHP program, the State would shift about 225,000 legally residing immigrants from Medicaid coverage funded solely by the State to coverage largely financed by the federal government, generating about \$645 million in State Medicaid savings in SFY 2015-16. The State has indicated the intention to retain 250,000 legally residing immigrants, mostly children and the disabled in need of long-term care services, under State-only funded Medicaid coverage and, in accordance with President Obama's recent Executive Order on immigration, to extend Medicaid coverage to an additional 15,000 undocumented immigrants at a cost of about \$38 million in State-only funds in SFY 2015-16. Starting in January 2016, the State proposes to shift another 215,000 individuals earning between 133 and 200 percent of the poverty-level income who are enrolled or eligible for coverage in the State's health insurance exchange, New York State of Health, to the BHP program.

Overall Medicaid spending in New York, including nearly \$8.9 billion in local government expenditures, is projected to total more than \$62.0 billion in SFY 2015-16, an increase of \$3.3 billion, or 5.6 percent, over SFY 2014-15. By SFY 2018-19, the Executive Budget Financial Plan estimates that total Medicaid spending, including local government expenditures, will exceed \$68 billion. The federal share, 47.7 percent in the current fiscal year, would rise to more than 51 percent in SFY 2017-18 and SFY 2018-19.

Figure 20

Total Medicaid Disbursement Estimates
(in millions of dollars)

	2014-15	2015-16	2016-17	2017-18	2018-19
Department of Health	16,962	17,571	17,868	18,612	19,330
Mental Hygiene	4,927	4,755	4,604	5,097	5,347
Foster Care	85	87	88	90	89
Education	50	50	50	50	50
State Share Total	22,024	22,463	22,610	23,849	24,816
Federal Share	28,002	30,723	31,810	33,944	34,885
Local Share	8,726	8,860	8,758	8,737	8,678
Total Medicaid Spending	58,752	62,046	63,178	66,530	68,379

Source: Division of the Budget

The Executive Budget proposes to extend the cap on State-funded DOH Medicaid spending for an additional year, through SFY 2016-17, and to limit such spending to no more than \$17.9 billion in that year. The Executive Budget also proposes a one-year extension of the State Health Commissioner's authority to develop a plan to reduce State DOH Medicaid expenditures if they are projected to exceed the spending cap in either SFY 2015-16 or SFY 2016-17. (This authority for the Commissioner was first enacted in SFY 2011-12 and has not been exercised to date.)

The spending cap for SFY 2014-15 is \$16.96 billion. Through November 2014 (the latest available monthly Medicaid global spending cap report on the DOH website), State DOH Medicaid spending was \$10 million or 0.1 percent below projections. If DOH Medicaid spending remains below the cap through this fiscal year, the Commissioner of Health is authorized to distribute the "under spending" among health providers and health plans participating in the State's Medicaid program.

The Executive Budget proposes a package of Medicaid spending and savings actions, representing the fifth year of Medicaid Redesign Team (MRT) recommendations to contain Medicaid spending and improve the program's quality of care. These actions are designed to be cost-neutral to the State, but increases federal Medicaid spending by about \$785 million in SFY 2015-16. The package proposes \$1.1 billion in State spending actions, including:

- a \$290 million increase in State funds for the Vital Access Provider (VAP) program for financially distressed hospitals, nursing homes and other health care providers;
- \$207 million for payment of a 53rd weekly Medicaid cycle in SFY 2015-16;
- a \$200 million increase in DOH Medicaid support of certain OPWDD-related Medicaid costs:
- an additional \$100 million to support the State's Medicaid waiver; and,
- \$100 million to improve hospital quality and support community providers.

These spending actions would be offset by \$1.1 billion in State savings initiatives, including nearly \$645 million associated with implementation of the Basic Health Plan program in April 2015 which substitutes federal ACA funding for State-only Medicaid spending for legally residing immigrants, \$294 million resulting from enhanced federal matching rates for single, childless adults authorized by the ACA, \$89 million in Medicaid pharmacy actions and more than \$45 million in Medicare cost-sharing savings.

In addition to the \$1.2 billion capital restructuring program established to complement the State's \$8 billion waiver program, the Executive Budget proposes \$1.4 billion in new funding for health care system improvements. This would include \$700 million to stabilize the health care delivery system in central and eastern Brooklyn and \$700 million to help smaller, community-based hospitals and health care providers in upstate New York address financial challenges. A portion – \$400 million – of the upstate funding comes from the \$5.4 billion the State expects to receive from financial settlements with banks and insurers in SFY 2014-15, and would be used for debt restructuring and projects for hospitals in rural communities. The remaining \$300 million would be used in Oneida County to reduce unnecessary inpatient beds and expand primary care services.

The Budget projects Medicaid enrollment to reach 6.36 million recipients in SFY 2015-16, an increase of 185,811 eligible individuals, or 3.0 percent, over SFY 2014-15. Enrollment is expected to reach 6.43 million, or roughly one-third of all State residents, in SFY 2018-19. The Executive attributes the growth in Medicaid recipients to expanded eligibility and enrollment under the ACA.

The Medicaid enrollment projections in the Executive Budget are higher than enrollment estimates published in November 2014 in the Executive’s Mid-Year Update to the Financial Plan for SFY 2014-15, as shown in Figure 21, reflecting, in part, an adjustment of projections based on actual enrollment data.

Figure 21

**Medicaid Enrollment Growth Projection Changes –
November 2014 Compared to January 2015**

	SFY 2014-15 Mid- Year Update	SFY 2015-16 Executive Budget Proposal	Percentage Change
2013-14	5,485,400	5,665,873	3.3%
2014-15	5,830,880	6,170,304	5.8%
2015-16	5,950,473	6,356,115	6.8%
2016-17	5,973,720	6,401,031	7.2%
2017-18	5,985,344	6,423,489	7.3%
2018-19	N/A	6,434,718	N/A

Source: Division of the Budget

The Executive Budget recommends decreasing State and federal spending for administering the New York Medicaid program by \$67.1 million, or 4.9 percent, to \$1.3 billion in SFY 2015-16. This decrease reflects, in part, the continued, six-year phase-in of the State takeover of local government Medicaid administration responsibilities enacted in 2012 and expected to be completed by March 31, 2018. State costs of reimbursing local governments for Medicaid administration are projected to decrease by \$66.1 million, or 14.6 percent, to \$386.4 million in SFY 2015-16, and to continue to decrease to \$374.4 million in each of the following three State fiscal years. Federal reimbursement costs are projected to decrease by \$59.5 million, or 11.8 percent, to \$446.0 million in SFY 2015-16 and in each of the following three State fiscal years. The Executive Budget supports the hiring of about 280 new DOH employees in SFY 2015-16 in conjunction with the takeover of local Medicaid administration tasks.

The Executive Budget proposes to reduce funding for the Office of the Medicaid Inspector General (OMIG) by \$3.0 million, or 5.3 percent, to \$53.7 million in SFY 2015-16, primarily by reducing the agency’s workforce by 27 positions to 453 individuals. The Executive Budget proposes to shift most of these positions to the State Health Department and pay for them within the cap on State DOH Medicaid funding. OMIG’s audit target for SFY 2015-16 is \$1.3 billion in State-share Medicaid cash recoveries and cost avoidance, \$3 million higher than the SFY 2014-15 target.

Receipts for various Health Care Reform Act (HCRA) programs, which finance many State health care initiatives including a significant portion of State-share Medicaid spending, would increase by \$85 million, or 1.6 percent, to \$5.5 billion in SFY 2015-16. The increase is primarily due to \$69 million in new assessment revenue that would pay for the administrative costs of non-public health insurance programs associated with the New York State of Health health plan marketplace, also known as the Exchange. The remainder of the Exchange’s operations expenses, approximately \$319 million, are financed by the Medicaid, Child Health Plus (CHP) and the Basic Health Plan programs, which also use the Exchange for enrollment determinations.

HCRA disbursements would increase by \$76 million, or 1.4 percent, to \$5.5 billion in SFY 2015-16, primarily due to a \$103 million, or 3.0 percent, increase in HCRA-funded Medicaid spending to nearly \$3.6 billion. This increase is offset in part by reductions in HCRA spending for programs such as CHP, due to lower enrollment and higher federal reimbursement authorized by the ACA, and the Roswell Park Cancer Institute in Buffalo. The Executive Budget proposes to consolidate two appropriations for Roswell Park, and reduce its overall State funding by \$15.5 million, or 15.1 percent, to \$87.1 million in SFY 2015-16 and beyond.

As shown in Figure 22, State-funded Medicaid spending that would otherwise be financed with General Fund proceeds, or “off-loads,” accounts for the largest portion of annual HCRA disbursements in the Executive Budget proposal.

Figure 22

HCRA General Fund Off-Loads Estimates
(in millions of dollars)

	2014-15	2015-16	2016-17	2017-18	2018-19
Medicaid	3,475	3,578	3,666	3,725	3,725
EPIC	137	138	143	145	140
Roswell Park Cancer Institute	103	87	87	87	87
Total Off-Loads	3,715	3,803	3,896	3,957	3,952
As a Share of Total HCRA Spending	68.4%	69.1%	70.4%	71.2%	70.8%
Total HCRA Spending	5,431	5,507	5,532	5,555	5,585

Source: Division of the Budget

Similar to the last two years, the Executive Budget again proposes to consolidate local assistance spending for various State public health programs into pools of funding that serve similar functions or reflect common characteristics. These pools include:

- \$32.3 million for chronic disease prevention and control programs such as obesity, diabetes, childhood asthma and hypertension;
- \$30.8 million for maternal and child health programs, including genetic disease screening, prenatal care assistance and adolescent pregnancy prevention; and
- \$14.7 million for health outcome and advocacy programs such as poison control, enriched housing and fall preventions.

Unlike in SFY 2014-15, this year's Executive Budget seeks to reduce overall funding for the programs to be consolidated, from the current \$141.2 million to approximately \$120 million in SFY 2015-16.

All Funds expenditures on programs for elderly New Yorkers administered by the State Office for the Aging (SOFA), including in-home services and nutrition assistance, would increase by \$5.3 million, or 2.4 percent, to \$227.3 million in SFY 2015-16, primarily due to the annualization of a planned cost-of-living increase for certain aging service providers authorized in SFY 2014-15.

Mental Hygiene

The Executive Budget reduces State-funded mental hygiene spending, including General State Charges, by \$323.6 million, or 4.6 percent, to \$6.7 billion in SFY 2015-16. All Funds spending, including federal funds and Capital Projects, decreases by \$314.6, or 4.2 percent, to approximately \$7.2 billion.

These reductions are driven, in part, by the shift of \$200 million in additional Medicaid costs related to the Office for People With Developmental Disabilities (OPWDD) to DOH, where they are financed within the Medicaid global cap, as well as the impact of \$322.8 million in additional federal Medicaid funding the State expects to receive under the ACA's Balancing Incentive Program (BIP). Under the BIP, New York expects to receive enhanced federal matching funds from April 2013 through September 2015 to encourage greater access to community-based, long-term care services and supports.

Adjusting for the funding shift and the anticipated additional federal resources, proposed All Funds spending increases by \$207.4 million, or 2.5 percent, to \$8.4 billion in SFY 2015-16. Five State agencies are supported by this increase:

- \$4.4 billion, an increase of \$133.8 million, or 3.1 percent, for OPWDD. Without adjustments, All Funds OPWDD spending decreases by \$354.2 million, or 10.1 percent, to \$3.16 billion in SFY 2015-16.
- \$3.38 billion, an increase of \$47.1 million, or 1.4 percent, for the Office of Mental Health (OMH). Without adjustments, All Funds OMH spending increases by \$13.1 million, or 0.4 percent, to \$3.35 billion in SFY 2015-16.
- \$600.6 million, an increase of \$22.5 million, or 3.9 percent, for the Office of Alcoholism and Substance Abuse Services (OASAS).
- \$42.6 million, an increase of \$4.0 million, or 10.4 percent, for the Justice Center for the Protection of People with Special Needs (Justice Center).
- \$4.2 million, unchanged, for the Developmental Disabilities Planning Council (DDPC).

Funding for OPWDD reflects the shift of \$915 million in certain State-share Medicaid costs (an increase of \$200 million over SFY 2014-15) for the developmentally disabled to DOH under the Medicaid global cap. This cost shift is part of the State's continuing plan to mitigate the impact of a \$1.1 billion reduction in federal Medicaid revenue for State-operated facilities for the developmentally disabled imposed on the State by the federal

government in SFY 2013-14. The Executive Budget expects DOH to assume these additional costs without any State Financial Plan impact through savings from continued Medicaid Redesign Team initiatives, cash management actions and use of additional federal resources associated with the Affordable Care Act.

As part of the agreement with the federal government to reduce OPWDD Medicaid payment rates for services in SFY 2013-14, the State began implementing a multiyear OPWDD transformation plan to improve employment opportunities, integrated living and self-directed services for individuals with developmental disabilities. Under this agreement, the State had expected to receive \$250 million a year in additional federal Medicaid funding in SFY 2013-14 and SFY 2014-15 to help finance the first phase of the transformation plan. However, the federal government has agreed to pay a total of only \$250 million for both years. As a result, the State plans to submit annual claims for \$250 million in federal funding in each of the next three State fiscal years, beginning in SFY 2015-16, as part of phase two of the transformation plan.

The Executive Budget also proposes to reserve \$850 million out of the \$5.4 billion in settlement funds from financial institutions for risks associated with \$1.26 billion in federal Medicaid disallowances issued in July 2014 for OPWDD overpayments during SFY 2010-11. The federal government has indicated that it intends to review federal Medicaid payments for OPWDD services in SFY 2011-12 and SFY 2012-13 as well.

Of the \$322.8 million in additional federal Medicaid BIP funds the State expects to receive for improving mental hygiene services in SFY 2015-16, \$288.5 million, or 89.4 percent, would be used to continue transforming services and supports for individuals with developmental disabilities, including their transition to managed care (expected to begin in October 2015). The remaining \$34.3 million would be used to help transition adults with serious mental illnesses to managed care (expected to begin in April 2015), increase community services for children with serious emotional disturbances, and provide additional funding for community residence slots for adults with serious mental illnesses.

Consistent with both federal requirements and the State's own plan to transition people with disabilities out of segregated settings such as developmental and psychiatric centers into the community, the Executive Budget would continue to close beds at State-operated facilities and use the savings from anticipated bed closures for new community services. The Budget proposes \$42 million to transition 149 individuals from OPWDD developmental centers and 100 individuals from OPWDD intermediate care facilities to more integrated, community-based support systems.

The Budget also proposes \$15 million for additional community services that are expected to reduce the need for inpatient beds at OMH adult psychiatric centers by 137 beds in SFY 2015-16. OPWDD is planning to close the O.D. Heck Developmental Center in Schenectady County in March 2015, the Broome Developmental Center in Binghamton in March 2016 and the Brooklyn Developmental Center in December 2016. The Budget anticipates no layoffs of State employees as a result of the bed closures, proposing to use 86 developmental center workers to provide community services for individuals transitioning to the community and to assign another 112 State employees to 15 OPWDD pilot programs to provide additional community services.

As shown in Figure 23, the Budget proposes a total of 315 additional positions across all five State mental hygiene agencies in SFY 2015-16, an increase of just less than 1.0 percent over current year staffing levels.

Figure 23

State Mental Hygiene Agency Staff Level Estimates

	2014-15	2015-16	Change	% Change
OPWDD	18,587	18,637	50	0.3%
OMH	14,380	14,569	189	1.3%
OASAS	761	735	(26)	-3.4%
JUSTICE CENTER	327	429	102	31.2%
DDPC	18	18	0	0.0%
TOTAL	34,073	34,388	315	0.9%

Source: Division of the Budget

At OPWDD and OMH, staffing increases primarily reflect efforts to reduce overtime expenses. The increase in staffing at the Justice Center reflects transfers of employees from OMH and OPWDD, as the Justice Center fully assumes responsibility for investigating all cases of abuse and neglect in State-operated programs. Lower OASAS staffing reflects a 5 percent reduction in OASAS-operated inpatient addiction treatment center capacity.

Under an agreement between OMH and the State Department of Corrections and Community Supervision (DOCCS), the Executive Budget provides an additional \$20 million to expand community services, provide additional treatment services in prisons, and create additional capacity for civil confinements in OMH facilities for mentally ill patients at risk of violence in State facilities and the community.

The Executive Budget supports a total of 3,500 new or expanded residential, day and other service opportunities for people with developmental disabilities, as well as about 1,300 new OMH and OASAS beds, and 400 new OMH supportive housing units. In addition, the Executive proposes new funding of \$5 million, in addition to last year's \$133 million, for OASAS to address the heroin and opiate epidemic in communities across the State.

Human Services

The Executive Budget proposes approximately \$3.3 billion in State funding for human services programs operated by the Office of Temporary and Disability Assistance (OTDA) and the Office for Children and Family Services (OCFS) in SFY 2015-16, which is \$124.6 million, or 3.9 percent, higher than SFY 2014-15 spending projections. All Funds spending of nearly \$8.3 billion for the two agencies, including federal funds, Capital Projects and General State Charges, is \$281.8 million, or 3.3 percent, lower than in SFY 2014-15.

All Funds spending for OCFS, whose responsibilities include maintaining a system of residential facilities for juvenile delinquents and offenders, as well as supervising a system

of family support and child welfare services in the State, increases by \$114.2 million, or 3.7 percent, to \$3.2 billion in SFY 2015-16 under the Executive Budget proposal. This increase is largely due to the costs associated with a Budget proposal to raise the age of juvenile jurisdiction in the State from 16 to 18 years old by January 2018, 2.0 percent cost-of-living adjustments (COLAs) for foster parents and eligible staff at not-for-profit foster care agencies, and cash management actions that used available resources to reduce spending for child welfare services in SFY 2014-15.

The proposal to raise the age of juvenile jurisdiction for 16 and 17 year olds reflects recommendations of the Executive's Commission on Youth, Public Safety and Justice established in 2014 to identify ways to improve outcomes for youth and promote community safety. Under the Executive Budget proposal, the age of juvenile jurisdiction is raised to age 17 in January 2017 and 18 in January 2018. In addition, starting in December 2015, 16 and 17 year olds newly sentenced to prison would be committed to OCFS facilities instead. The Executive Budget anticipates \$25 million in first-year spending on expanded services for 16 and 17 year olds involved in the juvenile justice system and to place newly sentenced youth in OCFS facilities. The Executive projects full implementation costs for these services to reach \$375 million in SFY 2020-21. The Executive Budget also proposes \$110 million in capital financing, including \$15 million in disbursements in SFY 2015-16, to renovate existing OCFS facilities to address the need for additional beds associated with the initiative.

The Budget continues implementation of the Close to Home program, started in SFY 2012-13 to move New York City youth placed in OCFS non-secure and limited-secure settings outside of the City to residential settings run by the City of New York.

It also proposes to increase foster care block grant funding by \$9 million to pay for half of the costs of 2.0 percent COLAs occurring in 2015 for foster and adoptive parents, as well as direct care and direct care support workers at foster care not-for-profit agencies. Local social services districts would pay the remaining cost of the cost-of-living adjustments.

All Funds spending for OTDA, whose responsibilities include providing temporary cash and other assistance for needy families and individuals, decreases by \$396.1 million, or 7.3 percent, to \$5.0 billion in SFY 2015-16 under the Executive Budget. This reduction is largely due to a projected 3 percent decrease in the State's public assistance caseloads from 557,380 in SFY 2014-15 to 540,434 in SFY 2015-16.

The Budget proposes to require the City of New York to pay 10 percent of the costs of the Emergency Assistance to Needy Families (EAF) program, which provides short-term assistance to eligible families earning less than 200 percent of the federal poverty level to help them address crisis situations and is financed entirely with federal Temporary Assistance for Needy Families (TANF) funding. Executive Budget documents describe this proposal as designed to encourage fiscal discipline in the City, which accounts for the majority of \$225 million in statewide EAF spending and where such spending has increased by 110 percent between SFY 2011-12 and SFY 2013-14. The Executive proposes to use the \$15 million in savings associated with this proposal to increase child care subsidies in the OCFS budget.

In addition, the Budget proposes to cap the amount OCFS bills local social services districts for the costs of State youth facilities at \$55 million a year through SFY 2018-19, which is expected to save the local districts a total of approximately \$425 million over the five-year period. This proposal requires the City of New York to invest its share of the savings, about \$220 million over five years, in OTDA rental assistance programs or other homeless services. The Budget does not require other local districts to make similar investments.

The Executive Budget proposes All Funds appropriations of \$4.1 billion for the State Department of Labor (DOL), which is a reduction of \$489 million, or 10.7 percent, from SFY 2014-15. The Executive attributes the decrease to reductions in estimated unemployment insurance (UI) claims and lower federal revenues associated with administering those claims, resulting from improving economic conditions. The Executive Budget also proposes to reduce DOL staffing by 113 positions, or 3.5 percent, to 3,120 FTEs, primarily because of declining federal UI administration funding.

Economic Development

The Executive Budget increases All Funds spending for the State's economic development programs by \$573.4 million, to \$2.01 billion in SFY 2015-16. The increase reflects higher capital spending, up \$584.8 million or 44.8 percent over SFY 2014-15, partly offset by reductions elsewhere. State Operations funding for the administration of the Department of Economic Development (DED) is increased by \$750,000 to reflect the addition of eight new full-time equivalent (FTE) positions to support the Executive's initiative to increase the participation of Minority- and Women-Owned Business Enterprises (MWBEs) in State contracting to 30 percent.

These increases are mitigated by a decrease in Aid to Localities funding for both DED and the Empire State Development Corporation (ESDC). The \$12.1 million decrease primarily reflects the elimination of funding added by the Legislature in SFY 2014-15. However, the Executive Budget continues funding for various other economic development initiatives at the SFY 2014-15 levels. These include the Empire State Economic Development Fund, the Urban and Community Development Program, the Entrepreneurial Assistance Program, and the Community Development Financial Institutions Program. Also, tourism funding is continued at SFY 2014-15 levels: \$2.5 million for the I ♥ NY program, \$3.8 million for local tourism matching grants, and \$5 million for a third round of Market NY funding.

The Budget also includes approximately \$37.5 million to support DED's High Technology Program, which supports ongoing university-based matching grants and high technology research at various institutions. This funding also includes \$8.7 million in support for the ten Centers of Excellence, three of which were added in the SFY 2014-15 Enacted Budget.

The Budget provides \$5 million in funding for the Innovation Hot Spots/New York State Incubators Program, an increase of \$1.25 million. The increase reflects the full phase-in of the program to provide operational support of \$250,000 each to the ten designated Innovation Hot Spots and \$125,000 each to ten designated New York State business incubators. The businesses in the incubators designated as Hot Spots also receive certain tax benefits, such as corporate and personal income tax deductions, for the income earned by the business in the Hot Spot, as well as refunds of sales and use taxes paid.

With respect to capital spending, the Executive Budget includes funding of approximately \$1.6 billion for four programs: the New York Works Economic Development Fund, the Binghamton University School of Pharmacy, the New York Power Electronics Manufacturing Consortium, and the Upstate Revitalization Program.

Under the NY Works Economic Development Fund, \$45 million is proposed to fund various economic development projects around the State. However, unlike the Economic Development Fund, the NY Works Economic Development Fund does not exist in statute. The appropriation in the proposed Budget does not limit the purposes for which the Fund can be used, giving the Executive broad authority to direct use of the funds.

The Executive proposes \$25 million in capital funding for the Binghamton University School of Pharmacy. This funding would be used in conjunction with \$25 million in funding through SUNY for the construction of the new school. The SFY 2014-15 Enacted Budget included an initial \$10 million in funding through SUNY for the project.

The New York Power Electronics Manufacturing Consortium, announced by the Executive in July 2014, is a public-private partnership among the State, private businesses, and higher education institutions focusing on the manufacturing of the next generation of semiconductors. The announcement of the Consortium included the commitment of \$135 million in State funding as well as START-UP NY tax benefits. The Executive proposes \$33.5 million in capital funding for the first installment of the State's commitment.

The Upstate Revitalization Program uses \$1.5 billion of this year's anticipated funds from settlements with banks and other entities to provide grants for infrastructure and other economic development projects throughout upstate New York, according to the Executive.

The remaining \$286.2 million in capital spending would fund ongoing commitments to existing programs. The Executive proposes an additional \$110 million for the NY 2020 Challenge Grant Program and an additional \$150 million for the Regional Economic Development Capital Fund to be awarded by the REDCs. The Budget also allots an additional \$70 million in Excelsior Jobs Program tax credits to be awarded by the REDCs.

The proposed Budget funds the second year of the State's \$24 million commitment for the Cornell University College of Veterinary Medicine and of the State's \$35 million commitment for the Clarkson-Trudeau Partnership at \$19 million and \$5 million, respectively. In addition, the Budget continues funding for the ten-year contract for the retention of professional football in western New York at \$2.2 million.

Of the total \$1.89 billion in proposed capital funding for economic development, the \$1.5 billion for the Upstate Revitalization Program and the \$2.2 million for Western New York football would be pay-as-you-go capital spending. The funding for the Upstate Revitalization Program would be spent from the proposed Dedicated Infrastructure Investment Fund, where a portion of the State's settlement funds is proposed to be deposited. The remaining \$387.5 million in capital funding would be bonded.

Besides providing funding through appropriations within DED and ESDC, the Executive Budget funds economic development within appropriations of other agencies or accounts. For example, the Budget creates the New York State Special Infrastructure Account, to

which a portion of the State's recent settlement funds are proposed to be deposited. A portion of the funds in this new account is allocated to support the New NY broadband initiative, by which \$500 million would be made available to expand the availability and capacity of broadband to underserved areas of the State. Broadband providers would be required to make a 1:1 match of the funds they receive under the program.

Included in the appropriations for the Division of Housing and Community Renewal, the Executive proposes \$50 million for the Restore NY Communities Initiative and \$15 million for the Community Development Financial Institution (CDFI) program. This new funding will be paid out of the Mortgage Settlement Proceeds Trust Fund Account, where the JP Morgan settlement funds have been deposited. The Restore NY program provides grants to municipalities to demolish or rehabilitate vacant structures for the purpose of revitalizing their communities in order to attract businesses and residents. The CDFI program provides micro-loans to businesses, primarily small businesses, which are unable to qualify for traditional bank loans.

The Executive Budget funds other economic development programs through funds provided from the New York Power Authority (NYPA) either to the General Fund or as otherwise directed by the Director of the Division of the Budget. In SFY 2015-16, the Executive proposes to transfer \$90 million from NYPA to provide \$50 million for the Open for Business marketing campaign and \$5 million for the Global NY Development Fund, the latter providing loans and grants to New York businesses to expand their presence in the global economy. In addition, the Executive proposes increasing the balance of the New York State Innovation Venture Capital Fund, which provides investments to seed early stage companies and investments for technology commercialization, from \$50 million to \$100 million over a multiyear period; a portion of this expansion comes from the NYPA transfer. To date, \$35 million has been transferred to this fund.

The Budget proposes the extension of the Economic Development Fund and the general loan powers of the Urban Development Corporation for one year, through July 1, 2016. In addition, the Budget extends the deadline for an updated disparity study on the participation of minority and women-owned business enterprises in State contracts from February 15, 2016 to February 15, 2017. The Division of Minority and Women-owned Business Development is required to commission this study from an entity outside of DED.

Lottery and Gambling

The Executive Budget recommends a net increase in All Funds appropriations for the Gaming Commission of \$31.7 million, a 27.7 percent increase. This reflects an increase of \$34.2 million in Aid to Localities funding, mitigated by a \$2.5 million reduction in State Operations funding. The reduction in State Operations funding reflects a proposed shift of agency administrative costs to the General Fund, including the transfer of the personal service costs of 60 FTEs from the special revenue funds of the various lottery and gaming programs. The reduction reflects the savings in the agency's appropriations for a portion of the fringe benefit costs resulting from this transfer. Instead, those costs are shifted to General State Charges with no real savings to the Financial Plan.

As part of the statute authorizing the creation of seven commercial casinos throughout the State, there is a provision to require the State to provide a share of the commercial gaming tax revenue to the local host governments of the casinos as well as the non-host counties within the region. Of the \$171 million in commercial gaming license fees that are projected to be received, the proposed Budget provides funding of \$30.2 million to the municipalities awarded the first three commercial casinos as follows:

- \$2.55 million for Sullivan County
- \$2.55 million for the Town of Thompson
- \$5.1 million to be allocated to all other counties in the Catskills Region
- \$2.5 million for Schenectady County
- \$2.5 million for the City of Schenectady
- \$5 million to be allocated to all other counties in the Capital Region
- \$2.5 million for Seneca County
- \$2.5 million for the town of Tyre
- \$5 million to be allocated to all the other counties in the eastern Southern Tier

In addition, \$4 million is appropriated to the eastern Southern Tier Region for an additional casino yet to be awarded. The Budget proposes three extenders to statutory provisions impacting gaming in the State, as follows:

- a one-year extension of the authorization for video lottery operators to earn capital awards, which encourage facility upgrades and improvements;
- a one-year extension of certain tax rates and simulcasting provisions; and
- a one-year extension of the term of the Reorganization Board of the New York Racing Association.

In addition, the Budget proposes to expand the types of video lottery games to include games where an element of skill and player interaction may be incorporated.

Transportation

The Executive Budget Financial Plan projects All Funds transportation spending will increase by \$52.6 million, or 0.55 percent, to \$9.6 billion in SFY 2015-16. Spending in this area from State funds (including State-funded capital spending) would increase by \$398 million, or 5.0 percent, to \$8.4 billion. The majority of this spending is for the Department of Transportation's capital plan and operating aid to the Metropolitan Transportation Authority (MTA).

Capital Projects

The State's transportation capital program is projected to reach \$4.6 billion in SFY 2015-16, of which \$3.9 billion is related to the DOT capital program. This includes new funding of \$150 million for State and local bridge rehabilitation, reconstruction or replacement (as the first year commitment of \$150 million per year over five years for a total \$750 million), and \$121.5 million for downstate transit projects (MTA and non-MTA) through the newly established Transit Assistance for Capital Investments Fund, consisting of funds used

previously for downstate mass transportation operating assistance. It also includes the continuation of aid for local highway and bridge projects through the Consolidated Highway Improvement Program (CHIPS, \$438.1 million) and the Marchiselli program (\$39.7 million). The additional \$40 million provided in SFY 2014-15 for local governments related to extreme winter weather is eliminated.

The Department of Motor Vehicles will receive \$199.3 million in Capital Projects appropriations, although these funds would be used for day-to-day departmental operations.

As a result of financial settlements in SFY 2014-15, the following State Capital Projects funds will be made available as new appropriations to the MTA: \$750 million to support its \$32 billion, five-year (2015-19) Capital Plan; and \$250 million for construction of four new Metro-North stations in the Bronx and a direct link from the Bronx to Penn Station.

Mass Transportation/Transit Operating Aid

Funding of \$4.8 billion proposed for mass transit operating aid in the SFY 2015-16 Executive Budget is largely unchanged from SFY 2014-15. Of the total, over \$4.35 billion is allocated for the MTA, and the remaining approximately \$464 million will be shared by other transit systems.

The Department of Transportation's appropriations in SFY 2015-16 include the following assistance to local entities: \$2.1 billion for the Metropolitan Transportation Authority Support Program; \$1.9 billion for the Mass Transportation Operating Assistance Fund Program, including \$1.56 billion to the MTA for operating expenses; \$673.8 million for the Dedicated Mass Transportation Trust Fund Program for capital purposes and operating expenses of the MTA (\$602 million) and non-MTA entities; and \$221.9 million for the Mass Transportation Operating Assistance Program, including \$187.9 million to the MTA for operating expenses. The City of New York also would receive funding directly for public transportation purposes.

Thruway Authority

The proposed Budget uses financial settlement money to establish a new \$1.285 billion Thruway Stabilization Program. The Thruway Authority would receive these funds through the Special Infrastructure Account for both the Thruway system and the Tappan Zee Bridge replacement, reflecting, according to the Executive, an effort to limit toll increases. The Executive has not provided specifics on the expected impact on tolls for the Thruway system or for the new bridge, for which an overall financing plan has not yet been issued.

The Executive Budget proposes \$21.5 million in General Fund support for Thruway operations, provided for the first time in SFY 2013-14. Also, personnel expenses associated with the Thruway's Division of State Police Troop T will continue to be supported by the Division of State Police. The Budget also proposes authorization for DOT and the Thruway Authority to provide mutual aid and enter into shared service agreements.

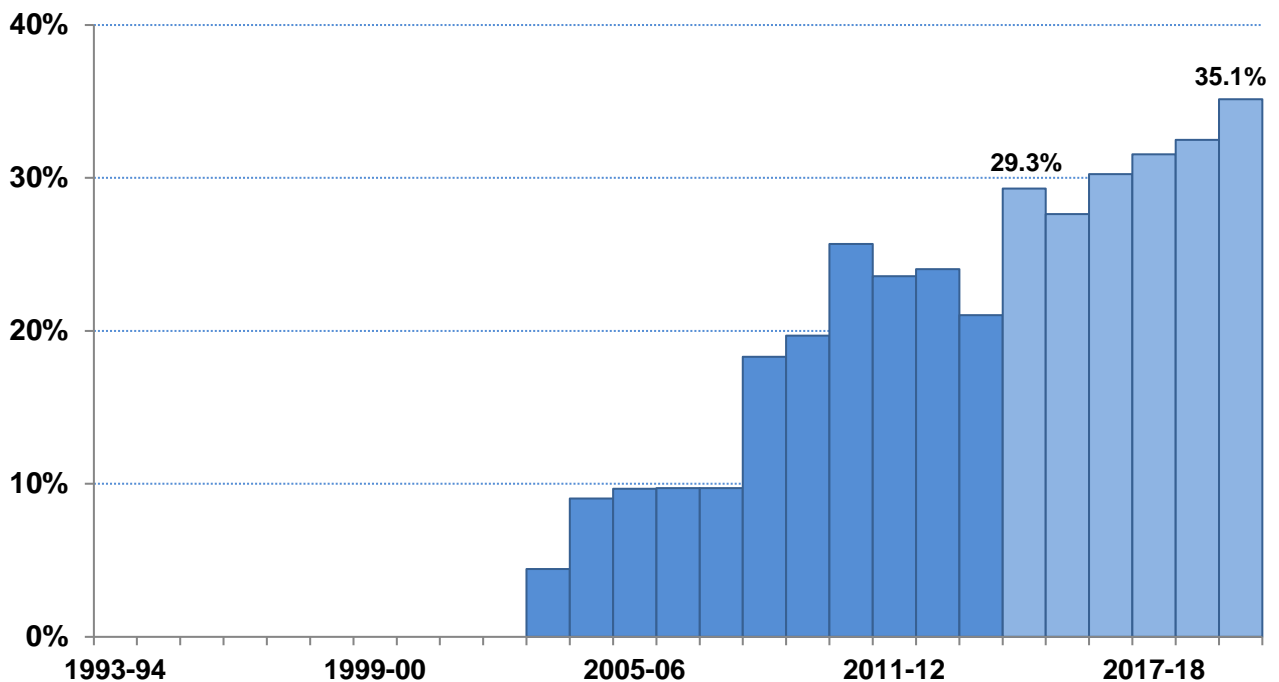
Dedicated Highway and Bridge Trust Fund

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

The total amount of General Fund transfers into the DHBTF from SFY 2004-05 through SFY 2013-14 was over \$2.6 billion. The Executive Budget decreases the General Fund subsidy for the DHBTF by \$32.2 million, from \$726 million in SFY 2014-15 to \$694 million in SFY 2015-16. These figures include a \$66 million annual transfer in permanent statute. Excluding SFY 2015-16, the General Fund subsidy is expected to grow annually over the State Capital Plan period, reaching \$1.0 billion in SFY 2019-20. The projected total from SFY 2014-15 through SFY 2019-20 is anticipated to be an additional \$5 billion.

Figure 24

Transfers as a Percentage of All Funds DHBTF Revenues



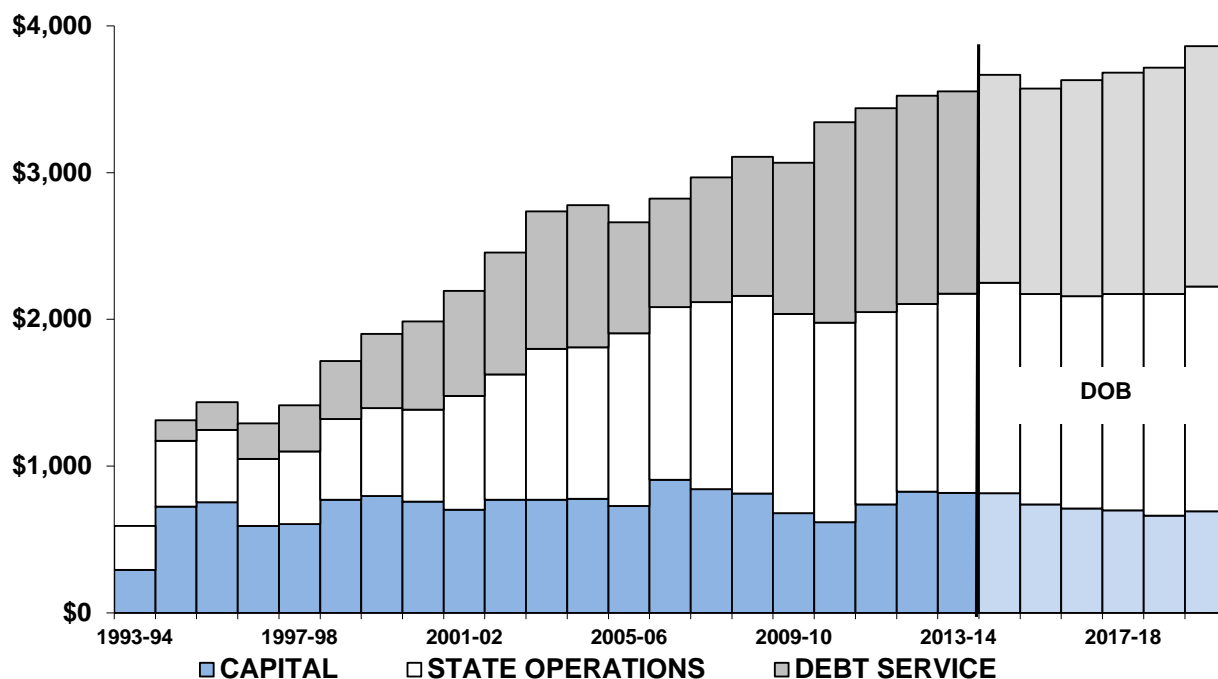
Sources: Division of the Budget, Office of the State Comptroller
Note: DOB estimates are presented in lighter shade.

The DHBTF continues to rely on transfers, both from the General Fund and from the Federal Capital Fund. As Figure 24 shows, the percentage of Fund revenues comprising and estimated to comprise transfers from other funds has grown steadily since SFY 2003-04. This trend moderates slightly after a spike in SFY 2010-11 and another expected in SFY 2014-15, but projections indicate this dependence will grow through SFY 2019-20.

Capital disbursements, the ostensible purpose for the existence of the DHBTF, are projected to total \$738.6 million in SFY 2015-16, down 9.3 percent from the SFY 2014-15 amount of \$814.2 million. See Figure 25. Such spending represents just over one-fifth, or 20.7 percent, of total DHBTF spending. Total Debt Service disbursements from the DHBTF for SFY 2015-16 will be \$1.4 billion, \$16.2 million less than estimated for SFY 2014-15. However, as a proportion of all spending from the DHBTF, Debt Service will increase from 38.7 percent in SFY 2014-15 to 39.2 percent in SFY 2015-16. This is due in part to use of the DHBTF to pay for Debt Service on CHIPS and Marchiselli aid bonds.

Figure 25

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



Sources: Actual Results - Office of the State Comptroller; Projected Results - Division of the Budget (DOB)

State Operations spending is expected to account for slightly more than debt service at \$1.43 billion, or 40.1 percent, of DHBTF disbursements. While the amounts and proportions disbursed for Debt Service and State Operations are similar in SFY 2014-15 and SFY 2015-16, projections for both through SFY 2019-20 indicate that the proportion spent on Debt Service will increase to 42.4 percent and the percentage spent on State Operations will decrease to 39.7 percent.

Housing

The Executive Budget proposes \$248.0 million in All Funds spending for the Division of Homes and Community Renewal in SFY 2015-16, a \$9.2 million increase in spending from projected levels in SFY 2014-15.

The Budget authorizes the Board of Directors of the State of New York Mortgage Agency (SONYMA) to transfer to various housing authorities a sum not to exceed \$125 million in funding from the Mortgage Insurance Fund (MIF) that is in excess of the amount required to maintain the credit rating required to accomplish the purposes of the account. Authorities and housing programs funded through this transfer are as follows:

- Housing Trust Fund Corporation – \$21.6 million for the Rural Rental Assistance Program; \$8.5 million to the Neighborhood Preservation Program; \$3.5 million for the Rural Preservation Program; \$17 million for the Rural and Urban Community Investment Fund Program; \$7.5 million for the Low Income Housing Trust Fund Program; and \$8.5 million for deposit in the Housing Trust Fund in support of the Homes for Working Families Program. The Executive does not provide appropriations for this funding in the SFY 2015-16 proposed Budget.
- Housing Finance Agency – \$42 million for the rehabilitation of Mitchell Lama housing projects through the Housing Finance Agency. This funding will support rehabilitation of 40 Mitchell Lama projects transferred from ESDC to the Housing Finance Agency in SFY 2013-14. The Executive does not provide appropriations for this funding in the SFY 2015-16 proposed Budget.
- The Homeless Housing and Assistance Corporation (HHAC) – \$16.3 million in support of the Solutions to End Homelessness Program or the Operational Support for AIDS Housing Program. HHAC is authorized to enter into an agreement with the Office of Temporary and Disability Assistance to administer these programs.

The Executive Budget appropriates \$439.5 million of the JP Morgan mortgage settlement proceeds for amelioration and avoidance of foreclosures. Appropriation language allocates this funding in three groups over SFY 2015-16 and SFY 2016-17. Over this period, funding is allocated to State housing programs as follows:

- Supportive Housing – \$116 million.
- Middle Income Housing – \$50 million.
- Mitchell Lama repairs and revitalization – \$50 million.¹⁵
- Empire State Development's Restore New York Communities Initiative – \$50 million.
- New York City Rental Assistance Program – \$40 million.
- HIV/AIDS Rent Cap – \$27 million.
- New York City Housing Authority Capital Repairs – \$25 million.
- SONYMA Mortgage Rate Reduction and Repair Program – \$21.7 million.

¹⁵ This appropriation is in addition to the transfer of MIF funding to the Housing Finance Agency for Mitchell Lama rehabilitation.

- Access to Home – \$19.6 million.
- Neighborhood Preservation and Rural Preservation Programs – \$20.3 million.
- Community Development Financial Institution Program – \$15 million.
- Emergency home repairs for the elderly (RESTORE) -- \$5 million.

Environment and Parks

Environmental Conservation

The Executive Budget proposes \$898.5 million in All Funds spending for the Department of Environmental Conservation (DEC) in SFY 2015-16, a \$11.4 million increase from projected spending levels for SFY 2014-15. The proposed Budget includes a Full-Time Equivalent (FTE) workforce level of 2,946 FTE positions for the DEC in SFY 2015-16, an increase of 36 FTE positions over the estimated workforce level in SFY 2014-15. This includes the addition of eight positions related to the transfer of the Oil Spill Fund Program from the Office of the State Comptroller.

The Executive proposes to reform the State Brownfield Cleanup Program (BCP) and extend for an additional ten years the availability of tax credits due to expire at the end of 2015.¹⁶ The Budget would limit tax credits based on site redevelopment to properties in economically distressed areas, properties at which the cost of cleanup exceeds the value of the property, or properties that are being redeveloped for affordable housing purposes.¹⁷ Proposed changes to the definition of “brownfield” would restrict eligible sites to those at which the concentration of contaminants in environmental media exceed State environmental or health-based standards.

The proposal would renew expired program eligibility for sites listed on the State Superfund Registry at which the applicant may be considered a volunteer under the BCP statute, but limit these sites to those where no viable responsible party has been identified by the DEC.¹⁸ The Executive proposal creates a new “BCP—EZ” program within the BCP. The DEC is directed to develop regulations that would exempt applicants from procedural requirements of the BCP. Eligibility for this new program is limited to sites that the DEC determines not to pose a significant threat to public health and the environment. Sites admitted to the BCP—EZ program would not be eligible to receive tax credits.

The Executive proposal directs the Commissioner of the Department of Taxation and Finance to publish reports on tax credits claimed under the BCP in calendar years 2005, 2006 and 2007. The proposal exempts applications for Brownfield Opportunity Area Designation from the State Environmental Quality Review Act.

¹⁶ Sites that have been admitted to the program before December 31, 2022 and that receive a certificate of completion before December 31, 2025 would be eligible to receive BCP tax credits. Sites admitted after December 31, 2022 would not be eligible for tax credits.

¹⁷ If the property is located in an area designated as a Brownfield Opportunity Area (BOA), to be eligible for site redevelopment tax credits, the applicant must further demonstrate that the project is in conformance with the BOA plan. In addition, properties where contamination emanates from another property and properties that do not require remediation to support the proposed site use would be ineligible for these tax credits.

¹⁸ State Superfund sites became ineligible to participate in the BCP after July 1, 2005.

The Budget proposes to appropriate an additional \$100 million in funding for the State Superfund program. This appropriation includes funding for the Environmental Restoration Program.

The Budget proposes appropriations for the Environmental Protection Fund (EPF) of \$172 million in SFY 2015-16, an increase of \$10 million over appropriations in SFY 2014-15. A transfer in revenue of \$18 million from the General Fund to the EPF is also proposed. This \$18 million transfer consists of \$5 million in revenues from pesticide registration fees and \$13 million in revenues derived from the Regional Greenhouse Gas Initiative (RGGI). The Budget proposes to finance \$25 million in EPF projects through the issuance of bonds, and to transfer \$25 million in EPF revenues to the General Fund for budget relief. This “bonded sweep” incurs additional long-term debt service costs for New Yorkers.

The Budget proposes to expand the purposes of the Environmental Protection and Spill Compensation Fund (Oil Spill Fund). New expenditures would include spill response preparation, and could include: equipment for spill response, prevention, personal safety equipment and training; petroleum spill response drills and exercises; identification, mapping and analysis of populations, environmentally sensitive areas and resources at risk from petroleum spills; and development of plans to protect these populations and resources in the case of spills.

The Executive's proposal shifts administration of the Oil Spill Fund from the Office of the State Comptroller to the DEC, resulting in a loss of 10 Full Time Equivalent (FTE) positions in the Office of the State Comptroller related to Fund oversight and administration. Executive Budget documents indicate that DEC will receive an increase of 8 new FTE positions related to oil spill planning, training and response. In addition, 6 new FTE positions related to this purpose would be created in the Department of Homeland Security.

The Budget provides additional funding for the Oil Spill Fund through an increase in the license fee charged to petroleum storage facilities from 1 cent per barrel to 9.5 cents per barrel. The surcharge on each barrel of petroleum transferred and used in the State is maintained at 4.25 cents. The Executive proposal increases the surcharge for petroleum products stored, but then transferred out of State from 1.5 cents per barrel to 13.75 cents per barrel. Of the revenue collected through this charge, 12.25 cents per barrel is to be transferred to the Oil Spill Fund. The remaining 1.5 cents per barrel is transferred to the Hazardous Waste Remedial Fund.

The Executive's proposal would increase fees to provide additional revenues for the Fund, but would also expand permissible expenditures to encompass planning, response and training activities for State and local spill responders. By their nature, these expenditures would not be recoverable from any spiller. This new funding is also not proposed to be segregated in a dedicated account within the Fund; therefore, all monies in the Fund are potentially available to use for these new purposes. Under the current structure for Fund administration, the Office of the State Comptroller would provide independent oversight of these expenditures in order to ensure that the long-term financial viability of the Fund is not put at risk. The Executive's proposal would eliminate this oversight.

For calendar year 2015, the Executive Budget establishes a base fee of \$2,500 for all sources of air emissions subject to regulation under the federal Clean Air Act. In addition, per-ton fees would be increased on the first 7,000 tons of each regulated air pollutant emitted as follows:

- For emitters of less than 1,000 tons, from \$45 to \$60.
- For emitters of 1,000 to 1,999 tons, from \$50 to \$70.
- For emitters of 2,000 to 4,999 tons, from \$55 to \$80.
- For emitters of 5,000 or more tons, from \$65 to \$90.

Sources of air pollution not subject to fees under the federal Clean Air Act, but subject to regulation under State clean air programs, would be subject to the following fee changes in calendar year 2015:

- The fee for stationary sources subject to a minor facility registration would decrease from \$2,000 to \$250.
- The fee for all other facilities requiring an operating approval from the DEC would be set at \$2,500.
- Facilities regulated by municipalities under a delegation agreement with the DEC would not be subject to the changes in fee structure.¹⁹

In calendar year 2015, fees would also increase for all discharges of water pollution subject to the State Pollutant Discharge Elimination System (SPDES), except for discharges of ballast water and discharges from concentrated animal feeding operations. In subsequent calendar years, fees for all discharges requiring a SPDES permit would be indexed to increases in the Consumer Price Index.

In total, the fee increases are expected to raise \$8 million annually. The Budget also proposes to eliminate a \$10 fee for water well driller certifications. In SFY 2013-14, this fee produced \$4,600 in revenue.

The Budget proposes to appropriate \$40 million in New York Works capital funding for DEC programs to repair State infrastructure (including dams and fish hatcheries), restore wetlands and improve recreational access to State lands.

The Budget proposes to redirect up to \$1.5 million annually in revenues resulting from the sale of lifetime hunting and fishing licenses from the Fish and Wildlife Trust to a newly established Habitat Conservation and Access Account established in the DEC Miscellaneous Capital Fund. This account would also receive the revenues of sales of voluntary habitat stamps.

Parks

The Executive Budget proposes \$317.3 million in All Funds spending in SFY 2015-16 for State Parks, a \$25.0 million increase from projected spending for SFY 2014-15. The Budget proposes a full time equivalent workforce of 1,746 positions for State Parks, an

¹⁹ In subsequent calendar years, fees for both federal and State regulatory programs would automatically increase by the percentage that the consumer price index (Index) exceeded the Index for the prior year.

increase of 12 positions over the estimated level in SFY 2014-15. The Budget appropriates \$112.5 million in New York Works capital funding for infrastructure improvements at State Parks. Of this funding, \$2.5 million would support infrastructure improvements at Olympic Regional Development Authority facilities.

Agriculture

The Executive Budget proposes \$96.2 million in All Funds spending for the Department of Agriculture and Markets in SFY 2015-16, a \$12.3 million decrease from projected spending levels in SFY 2014-15.

The Budget proposes to allocate \$50 million in funding sourced from settlements with financial institutions to a farmland protection program targeting farmland in the Hudson Valley and the Southern Tier. The Budget also allocates \$50 million in settlement funds for improvements at the State Fairgrounds.

The Budget calls for the creation of a commission to encourage dairy farmers in New York State to purchase Federal Margin Protection insurance to provide a hedge against falling milk prices.

The Budget proposes to exempt the bottles and other appurtenant packaging items used in wine tastings from the State sales and use tax. In addition, the Budget proposes to exempt all alcoholic beverages produced in New York State – and any appurtenant packaging items – provided at no charge to customers at a tasting event from the State compensating use tax.

Energy

The Executive Budget proposes \$22.6 million in All Funds spending for the New York State Energy Research and Development Authority (NYSERDA) for SFY 2015-16, a \$7.9 million decrease from projected spending in SFY 2014-15.

The Executive Budget authorizes NYSERDA to receive an assessment directly from New York State utilities to fund its energy research, development and demonstration program, energy policy and planning program and Fuel NY program, shifting this funding off-budget for the first time. In the current State Fiscal Year and in prior fiscal years, this funding has been appropriated in the Aid to Localities and State Operations portions of NYSERDA's budget from the Special Revenue Funds—Other account. Under the Executive proposal, utilities will be assessed 1 cent per thousand cubic feet of gas and .01 cent per kilowatt-hour of electricity sold in New York State in an amount not to exceed \$19.7 million.

From the funding received from the assessment, NYSERDA is authorized and directed to transfer \$1 million to the General Fund in support of the DEC's Office of Climate Change and \$691,000 to the University of Rochester Laboratory for Laser Energetics. The amount of the authorized assessment is separate and distinct from the general assessment provisions of Subdivision 2 of Section 18-a of the Public Service Law. Each year, NYSERDA is directed to report on expenditures and commitments of funds received.

NYSERDA is directed to return to the utilities, on a pro-rata basis, any funds not expended or committed to contracts.

Budget documents call for NYSERDA to allocate \$110 million in revenues derived from the auction of allowances under the Regional Greenhouse Gas Initiative (RGGI) to support various clean energy programs.

The Budget authorizes the transfer of \$36 million in revenues derived from the auction of allowances under RGGI to offset the costs of clean energy tax credits (\$23 million) and to support Environmental Protection Fund programs that may generate reductions in greenhouse gasses (\$13 million).

The clean energy tax credits offset by the RGGI transfer include: the biofuel production credit – \$3 million; the clean heating fuel credit – \$3 million; the alternative fuels and electric vehicle recharging property credit – \$1 million; the green buildings credit – \$1 million; the sales and use tax exemptions for residential and commercial solar energy systems – \$2 million; and the residential solar energy system personal income tax credit – \$13 million.

The Budget proposes to exclude solar power purchase agreements from the State sales tax and authorizes municipalities to offer this exemption. In addition, the Budget proposes to require wholesalers of motor fuel to register with the State Department of Taxation and Finance and to file certain information including volumes of motor fuel purchased and sold in regions of the State that impose different rates of prepaid taxes. Parties who engage in wholesale sales of motor fuel without the required registration would be subject to conviction of a class E felony.

The proposed Budget provides \$20 million to fund a clean energy competition to attract clean energy businesses to communities in the Southern Tier.

Budget documents call for the provision of \$5 billion over 10 years through the prospective Clean Energy Fund proposed under the Reforming the Energy Vision proceeding currently under way at the New York State Public Service Commission. The Clean Energy Fund has not yet been formally authorized. Budget documents also call for a pilot program under which 50 percent of newly purchased vehicles in the State fleet are zero emission vehicles.

The Executive Budget State Operations appropriation bill contains a General Fund appropriation of \$300 million for New York Power Authority (NYPA) asset transfers. This appropriation is subdivided into an \$85 million appropriation and a \$215 million appropriation. The \$85 million appropriation is to repay the remaining balance of \$103 million in NYPA corporate funds that were transferred to the General Fund in September 2009. An initial payment of \$18 million against the total transferred amount was made in SFY 2014-15. The remaining balance will be repaid according to the following schedule: installments of \$21 million in SFY 2015-16 and in the succeeding two State Fiscal Years; and a final payment of \$22 million in SFY 2018-19.

The \$215 million appropriation is to repay a transfer of funding from a NYPA account containing New York State's required contribution to the construction of the Yucca Mountain Nuclear Waste Repository. This funding was transferred to the General Fund in

February 2009. This transfer is scheduled to be repaid to NYPA in one lump sum in SFY 2017-18, so no disbursements are expected against this appropriation in SFY 2015-16.

Homeland Security / Public Protection

Division of State Police

The Executive Budget includes All Funds support of \$708 million for the Division of State Police, an increase of \$18 million, or 2.6 percent, from SFY 2014-15. This primarily reflects a decrease of \$21.6 million in State Operations, offset by a \$39.3 million increase in Capital Projects spending, including an additional \$12.5 million for the Aviation Program, \$6.0 million for an information technology initiative, \$19 million for maintenance and improvement of existing facilities, and \$1.8 million for new facilities.

The Financial Plan indicates an expected net decrease of 95 full-time equivalent (FTE) positions in the State Police, or 1.7 percent, including the loss of 75 FTEs from Patrol Activities, 9 FTEs from Criminal Investigation Activities, and 11 FTEs related to the proposed authorization to transfer State Police employees with responsibilities related to certain finance and human resource functions to the Office of General Services.

Homeland Security, Corrections and Criminal Justice Services

The Budget includes All Funds support of:

- \$2.9 billion for the Department of Correctional Services, an increase of 1.4 percent from SFY 2014-15 primarily reflecting one additional institutional pay period in SFY 2015-16;
- \$2.4 billion for the Division of Homeland Security and Emergency Services, a decrease of 9.4 percent from SFY 2014-15, largely reflecting the elimination of one-time capital appropriations related to the Interoperable Communications grant program and for a College of Emergency Preparedness, Homeland Security and Cybersecurity; and
- \$226 million in All Funds support for the Division of Criminal Justice Services, a decrease of 11.1 percent from SFY 2014-15.

The proposed Budget shifts responsibility for the final determination for medical parole release of certain non-violent offenders from the Board of Parole to the Commissioner of the Department of Corrections and Community Supervision.

State Workforce

The Executive Budget projects the overall size of the State workforce to increase in SFY 2015-16 by 846 Full Time Equivalents (FTEs). This increase is the net result of an estimated 1,897 attritions and 2,743 new hires. Total FTEs at the end of SFY 2015-16 are projected to be 180,965, compared to an estimated 180,119 at the end of SFY 2014-15 (these figures do not include members or staff of the Legislature or the Judiciary.) Figure 26 presents agencies expected to show changes of 10 or more FTEs in the size of their workforce.

Figure 26

SFY 2015-16 Estimated Agency Workforce Changes (Changes of 10 or more FTEs)

	March 2015	March 2016	Number Change	Percent Change
Agencies with Increases				
Health, Department of	4,814	5,139	325	6.75%
General Services, Office of	1,658	1,848	190	11.46%
Mental Health, Office of	14,380	14,569	189	1.31%
Corrections and Community Supervision, Department of	28,821	28,919	98	0.34%
Justice Center for the Protection of People with Special Needs	327	424	97	29.66%
Children and Family Services, Office of	2,994	3,059	65	2.17%
People with Developmental Disabilities, Office for	18,605	18,655	50	0.27%
Environmental Conservation, Department of	2,910	2,946	36	1.24%
Financial Services, Department of	1,373	1,393	20	1.46%
State Education Department	2,672	2,692	20	0.75%
Workers Compensation Board	1,186	1,204	18	1.52%
Parks, Recreation and Historic Preservation, Office of	1,734	1,746	12	0.69%
Homeland Security and Emergency Services, Division of	433	444	11	2.54%
Agencies with Decreases				
Labor, Department of	3,233	3,120	-113	-3.50%
State Police, Division of	5,632	5,537	-95	-1.69%
Medicaid Inspector General, Office of	480	453	-27	-5.63%
Alcoholism and Substance Abuse Services, Office of	761	735	-26	-3.42%
Information Technology Services	3,605	3,586	-19	-0.53%
Office of the State Comptroller	2,643	2,633	-10	-0.38%

Source: Division of the Budget

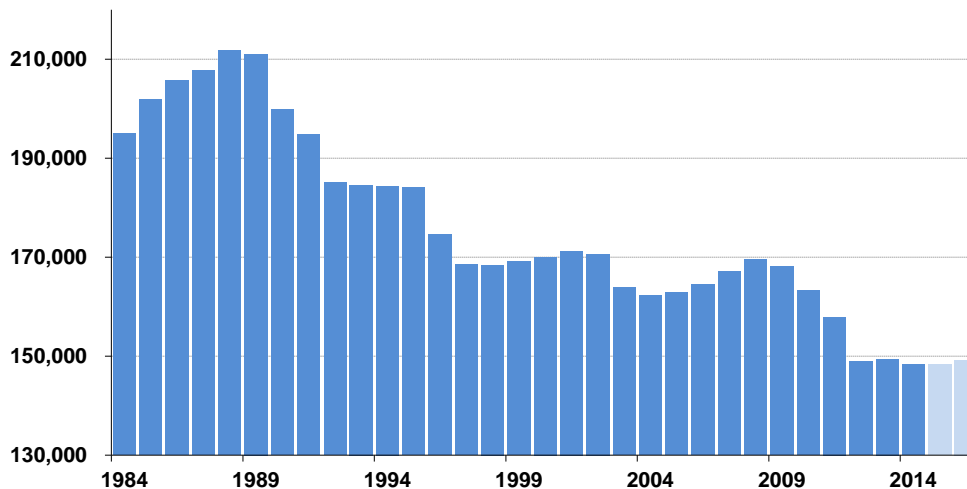
The following State workforce proposals impact the number of agency FTEs estimated for SFY 2015-16: the Department of Health’s continued take-over of Medicaid administration from local governments; actions by the Department of Health, Office of Mental Health and Office for People With Developmental Disabilities to reduce overtime through increased staffing at relevant facilities; and the transfer of certain staff, including positions from the Division of State Police, to the Office of General Services.

The size of the State workforce is projected to increase slightly in SFY 2014-15 and upcoming State fiscal year, after having declined significantly over the past twenty-five years. Figure 27 shows the change in State employee workforce totals since SFY 1984-85. The State historically has not attempted to determine the potential impacts on public services and agency performances from such declines in staffing.

These totals are based on actual payroll data maintained by the Office of the State Comptroller. Unlike DOB estimates, actual payroll data includes employees of the Legislature and Judiciary, the State Insurance Fund, and a count of temporary and part-time employees who may not be included in DOB figures.

Figure 27 does not include SUNY and CUNY employees because the counting of FTE positions at these institutions has not been consistent over the period shown below, and because CUNY employees did not appear on the State payroll before 1990. Estimates for the final FTE counts for SFY 2014-15 and SFY 2015-16 are based on Office of the State Comptroller workforce figures, adjusted for DOB estimates of Executive agency workforce changes. While this measure of the State agency workforce differs from DOB's, both measures show marked declines over the past two and a half decades.

Figure 27
State Agency Full-Time Equivalents, SFY 1984-85 through SFY 2015-16
(excludes SUNY/CUNY but includes the State Insurance Fund)



Source: SFY 1984-85 through SFY 2013-14: Office of the State Comptroller Payroll Records;
Note: Shaded bars are SFY 2014-15 and SFY 2015-16, based on adjusted DOB estimates.

The Executive Budget for SFY 2015-16 estimates a total \$13.5 billion in All Funds personal services expenditures for the upcoming State fiscal year, representing an increase of 2.2 percent, or \$290 million, compared to SFY 2014-15. The Budget proposes to fund the two percent salary increases in the current and upcoming fiscal years for State employees of certain unions, along with other costs from collective bargaining agreements, from savings in other areas of agency operations.

The Budget projects a gradual increase in salaries over four years (2015 through 2018) for Management/Confidential employees, superintendents of correctional facilities and certain other employees who are not in a negotiating unit. Also, the Budget proposes the creation of a commission every four years, the first one to be formed on June 1, 2015, to make recommendations on sufficient compensation for the Governor, Lieutenant Governor, Attorney General, State Comptroller, commissioners and other agency heads, and members of the Legislature.

General State Charges

The Executive Budget's presentation of costs associated with employee fringe benefits and certain other State expenses is known collectively as General State Charges (GSC). The General Fund Miscellaneous All State Departments and Agencies General State Charges

appropriation of \$3.3 billion that appears in the SFY 2015-16 State Operations appropriations bill accounts for 63 percent of all Financial Plan estimated GSC spending from the General Fund in SFY 2015-16, and 43 percent of Financial Plan estimated GSC spending from All Governmental Funds.

State Operating Funds spending for GSC is projected to total \$7.09 billion in SFY 2014-15 and increase by 3.7 percent to \$7.35 billion in SFY 2015-16. The overall increase in such spending from SFY 2014-15 through SFY 2018-19 is estimated to be 23 percent. This is due primarily to growth in health insurance and pension costs of 24 and 38 percent, respectively, over the next five years. See Figure 28 below.

Figure 28

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

	SFY 2013-14 Actuals	SFY 2014-15 Current	Percent Change from SFY 2013-14 to SFY 2014-15	SFY 2015-16 Proposed	Percent Change from SFY 2014-15 to SFY 2015-16	SFY 2018-19 Projected	Percent Change from SFY 2014-15 to SFY 2018-19
Total Spending	\$6,958	\$7,092	1.9%	\$7,354	3.7%	\$8,715	22.9%
Fringe Benefits	\$6,564	\$6,689	1.9%	\$6,963	4.1%	\$8,309	24.2%
Health Insurance	\$3,253	\$3,311	1.8%	\$3,451	4.2%	\$4,098	23.8%
Employee Health Insurance	\$1,790	\$1,821	1.7%	\$1,898	4.2%	\$2,254	23.8%
Retiree Health Insurance	\$1,463	\$1,490	1.8%	\$1,553	4.2%	\$1,844	23.8%
Pensions	\$2,086	\$2,095	0.4%	\$2,237	6.8%	\$2,894	38.1%
Social Security	\$944	\$969	2.6%	\$972	0.3%	\$995	2.7%
All Other Fringe Benefits	\$281	\$314	11.7%	\$303	-3.5%	\$322	2.5%
Fixed Costs	\$394	\$403	2.3%	\$391	-3.0%	\$406	0.7%

Source: Division of the Budget.

A review of all spending for General State Charges shows total spending of \$7.66 billion proposed for SFY 2015-16, growing to \$9.04 billion in SFY 2018-19. Estimated spending trends by agency vary and are related to projected changes in the size of workforce.

Figure 29

All Governmental Funds – General State Charges
(annual disbursements in millions)

	SFY 2013-14 Actuals	SFY 2014-15 Current	Percent Change from SFY 2013-14 to SFY 2014-15	SFY 2015-16 Proposed	Percent Change from SFY 2014-15 to SFY 2015-16	SFY 2018-19 Projected	Percent Change from SFY 2014-15 to SFY 2018-19
Total Spending	\$7,280	\$7,392	1.5%	\$7,660	3.6%	\$9,043	22.3%
Judiciary	\$651	\$669	2.8%	\$696	4.0%	\$827	23.6%
People with Developmental Disabilities, Office for	\$624	\$621	-0.5%	\$631	1.6%	\$697	12.2%
Mental Health, Office of	\$586	\$611	4.3%	\$617	1.0%	\$716	17.2%
SUNY	\$578	\$586	1.4%	\$440	-24.9%	\$411	-29.9%
Labor, Department of	\$140	\$116	-17.1%	\$111	-4.3%	\$116	0.0%
All Other	\$4,701	\$4,789	1.9%	\$5,165	7.9%	\$6,276	31.1%

Source: Division of the Budget.

The Budget also proposes the Department of Civil Service oversee an external audit to determine the eligibility of employee and retiree dependents in the State health plan.

The Executive Budget Financial Plan includes a SFY 2015-16 benefit of \$395 million from amortization of a portion of the State's annual pension costs, as authorized by legislation enacted in 2010. The gross cost for contributions to the New York State and Local Employees' Retirement System and New York State and Local Police and Fire Retirement System in the coming fiscal year is \$2,221 million. The State has amortized a portion of its pension costs in each of the fiscal years from SFY 2010-11 through the current fiscal year, and is required to begin repayment on each new amortization in the fiscal year immediately following the year of deferral. The amortized savings of \$395 million in SFY 2015-16 would be more than offset by required repayment of prior amortizations, of \$411 million (a figure that includes repayment of amortizations from SFYs 2004-05 and 2005-06). The Financial Plan assumes amortization will continue at least through SFY 2018-19.

Public Authorities

The Executive Budget estimates that \$5.6 billion in capital projects will be financed using public authority bond proceeds in SFY 2015-16. The Budget increases bonding caps for 20 State-Supported programs, and adds a new State-Supported bonding cap for the Nonprofit Infrastructure Capital Investment Program, which would support capital projects for nonprofit human services organizations that provide services to New Yorkers.

In addition, the Executive Budget proposes to authorize certain public authorities to issue Personal Income Tax (PIT) and/or Sales Tax Revenue (STR) Bonds for Smart Schools Bond Act purposes. The proposal would set an aggregate limitation of General Obligation, PIT and STR bonds that could be issued for Smart Schools Bond Act purposes at \$2 billion, the current authorization for the amount of General Obligation bonds authorized by the voters at referendum. Although the overall amount of State-Supported debt proposed to be authorized for this purpose, \$2 billion, is not increased, the Executive Budget would allow for all or a portion of these bonds to be issued by public authorities as backdoor borrowing rather than as voter-approved General Obligation bonds. (For further information, see the Debt and Capital section and the Transparency, Accountability and Oversight Issues subsection within the Financial Plan Overview section of this report.)

As shown in Figure 30, the proposed net increase in bonding authorizations for public authorities is \$7.3 billion, an increase of 13.5 percent over SFY 2014-15. In addition, the proposal amends the bond cap language for the Capital Restructuring Financing Program, which was added in the SFY 2014-15 Enacted Budget, to include the proposed Health Care Facility Transformation Program which would support health facility capital projects in Kings and Oneida counties, while increasing the cap by \$1 billion. The proposal also amends the bond cap for Hazardous Waste Remediation (the State Superfund) to include environmental restoration projects, while increasing the cap by \$100 million.

Figure 30

FY 2015-16 Change in State-Supported Public Authority Bond Caps
(in millions of dollars)

Program	SFY 2015-16		Executive Change from Current Cap
	SFY 2014-15 Cap	Executive Proposed Cap	
Smart Schools Bond Act Purposes	-	2,000.0	2,000.0
Capital Restructuring Program and Health Care Facility Transformation Program	1,200.0	2,200.0	1,000.0
Transportation Initiatives	465.0	1,440.0	975.0
MTA Transportation Facilities	770.0	1,520.0	750.0
Consolidated Highway Improvement Program (CHIPs)	8,120.7	8,608.9	488.2
Mental Health Facilities	7,435.8	7,722.8	287.0
Economic Development Initiatives	2,203.3	2,488.3	285.0
SUNY Educational Facilities	10,984.0	11,228.0	244.0
Environmental Infrastructure Projects	1,398.3	1,575.8	177.5
Housing Capital Programs	2,999.1	3,153.8	154.7
State Buildings and Other Facilities	317.8	469.8	152.0
Youth Facilities	465.4	611.2	145.9
CUNY Education Facilities	7,273.3	7,392.8	119.4
NY-SUNY 2020	330.0	440.0	110.0
Hazardous Waste Remediation (Superfund)	1,200.0	1,300.0	100.0
Office of Information Technology Services	182.4	269.1	86.7
SUNY Upstate Community Colleges	776.3	838.5	62.2
Nonprofit Infrastructure Capital Investment Program	-	50.0	50.0
Higher Education Capital Matching Grants	180.0	210.0	30.0
Prison Facilities	7,148.1	7,163.4	15.3
Library Facilities	126.0	140.0	14.0
Division of State Police	149.6	155.6	6.0
Total	53,725.1	60,977.8	7,252.8

Sources: Division of the Budget and the Office of the State Comptroller
Note: Totals may not add due to rounding.

As shown in Figure 31, the Budget authorizes \$59.9 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. Additional General Fund relief is provided by transferring \$20 million from the Metropolitan Mass Transportation Operating Assistance (MMTOA) account to the General Debt Service Fund to pay debt service typically paid from the State's General Fund.

The Budget also includes the transfer of excess State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF) reserves totaling \$125 million to the Housing Trust Fund Corporation (HTFC), the Homeless Housing and Assistance Corporation (HHAC) or the Housing Finance Agency (HFA), to fund the Rural Rental Assistance program, rehabilitation of Mitchell-Lama housing projects, the Neighborhood Preservation Program, the Rural Preservation Program, the Rural and Urban Community Investment Fund Program, the Low Income Housing Trust Fund Program, the Homes for Working Families Program and several homeless housing programs including the Solutions to End Homelessness Program, New York State Supportive Housing Program and AIDS Housing Program.

Figure 31

SFY 2015-16 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
Dormitory Authority of the State of New York	22.0
New York State Energy Research Development Authority	37.9 *
Total to General Fund	59.9
Miscellaneous Receipts for Energy Related and Economic Development Purposes:	
New York Power Authority	90.0 **
Transfers to Various Housing Funds:	
State of New York Mortgage Agency	125.0
Transfers to the General Debt Service Fund:	
MTA - Metropolitan Mass Transportation Operating Assistance Fund (MMTOA)	20.0
Total from Public Authorities	294.9

Source: Division of the Budget

* The NYSERDA transfer includes \$23 million for clean energy tax credits and \$13 million for Environmental Protection Fund programs from the proceeds of auctions of carbon dioxide emission allowances under the Regional Greenhouse Gas Initiative (RGGI), and up to \$913,000 to help offset debt service requirements related to the remediation of the Western New York Nuclear Service Center. In addition, \$1 million in support for the Department of Environmental Conservation's Office of Climate Change typically included in State Operations appropriations for NYSERDA is authorized to be transferred to the General Fund while \$691,000 for the University of Rochester Laboratory for Laser Energetics, typically included in Aid to Localities appropriations for NYSERDA, is authorized to be transferred directly. Both appropriations are eliminated in the SFY 2015-16 Executive Budget.

** The total amount proposed in S.2005/A.3005 Public Protection and General Government, Part P, Section 19(i) is \$90 million, with redirection language.

A sweep of up to \$90 million in funds from the New York Power Authority (NYPA) is proposed with language allowing the funds to be provided to the General Fund, "or as otherwise directed in writing by the director of the budget" to be used to support energy-related initiatives for certain economic development purposes including, but not limited to, the Open for Business initiative and advertising and promotion for START-UP NY.

The SFY 2012-13 Enacted Budget authorized DASNY to enter into design and construction management agreements with DEC and Parks. The Executive Budget proposes extending the sunset date of these provisions by two years.

The Budget extends the authorization currently in place for DASNY and UDC to issue revenue bonds for any authorized purpose to any authorized issuer and makes the authorization permanent. In addition, DASNY and UDC would be authorized to issue bonds for the Smart Schools Bond Act. Also included is authorization for corporations established to participate in the pilot program to restructure the health care delivery system

to obtain debt financing from DASNY, local development corporations or economic development corporations.

The Executive proposal seeks to make the Infrastructure Investment Act (Act), allowing certain State agencies and authorities to enter into design-build contracts, permanent and extends the provisions to all State agencies and public authorities. Buildings are added to the list of authorized projects. In addition, contracts awarded pursuant to the Act would be deemed competitive procurements for the purposes of Public Authorities Law Section 2879-a, which relates to the Comptroller's authority to review and approve certain public authority contracts.

The Budget amends the Long Island Power Authority (LIPA) Reform Act, by removing the provision which prohibits more than one issuance of restructuring bonds, and adds language limiting the aggregate amount of outstanding restructuring bonds at any time to \$4.5 billion. Additionally, it would authorize a second Utility Debt Securitization Authority (UDSA) to be utilized, but only if the Authority determines, by resolution, that the terms would be more favorable than if the bonds were issued by the first UDSA.

The Budget proposes to provide the Thruway Authority with a new appropriation of \$1.285 billion from the new Special Infrastructure Account, which will be funded with settlement money. This appropriation would fund a new Thruway Stabilization Program which the Executive has described as intended to support the Tappan Zee bridge replacement project and other system needs. The Executive Budget continues to provide State General Fund support for Thruway operations, which was first enacted in SFY 2013-14. However, State Operations appropriations for the Thruway Authority are decreased to \$21.5 million, a reduction of \$2.5 million, in anticipation of management efficiencies and cost savings to be attained by the authority.

The proposal would also authorize the Department of Transportation (DOT) and the Thruway Authority to enter into shared services agreements to permit the sharing of employees, services and resources. According to the Executive, this will allow DOT and the Authority to achieve efficiencies in the operation of certain functions provided by the two entities.

The Executive Budget authorizes NYSERDA to receive utility assessment funds, not to exceed \$19.7 million, directly from the utilities, which is used to support expenditures for the authority's energy research, development and demonstration program, energy policy and planning program and Fuel NY program. In addition, NYSERDA is directed and authorized to transfer \$1 million to the General Fund in support of the DEC's Office of Climate Change and \$691,000 to the University of Rochester Laboratory for Laser Energetics. Each of these purposes have typically been appropriated in the State Operations and Aid to Localities Budgets, but as a result of the direct payments, no funding is appropriated for NYSERDA for SFY 2015-16, reducing State Operating Funds spending and reducing transparency and accountability for these funds.

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

- an extension for one year of UDC's authorization to administer the Empire State Economic Development Fund and of UDC's power to grant general loans;

- IDA reforms including provisions requiring IDAs to seek approval from DED before granting State tax exemptions (though the Executive Budget Briefing Book indicates that ESDC would be responsible for this function); and authorizing the Department of Taxation and Finance to audit IDA projects and to recover benefits if certain goals or other requirements are not met;
- a requirement for State and local public authorities to obtain a tax clearance from grant applicants indicating that the applicant has no past due tax liabilities before awarding grants;
- increasing toll violation fines and penalties for all authorities which operate a toll highway, bridge or tunnel, including the New York State Thruway Authority, the New York State Bridge Authority, the Metropolitan Transportation Authority and the Port Authority of New York and New Jersey;
- new capital funding for the Olympic Regional Development Authority (ORDA) including \$7.5 million for maintenance and energy efficiency upgrades and \$2.5 million through the Office of Parks, Recreation and Historic Preservation as part of New York Works; and
- provisions allowing the Rochester-Genesee Regional Transportation Authority (RGRTA) to receive State Transit Operating Assistance (STOA) allocations for the Ontario County transit system, which was added to the RGRTA system in August 2014.

Local Governments

In addition to proposed increases in school aid (addressed in the Education section of this report), the Executive Budget includes numerous funding, revenue and programmatic changes affecting local governments.

Most of the proposed revenue increases for municipalities, including New York City, would come from changes to the State's sales tax and income tax that also affect the base of taxes imposed by local governments (for example, expanding collection of sales taxes from online transactions and extending limitations on itemized deductions). Counties would benefit from changes to youth facility chargeback costs, but suffer from changes to cost-of-living adjustments for foster care funding.

The Executive Budget proposes a new Real Property Tax Credit that will phase in over four years. When fully phased-in, the program is expected to cost the State nearly \$1.7 billion. School districts and municipalities outside of New York City must certify that they are compliant with the State's statutory tax cap for residents within their jurisdictions to receive credits. This provision may increase pressure on localities and school districts to limit growth in property tax levies. Only school taxes will apply in the first year (2015). (See the Revenue section of this report for more detail.)

The Budget appropriates \$1.5 billion of settlement funds for upstate revitalization, with money proposed to be awarded in part based upon a competitive selection process among the regional economic development councils. However, the language also says that the funds "may be sub-allocated or transferred to any department, agency, or public authority."

The Budget proposes using up to an additional \$150 million of settlement money for a variety of programs aimed at increasing local government efficiency and reducing duplicative and overlapping local governments. Most of them are existing programs that would receive their regular budget appropriations as well as the ability to spend from the one-time infusion of settlement money. The programs supported by the \$150 million in new funding include:

- Transformational Grants (including financing for proposals from the Government Efficiency Plans). The budget bills do not create a new program, but Executive Budget documents indicate that some portion of the \$150 million would be used for local government initiatives that break new ground and have substantial impact. School districts as well as municipalities will be eligible for these grants.
- Awards from the Governor's Financial Restructuring Board for Local Governments (FRB). The Board also has a General Fund appropriation of \$2.5 million for administrative services and expenses.
- Citizens Reorganization Empowerment Grants and Citizen Empowerment Tax Credits, which would share a \$35 million appropriation from the General Fund (same as SFY 2014-15). These grants are administered by the Department of State.
- Local Government Efficiency Grants (administered by the FRB or by the Department of State). Grants and/or loans of up to \$5 million per municipality may be awarded by the Board through the Local Government Performance and Efficiency Program. This has a \$40 million appropriation from the General Fund.
- There is also a separate General Fund appropriation of \$4 million for "a local government efficiency program administered by the Department of State."

Aid and Incentives for Municipalities (AIM) for cities, towns and villages is held flat at SFY 2011-12 levels of \$714.7 million, including \$647.1 million for cities outside New York City and \$67.6 million for towns and villages. New York City does not receive AIM.

In other local assistance programs, Video Lottery Terminal Impact Aid is reduced from the \$29.3 million provided in SFY 2014-15 to \$27.2 million, which was the same amount proposed in the SFY 2014-15 Executive Budget. Small Government Assistance is maintained at \$0.2 million, providing funding for Essex, Franklin and Hamilton counties. The proposed Budget includes \$5 million in grants for local water fluoridation systems, and eliminates or phases out the following local government programs:

- Village Per Capita Aid is proposed to be eliminated, from \$2 million in SFY 2014-15.
- Miscellaneous Financial Assistance is eliminated from \$5.8 million, although there is a small reappropriation for a senior citizen's program in New York City.
- Buffalo/Erie Efficiency Grants are eliminated (from \$3.2 million in SFY 2014-15).

Highway funding for local governments through the Consolidated Local Street and Highway Improvement Program (CHIPs) and Marchiselli Program is maintained at prior year levels. CHIPs is funded at \$438.1 million and the Marchiselli program is funded at \$39.7 million.

The Executive Budget caps mandated costs imposed on counties and New York City for the operation of OCFS juvenile facilities. Billings would be capped at \$55 million annually

through SFY 2018-19. This would provide estimated total local savings of \$425 million (including New York City) through SFY 2018-19. For FYE 2016, counties would realize estimated savings of \$37.8 million from this initiative.

The Budget proposes reforms to laws governing Industrial Development Agencies (IDAs). The Executive estimates that these reforms would result in \$3 million in increased local sales tax revenues for local fiscal years ending in 2016, and \$4 million in increased State revenues in SFY 2015-16 and \$9 million annually thereafter. The proposed legislation would require IDAs to post more information on their websites (e.g., meeting minutes, how IDA members voted, descriptions of projects established and tax exemption benefits received, etc.). IDAs would also have to obtain approval from DED before providing or extending any State tax exemptions. If the IDA fails to comply with transparency provisions or with the applicable provisions of Public Officers Law, DED would not approve any project or project benefits until the IDA comes into compliance and the Authorities Budget Office certifies that the IDA is in compliance. The Department of Taxation and Finance would have authority to audit IDAs and the agency could bill the project developer for some or all of the exemptions awarded if projects did not meet their targets.

New York City

Important elements of the Executive Budget affecting the City of New York include proposals to increase education aid, provide additional funding to assist the homeless, and to change State and City tax policies affecting both residents and businesses.

As described earlier in this report, the Executive has proposed increasing State education aid by as much as \$1.1 billion statewide, but has made the increase dependent on the State Legislature approving proposed changes to State laws governing teacher evaluation, tenure, charter schools and other elements of the education system. The Executive has not yet indicated how much each school district would receive, but in the past the City has received about 40 percent of the statewide increase in education aid. If this pattern holds, State education aid to the City could increase by about \$425 million for the 2015-16 school year, \$175 million more than assumed in the City's November 2014 financial plan.

The Executive Budget also includes resources to expand full-day pre-kindergarten programs around the State. In the current school year, State resources permitted New York City to expand such programs by 33,000 students.

The Executive has proposed increasing State funding to programs that assist the homeless in New York City by \$403 million over a four-year period. According to DOB, the funding would come from the State placing a cap on the City's contribution for the cost of state-run juvenile justice facilities in New York City (saving the City \$220 million, to be applied to programs for the homeless) and from State proceeds from the JPMorgan Chase settlement (\$183 million).

Other proposed expenditures of particular importance to New York City include \$700 million in capital funds for healthcare providers in Brooklyn communities.

Executive Budget proposals to revise the STAR program and to create a new real property tax credit for certain homeowners and renters would affect numerous residents of the City. The New York City STAR personal income tax rate reduction for taxpayers with incomes

above \$500,000 would be eliminated. The State would benefit by an estimated \$41 million in SFY 2015-16 because it would no longer reimburse the City for the loss in revenue (there would be no impact on the City's budget).

The Executive Budget includes legislation to implement changes in the City's corporate taxes as proposed by the Mayor that would largely parallel changes in state law enacted in 2014. Under the proposal, the banking corporation tax would be merged into the general corporation tax, and tax rates would be cut for small businesses and manufacturers. Reductions in tax revenue from these and other changes would be offset by broadening of the City's tax base and by making it more difficult for companies to shift income to jurisdictions with lower tax rates, according to DOB. The proposals are intended to be revenue-neutral and would be effective retroactively to January 1, 2015.

Metropolitan Transportation Authority

The Executive Budget would increase funding to the Metropolitan Transportation Authority (MTA) from the Metropolitan Mass Transportation Operating Assistance Account (MMTOA) by \$104 million and would dedicate those resources for capital purposes. While the increase in MMTOA funding is \$36 million more than anticipated in the MTA's current financial plan, the MTA had assumed that the additional resources would be available for operating budget purposes in 2015. The Executive Budget would increase State aid to the MTA's operating budget by \$37 million from other sources.

The Executive also would contribute \$750 million to the MTA's 2015-2019 capital plan and would allocate \$250 million in financial settlement funds toward the cost of linking the Metro-North Railroad to Penn Station and building four new stations in the Bronx. These initiatives would narrow (but not close) the \$15.2 billion funding gap in the MTA's proposed capital program for 2015-2019.

The Executive also has proposed building an AirTrain link along the Grand Central Parkway from the No. 7 subway station at Willets Point, Queens, to La Guardia Airport at a cost of approximately \$450 million. While the State would contribute toward the cost of the project, most of the funding would be expected to come from the MTA and the Port Authority of New York and New Jersey.

Campaign Finance Reform

The Executive Budget includes a public campaign finance system for elections to the four State-level offices, the Senate and the Assembly, starting with the 2018 primary and general elections. The proposed system is largely modeled after New York City's, where contributions up to \$175 are matched 6 to 1. The Budget proposes the creation of a new personal income tax check-off, the New York State Campaign Finance Fund check-off, for the purpose of funding campaigns.

Beginning in the 2016 tax year, individual taxpayers who have an income tax liability in excess of \$40 would be authorized to direct \$40 of their tax liability to the fund. For married couples, the tax liability threshold is \$80 and each spouse will be authorized to direct \$40 of their tax liability to the Fund, for a maximum contribution of \$80. The Budget also includes language authorizing DOB to direct the transfer of Abandoned Property revenue

to a new Campaign Finance special revenue fund, upon the certification by the co-chairs of the state Board of Elections as to the amount needed to fund estimated payments. Proposed changes to state Election Law would impose tighter limits on certain campaign contributions and new restrictions on the use of campaign funds.

Design-Build

The Infrastructure Investment Act passed by the Legislature in December 2011 authorized the New York State Thruway Authority, the New York State Bridge Authority, Department of Transportation, the Office of Parks, Recreation and Historic Preservation (OPRHP) and the Department of Environmental Conservation to use design-build contracts and alternative methods of procurement, including “best value,” “cost plus,” and “lump sum” awards for construction contracts, as well as incentive clauses, for certain infrastructure projects. This authorization expired in December 2014.

The Executive Budget proposes to reestablish this authorization, and provides for substantial expansion of its provisions, by extending the authority to all State agencies, public authorities, and related subsidiaries. The proposal also adds public buildings to the list of authorized projects, provides for exclusions from certain laws, and makes the law permanent. For all projects that are estimated to cost in excess of \$50 million, a project labor agreement would be required in the request for proposals for the capital project unless the authorized State entity cannot determine that the agreement would:

- result in labor cost savings of at least five percent,
- result in obtaining the best work at the lowest possible price, and
- prevent favoritism, fraud and corruption.

The authorized State entity could also consider in its determination factors such as the impact of delay, the possibility of cost savings advantages, and any history of labor unrest. The proposal adds new language to deem any contract awarded under this Act to have been awarded under a competitive procurement for purposes of Public Authorities Law Section 2879-a, which relates to the Comptroller’s authority to review and approve certain public authority contracts. The implications of this language are unclear.

The design-build proposal raises certain other concerns regarding transparency and protection of public resources, as discussed in this report’s section on Transparency, Accountability and Oversight Issues.

Appendices

Appendix A: Multiyear Gap-Closing Plan

SFY 2015-16 Executive Budget General Fund Gap-Closing Plan SFY 2015-16 through SFY 2018-19 (in millions of dollars)

	SFY 2014-15	2015-16	2016-17	2017-18	2018-19
Current Services Gap Reported in Mid-Year Update	-	(1,814)	(2,578)	(4,034)	(5,777)
Receipt Revisions (including additional settlement revenue)	1,282	-	-	-	-
Other Revisions	(141)	-	-	-	-
Current Services Gap Before Proposed Revisions	1,141	(1,814)	(2,578)	(4,034)	(5,777)
Non-Recurring and Temporary Resources and Costs	(1,141)	337	103	(10)	(11)
Additional Debt Service Prepayment	(210)	110	100	-	-
Fund Sweeps and Transfers		160	23	-	-
STAR		100	-	-	-
SUNY/CUNY Performance Incentive		(22)	(8)	-	-
Reserves	(931)	(11)	(12)	(10)	(11)
Recurring State Operations Reductions	-	92	13	79	257
Executive Agencies, University and Judicial		(10)	(44)	(61)	(35)
Other Benefits and Costs		102	57	140	292
Debt Management and Capital		121	385	329	335
Recurring Local Assistance Reductions	-	1,230	998	1,235	1,366
Education		305	197	395	317
STAR		148	261	262	263
Mental Hygiene		292	118	123	291
Department of Health Global Cap		200	200	200	200
Medicaid/HCRA		84	39	55	94
Social Services/Housing		124	95	103	102
Higher Education		77	88	97	99
Recurring Revenue/Resources/Re-Estimates	-	163	217	815	1,479
Revised Tax Projections		257	248	642	1,268
Miscellaneous Receipt/Transfers		(132)	(217)	(121)	(68)
Tax Extensions		38	186	294	279
Recurring New Tax Actions		-	(386)	(989)	(1,492)
New Spending Initiatives	-	(125)	(323)	(619)	(780)
Juvenile Justice Reform		(25)	(155)	(397)	(379)
Enhance Services for High Risk Individuals		(25)	(25)	(25)	(25)
Dream Act		(19)	(27)	(27)	(27)
Charter School Supplemental Tuition		(10)	(20)	(20)	(20)
Department of Health Global Cap		(30)	(30)	(30)	(30)
Student Loan Forgiveness		(5)	(19)	(31)	(37)
New Debt Service		(8)	(35)	(73)	(126)
Master Educator Scholarships		(3)	(8)	(11)	(11)
Public Campaign Finance		-	(4)	(5)	(125)
All Other		(4)	(153)	(153)	(195)
Remaining Gap In Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	-	0	(1,724)	(3,347)	(4,818)

Source: Division of the Budget

Appendix B: Capital Spending Plan Comparison

Comparison of Capital Spending SFY 2014-15 Enacted Capital Plan vs. SFY 2015-16 Proposed Capital Plan (in millions of dollars)

	SFY 2014-15	Proposed Capital Plan - SFY 2015-16 through SFY 2019-20					Average	Total Dollar	Total Percentage
		SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	2015-16 through 2019-20	2015-16 through 2019-20	2015-16 through 2019-20
Transportation	4,505	4,560	4,385	4,307	4,424	4,582	4,452	22,258	41.0%
Education/Higher Education	1,838	2,320	2,169	2,069	2,003	1,960	2,104	10,521	19.4%
Economic Development/ Government Oversight	545	958	1,146	1,167	1,098	1,066	1,087	5,435	10.0%
Mental Hygiene	412	443	472	482	427	427	450	2,251	4.1%
Parks and Environment	643	681	654	630	583	528	615	3,075	5.7%
Health and Social Welfare	285	687	708	650	647	490	636	3,182	5.9%
Public Protection	362	425	308	290	291	290	321	1,605	3.0%
General Government	163	261	156	169	97	79	152	762	1.4%
Other	153	593	893	1,033	1,301	1,359	1,036	5,178	9.5%
Total	8,906	10,927	10,892	10,796	10,871	10,781	10,853	54,267	100.0%

	SFY 2013-14	Enacted Capital Plan - SFY 2014-15 through SFY 2018-19					Average	Total Dollar	Total Percentage
		SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	2014-15 through 2018-19	2014-15 through 2018-19	2014-15 through 2018-19
Transportation	4,509	4,510	4,405	4,176	3,990	4,034	4,223	21,115	44.1%
Education/Higher Education	1,802	1,924	2,839	2,056	1,987	1,847	2,131	10,653	22.3%
Economic Development/ Government Oversight	512	709	902	818	775	778	796	3,982	8.3%
Mental Hygiene	411	404	410	418	427	427	417	2,087	4.4%
Parks and Environment	816	661	647	630	565	520	605	3,024	6.3%
Health and Social Welfare	579	475	513	535	470	470	492	2,461	5.1%
Public Protection	282	411	377	303	272	272	327	1,635	3.4%
General Government	95	158	176	104	99	70	121	607	1.3%
Other	98	142	425	437	434	850	458	2,288	4.8%
Total	9,104	9,394	10,694	9,477	9,019	9,268	9,570	47,852	100.0%

Source: Division of the Budget