Report on Estimated Receipts and Disbursements

State Fiscal Years 2016-17 through 2018-19

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

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I. Overview

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2016-17 through SFY 2018-19, issued pursuant to Section 23 of the State Finance Law, is intended to enhance analysis and discussion of the State's economic condition and the State Budget.

The Office of the State Comptroller estimates that the State's tax revenues will grow by 1.4 percent in SFY 2016-17. Tax receipts are projected to grow by 4.2 percent in SFY 2017-18, and by 1.0 percent in SFY 2018-19.

The Office of the State Comptroller's projections for All Funds tax receipts are $792 million lower than estimates from the Division of the Budget (DOB) for SFY 2016-17, $1.04 billion lower in SFY 2017-18 and $1.04 billion lower in SFY 2018-19, based on DOB's most current projections from the SFY 2016-17 Enacted Budget Financial Plan First Quarterly Update (First Quarterly Update).

The Office of the State Comptroller's projections for All Funds disbursements are $31 million higher than estimates from DOB for SFY 2016-17, $37 million higher in SFY 2017-18 and $42 million higher in SFY 2018-19, based on DOB's most current projections from the First Quarterly Update.

Background: "Quick Start" Financial Information Review Process

The State Finance Law requires the staffs of the Executive, the Senate, the Assembly and the Comptroller to prepare and make available by November 5 of each year separate reports detailing estimates of receipts and disbursements "for the current and ensuing fiscal years."[1] The Office of the State Comptroller interprets this provision as requiring estimates for the current and the next two ensuing fiscal years.

The receipts forecast must include, but is not limited to, estimates of taxes on an All Funds basis, lottery receipts and General Fund miscellaneous receipts. The disbursements forecast is required to include, but is not limited to, estimates for Medicaid, public assistance and elementary and secondary education (school aid). The underlying factors and data upon which the disbursement estimates are based must be included as well.

By November 15, the Executive, Senate and Assembly are directed to prepare jointly and make available on their respective Internet websites a report on the actual, estimated and projected State receipts and disbursements for the prior, current and ensuing fiscal years.

The statute also requires a public meeting of the staffs of the Executive, the Senate, the Assembly and the Comptroller to be held on or before November 15 to review financial information jointly, including the economic outlook, receipt forecasts, projected disbursements, and the impact of relevant State and federal statutory provisions on the State's Financial Plan, to facilitate the timely adoption of a State Budget for the next fiscal year.

Office of the State Comptroller's Estimates for Receipts and Disbursements

The Office of the State Comptroller maintains extensive data on receipts and disbursements, which reflect the flow of revenues and expenditures through New York's Statewide Financial System (SFS), on which it issues monthly reports. The Office of the State Comptroller's estimates are based on analysis of such data along with projections by DOB, recent and projected economic indicators and other information. Unless otherwise indicated, all projections reflect comparisons to the prior fiscal year.

The following tables summarize the Office of the State Comptroller's estimates compared to DOB's estimates for receipts and disbursements as contained in the First Quarterly Update. The Office of the State Comptroller's estimates for All Funds receipts and disbursements reflect a variety of factors, including current law that provides for caps on growth in Medicaid and school aid spending, as well as the scheduled expiration of the temporary higher Personal Income Tax (PIT) rate on upper-income earners. Estimates for State Operating Funds are also provided because the statutory cap on Medicaid disbursements applies to disbursements from this fund category.

[1] See Section 23(5) of the State Finance Law.

Figure 1

Actual and Estimated Receipts and Disbursements, All Funds
SFY 2015-16 through SFY 2018-19
(in millions of dollars)

	2015-16 Actual	2016-17	Growth	2017-18	Growth	2018-19	Growth
Receipts							
Office of the State Comptroller	149,109	151,746	1.8%	157,561	3.8%	158,521	0.6%
Division of the Budget	149,109	152,358	2.2%	158,597	4.1%	159,557	0.6%
Difference	-	(612)		(1,036)		(1,036)	
Disbursements							
Office of the State Comptroller	143,891	155,736	8.2%	163,577	5.0%	166,861	2.0%
Division of the Budget	143,891	155,705	8.2%	163,540	5.0%	166,819	2.0%
Difference	-	31		37		42	

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Figure 2

Actual and Estimated Receipts and Disbursements, State Operating Funds
SFY 2015-16 through SFY 2018-19
(in millions of dollars)

	2015-16 Actual	2016-17	Growth	2017-18	Growth	2018-19	Growth
Receipts							
Office of the State Comptroller	96,607	93,815	-2.9%	96,195	2.5%	97,162	1.0%
Division of the Budget	96,607	94,439	-2.2%	97,229	3.0%	98,195	1.0%
Difference	-	(624)		(1,034)		(1,033)	
Disbursements							
Office of the State Comptroller	94,288	96,232	2.1%	101,195	5.2%	104,839	3.6%
Division of the Budget	94,288	96,214	2.0%	101,169	5.1%	104,811	3.6%
Difference	-	18		26		28	

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

See the Appendix for more detailed estimates for All Funds and State Operating Funds.

II. Economic Outlook

National Economy

During the first half of 2016, the national economy exhibited a slower rate of growth than the first half of 2015. Economic growth was decelerating in the fourth quarter of 2015 and continued to do so into 2016, with real Gross Domestic Product (GDP) increasing by less than 1.0 percent in the first quarter. In the second quarter, the economy showed signs of strengthening, with real GDP increasing by 1.4 percent. Due to this weaker growth in the first half of the year, the national economy is projected to increase by 1.4 percent for all of 2016, despite stronger projected growth in the final half of the year.[2]

Consumption expenditures have been the main drivers of economic growth through the first half of the year, increasing by just over 1 percent in the first quarter but accelerating to over 4 percent in the second quarter. However, low or negative growth in the other sectors of the economy has mitigated the impact on GDP from the increase in consumption. Of particular significance has been the continued decline in the investment side of the economy. While nonresidential fixed investment turned positive in the second quarter, mainly due to increased investment in intellectual properties, continued declines in inventories and in residential fixed investment (i.e., the housing market) more than offset this positive growth.

Over the second half of the year, consumption is projected to decelerate from the second quarter, increasing by 2.9 percent and 2.6 percent in the third and fourth quarters, respectively. However, nonresidential investment is projected to accelerate in the second half of the year, as all components in this category are expected to realize positive growth. Residential investment is projected to continue to decline in the third quarter, with an acceleration into positive territory in the fourth quarter.

Appreciation of the dollar over the second half of the year is projected to continue to have a negative effect on the nation's exports, with imports growing at a faster pace as foreign goods remain less expensive.

One of the factors influencing consumption growth has been continued growth in employment. Through September, employment increased by over 1.6 million jobs nationally, representing growth of 1.1 percent on a seasonally adjusted basis from December. While employment is estimated to continue to grow throughout 2016, it is projected to increase at a slower pace than in the previous year, with growth of 1.7 percent as compared to 2.1 percent in 2015. With this employment growth, the unemployment rate is estimated to fall to 4.9 percent in 2016 from 5.3 percent in 2015.

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[2] For purposes of this report, projections of economic variables are primarily drawn from the IHS Global Insight Macroeconomic Forecast, October 2016.

Wage growth has accompanied employment growth in the first half of the year, with wages increasing by approximately 1.0 percent from the fourth quarter of 2015. Growth is projected to continue through the end of 2016 to produce an annual increase of 3.8 percent. However, this is a deceleration from 5.1 percent in 2015.

Momentum from the projected acceleration in the national economy at the end of 2016 is projected to continue into the following year, with real GDP increasing by 2.2 percent in 2017. While consumption is projected to slow, accelerated growth in both nonresidential and residential investment is expected to compensate for the slowdown in consumer spending. The only drag on economic growth is the anticipated stronger increase in imports, as the dollar is projected to continue to appreciate in 2017.

Employment growth is projected to continue to decelerate in 2017, rising by 1.2 percent as compared to 1.7 percent in 2016. As a result of this slower employment growth, the unemployment rate is projected to remain at approximately the same level, decreasing to 4.8 percent. However, wage growth is projected to accelerate in 2017 despite the slowdown in employment, with an increase of 5 percent.

New York State Economy

The New York State economy, as measured by the State's Gross Domestic Product (State GDP), grew by 1.4 percent in 2015. This was an acceleration from 2013 and 2014 of 0.2 percent and 1.2 percent, respectively. While many industry sectors, such as the educational services and information industries, realized strong growth in 2015, they do not constitute a large portion of the State's GDP. Economic activity from the financial services sector, which comprises the largest portion of State GDP, declined in 2015, which weakened overall economic growth in that year.

Similar to the national economy, economic growth in New York slowed in the first quarter of 2016, with real State GDP increasing by only 0.5 percent as the financial services sector continued to experience a decline. However, unlike the national economy which is estimated to have a deceleration in total annual growth for 2016, the New York economy is estimated to accelerate, with real State GDP increasing by 2.0 percent.

Through September 2016, the State added 86,300 jobs, on a seasonally adjusted basis, from December 2015. In the same period in 2015, there was an increase of 120,000 jobs, or 1.3 percent. Job gains were primarily in the private sector, with only slight employment growth in government jobs. For all of 2016, job growth is estimated to decelerate to 1.3 percent, compared to 1.7 percent in 2015.

According to the New York State Department of Labor's Quarterly Census of Employment and Wages (QCEW), wages paid in the first quarter of 2016 were 1.6 percent higher than those for the same quarter in 2015. Overall wage growth in 2016 is projected at 3.4 percent, a deceleration from 4.3 percent in 2015.

Along with the wage growth in the first quarter, personal income increased by 3.4 percent. On an annual basis, personal income is estimated to increase by 3.1 percent in 2016, down from the 2015 figure of 3.8 percent.

Employment growth is projected to continue to slow in 2017, with overall jobs increasing by less than 1.0 percent. Similar to the national projection, wages in New York are projected to increase at a faster pace in 2017, with a gain of 3.9 percent compared to 3.4 percent in 2016. The projected acceleration in wage growth and increases in non-wage income are expected to drive an increase of 3.5 percent in personal income in 2017.

III. Receipts

Overview

This report includes the Office of the State Comptroller's estimate of All Funds tax receipts through the end of the current fiscal year as well as projections for All Funds tax receipts for SFY 2017-18 through SFY 2018-19. This forecast is consistent with a national economy that exhibits weaker growth from 2015, with stronger growth in the subsequent years. Numerous variables affect the national and State economies, increasing the difficulty of forecasting tax collections. These factors include volatility in the financial markets, national elections, Britain's vote to exit the European Union, and global tensions, especially in the oil-producing countries. As a result, the State's actual tax revenues could deviate from these estimates and from those of the Division of the Budget. Close monitoring is critical to identify deviations in a timely way so that corrective actions can be taken.

Tax receipts increased by 5.1 percent in SFY 2015-16, but are estimated to increase by just 1.4 percent in SFY 2016-17. This growth primarily reflects weaker estimated tax payments made under the PIT due to financial market volatility throughout the year, as well as a decline in payments made with filing extension requests for tax year 2015.

In SFY 2017-18, growth in tax collections is projected to accelerate to 4.2 percent. While this stronger growth reflects the projected strengthening of the overall economy, it also reflects the return of estimated PIT tax collections to historical trend levels. This rebound in PIT collections is expected to be partially offset by the continued impact of State Tax Law changes, such as corporate tax reform and the increase in the estate tax exemption threshold. For SFY 2018-19, tax collections are projected to grow by 1.0 percent. This slower growth reflects the expectation of continued economic growth, mitigated by the first full year of the PIT rate reductions enacted in 2016, including the expiration of the higher tax rate, and continued impact of other Tax Law changes enacted in previous years.

Personal Income Tax

Personal income tax receipts in SFY 2016-17 are estimated to increase by $822 million, or 1.7 percent, from SFY 2015-16. This weak year-over-year growth reflects the reversion of estimated payments made with requests for filing extensions for the 2015 tax year to historical trend levels following particularly strong collections in the previous fiscal year as a result of strong financial market activity in 2014.

Withholding tax collections in SFY 2016-17 are estimated to increase by 2.5 percent as a result of both employment and wage growth over the course of the year, mitigated by the expectation of little, if any, growth in securities industry bonus payments for the 2016 calendar year. Withholding growth is also dampened due to the loss of a collection day in 2017 as a result of 2016 being a leap year.

As mentioned above, collections from estimated tax payments in SFY 2016-17 are estimated to decrease by nearly 5 percent. This is due to an over 10 percent decline in estimated payments made with requests for extensions of filing annual returns as well as an estimated 2.5 percent decrease in quarterly estimated payments due to the financial market volatility over the course of the year.

In SFY 2017-18, PIT collections are projected to increase by $2.3 billion, or 4.8 percent. This increase reflects continued employment and wage growth in 2017 as well as estimated personal income growth of 3.1 percent in 2016 which impacts payments made with annual tax returns as well as those made with requests for filing extensions. Mitigating overall PIT growth in SFY 2017-18 is a nearly 10 percent growth in refunds. This large increase is due primarily to an increase in refunds associated with the filing of annual tax returns. In the fourth quarter of SFY 2015-16, $800 million in refunds associated with the 2015 tax year that were initially estimated to be paid in April 2016 were accelerated into March. This resulted in an artificially lower amount of refunds being paid in the first quarter of SFY 2016-17.

In SFY 2018-19, PIT collections are projected to remain flat. While both wages and income are projected to increase, the lack of growth in PIT collections reflects the full-year impact of the reduction in tax rates enacted in 2016, in addition to an increase in advanced refunds paid for the Property Tax Relief Credit enacted in SFY 2014-15.

Consumption and Use Taxes

Consumption and use tax receipts are estimated to increase by almost $380 million, or 2.4 percent, in SFY 2016-17. This growth reflects continued growth in overall consumption offset by continued declines in cigarette tax collections. Growth in collections in this group is also dampened by declines in the highway use tax due to increased refunds resulting from litigation relating to the imposition of registration/decal fees, as well as the reduction in the registration/decal fee enacted in 2016.

Sales and use tax receipts, the largest component of consumption and use taxes, are estimated to increase by approximately 3.4 percent in SFY 2016-17. This growth is primarily due to the estimated increase in total consumer spending over the course of the year.

For SFY 2017-18, collections from consumption and use taxes are projected to exhibit stronger growth, increasing by $710 million, or 4.4 percent. A portion of this projected increase is due to increased highway use tax collections resulting from the elimination of the increased refunds that occurred in SFY 2016-17. Sales and use tax collections are projected to increase by 5.1 percent. This increase reflects the projected acceleration of economic growth as well as a projected 3.3 percent increase in disposable income.

In SFY 2018-19, growth in consumption and use tax collections is projected to be slower, increasing by 3.8 percent. This increase is due to stronger disposable income growth, tempered by the continued projected decline in cigarette tax collections.

Business Taxes

Business tax receipts are estimated to increase by $314 million, or 4.0 percent, in SFY 2016-17. This growth is primarily due to increased audit receipts under both the corporate franchise tax and the bank tax, as well as the timing of payments as taxpayers adjust to the full-year impact of corporate tax reform.

In SFY 2017-18, business tax receipts are projected to increase by $151 million, or 1.8 percent. This growth reflects increased corporate profits and any residual bank tax receipts due to audits, offset by the continued impact of corporate tax reform and reduced audit receipts under the corporate franchise tax.

Business tax receipts are projected to continue to grow in SFY 2018-19, increasing by $131 million, or 1.6 percent. This increase reflects continued growth in corporate profits as well as a small increase in petroleum business tax collections from a projected increase in oil prices.

Other Taxes

Other Tax receipts, including the Metropolitan Commuter Transportation Mobility Tax (MTA payroll tax), are estimated to decrease by $477 million, or nearly 12 percent, in SFY 2016-17. This decrease is due to an estimated decline of more than 29 percent in estate and gift tax collections, resulting from the occurrence of a smaller number of super-large estates over the course of the fiscal year as well as the continued phase-in of the increased filing threshold.

In SFY 2017-18, collections from other taxes are projected to decline by $5 million, or 0.1 percent. This decline is due to a projected decrease in real estate transfer taxes, as both home sales and home prices are projected to realize little growth.

In SFY 2018-19, collections of other taxes are projected to grow, increasing by $45 million, or 1.3 percent. While estate taxes are projected to continue to decline due to the continued effects of the increased filing threshold, this decline is estimated to be more than offset by increased real estate transfer taxes due to stronger housing market growth and increased MTA payroll tax collections from continued wage growth.

General Fund Miscellaneous Receipts and Lottery Receipts

Miscellaneous receipts include fees, fines, reimbursements, bond proceeds from public authorities, Lottery revenues and interest on State investments.

General Fund miscellaneous receipts are estimated to decline by $2.8 billion or 48.5 percent in SFY 2016-17, to $3.0 billion, primarily because of the expected decline in non-recurring monetary settlements from various financial institutions.[3]

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[3] The First Quarterly Update does not include $180 million in General Fund settlement proceeds received August 26, 2016 from Mega International Commercial Bank Company (Mega Bank), after the Update was published. This revenue is expected to be included in the Mid-Year Update to the Enacted Budget Financial Plan.

Miscellaneous receipts in the General Fund are anticipated to decline 17.3 percent or $520 million in SFY 2017-18 in part because of the end of payments from the State Insurance Fund (SIF) associated with changes to the Workers' Compensation Law included in the SFY 2013-14 Enacted Budget. However, while the $1.75 billion in SIF transfers to the State authorized in SFY 2013-14 was completed from SFY 2013-14 through SFY 2016-17, the SFY 2016-17 Enacted Budget authorized an additional $375 million to be transferred over a multiyear period through at least SFY 2019-20 . These funds are anticipated to be deposited to the General Fund.[4] General Fund miscellaneous receipts are projected to decline further by 1.2 percent or $31 million in SFY 2018-19, primarily because of the loss or reduction of certain temporary revenue sources.

All Funds projections for miscellaneous receipts in SFY 2016-17 total $24.3 billion (most of which is initially collected outside the General Fund), representing a decline of nearly $3.0 billion or 11.0 percent, primarily from the loss of monetary settlements. Miscellaneous receipts from Native American casinos collected in the Tribal State Compact fund are expected to total $195.7 million. Of that amount, $121.2 million will be transferred to the General Fund after payments to local governments.[5]

All Funds miscellaneous receipts will increase $1.6 billion or 6.8 percent in SFY 2017-18, primarily through growth in capital projects funds, as reimbursements from bond proceeds are anticipated to increase. Miscellaneous receipts are anticipated to decline 2.2 percent or $572 million in SFY 2018-19, as bond issuances are expected to decline from SFY 2017-18 levels. Factors that may change such projections include the possibility of additional settlements from financial institutions.

Lottery revenues for education (not including administration) from traditional games are expected to increase by 6.4 percent to $2.4 billion in SFY 2016-17, and revenues from video lottery terminals (VLTs) are expected to increase 1.2 percent to $961 million. Total Lottery receipts are projected to decline by 2.3 percent in SFY 2017-18 and by 3.1 percent in SFY 2018-19. Projections of Lottery receipts are based on assumptions that all four casinos that have been licensed by the State Gaming Commission will be operational in SFY 2017-18. DOB projects new revenue for schools from commercial casinos will total $90 million in SFY 2017-18 and $171 million in SFY 2018-19 (both include funding to offset projected VLT losses associated with competition from the new casinos).

Federal Receipts

Federal grants support State spending for Medicaid, transportation, school aid, public health, and environmental and energy programs as well as other activities. Since State spending for

[4] Language authorizing the transfer from the State Insurance Fund also allows the funding to be used to offset workers' compensation costs outside of the State budget and cash reporting documents. The Division of the Budget currently plans to deposit the funds in the General Fund.

[5] This funding is initially collected as a miscellaneous receipt in the Tribal State Compact special revenue fund (339.22169). After payments to localities that host the Native American casinos covered under the Tribal State Compact, the remaining revenue is transferred to the General Fund.

federally financed programs is typically “cash neutral” (i.e., federal receipts equal spending), the Office of the State Comptroller’s projections reflect DOB’s federal receipts projections.

In SFY 2016-17, federal receipts are projected to increase $440 million, or 0.9 percent, from SFY 2015-16, largely due to increased funding associated with the Affordable Care Act. DOB projects federal receipts will increase just over $1 billion or 1.9 percent in SFY 2017-18, made up almost entirely of grants for operating costs. Federal grants for capital spending are projected to decline slightly in SFY 2017-18. Total federal receipts are projected to increase $758 million in SFY 2018-19, with operating revenues increasing 1.5 percent and capital revenues again declining slightly.

Monetary Settlements

Since April 2014, the State has received more than $8.9 billion in various monetary settlements arising from allegations of misconduct by major financial and other institutions. In the SFY 2016-17 Enacted Budget Financial Plan, DOB included $102 million in monetary settlements in its projections for General Fund use in SFY 2016-17, declining from $250 million in SFY 2015-16 and $275 million in SFY 2014-15. DOB does not anticipate additional monetary settlements will provide General Fund relief after SFY 2016-17. Actual General Fund miscellaneous receipts this fiscal year are anticipated to include at least $400 million in non-recurring resources (14 percent of total projected General Fund miscellaneous receipts) from monetary settlements. This is down from the $3.6 billion received in SFY 2015-16 and the $4.9 billion received in SFY 2014-15.

IV. Disbursements

Overview

This report includes a forecast for disbursements for SFY 2016-17 through SFY 2018-19. Because Department of Health (DOH) Medicaid spending from State funds is specifically limited in both statute and appropriation authority, the Office of the State Comptroller includes spending projections from both All Funds and State Operating Funds in its estimates.

These estimates rely on a variety of data sources, including receipt and disbursement data from New York's Statewide Financial System and information from State agencies, including the State Education Department (SED), DOB, DOH, the Department of Labor (DOL), and the Office of Temporary and Disability Assistance (OTDA). All projections for growth reflect comparisons to the prior fiscal year.

The SFY 2016-17 Enacted Budget – like the prior year's – included appropriations intended to reflect two years' worth of spending in Medicaid. Unlike several previous years, this year's school aid appropriations do not reflect two years of spending. The Budget also left in place statutory limits on future spending growth for State-funded DOH Medicaid expenditures based on the ten-year average growth in the medical component of the Consumer Price Index (CPI), and for education assistance based on the rate of growth for personal income in the State. As a result of these limitations, projected spending in two of the largest categories of spending in the Budget is constrained, absent action by the Executive and the Legislature to supersede the spending targets. However, as with the previous three enacted budgets, school aid in the current fiscal year was increased by an amount that exceeded the statutory cap. The $1.5 billion increase (6.5 percent) exceeds the statutory cap of 3.9 percent. If the statutory cap had been adhered to, total aid would have been nearly $600 million lower.[6]

This report provides Medicaid spending projections from the Financial Plan that are based on current law, including the effect of statutory spending caps, through SFY 2018-19. School aid is presented comparing current DOB projections to estimates based on historical variances from the growth cap. Estimated spending growth that would occur absent the spending limitations enacted in SFY 2011-12 is also provided for comparative purposes in each program area.

This report does not adjust for actual or planned actions that artificially and temporarily change growth rates such as prepayments (which increase base year spending while decreasing subsequent year spending, thus resulting in lower reported growth).

[6] See Sections 3602 (1) (aa through dd) of the Education Law.

SFY 2016-17

For SFY 2016-17, the Office of the State Comptroller projects that Medicaid, school aid and public assistance spending from State Operating Funds will total $43.1 billion, an increase of $1.6 billion, or 3.8 percent, from SFY 2015-16 levels. Among other factors, this level of increase reflects the statutory limits on school aid and Medicaid enacted in SFY 2011-12 that were intended to constrain spending from State Operating Funds. All other State Operating Funds spending is projected to total $53.2 billion, a decrease of $196 million, or 0.4 percent, compared to SFY 2015-16. All other spending includes such categories as debt service, General State Charges and Departmental Operations outside of the categories listed above. All other spending also reflects certain timing-related actions that artificially hold down spending growth.

Medicaid, school aid and public assistance spending from All Funds is projected to total $79.2 billion in SFY 2016-17, which is $2.3 billion, or 3.0 percent, higher than SFY 2015-16 levels.

SFY 2017-18

For SFY 2017-18, the Office of the State Comptroller estimates Medicaid, school aid and public assistance spending from State Operating Funds will total $45.4 billion, an increase of $2.3 billion, or 5.4 percent, from estimated SFY 2016-17 expenditures. The Office of the State Comptroller projects all other State Operating Funds spending to increase $2.7 billion, or 5 percent, to $55.8 billion.

Medicaid, school aid, and public assistance spending from All Funds is projected to total $83.2 billion in SFY 2017-18, which is just under $4 billion, or 5.0 percent, higher than projected SFY 2016-17 levels.

SFY 2018-19

For SFY 2018-19, the Office of the State Comptroller estimates Medicaid, school aid, and public assistance spending from State Operating Funds will total $47.6 billion, an increase of $2.2 billion, or 4.8 percent, from the previous year. During this period, all other State Operating Funds spending is projected to increase $1.5 billion, or 2.6 percent, to $57.3 billion.

Medicaid, school aid and public assistance spending from All Funds is projected to total $86.2 billion in SFY 2018-19, which is just over $3.0 billion, or 3.6 percent, higher than SFY 2017-18.

Supplemental Projections and Discussion

In the following section, Medicaid and school aid projections reflect increases that would be expected to occur without the enacted spending caps, but with all other changes included in previous budgets, to provide an understanding of the impact of the spending caps on the Budget.

School Aid

The SFY 2012-13 Enacted Budget reflected the statutory limit on annual growth for school aid enacted in the SFY 2011-12 budget. For School Year (SY) 2012-13, the spending cap limited growth in school aid to the average annual growth in personal income for the State for SFY 2005-06 through SFY 2009-10. For subsequent years, the statutory "Personal Income Growth Index" (Index) equals the growth in personal income in the fiscal year immediately preceding the base year. Annual growth in New York personal income averaged 5.2 percent since the statistic was first reported in 1929 through 2015. However, between 2008 and 2015, annual growth averaged only 2.8 percent, largely because personal income declined in 2009 (the first decrease since 1938).

"Allowable Growth" for school aid is the Index times the aggregate spending, including the Gap Elimination Adjustment (GEA) where applicable, in the base year. This determines how much additional spending can occur in the subsequent school year for General Support for Public Schools (GSPS). For SY 2016-17, the base year is SY 2015-16, so the Index equals the growth in State personal income from SFY 2013-14 to SFY 2014-15.

Projecting personal income in New York can be difficult because such income is heavily influenced by activity in the financial markets, which can be volatile. In recent years, school aid projections have been revised substantially because of changes in personal income projections. Combined with restrictions in the growth of school taxes, such fluctuations in State aid projections can contribute to districts' budgetary challenges.

The various permanent-law formulas used to compute GSPS can generate spending figures larger than those allowed under the cap. The GEA is a downward revision that reduces total general school aid from an amount otherwise driven by statutory provisions to a targeted amount in order to keep spending within the Allowable Growth limits. If there is funding available under the cap after Allowable Growth is calculated, additional spending or a reduction in the GEA can be authorized pursuant to a chapter of law. The SFY 2016-17 Enacted Budget reduced the GEA to zero, although statutory language authorizing the adjustment remains.

Unlike the previous four years, the SFY 2016-17 Enacted Budget did not include appropriation language for school aid intended to cover two fiscal years. The appropriation for education assistance allows an overall 2016-17 school year increase of $1.5 billion or 6.5 percent, to $24.8 billion ($24.4 billion in SFY 2016-17), approximately $600 million higher than what would have been allowed by the statutory cap. The Financial Plan does not detail how this 6.5 percent increase will be apportioned among the various school aid programs, although school aid projections from SED indicate that just under $16.5 billion is for Foundation Aid, and that the GEA is fully eliminated.

The SFY 2016-17 Enacted Budget increased Foundation Aid by $627 million from SY 2015-16.[7] The overall increase of $1.5 billion is supplemented with $75 million in Community School

[7] See School Aid District by District projections labeled SA161-7 from the State Education Department, March 31, 2016.

Grants ($100 million in Foundation Aid is also intended for community schools). An additional $340 million is again included for universal pre-kindergarten costs.

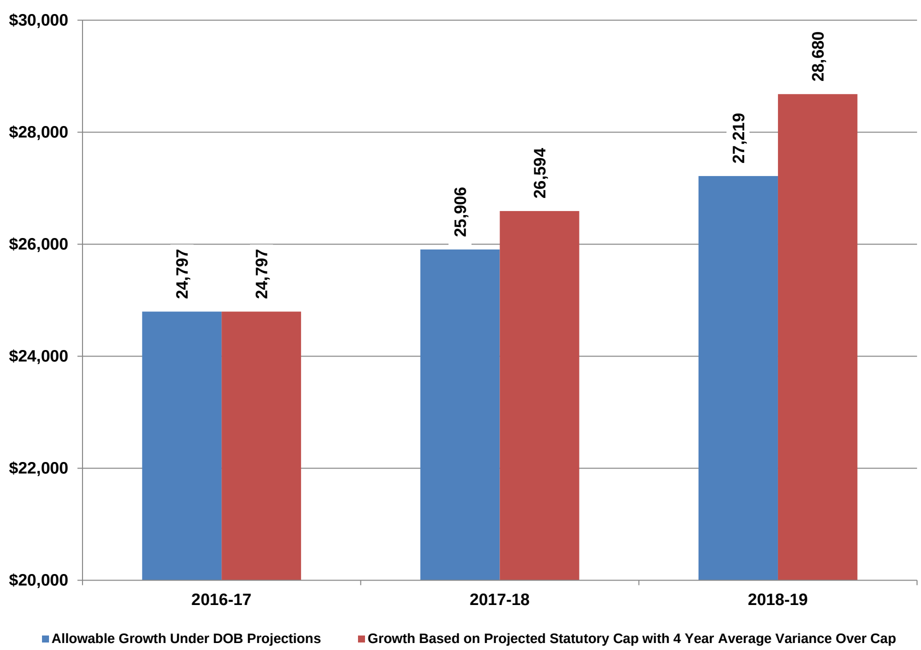
The Allowable Growth cap implemented in SFY 2012-13 was only adhered to in that year. Since then, enacted spending levels have exceeded the Allowable Growth cap by an annual average of just under 2.8 percentage points. As a result, school aid has increased an average of 5.7 percent annually since SFY 2013-14, compared to an average of only 2.9 percent annually that would have been permitted under the Allowable Growth cap.

According to the First Quarterly Update issued in August 2016, GSPS is projected to increase to $25.9 billion in SY 2017-18 ($25.9 billion in SFY 2017-18), representing an increase of $1.1 billion or 4.5 percent for the school year. DOB indicates that projections from SY 2017-18 through SY 2019-20 are expected to stay within Allowable Growth limits.

Figure 3 and the following projections illustrate school aid growth as provided in the First Quarterly Update (which reflects Allowable Growth based on DOB personal income projections), as well as growth based on historical variances from the Allowable Growth cap described above. If actual school aid continues to increase at a level above the cap equal to the average variances from the cap over the past four years, school aid in SY 2018-19 would be nearly $1.5 billion higher than DOB's latest projection.

Figure 3

School Aid: Current DOB Projections and Projections Reflecting Average Variance from Allowable Growth Cap
(in millions of dollars on school year basis)



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

SED is required to provide detailed school aid data by district three times throughout the year – February 15, May 15 and November 15.[8] The November data is used to calculate aid included in the Executive Budget proposal and the February 15 data is typically the base for Enacted Budget spending totals.

The Office of the State Comptroller estimates school aid growth using weighted historical average growth of the large expense aids (Transportation, Building, BOCES, Private Excess Cost and High Cost Excess), as well as State aid data reflecting the Enacted Budget. Projections for High Tax Aid and Universal Pre-Kindergarten, which have remained constant or changed little in recent years, were kept constant through the projection period. Other expense aids are assumed to increase at the same rate as the current year. The Office of the State Comptroller projects that school aid spending from State Operating Funds will total $24.4 billion in SFY 2016-17, which is an increase of $1.1 billion or 4.8 percent over SFY 2015-16. All Funds school aid is projected to reach $27.1 billion in SFY 2016-17. This projection equates to approximately $24.8 billion on a school-year basis.

The Office of the State Comptroller estimates that school aid from State Operating Funds would increase to $25.9 billion in SFY 2017-18, an increase of $1.5 billion, or 6.2 percent, over SFY 2016-17. All Funds spending under this scenario is projected to increase $1.6 billion or 5.7 percent to $28.6 billion. This equates to $25.9 billion on a school-year basis.

The Office of the State Comptroller estimates that school aid from State Operating Funds would increase to $27.1 billion in SFY 2018-19, an increase of $1.1 billion, or 4.3 percent over SFY 2017-18. All Funds spending is projected to increase $1.2 billion or 4.1 percent to $29.8 billion. This equates to just over $27 billion on a school-year basis.

Medicaid

The SFY 2016-17 Enacted Budget again includes two years’ authority for Medicaid spending by DOH (including administration costs), with a specific limit in State Operating Funds spending for each year.

The SFY 2016-17 Enacted Budget continues the cost-containment measures from various actions recommended by the Medicaid Redesign Team (MRT) and first enacted in the SFY 2011-12 Budget. These measures are projected to hold future spending growth within the spending cap for DOH Medicaid expenditures, currently estimated by DOB at approximately 3.4 percent. Average annual growth before these changes was 4.6 percent from SFY 2007-08 through SFY 2011-12, not including additional Federal Medical Assistance Percentage (FMAP) funding that was part of the federal government’s economic stimulus program in response to the Great Recession.

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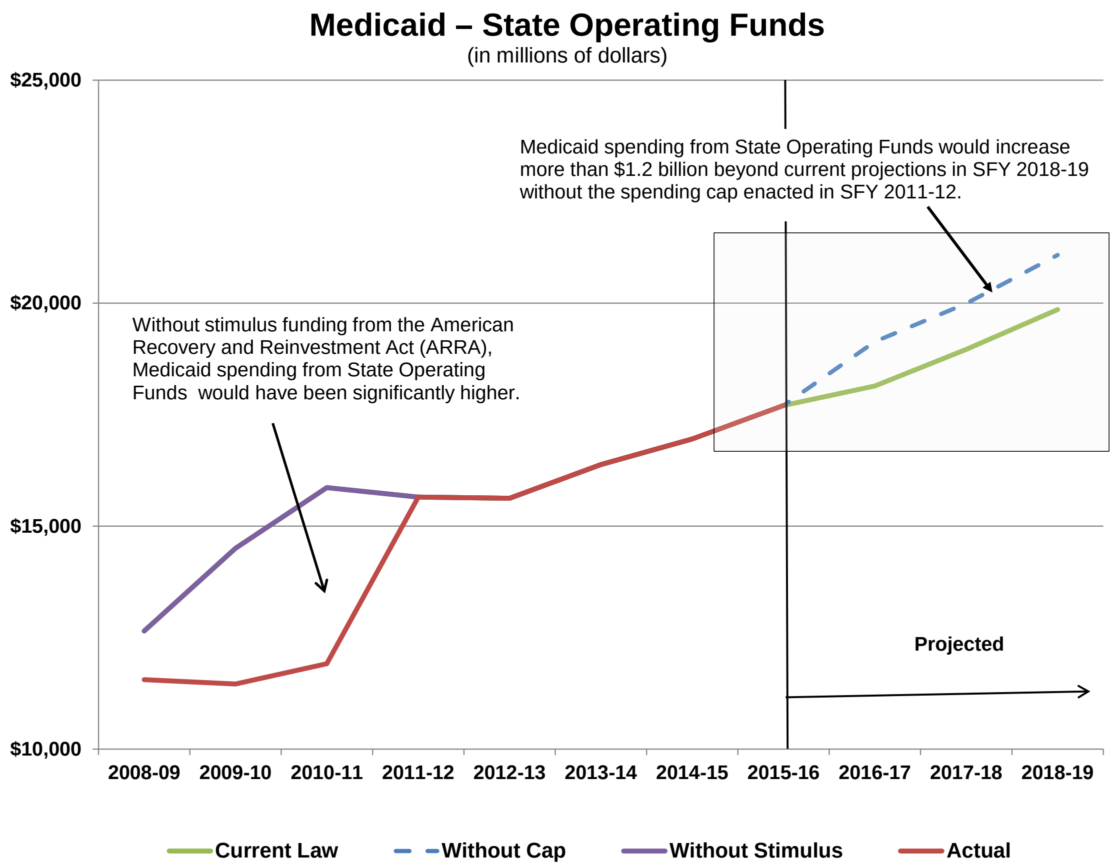
[8] See Section 305 of the Education Law. Adjustments to school aid expenditures are often reflected in the first quarter of the following year. Such adjustments tend to neutralize the impact on the current year Financial Plan and, therefore, would minimally impact this forecast. This forecast does not consider updated school aid funding data, since such data will not be available until November 15.

DOB projections issued in 2011 anticipated that savings derived from health-care provider actions to lower costs would total nearly $2.7 billion in SFY 2014-15. Monthly global cap reports from the Department of Health imply that MRT savings targets are being met as spending rarely exceeds projections, although these reports do not detail actual savings associated with monthly spending. The authority given to the Health Commissioner to reduce Medicaid spending administratively expires at the end of SFY 2017-18. If that authority is not renewed, the State's ability to realize the targeted level of savings over the remainder of the plan could be undermined.

The Office of the State Comptroller used historical trends derived from service utilization data maintained by DOH, actual spending data reported by DOB, and annual spending data included with DOB's quarterly Financial Plan Updates to estimate Medicaid spending from State Operating Funds and All Funds for SFY 2016-17 and the ensuing two fiscal years. Spending data was adjusted to reflect known actions, such as delayed cycle payments, that would affect cash management.

Figure 4



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

The following estimates illustrate projected Medicaid growth in the absence of the enacted spending cap and unilateral cost control mechanisms. While enacted spending cuts are included in these estimates, the projected increases are primarily due to increased utilization. Changes in federally funded Medicaid spending are based on DOB projections.

Based on such factors, the Office of the State Comptroller estimates that absent the statutory spending limits, DOH Medicaid spending (including administrative costs) in SFY 2016-17 would total $18.1 billion from State Operating Funds, and $50.2 billion from All Funds.

For SFY 2017-18, the Office of the State Comptroller projects that absent the statutory spending limits, Medicaid spending would increase to just under $19 billion (up by 4.5 percent or $823 million from the previous year) from State Operating Funds and to just under $52.5 billion (an increase of 4.6 percent or $2.3 billion) from All Funds.

For SFY 2018-19, the Office of the State Comptroller estimates that absent the statutory spending limits, Medicaid spending would total $19.9 billion from State Operating Funds, an increase of $889 million or 4.7 percent, and $54.3 billion from All Funds, representing an increase of $1.8 billion or 3.5 percent.

Public Assistance

Projections of public assistance caseloads and spending are sensitive to economic fluctuations. As unemployment increases and income falls, the number of persons in need of public assistance typically increases. Those who lose their jobs may face extended periods of unemployment or underemployment in the current economic climate. While national and State unemployment rates continue to decline, such rates are not a perfect measure of unemployment, as they miss people who have left the workforce and are not actively looking for work, as well as people who are employed in temporary or part-time positions paying significantly less than full-time jobs or in jobs that do not match their skill set.

According to the Bureau of Labor Statistics, approximately 37 percent of the U.S. unemployed population (16 and older) had been unemployed for 15 weeks or more as of August 2016. When the numbers of people employed part-time (not by choice) and people no longer looking for employment are added, the unemployment rate of 5 percent in September 2016 increases to 9.7 percent of the civilian labor force. In 2007, before the Great Recession reached its full impact, that rate was 8.3 percent. Just after the Great Recession ended, this measure reached 18 percent (January 2010).

Using historical trends for unemployment and employment, caseloads and spending according to monthly caseload reports issued by the Office of Temporary and Disability Assistance (OTDA), the Office of the State Comptroller estimates that in SFY 2016-17, All Funds spending for public assistance will total $1.58 billion (including $488 million from State Operating Funds), based on caseloads of 359,756 families and 204,511 single recipients.

For SFY 2017-18, the Office of the State Comptroller projects public assistance spending from All Funds will decline by $5 million, or 0.3 percent, to $1.58 billion (including $496 million from State Operating Funds), based on caseloads of 359,405 families and 206,268 single recipients.

For SFY 2018-19, the Office of the State Comptroller estimates that All Funds spending for public assistance will total $1.58 billion (including $501 million from State Operating Funds), a decline of $2 million or 0.1 percent, based on caseloads of 358,690 families and 208,068 single recipients.

Figure 5

Comparison of Actual and Projected Caseloads:
Temporary Assistance for Needy Families, Safety Net Families and Singles

TANF Families	**2015-16**	**2016-17**	**Growth**	**2017-18**	**Growth**	**2018-19**	**Growth**
Office of the State Comptroller	246,080	233,133	-5.3%	231,234	-0.8%	229,354	-0.8%
Division of the Budget	243,642	238,388	-2.2%	235,591	-1.2%	232,955	-1.1%
Difference	2,438	(5,255)		(4,357)		(3,601)	
Safety Net Families	**2015-16**	**2016-17**	**Growth**	**2017-18**	**Growth**	**2018-19**	**Growth**
Office of the State Comptroller	124,487	126,623	1.7%	128,261	1.3%	129,336	0.8%
Division of the Budget	117,682	115,259	-2.1%	113,865	-1.2%	112,561	-1.1%
Difference	6,805	11,364		14,396		16,775	
Safety Net Singles	**2015-16**	**2016-17**	**Growth**	**2017-18**	**Growth**	**2018-19**	**Growth**
Office of the State Comptroller	202,153	204,511	1.2%	206,268	0.9%	208,068	0.9%
Division of the Budget	203,114	203,512	0.2%	203,920	0.2%	206,266	1.2%
Difference	(961)	999		2,348		1,802	
Total Caseloads	**2015-16**	**2016-17**	**Growth**	**2017-18**	**Growth**	**2018-19**	**Growth**
Office of the State Comptroller	572,720	564,267	-1.5%	565,763	0.3%	566,758	0.2%
Division of the Budget	564,438	557,159	-1.3%	553,376	-0.7%	551,782	-0.3%
Difference	8,282	7,108		12,387		14,976	

Sources: Office of the State Comptroller, Division of the Budget, OTDA.
Note: Amounts listed by the Office of the State Comptroller for SFY 2015-16 represent actual caseloads as per OTDA.

V. Risks

As with any financial plan, the SFY 2016-17 Enacted Budget Financial Plan is subject to various risks and uncertainties. In recent years, DOB has expanded upon its assessment of budget risks and uncertainties, and this year's Plan identifies a variety of issues, both general and specific, that could negatively affect the State's projections. Such risks and uncertainties include, but are not limited to:

- general economic and business conditions;
- changes in political, social, economic, and environmental conditions, including climate change and extreme weather events;
- impediments to the implementation of gap-closing actions;
- regulatory initiatives and compliance with governmental regulations;
- litigation;
- wage and benefit increases for State employees that exceed projected annual costs; and
- actions by the federal government to reduce or disallow expected aid.

In addition to the broad-scoped risks and uncertainties identified with respect to revenue and economic projections, DOB has recognized many of the transactional risks identified by the Office of the State Comptroller in annual budget reviews in recent years.

Potential risks beyond those identified in the Enacted Budget Financial Plan include the Budget's reliance on revenue from certain public authorities (of which more than $262 million is expected in SFY 2016-17), as well as transfers of available fund balances from dedicated funds to the General Fund.

Spending-side issues that DOB identifies as potentially impacting the Financial Plan include cash flow projections and funding of other postemployment benefits. DOB also cites limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service, although it projects that debt outstanding and debt service will continue to remain below the limits imposed by the Act. The Plan notes that capital spending and debt financing practices may be adjusted to preserve debt capacity and enable the State to remain under the caps.

Looking out further, the Enacted Budget includes a provision that the State will fulfill its commitment to provide $8.3 billion in funding to the Metropolitan Transportation Authority for its 2015-2019 capital plan no later than SFY 2025-26 or by the completion of the MTA capital program. The financing sources for the vast majority of this commitment have yet to be identified. Although the Enacted Budget does include a new $2.9 billion appropriation beyond the $1 billion that was included in the SFY 2015-16 Enacted State Budget, and the Enacted Budget Capital Program and Financing Plan indicates that all $7.3 billion is planned to be appropriated by SFY 2020-21, the Enacted Budget Capital Program and Financing Plan does not project any spending from these new appropriations through SFY 2020-21.

VI. Appendix - Financial Projections

Projections Based on Current Law, Including Enacted Spending Caps

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2016-17

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	47,877	48,864	(987)
Consumer Taxes	15,556	15,571	(15)
Business Taxes	7,559	7,372	187
Other Taxes (incl. MTA Payroll)	3,411	3,400	11
Total Taxes	*74,403*	*75,207*	*(804)*
General Fund Miscellaneous Receipts	3,006	2,826	180
Lottery	3,321	3,321	-
Subtotal	80,730	81,354	(624)
Other Miscellaneous Receipts	13,010	13,010	-
Federal Grants	75	75	-
Total Receipts	93,815	94,439	(624)
Disbursements:			
Elementary and Secondary Education	24,422	24,422	-
DOH Medicaid (incl. administration)	18,142	18,142	-
Public Assistance	488	470	18
Subtotal	43,052	43,034	18
All Other Disbursements	53,180	53,180	-
Total Disbursements	96,232	96,214	18

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2017-18

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,181	51,155	(974)
Consumer Taxes	16,208	16,247	(39)
Business Taxes	7,747	7,726	21
Other Taxes (incl. MTA Payroll)	3,409	3,451	(42)
Total Taxes	*77,545*	*78,579*	*(1,034)*
General Fund Miscellaneous Receipts	2,486	2,486	-
Lottery	3,229	3,229	-
Subtotal	83,260	84,294	(1,034)
Other Miscellaneous Receipts	12,860	12,860	-
Federal Grants	75	75	-
Total Receipts	96,195	97,229	(1,034)
Disbursements:			
Elementary and Secondary Education	25,898	25,898	-
DOH Medicaid (incl. administration)	18,965	18,965	-
Public Assistance	496	470	26
Subtotal	45,359	45,333	26
All Other Disbursements	55,836	55,836	-
Total Disbursements	101,195	101,169	26

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2018-19

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,141	51,134	(993)
Consumer Taxes	16,840	16,832	8
Business Taxes	7,886	7,857	29
Other Taxes (incl. MTA Payroll)	3,457	3,534	(77)
Total Taxes	*78,324*	*79,357*	*(1,033)*
General Fund Miscellaneous Receipts	2,455	2,455	-
Lottery	3,129	3,129	-
Subtotal	83,908	84,941	(1,033)
Other Miscellaneous Receipts	13,179	13,179	-
Federal Grants	75	75	-
Total Receipts	97,162	98,195	(1,033)
Disbursements:			
Elementary and Secondary Education	27,196	27,196	-
DOH Medicaid (incl. administration)	19,854	19,854	-
Public Assistance	501	473	28
Subtotal	47,551	47,523	28
All Other Disbursements	57,288	57,288	-
Total Disbursements	104,839	104,811	28

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2016-17

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	47,877	48,864	(987)
Consumer Taxes	16,103	16,125	(22)
Business Taxes	8,198	7,994	204
Other Taxes (incl. MTA Payroll)	3,532	3,519	13
Total Taxes	*75,710*	*76,502*	*(792)*
General Fund Miscellaneous Receipts	3,006	2,826	180
Lottery	3,321	3,321	-
Subtotal	82,037	82,649	(612)
Other Miscellaneous Receipts	17,945	17,945	-
Federal Grants	51,764	51,764	-
Total Receipts	151,746	152,358	(612)
Disbursements:			
Elementary and Secondary Education	27,450	27,450	-
DOH Medicaid (incl. administration)	50,167	50,167	-
Public Assistance	1,583	1,552	31
Subtotal	79,200	79,169	31
All Other Disbursements	76,536	76,536	-
Total Disbursements	155,736	155,705	31

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2017-18

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,181	51,155	(974)
Consumer Taxes	16,813	16,858	(45)
Business Taxes	8,349	8,323	26
Other Taxes (incl. MTA Payroll)	3,527	3,570	(43)
Total Taxes	*78,870*	*79,906*	*(1,036)*
General Fund Miscellaneous Receipts	2,486	2,486	-
Lottery	3,229	3,229	-
Subtotal	84,585	85,621	(1,036)
Other Miscellaneous Receipts	20,203	20,203	-
Federal Grants	52,773	52,773	-
Total Receipts	157,561	158,597	(1,036)
Disbursements:			
Elementary and Secondary Education	29,121	29,121	-
DOH Medicaid (incl. administration)	52,466	52,466	-
Public Assistance	1,578	1,541	37
Subtotal	83,165	83,128	37
All Other Disbursements	80,412	80,412	-
Total Disbursements	163,577	163,540	37

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2018-19

(in millions of dollars)

	Office of the State Comptroller	Division of the Budget	Difference
Receipts:			
Personal Income Tax	50,141	51,134	(993)
Consumer Taxes	17,451	17,445	6
Business Taxes	8,480	8,448	32
Other Taxes (incl. MTA Payroll)	3,572	3,653	(81)
Total Taxes	*79,644*	*80,680*	*(1,036)*
General Fund Miscellaneous Receipts	2,455	2,455	-
Lottery	3,129	3,129	-
Subtotal	85,228	86,264	(1,036)
Other Miscellaneous Receipts	19,762	19,762	-
Federal Grants	53,531	53,531	-
Total Receipts	158,521	159,557	(1,036)
Disbursements:			
Elementary and Secondary Education	30,316	30,316	-
DOH Medicaid (incl. administration)	54,297	54,297	-
Public Assistance	1,576	1,534	42
Subtotal	86,189	86,147	42
All Other Disbursements	80,672	80,672	-
Total Disbursements	166,861	166,819	42

Sources: Office of the State Comptroller, Division of the Budget
Note: Figures may not total due to rounding.

Contact

Office of the New York State Comptroller
110 State Street, 15th Floor
Albany, New York 12236

(518) 474-4015

www.osc.state.ny.us

Prepared by the Office of Budget and Policy Analysis

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