Report on the State Fiscal Year 2016-17 Enacted Budget Financial Plan and Capital Program and Financing Plan

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

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Message from the Comptroller

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Each year when the State's budget is enacted, much attention understandably is devoted to its immediate impact. But New York's history shows that we also need to pay attention to the longer term. Too often in the past, a focus on the short term has resulted in problems down the road. In that context, this report on the State Fiscal Year 2016-17 Enacted Budget Financial Plan and the associated Capital Program and Financing Plan raises several important concerns.

Based on the Division of the Budget's projections of disbursements and receipts in coming years, my office estimates that the State faces potential budget gaps averaging nearly $5 billion annually over the three fiscal years starting in 2017-18 – substantially more than projected in this year's Executive Budget. One reason for those potential gaps is the use of more than $5.9 billion in temporary or non-recurring resources in this year's budget. Spending on major programs including school aid and Medicaid is projected to increase in coming years at rates higher than the average for the previous decade. And a broad new program of personal income tax reductions enacted this year will have a major impact on State revenues starting within the next few years.

To be sure, the State has some rainy day reserves and certain undesignated fund balances that could be available in case of an economic downturn or catastrophic event. But the Financial Plan projects that, within the four-year plan period, the State will use up most of the budgetary cushion it has accumulated primarily from billions of dollars in recent monetary settlements. Moreover, our rainy day reserves are at low levels compared to those in many other states.

These and other concerns outlined in this report provide further evidence of the need for State fiscal reforms such as those that I proposed earlier this year. For example, my reform package would require steps to boost budgetary reserves, and to highlight the future budget impact of current-year actions. These reforms are intended to increase attention to the need for structural balance and thus reduce the risk of future budget crises. Further, increasing budgetary reserves could better position the State to respond in the event of unexpected challenges. Other reform proposals would improve the State's use of debt and its capital planning, two other issues discussed in this report. The goal, as always, must be to ensure that New Yorkers' tax dollars and other public resources are used cost-effectively and in ways that meet the highest standards of transparency and accountability.

Thomas P. DiNapoli
State Comptroller

Table of Contents

I. EXECUTIVE SUMMARY....1
II. SFY 2016-17 FINANCIAL PLAN OVERVIEW....4
III. STRUCTURAL IMBALANCE....15
IV. RESERVES....23
V. DEBT AND CAPITAL....25
VI. ECONOMIC OVERVIEW....37
VII. RISKS TO THE FINANCIAL PLAN....39
VIII. APPENDICES....41

I. Executive Summary

The State Fiscal Year (SFY) 2016-17 Enacted Budget Financial Plan reflects the State's commitment to increase funding for education, health care, transportation and certain other purposes, with All Funds spending growth projected at 3.6 percent. The State entered its current fiscal year with an exceptionally large General Fund balance of $8.9 billion, which enhances budgetary flexibility in the near term and is expected to support increased capital investment and other purposes over multiple years.

The Financial Plan projects that All Funds tax receipts will increase by nearly $2.5 billion or 3.3 percent this year, a softening from SFY 2015-16 growth of 5.1 percent. The Enacted Budget includes a broad program of personal income tax (PIT) reductions that are projected to reduce State revenues by $236 million in SFY 2017-18 and by $4.2 billion when fully phased in by 2025.

The Financial Plan projects limited growth in State Operating Funds disbursements of 2.0 percent, despite significantly higher percentage increases in major categories such as school aid and State-funded Medicaid. Using the figures presented in the Financial Plan as a baseline and adjusting for certain prepayments, the Office of the State Comptroller estimates that State Operating Funds spending will rise by 3.6 percent this fiscal year.

The Financial Plan outyear projections are based on an assumption of holding annual spending growth from State Operating Funds to no more than 2 percent and include planned savings from unspecified actions to achieve that goal. These unspecified actions are not included in the disbursement projections, but instead are presented as a separate line in the Financial Plan tables labeled "Adherence to 2% Spending Benchmark."

In recent years, using this presentation, the Executive has portrayed surpluses in the outyears of the Financial Plan. For the first time since use of this presentation began, the Enacted Budget Financial Plan shows that even if State Operating Funds spending growth is held to 2 percent, outyear gaps will occur beginning in SFY 2018-19.

The Office of the State Comptroller estimates that, based on projections of disbursements and receipts by the Division of the Budget (DOB), but not including the unspecified savings described above, the State faces potential budget gaps averaging just less than $5 billion annually over the three fiscal years starting in SFY 2017-18. Total potential gaps over the four-year Financial Plan period are nearly double those reflected in the SFY 2016-17 Executive Budget Financial Plan. One factor underlying such projected gaps is the Enacted Budget's reliance on $5.9 billion in temporary or non-recurring resources, excluding federal aid for disaster assistance.

The Enacted Budget Capital Program and Financing Plan projects spending from capital projects funds to total nearly $63.5 billion over the next five years, an increase of just under $2.8 billion from the Executive Budget. Projected average annual spending of $12.7 billion would be 41 percent higher than the average over the past five years.

The combined balance in the State's two main statutory reserve funds (Tax Stabilization Reserve and Rainy Day Reserve) as of March 31, 2016, was unchanged from the previous year and is expected to remain at its current $1.8 billion through this fiscal year. The General Fund balance as of that date included just over $7 billion in what DOB informally considers an unrestricted reserve for various purposes, some of which could be available to supplement statutory reserves in the event of an economic downturn or catastrophic event. These unrestricted reserves are projected to decline to $1.4 billion by SFY 2019-20.

Other key points in this report include:

- All Funds disbursements are projected to increase $5.4 billion or 3.6 percent, to $156.1 billion, in SFY 2016-17. While the Financial Plan presents projected All Funds spending as $148.2 billion, this figure excludes certain federal funding for health care and disaster-related aid.

- While the Executive has set a goal of limiting annual spending growth from State Operating Funds to 2.0 percent, spending in two of the State's largest programs is expected to increase at significantly higher rates in coming years. School aid is projected to increase 4.8 percent this fiscal year and an average 5.3 percent over the remaining three fiscal years in the Financial Plan period. Medicaid spending is expected to rise 2.4 percent this year, but by an average 4.5 percent in the following three years. Spending on State operations is projected to decline slightly this year and then rise by an average 0.9 percent annually during the rest of the Plan period.

- All Funds receipts, including miscellaneous receipts and federal aid, are projected to decrease by $919 million or 0.6 percent this year. The decline is largely attributable to an expected reduction in monetary settlement receipts and a smaller transfer from the State Insurance Fund (SIF), down from $1 billion in the previous year.

- All Funds PIT collections in the first three months of SFY 2016-17 were nearly $600 million lower than projected in the Enacted Budget Financial Plan issued in May 2016 and nearly $1.2 billion lower than February 2016 projections.

- The $5.9 billion in temporary or non-recurring resources in this year's budget includes more than $2.3 billion in revenue from a top PIT rate of 8.82 percent on certain higher-income taxpayers that is scheduled to expire at the end of 2017, when the top rate is reduced to 6.85 percent. Another $1.5 billion is from prepayments of personal income tax refunds and debt service. Other temporary or one-time resources are from the SIF, Mortgage Insurance Fund and other funds. The use of temporary resources to meet recurring expenses contributes to the State's structural deficit, increasing the difficulty of achieving budget balance in future years.

- The largest share of projected capital financing over the next five years, at more than 51 percent of the total, is "backdoor" public authority borrowing which is not approved by voters. While the Capital Plan projects $350 million in spending from the voter-approved Smart Schools Bond Act Program this fiscal year and anticipates that the $2 billion authorized from the program will be fully disbursed over five years, voter-approved, State General Obligation bonds are expected to support just 4 percent of capital investments over the Capital Plan period. The remaining 45 percent is expected to be financed with federal resources or State cash resources (pay-as-you-go).

- Capital projects funds disbursements for transportation purposes, the largest element of overall capital projects funds spending, are projected to total $25.7 billion over the five-year Capital Plan period, compared to $22.2 billion over the preceding five years. Such spending is also expected to increase significantly in the area of economic development, and in mental health, health and social welfare, among others, while declining in higher education.

- The State's capital projects funds ended SFY 2015-16 with a negative aggregate closing balance more than double the negative end-of-year balance three years earlier, excluding the Dedicated Infrastructure Investment Fund (DIIF). Negative balances of more than $900 million are projected for each of the five years in the Capital Plan period.

- DOB projects that statutory State-Supported debt capacity will decline from $4.9 billion in SFY 2015-16 to $105 million in SFY 2019-20. This figure assumes certain actions by DOB to preserve debt capacity, including the deferral of certain debt issuances, use of certain monetary settlement resources to support capital spending outside the DIIF, the re-estimation of capital projects spending, and a change in the financing of State University dormitories that makes such borrowing not subject to the statutory debt caps.

- Annual State-Funded debt service is projected to increase 23.1 percent from the current year through the end of the Capital Plan period, reaching nearly $8.5 billion in SFY 2020-21.

II. SFY 2016-17 Financial Plan Overview

The SFY 2016-17 Enacted Budget Financial Plan released in May by the Division of the Budget (DOB) projects increased All Funds disbursements of $5.4 billion or 3.6 percent over SFY 2015-16, bringing total All Funds disbursements to $156.1 billion.[1] Approximately $2.9 billion of this increase reflects State and federal spending from capital projects funds, and another nearly $2 billion (including federal dollars) goes to school aid. Some $1.1 billion of the increase is federal Medicaid funds related to the Affordable Care Act (ACA) and health care reform. These increases are partially offset by projected declines in spending for public protection and parks. DOB estimates that State Operating Funds disbursements will increase $1.9 billion or 2 percent over last year, compared to the projected rate of inflation of 1.4 percent. General Fund disbursements are projected to increase by $3.8 billion or 5.6 percent over SFY 2015-16.

The Enacted Budget Financial Plan projects All Funds receipts for SFY 2016-17 to be $152.3 billion, representing a decline of $919 million or 0.6 percent from SFY 2015-16. State Operating Funds receipts are projected to be $94.6 billion, representing a decline of nearly $2 billion or 2 percent from SFY 2015-16 levels. DOB projects General Fund receipts to be nearly $69 billion in SFY 2016-17, representing a decline of $700 million or 1.0 percent.

All Funds personal income tax (PIT) collections in the first three months of SFY 2016-17 were approximately $600 million lower than the Enacted Budget Financial Plan, and nearly $1.2 billion lower than February 2016 projections. Primarily as a result of the lower April receipts, DOB adjusted certain PIT projections and expenditure assumptions in the Financial Plan, as compared to preliminary figures in the Financial Plan Update that accompanied the SFY 2016-17 Executive Budget.

The Enacted Budget Financial Plan includes nearly $7.1 billion in temporary and non-recurring resources, of which $5.9 billion is State-sourced, with the majority of this total having been enacted in previous budgets. Such temporary resources are among the factors leading to potential budget gaps in future years. The Financial Plan's outyear projections assume the adoption of budgets with no more than an annual increase of 2 percent in State Operating Funds spending, but do not specify how such targets will be met.[2] However, DOB projects that even with State Operating Funds spending growth held to 2 percent, gaps of $841 million and $399 million would occur in SFY 2018-19 and SFY 2019-20, respectively. If spending were to increase as projected before actions to meet the 2 percent benchmark, outyear gaps would reach $6.9 billion by SFY 2019-20.

[1] The FY 2017 Enacted Budget Financial Plan is available at https://www.budget.ny.gov/budgetFP/FY2017FP.pdf.
[2] Disbursements in the Financial Plan do not reflect the assumed savings, which are identified as a separate line in the tables entitled "Adherence to 2% Spending Benchmark."

All Funds Disbursements

All Funds disbursements are projected to total $156.1 billion, an increase of 3.6 percent, or $5.4 billion, over SFY 2015-16 and $1.5 billion higher than projected in the Executive Budget. This projected growth over SFY 2015-16 is $2.9 billion higher than the growth projected in the Executive Budget Financial Plan, reflecting, in part, spending added by the Legislature and the Executive in the final budget agreement. In addition, actual spending in SFY 2015-16 from All Funds was nearly $1.4 billion lower than anticipated when the Financial Plan was updated in February.

The majority of the projected growth in All Funds spending occurs in the General Fund (increased by just over $3 billion or 5.3 percent, not including transfers to other funds) as well as State capital projects funds (up $3.2 billion, or nearly 46 percent, largely because of new additions in spending as well as delayed spending from SFY 2015-16). Federal spending from non-capital funds is projected to increase $566 million, or 1.2 percent. Federal spending for capital purposes is projected to decline $239 million, or 11.7 percent, from levels in SFY 2015-16. Spending from debt service funds and State special revenue funds is projected to decline, also offsetting projected growth by $393 million and $730 million respectively.

Based on the Enacted Budget, local assistance grants from All Funds are projected to increase 4.2 percent, or $4.6 billion, as compared to an increase of $1.6 billion, or 1.4 percent, in the Executive Budget. Departmental operations spending is projected to decline $157 million, or less than 1 percent, as compared to an increase of $9 million in the Executive Budget. General State Charges is projected to increase 1.7 percent, or $131 million, as compared to 4.2 percent, or $323 million, in the Executive Budget. Spending for capital projects is projected to increase 19 percent, or $1.2 billion, as compared to $577 million, or 8.4 percent, in the Executive Budget. Debt service, which is affected by prepayments, is expected to decline 7.1 percent, or $395 million, compared to a slight increase ($3 million) in the Executive Budget. However, if prepayments are adjusted out, debt service is projected to increase by $965 million, or nearly 20 percent, from SFY 2015-16.

All Funds Receipts

All Funds receipts are expected to decline 0.6 percent, or $919 million, in SFY 2016-17, as shown in Figure 1. This is primarily due to a $3.7 billion decline in miscellaneous receipts (13.6 percent), reflecting the loss of major one-time revenue sources including monetary settlements received in SFY 2015-16, as well as a $750 million decline in transfers from the State Insurance Fund. This decline is partially offset by projected growth in taxes and federal receipts. Federal receipts were initially anticipated to decline by $1.2 billion. However, largely because federal receipts were more than $1 billion lower than anticipated in SFY 2015-16, the Enacted Budget Financial Plan projects that federal receipts will increase $327 million or 0.6 percent in SFY 2016-17, to $51.7 billion.

Figure 1

All Governmental Funds Receipts
(in millions of dollars)

	SFY 2015-16 Estimate (30-day amendments)	SFY 2016-17 Executive Proposal	Dollar Growth	Percentage Growth	SFY 2015-16 Actual	SFY 2016-17 Enacted	Dollar Growth	Percentage Growth
Receipts:								
Personal Income Tax	47,093	49,960	2,867	6.1%	47,055	49,464	2,409	5.1%
Consumption and Use Taxes	15,640	16,135	495	3.2%	15,725	16,134	409	2.6%
Business Taxes	8,406	8,018	(388)	-4.6%	7,884	7,994	110	1.4%
Other Taxes	3,944	3,512	(432)	-11.0%	4,009	3,536	(473)	-11.8%
Total Taxes	*75,083*	*77,625*	*2,542*	*3.4%*	*74,673*	*77,128*	*2,455*	*3.3%*
Miscellaneous Receipts	26,333	24,159	(2,174)	-8.3%	27,268	23,567	(3,701)	-13.6%
Federal Grants	52,328	51,133	(1,195)	-2.3%	51,324	51,651	327	0.6%
Total Receipts	**153,744**	**152,917**	**(827)**	**-0.5%**	**153,265**	**152,346**	**(919)**	**-0.6%**

Source: Division of the Budget

Tax receipts are expected to total $77.1 billion, representing an increase of 3.3 percent, or just under $2.5 billion. This projection is slightly less than anticipated in the Executive Budget, primarily due to an adjustment to projected personal income tax (PIT) receipts. While projected PIT receipts for SFY 2016-17 were adjusted downward by $496 million to reflect lower-than-estimated April tax collections, PIT collections are still projected to increase 5.1 percent or $2.4 billion over SFY 2015-16.

Part of this growth reflects an adjustment by DOB to the administrative cap on PIT refunds paid in the final quarter of the previous fiscal year. In SFY 2015-16, DOB increased the administrative cap on refunds by $600 million from the actual SFY 2014-15 level and by $800 million from SFY 2015-16 Enacted Budget projections to $2.55 billion, resulting in a higher-than-expected level of refunds paid for the year, while reducing refunds projected for SFY 2016-17. Without this change, the General Fund balance at the end of SFY 2015-16 would have been higher. In the SFY 2016-17 Enacted Budget Financial Plan, DOB has lowered the administrative cap on refunds to be paid annually within the final quarters of SFY 2016-17 through SFY 2019-20 to $1.75 billion.

State Operating Funds Disbursements

The Financial Plan projects spending from State Operating Funds will increase 2 percent from actual levels in SFY 2015-16.[3] Figure 2 illustrates where growth in spending from State Operating Funds is projected to occur during SFY 2016-17. Almost all net State Operating Funds spending growth comes in the areas of school aid, Medicaid and transportation. These increases are offset by a significant projected decline in debt service related to the timing of payments.

[3] State Operating Funds are made up of the General Fund, State-sourced special revenue funds and Debt Service funds. Federally funded grants are not included, nor is any capital spending (State or federal).

Figure 2

Spending Growth from State Operating Funds
SFY 2015-16 Actual to SFY 2016-17 Enacted Budget Financial Plan
(in millions of dollars)

	SFY 2015-16 Actual	SFY 2016-17 Enacted	Dollar Growth	Percentage Growth	Dollar Growth as Percentage of Total
Local Assistance Grants					
Economic Development Government Oversight	231	289	58	25.3%	3.1%
Parks and Environment	14	14	(0)	-1.5%	0.0%
Transportation	4,745	4,952	207	4.4%	10.9%
DOH Medicaid inc. Administration	17,434	17,850	416	2.4%	22.0%
Other Health	1,794	1,976	183	10.2%	9.7%
Social Welfare	2,967	2,942	(25)	-0.8%	-1.3%
Mental Hygiene	2,646	2,570	(75)	-2.9%	-4.0%
Public Protection/Criminal Justice	263	328	65	24.7%	3.4%
Higher Education	2,955	3,031	76	2.6%	4.0%
School Aid	23,302	24,422	1,120	4.8%	59.2%
Other Education	5,458	5,599	141	2.6%	7.5%
General Government	264	264	0	0.1%	0.0%
Local Government Assistance	771	754	(17)	-2.2%	-0.9%
Other	(189)	(103)	86	-45.7%	4.6%
Total Local Assistance Grants	62,653	64,889	2,236	3.6%	118.2%
Personal Service	12,981	12,841	(140)	-1.1%	-7.4%
Non-Personal Service	5,602	5,693	91	1.6%	4.8%
Total Departmental Operations	18,583	18,534	(49)	-0.3%	-2.6%
General State Charges	7,452	7,551	99	1.3%	5.2%
Debt Service	5,598	5,203	(395)	-7.1%	-20.9%
Capital Projects	2	3	1	50.0%	0.1%
Total Disbursements	**94,288**	**96,180**	**1,892**	**2.0%**	**100.0%**

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

As shown in Figure 3, actual State Operating Fund disbursements in SFY 2015-16 totaled $94.3 billion, or approximately $38.5 million higher than initially anticipated and close to the last projections released in February. This disbursement figure reflects nearly $750 million in payments originally planned for SFY 2016-17 that instead were made during the preceding year, as well another $140 million for workers' compensation costs normally paid from the General Fund that will instead be paid off-budget in SFY 2016-17.

These adjustments have a significant impact on projected growth for SFY 2016-17. Figures 2 and 3 reflect not only negotiated changes to the Executive proposal, but also any changes associated with timing issues that occurred after the February Financial Plan Update.

Figure 3 illustrates how projected spending growth increased from 1.7 percent in the Executive proposal to 2 percent in the Enacted Budget Financial Plan.

Figure 3

Comparison of Growth in Projected State Operating Funds Receipts and Disbursements: Executive Budget and Enacted Budget Financial Plans

(in millions of dollars)

	SFY 2015-16 Estimate (from February 2016)	SFY 2016-17 Executive Proposal	Dollar Growth	Percentage Growth	SFY 2015-16 Actual	SFY 2016-17 Enacted	Dollar Growth	Percentage Growth
Receipts:								
Personal Income Tax	47,093	49,960	2,867	6.1%	47,055	49,464	2,409	5.1%
Consumption and Use Taxes	15,019	15,585	566	3.8%	15,090	15,579	489	3.2%
Business Taxes	7,778	7,402	(376)	-4.8%	7,244	7,372	128	1.8%
Other Taxes	3,825	3,393	(432)	-11.3%	3,890	3,417	(473)	-12.2%
Total Taxes	*73,715*	*76,340*	*2,625*	*3.6%*	*73,279*	*75,832*	*2,553*	*3.5%*
Miscellaneous Receipts	21,547	18,561	(2,986)	-13.9%	23,255	18,733	(4,522)	-19.4%
Federal Grants	74	74	-	0.0%	73	74	1	1.4%
Total Receipts	**95,336**	**94,975**	**(361)**	**-0.4%**	**96,607**	**94,639**	**(1,968)**	**-2.0%**
Total Local Assistance Grants	63,032	64,328	1,296	2.1%	62,653	64,889	2,236	3.6%
Departmental Operations								
Personal Service	12,957	12,809	(148)	-1.1%	12,981	12,841	(140)	-1.1%
Non-Personal Service	5,521	5,667	146	2.6%	5,602	5,693	91	1.6%
Total Departmental Operations	18,478	18,476	(2)	0.0%	18,583	18,534	(49)	-0.3%
General State Charges	7,326	7,636	310	4.2%	7,452	7,551	99	1.3%
Debt Service	5,452	5,455	3	0.1%	5,598	5,203	(395)	-7.1%
Capital Projects	1	3	2	100.0%	2	3	1	50.0%
Total Disbursements	**94,289**	**95,898**	**1,609**	**1.7%**	**94,288**	**96,180**	**1,892**	**2.0%**

Source: Division of the Budget

State Operating Funds Receipts

State Operating Funds receipts are projected to decline 2 percent, or nearly $2 billion from SFY 2015-16 levels, primarily because of a projected decline in monetary settlement revenues within miscellaneous receipts, offset by growth of 3.5 percent for tax collections in this category. Projected growth in tax receipts in State Operating Funds is primarily in PIT and consumption and use tax collections. This growth is offset by a projected 12.2 percent ($473 million) decline in other taxes, primarily the estate tax.

General Fund Disbursements

Disbursements from the General Fund, including transfers to other funds, are projected to increase 5.6 percent, or $3.8 billion, to $71.8 billion in SFY 2016-17, compared to the decline of 2.7 percent or $1.9 billion projected in the Executive Budget Financial Plan. As shown in Figure 4, this variance of $5.7 billion is primarily because actual disbursements in SFY 2015-16 were more than $4.5 billion lower than the last projections included in the Executive Budget

Financial Plan.[4] Disbursements in SFY 2016-17 are $1.2 billion higher in the Enacted Budget Financial Plan than in the Executive Budget Financial Plan primarily because of spending added in negotiations, but also because some spending that did not occur in SFY 2015-16 is now expected in SFY 2016-17.

The most significant change in the General Fund between the projections in the Executive Budget Financial Plan and the Enacted Budget Financial Plan is the treatment of a portion of the monetary settlement dollars ($6.4 billion) that were received in SFY 2014-15 and SFY 2015-16.

The SFY 2015-16 Enacted Budget created a new capital projects fund called the Dedicated Infrastructure Investment Fund (DIIF), and included appropriations totaling $4.55 billion from that Fund. It also provided authority to transfer $4.55 billion from the General Fund (where the majority of monetary settlements have been collected) to the DIIF.[5] However, only $857 million of the $4.55 billion was actually transferred in SFY 2015-16, leaving the remaining $3.7 billion in the General Fund.

Primarily as a result of this, total General Fund spending was below projections in SFY 2015-16 by approximately $4.5 billion. This has a significant impact on the reported and projected growth of General Fund spending. The transfer authority was extended in the SFY 2016-17 Enacted Budget. However, DOB has changed both the timing of transfers to the DIIF and the planned use of the funds. For a more detailed discussion of this issue, see the subsection entitled Use of Monetary Settlements within the Structural Imbalance section as well as the Debt and Capital section within this report.

General Fund Receipts

DOB projects General Fund receipts will decline 1 percent or $700 million from SFY 2015-16 levels, primarily due to the loss of monetary settlement revenue. General Fund tax revenues, including transfers from debt service funds, are expected to increase 4.1 percent or $2.5 billion. Without transfers from debt service funds, General Fund tax collections are projected to increase $1.8 billion or 3.9 percent. This is approximately $128 million higher than the growth projected in the Executive Budget.

Figure 4 compares changes in General Fund receipts and disbursements from SFY 2015-16 to SFY 2016-17 as reflected in the Executive Budget projections and those in the Enacted Budget, and the difference between the two. This figure shows significant changes in Transfers to Other Funds, largely related to timing, and Transfers from Other Funds, where approximately $250 million in non-recurring transfers/sweeps were included in the Enacted Budget.

[4] The Financial Plan that accompanies the Executive Budget also includes the Third Quarter Update of the then-current fiscal year. The Financial Plan that accompanies the 21-day or 30-day amendments to the Executive Budget represents the last projections for the then-current fiscal year.
[5] In the General Fund, transfers *to* other funds are counted with total spending, just as transfers *from* other funds are counted in total receipts. This is not done with All Funds or State Operating Funds, as it would lead to double counting.

Figure 4

Comparison of Projected General Fund Receipts and Disbursements Growth: Executive Budget and Enacted Budget Financial Plans

(in millions of dollars)

	SFY 2015-16 Estimate (30-day amendments)	SFY 2016-17 Executive Proposal	Dollar Growth	Percentage Growth	SFY 2015-16 Actual	SFY 2016-17 Enacted	Dollar Growth	Percentage Growth	Difference SFY 2015-16 Estimate to Actual	Difference SFY 2016-17 Proposed to Enacted
Receipts:										
Personal Income Tax	31,983	34,242	2,259	7.1%	31,957	33,870	1,913	6.0%	(26)	(372)
Consumption and Use Taxes	6,781	7,089	308	4.5%	6,819	7,087	268	3.9%	38	(2)
Business Taxes	6,202	5,776	(426)	-6.9%	5,647	5,750	103	1.8%	(555)	(26)
Other Taxes	1,466	986	(480)	-32.7%	1,540	1,045	(495)	-32.1%	74	59
Total Taxes	*46,432*	*48,093*	*1,661*	*3.6%*	*45,963*	*47,752*	*1,789*	*3.9%*	*(469)*	*(341)*
Miscellaneous Receipts	5,820	2,642	(3,178)	-54.6%	5,842	2,813	(3,029)	-51.8%	22	171
Federal Grants	-	-	-	0.0%	-	-	-	0.0%	-	-
Transfers from Other Funds	18,042	18,048	6	0.0%	17,871	18,411	540	3.0%	(171)	363
Total Receipts	**70,294**	**68,783**	**(1,511)**	**-2.1%**	**69,676**	**68,976**	**(700)**	**-1.0%**	**(618)**	**193**
Disbursements:										
Total Local Assistance Grants	44,153	45,427	1,274	2.9%	43,314	45,957	2,643	6.1%	(839)	530
Total Departmental Operations	8,222	8,234	12	0.1%	7,955	8,299	344	4.3%	(267)	65
General State Charges	5,188	5,472	284	5.5%	5,397	5,425	28	0.5%	209	(47)
Total Transfers to Other Funds	15,020	11,503	(3,517)	-23.4%	11,376	12,160	784	6.9%	(3,644)	657
Total Disbursements	**72,583**	**70,636**	**(1,947)**	**-2.7%**	**68,042**	**71,841**	**3,799**	**5.6%**	**(4,541)**	**1,205**

Source: Division of the Budget

General Fund Current Services Gap

The Executive Budget projected a current services gap, the difference between expected revenues and the estimated cost of current services, of $1.8 billion. In addition to that gap, the Enacted Budget included $1.2 billion in new initiatives and restorations. The Enacted Budget Financial Plan reflected $389 million in re-estimates of certain receipts and spending. Overall changes of $1.6 billion from the Executive Budget Financial Plan to the Enacted Budget Financial Plan include the following:[6]

- $663 million in new spending added to the Executive Budget proposal, primarily in school aid, other education and human services.
- $518 million to restore various proposed Executive Budget reductions in local assistance and spending for departmental operations, including elimination of proposals to increase New York City's share of Medicaid costs and to change financing for the City University of New York.
- $389 million in reduced projections for General Fund tax collections, largely in response to lower-than-anticipated PIT collections in April 2016, as well as costs associated with higher public assistance caseloads and the minimum wage increase.

[6] See Figure 11 for outyear projections of the impact of gap-closing actions.

- $17 million in additional tax reductions in SFY 2016-17. The tax changes added to the Enacted Budget are projected to decrease receipts more than $1 billion in later years, compared to the Executive's proposal.

DOB identifies $1.6 billion in new General Fund resources to cover the additional spending, restorations, tax reductions, and revised estimates of receipts. These include:

- $576 million in updated aid claims for expense-based school aid and School Tax Relief (STAR) in which reimbursable costs are anticipated to decline compared to initial projections.

- $256 million in prepayments made in SFY 2015-16 that will lower costs in SFY 2016-17 (in addition to already planned prepayments).

- $300 million in additional transfers initially expected in SFY 2015-16 that DOB now anticipates will occur in SFY 2016-17.

- $455 million associated with the use of reserves, and anticipated savings from other spending revisions and management actions.

According to the estimates provided in the Financial Plan, the General Fund gap-closing plan contains actions to keep the General Fund in balance for SFY 2016-17. Figure 5 compares the Executive's proposed gap-closing plan to the plan included in the Enacted Budget Financial Plan. The largest categories of change from the Executive Budget are the use of non-recurring resources and actions (which reduce the gap on a temporary basis), recurring new revenue actions, and new initiatives (which add to the gap, typically on a recurring basis).

Figure 5

Comparison of Current Services Gap-Closing Plan
SFY 2016-17 Executive Budget and SFY 2016-17 Enacted Budget
(in millions of dollars)

	Proposed	Enacted	Difference
Current Services Gap - SFY 2016-17	**(1,781)**	**(1,781)**	**-**
Non-Recurring and Temporary Resources and Costs	709	1,665	956
Recurring Revenue Actions (including revenue re-estimates)	(229)	(579)	(350)
State Operations Reductions	397	200	(197)
Capital and Debt Management	91	185	94
Local Assistance Reductions	1,177	1,420	243
Recurring New Initiatives	(4)	(631)	(627)
All Other (Including re-estimates)	(360)	(479)	(119)
Remaining Gap In Enacted Budget Financial Plan	**-**	**-**	**-**

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

State Operating Funds Projections Adjusted for Prepayments and Other Actions

The Executive has instituted a nonstatutory goal of limiting annual growth in spending from State Operating Funds to 2 percent or lower, and has worked with the Legislature for the past five years to enact budgets intended to reflect that goal. Spending from State Operating Funds grew at an annual average rate of 4.2 percent from SFY 2003-04 through SFY 2012-13. Changes to school aid, Medicaid, State agency operations and other expenditure areas over the last five years have significantly reduced actual and projected spending growth.

However, these reported and projected levels of spending growth are influenced by the use of budget management and other actions to shape apparent levels of growth. Such factors include: the use of prepayments which, under the cash basis of accounting used in the State Financial Plan and Capital Plan, show spending in the year that the disbursement occurs rather than the year in which it was initially planned; certain program restructurings which result in costs being reflected as lower receipts rather than as disbursements; shifting of spending to capital projects funds; and the use of off-budget resources to pay for certain program costs.

Figure 6 illustrates that prepayments made in SFY 2015-16 have the effect of increasing spending or reducing receipts (in the case of PIT refunds) in that year and reducing spending and increasing receipts in SFY 2016-17, making disbursement growth appear smaller and receipts growth appear larger than they would have been had the payments been made when due or originally expected. While prepayments may be both an indicator of improved cash position and a fiscal management tool, the impact of such actions should be clearly identified, to avoid the presentation of a potentially misleading picture of growth trends. If projections were adjusted to offset the impact of implemented and planned prepayments identified in the Financial Plan, projected spending growth from State Operating Funds in SFY 2016-17 would increase from 2 percent to 3.6 percent.

The Enacted Budget includes several other actions that further complicate the analysis of spending growth from SFY 2015-16 to SFY 2016-17. Such actions include the STAR program restructuring that shifts costs from spending to revenue ($184 million), the use of off-budget funds for certain workers' compensation expenses ($140 million), and shifts in spending to the capital projects funds, including $44 million for Supportive Housing, $5 million for Dedicated Mass Transportation purposes, $3 million in expenses to the Dedicated Highway and Bridge Trust Fund and $12 million for certain Agriculture and Markets programs that were moved off-budget. These actions have the effect of changing the spending growth picture in the entire budget, not just State Operating Funds.

Figure 6

SFY 2016-17 Enacted Budget Financial Plan
State Operating Funds Adjusted to Reflect Prepayments[7]

(in millions of dollars)

	SFY 2015-16 Actual	SFY 2016-17 Projected	Dollar Growth	Percentage Change
Unadjusted State Operating Funds Receipts	**96,607**	**94,639**	**(1,968)**	**-2.0%**
Receipts:				
Total Taxes	73,279	76,340	3,061	4.2%
Adjustment for SFY 2015-16 PIT Refund Prepayment	800	(800)		
Total Adjusted Taxes	*74,079*	*75,540*	1,461	2.0%
Miscellaneous Receipts	23,255	18,733	(4,522)	-19.4%
Federal Funds	73	74	1	1.4%
Adjusted State Operating Funds Receipts	**97,407**	**94,347**	**(3,060)**	**-3.1%**
Unadjusted State Operating Funds Disbursements	**94,288**	**96,180**	**1,892**	**2.0%**
Disbursements:				
Grants to Local Governments	62,653	64,889	2,236	3.6%
State Operations	18,583	18,534	(49)	-0.3%
General State Charges	7,452	7,551	99	1.3%
Adjustment for 2016-17 Workers' Compensation Prepayment	(37)	37		
Adjusted General State Charges	*7,415*	*7,588*	*173*	*2.3%*
Debt Service	5,598	5,203	(395)	-7.1%
Adjustment for SFY 2016-17 Debt Service Prepayment	(710)	710		
Adjustment for SFY 2017-18 Debt Service Prepayment		(60)		
Adjusted Debt Service	*4,888*	*5,853*	*965*	*19.7%*
Capital Projects	1	3	2	200.0%
Adjusted State Operating Funds Disbursements	**93,540**	**96,867**	**3,327**	**3.6%**

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

An overall measure of such changes is difficult to determine and analyze because several of these actions are not clearly delineated, and the Financial Plan does not include an overall summary of their impact on year-to-year growth. For example, while the DIIF was created as a capital projects fund, and DIIF appropriations are contained in the Capital Projects budget bill, resources in the DIIF are not limited to capital purposes. Certain spending or transfers from the DIIF could be used for previous or future operating purposes, including ongoing costs. However, since the disbursements are being made from a capital projects fund, they would not be captured within reported State Operating Funds spending or reported growth in such spending.

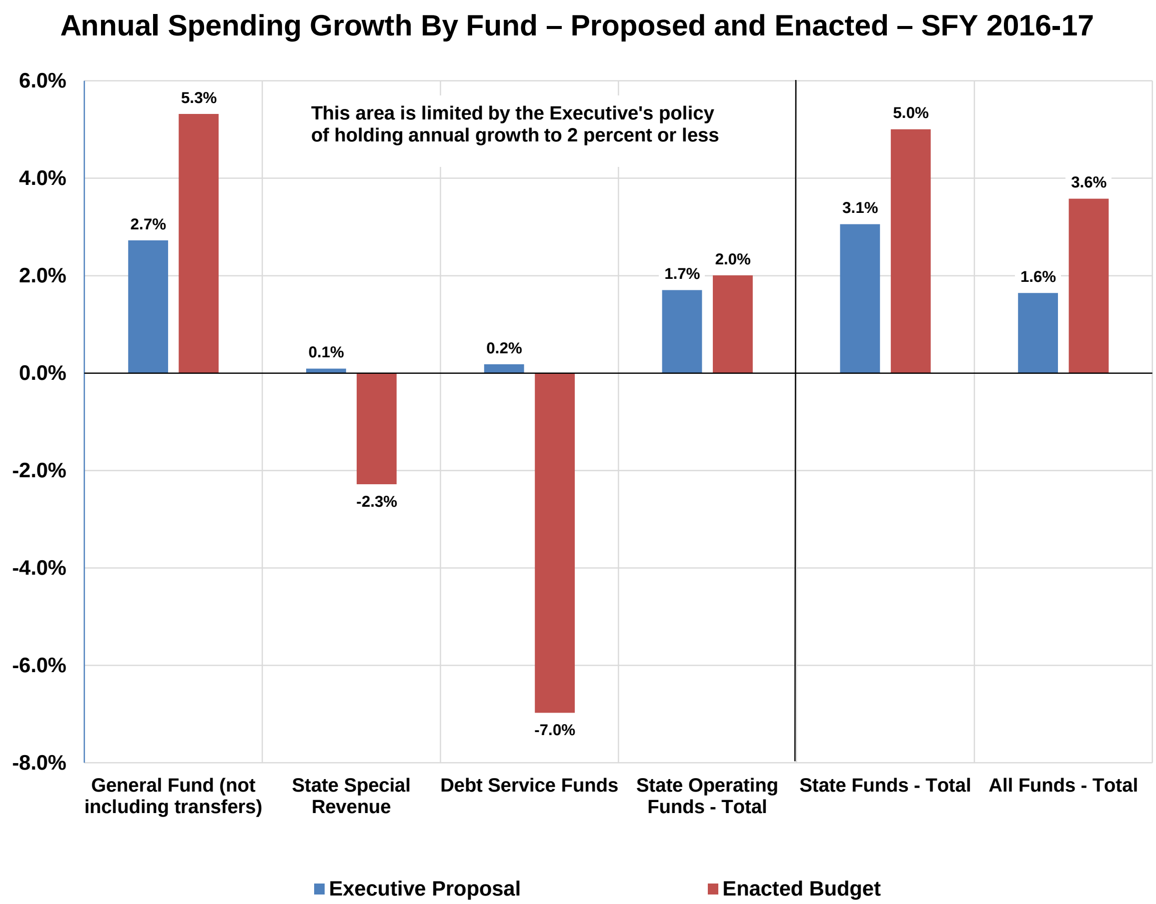
As noted above, the Enacted Budget Financial Plan relies on at least $388 million in additional identifiable items that change the reported growth in State Operating Funds disbursements

[7] All figures in this report are as projected by the Executive (not adjusted) unless otherwise indicated.

from SFY 2015-16 to SFY 2016-17. If reported disbursement growth were adjusted to reflect both the prepayments and these additional items, annual growth from SFY 2015-16 to SFY 2016-17 would be even higher than the adjusted growth in spending from State Operating Funds shown in Figure 6. These timing-related actions are important factors in keeping reported spending growth from State Operating Funds within the 2 percent target.

Figure 7 illustrates how State spending as measured by General Fund, State Funds and All Funds disbursements is projected to grow significantly more than the 2 percent growth in State Operating Funds disbursements presented in the Financial Plan.

Figure 7



Sources: Division of the Budget, Office of the State Comptroller
Note: The significant decline in debt service funds spending is caused by administrative actions changing the timing of payments.

III. Structural Imbalance

Recent budgets have reduced the structural imbalance between recurring revenues and expenditures that has long plagued the State. Despite such progress, the Enacted Budget Financial Plan is not balanced on a structural basis, and spending growth in future years is still projected to significantly outpace revenue growth. Continued reliance on temporary and non-recurring resources, as well as administrative actions that may make trends in spending and revenue growth less clear, indicate that more progress is needed to put the State on a strong financial footing in the longer term.

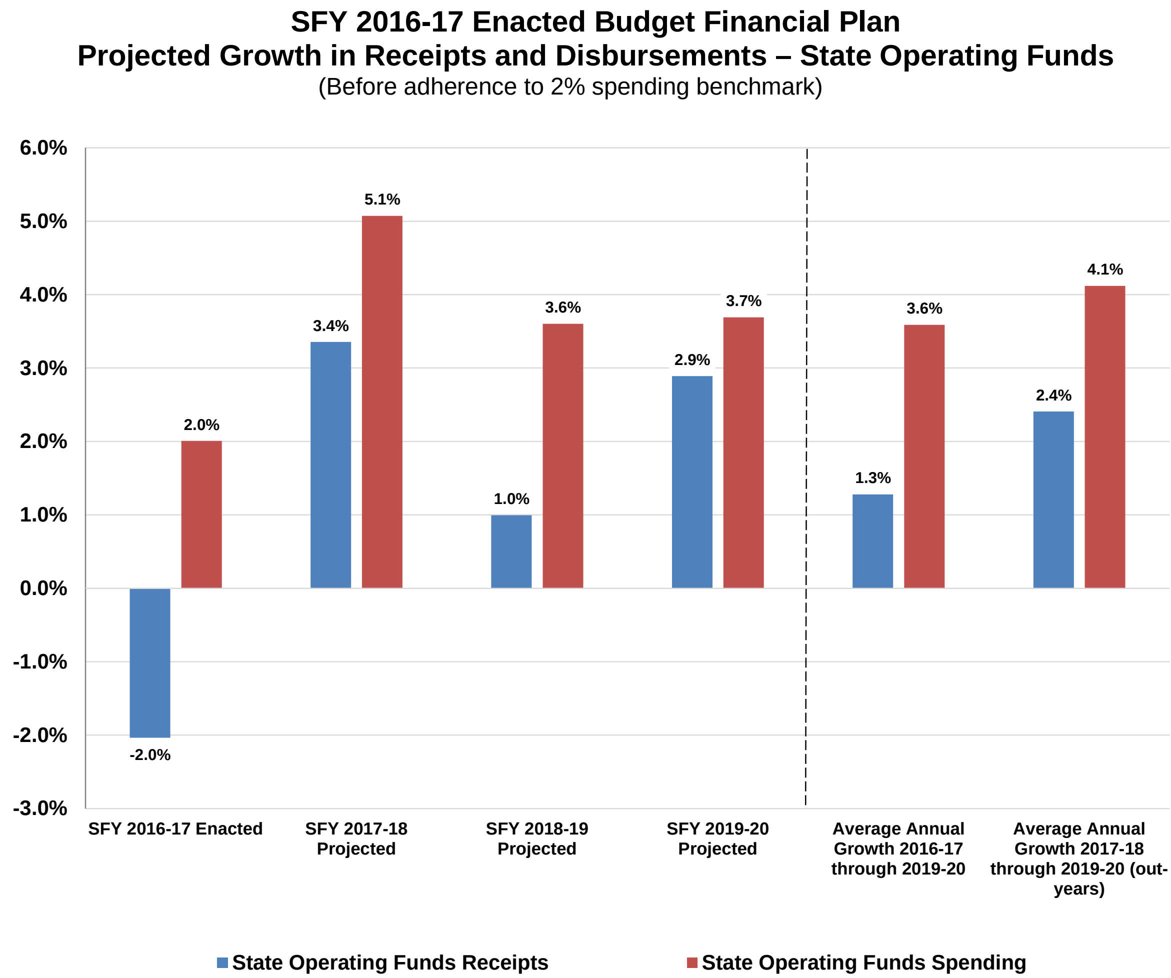
As previously noted, the Executive has articulated an intention to adhere to a nonstatutory cap on annual State Operating Funds spending growth of 2 percent. As with the SFY 2016-17 Executive Budget Financial Plan, the Enacted Budget Financial Plan includes an adjustment line in each summary table titled "Adherence to 2% State Operating Funds Spending Benchmark." This line provides the difference between projected spending based on current law and assumptions, and spending limited to 2 percent annual growth over the previous year's levels.

In recent years, using this presentation, the Executive has portrayed surpluses in the outyears of the Financial Plan period as a projection of what would happen if spending were limited to 2 percent. However, in a departure from plans in recent years, the Enacted Budget Financial Plan indicates that even if State Operating Funds spending growth in future years is held to 2 percent, outyear gaps will occur.

Figure 8 illustrates current projected growth for receipts and disbursements from State Operating Funds. The two columns on the far right show average annual growth for the whole Financial Plan as enacted (growth after SFY 2015-16) and average annual growth in outyears only (growth after SFY 2016-17). This presentation does not reflect the 2 percent spending limit goal, which is not statutory and was not included in enacted budget legislation, and also is not otherwise reflected in the disbursement figures in the Financial Plan.

Based on spending and receipt estimates included in the Enacted Budget Financial Plan, without adherence to the 2 percent spending growth target for State Operating Funds, the Office of the State Comptroller estimates that projected budget gaps would total $2.6 billion in SFY 2017-18 and rise to $6.9 billion in SFY 2019-20. The three-year total of nearly $15 billion in projected gaps during the Financial Plan period is 90.3 percent higher than the four-year total of projected gaps the Office of the State Comptroller estimated based on the SFY 2016-17 Executive Budget Financial Plan. Figure 12 provides additional details on projected outyear gaps.

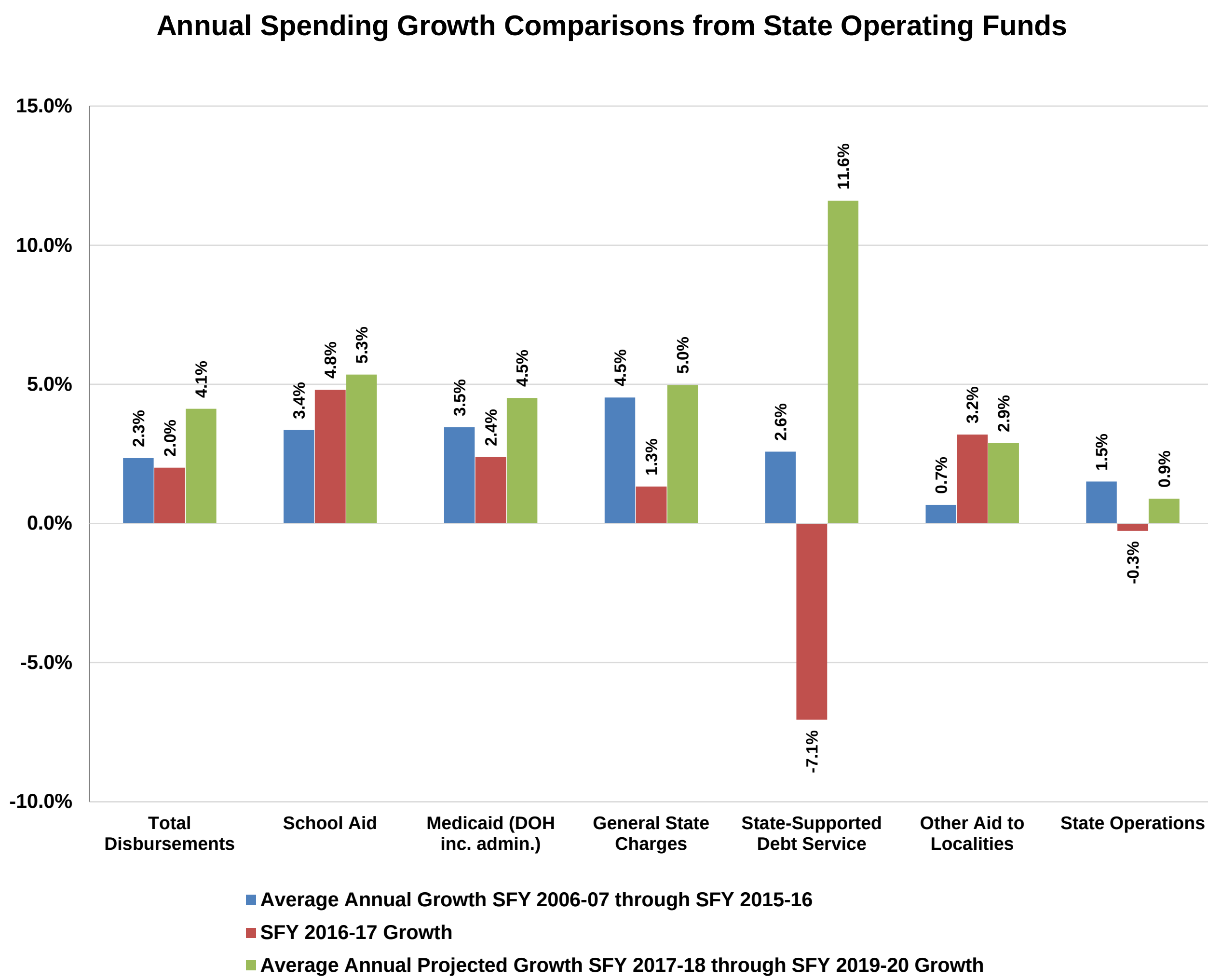
Figure 8



Source: Division of the Budget

Figure 9 compares average annual growth in various spending areas for the period from SFY 2006-07 through SFY 2015-16 to projected growth in SFY 2016-17, as well as to projected average annual growth from SFY 2017-18 through SFY 2019-20. These outyear projections can illustrate the impact of changing spending priorities within the Financial Plan, as well as the impact of budget management actions. As shown, projected growth in school aid this year is anticipated to outpace the average annual increase over the previous decade, a trend that is projected to continue. Medicaid spending growth is below the 10-year average this year, but is expected to accelerate in coming years. Total State Operating Funds disbursements are projected to grow at more than twice the Executive's 2 percent benchmark. (The figures are not adjusted for the timing of payments or certain other budget management actions.)

Figure 9



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

Temporary and Non-Recurring Resources

Over several decades, the State has largely managed structural imbalances through the use of temporary and non-recurring resources, a practice which persists today. Although some use of such resources is to be expected, given the size and complexity of the State's budget, these resources should be matched with non-recurring or temporary expenditures so as not to create or exacerbate structural imbalances. In the short term, the use of these resources contributes to budget balance in the current year and in any future years in which such resources are available. However, by definition, temporary and non-recurring resources do not improve the State's structural balance between recurring levels of revenue and spending.

Figure 10

Non-Recurring Resources, Adjustments, Prepayments and Advances
(in millions of dollars)

	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	Total
Prepayments and Use of Reserves					
PIT Refund Prepayment	800	-	-	-	**800**
SFY 2015-16 Debt Service Prepayment	710	-	-	-	**710**
SFY 2016-17 Debt Service Prepayment	-	60	-	-	**60**
SFY Dedicated Highway and Bridge Trust Fund Prepayment	59	-	-	-	**59**
SFY 2016-17 Workers' Compensation Prepayment	37	-	-	-	**37**
Use of Reserves	112	-	-	-	**112**
Subtotal	*1,718*	*60*	-	-	*1,778*
Enacted in SFY 2016-17					
Environmental Protection Fund From Settlement	120	-	-	-	**120**
Sweeps from Other Funds	295	-	-	-	**295**
New State Insurance Fund	140	100	100	35	**375**
STAR Conversion	86	196	-	-	**282**
Sales Tax Asset Receivable Corporation Refunding	200	200	200		**600**
Regional Greenhouse Gas Initiative (including SUNY)	38	-	-	-	**38**
Mortgage Insurance Fund	150	-	-	-	**150**
New York Power Authority (1)	20	-	-	-	**20**
Warrentless Wage Garnishment	15	-	-	-	**15**
Subtotal	*1,064*	*496*	*300*	*35*	***1,895***
Previously in Law or Outside Budget Process					
Commercial Gaming Licenses	137	-	-	-	**137**
Temporary Utility Assessment	173	139	-	-	**312**
Mortgage Settlement	23	-	-	-	**23**
State Insurance Fund	250	-	-	-	**250**
Limit Deductions for Charitable Contributions (1)	70	70	-	-	**140**
Budget Relief from Monetary Settlements	102	-	-	-	**102**
Temporary PIT Provisions (2)	2,379	1,640	-	-	**4,018**
Subtotal	*3,134*	*1,849*	-	-	***4,982***
Total State Temporary, Non-Recurring and Prepayments	**5,916**	**2,405**	**300**	**35**	**8,656**
Extraordinary Temporary Federal Funding					
Temporary Federal Disaster Assistance (3)	1,160	549	264	264	**2,237**
Total State and Federal Temporary and Non-Recurring Resources	**7,076**	**2,954**	**564**	**299**	**10,893**

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

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

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

Sources: Division of the Budget, Office of the State Comptroller.
Note: The amount of PIT refunds paid in the final quarter of the fiscal year influences reported revenue growth. DOB increased the administrative cap on PIT refunds by $800 million for the fourth quarter of SFY 2015-16, and reduced projected SFY 2016-17 refunds. DOB has varied the level of the administrative cap in recent years.

As shown in Figure 10, the Financial Plan uses temporary and non-recurring resources totaling $5.9 billion (excluding just under $1.2 billion for extraordinary temporary federal disaster assistance). More than $1 billion of that total results from changes enacted as part of this year's Budget. Another $1.7 billion in adjustments, prepayments and advances that have been or are expected to be achieved administratively will benefit the General Fund during SFY 2016-17.

Finally, the Enacted Budget also relies upon non-recurring resources added in previous budgets that total $3.1 billion, for which no resources are assumed in the Financial Plan after SFY 2017-18. The use of non-recurring or temporary resources to meet recurring expenses exacerbates the State's structural deficit, making it more difficult to achieve budget balance in the future.

Effects of the General Fund Gap-Closing Plan on Outyears

The SFY 2016-17 Executive Budget included actions intended to eliminate a projected $1.8 billion current services deficit in SFY 2016-17, while reducing cumulative outyear gaps from SFY 2017-18 through SFY 2019-20. As shown in the first column of Figure 11 below, $3.3 billion in new initiatives proposed in the Executive Budget would have increased the cumulative multiyear gap (including SFY 2016-17) to nearly $16.5 billion before gap-closing actions. Offsetting actions in the Executive Budget Financial Plan would have brought the cumulative gap down to $7.9 billion. The Executive's proposed gap-closing plan included approximately $7.2 billion in cumulative gap-closing measures, reflecting 43.4 percent of the total. Non-recurring or temporary resources made up 9 percent of the gap-closing plan, while 47.7 percent of the outyear projected gap was not addressed in the Executive Budget.

Figure 11

SFY 2016-17 Proposed and Enacted Budget Financial Plan Gap-Closing Measures

(in millions of dollars)

	Proposed SFY 2016-17 through SFY 2019-20	Enacted SFY 2016-17 through SFY 2019-20
Total Cumulative Gap to Be Closed	**(13,202)**	**(13,202)**
Additions to Gap		
Recurring Additions/Restorations/Initiatives	**(1,266)**	**(3,936)**
Recurring Revenue Reductions	**(1,690)**	**(4,435)**
Other	**(336)**	**(1,348)**
Total After Gap Additions	**(16,494)**	**(22,921)**
Re-Estimates	**(9)**	**(359)**
Share of Total After Gap Additions	*-0.1%*	*-1.6%*
Recurring Spending Actions (including Debt and Capital)	**7,159**	**5,945**
Share of Total After Gap Additions	*43.4%*	*25.9%*
Recurring Revenue Enhancements	**-**	**-**
Share of Total After Gap Additions	*0.0%*	*0.0%*
Temporary or Non-Recurring Resources/Cost	**1,481**	**2,360**
Share of Total After Gap Additions	*9.0%*	*10.3%*
Remaining Gap	**(7,863)**	**(14,973)**
Share of Total After Gap Additions	*47.7%*	*65.3%*

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

As shown in Figure 11, the Enacted Budget Financial Plan projects $3.9 billion in new recurring spending, reduces recurring revenue reductions by $4.4 billion over the next four years compared to the Executive Budget, and includes approximately $1.3 billion in other actions, all of which increased the four-year gap total (before this year's gap-closing actions) to nearly $23 billion. The gap-closing plan in the Enacted Budget Financial Plan relies upon $2.4 billion in non-recurring resources to address gaps, or 10.3 percent of the total.[8] Recurring spending reductions comprise 25.9 percent of the gap-closing plan, while 65.3 percent of the projected gaps are not addressed, thus adding significantly to the structural deficit. As shown in Figure 11, the Enacted Budget projects just less than $15 billion in cumulative outyear gaps, not including any savings that could be achieved by limiting annual spending growth from State Operating Funds to 2 percent.

New Spending Initiatives

The SFY 2016-17 Enacted Budget Financial Plan includes $3.9 billion in new General Fund spending through SFY 2019-20, representing an increase of $2.6 billion over new spending proposed in the Executive Budget. Compared to an impact of $533 million in SFY 2016-17, the newly added spending is projected to increase to nearly $1.4 billion in SFY 2019-20, offset by spending reductions of approximately $829 million, for a net increase of $540 million.

Taxes and Fees

The Enacted Budget includes $4.4 billion in tax reductions over the life of the Financial Plan, primarily reflecting PIT rate changes, which is approximately $2.7 billion higher than the $1.7 billion in reductions initially proposed by the Executive. The other significant tax actions were changes in the School Tax Relief (STAR) program from an expenditure to a tax credit. This transition will phase in over many years, perhaps decades, because the change occurs only as individual STAR-eligible residences are sold or transferred. The State will receive a temporary fiscal benefit over two years due to the differences in timing of State payments to New York City under the existing program and taxpayers' receipt of credit benefits due to the shift. The other STAR action will not result in a temporary benefit to the State because credits will be advance-refunded, meaning the reduction in revenue will occur in the same year as the reduction in spending.

Spending Changes and Other Actions

The Enacted Budget includes actions that are projected to reduce spending growth by a total of $5.9 billion through SFY 2019-20, including debt and capital actions. This total includes $5.4 billion from local assistance reductions from levels otherwise expected, primarily in education and health care. Also included are actions that are expected to increase costs in departmental operations and employee benefits by approximately $551 million through SFY 2019-20, including increases in health insurance and workers' compensation costs, offset by the use of $375 million in non-recurring resources from off-budget State Insurance Fund reserves to pay for State workers' compensation costs and savings associated with the timing of the State's pension payment. Cost savings associated with debt and capital include prepayments of debt service made in SFY 2015-16 of payments originally planned for SFY 2016-17, thereby lowering costs in SFY 2016-17, and prepayments to be made in SFY 2016-17 that will lower costs in SFY 2017-18.

The Enacted Budget includes $1.7 billion in non-recurring or temporary resources for the SFY 2016-17 gap-closing plan, compared to $709 million in the Executive proposal. Over the four-

[8] This includes a non-recurring cost of $250 million to replace certain federal resources.

year period of the Financial Plan, the Enacted Budget is expected to use $2.4 billion in non-recurring actions, as compared to just under $1.5 billion anticipated in the Executive Budget. See Appendix A for more details regarding the gap-closing plan.

Unaddressed Structural Imbalance

The Enacted Budget includes a significant amount of new spending as well as tax actions that add to the structural deficit and increase projected gaps after SFY 2016-17. Based on disbursements and receipts projections in the Enacted Budget Financial Plan, the Office of the State Comptroller estimates the Enacted Budget leaves nearly $15 billion in projected outyear gaps, compared to $7.9 billion projected in the Executive Budget.

For the first time since DOB began illustrating savings associated with holding future growth to 2 percent annually in State Operating Funds, the Enacted Budget Financial Plan shows that meeting the 2 percent benchmark will not be sufficient to eliminate potential outyear gaps. DOB projects gaps beginning in SFY 2018-19, even after assuming unidentified savings associated with limited growth. This is due to significantly higher outyear General Fund spending growth (4.4 percent compared to 3.9 percent in the Executive Budget) and lower outyear projected growth in receipts (2.4 percent compared to 3.1 percent in the Executive Budget).

Figure 12 shows projections of outyear gaps or surpluses under different scenarios, comparing the Executive Budget to the Enacted Budget. The “Enacted Budget Surplus/Gap Estimate” column shows DOB’s Financial Plan estimates of surpluses and gaps, reflecting the impact of a contemplated 2 percent annual limit on growth in future State Operating Funds expenditures. The “Enacted Projected Savings from 2 Percent Spending Benchmark” column shows savings that DOB projects from unspecified actions to hold spending within the 2 percent limit, while the “Outyear Gaps Without 2 Percent Offset” column provides the Office of the State Comptroller’s calculation of projected gaps based on DOB’s figures for outyear expenditures and receipts. This figure corresponds with the cumulative outyear gap shown in Figure 11.

Figure 12

Outyear General Fund Surplus / (Gap) Estimates
(in millions of dollars)

	Estimated Current Services Gap from SFY 2015-16 Mid-Year Financial Plan	SFY 2016-17 Enacted Budget Surplus/Gap Estimate	SFY 2016-17 Enacted Projected Savings from 2 Percent Spending Benchmark	SFY 2016-17 Outyear Gaps Without 2 Percent Offset
2016-17	(1,781)	-	-	-
2017-18	(2,802)	355	2,956	(2,601)
2018-19	(4,414)	(841)	4,634	(5,475)
2019-20	(4,205)	(399)	6,498	(6,897)
Total	(13,202)	(885)	14,088	(14,973)
Average	(4,401)	(295)	4,696	(4,991)

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

Use of Monetary Settlement Funds for Debt Management

Of the $8.7 billion in monetary settlement revenues received since the beginning of SFY 2014-15, the SFY 2015-16 Enacted Budget Financial Plan projected that $4.55 billion would be transferred from the General Fund to the DIIF in SFY 2015-16. The SFY 2016-17 Executive Budget also projected a transfer of $4.55 billion in SFY 2015-16, along with an additional $1.8 billion transferred in SFY 2016-17 for total transfer authority of just under $6.4 billion. The actual transfer in SFY 2015-16 was $856.9 million, leaving the General Fund with an unusually high balance of $8.9 billion at the end of the fiscal year.

Instead of transferring all of the funds to the DIIF right away, DOB now plans to transfer $1.35 billion to the DIIF in SFY 2016-17. Further, $1.3 billion is expected to be transferred to the State Capital Projects Fund in SFY 2016-17. According to DOB, this is being done in conjunction with a deferral of the issuance of $1.3 billion in bonds that were otherwise scheduled to be issued in SFY 2016-17. DOB now plans to issue these bonds in SFY 2017-18 ($800 million) and SFY 2018-19 ($500 million).

According to DOB, transfers from the General Fund to the State Capital Projects Fund in SFY 2017-18 and SFY 2018-19 will be $800 million and $500 million lower, respectively, reflecting the recapture of the $1.3 billion transfer in SFY 2016-17. This leaves nearly $2.9 billion in monetary settlement resources remaining in the General Fund in SFY 2016-17 that had initially been planned for transfer to the DIIF. The remaining amount ($4.2 billion) planned for transfer to the DIIF is anticipated to occur over the life of the capital plan period through SFY 2020-21. For more information on how this will affect the State's Financial Plan and its Capital Program and Financing Plan, refer to the SFY 2016-17 Financial Plan Overview and Debt and Capital sections of this report.

IV. Reserves

The State ended SFY 2015-16 with a General Fund closing balance of $8.9 billion, representing an increase of over $1.6 billion from SFY 2014-15, and $3.9 billion over the Executive's amended Financial Plan issued in February 2016. The majority of this variance is due to the significantly lower transfer of certain monetary settlement revenues to the DIIF discussed previously. Outside of the reduced transfer, the General Fund ended the year approximately $240 million over the latest projections from February.

DOB has stated an intention to use $500 million in unrestricted reserves for debt management purposes in SFY 2016-17, although there are no disbursements from reserves included in the Enacted Budget Financial Plan. Figure 13 below compares restricted and unrestricted reserve levels within the General Fund. The figures for SFY 2017-18 through SFY 2019-20 are OSC estimates based on the projected use of reserves in the Enacted Budget Financial Plan.[9] The Financial Plan does not provide projections of outyear General Fund balances. The SFY 2016-17 Enacted Budget Financial Plan uses $112 million in restricted and unrestricted reserves, including $10 million from the Community Projects Fund, $15 million from funds put aside by DOB for labor agreement costs and $87 million from "undesignated fund balance." This does not include monetary settlement funds that are planned for transfer to the DIIF or are currently unappropriated.

DOB projects that there will be $3.5 billion in settlement funds in the General Fund at the end of the current fiscal year, of which $665 million is currently not appropriated or designated for any use. Additional settlement resources are expected to be spent or transferred from the General Fund over the next several years, as shown in Figure 13. The SFY 2016-17 Enacted Budget Capital Program and Financing Plan indicates that an additional $49 million will be transferred to the DIIF in SFY 2020-21.

Figure 13

Statutory and Unrestricted Reserves - Actual and Projected Year End
(in millions of dollars)

	2014-15 Actual	2015-16 Actual (unaudited)	2016-17 Enacted	2017-18 Projected	2018-19 Projected	2019-20 Projected
Statutory Reserves	**1,892**	**1,881**	**1,871**	**1,871**	**1,871**	**1,871**
Tax Stabilization Reserve Fund	1,258	1,258	1,258	1,258	1,258	1,258
Rainy Day Reserve	540	540	540	540	540	540
Contingency Reserve Fund	21	21	21	21	21	21
Community Projects Fund	74	63	53	53	53	53
Refund Reserve (Unrestricted)	**5,407**	**7,052**	**4,197**	**3,295**	**2,095**	**1,364**
Prior Year Labor	50	15	150	150	150	150
Debt Management	500	500	500	500	500	500
Other	190	237	-	-	-	-
Monetary Settlement Proceeds	4,667	6,300	3,547	2,645	1,445	714
Total	**7,299**	**8,934**	**6,069**	**5,166**	**3,966**	**3,235**

Sources: Division of the Budget, Office of the State Comptroller
Note: Figures assume use of reserves as shown in the FY 2017 Enacted Budget Financial Plan, May 2016, page T-1.

[9] For projected use of Fund Balances, see FY 2017 Enacted Budget Financial Plan, May 2016, page T-1.

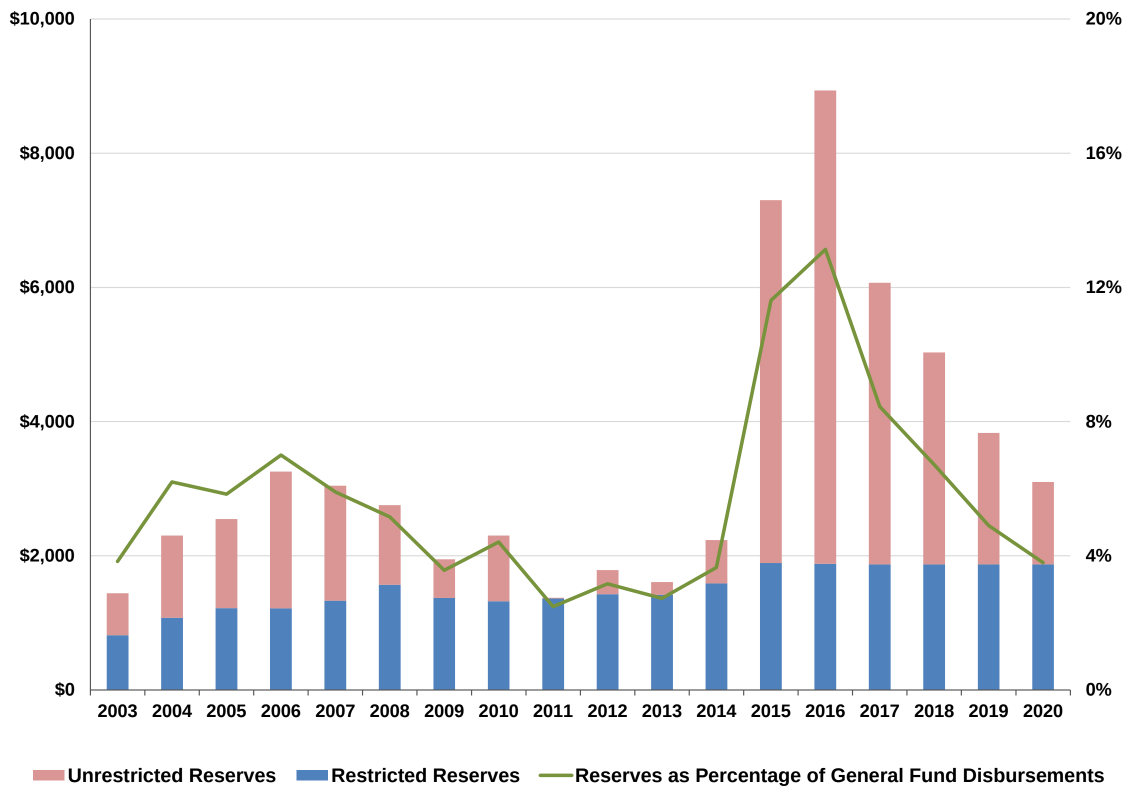
Figure 14 illustrates trends in restricted and unrestricted General Fund reserves from SFY 2000-01 through SFY 2015-16. Unrestricted reserve levels in SFY 2009-10 and SFY 2010-11 were affected by the delay of $2.06 billion in school aid payments and $500 million in PIT refunds from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11.

As shown by the green line in Figure 14, total reserves have declined from approximately 7 percent of General Fund disbursements in SFY 2005-06 to less than 4 percent in fiscal years 2010-11 through 2013-14. Reserves rose sharply over the past two years, primarily because of settlement resources, but are projected to decline in the current fiscal year.

Figure 14

General Fund Restricted and Unrestricted Reserves, Total and as a Percentage of General Fund Disbursements, SFY 2002-03 through SFY 2019-20

(dollars in millions)



Sources: Division of the Budget, Office of the State Comptroller. Figures for SFY 2016-17 and thereafter are projected; all others are actual results.

V. Debt and Capital

The SFY 2016-17 Enacted Budget Capital Program and Financing Plan (Capital Plan) increases the State's total amount of projected capital spending to nearly $63.5 billion over the next five years, compared to $60.7 billion in the Executive's proposed Capital Plan for the same five-year period, an increase of just under $2.8 billion, as illustrated in Figure 15. This represents an increase of nearly $7 billion over the previous year's Enacted Budget Capital Program and Financing Plan (SFY 2015-16 through SFY 2019-20).[10] The total includes $3.8 billion in off-budget capital spending, in which State-Supported bond proceeds are expended directly by public authorities.

Figure 15

SFY 2016-17 Capital Program and Financing Plan
Actual and Projected Disbursements, Executive Budget and Enacted Budget
(in thousands of dollars)

	2015-16 Project/Actual	2016-17	2017-18	2018-19	2019-20	2020-21	Total	Average
Executive	10,769,026	11,856,600	12,756,035	12,613,619	12,262,710	11,223,496	60,712,460	12,142,492
Enacted	9,548,602	12,724,385	13,730,794	13,126,126	12,432,211	11,454,249	63,467,765	12,693,553
Difference	**(1,220,424)**	**867,785**	**974,759**	**512,507**	**169,501**	**230,753**	**2,755,305**	**551,061**

Source: Division of the Budget. For SFY 2015-16, Executive Budget figure reflects Executive projection and Enacted Budget figure reflects actual results as reported by DOB. Other years show DOB projections in the SFY 2016-17 Executive and Enacted Budgets.

Over the life of the Capital Plan, annual capital spending is projected to average $12.7 billion, one-third higher than actual spending in SFY 2015-16 and 41 percent higher than the average of the last five years. Actual spending in SFY 2015-16 was $1.2 billion lower than estimated in the Executive Budget, primarily in transportation and education spending categories. Approximately $760 million, or 6 percent, of the annual average for the Capital Plan period is projected to be off-budget. Excluding off-budget spending, the Financial Plan projects capital spending will increase 19 percent this year.

Over the five-year period, 40.6 percent of annual spending on average is projected to address transportation purposes, up from 39.9 percent in the Executive's proposed Capital Plan, and down from the 49.2 percent average of the last five years. Education and Higher Education represent the next largest shares of capital spending, comprising 15.1 percent of the total over the next five years.

[10] Capital spending can be measured in two ways. First, in the Capital Program and Financing Plan, capital spending is measured as spending from capital projects funds, one of the four fund groups that make up All Governmental Funds. This measure also includes some local assistance grants that are deemed capital in nature. Additionally, spending may be made from capital projects funds for non-capital purposes. In addition, the Capital Program and Financing Plan includes off-budget capital spending in which public authorities issue State-Supported bonds on behalf of the State and spend directly from those proceeds. Beginning with SFY 2013-14, capital spending for SUNY dormitories is no longer counted in capital spending figures within the Capital Program and Financing Plan or in the Financial Plan. Capital spending for SUNY dormitories averaged approximately $170 million annually over the five years ending with SFY 2012-13. Second, the Enacted Budget Financial Plan measures capital spending across fund groups (although the vast majority comes from the capital projects fund group) and does not include local assistance spending or off-budget spending.

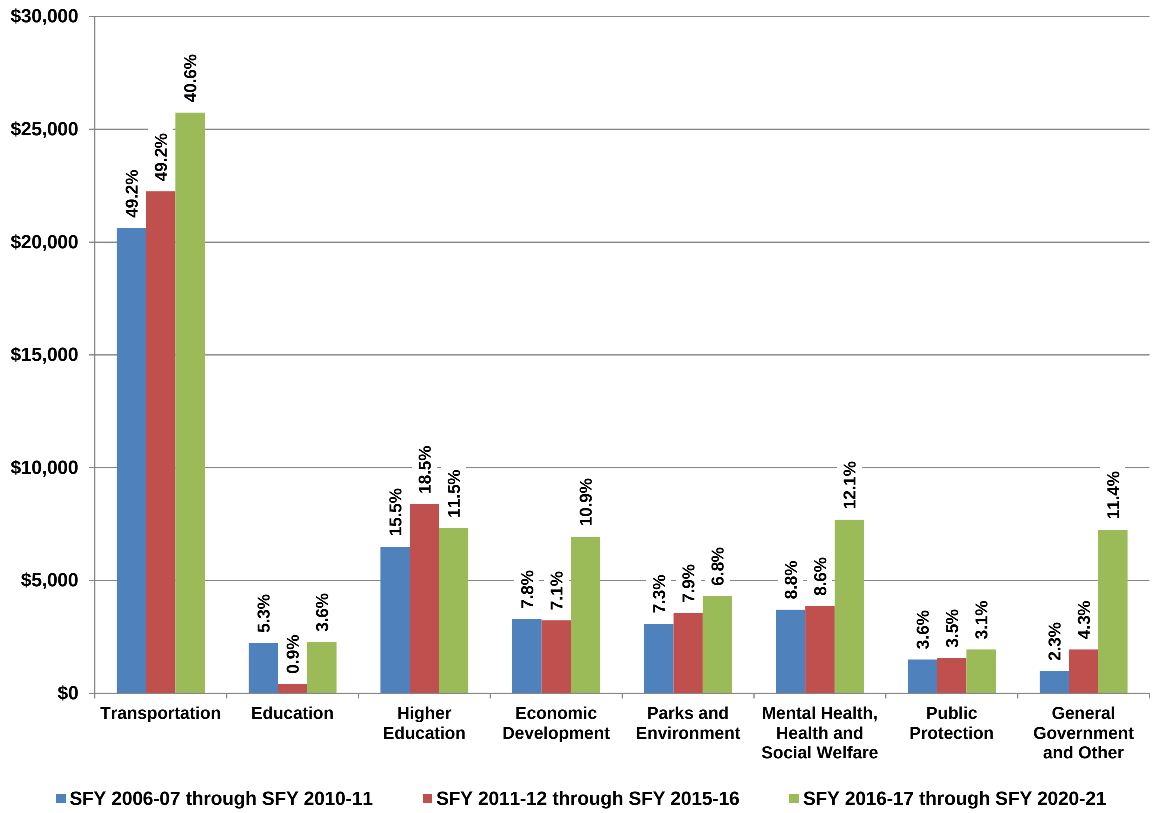
The category of “Economic Development and Government Oversight” is projected to comprise 10.9 percent of the total disbursements over the Capital Plan period. The remaining amount is divided among health, mental hygiene, social welfare, parks and environment, public protection and other governmental purposes.

Figure 16 compares projected spending for capital projects over the five-year Capital Plan period to the previous 10 years of actual spending. Relative to the previous 10 years, proportionally large increases are projected in transportation; economic development; mental health, health and social welfare; and general government and other.

Figure 16

Capital Program and Financing Plan – Actual and Projected Spending by Function

(in millions of dollars and percentage of total)



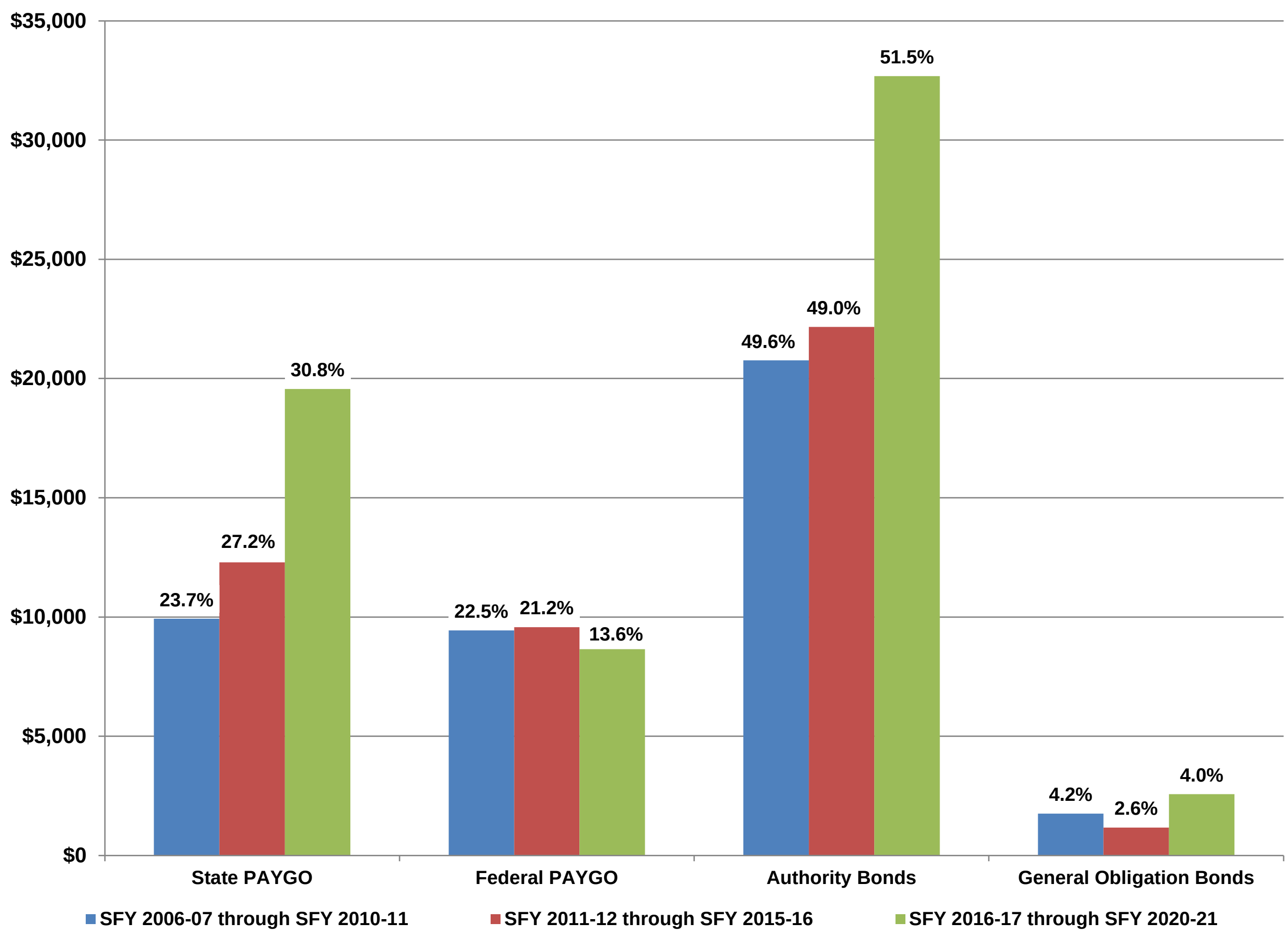
Sources: Division of the Budget, Office of the State Comptroller

The comparison in Figure 16, based on categories of spending within the Capital Program and Financing Plan, understates planned spending in certain specific programs. This is because DOB’s projections of spending in the “General Government and Other” category includes most spending from the Dedicated Infrastructure Investment Fund (DIIF) and the State and Municipal Facilities Program.

In the Enacted Budget Capital Program and Financing Plan, DOB projects more than $1.3 billion will be spent from the DIIF this fiscal year. This includes $689 million for the Thruway as well as $40 million for the Department of Transportation. In addition, spending from DIIF includes economic development, housing, health care and various other purposes.[11] Resources from the State and Municipal Facilities Program to date have been used for economic development, transportation and other purposes. However, the Capital Plan presents all spending for that program in the General Government and Other category.

Figure 17

Capital Program and Financing Plan – Actual and Projected Financing Sources
SFY 2006-07 through SFY 2020-21
(percent of total capital spending)



Sources: Division of the Budget, Office of the State Comptroller
Note: Percentage figures at the top of the bars represent shares of total spending.

The largest share of projected financing for the Capital Plan is public authority bonds, averaging 51.5 percent of the total over the next five years. This is higher than the 49.3 percent average share from the previous 10 years. The SFY 2016-17 Enacted Budget includes the first year of planned spending from the $2 billion Smart Schools Bond Act, which was approved by voters in 2014. The Capital Plan projects $350 million in spending from the Smart Schools program in SFY 2016-17, with the entire $2 billion being disbursed over the five-year plan period. As a result of this program, the proportion of financing from voter-approved, General Obligation

[11] DOB reports spending from DIIF for Upstate Revitalization within Economic Development and Government Oversight, and spending from DIIF for a specific housing appropriation within Social Welfare.

bonds is projected to increase from 3.4 percent during the previous 10 years to 4 percent over the Capital Plan period. From SFY 2006-07 to SFY 2015-16, capital spending supported by State cash resources (pay-as-you-go or PAYGO spending) averaged approximately 25.5 percent of total capital spending, a figure DOB projects will increase to 30.8 percent of the total in the next five years.

Figure 17 illustrates how financing sources for the Capital Plan have changed over the last decade and how they are projected to change over the next five years. Most of the growth in capital spending is projected to occur in State PAYGO and authority bond financing. Much of the growth associated with State PAYGO is spending from the DIIF (over $6.6 billion or more than 10 percent of total capital spending through SFY 2020-21). The total amount of federally funded PAYGO spending is projected to drop slightly over the plan period, compared to the preceding five years. With overall growth in capital spending, however, the federal share of total capital financing is expected to decline from over 21 percent in the last five years to 13.6 percent over the next five years.

Debt Outstanding

The SFY 2016-17 Enacted Budget Capital Plan projects that total State-Supported debt will increase $10.7 billion, or 21.3 percent, from SFY 2016-17 through SFY 2020-21. The Office of the State Comptroller estimates that overall State-Funded debt[12] would increase $8.2 billion, or 13 percent, to over $71.2 billion, during the same time frame.[13] The larger increase in State-Supported debt is primarily attributable to the scheduled repayment of more than $1.3 billion in outstanding debt of the Tobacco Settlement Financing Corporation, which is included in the State-Funded measure but not in State-Supported debt, as well as lower issuances in non-State-Supported debt categories (the only categories which include projected additional issuances are Building Aid Revenue Bonds issued by the New York City Transitional Finance Authority, or TFA BARBs, and SUNY Dormitories). Further, projected new issuance figures for TFA BARBs and SUNY Dormitories, which are included in State-Funded but not State-Supported debt, are available only through SFY 2019-20.

Significant borrowing since enactment of the Debt Reform Act of 2000, coupled with weak economic conditions as well as an actual decline in personal income, have depleted much of the State's statutory debt capacity. DOB projects that available State-Supported debt capacity as defined by the Debt Reform Act of 2000 will decline from $4.9 billion in SFY 2015-16 to $105 million in SFY 2019-20, before rising slightly to $284 million in SFY 2020-21. Figure 18 illustrates State-Supported and State-Funded debt outstanding from SFY 2015-16 through SFY 2020-21.

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[12] 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 (BARBs) issued by New York City's Transitional Finance Agency (TFA); bonds issued by the Dormitory Authority for SUNY dormitories; and a portion of the secured hospital program. Some State-Funded debt does not appear in the Capital Program and Financing Plan and is, therefore, illustrated separately in the tables of this section. See the Comptroller's Debt Impact Study for more information on State-Funded debt, at www.osc.state.ny.us/reports/debt/debtimpact2010.pdf.

[13] This is based on projections of debt issuances, retirements and debt service for State-Supported debt contained in the Capital Plan as well as estimates for the issuance, retirement and debt service for the other categories of debt which make up State-Funded debt.

Figure 18

State-Funded Debt Outstanding – SFY 2015-16 through SFY 2020-21

(in thousands of dollars)

		Enacted Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2016-17 through SFY 2020-21	SFY 2016-17 through SFY 2020-21
General Obligation	2,727,460	3,071,304	3,535,445	3,802,421	3,891,438	3,943,740	44.6%	1,216,280
Other State-Supported Public Authority	47,501,761	48,000,539	51,443,157	53,956,682	56,081,402	56,965,116	19.9%	9,463,355
State-Supported	**50,229,221**	**51,071,843**	**54,978,602**	**57,759,103**	**59,972,840**	**60,908,856**	**21.3%**	**10,679,635**
State-Funded Secured Hospitals	180,950	156,680	142,480	127,500	111,715	95,090	-47.4%	(85,860)
New SUNY Dormitories	985,000	1,081,215	1,141,336	1,317,197	1,369,832	1,321,503	34.2%	336,503
TSFC	1,378,000	1,035,335	680,080	-	-	-	-100.0%	(1,378,000)
TFA BARBs	8,044,000	7,397,259	7,585,820	7,633,025	7,442,660	7,238,750	-10.0%	(805,250)
STARC	1,961,000	1,888,205	1,811,050	1,729,890	1,644,405	1,554,475	-20.7%	(406,525)
MBBA	233,670	203,375	171,605	138,605	104,165	67,985	-70.9%	(165,685)
Total Other State-Funded	**12,782,620**	**11,762,069**	**11,532,371**	**10,946,217**	**10,672,777**	**10,277,802**	**-19.6%**	**(2,504,818)**
Projected Outstanding (State-Funded)	**63,011,841**	**62,833,912**	**66,510,973**	**68,705,320**	**70,645,617**	**71,186,658**	**13.0%**	**8,174,817**

Note: Totals may not add due to rounding. TSFC is the Tobacco Settlement Financing Corporation; TFA BARBs are New York City Transitional Finance Authority Building Aid Revenue Bonds; STARC is the Sales Tax Asset Receivable Corporation.; MBBA is the State of New York Municipal Bond Bank Agency. SFY 2015-16 figures are actual, and others are projected. Projected issuances for TFA BARBs and SUNY Dormitories are available only through SFY 2019-20.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget

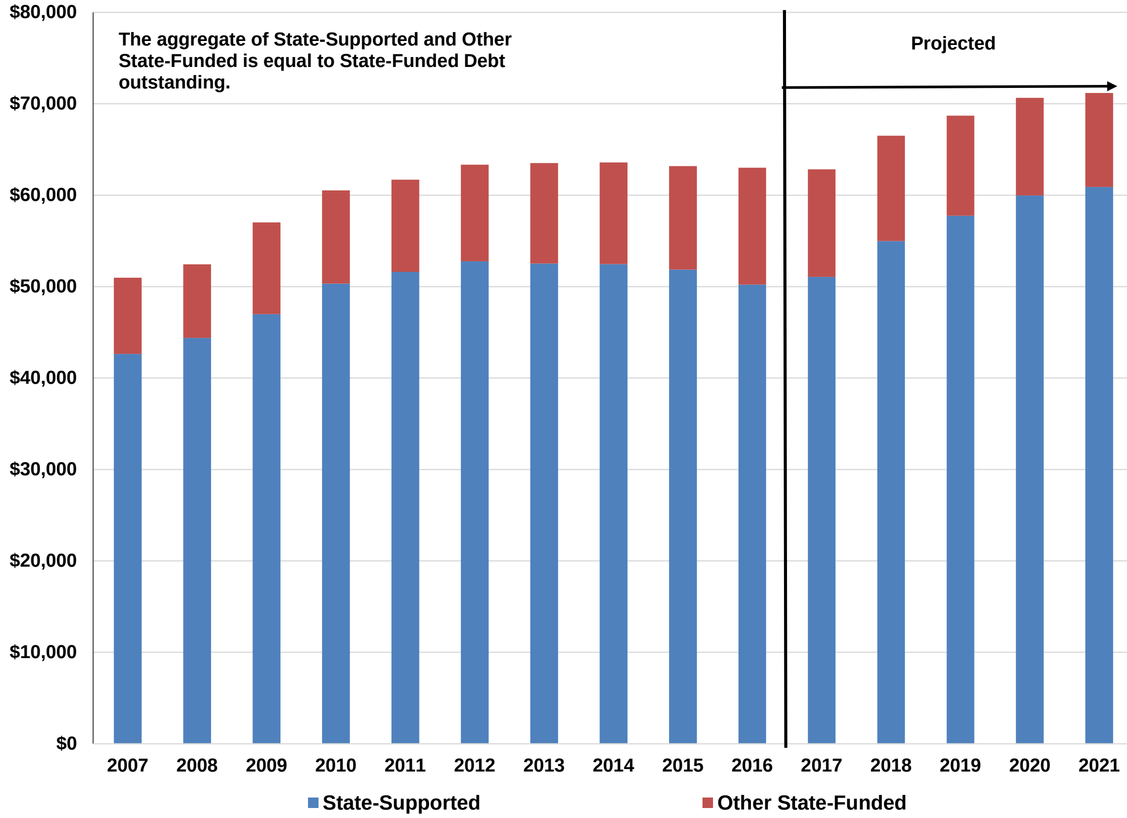
Reported State-Supported debt declined slightly in each year from SFY 2011-12 through 2014-15, as shown in Figure 19. Unaudited figures for SFY 2015-16 indicate that State-Supported debt declined again in that year by a total of $1.6 billion, more than the previous three years combined ($906 million). State-Funded debt has declined in SFY 2013-14 and SFY 2014-15 and unaudited figures for SFY 2015-16 indicate that it will decline again by approximately $176 million. These declines may reflect a number of factors, including DOB's changing classification of certain debt so that it is no longer counted in the State-Supported debt measure, the timing of debt issuances and the issuance of premium bonds. In addition, DOB has indicated that it is managing the level of debt issuances in light of the State's declining statutory debt capacity.

Both State-Supported and State-Funded debt outstanding are projected to increase again beginning in SFY 2016-17, with debt projected to exceed the previous high point by the end of SFY 2017-18 and to surpass $71 billion in SFY 2020-21. Figure 19 illustrates the history of and projections for State-Supported and State-Funded debt outstanding.

Figure 19

State-Supported and State-Funded Debt Outstanding – SFY 2006-07 through SFY 2020-21

(in millions of dollars)



Note: Projected issuances for TFA BARBs and SUNY Dormitories are available only through SFY 2019-20.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget

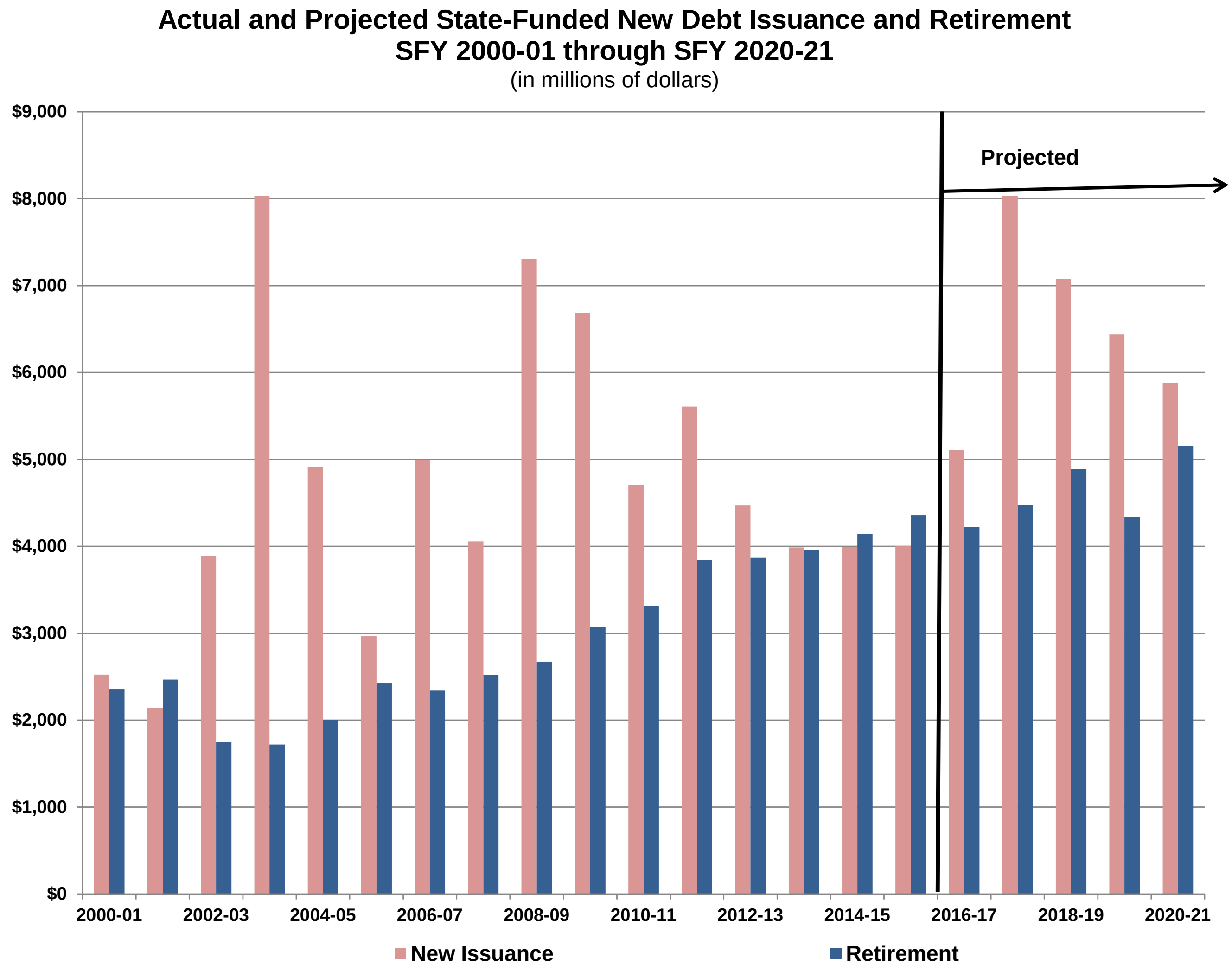
New Debt Issuance and Retirement

The growth in the overall level of State-Funded debt illustrated above is attributable to the fact that the State is projected to issue $1.9 billion more in State-Funded debt on average annually over the Capital Plan period than it retires. State-Funded debt issuances are projected to be $32.5 billion over the next five years (an average of approximately $6.5 billion annually), including $31 billion in new State-Supported issuances. Over the last five years, new State-Funded debt issuances have averaged $4.4 billion annually, including State-Supported debt issuances of $3.7 billion. In SFY 2015-16, the State-Supported debt issuance of $3.1 billion represented the lowest level since SFY 2005-06.

State-Funded debt retirements are projected to be $23.1 billion (an average of $4.6 billion annually), including $20 billion in State-Supported retirements (averaging $4 billion annually), over the Capital Plan period. State-Funded debt retirements have averaged $4 billion over the last five years, including State-Supported debt retirements of $3.6 billion.

Figure 20 illustrates State-Funded debt issuance and retirement from SFY 2000-01 through SFY 2020-21. There are only two years since SFY 2001-02 where debt retirements exceeded issuances, SFY 2014-15 and SFY 2015-16.

Figure 20



Projected issuances for TFA BARBs and SUNY Dormitories are available only through SFY 2019-20.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget

Debt Service

State-Supported debt service is projected to grow to $7.4 billion by SFY 2020-21, an increase of more than $1.8 billion or 33.4 percent over the life of the Capital Plan, as illustrated in Figure 21. State-Funded debt service is expected to approach $8.5 billion by SFY 2020-21 after growing approximately 23.1 percent, or 4.2 percent annually on average, for the same time period.

Figure 21

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

		Enacted Capital Plan					Total Percentage Change	Total Dollar Change
	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2016-17 through SFY 2020-21	SFY 2016-17 through SFY 2020-21
General Obligation	412,788	381,000	397,257	421,554	450,355	464,092	12.4%	51,304
Other State-Supported Public Authority	5,166,421	4,796,681	5,844,993	6,335,600	6,767,520	6,980,248	35.1%	1,813,827
2016-17 Capital Plan (State-Supported)	**5,579,209**	**5,177,681**	**6,242,250**	**6,757,154**	**7,217,875**	**7,444,340**	**33.4%**	**1,865,131**
State-Funded Secured Hospitals	33,402	33,584	22,212	22,221	22,213	22,211	-33.5%	(11,191)
SUNY Dorms (All)	148,141	153,752	163,253	170,750	180,137	189,608	28.0%	41,466
TSFC	447,488	399,294	398,022	247,909	-	-	-100.0%	(447,488)
TFA BARBs	477,374	524,952	568,947	596,899	612,659	622,242	30.3%	144,869
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.0%	-
MBBA	40,780	40,966	40,986	40,964	41,204	41,263	1.2%	483
Total Other State-Funded	**1,317,185**	**1,322,548**	**1,363,419**	**1,248,743**	**1,026,214**	**1,045,324**	**-20.6%**	**(271,861)**
Projected Debt Service (State-Funded)	**6,896,394**	**6,500,229**	**7,605,669**	**8,005,897**	**8,244,089**	**8,489,664**	**23.1%**	**1,593,270**

Note: Totals may not add due to rounding. TSFC is the Tobacco Settlement Financing Corporation; TFA BARBs are New York City Transitional Finance Authority Building Aid Revenue Bonds; STARC is the Sales Tax Asset Receivable Corporation; MBBA is the State of New York Municipal Bond Bank Agency.
Sources: Division of the Budget, Office of the State Comptroller, New York City Office of Management and Budget.

Capital Planning in an Era of Limited Statutory Debt Capacity

As the State faces increasing needs for capital investment along with decreasing debt capacity, effective management of debt and capital resources is vital. As mentioned above, recent declines in the State's debt outstanding reflect a number of factors. One essential component of the State's debt picture is the Debt Reform Act of 2000, which established statutory caps on the levels of both debt outstanding and annual debt service.

Annually, DOB must calculate dollar limits reflecting the debt outstanding and debt service caps defined in Section 67-b of the State Finance Law to determine if additional debt can be issued, based on levels of outstanding debt and debt service at the end of the preceding fiscal year.

If, as of October 31, DOB determines that debt outstanding and debt service as of the end of the previous fiscal year were below the caps on State-Supported debt outstanding and debt service, additional debt can be issued. If not, additional debt cannot be issued at least until the next October 31, when the annual determination regarding the amounts of debt outstanding and debt service relative to the statutory caps is made again. The limit on State-Supported debt outstanding is 4 percent of reported personal income in New York State during the previous calendar year, and the limit on State-Supported debt service is 5 percent of All Funds receipts for the previous fiscal year.

As of April 1, 2016, $32.7 billion in State-Supported debt had been authorized but not issued, including $8.7 billion in new authorizations included in the SFY 2016-17 Enacted Budget.[14] Not

[14] New York State Annual Information Statement, June 29, 2016, p. 205.

all the authorized borrowing is expected to occur within the next five years. Still, average annual issuances of State-Supported debt over the Capital Plan period are projected to be $6.2 billion, a significant increase (by an annual average of $2.5 billion) when compared to average annual issuances over the last five years of $3.7 billion. State-Supported debt issuances are projected to total $31 billion over the next five years, compared to the previous five years' total of $18.5 billion.

DOB uses various actions to manage capital and debt resources and stay within statutory debt limits. According to DOB, "Capital spending priorities and debt financing practices may be adjusted from time to time to preserve available debt capacity and stay within the statutory limits."[15]

In documents accompanying this year's Executive Budget, as well as in the updated Financial Plan released February 17, 2016, DOB projected that $3.6 billion in debt would be issued during SFY 2015-16. However, debt issuance totaled only $3.1 billion by the end of the fiscal year. State-Supported debt outstanding at the end of the fiscal year was projected in February to total $50.9 billion, but the actual level at the year's end was $50.2 billion. Partially as a result, DOB's estimate of available debt capacity projections at the end of SFY 2015-16 increased by nearly $500 million from earlier projections. Similar increases in reported debt capacity, from earlier projections to actual year-end results, have occurred in each of the last five years.

Changes to personal income projections can also change the projection for available debt capacity. For example, the Enacted Budget Financial Plan includes a reduction to the personal income forecast which, according to DOB, translates into $854 million in reduced debt capacity over the life of the Capital Plan period compared to the Executive Budget Financial Plan as updated for 30-day amendments.

The Financial Plan and the Capital Plan also include administrative actions that limit new debt issuance from levels that were otherwise planned, and thus preserve debt capacity while still allowing capital spending to occur. Since the State ended SFY 2015-16 with an unusually high General Fund balance due to monetary settlements that have yet to be transferred to the DIIF as originally planned, the Financial Plan and Capital Plan include a revised plan for the initial use of monetary settlement resources and the timing of their transfer to the DIIF (see the sections of this report entitled SFY 2016-17 Financial Plan Overview and Structural Imbalance for more information about how these actions affect the Financial Plan).

The revised plan assumes that the transfer of these resources to the DIIF will occur over the five-year Capital Plan period between SFY 2016-17 and SFY 2020-21, rather than more immediately in SFY 2015-16 and SFY 2016-17 as previously planned. In the interim, the Enacted Budget Financial Plan and the Capital Plan include the transfer of $1.3 billion in monetary settlement proceeds from the General Fund to the State Capital Projects Fund to support spending planned for SFY 2016-17 that otherwise would have been supported through the issuance of bonds in SFY 2016-17. Under this plan, the issuance of bonds is deferred until SFY 2017-18 ($800 million) and SFY 2018-19 ($500 million), thereby leaving additional statutory debt capacity. According to DOB, General Fund transfers to the Capital Projects Fund in SFY 2017-18 and SFY 2018-19 will be lower by $800 million and $500 million, respectively, and replaced with bond proceeds. Such use of settlement proceeds also means these

[15] FY 2017 Enacted Capital Program and Financing Plan, May 2016, p. 17.

resources are not immediately available for other potential purposes, including appropriations that are intended to be financed with settlement revenues. Although this plan may allow for a closer alignment of the transfer of resources to the DIIF with the planned spending from the DIIF as well as additional budget flexibility, it leaves greater uncertainty as to whether future DIIF expenditures will be funded as intended, than had the transfer and dedication of such resources occurred as initially planned.

Similarly, the Enacted Budget included a new $1 billion appropriation from the DIIF for renovation costs associated with the Jacob K. Javits Convention Center. Spending for the renovations, which is projected to begin in SFY 2017-18 and to end in SFY 2020-21, will be paid initially with transfers from the General Fund, with such spending being subsequently reimbursed with bond proceeds. Bonds are projected to be issued in SFY 2019-20 and SFY 2020-21, also delaying the impact on the State's level of outstanding debt.

In addition to the above-described items, the Enacted Budget Financial Plan and the Capital Plan incorporate other elements that contribute to managing available debt capacity. These include an additional $2.8 billion in actions related to management of debt issuances, $6.3 billion in capital spending re-estimates, and $606 million related to refunding of SUNY Dormitory Authority bonds under the bond program that is not subject to the statutory debt caps. If such actions to manage debt capacity are not implemented as planned and/or if personal income growth is lower than projected, absent other actions, available debt capacity could be further diminished or planned capital spending may be delayed. The potential impact on capital investments in individual program areas is uncertain.

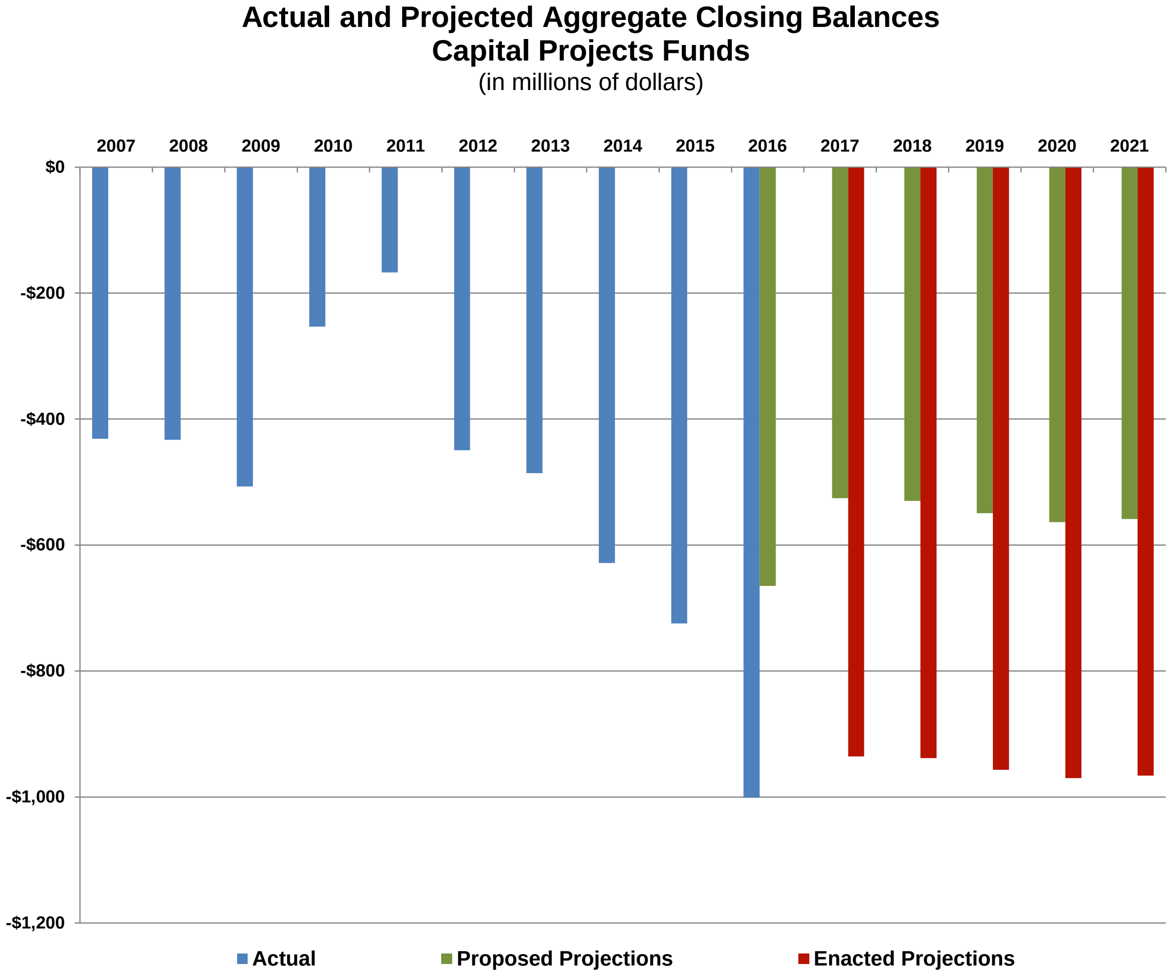
Some of the above-noted actions are short-term in nature, such as the temporary use of resources planned to finance the DIIF to delay the need to borrow. Other actions are recurring and have a longer-term impact, such as the creation of a new financing program associated with SUNY dormitories and the refunding of old SUNY dormitory debt into the new program in SFY 2013-14. Although this action creates additional statutory debt capacity, it does not change the State's overall debt burden, as the same resources are used to repay the bonds.

Capital Projects Funds Balance

Spending from capital projects funds is often funded by transfers from the General Fund and reimbursed with bond proceeds, federal receipts or dedicated tax collections.

Over the last ten years, including unaudited results for SFY 2015-16 (excluding the DIIF), the capital projects fund's aggregate closing balance at the end of the fiscal year averaged a negative $508.1 million. Figure 22 compares the historical aggregate closing balance of capital projects funds with projections associated with the Executive Budget as well as the Enacted Budget. Because spending from the DIIF is not included in historical levels and is isolated in a specific capital fund or identified elsewhere, it is not included in Figure 22.

Figure 22



Sources: Division of the Budget, Office of the State Comptroller
Note: Excludes the Dedicated Infrastructure Investment Fund; years indicate end of the State Fiscal Year.

Negative balances in capital projects funds are one illustration of the State's incurring costs that must be repaid in future years, even when debt is not issued currently. Figure 22 illustrates that for the last five years, the negative aggregate balance of capital projects funds has grown significantly. The SFY 2016-17 Executive Budget Capital Plan would have resulted in an average aggregate negative balance of $545 million, an increase of approximately 15 percent over the previous ten-year average. Although the Enacted Budget Capital Plan projects modest improvement from the $1 billion negative balance at the end of SFY 2015-16, the average aggregate negative closing fund balance over the Capital Plan period is projected to be $953.4 million, an increase of nearly 87 percent over the previous ten-year average. Such use of resources from capital projects funds is another means by which the Executive can temporarily limit planned borrowing and preserve statutory debt capacity. Further, since capital projects funds are also funded in part through transfers from the General Fund and other funds, these balances effectively move a gap from one fund to another by reducing the need for additional transfer support.

Dedicated Infrastructure Investment Fund

The State has received over $8.7 billion in monetary settlement revenues since April 1, 2015. Of this amount, just over $1.6 billion has been used for non-DIIF purposes. Just under $6.4 billion is expected to be deposited in the DIIF within the five-year Capital Plan period, and DOB considers the remaining $665 million currently unallocated.

The SFY 2016-17 Enacted Budget changed the nature of the DIIF by including spending that could be financed with bond proceeds (for the Javits Convention Center Expansion Project) as well as administrative actions that use settlement dollars for other non-DIIF capital appropriations in the near term. General Fund transfers to the DIIF are now planned to be spread out over the Capital Plan period rather than being made in SFY 2015-16 and SFY 2016-17 as originally planned. Rather, these funds are being used in the near term to finance other capital appropriations (in place of bond financing, as previously discussed).

Appendix B compares detailed plans for spending from the DIIF as presented in this year's Executive Budget and Enacted Budget. Figure 23 illustrates DOB's five-year spending plan for the DIIF, based on the Enacted Budget. However, statutory language governing the use of the DIIF allows resources deposited into the Fund to be transferred back to the General Fund under certain conditions, and some appropriations from the Fund are for broadly defined purposes. Given those provisions, the DIIF remains a potential source of budgetary flexibility for the State.

Figure 23

Dedicated Infrastructure Investment Fund – Five-Year Spending Plan
(in millions of dollars)

Fiscal Year Ending	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Opening Balance	-	110	110	111	111	109
Miscellaneous Receipts (bond proceeds)	-	-	-	-	500	500
Upstate Revitalization	21	128	320	392	320	319
Housing from DHCR	-	74	184	231	101	-
Javits	-	-	160	350	320	170
Other DIIF	726	1,149	1,037	728	491	170
Total Disbursements	747	1,351	1,702	1,700	1,232	659
Transfers from General Fund	857	1,351	1,702	1,700	731	49
Closing Balance	110	110	111	111	109	-

Source: Division of the Budget

VI. Economic Overview

National Economy

At the end of 2015, the national economy was exhibiting slower growth. In the fourth quarter, growth in real Gross Domestic Product (GDP) slowed to 1.4 percent, as compared to 2.0 percent during the preceding quarter and 2.1 percent in the fourth quarter of 2014. For the year, real GDP growth was 2.4 percent, the same as in 2014.

May estimates from the U.S. Bureau of Economic Analysis showed economic growth softening further in the first quarter of 2016, increasing by 0.8 percent. A slowdown in growth is not unusual for the first quarter of the year due to the seasonality of certain components of the economy, such as holiday spending (which increases personal consumption expenditures in the final quarter of the year).

Non-farm employment at the national level increased by approximately 769,000 jobs from December to April, an increase of 0.5 percent. However, job growth in the month of April was slower than that of a year earlier, an increase of 160,000 jobs as compared to an increase of 251,000 jobs in April 2015, and slower than job growth in February and March. The national unemployment rate remained unchanged over the same period, at 5.0 percent.

Wage growth accelerated in the first quarter of 2016, with an increase of 5.3 percent on a year-over-year basis from the first quarter of 2015 compared to a gain of 4.5 percent over the preceding year. Personal income rose 4.4 percent in the first quarter of 2016.

As a result of slowing overall economic conditions in the first quarter, projections for real GDP growth for calendar year 2016 have been revised downward from the beginning of the year. The following table shows the current projections by DOB, IHS Global Insight, and the Blue Chip Economic Indicators as compared to projections made in February.

Figure 24

Projections of Calendar Year 2016 Real GDP

	May 2016	**February 2016**
DOB	1.8%	2.0%
IHS	1.7%	2.4%
Blue Chip Consensus	1.8%	2.1%

DOB reduced its projection of U.S. personal income growth for calendar 2016 from 4.4 percent to 4.1 percent, while IHS Global Insight reduced its forecast from 3.9 percent to 3.8 percent. DOB's projection for national employment growth increased slightly between February and May, with 1.9 percent forecasted in May as compared to the previous forecast of 1.8 percent.

New York State Economy

Based on the most recent data available from the U.S. Bureau of Economic Analysis, the New York State economy realized a slight acceleration in 2015, with growth in real State GDP increasing to 1.4 percent from 1.2 percent in 2014. New York ranked 32nd in the nation for change in GDP in 2015.

New York ended 2015 with a calendar-year increase of over 152,000 jobs, or 1.6 percent. Through April of this year, New York has gained nearly 45,000 jobs from December 2015. This was stronger than the gain of 38,000 jobs during the same period in 2015. Over the year ending in April 2016, New York's employment increased by over 121,000 jobs, or 1.3 percent. The decline in the unemployment rate was minimal, from 5.0 percent in December to 4.9 percent in April, because some of the increase in the number of individuals employed was offset by a rising number of individuals in the labor force.

With year-over-year growth of 1.3 percent, New York ranked 29th in the nation for job growth from April 2015 to April 2016. In comparison, Idaho, the highest ranking state, had job growth of 3.8 percent for the same period. New York ranked 29th in the nation in unemployment with an April rate of 4.9 percent compared to the nation's 5.0 percent.

In 2015, personal income in New York grew by 4.0 percent, with wages growing by 4.1 percent. However, most of this growth took place in the second and third quarters of the year. Both personal income and wage growth slowed to less than 1.0 percent in the fourth quarter, each noticeably below the national gains mentioned above.

DOB's projections for New York's economy for SFY 2016-17 have not changed significantly between February and May. Projections for employment and wage growth are unchanged at 1.3 percent and 4.3 percent, respectively. However, personal income growth has been revised down slightly, with current projections forecasting growth of 4.7 percent as compared to 4.8 percent in February.

VII. Risks to the Financial Plan

As with any financial plan, the SFY 2016-17 Enacted Budget Financial Plan is subject to various risks and uncertainties. DOB identifies matters that affect the Financial Plan, including "complex economic, social, financial, political, and environmental risks and uncertainties, many of which are outside the ability of the State to control." In recent years, DOB has expanded upon its assessment of budget risks and uncertainties, and 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; and
- actions by the federal government to reduce or disallow expected aid.

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

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

As noted earlier in this report, All Funds PIT collections in the first three months of SFY 2016-17 were nearly $600 million lower than projected in the Enacted Budget Financial Plan issued in May 2016 and nearly $1.2 billion lower than February 2016 projections. Overall tax receipts through June 2016 were approximately $454 million below May projections. Although variances to forecast levels may occur throughout the year, ongoing monitoring of actual collections will be needed to mitigate budgetary risks.

Spending-side concerns identified by DOB include cash flow projections and funding of other postemployment benefits. The Financial Plan includes the limitations of the Debt Reform Act of 2000 on new State-Supported debt and debt service as a risk and/or uncertainty, although its expectation is that debt outstanding and debt service will continue to remain below the limits imposed by the Act (with new actions designed to increase capacity). 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. However, 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. However, the Enacted Capital Program and Financing Plan does not project any spending from these new appropriations through SFY 2020-21.

VIII. Appendices

Appendix A: General Fund Gap-Closing Plan SFY 2016-17 through SFY 2019-20

(in millions of dollars)

	2016-17	2017-18	2018-19	2019-20
Current Services Gap Reported in Mid-Year Update	**(1,781)**	**(2,802)**	**(4,414)**	**(4,205)**
Non-Recurring and Temporary Resources and Costs	**1,665**	**360**	**300**	**35**
Debt Service Prepayment	610	60	-	-
Additional Personal Income Tax Refund Prepayment	550	-	-	-
Fund Sweeps and Other Transfers	261	-	-	-
STARC Refunding	200	200	200	-
Workers' Compensation Reserves	140	100	100	35
Prepayment to Dedicated Highway and Bridge Trust Fund	57			
Replace Federal DSHP Healthcare Resources	(250)	-	-	-
Reserves	97	-	-	-
Recurring State Operations Reductions	**200**	**(56)**	**(172)**	**(523)**
Executive Agencies, University and Independent	147	55	82	18
Other Benefits and Costs	53	(111)	(254)	(541)
Debt Management and Capital	**185**	**294**	**328**	**293**
Resource Changes	**(579)**	**(44)**	**164**	**100**
Recurring Local Assistance Reductions	**1,420**	**1,300**	**1,324**	**1,352**
STAR (including resource change)	184	477	575	670
Education	576	407	459	464
Mental Hygiene	174	90	16	(54)
Health Care	287	201	154	174
Human Services/Housing	150	74	71	60
Higher Education	49	51	49	38
Recurring New Tax Actions	**(98)**	**(517)**	**(1,645)**	**(2,175)**
Middle Class Tax Reductions	-	(236)	(1,071)	(1,504)
STAR Conversion	(98)	(281)	(574)	(671)
New Spending Initiatives	**(533)**	**(898)**	**(1,137)**	**(1,368)**
School Aid	(382)	(587)	(612)	(640)
Other Education/Higher Education	(132)	(128)	(113)	(83)
Minimum Wage	(19)	(126)	(355)	(588)
SUNY/CUNY Performance Incentive	-	(30)	(30)	(30)
Charter School Funding	-	(27)	(27)	(27)
All Other	**(479)**	**(238)**	**(223)**	**(406)**
Remaining Gap In Enacted Budget Financial Plan Prior to Assumed Savings Associated with 2% State Operating Funds Growth Benchmark	**-**	**(2,601)**	**(5,475)**	**(6,897)**

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

Appendix B: Dedicated Infrastructure Investment Fund
Planned Disbursements – Executive Proposal and Enacted Budget

(in thousands of dollars)

Executive Budget	2016	2017	2018	2019	2020	2021	Total
Broadband Initiative	5,000	59,350	106,800	130,500	106,800	91,550	500,000
Municipal Restructuring (1)	17,805	32,040	39,150	32,040	28,965	-	150,000
Health Care Providers	-	85,000	105,000	85,000	80,000	-	355,000
Security and Emergency Response	63,900	45,000	41,100	-	-	-	150,000
MTA Capital Plan (Penn Station Access)	-	-	-	100,000	150,000	-	250,000
Thruway Stabilization SFY 2015-16	591,000	439,000	255,000	-	-	-	1,285,000
Thruway Stabilization SFY 2016-17 (2)	-	250,000	250,000	200,000	-	-	700,000
Long Island Transformative Projects	-	17,805	32,040	39,150	32,040	28,965	150,000
Infrastructure Improvements, Transportation, Upstate Transit, Economic Development	13,330	24,240	29,900	24,240	23,290	-	115,000
Southern Tier Agriculture and Hudson Valley Farmland Protection	5,935	10,680	13,050	10,680	9,655	-	50,000
Municipal Consolidation (1)	-	-	10,000	10,000	-	-	20,000
Statewide Multiyear Housing Program	-	10,000	10,000	10,000	10,000	10,000	50,000
Upstate Revitalization Initiative SFY 2016-17 (3)	-	78,000	92,000	-	-	-	170,000
DOT Capital Plan Contribution	-	13,333	33,605	41,843	45,650	34,242	168,673
Other Economic Development or Infrastructure Projects	-	27,000	27,000	31,000	-	-	85,000
Empire State Poverty Reduction Initative	-	10,000	10,000	5,000	-	-	25,000
Roswell Park Cancer Institute	15,500	-	-	-	-	-	15,500
Community Health Care Revolving Loans	19,500	-	-	-	-	-	19,500
Behavioral Health Grants	10,000	-	-	-	-	-	10,000
Statewide Multiyear Housing Program	-	74,000	184,200	230,800	101,000	-	590,000
Upstate Revitalization Initiative SFY 2015-16	-	128,050	320,400	391,500	320,400	339,650	1,500,000
Javits Convention Center Expansion (bonded)	-	-	-	-	-	-	-
Total	**741,970**	**1,303,498**	**1,559,245**	**1,341,753**	**907,800**	**504,407**	**6,358,673**

Enacted Budget	2016	2017	2018	2019	2020	2021	Total
Broadband Initiative	2,500	59,350	106,800	130,500	106,800	94,050	500,000
Municipal Restructuring (1)	-	32,040	39,150	32,040	28,965	17,805	150,000
Health Care Providers	-	85,000	105,000	85,000	80,000	-	355,000
Security and Emergency Response	80,279	45,000	24,721	-	-	-	150,000
MTA Capital Plan (Penn Station Access)	-	-	-	100,000	150,000	-	250,000
Thruway Stabilization SFY 2015-16	608,420	439,000	237,580	-	-	-	1,285,000
Thruway Stabilization SFY 2016-17 (2)	-	250,000	250,000	200,000	-	-	700,000
Long Island Transformative Projects	-	17,805	32,040	39,150	32,040	28,965	150,000
Infrastructure Improvements, Transportation, Upstate Transit, Economic Development	7,337	24,240	29,900	24,240	23,290	5,993	115,000
Southern Tier Agriculture and Hudson Valley Farmland Protection	2,556	10,680	13,050	10,680	9,655	3,379	50,000
Municipal Consolidation (1)	-	-	10,000	10,000	-	-	20,000
Statewide Multiyear Housing Program	-	10,000	10,000	10,000	10,000	10,000	50,000
Upstate Revitalization Initiative SFY 2016-17 (3)	-	78,000	92,000	-	-	-	170,000
DOT Capital Plan Contribution	-	40,000	50,000	50,000	50,000	10,000	200,000
Other Economic Development or Infrastructure Projects	-	27,000	27,000	31,000	-	-	85,000
Empire State Poverty Reduction Initative	-	10,000	10,000	5,000	-	-	25,000
Roswell Park Cancer Institute	15,500	-	-	-	-	-	15,500
Community Health Care Revolving Loans	-	19,500	-	-	-	-	19,500
Behavioral Health Grants	9,000	1,000	-	-	-	-	10,000
Statewide Multiyear Housing Program	-	74,000	184,200	230,800	101,000	-	590,000
Upstate Revitalization Initiative SFY 2015-16	21,000	128,050	320,400	391,500	320,400	318,650	1,500,000
Javits Convention Center Expansion (bonded)	-	-	160,000	350,000	320,000	170,000	1,000,000
Total	**746,592**	**1,350,665**	**1,701,841**	**1,699,910**	**1,232,150**	**658,842**	**7,390,000**

(1) New appropriation language enacted in SFY 2016-17 changed from the previous year. Language was added to SFY 2015-16 reappropriation that extends funding to Downtown Revitalization Program, including the Healthy Foods/Healthy Community initiative. In addition, funding was extended to “other municipal entities.”
(2) New appropriation language enacted in SFY 2016-17 changed from the previous year by adding debt service and related payments as a purpose, but did not include reporting requirements that were included in the allocation enacted in SFY 2015-16.
(3) New appropriation language enacted in SFY 2016-17 changed from the previous year by removing language requiring the allocation to be made pursuant to a competitive process among the Regional Economic Development Councils and limiting awards to projects in regions that did not receive Upstate Revitalization Initiative Best Plan awards in SFY 2015-16 or eligible to receive funding from the Buffalo Regional Information Cluster.

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

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

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