BLOG | STATE BUDGET

NYS Budget Basics, Fiscal Future

The Fiscal Year 2023 Enacted Budget Financial Plan

May 24, 2022

Nearly six weeks after its adoption, last Friday New York State released the Fiscal Year 2023 Enacted Budget Financial Plan. While balanced in each of the plan's five years, the budget's high and growing spending risks New York's future fiscal stability. Given the uncertain economic recovery, the budget choices State leaders made all but assure New York will have to make permanent the temporary tax increases of 2021, and may lead to drastic service cuts or even greater tax increases in the future. On the positive side, in addition to the budget being balanced through fiscal year 2027, the State plans to deposit $15 billion to reserves over the next four years; diligent management will be essential to carry these plans to fruition.

Key takeaways are:

- All Funds spending is $222 billion, $36 billion higher than the budget two years ago;
- State Operating Funds spending, adjusting for off-budget shifts and payment timing, is $130 billion, a $14 billion (12%) increase from fiscal year 2022;[1]
  - State Operating Funds spending, before adjusting for fiscal maneuvers, is reported at $123 billion;
- Roughly $2 billion annually was added to State Operating Funds spending above the Executive Budget for fiscal years 2024 through 2027;
- The spending plan is balanced in each fiscal year from 2023 through 2027;
- Budget balance in the fiscal years 2024 to 2027 is achieved by prepaying nearly $10 billion in debt service costs in fiscal year 2022 and 2023;
  - These $10 billion are available due to unexpectedly high tax receipts and cash balances at the close of fiscal year 2022;
- Budget gaps totaling approximately $8 billion annually are likely to open beginning in fiscal year 2028 after the temporary personal income tax increase enacted last year sunsets and one-time resources are exhausted; and
- Planned deposits to reserves over a four-year period total $15.4 billion, including $10.8 billion to the Rainy Day Fund lockbox and $4.7 billion to unrestricted reserves.

The budget is balanced in fiscal year 2027 with roughly $5 billion of receipts attributable to the 2021 temporary personal income tax increase, which is set to expire in 2027, and $3 billion in prepaid debt service funded by one-time surplus resources from fiscal year 2022. The State took no action to align its recurring spending with the receipts that will be available when the personal income tax increase sunsets and the receipts funding the debt service prepayments are exhausted. Absent specific actions or unexpected economic growth, this will leave gaps of approximately $8 billion in fiscal year 2028 and beyond.

Significant risks remain in the financial plan. An economic downturn or additional spending could quickly drive gaps totaling billions of dollars. A fiscal cliff still looms if one-time spending becomes recurring. Spending in key categories is rising rapidly, such as school aid and Medicaid, which has added more than one million enrollees in the last two years. To reduce risks and preserve service levels and quality, the State should improve accountability and transparency, implementing performance management, and actively develop plans to restrain Medicaid and education spending growth while delivering needed services and quality.

Fortunately, assuming projections hold, the budget is balanced in each year of the five-year financial plan and includes deposits of $15.4 billion to reserves. These are unprecedented and positive. Maintaining balance and making these reserve deposits will require fiscal prudence, including adhering to spending targets and maximizing Rainy Day Fund deposits.

The release of the financial plan 40 days after the budget bills passed highlights the fact that the State budget is adopted without public information on its size, balance, and out-year trends. This is a failure in governmental transparency. Next year, the Legislature and Governor should release basic financial plan tables with both the one-house and enacted budget bills.

By Patrick Orecki

ENDNOTES

[1] These values reflect preliminary analysis of the financial plan. Adjustments are made for the timing of payments moved across fiscal years, for spending shifted off-budget or out of State Operating Funds, and for use of extraordinary federal aids that temporarily offset State costs in order to more accurately reflect year-to-year spending and State supported costs. See the methodology in Patrick Orecki, *Risky Business* (Citizens Budget Commission, March 2022), Appendix 2, https://cbcny.org/research/risky-business.