



REPORT | STATE BUDGET

And State Spending Growth Resumes

Buoyed by Revenue Strength and Federal Aid

March 26, 2021

Since taking office, Governor Andrew Cuomo has set the benchmark for growth of State Operating Funds (SOF) spending—a subset of the State budget that excludes federal funds and capital spending—at 2 percent. However, at times this has only been ‘achieved’ by shifting funds, delaying payments, and adjusting accounting for some disbursements. After growing 3.7 percent per year on average before the pandemic, SOF spending growth is expected to slow to 1.1 percent in the current fiscal year. However, the Governor’s Fiscal Year 2022 Executive Budget plus reported restorations supported by the Governor would increase SOF spending 5.2 percent (\$5.7 billion) in fiscal year 2022 and then an average of 2.7 percent per year over the next three fiscal years; the use of additional aid from the federal American Rescue Plan is expected to drive spending growth even higher.

Accounting Shifts and Payments Delays Drive Pre-Pandemic Average Annual Spending Growth to 3.7 Percent

Adjusting for spending maneuvers, SOF spending increased an average annual rate of 3.7 percent over the three years prior to the pandemic. (See Table 1.) To determine the actual SOF spending growth, adjustments to reported spending are made to account for:

- **STAR Actions:** STAR benefits were shifted from State-funded local property tax exemptions to personal income tax credits, effectively shifting the costs of STAR off-budget;
- **MTA Payroll Taxes:** Receipts of the Metropolitan Commuter Transportation Mobility Tax were shifted off-budget beginning in fiscal year 2019 and additional receipts dedicated to the MTA were shifted off-budget in fiscal year 2020;

- **Medicaid Deferrals:** At the conclusion of fiscal year 2019, Medicaid payments totaling \$1.7 billion were deferred into fiscal year 2020. The State caught up with a portion of the deferral during fiscal year 2020, but expects again to defer \$1.7 billion to close out fiscal year 2021 and in perpetuity;
- **Tobacco Master Settlement Funds:** State proceeds from the Tobacco Master Settlement were shifted off-budget and fund a portion of the Medicaid program that was previously on-budget;
- **COVID-related Payment Processing Delays:** Payments for some costs incurred during fiscal year 2020 were delayed until fiscal year 2021; and
- **Debt Prepayments:** Debt service payments were shifted across fiscal years.

Table 1: Reported and Actual State Operating Funds Spending Growth, FY 2018 to 2020
(dollars in billions)

	FY 2018	FY 2019	FY 2020
Reported SOF Spending	\$98,151	\$100,137	\$102,160
<i>Reported SOF Growth Rate</i>	2.0%	2.0%	2.0%
Adjustments for Delays, Deferrals, and Shifts	\$795	\$2,979	\$5,023
STAR Actions	778	938	1,280
MTA Payroll Taxes (<i>off-budget</i>)	0	1,356	1,837
Medicaid Deferrals (<i>net</i>)	0	1,692	(599)
Tobacco Master Settlement Funds (<i>off-budget</i>)	0	444	315
COVID-related Payment Processing Delays	0	0	1,579
Debt Prepayments (<i>net</i>)	(103)	(904)	1,033
All Other	120	(547)	(421)
Actual SOF Spending	\$98,946	\$103,116	\$107,183
<i>Actual SOF Growth Rate</i>	2.8%	4.2%	3.9%

Sources: CBC staff analysis of New York State Division of the Budget, FY 2022 Executive Budget Financial Plan Updated for Governor's Amendments and Forecast Revisions (February 2021), www.budget.ny.gov/pubs/archive/fy22/ex/fp/fy22fp-ex-amend.pdf; and editions for fiscal years 2011 through 2021.

Executive Budget Plus Reported Restorations Would Increase Actual SOF Spending by 5.2 percent in Fiscal Year 2022

The fiscal year 2021 enacted budget included approximately \$8 billion of unspecified recurring spending reductions to partly address projected revenue shortfalls; however, stronger than projected revenues and federal aid ultimately offset much of the expected shortfalls. Thus, the

Executive Budget, as modified in February, will increase current year actual SOF spending 1.1 percent. The budget also proposes growth of 3.5 percent in fiscal year 2022 and 2.9 percent average annual growth over the remainder of the financial plan. (See Table 2.) This is supported in part by the assumption that the American Rescue Plan would provide \$6 billion in additional federal aid—a “worst case.” Along with the spending maneuvers described above, some federal aid has been used to offset SOF spending. Absent federal aid, actual SOF spending declines 5.5 percent in fiscal year 2021, then grows 6.4 percent in fiscal year 2022, and 4.3 percent annual on average thereafter.

The Governor’s Executive Budget spending plan includes some cuts, but also increases spending for school aid that already is highest in the nation and double the national average, and the Medicaid program that is one of the most expensive in the county.

However, public statements suggest that given stronger revenues and additional federal aid the State will omit some major savings actions proposed in the Executive Budget. These include a temporary freeze of state workforce salary increases for two years to be repaid in fiscal year 2023, recurring reductions in school aid spending, and 5 percent across-the-board savings in other programming.¹ Restoration of these Executive Budget savings proposals would add an estimated \$1.3 billion in spending in the current year, \$3.2 billion in fiscal year 2022, and \$2.8 billion on average annually over the following three years. These restorations would increase SOF spending growth to 2.3 percent in the current year, 5.2 percent next year, and 2.7 percent on average in the following three years.

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Table 2: FY 2022 Executive Budget Reported and Actual State Operating Funds Spending Growth
(dollars in millions)

	Actual FY 2020	FY 2021	FY 2022	Projected		
				FY 2023	FY 2024	FY 2025
Reported SOF Spending	\$102,160	\$99,286	\$105,005	\$109,646	\$112,841	\$116,810
<i>Reported SOF Growth Rate</i>	2.0%	-2.8%	5.8%	4.4%	2.9%	3.5%
Adjustments for Delays, Deferrals, and Shifts	\$5,023	\$1,987	\$2,717	\$4,544	\$5,275	\$5,299
STAR Actions	1,280	1,292	1,522	1,740	1,961	2,144
MTA Payroll Taxes (<i>off-budget</i>)	1,837	1,906	1,984	2,066	2,151	2,240
Medicaid Deferrals (<i>net</i>)	(599)	702	54	55	57	59
Tobacco Master Settlement Funds (<i>off-budget</i>)	315	362	362	362	362	362
COVID-related Payment Processing Delays	1,579	(1,579)	0	0	0	0
Debt Prepayments (<i>net</i>)	1,033	(1,135)	(676)	759	759	758
All Other	(421)	438	(529)	(438)	(15)	(264)
Actual SOF Spending	\$107,183	\$101,273	\$107,722	\$114,190	\$118,116	\$122,109
<i>Actual SOF Growth Rate</i>	3.9%	-5.5%	6.4%	6.0%	3.4%	3.4%
Federal Aid Offsets	\$0	\$7,067	\$4,439	\$1,421	\$200	\$0
Enhanced Medicaid Funding	0	3,421	2,487	0	0	0
COVID Relief Funds	0	2,477	600	200	200	0
School Aid (<i>used as offset</i>)	0	1,169	1,352	1,221	0	0
Actual SOF Spending (including federal aid offsets)	\$107,183	\$108,340	\$112,161	\$115,611	\$118,316	\$122,109
<i>Actual SOF Growth Rate (including federal aid offsets)</i>	3.9%	1.1%	3.5%	3.1%	2.3%	3.2%
Reported Restorations (<i>estimated</i>)	\$0	\$1,290	\$3,127	\$2,426	\$2,976	\$2,949
Reverse State Workforce Pay Freeze	0	290	290	(580)	0	0
Omit School Aid Savings Actions	0	0	1,837	2,006	1,976	1,949
Omit Planned Across-the-Board Savings	0	1,000	1,000	1,000	1,000	1,000
Actual SOF Spending (including federal aid offsets and restorations)	\$107,183	\$109,630	\$115,288	\$118,037	\$121,292	\$125,058
<i>Actual SOF Growth Rate (including federal aid offsets)</i>	3.9%	2.3%	5.2%	2.4%	2.8%	3.1%

Notes: Reported and Actual SOF spending for fiscal year 2021 does not include \$4.5 billion related to short-term liquidity financing repayment. "Planned Restorations" assume reversal of Executive Budget proposals for freezing state workforce salary increases for two years with repayment in fiscal year 2023, school aid savings from Local District Funding Adjustment and Services Aid, and 5 percent across-the-board savings in other local programs. The value of across-the-board savings is estimated based on reported 20 percent withholdings of \$2.9 billion from April 2020 through December 2020.

Sources: CBC staff analysis of New York State Division of the Budget, FY 2022 Executive Budget Financial Plan Updated for Governor's Amendments and Forecast Revisions (February 2021), www.budget.ny.gov/pubs/archive/fy22/ex/fp/fy22fp-ex-amend.pdf; and editions for fiscal years 2011 through 2021.

American Rescue Plan Further Improves the Fiscal Landscape

Subsequent to the Governor's budget proposal, the federal government enacted American Rescue Plan which further improved the State's revenue picture, with \$12.6 billion in direct federal funding to the State, more than was double what the Governor planned for in the Executive Budget. The federal package also includes tens of billions of dollars in other aid for

schools, local governments, individuals, and businesses in New York. With the additional direct State aid and the higher revenue “consensus” forecast agreed to with the Legislature, enacting the Governor’s Executive Budget would result in a \$9.6 billion surplus over the fiscal years 2021 through 2023.² This amount is sufficient to omit the proposed personal income tax increases and still leave \$5.9 billion to fully reverse the spending reductions proposed by the Governor and to make additional investments. (See Table 3.) Still, budget gaps in fiscal years 2024 and 2025 are significant.

Table 3: FY 2022 NYS Executive Budget Surplus/(Gaps), Updated
(dollars in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Surplus/(Gap) in Executive Amended Budget	\$0	\$0	(\$902)	(\$3,634)	(\$6,242)
March Revenue Consensus	1,000	1,453	0	0	0
Additional eFMAP (<i>July 2021 to December 2021</i>)	0	1,492	0	0	0
Additional Federal Aid from American Rescue Plan	0	3,300	3,300	0	0
Updated Surplus/(Gap)	\$1,000	\$6,245	\$2,398	(\$3,634)	(\$6,242)
Omit Executive Budget PIT proposals	0	(1,931)	(1,807)	(1,640)	(831)
Updated Surplus/(Gap) without PIT increases	\$1,000	\$4,314	\$591	(\$5,274)	(\$7,073)

Notes: "March Revenue Consensus" annual values are CBC assumptions based on a two-year value of \$2.453 billion, divided roughly proportional to the Senate Finance Committee's reported estimates. "Additional eFMAP" is based on the average quarterly value of Medicaid eFMAP already included in the State's Financial Plan. "Omit Executive Budget PIT proposals" includes estimates for the high-income surcharge and middle class tax cut delay proposed in the Executive Budget.

Sources: CBC staff analysis of New York State Division of the Budget, *FY 2022 Executive Budget Financial Plan Updated for Governor's Amendments and Forecast Revisions* (February 2021), www.budget.ny.gov/pubs/archive/fy22/ex/fp/fy22fp-ex-amend.pdf; and editions for fiscal years 2011 through 2021; *FY 2022 Consensus Economic and Revenue Forecast Report* (March 2021), www.budget.ny.gov/pubs/press/2021/ercfr/consensus-economic-revenue-forecast-fy22.pdf; and New York State Senate, *SFY 2021-22 Economic and Revenue Forecast* (February 2021), www.nysenate.gov/sites/default/files/2021-economic_and_revenue_report_updated_cover.pdf.

Legislature’s One-House Bills Would Push Fiscal Year 2022 SOF Spending Growth to Over 11%

Both houses of the State Legislature presented their one-house budget proposals shortly after enactment of the American Rescue Plan. Each one-house budget proposed a plan to spend the new federal aid, raise taxes in excess of \$7 billion annually, and further increase SOF spending. For example, the Assembly plan added approximately \$9 billion in SOF spending in fiscal year 2022, increasing SOF spending growth of 11.8 percent next year.³

Conclusion

Earlier this week, the State Budget Director reported that the State has sufficient revenue to restore once-planned spending reductions and make other investments without significantly raising income taxes.⁴ The American Rescue Plan provides sufficient direct funding to make these budget restorations and investments possible, and separately provides an additional \$9 billion in federal aid for elementary and high schools. Once included in the budget, actual SOF spending growth in fiscal year 2022 will be even higher than reported here. Ultimately, to address the gaps that will exist and grow when the federal funds are depleted, the State should use the next two years to restructure spending to be more sustainable.

By Patrick Orecki

ENDNOTES

1. Christopher Robbins, "Cuomo Locates \$5 Billion In Budget To Avoid Taxing The Rich" *Gothamist* (March 24, 2021), <https://gothamist.com/news/cuomo-locates-5-billion-budget-avoid-taxing-rich>.
2. The State's annual revenue consensus identified \$2.5 billion in additional state receipts expected through the end of fiscal year 2022 in excess of projections made by the Division of the Budget in February. See New York State Division of the Budget, *FY 2022 Consensus Economic and Revenue Forecast Report* (March 2021), <https://www.budget.ny.gov/pubs/press/2021/ercfr/consensus-economic-revenue-forecast-fy22.pdf>.
3. Growth of 11.8 percent in fiscal year 2022 under the Assembly one-house budget is based on net addition of \$9 billion in spending relative to the Executive Budget on top of Actual SOF spending calculated in Table 2. See New York State Assembly, *Overview of Assembly Budget Proposal State Fiscal Year 2021-22* (March 2021), p. 4, <https://nyassembly.gov/Reports/WAM/2021AssemblyBudgetProposal/2021AssemblySummary.pdf>.
4. Nick Reisman, "Cuomo: "Significant" Tax Hikes Not Needed for Budget" *Spectrum News* (March 22, 2021), <https://spectrumlocalnews.com/nys/central-ny/ny-state-of-politics/2021/03/22/cuomo---significant--tax-hikes-not-needed-for-budget>.