

Clear Picture: NYS Executive Budget Grows 3.4 Percent

When Governor Andrew Cuomo released the Executive Budget for Fiscal Year 2020, he again reported to have held State Operating Funds (SOF) spending growth to below the 2 percent benchmark he set after taking office. However, accounting for prepayments, reclassifications, and other spending adjustments between years reveals SOF spending will grow by 3.4 percent in fiscal year 2020, the third straight year that SOF spending has increased by more than 2 percent.¹

Governor Cuomo has implemented important spending reforms to Medicaid, public pensions, and employee and retiree health insurance, and he has kept agency spending mostly flat during his tenure. While these measures were sufficient to keep SOF growth to 2 percent early on, significant increases in other areas, most notably education, have powered spending beyond 2 percent in the last three years.

	FY 2019 Spending	FY 2020 Spending	Growth
Reported Spending	\$100,132	\$102,011	1.9%
Adjustments	\$2,518	\$4,143	
Actual Spending	\$102,650	\$106,154	3.4%

Source: New York State Division of the Budget, *FY 2020 Executive Budget Financial Plan* (January 2019), and *Enacted Budget Financial Plan*, fiscal years 2011 through 2019, <https://openbudget.ny.gov>. New York State Assembly Ways and Means Committee, *Yellow Book; Review and Analysis of the 2019-20 Executive Budget* (January 2019).

State Operating Funds Spending

SOF spending includes disbursements for operations and debt service supported by State revenues. It excludes federal funds, over which the State has little control, and capital investments, which are best evaluated over a longer period of time. Accordingly, it is the best measure of State spending choices and has been the focus of spending control under Governor Cuomo, who has set a 2 percent “cap” for annual SOF growth.

The Governor claims this is the ninth straight year SOF spending growth has been held to 2 percent or less; however, this is the third straight year in which the target has been met with a series of accounting maneuvers that include:

- (1) items previously categorized as state operating spending shifting to off-budget accounts;
- (2) cash disbursements shifting between fiscal years; and
- (3) reclassification of other spending items.²

The New York State Division of the Budget (DOB) acknowledges SOF spending growth would exceed the 1.9 percent reported when adjusting for such maneuvers.³

More than \$4.1 billion is being shifted out of fiscal year 2020 SOF spending. (See Table 2.) The largest shift reflects the continuation of a process that began in fiscal year 2019: the Metropolitan Commuter Transportation Mobility Tax was shifted off-budget, reducing reported SOF spending by \$1.4 billion in fiscal year 2019.⁴ In addition approximately \$292 million in other taxes and fees collected on behalf of the Metropolitan Transportation Authority will be shifted off-budget in fiscal year 2020.⁵

Similarly, beginning in fiscal year 2017 new School Tax Relief (STAR) recipients receive their benefits as a personal income tax credit, instead of as a state-funded property tax exemption. In the same year, all New York City personal income tax STAR benefits were reclassified from spending to a state tax credit. In this budget, the Governor has proposed that all homeowners with incomes of more than \$250,000 receive STAR benefits as an income tax credit. While residential property owners will continue to receive the same benefits, the reclassification results in SOF spending appearing to decrease by \$1.24 billion.

Reported fiscal year 2020 SOF spending also appears lower because Master Settlement Agreement revenues (tobacco settlement related funds) are used to pay certain Medicaid expenses off-budget.⁶ In fiscal year 2019 this totals \$435 million and in fiscal year 2020 \$327 million.

Continuing past practice \$765 million in debt service payments for fiscal year 2020 will be prepaid in fiscal year 2019. Fiscal year 2019 spending is increased by \$171 million—the net result of \$594 million in fiscal year 2019 debt service payments made in fiscal year 2018 and \$765 million in fiscal year 2020 debt service payments made in fiscal year 2019.

Other actions decreased reported SOF spending by \$78 million in fiscal year 2020, including shifting State support for the State University of New York (SUNY) from SOF to capital, delaying a repayment to the New York Power Authority (NYPA), and shifting certain costs of the New York State Energy Research and Development Authority (NYSERDA) off-budget.

Finally, beginning in fiscal year 2018, DOB began shifting personnel expenses between capital funds and SOF. The net result is a reported \$104 million increase in SOF spending in fiscal year 2020.

Taken together, these shifts and reclassifications will decrease reported SOF spending in fiscal year 2019 by \$2.5 billion and decrease fiscal year 2020 SOF spending by \$4.1 billion. Table 2 adds this spending back to each fiscal year. As a result, SOF growth is actually 3.4 percent in fiscal year 2020, which builds on growth of 3.3 percent in fiscal year 2019 and 2.8 percent in fiscal year 2018.

	FY 2018	FY 2019	FY 2020
Reported State Operating Funds Spending	\$98,151	\$100,132	\$102,011
Metropolitan Transportation Authority Taxes	\$0	\$1,356	\$1,837
School Tax Relief (STAR) Conversion	\$778	\$937	\$1,240
Net Debt Prepayments	(\$103)	(\$171)	\$765
Off-Budget Use of Master Settlement Agreement Revenues	\$0	\$435	\$327
Other	\$325	\$87	\$78
Moving Personnel Expenses Between Capital and SOF (Net)	\$227	(\$126)	(\$104)
Total Adjustments	\$1,227	\$2,518	\$4,143
Actual State Operating Funds Spending	\$99,378	\$102,650	\$106,154

Actual Growth Rate	2.8%	3.3%	3.4%
Notes: Other includes shifting state support for SUNY from SOF to Capital, use of the mortgage insurance fund to provide local aid to the City of Albany, off-budget payments toward workers compensation, delaying a repayment to NYPA, and moving certain state payments to NYSERDA off-budget. Uses DOB forecast for New York State fiscal year wages and salaries to grow the MTA payroll tax in fiscal year 2020.			
Source: New York State Division of the Budget, <i>FY 2020 Executive Budget Financial Plan</i> (January 2019), and <i>FY 2019 Enacted Budget Financial Plan</i> (May 2018), fiscal years 2011 through 2019, https://openbudget.ny.gov/ . New York State Assembly Ways and Means Committee, <i>Yellow Book; Review and Analysis of the 2019-20 Executive Budget</i> (January 2019).			

Conclusion

These shifts and reclassifications undermine transparency and make year-to-year comparisons challenging. While spending reform measures were sufficient to keep SOF growth to 2 percent early in Governor Cuomo’s tenure, significant spending increases, most notably in education, have driven spending beyond 2 percent in the last three years. As the Legislature considers the budget and its wish list, it should be mindful that spending growth is already larger than it appears.

¹ It should be noted that at the time of the Citizens Budget Commission “Statement on the NYS Executive Budget for FY 2020” the rate of growth was calculated to be 3.1 percent. However, subsequent to our original analysis, additional shifts have been identified. See: Andrew Rein, “Statement on the NYS Executive Budget for FY 2020” (Citizens Budget Commission, January 16, 2019), <https://cbcny.org/advocacy/statement-nys-executive-budget-fy-2020>.

² David Friedfel, “When 2 Percent Isn’t 2 Percent,” *Citizens Budget Commission Blog* (May 30, 2017), <https://cbcny.org/research/when-2-percent-isnt-2-percent>, “Twice as Much as Advertised” (February 6, 2018), <https://cbcny.org/research/twice-much-advertised>, and “The State Budget Cap Has Lost Its Meaning” (May 29, 2018), <https://cbcny.org/research/state-budget-cap-has-lost-its-meaning>.

³ “The Financial Plan also includes actions that affect spending reported on a State Operating Funds Basis...(and)... If these and other transactions are not implemented as planned, annual spending growth in State Operating Funds would increase above current estimates.” New York State Division of the Budget, *FY 2020 Executive Budget Financial Plan* (January 2019), p. 47, <https://www.budget.ny.gov/pubs/archive/fy20/exec/fp/fy20fp-ex.pdf>.

⁴ The payroll tax yields approximately \$1.6 billion annually, but the impact was offset by \$135 million in residual revenues that were remitted in fiscal year 2019.

⁵ New York State Assembly Ways and Means Committee, *Yellow Book; Review and Analysis of the 2019-20 Executive Budget* (January 22, 2019), p. 91, <https://nyassembly.gov/Reports/WAM/2019yellow/>.

⁶ The Master Settlement Agreement is a \$10 billion settlement between various governments and the five largest tobacco companies related to the impact of tobacco use on public health. The state is using these funds to pay state costs associated with freezing the local share of Medicaid off-budget. Previously, these expenses were on-budget.