

July 30, 2024









# New York State Budget Update

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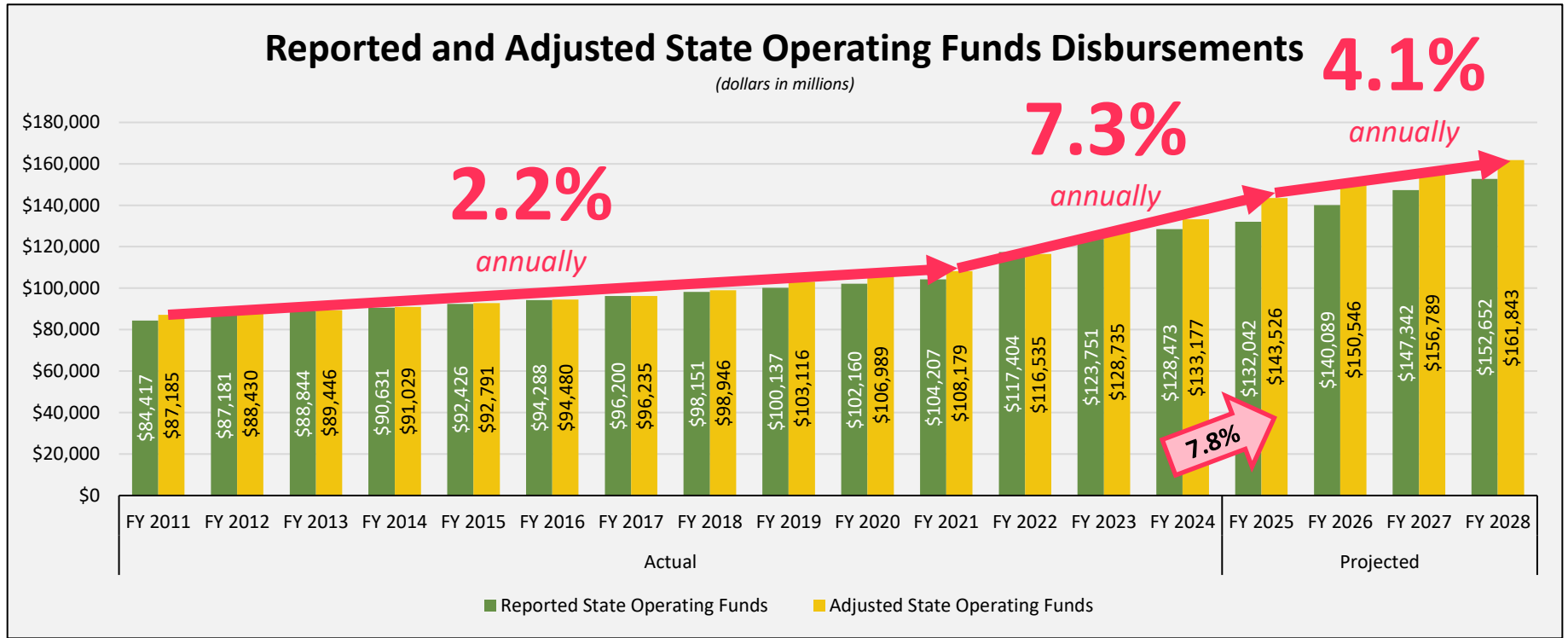
# Summary

- Fiscal Year 2025 Enacted Budget largely kicked the can on savings
  - All Funds Total Spending = \$239 billion
  - State Operating Funds spending increases 7.8%
- Structural gap of \$16 billion persists
- Commissions may play a major role in informing next year's Medicaid and school aid proposals
- We are past the fiscal meridian: Next year's Executive Budget is closer than this year's

# FY 2025 Enacted Budget

-  Taxes: No broad-based tax increases, rejected Legislature's proposals
-  Housing: City-focused incentives, building on state-owned land
-  Education: Governor's savings largely rejected, study on formulas
-  Health Care: Governor's savings largely rejected, adds spending and tax
-  Transportation: Fare and toll enforcement improved
-  Workforce: Tier 6 rollbacks, several limited 'sweeteners'

# State Spending Grows 7.8% This Year



Notes: "Adjusted State Operating Funds" values are based on CBC calculations of adjusted SOF spending based on payment timing, off-budget shifts, and other maneuvers.  
 Sources: New York State Division of the Budget, *FY 2025 NYS Enacted Budget Financial Plan* (May 2024), and prior editions.

# FY 2025 Enacted Budget Added Spending, Improved Forecast, Rolled Funds

## FY 2025 Enacted Budget Re-estimates and Actions

(dollars in millions)

	FY 2025	FY 2026	FY 2027	FY 2028
<b>Surplus/(Gap) Prior to Executive Budget</b>	<b>(\$4,326)</b>	<b>(\$9,526)</b>	<b>(\$7,722)</b>	<b>(\$16,475)</b>
<u>Cash Management Actions</u>	<u>(\$291)</u>	<u>\$153</u>	<u>(\$348)</u>	<u>\$4,695</u>
<u>Receipts</u>	<u>\$4,707</u>	<u>\$7,328</u>	<u>\$3,949</u>	<u>\$3,560</u>
Taxes Re-estimates and Actions	\$3,383	\$4,065	\$3,837	\$3,437
All Other	\$1,324	\$3,263	\$112	\$123
<u>Disbursements</u>	<u>\$791</u>	<u>(\$538)</u>	<u>(\$466)</u>	<u>\$727</u>
School Aid	\$254	\$499	\$798	\$1,452
Medicaid	\$327	(\$1,008)	(\$994)	(\$814)
Migrants and Asylum Seekers	(\$1,456)	(\$773)	\$0	\$0
State Operations	\$257	\$105	(\$534)	(\$297)
All Other	\$1,643	\$1,319	\$67	\$208
Net Transfers	(\$234)	(\$680)	\$197	\$178
<u>Use of/(Deposit to) Reserves</u>	<u>(\$881)</u>	<u>\$243</u>	<u>\$328</u>	<u>\$243</u>
<b>Surplus/(Gap) for Enacted Budget</b>	<b>\$0</b>	<b>(\$2,340)</b>	<b>(\$4,259)</b>	<b>(\$7,250)</b>

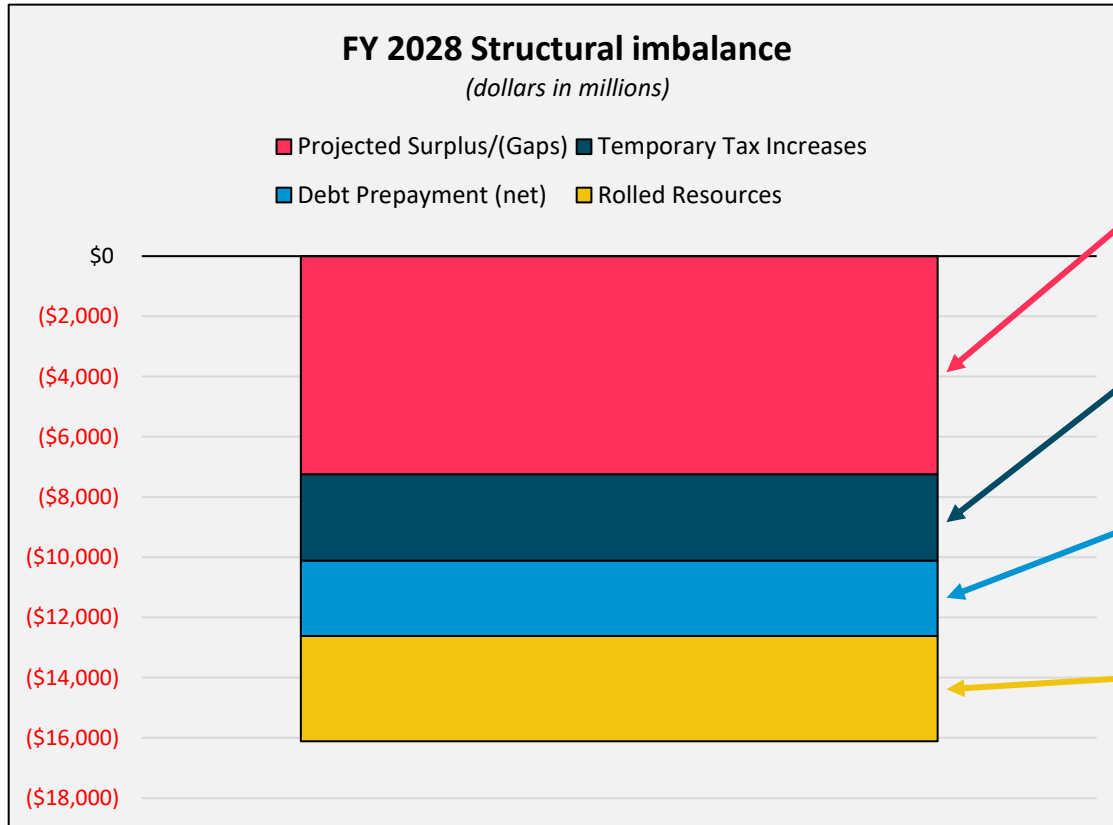
State entered budget-making with significant gaps

“Cash management” includes prepayments, rolls, and changes to reserves

Tax receipts forecast improves again

Reported gaps of up to \$7.3; nearly half of FY 2028 gap-closing from cash management

# State's \$16 Billion Structural Gap Masked By Use of Non-Recurring Resources



\$7.3 billion projected in Enacted Budget Financial Plan

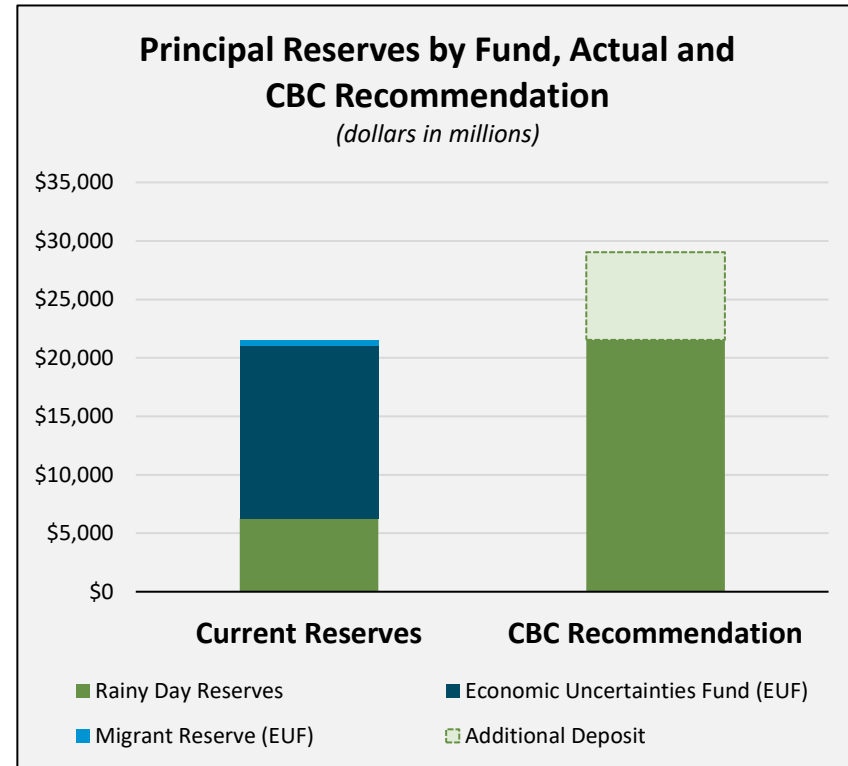
\$2.9 billion for expiring PIT surcharge

\$2.5 billion for prior debt service prepayments

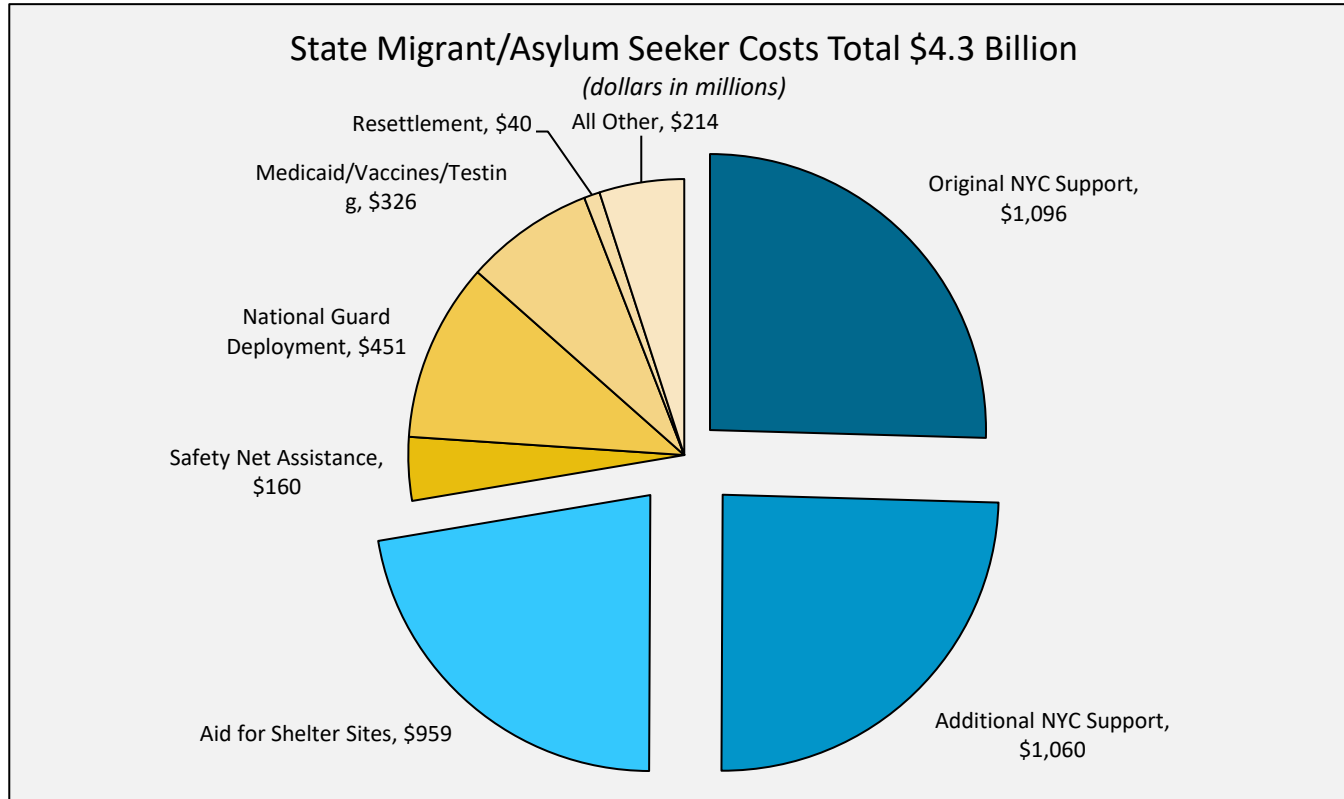
\$3.5 billion rolled FY28

# Reserves Increased \$1.5 Billion on Strong Close-Out, but Should Be Increased Further and Locked

- State reached its 15% SOF target in fiscal year 2023
- Beginning FY 2027, more deposits will be needed to retain 15% SOF
- CBC calculates need at 22% SOF to cover 2-year recessionary impact
  - Recommends \$7.5 billion additional deposit



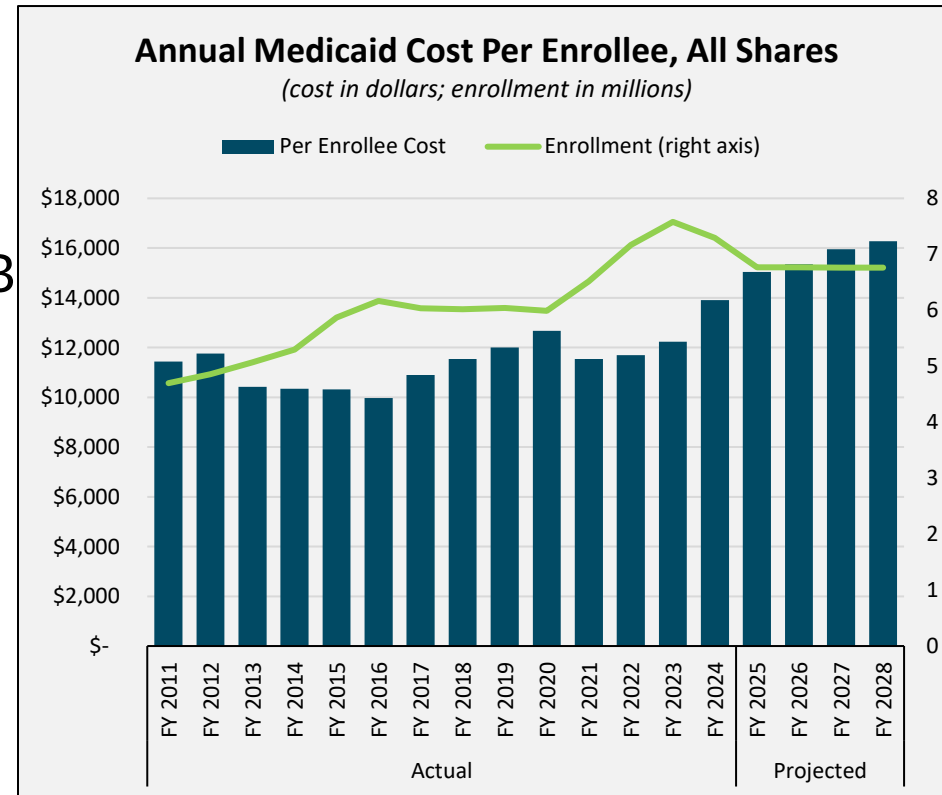
# State Adds \$2.4 Billion to Support Migrant Services; Total Rises to \$4.3 Billion, Including \$3.1 Billion to NYC





# Medicaid State Share Growing at 6.7% Annually

- Cost growth:
  - Higher enrollment
  - LTC prices and utilization
  - Recent rate increases
- Governor proposed savings of \$1.2B in FY 2025; largely rejected
  - Authorizes MCO tax, details TBD
  - One-year rate increases of \$825M
- Redesign initiatives underway
  - Commission on Future of Health Care convened in November
  - CMS approved State's redesign waiver in January



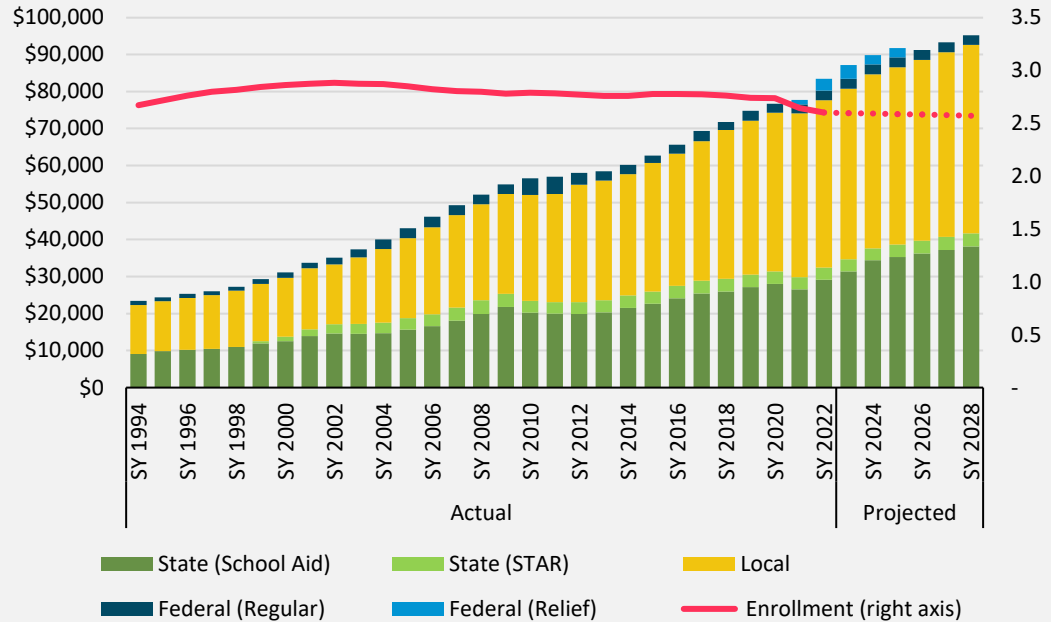
# Administrative Health Care Policy Decisions Will Shape Next Year's Plans

- MCO Tax
  - Tax on managed care plans (mostly Medicaid) to generate federal funds
  - Likely to generate \$2-\$4 billion federal funds annually for three years
  - Funds used for recurring spending would create a fiscal cliff
- Commission on the Future of Health Care
  - Drafting policy recommendations on hospitals and long-term care

# State School Aid Spending Nears \$40B

## Total School Aid, by Revenue Source, as of Executive Budget

(dollars in millions; enrollment in millions)



- Legislature rejected savings proposals by the Governor
  - Eliminate hold harmless
  - Permanent change to inflationary growth factor
- Required a study of Foundation Aid by December 1, 2024
  - Prepared by Rockefeller Institute of Government
  - Defined scope is narrowly on Foundation Aid (2/3 of spending)
  - Public input hearings are ongoing

# CBC's Recommendations to the Study

- Phase out hold harmless
- Revise the expected local contribution to account for actual contributions or capacity
- Update and improve poverty and regional cost inputs
- Remove arbitrary floors and ceilings
- Adjust library, textbooks, and software aids for wealth, or fold into Foundation Aid
- Eliminate High Tax aid
- Eliminate the School Tax Relief (STAR) program

# Pension and Benefit “Sweeteners” are Increasingly on the Menu

- Lawmakers are passing sweeteners with no enhancements to service, often outside the budget
  - Governor Hochul has tended to sign far more sweeteners outside of budget process
  - Multiple sweeteners have been included in past two budgets (6 in 2023, 4 in 2024)
- Eliminations of Tier 6 reforms balloon costs
  - Final average salary calculation change this year adds \$4B to liability, \$377M initial cost
  - More proposals to change length of service, employee cost sharing, etc. expected

**“Sweeteners” Passed Outside the Budget Recommended for Veto by CBC**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Passed by Legislature</b>	<u>5</u>	<u>4</u>	<u>10</u>	<u>16</u>	<u>12</u>	<u>19</u>	<u>21</u>	<u>20</u>	<u>20</u>
Signed	2	2	4	4	0	5	16	3	10
Vetoed	3	2	6	12	12	14	5	17	10

Notes: Twelve sweeteners have passed in 2024 to be acted on by the Governor. CBC did not identify any bills for veto in 2020.

# Outstanding and Upcoming Issues

- MTA
  - Congestion pricing launch or replacement
  - 2025-29 capital program
- Environmental bills
  - NY HEAT Act – Fell just short of passing
  - Climate Superfund – Bill heads to Governor's desk
  - Cap & Invest – May be susceptible to same affordability concerns as congestion pricing
- Federal issues
  - TCJA expiration/extension
  - Immigration

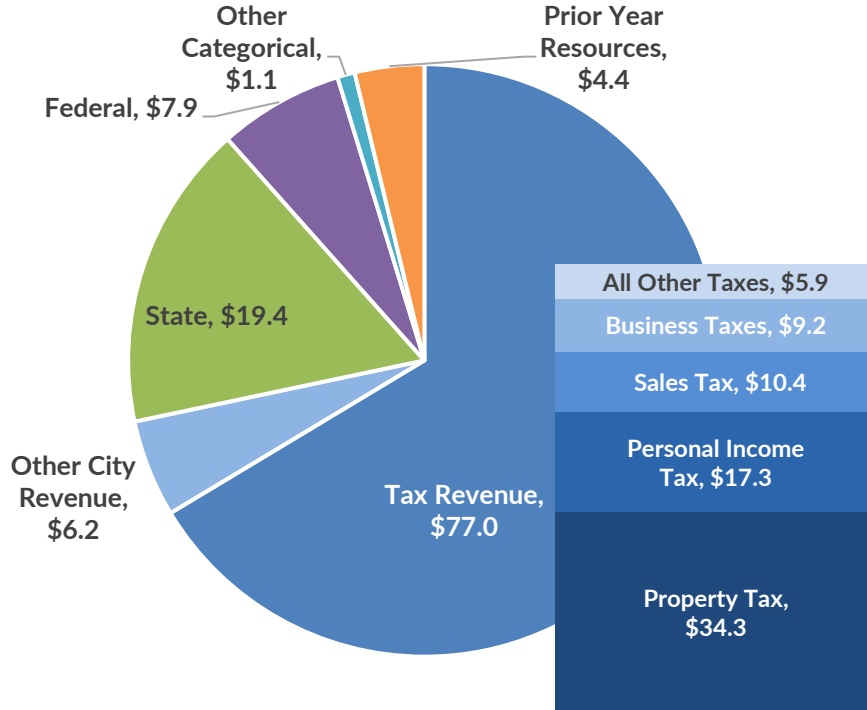


# NYC Fiscal Year 2025 Adopted Budget

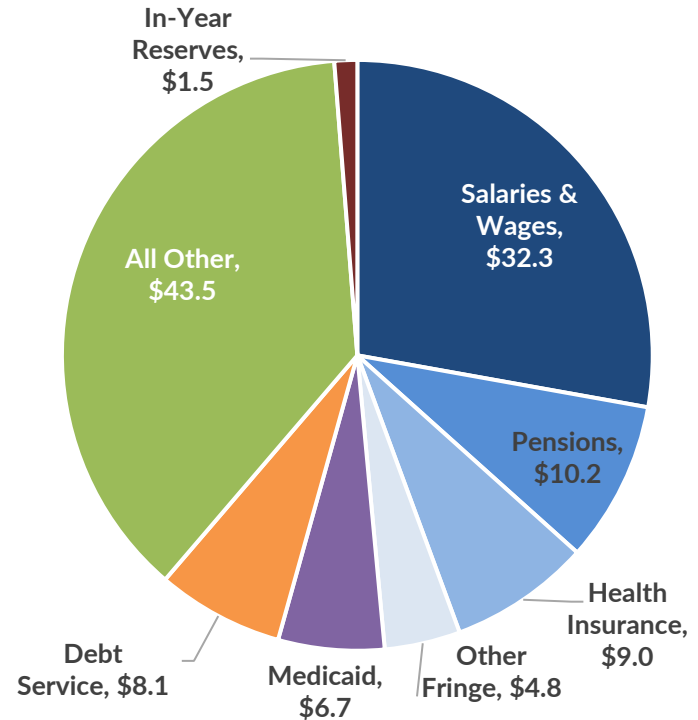
July 30, 2024

# FY 2025 Adopted Budget: \$116.1 Billion

Revenues  
*in billions*



Expenditures  
*in billions*





# Key Takeaways

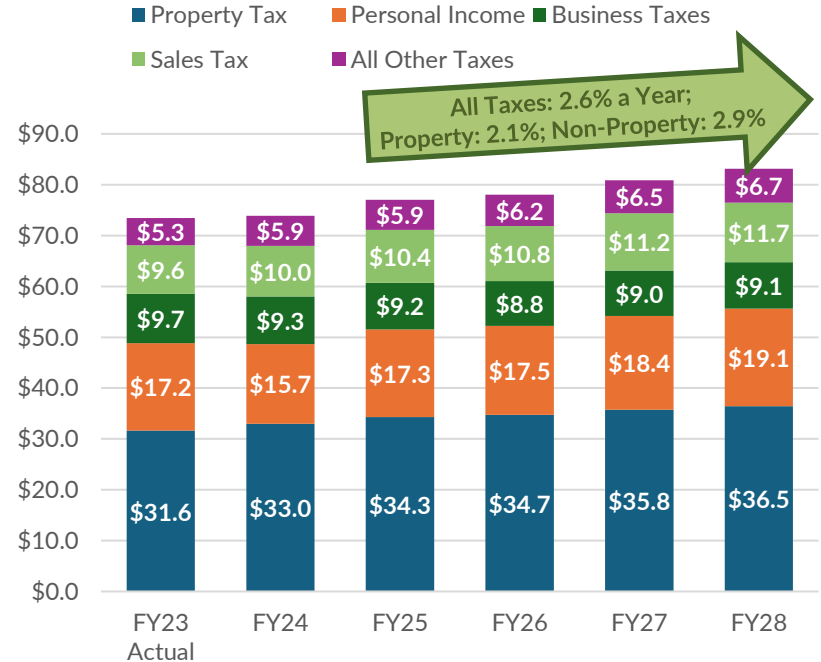
- The City used \$1.1B of prior year revenue to support FY 2024 spending obligations, indicating unaffordable spending level
- FY 2025 Adopted Budget growth is 7.5%, which is understated and unsustainable
- FY 2025 budget is about \$2.6B short for current services; out-year underbudgeting is approximately \$3.3B a year
- Only 7.3% the PEGs were restored, contrary to popular perception
- PEGs were needed to reduce massive gaps: Absent the PEGs, FY 2025 would have a \$4.7B gap and each out-year gap would be \$1.5B higher
- Out-year gaps likely to exceed \$9B; could reach \$11.5B to \$16.0B
- Rainy Day Reserves insufficient to mitigate next recession

# Tax Revenue Forecast Increased \$5.8B for FY24 & FY25; Projected Annual Growth of 3%

Change in NYC Tax Revenue Forecast Since  
November 2023 Financial Plan  
*dollars in billions*

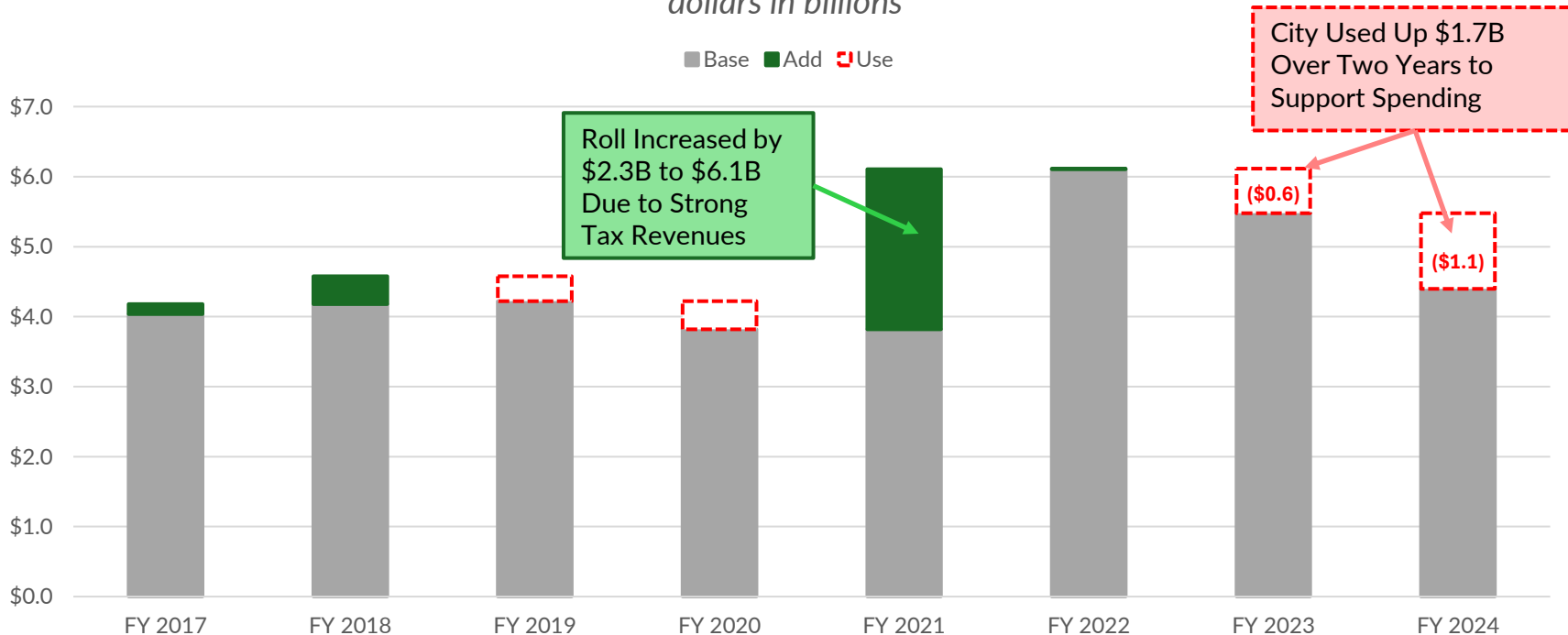


NYC Tax Revenue Forecast  
*dollars in billions*



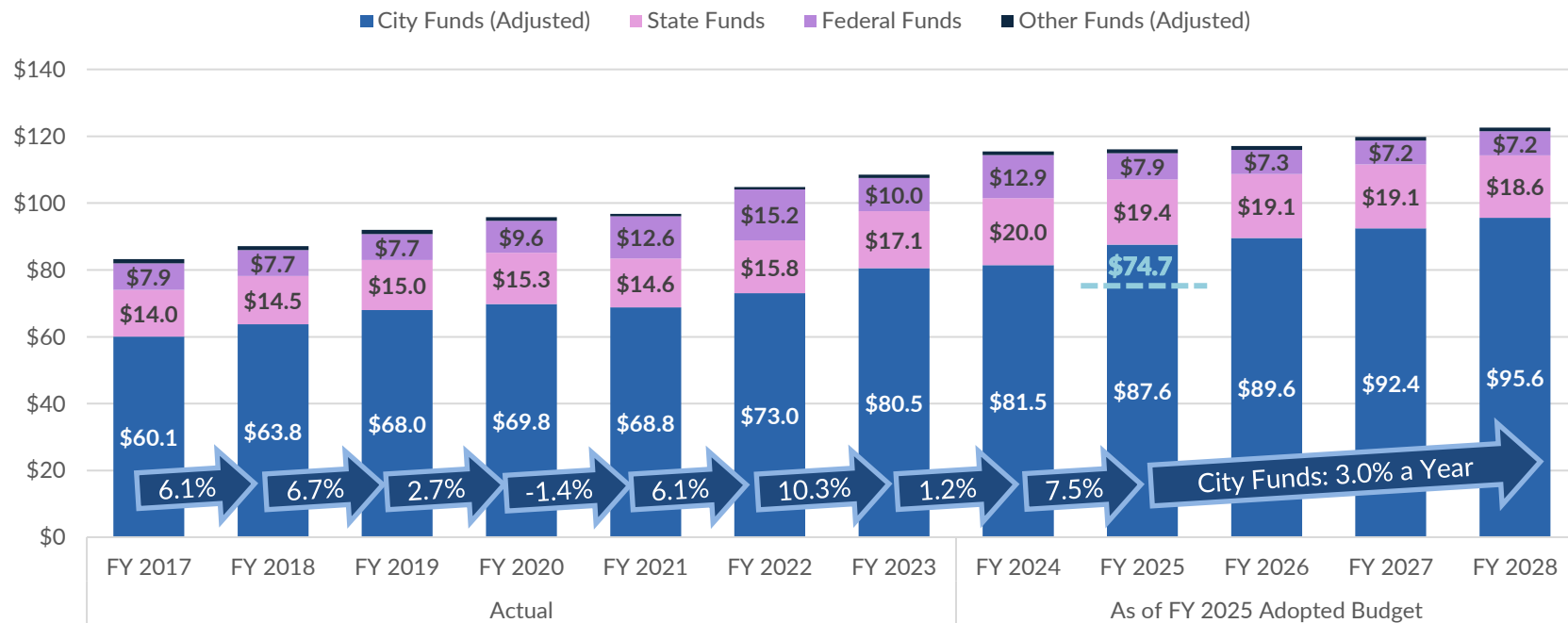
# Unaffordable FY 2023 & FY 2024 Spending Propped Up by Strong FY 2021 Revenues Rolled Forward

Annual Prepayment of the Following Year's Expenses (aka "The Surplus Roll")  
*dollars in billions*



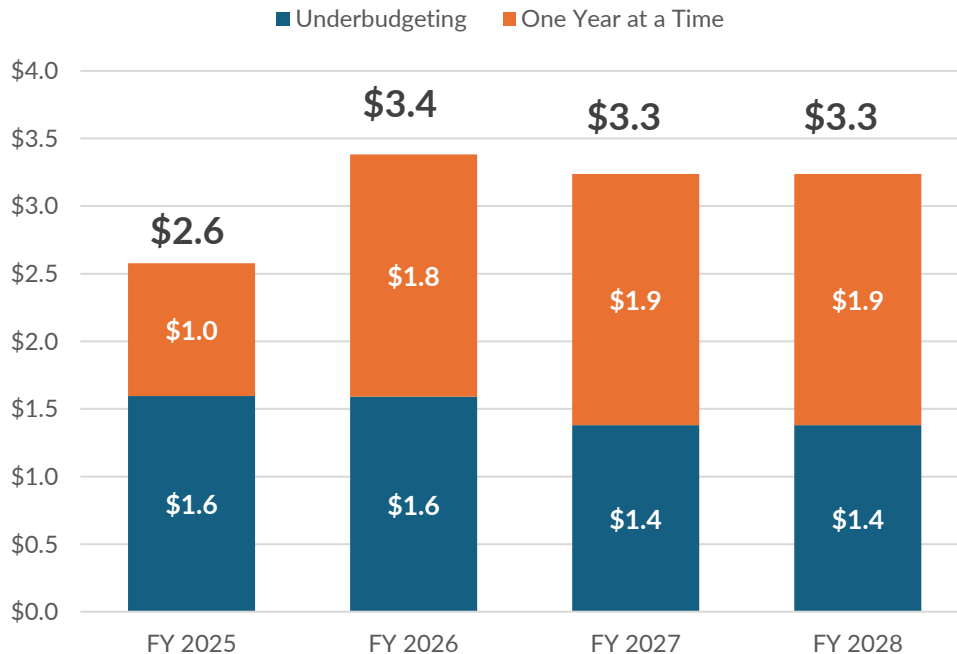
# City-Funded Spending Up 7.5% in FY 2025 Adopted Budget; Follows Strong Growth in FY 2022 & FY 2023

NYC Adjusted Spending  
dollars in billions



# Financial Plan Underbudgets Planned Spending: Remains \$2.6B Short in FY 2025

NYC FY2025 Adopted Budget Underbudgeting  
*dollars in billions*



- FY 2025 short funding
  - Overtime: \$758M
  - Public assistance: \$468M
  - Carter Cases: \$420M
  - Non-migrant shelter: \$312M
  - Prevailing wage for shelter security: \$50M
- Increased shortfall after 2025
  - Early Childhood Programs: \$167M
  - CUNY ACE, ASAP, etc.: \$37M
  - Promise NYC: \$25M
  - Fair Fares: \$11M
  - Shelter to Housing Action Plan: \$10M

# Total Asylum Seeker Spending May be Overstated, But State Aid Past FY 2026 Is Uncertain

Asylum Seeker Spending, June 2024  
*dollars in billions*

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
City	\$2.3	\$3.4	\$3.0	\$2.0	\$0.5
State	\$1.3	\$1.3	\$1.0	\$1.0	\$0.4
Federal	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total</b>	<b>\$3.8</b>	<b>\$4.7</b>	<b>\$4.0</b>	<b>\$3.0</b>	<b>\$0.9</b>

# 7.3% of PEG Savings Restored; Remaining PEGS Are \$3.8B Annually in FY 2024 & FY 2025

## Cumulative PEG Savings and Restorations, November 2023 – June 2024

dollars in millions

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Total Original PEG Savings	(\$3,895)	(\$4,025)	(\$2,534)	(\$2,518)	(\$2,414)	(\$15,387)
Restorations	\$73	\$268	\$254	\$258	\$265	\$1,118
Final PEG Savings	(\$3,822)	(\$3,757)	(\$2,280)	(\$2,260)	(\$2,150)	(\$14,268)
<b>Restorations as a Share of Total</b>	<b>1.9%</b>	<b>6.7%</b>	<b>10.0%</b>	<b>10.3%</b>	<b>11.0%</b>	<b>7.3%</b>

- *Restorations include libraries, cultural institutions, police classes*
- *\$29M restored in FY 2025 only, including \$19.6M for Summer Rising and \$6.1M for various DSNY restorations*
- *Program reductions are just 8.4% of Final PEG Savings*

# Without PEGs, FY 2025 Would Have \$4.7B Gap; Out-Year Gaps Would be \$1.5B Larger Each Year

## CBC Estimate of NYC Budget Gaps in the Absence of PEG Programs

*dollars in millions*

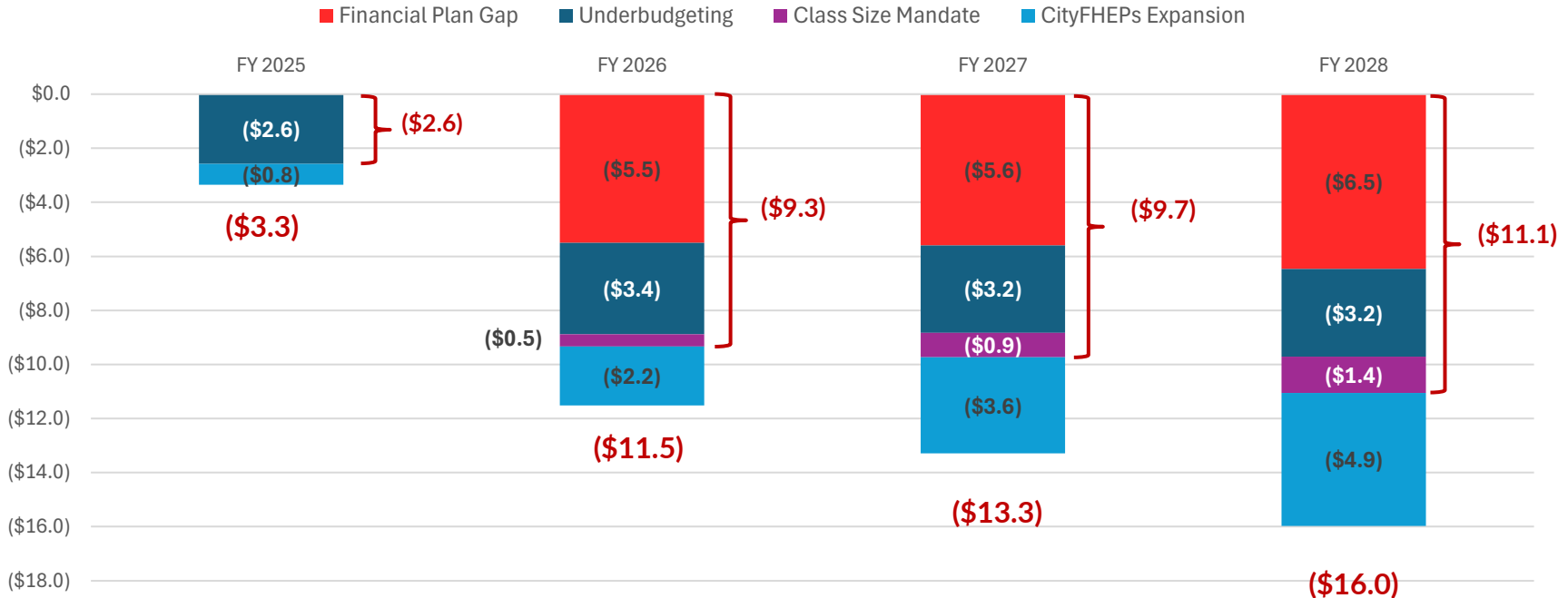
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>Gaps, as reported in June 2024</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$5,503)</b>	<b>(\$5,592)</b>	<b>(\$6,469)</b>
Reverse Final PEG Savings	(\$3,822)	(\$3,757)	(\$2,280)	(\$2,260)	(\$2,150)
Savings that Would Have Occurred	\$1,533	\$1,346	\$695	\$697	\$664
<b>Gaps, Absent PEG Programs</b>	<b>(\$2,289)</b>	<b>(\$2,411)</b>	<b>(\$7,088)</b>	<b>(\$7,154)</b>	<b>(\$7,955)</b>
Adjust Surplus Roll	\$2,289	(\$2,289)			
<b>Gaps, Absent PEG Programs and Adjusted for Surplus Roll</b>	<b>(\$0)</b>	<b>(\$4,700)</b>	<b>(\$7,088)</b>	<b>(\$7,154)</b>	<b>(\$7,955)</b>

Note: Savings that would have occurred includes 100% of debt service savings, 50% of re-estimates, underspending, and vacancy savings, and 25% of funding shifts and revenue PEGs, based on CBC's categorization.



# Budget Gaps Likely to Exceed \$9B; May Reach \$11B to \$16B with CityFHEPS Expansion

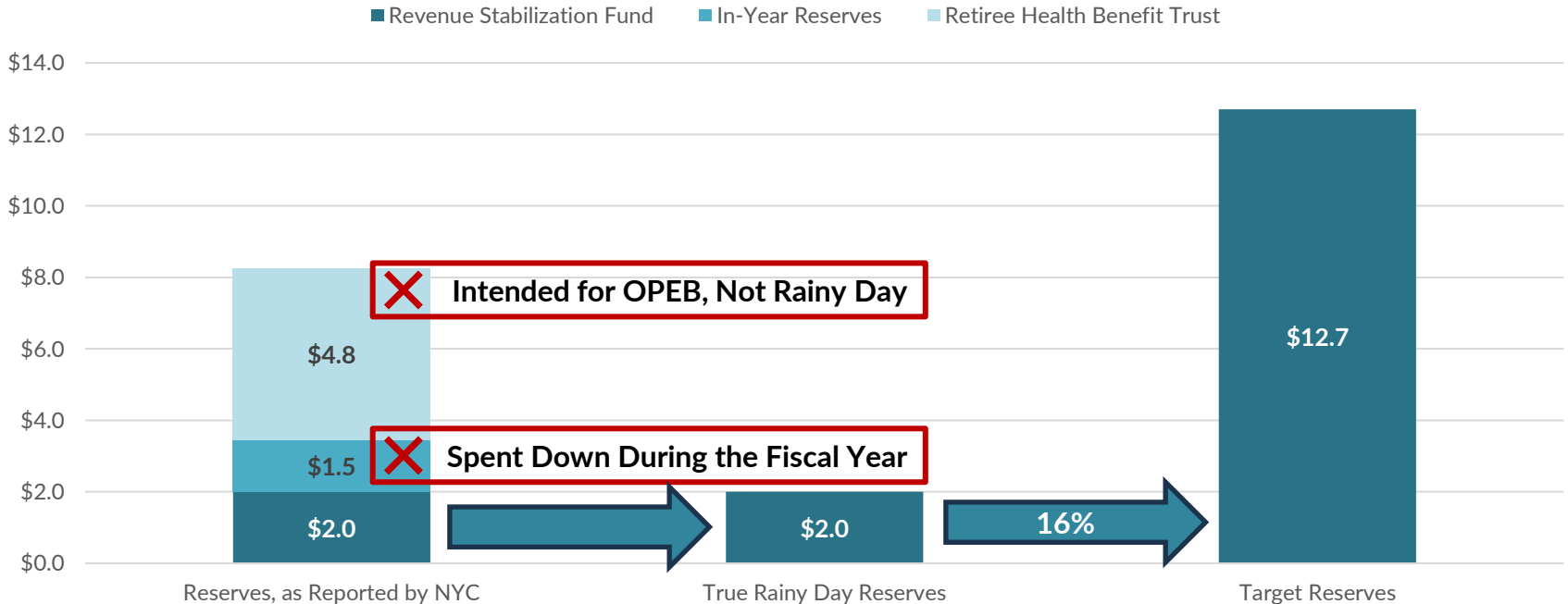
CBC Projected Budget Gaps, FY 2025 - FY 2028  
dollars in billions



Note: Numbers may not add due to rounding.

# City Not Building Rainy Day Reserves

NYC Reported and True Rainy Day Reserves  
*dollars in billions*



**Thank You!**  
**Q&A**