

## New York: Mid-year update states potential budget gap of \$689 million next fiscal year



David M. Kall | Tuesday, December 6, 2016

In March of this year, Gov. Andrew Cuomo announced that lawmakers had agreed upon the fiscal year 2017 budget, which began on April 1, 2016, and ends on March 31, 2017. At the time, we [explained](#) that one of the key provisions, a middle-class tax cut, would take nine years to implement, and would ultimately reduce income taxes by \$4.2 billion. This stemmed from a 2012 deal in which lawmakers lowered rates for two middle income tax brackets. For the \$40,000-\$150,000 bracket, rates dropped from 6.85 percent to 6.45 percent. For the \$150,000-\$300,000 bracket, rates fell from 6.85 percent to 6.65 percent. Starting in 2018, the rate will begin another decline until it reaches 5.5 percent.

Along with the tax cut, lawmakers also budgeted for the state's highest-ever schools and education spending package, in the amount of \$24.8 billion this fiscal year.

Now, the New York Division of Budget (Division) has released its [Fiscal Year 2017 Mid Year Update](#) (Update), revealing that personal income tax collections "have continued to be disappointing," such that the Division reduced its annual estimate by \$775 million. This reduction, in turn, created declines in personal income tax collections for fiscal years 2018, 2019, and 2020 in the amounts of \$826 million, \$883 million, and \$938 million, respectively. As for other tax collections, they are "generally on track with initial expectations[,] and no substantive revisions" were made.

Additionally, General Fund disbursements, \$33.4 billion through September 2016, have been higher than projected, due almost exclusively to timing issues. These are expected to neutralize by the end of the fiscal year. The General Fund had a closing balance of \$9.6 billion at the end of September, which was about \$1.2 billion below the initial estimate, and \$348 million below the estimate at the end of the first quarter.

Operating funds for this fiscal year are expected to remain at 2 percent greater than that in fiscal year 2016. On the assumption that growth remains at 2 percent in future years, current projections show a potential General Fund gap of \$689 million in fiscal year 2018, \$2.1 billion in fiscal year 2019, and \$1.7 billion in fiscal year 2020. The fiscal year 2019 and 2020 budget gaps are due to the planned reversion of the top personal income tax rate to 6.85 percent, from the current rate of 8.82 percent, at the end of calendar year 2017, along with the multi-year income tax reductions for middle class taxpayers enacted during this fiscal year.

The Update included a list of budget risks and uncertainties that could affect New York's financial position. These include the following:

- The amount of federal aid the state receives in the areas of healthcare, including the Affordable Care Act, Medicare and Medicaid funding, education, transportation, and disaster recovery;
- A federal default;

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- Current labor negotiations, including those between the state and the New York Public Employees Federation, in which the sides reached a three-year tentative agreement that includes general salary increases of 2 percent in fiscal years 2017, 2018 and 2019;
- Pension amortization costs and other post-employment benefit costs;

Beyond these uncertainties, costs associated with litigation, storm recovery, climate change adaption, the financial condition of local governments, and other matters can affect the budget.

In the event of material, adverse changes, actions that may be on the table include reductions in agency operations, delays or reductions in payments to local governments or other state aid recipients, delays in or suspension of capital maintenance and construction, and/or extraordinary financing of operating expenses.

Gov. Cuomo will propose his fiscal year 2018 budget in January 2017. It is expected it will be balanced, as required by law, and limit projected growth of the operating fund to 2 percent.

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**David M. Kall**

Team member bio