

## Overview of Fiscal Year 2024 Executive vs. Legislative Budget Proposals

### ***Executive Budget limits spending growth to 2%; Legislature would modestly increase spending for MTA, higher education, and tenant protection***

The fiscal year 2024 Executive Budget limits spending growth to 2.0 percent, with new spending concentrated in Medicaid and School Aid. In contrast, the Assembly proposes budget growth of 5.9 percent, reflecting additional investments in the MTA, SUNY and CUNY, and assistance for low-income renters, paid for through increased taxes on multimillionaires and corporations.

Both budgets are balanced and rely on conservative projections of spending and revenues over the next four years. Projections of budget gaps starting in fiscal year 2025 do not indicate a structural imbalance or impending deficit, but rather reflect intentionally conservative projections that ensure fiscal stability. By 2027, however, the state will start to face fiscal cliffs resulting from the expiration of current corporate and personal income tax rates. To avoid these fiscal cliffs, and to ensure fiscal stability, FPI recommends making these tax rates permanent.

#### **1. The Executive Budget proposes modest budget growth of 2.0%, primarily in Medicaid and School Aid.**

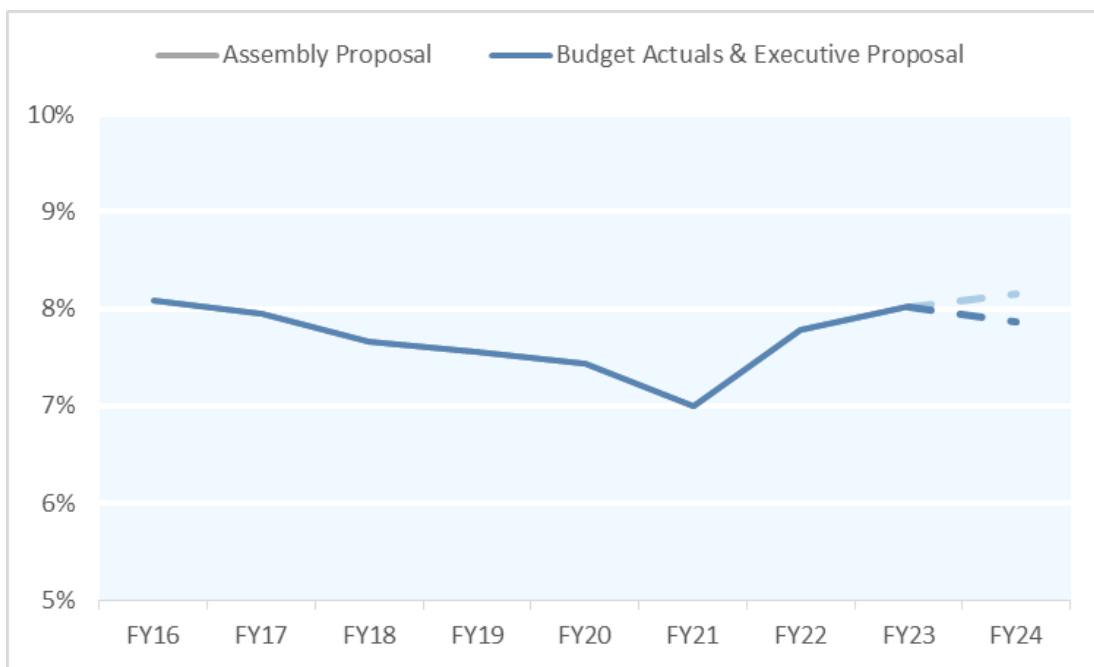
- The Executive Budget increases state operating funds 2.0 percent, from \$122.7 to \$125.2 billion.<sup>1</sup>
- Adjusted for inflation, this is a 1.4 percent decrease from fiscal year 2023's budget of \$127 billion (measured in 2023 dollars).<sup>2</sup>
- Spending growth is concentrated in two areas:
  - Medicaid spending grows by \$2.9 billion (9.1 percent), consistent with national trends. Total Medicaid spending is \$34.7 billion.
  - School Aid grows by \$3.1 billion, fully funding the foundation aid formula for the first time. Total School Aid is \$34.4 billion.

<sup>1</sup> State Operating Funds includes all state-funded spending except capital spending. Total spending, or All Funds spending, includes federal funding and capital spending.

<sup>2</sup> Adjusted to fiscal year 2022 dollars. Sources: New York State Division of the Budget, Fiscal Year 2024 Executive Budget Financial Plan (February 2022), <https://www.budget.ny.gov/pubs/archive/fy24/ex/fp/fy24fp-ex.pdf>; New York State Assembly, 2023-24 Assembly Budget Summary (March 2023), <https://nyassembly.gov/Reports/WAM/AssemblyBudgetProposal/2023/2023AssemblySummary.pdf>. Inflation adjusted to fiscal year basis. Past inflation from U.S. Bureau Labor Statistics, "CPI Databases" (accessed January 2023), <https://www.bls.gov/cpi/data.htm>; inflation projections from New York State Division of the Budget, Fiscal Year 2024 Executive Budget Economic and Revenue Outlook (February 2022), <https://www.budget.ny.gov/pubs/archive/fy24/ex/ero/fy24ero.pdf>.

- Total state spending beyond School Aid and Medicaid is set to fall \$2.9 billion (5.4 percent) in fiscal year 2024, driven by lower debt service and the expiration of temporary rental assistance.
- The state budget should be understood in relation to the size of the state economy as a whole, as measured by total personal income. The fiscal year 2022 budget amounted to 7.8 percent of total personal income in the state — on par with the average from fiscal years 2016 to 2019; the fiscal year 2023 budget was 8.0 percent of total personal income. The Executive and Legislative budget proposals for fiscal year 2024 would yield budgets of 7.9 percent and 8.2 percent of personal income, respectively.

Figure 1. State operating spending as share of total personal income, fiscal years 2016 to 2024



**2. The legislature proposes budget growth of 5.9%, reflecting additional investments in the MTA, SUNY and CUNY, assistance for low-income renters, and anti-poverty measures.<sup>3</sup>**

- The Assembly budget increases state operating funds from \$122.7 to \$129.9 billion, \$4.7 billion more than the Executive Budget.
- Adjusted for inflation, this is a 2.3 percent increase from fiscal year 2023’s budget of \$127 billion (in 2023 dollars).
- Spending growth includes the Executive Budget proposals to increase Medicaid and School Aid, and further adds:

<sup>3</sup> This refers to the Assembly one house budget, as cost estimates were not produced by the Senate. However, both legislative budget proposals are broadly similar in terms of new revenue proposals and total cost.

- \$2.1 billion to close the MTA budget gap from progressive tax increases
  - \$900 million from higher corporate tax rate
  - \$1.2 billion in appropriations (funded in part by a personal income tax increase)
- Assistance for low income renters and affordable housing programs (\$1.5 billion)
- Additional funding for SUNY and CUNY, including operating aid and endowment funding (\$1.1 billion)
- Expanding the state child tax credit to households with children under age 4. (\$255 million)

### 3. **Both budget proposals are balanced and there is no deficit.**

- **New York has a balanced budget:** Unlike the federal government, which uses debt to spend more than it raises in taxes, New York State has a balanced budget. The state government does not use deficit spending to support its operating funds.
  - The Executive Budget projects a small (\$214 million) general surplus in fiscal year 2024, which would be carried over into fiscal year 2025.
- **“Budget gaps” are not deficits:** Budget gaps are based on predictions of revenues and expenditures starting in the *next* fiscal year (fiscal year 2025). Economic performance is highly variable and hard to predict.
  - For instance, a 0.3 percent rise in personal income growth over projections would reduce the fiscal year 2026 budget gap by nearly \$6 billion (\$9 billion to \$3 billion).<sup>4</sup>
  - As a point of comparison, the Federal Reserve provides a forecast range of -0.4% to 4.2% for GDP growth in 2025.<sup>5</sup>
- **Projected budget gaps do not represent a structural imbalance** — they represent sound, intentionally conservative budgeting projections. By modestly overestimating spending and underestimating revenues, the state ensures fiscal stability so that it can cover expenses.

### 4. **Expiring tax rates create future fiscal cliffs.**

- **Projected budget gaps in fiscal years 2027 and 2028 are due to the expiration of temporary corporate and personal income tax rates.** To the extent that tax cuts drive budget gaps, the state can ensure future fiscal stability by making these tax rates permanent.
  - The expiration of the current corporate tax rate of 7.25 percent on corporations with over \$5 million in profits will cost over \$880 million by fiscal year 2028.<sup>6</sup>
  - The expiration of the personal income tax rates on those earning \$1 million, \$5 million, and \$25 million annually will cost over \$3.8 billion by fiscal year 2029.<sup>7</sup>

<sup>4</sup> Calculation is for fiscal year 2026.

<sup>5</sup> The forecast range refers to the Federal Reserve’s historical projection error ranges for 2025. This range (+/- 2.3%) is based on the historical performance of the Fed’s estimate of GDP growth in three years. See Federal Reserve, Summary of Economic Projections, March, 22, 2023, <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230322.pdf>.

<sup>6</sup> New York State Division of the Budget, Fiscal Year 2024 Executive Budget Financial Plan (February 2022), <https://www.budget.ny.gov/pubs/archive/fy24/ex/fp/fy24fp-ex.pdf>

<sup>7</sup> Office of the New York State Comptroller, State Fiscal Year 2022-23 Enacted Budget Report, <http://www.osc.state.ny.us/files/reports/budget/pdf/budget-enacted-financial-plan-2022-23.pdf>.