Executive Summary

This year's executive budget proposes constrained spending growth of just over 2 percent. Following a period of high inflation, rising housing costs, and state population loss, this is no time for the State to hold back from investing in the policy initiatives necessary to make New York a more affordable place for working families.

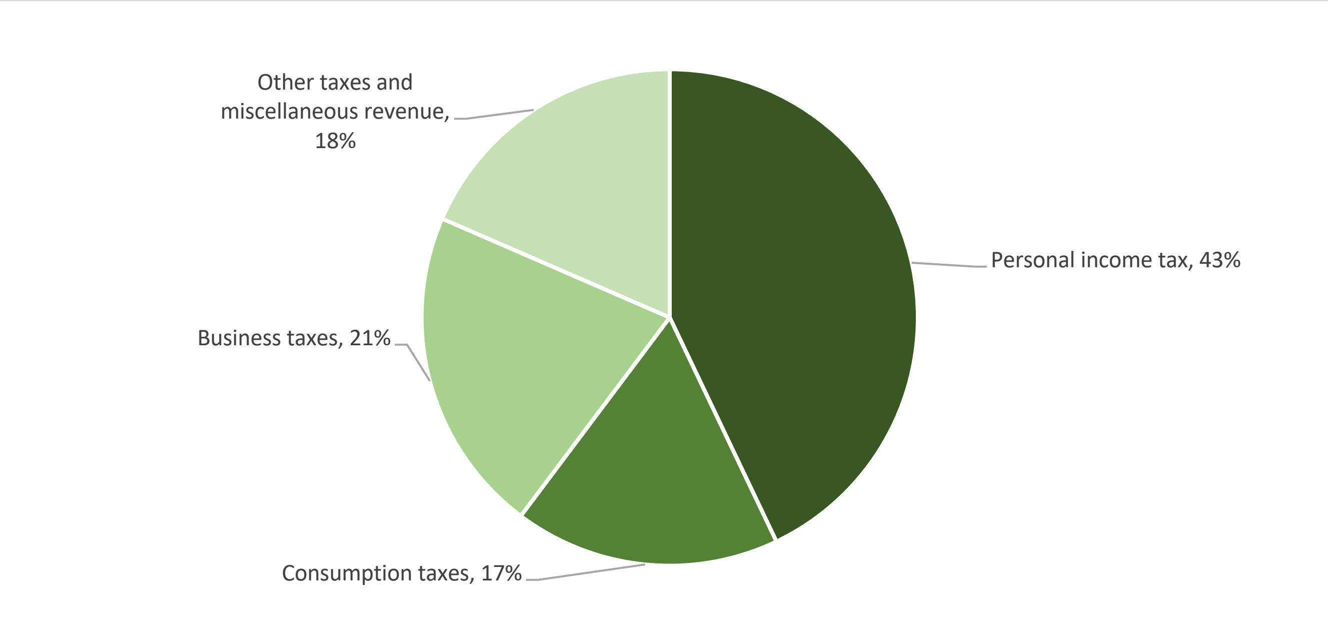
In education spending, the executive budget modifies the Foundation Aid formula so that school funding increases fall behind inflation, and leaves the SUNY system with an operating deficit. In healthcare, the executive budget proposes over $1 billion in cuts to total Medicaid spending, including a reversal of recent wage gains by home care workers. Meanwhile, the number of hospitals that face serious financial distress continues to rise. On housing policy, in contrast to last year's systematic proposals for housing reform, the executive budget only puts forth an array of tax incentives that subsidize private developers. And on climate, the executive budget misses an opportunity to invest in meeting the State's renewable energy goals.

Fortunately, the State is in a strong fiscal position to manage these policy challenges. Tax revenue remains stable despite a return to more ordinary rates of growth after the bumper years of Covid, and the State continues to have a large population of ultra-high income earners who can bear a substantially higher tax burden. Contrary to a policy myth that these high earners will leave if their taxes increase, recent FPI analysis has shown that this population rarely moves out of New York State in search of lower taxes.

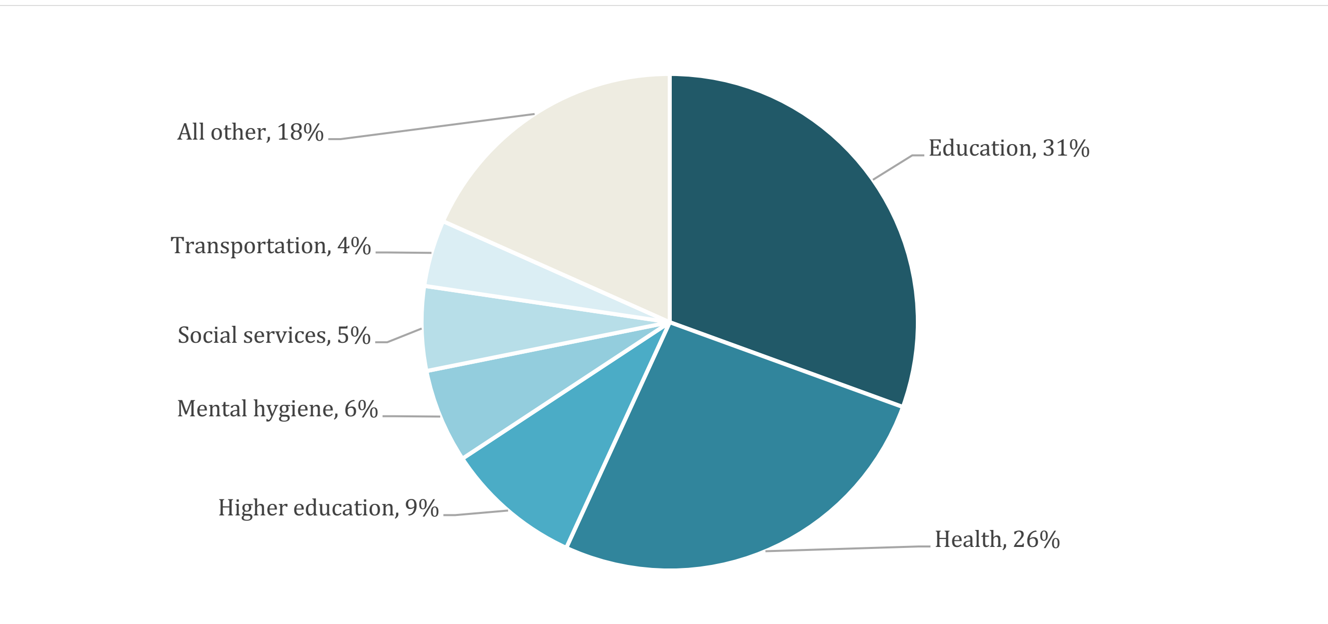
Chapters 7-10 of this publication review executive budget proposals on education, healthcare, housing, and climate, and make recommendations on how the budget could be improved. Given the strength of the State's fiscal position, and the acute problems faced by working families who struggle with a rising cost of living, now is the time to invest in making New York affordable.

I. Executive Budget Financial Plan

State Operating Funds Revenue: $129.3 billion



State Operating Funds Expenditures: $129.3 billion



Introduction

Budget curbs spending growth for school aid and Medicaid

The fiscal year 2025 executive budget presents moderate spending and revenue proposals for the year ahead. The executive budget's low rate of spending growth follows its expectation of low revenue growth in fiscal year 2025. To restrain spending, the budget proposes a 50 percent smaller increase to school aid than had been previously planned, and a $1.2 billion savings plan for Medicaid. Beyond these two programs (the State's largest spending areas by a considerable margin) the budget's other area of significant proposed spending growth is to support New York City's services to asylum seekers.

2.1 percent growth from fiscal year 2024 spending

The executive budget offers modest spending proposals for fiscal year 2025. The budget spends $129.3 billion in state operating funds — a measure of State-controlled funds that excludes federal aid and capital spending. This represents 2.1 percent growth from fiscal year 2024 spending — lower than the State's forecasted 2.7 percent inflation for fiscal year 2025.

Table 1.1. State operating funds spending growth, fiscal years 2024 to 2025

Billions of dollars

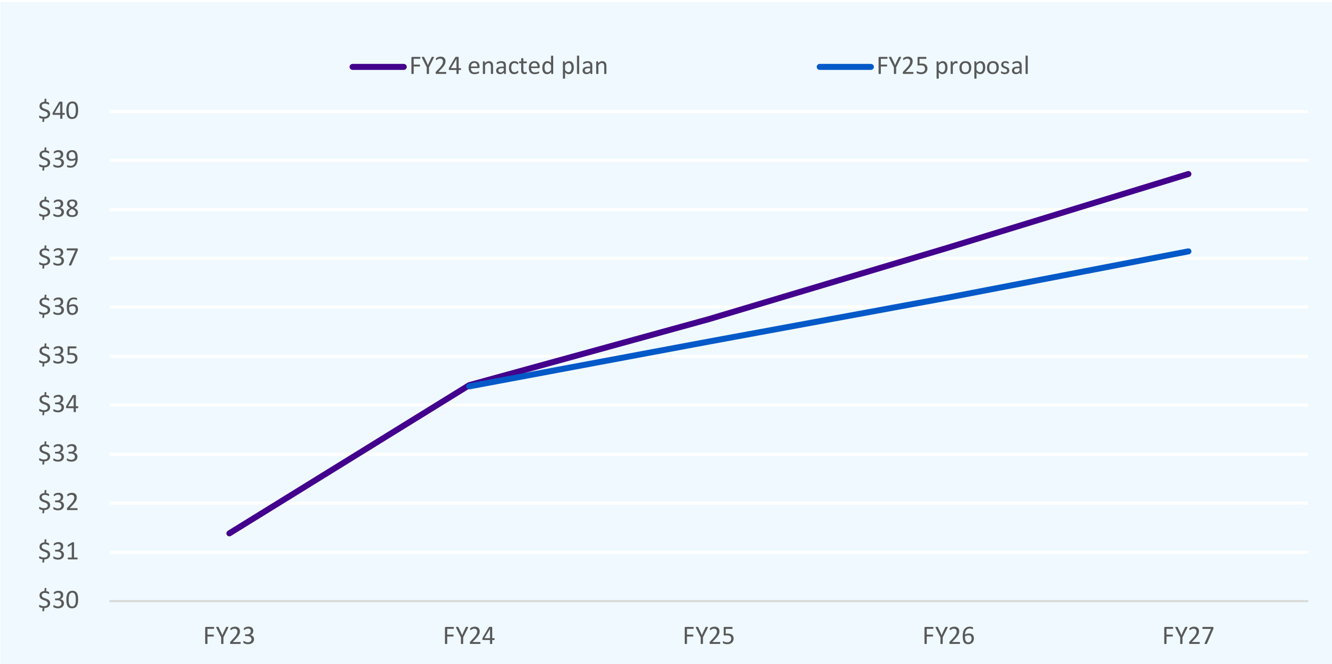
	FY 2024	FY 2025	% change
School Aid	$ 33.4	$ 34.9	4.3%
Medicaid	$ 35.7	$ 35.0	-2.1%
Asylum Seeker assistance to NYC	$ 0.8	$ 1.6	93.9%
All other local assistance	$ 21.7	$ 23.3	7.8%
State operations, general charges, debt service	$ 35.0	$ 34.5	-1.4%
Total State spending	$ 126.6	$ 129.3	2.1%

Note: For consistency, school aid here uses state fiscal year basis, not the commonly used school year basis; Medicaid includes all agency spending and removes Department of Health state operations spending; asylum seeker assistance reflects direct assistance to New York City and excludes related state operations spending.

School aid growth reduced by 50 percent

Funding for statewide public school districts is perennially the State's largest single expenditure.[1] As part of last year's budget, a formula-based funding model known as Foundation Aid was fully implemented to apportion school aid. Foundation Aid was the result of decades of advocacy and litigation to commit the State to increasing school aid, with past administrations delaying its implementation in the aftermath of the 2008 financial crisis, then slowing phasing-in during the 2010s. The fiscal year 2024's final phase-in of Foundation Aid drove school spending up nearly ten percent from the prior fiscal year. For fiscal year 2025, the executive budget proposes sharply curtailing this growth rate, reducing school aid growth (on a school year basis) to 2.7 percent, a $454 million step down from the increase planned by last year's budget. Chapter VII will detail the proposed changes to the Foundation Aid formula as well as other changes to funding for education.

Figure 1.1. School aid under fiscal year 2024 enacted budget financial plan and fiscal year 2025 executive budget proposal



Medicaid spending set to fall in fiscal year 2025

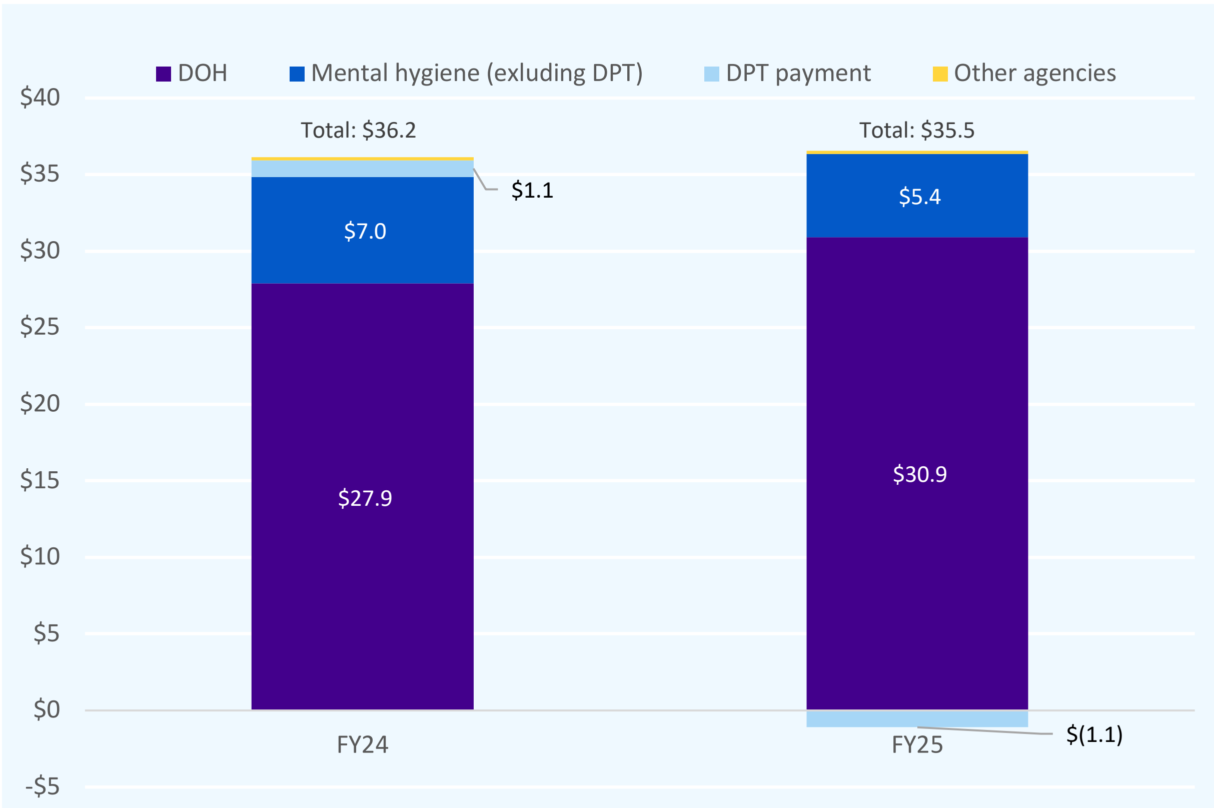
The executive budget reports that the State's spending on its Medicaid program (excluding federal and local shares of spending) is set to grow to $30.9 billion in fiscal year 2025, up $3 billion, or 10.9 percent, from fiscal year 2024. However, this only captures Medicaid spending made by the Department of Health (DOH), the State agency that administers most, but not all, of the State's Medicaid program.

Other State agencies administer smaller Medicaid programs. Other agency Medicaid spending was significantly elevated in fiscal year 2024. This was driven by the State's apparent reclassification of Medicaid cost overruns and loans to hospitals (which the State expects to recoup next year) as spending made by the Office for People with Developmental Disabilities.

Accounting for this other agency spending, total State Medicaid spending is set to fall $700 million, or 1.9 percent, to $35.5 billion in fiscal year 2025. However, Medicaid spending is projected to grow in future years, driven by enrollment and demographic trends.

To restrain Medicaid spending, the financial plan includes proposals to cut spending by $1.2 billion in fiscal year 2025, with projected savings rising to $1.8 billion in fiscal year 2026. These annual savings include $400 million in unspecified spending reductions as well as $400 million in cuts to home care worker wages. These cost reductions are included in the budget's fiscal year 2025 spending projections. Medicaid funding and the budget's policy proposals are detailed in Chapter X of this briefing.

Figure 1.2. State-share Medicaid spending by source, fiscal years 2024 and 2025



$2.2 Billion Added for Asylum Seekers

The executive budget proposes allocating $2.2 billion to support asylum seekers in New York City in fiscal year 2025, the largest area of spending growth beyond DOH Medicaid. This support is comprised of direct funding to New York City as well as increased state operations services to manage the crisis. Of the newly allocated funding, $1.6 billion directly supports New York City, including direct funding to the City and full reimbursement for its costs of three emergency shelters. The remaining $600 million in additional aid is State-direct emergency response funding, including deployment of the National Guard, and services that support asylum seekers, including healthcare services.

The budget proposes adding a collective $2.4 billion in support for asylum seekers through fiscal year 2026. This is in addition to the $1.9 billion committed in prior budgets, set to be disbursed between fiscal years 2024 to 2026. The executive budget plans to shift $500 million in funds from fiscal year 2024 to 2026 using a temporary reserve deposit. The State's reserves are discussed below.

Aid to New York City is disbursed through the State's Office of Temporary and Disability Assistance (OTDA). This aid, together with an increase in public assistance, is set to drive state spending on social welfare up by $1.5 billion in fiscal year 2025, or 27.8 percent – the largest percent increase of any program area.

Table 1.2. State support for asylum seeker services, fiscal years 2024 to 2026

Dollars in millions

	FY 2024	FY 2025	FY 2026
Aid to NYC	$ 830	$ 1,609	$ 676
Other services	$ 465	$ 602	$ 97
Total	$ 1,295	$ 2,211	$ 773

Revenue: No growth expected in year ahead

The fiscal year 2025 executive budget expects state revenue (which excludes federal funding) to reach $129.3 billion, up 0.5 percent from fiscal year 2024. While the State expects solid growth in personal income tax revenue (6.3 percent), it expects low growth in sales and business taxes. Other taxes and miscellaneous revenue are set to fall $3.5 billion, or 12.8 percent. This expected loss is concentrated in "other transactions" revenue earned by the State's special revenue funds. Major sources of "other transactions" revenue are the Health Care Reform Act (HCRA) taxes and gaming revenue. However, the State does not expect either of these two revenue sources to decline in the year ahead, and does not explain the drivers of this anticipated drop. Recent State forecasts have had an especially difficult time predicting revenue from these transactions in recent years.

Table 1.3. Change in state revenue, fiscal year 2024 to 2025

	FY 2024	FY 2025	% change
Personal income tax	$52.2	$55.5	6.3%
Consumption taxes	$21.9	$22.4	2.3%
Business taxes	$27.2	$27.5	1.1%
Other taxes & misc. revenue	$27.4	$23.9	-12.8%
Total	$128.7	$129.3	0.5%

Revenue proposals: Modest measures to raise $396 million

The executive budget proposes modest revenue actions consisting of measures that will collectively raise $396 million annually. The budget's proposal to make permanent a limit on high earners' itemized deductions comprises a vast majority of this value, bringing in an estimated $350 million annually. Passed in fiscal year 2009 and set to expire after tax year 2024, the provision limits the itemized deductions those earning over $525,000 can claim. The provision limits the total value of itemized deductions for those earning more than $1 million to 25 percent of the taxpayer's charitable deduction for both New York State and New York City income tax purposes. This limitation raises the effective tax rate for high income tax filers who would otherwise claim itemized deductions.

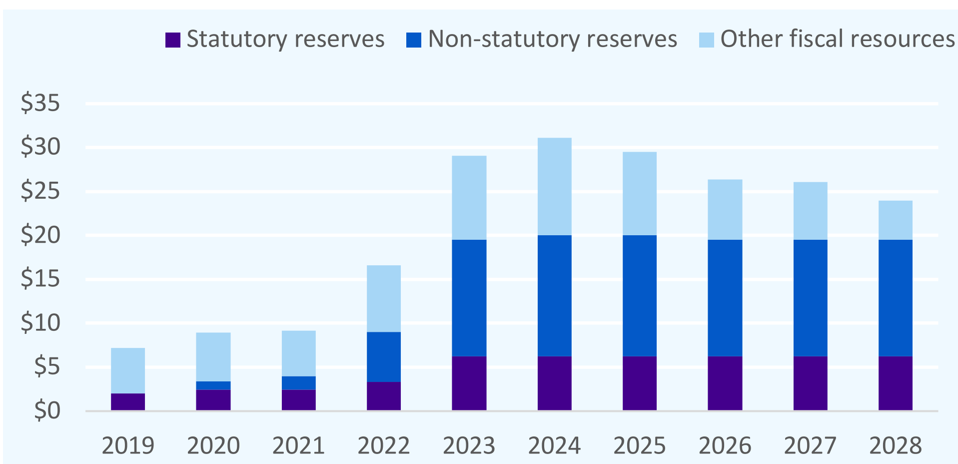
Beyond making limitations on itemized deductions permanent, the executive budget proposes three further small revenue actions. First, technical changes to the PIT and CFT would raise $20 million annually. Second, extending the sales tax to vacation rentals would raise $16 million annually. Finally, the allowance of amended sales tax returns would raise $10 million annually. Because local governments conform to the State tax system, these changes would also raise local revenue by $44 million.

Fiscal management: Strong fiscal position yields a current year surplus

The executive budget expects to end fiscal year 2024 with a $2.2 billion surplus, driven by higher-than-expected revenue. Of this surplus, the budget proposes using $1.7 billion to prepay fiscal year 2025 expenses — raising fiscal year 2024 expenditures and lowering them by the same amount in fiscal year 2025. The executive budget plans to deposit the remaining $500 million into its unrestricted general fund reserves. This $500 million deposit is temporary, with a planned withdrawal of $500 million in fiscal year 2026 to support New York City's asylum seekers services. While the executive budget specifies that these funds will be temporarily held in the State's informal fiscal reserves — designated the "economic uncertainties fund" — the shifting of funds between years through undesignated funds balances is a routine fiscal practice. The State's statutory and informal reserves are otherwise set to be held constant over the duration of the financial plan.

While the executive budget projects a $2.2 billion surplus, it also adds an additional $1 billion to its general fund balances, even after accounting for its prepayments and reserve deposit. This additional undesignated balance is available to offset costs in future fiscal years.

Figure 1.3. New York's reserve balances, fiscal years 2019 to 2028



The executive budget financial plan takes the unusual step of adjusting its reported spending levels for fiscal years 2023 through 2025 to account for the timing of prepayments and federal reimbursements. These adjustments illustrate this year's spending trajectory as if no prepayments had been made in fiscal year 2024 and certain federal aid did not exist. Making these adjustments, spending would be higher in both fiscal year 2024 and 2025, primarily because debt service prepayments made in fiscal years 2022 and 2023 lower actual debt service in fiscal year 2024 and subsequent years. Further, the apparent rate of spending growth is higher under this counterfactual scenario. This is the result of prepayments, which raise current year spending to lower future spending, and two selected types of temporary federal aid:

enhanced fMAP, which lowers State share Medicaid spending, a FEMA reimbursement. Without prepayments and federal aid, spending would rise more quickly between fiscal year 2024 and 2025 than it actually is. While the executive budget financial plan's tabulation of this counterfactual spending measure is new, the use of prepayments is not: prepaying future expenses is a routine fiscal management practice.

Table 1.4. Executive budget illustrative spending adjustment

	FY 2024	FY 2025	% change
Actual spending	$126.6	$129.3	2.1%
FY24 prepayment	$1.7	$(1.7)	
Medicaid recoupment delay	$1.1	$1.1	
Selected federal aid	$(2.7)	$(0.4)	
Prior debt service prepayments	$(3.7)	$(3.7)	
Counterfactual spending	**$130.2**	**$136.2**	**4.5%**