

Fiscal Notes

Mid-Year State Financial Plan Update



14-23

December 2014

The Division of the Budget has released the Mid-Year Update to the 2014-15 State Financial Plan. This update provides revised data on the state’s finances and the economic forecast. There have been significant changes to the state financial picture since the enacted 2014-15 State Budget due to a series of large financial settlements paid the state to resolve charges of alleged misdeeds by several corporate entities.

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State Finances

The Mid-Year Update is forecasting that the state’s General Fund will end the current state fiscal year in balance. In addition the Mid-Year Update is forecasting that General Fund surpluses will occur in the next three years even before taking into account \$5.1 billion in financial settlements that the state plans to receive in the current fiscal year. It should be noted that a portion of these surpluses is contingent on the state limiting growth in overall State Operating Funds to no more than 2 percent per year.

Forecast State General Funds Surpluses

2015-16	2016-17	2017-18
\$243 million	\$1.071 billion	\$1.433 billion

Per the Mid-Year Update the state is due to receive a total of approximately \$5.1 billion in from financial settlements reached by the Department of Financial Services, the Attorney General, and the Manhattan District Attorney’s Office. At of the end of October the state had already received \$3.7 billion of the payments and the remainder is expected to be received by March 31, 2015. These payments to the state settle investigations into various activities of several financial institutions. These funds have not yet been pledged for any purpose in the State Financial Plan.

School Aid Growth Forecast

The growth of school aid to school districts is “capped” at the growth in total state personal income from the prior state fiscal year. While this “cap” had been exceeded in each of the past two budgets, this state aid cap is still in place and governs the growth in school aid barring an affirmative action by the legislature. The Mid-Year Update contains forecasts for the “allowable” growth in school aid for the next three state fiscal years.

Allowable State Aid Growth by School Year

2015-16	2016-17	2017-18
\$864 million	\$1.082 billion	1.205 billion
3.9%	4.7 %	5%

Based on the projected growth in state personal income levels, school aid is authorized to increase by \$865 million in the 2015-16 school year. The Division of the Budget forecasts larger growth in personal income in future years which translates to increases of \$1.08 billion in 2016-17 and \$1.2 billion in 2017-18. These figures will be revised as the economic forecast changes in future financial plan updates.

2015 Tax Cap Calculation

One of the main components of the tax cap calculation for school districts and municipalities is tied to the growth in the Consumer Price Index (CPI). Excluding various allowable adjustments and exemptions, the tax cap is set at the lesser of two percent or the change in the CPI. The CPI growth in the 2014 calendar year will determine the CPI used for the school tax cap calculation for the 2015-16 school year. The final calendar year 2014 CPI will not be known until mid-January when the December 2014 CPI is released. However, through October 2014 the CPI growth for the 2014 calendar year is 1.73 percent. This figure is based upon the first ten months of data -- with two more months of CPI data still to come. The Mid-Year Update forecasts that the 2014 calendar year CPI will increase by 1.8 percent and will rise to a 2.0 percent increase in calendar year 2015.

Towns, counties, and most cities have a January 1st beginning to their fiscal year. Municipalities with a January 1st start to their fiscal year will use 1.56 percent as the basis for their tax cap calculation for 2015 tax levies. These municipalities use a CPI period ending last summer to determine the inflation level for the 2015 tax cap calculation.