



Truth in (Financial Plan) Reporting

Will New York State's Mid-Year Financial Plan Update Appropriately Reflect and Address the Medicaid Budget Shortfall?

The Fiscal Year 2020 Mid-Year Update to the New York State Financial Plan will be released soon. To ensure the financial plan adheres to sound budgeting practices, the State must recognize actual and timely payments for the Medicaid program and explain how it will address the estimated \$9 billion Medicaid budget shortfall.

As explained in the Citizens Budget Commission (CBC) report [Overdue Bills](#), the State delayed \$1.7 billion in Medicaid payments from fiscal year 2019 into fiscal year 2020 in order to adhere to the program's fiscal year 2019 budget and the State's "Medicaid Global Cap." Furthermore, the State's four-year financial plan for fiscal years 2020 to 2023 did not account for the delay or the full cost of the Medicaid program. [CBC estimates](#) the State financial plan accompanying the Fiscal Year 2020 Enacted Budget understates the State's Medicaid costs by a four-year cumulative total of more than \$9 billion. The State failed to address the issue in the first quarterly update to the financial plan, thereby obscuring the State's fiscal standing. Continued failure to address the underlying cost growth or identify other state savings represents a major challenge and risk to State finances.

Recently the [Annual Information Statement](#) (AIS), posted online on October 18, 2019, acknowledged the shortfall and presented the contours of a plan to address it. The AIS reports the State share gap in fiscal year 2020 could be \$3 billion to \$4 billion, and that absent savings plans, there would be gaps in future years. The AIS suggests the State plans to address some of the fiscal year 2020 gap by again delaying payments: "It is expected that up to \$2.0 billion in FY 2020 savings will be realized from adjusting the timing of payments consistent with contractual terms and past practice."^[1] The AIS also reports the State may use the powers provided in law under the Global Cap to reduce Medicaid spending, as well as implement other budget savings in future years to balance the budget and keep total state operating spending growth under 2 percent.

While the State's statement on addressing the problem is welcome, it is not sufficiently specific. The AIS reports the Division of Budget "expects to provide additional information" in the Mid-Year Update, which was due on October 30th.^[2] When the Mid-Year Update is released, CBC will evaluate whether the financial plan reflects true costs for the Medicaid program and whether it introduces a sufficiently detailed plan for reducing Medicaid or other expenditures. Specifically:

1. Has the State provided a sufficiently detailed multi-year plan and initiated actions to reduce spending—in Medicaid and/or other programs—or is the State delaying action until the Executive Budget?

The magnitude of the shortfall calls for immediate action to reduce spending. It is an important opportunity to reinvigorate the Medicaid Redesign Team, which was [initially successful](#) in controlling spending growth in its early years. A multiyear plan should include actions that would slow the rapid growth in school aid by better targeting aid to needy districts and cut wasteful economic development spending.

- *The Mid-Year Update should identify multiyear savings targets, approaches to make programmatic changes, and programs to target.*
- *The Fiscal Year 2021 Executive Budget should not delay payments to forestall a more serious reckoning.*

2. Does the fiscal year 2020 budget now reflect the true cost of the Medicaid program?

To realign the fiscal year 2020 budget with fiscal reality, the budget should include the cost of the delayed fiscal year 2019 payment and a full year of Medicaid payments for fiscal year 2020.

- *CBC estimates this would add \$3.5 billion to State Operating Funds spending in fiscal year 2020.*
- *Fiscal year 2020 spending should not be “reduced” by delaying payment until fiscal year 2021.*

3. Does the four-year State financial plan now reflect accurate annual, ongoing costs of the Medicaid program?

Absent any programmatic action to reduce spending, the financial plan should reflect increased annual spending and concurrent increases to out-year deficits over the previous financial plan.

- *CBC estimates accurately and fully accounting for the costs of the Medicaid program would increase the four-year budget gap by a cumulative \$9 billion.*

By Andrew Rein and David Friedfel

1. New York State Division of the Budget, *Update to Annual Information Statement State of New York* (October 17, 2019), pp. 41-42, www.budget.ny.gov/pubs/archive/fy20/enac/ais/2019-ais-oct.pdf.
2. New York State Division of the Budget, *Update to Annual Information Statement State of New York* (October 17, 2019), pp. 41-42, www.budget.ny.gov/pubs/archive/fy20/enac/ais/2019-ais-oct.pdf.

