

Pre-Budget Ruminations

What to Look for in the NYS Fiscal Year 2019 Executive Budget

December 17, 2017

In recent years the question going into budget season was how Governor Cuomo would hold spending below his self-imposed 2 percent spending cap. But in the next fiscal year, revenue shortfalls must also be overcome. Prospective changes to federal tax law and health care are likely to hurt New York State's bottom line. Meanwhile, the Governor and legislature are heading into an election year, making significant budget cuts especially challenging. With a reported gap between \$4.4 billion and \$6.3 billion before accounting for billions of dollars of potential federal policy changes, this is what we will ask when Governor Cuomo rolls out the 2019 Executive Budget:

How Will the Governor Propose to Close the Gap?

- **Gimmicks and One-Shots:** In recent years the Governor has shifted costs out of [State operating funds or across fiscal years](#) to reduce reported growth. The state has also utilized one-time revenues to fill budget gaps. As the deficit grows, will a combination of spending shifts and one-shot revenues be used to close the gap?
- **Property Tax Relief Rebates:** Property Tax Relief rebates will cost approximately \$1.2 billion in state fiscal year 2019. They were originally adopted in 2015 when surpluses were expected to exceed \$1.6 billion in fiscal year 2019. These rebates provide homeowners with a check equal to a share of their School Tax Relief (STAR) savings, with lower-income homeowners receiving a larger benefit. [Will the Governor recognize the time has come to end this poor use of state funds?](#)
- **Middle Income Tax Cuts:** Income tax cuts are projected to reduce State revenues by \$236 million in fiscal year 2018 and \$1.1 billion in fiscal year 2019. These tax cuts were adopted as part of the fiscal year 2017 budget which forecasted a \$98 million surplus in fiscal year 2019. Will these tax cuts be delayed?
- **Agency Spending:** Will the Governor propose a spending plan that adheres to the 2 percent growth cap? What combination of spending cuts and new revenues will be proposed? Will the Governor partner with organized labor to achieve savings during difficult financial times?



How Have Major Items from the 2018 Adopted Budget Fared?

- **Excelsior Scholarships:** Touted as a revolutionary expansion of access to higher education, the scholarships were estimated to cost \$71 million in fiscal year 2018 and increase to \$133 million in fiscal year 2019. Will the estimates hold?
- **Agency Savings:** As part of the 2018 Adopted Budget, executive agencies were tasked with compiling plans to save \$500 million annually. Will the Fiscal Year 2019 Executive Budget reflect any of these proposals and how will agency operations be impacted?
- **Funding Postemployment Benefits:** In the Fiscal Year 2018 Budget, the State created a Postemployment Benefit Trust Fund. Will the Governor propose deposits to this fund in order to decrease the state's long-term liabilities?

How Will the Executive Respond to Federal Changes?

- **Disproportionate Share Hospital (DSH):** Cuts of \$411 million to DSH are forecasted. How will the Executive Budget deal with the loss of funds? Will the DSH cut be primarily absorbed by NYC Health + Hospitals, spread throughout the state, made up with other state funds, or trigger a [needed overhaul of supplemental payments](#)?
- **Children's Health Plus (CHP):** Absent a federal reauthorization of Children's Health Plus, another \$1.1 billion is at risk in fiscal year 2019. Will the State absorb the full cost for 350,000 children covered by this health insurance?
- **Essential Plan:** Approximately \$4 billion in federal funding remains uncommitted for the State's Essential Plan, which provides health insurance to low-income New Yorkers who are not eligible for Medicaid. If the Essential Plan is not federally funded, will State government try to absorb the full costs of the program or restrict coverage to only legally mandated enrollees at a cost of approximately \$1 billion annually?
- **Expand Executive Powers:** Will the Governor seek to extend his power to impose cuts if Medicaid revenues or other federal revenues decline by more than \$850 million?

How Will The Executive Budget Address Other Budget Challenges?

- **Education Aid:** The 2018 Budget increased total school aid by \$1 billion, or 4.2 percent, and included some small improvements to the Foundation Aid Formula. Will Governor Cuomo propose substantive changes to the \$17 billion Foundation Aid formula [to direct limited resources to the highest needs districts](#), or leave the formula basically unchanged [like last year](#)? Will other aid



types be targeted for needed reform or repeal in order to keep spending growth in check?

- **Carbon Tax:** In pursuit of the Governor's goals outlined in Reforming the Energy Vision, the Public Service Commission and New York Independent System Operator have been publicly discussing a carbon tax and promised a project plan in January 2018. Will a carbon tax be part of the Executive Budget? If so, will it apply only to electricity, and how will revenues be allocated?
- **Economic Development Reforms:** Will Governor Cuomo propose economic development reforms, including an [end to project specific appropriations, and create a "database of deals"](#)?
- **Metropolitan Transportation Authority (MTA) Funding:** Governor Cuomo's FixNYC panel is set to release its findings regarding a congestion pricing plan. Will the plan make it into the Executive Budget and yield revenues in the coming fiscal year? If not, how will the State pay at least \$161 million in annual costs for [phase one of the Subway Action Plan](#)? Will the State's capital plan include \$4 billion for phase two of the Plan? What about the remaining \$1 billion in capital that was promised in 2017 for the MTA's 2015-2019 capital program?

Suggestion for the Legislature Post-Budget Release

Financial Plan Hearing: The State legislature typically holds 13 hearings on the Executive Budget, receiving testimony and asking questions of agency heads and other interested parties. These hearings focus on individual subject areas, ranging from local government to State taxes. This year, the Legislature should add one more hearing pursuant to their constitutional and legal authority: to hear and inquire about the state budget overall. Legislative leaders should question the State Budget Director on the financial plan in its entirety, out-year deficits, economic assumptions, and any budgetary items that would not fall under the purview of the other legislative hearings.