



BLOG | STATE BUDGET

2020 Vision

A Four-Pronged Approach to Focus on a Balanced, Transparent State Budget

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Yesterday Governor Andrew Cuomo's State of the State speech laid out a broad agenda for New York for the upcoming year. The details of implementing this agenda will be presented in the soon-to-be released Fiscal Year 2021 Executive Budget, which will have to close both the fiscal year 2020 \$4 billion gap and the fiscal year 2021 \$7.1 billion budget gap—the largest gaps since the Governor's first budget. These gaps are caused by a long-time structural budget imbalance and recent failure to account for the true costs of the State's Medicaid program. The State overspent on Medicaid in fiscal year 2019 and papered over the problem by deferring \$1.7 billion in Medicaid payments from fiscal year 2019 into fiscal year 2020, weakening the State's fiscal position.¹

The outlook is extremely troubling. The State's fiscal position should be strong given that New York is benefiting from a 10-year economic expansion and revenues are meeting or exceeding projections.² The prolonged expansion has been a prime opportunity to build up reserves for use in bad times and to get the budget structurally aligned. However, after successful spending control efforts from fiscal year 2011 to fiscal year 2015, spending growth has accelerated since fiscal year 2018, while budget reserves pale in comparison to potential need.³

The State Mid-Year Fiscal Year 2020 Financial Plan Update shows the budget gap grows from \$4.0 billion in fiscal year 2020 to \$9.4 billion in fiscal year 2023, with a cumulative gap of \$28.8 billion over four years.⁴ (See Table 1.)

Table 1: New York State Budget Gaps, State Funds, FY 2020 - FY 2023
(dollars in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	4-Year Total
First Quarter Financial Plan Gap	\$0	(\$3,987)	(\$4,183)	(\$4,682)	(\$12,852)
Unbudgeted Medicaid Spending	(\$4,026)	(\$3,079)	(\$3,515)	(\$3,915)	(\$14,535)
Net Other Adjustments	\$0	(\$74)	(\$505)	(\$842)	(\$1,421)
Actual Mid-Year Financial Plan Budget Gap	(\$4,026)	(\$7,140)	(\$8,203)	(\$9,439)	(\$28,808)

Source: New York State Division of the Budget, FY 2020 MidYear Update (November 2019), p. 9, <https://www.budget.ny.gov/pubs/archive/-fy20/enac/fy20fp-en-myu.pdf>.

The mid-year financial plan includes savings actions that would close the fiscal year 2020 gap by implementing \$1.8 billion in savings in the remaining three months of the fiscal year and by deferring \$2.2 billion in Medicaid payments—the same type of fiscal maneuver the State employed at the end of fiscal year 2019. The State would make the payment delay an annual event, which amounts to kicking a portion of the problem down the road permanently.⁵

On December 31, 2019 the State disclosed the first action of the \$1.8 billion savings plan—a 1 percent across the board Medicaid rate cut—which will save \$62 million of State funds in fiscal year 2020, leaving a gap of \$1.7 billion.⁶ The State includes the full value of the savings actions and the continued deferral when reporting a four-year budget gap of \$22.2 billion in its financial plan even though only \$248 million of the savings have been identified.⁷ The actual remaining four-year gap is \$28.0 billion; including the value of the deferral reduces the four-year gap to \$25.8 billion and leaves a \$1.7 billion gap that must be closed in the next three months and a \$6.7 billion gap in FY 2021. (See Table 2.)

Table 2: New York State Budget Mid-Year Gap Closing Actions, State Funds, FY 2020 - FY 2023
(dollars in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	4-Year Total
Actual Mid-Year Financial Plan Budget Gap	(\$4,026)	(\$7,140)	(\$8,203)	(\$9,439)	(\$28,808)
Net Impact of Ongoing Deferral	\$2,244	\$177	(\$216)	\$0	\$2,205
Savings from 1 Percent Across-The-Board Cuts	\$62	\$248	\$248	\$248	\$806
Remaining Gap	(\$1,720)	(\$6,715)	(\$8,171)	(\$9,191)	(\$25,797)

Sources: Source: New York State Division of the Budget, FY 2020 MidYear Update (November, 2019), p. 9, <https://www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-myu.pdf>; and New York State Department of State, New York State Register Vol. XLI, Issue 53 (December 31, 2019), p. 101, <https://www.dos.ny.gov/info/register/2019/dec31.pdf>.

To address these significant gaps and restore integrity to the budget, the State should pursue a four-pronged strategy: improve fiscal transparency and integrity; balance the budget with spending restraint; prepare for economic uncertainty and maintain competitiveness; and prudently address other priority policy areas.

Improve Fiscal Transparency and Integrity

Produce a Realistic and Transparent Budget - The State budget should not repeat last year's actions, which produced a budget that was unrealistic and opaque. The State finalized the fiscal year 2020 budget while in the process of deferring a \$1.7 billion Medicaid payment. It failed to include additional funding in fiscal year 2020 to pay for this deferral and did not account for higher ongoing annual spending. This obfuscation continued in the adopted budget and financial plan released six weeks later as the State failed to adjust Medicaid spending projections.

Include GAAP-basis Financial Plans in the Executive and Enacted Budgets - Generally accepted accounting principles (GAAP) require expenses to be accounted for in the year when the obligation is incurred, even if payment is deferred into the next year. State Finance Law Section 22 requires the Governor, through the State Division of the Budget (DOB), to present a financial plan with the Executive budget that includes GAAP-basis financial statements that show: (a) all of the expenditures estimated to be made in the current fiscal year and all of the expenditures proposed to be made during the ensuing fiscal year; and (b) all of the revenues estimated to accrue before the close of the current fiscal year and during the ensuing fiscal year adjusted for any Executive Budget proposals. This is generally done in the Executive Budget, including the revised financial plan released with the 21-day or 30-day amendments, and the Enacted Budget. However, last year DOB omitted GAAP-basis financial statements from the Executive Budget but included them in the amended Executive Budget. GAAP-basis financial statements should be included in the Executive Budget, 30-day amendments, Enacted Budget, and Mid-Year Update. Comparing the cash and GAAP presentations provides important insights into the State's financial position and practices.

Do Not Use Gimmicks - The State should not use gimmicks that inappropriately balance the budget; these gimmicks including shifting expenses onto local governments; into future fiscal years; or off-budget. For example, the State should not reverse the important progress made in assuming a larger portion of the local share of Medicaid.⁸ Likewise, deferring payment of a bill is taking an interest free loan from service providers, and undermines the State's financial future since there will be an outstanding bill from a prior year. Reclassifying spending as tax credits or moving spending off-budget also obscures State finances and misleads taxpayers regarding actual spending growth.²

Balance the Budget with Spending Restraint

- **Restrain Medicaid Costs**— Medicaid spending, which accounts for approximately one-quarter of the State operating budget, is exceeding budget projections. Reductions to Medicaid costs should be a significant component of savings to close the budget gap. As discussed in Governor Cuomo’s 2020 State of the State speech, and based on past success, the State should reconstitute the Medicaid Redesign Team (MRT) to identify savings that can be quickly implemented and those that can significantly restrain costs over time. The MRT should focus on containing long-term care costs, implementing targeted rate reductions, and improving allocations of Medicaid supplemental payments.¹⁰
- **Limit Education Aid Growth to Districts That Require Additional Revenues to Fund a Sound Basic Education (SBE)**— Spending on education in New York has grown at twice the rate of inflation over the last decade, and the State provides \$1.6 billion to wealthy districts that already have sufficient local resources to deliver an SBE.¹¹ Increases in State education aid should be targeted to those districts that lack the funding to provide an SBE. The current financial plan assumes a school aid increase of \$1.1 billion, when an increase of \$300 million would be more than enough to ensure that every school district has sufficient funding to fulfill its constitutional SBE obligation.¹² Targeting increases would provide \$800 million in financial plan relief. Furthermore, if additional budget savings are needed, the State should consider reducing aid to the highest wealth districts that receive more than is needed to provide an SBE.
- **Reduce Unproductive Economic Development Spending**— Economic development spending should be limited to long-term investments tied to sustained strategies with high likelihood of producing results.¹³
- **Reform Retiree Health Insurance**— Governor Cuomo should again propose, and the Legislature should adopt, reforms to retiree health insurance benefits that will increase the progressivity of eligibility for benefits while reducing current other post-employment benefit costs and future liabilities.¹⁴ The Governor’s prior proposal would save the State approximately \$26 million annually one year after adoption, and reduce the State’s outstanding long-term Other Post-Employment Benefits (OPEB) by \$28.2 billion, or 36 percent.

Prepare for Uncertainty and Maintain Competitiveness

- **Build Reserves and Plan for Rainy Days**— Despite a decade-long economic expansion, the State has not made adequate deposits to its rainy day reserves.¹⁵ The State is woefully unprepared for a recession, and reimposed a “temporary” personal income tax surcharge adopted originally to help weather the 2008 recession to support ongoing spending. The

State currently has \$2 billion in two statutorily created budget reserve funds, which pales in comparison to a potential three-year recession-driven revenue shortfall of \$22 billion to \$44 billion.¹⁶ While a challenge with the current budget gaps, the State should make every effort to increase its rainy day reserves, starting by moving \$890 million in settlement funds from an ad hoc “economic uncertainty reserve” to the State’s official rainy day reserves, in addition to the \$428 million in already planned deposits.¹⁷ One-time settlement funds should not be used to fund recurring unsustainable spending. The State also should develop a plan for addressing potential federal cuts to the disproportionate share hospital program, the Essential Plan under the Affordable Care Act, or the supplementary nutrition assistance program (SNAP).

- **Hold the Line on Taxes—** In balancing the budget, it is important not to undermine the State’s competitive position. New York’s combined state and local tax burden is already 48 percent higher than the national average.¹⁸ Increasing personal income taxes (PIT) on the wealthy or other broad-based taxes would make New York less competitive. Taxpayers with incomes in excess of \$1 million are 1.1 percent of filers, but pay approximately 37 percent of all personal income taxes.¹⁹ Further increasing taxes on these taxpayers will increase the risk they may relocate and also amplifies the volatility of State tax revenues.

Prudently Manage Other Fiscal and Policy Issues

- **Adopt a Needs-based Department of Transportation Capital Plan—** The current five-year State Department of Transportation capital program expires March 31, 2020. The next program will run through March 31, 2025. A revised capital plan should be adopted as part of this year’s budget process utilizing a thorough capital needs assessment, while ignoring the misguided calls for “parity” between “upstate” and “downstate.”²⁰
- **Use Cost-Effective Approaches to Achieve Greenhouse Gas Reduction**
Goals— Climate Leadership and Community Protection Act (CLCPA) implementation will commence in earnest during the upcoming legislative session as various committees and panels convene. To achieve its clean energy and emission reduction goals, the State should pursue a revenue-neutral economy-wide carbon pricing system and other cost-effective approaches.²¹
- **Restrain Expectation for Recreational Marijuana and Gambling Revenues—** Legalizing adult use of recreational marijuana was again proposed in the State of the State speech and additional gambling opportunities are likely to be considered this session. Revenue expectations from both sources should be tempered. Based on experiences in other states, recreational marijuana revenues have not materialized until at least one and half years after adoption.²² Similarly, casino revenues have been disappointing in New York.²³

As New York State aims to remedy the current year deficit and close next year's budget gap, State leaders should be striving to prepare the State for the future, which at some point will include the end of the current economic expansion. Failing to solve the State's financial problems responsibly and transparently in 2020 will damage the State's ability to manage a future downturn.

By David Friedfel and Patrick Orecki

Footnotes

1. David Friedfel and Patrick Orecki, *Overdue Bills: Time to Face the Reality of Rising Medicaid Costs* (Citizens Budget Commission, October 2019), <https://cbcny.org/research/overdue-bills>.
2. Office of the New York State Comptroller, *Comptroller's Monthly Report on State Funds Cash Basis of Accounting: November 2019* (December 2019), p. 8, www.osc.state.ny.us/finance/finreports/cash/monthly/november-2019.pdf.
3. David Friedfel, "On Time, Off-budget: State 2020 Budget Grows 4.9 Percent" *Citizens Budget Commission Blog* (May 28, 2019), <https://cbcny.org/research/time-budget>.
4. The most recent state financial plan shows no deficit in fiscal year 2020, and a cumulative four-year deficit of only \$22.15 billion because the State includes the full value of the savings plan, despite failing to identify all the elements of that plan. See: New York State Division of the Budget, *FY 2020 Mid-Year Update* (November 2019), p. 9, www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-my.u.pdf.
5. New York State Division of the Budget, *FY 2020 Mid-Year Update* (November 2019), p. 9, www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-my.u.pdf.
6. New York State Department of State, New York State Register Vol. XLI, Issue 53 (December 31, 2019), p. 101, www.dos.ny.gov/info/register/2019/dec31.pdf.
7. Including the full value of the Medicaid savings plan despite only identifying \$248 million leaves a gap of \$6 billion in fiscal year 2021.
8. Patrick Orecki, *Still a Poor Way to Pay for Medicaid* (Citizens Budget Commission, October 2018), <https://cbcny.org/research/still-poor-way-pay-medicaid>.
9. For example, the state has begun converting School Tax Relief (STAR) program from a spending program to a tax credit to artificially reduce spending and revenues simultaneously and is using Tobacco Master Settlement Agreement revenues to pay Medicaid costs off-budget. See: David Friedfel, "On Time, Off-Budget: State 2020 Budget Grows 4.9 Percent" *Citizens Budget Commission Blog* (May 28, 2019), <https://cbcny.org/research/time-budget>.
10. Patrick Orecki, "Medicaid Supplemental Payments: State Workgroup Makes Limited Progress on Part of the Problem" *Citizens Budget Commission Blog* (February 15, 2019), <https://cbcny.org/research/medicaid-supplemental-payments-0>.
11. Testimony of David Friedfel, Director of State Studies, Citizens Budget Commission, before the New York State Senate Joint Standing Committees on Education and on Budget and Revenues, *Testimony on the Distribution of the Foundation Aid Formula as it Relates to Pupil and District Needs* (December 3, 2019), <https://cbcny.org/advocacy/testimony-distribution-foundation-aid-formula-it-relates-pupil-and-district-needs>.
12. Testimony of David Friedfel, Director of State Studies, Citizens Budget Commission, before the New York State Senate Joint Standing Committees on Education and on Budget and Revenues, *Testimony on the Distribution of the Foundation Aid Formula as it Relates to Pupil and District Needs* (December 3,

- 2019), <https://cbcny.org/advocacy/testimony-distribution-foundation-aid-formula-it-relates-pupil-and-district-needs>.
13. Andrew Perry, *Raising the REDC Bar* (Citizens Budget Commission, December 2019), <https://cbcny.org/research/raising-redc-bar>.
 14. Patrick Orecki, "Budget Proposals with a Big Long-Term Payoff" *Citizens Budget Commission Blog* (March 16, 2017), <https://cbcny.org/research/budget-proposals-big-long-term-payoff>.
 15. The state's rainy day reserve can offset less than 10 percent of revenue losses expected from a recession. See: David Friedfel, "NYS Revenues in a Recession; Quantifying the Potential Shortfall" *Citizens Budget Commission Blog* (March 19, 2019), <https://cbcny.org/research/nys-revenues-recession>.
 16. David Friedfel, "NYS Revenues in a Recession; Quantifying the Potential Shortfall" *Citizens Budget Commission Blog* (March 19, 2019), <https://cbcny.org/research/nys-revenues-recession>.
 17. By moving revenues from the economic uncertainties fund to the state's official rainy day reserves there are additional legal and political limitations to how those funds are used. For more information on the state's rainy day reserves, see Mariana Alexander and Timothy Sullivan, "California Dreaming; NY Should Build Reserves to Prepare for a Rainy Day" *Citizens Budget Commission Blog* (March 12, 2018), <https://cbcny.org/research/california-dreaming>.
 18. Andrew S. Rein, Citizens Budget Commission, letter to The Honorable Andrew M. Cuomo, The Honorable Andrea Stewart-Cousins, and The Honorable Carl Heastie, (December 10, 2019), p. 2, https://cbcny.org/sites/default/files/media/files/LETTER_12102019.pdf.
 19. New York State Division of the Budget, *FY 2020 Economic and Revenue Outlook* (January 2019), p. 182, www.budget.ny.gov/pubs/archive/fy20/exec/ero/fy20ero.pdf.
 20. Patrick Orecki, "'Parity' for State Transportation Investments" *Citizens Budget Commission Blog* (March 9, 2017), <https://cbcny.org/research/parity-state-transportation-investments>.
 21. Seth Hulkower, *Getting Greener: Cost-Effective Options for Achieving New York State's Greenhouse Gas Goals* (Citizens Budget Commission, December 2019), <https://cbcny.org/research/getting-greener>.
 22. Patrick Orecki, "Don't Get Too High on Potential Marijuana Revenues" *Citizens Budget Commission Blog* (December 13, 2018), <https://cbcny.org/research/dont-get-too-high-potential-marijuana-revenues>.
 23. Tim Sullivan, "Hold Your Bets, Four Guidelines for Legalized Sports Betting in New York State" *Citizens Budget Commission Blog* (September 5, 2018), <https://cbcny.org/research/hold-your-bets>.