



CBC Statement on the New York State Executive Budget for FY 2021

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New York, NY – January 22, 2020 - Citizens Budget Commission (CBC) President Andrew Rein released this statement on the New York State Executive Budget for Fiscal Year 2021 on behalf of CBC:

“The New York State Fiscal Year 2021 Executive Budget closed significant fiscal year 2020 and fiscal year 2021 budget gaps without new taxes by recognizing higher revenues, restraining agency spending, counting on yet-to-be-determined Medicaid spending reductions, cutting local assistance, and continuing an unsound \$1.7 billion Medicaid payment delay. While the Budget introduces some significant proposals, some important details are still unsettled and others require additional explanation and analysis.

The Governor’s decision to reconvene the Medicaid Redesign Team (MRT) to find \$2.5 billion in savings is a prudent step to restore spending discipline and to bring Medicaid spending back in line with the State’s Global Cap. While a prudent course of action, it leaves a significant component of the budget unknown. The MRT will issue its recommendations by April 1. Both the savings target and the ambitious timeline make the MRT’s work extremely challenging; however, both are necessary and should be aggressively pursued.¹ Ultimately, the MRT should recommend additional savings to eliminate the annual payment deferral.

In addition, the budget includes a troubling proposal to “unfreeze” local Medicaid costs. Local governments and New York City will have to pay for all nonfederal Medicaid cost growth over 3 percent.² New York City and local governments that increase property taxes in excess of the 2 percent property tax cap will have to pay for all excess nonfederal costs of Medicaid spending in that year.³ Eliminating the growth in local Medicaid costs was one of the Cuomo Administration’s most significant fiscal and policy achievements; reversing

this policy would be unwise, and would once again force local governments to shoulder the fiscal burden of policies set at the State and federal level. Local governments should work with the State to identify and realize Medicaid savings, and such a joint effort would be welcome; however, localities have limited ability to bend the cost curve since the State and federal governments determine eligibility standards and the State, with federal approval, sets reimbursement rates. Among states, New York is alone in the significant share of Medicaid funded at the local level, and CBC has long advocated for a full State takeover of the program.

Other notable and policy proposals include:

Consolidation of school aid formulas

The proposal to consolidate certain expense-based school aids into the Foundation Aid formula is a positive step for students and taxpayers. Software, library, textbook, and high tax aids are distributed without accounting for district wealth or student need; channeling these aids through the Foundation Aid formula will help to direct aid to where it is needed most. Properly targeting aid can allow New York to provide all students a sound basic education while curtailing spending growth. The budget proposes an \$826 million increase in school aid, which could be reduced without sacrificing the resources needy districts require.

Pledged increase to reserves

The Executive Budget includes a previously planned \$428 million deposit to the rainy day fund in fiscal year 2020. While no other deposits are planned in fiscal year 2021, the Executive Budget includes a pledge to place all additional monetary settlements into the economic uncertainties reserve. New York's reserves are a fraction of what is needed to weather a recession; all unallocated settlement funds should be placed into the State's rainy day funds.

Reasonable assumptions for marijuana revenues

The recreational cannabis proposal projects reasonable revenues of \$20 million in fiscal year 2021, growing to \$188 million in fiscal year 2025. The experience in states that have legalized recreational marijuana use suggests cautious revenue estimates are merited.

Savings on retiree health insurance costs

Governor Andrew Cuomo again proposed, 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 (OPEB) costs and future liabilities. Although savings in fiscal year 2021 will be minimal (\$2.2 million), budget savings will grow in future years and the State's outstanding OPEB liability would be reduced by at least \$5.6 billion.

Unilateral Spending Cuts

The Executive Budget includes proposals to allow the Governor to make spending cuts if federal revenues decrease by \$850 million or more, and to make cuts of up to \$1 billion in local assistance if there is a projected general fund imbalance exceeding \$500 million. The Division of Budget (DOB) would be required to present a plan for cuts and the Legislature would have 30 days to create its own plan, or the DOB plan would go into effect. This would defer making difficult choices as part of the budget process. The best way to address potential risks is to build reserves, control spending, and make changes as needed in the budget process.

The Executive Budget restrains spending and focuses on cost savings and efficiencies in the two largest areas of State spending—Medicaid and education aid. As details of the Governor’s plan are examined over the coming weeks and months, CBC will release additional analysis and commentary.”

¹ Ideally, the MRT should have been reconvened immediately after the State’s deferral of last year’s \$1.7 billion payment into this year’s budget, with the MRT’s recommendations included in the budget release.

² Due to ambiguity in the budget presentation, proposal memo, and accompanying bills, further analysis and potentially modification are needed to determine both the spending cap threshold and applicable thresholds of tax growth.

³ While the property tax cap does not apply to New York City, the proposal requires New York City to certify that its property tax levy complies with the provisions of the property tax cap.