



## CBC Statement on the New York State Fiscal Year 2021 Enacted Budget

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New York, NY – April 2, 2020 - Citizens Budget Commission (CBC) President Andrew S. Rein issued this statement on the New York State Fiscal Year 2021 Enacted Budget:

"The New York State Legislature completes the enactment of the New York State Budget for Fiscal Year 2021 today amid ongoing public health and economic crises that will significantly reduce State and local revenues and require additional spending to mitigate the pandemic. Lawmakers commendably refrained from enacting anticompetitive tax increases, reduced State's spending on school aid, started to address the underlying structural problem in Medicaid, and benefited from enhanced federal aid. However, State lawmakers established a new midyear modification process that allowed them to defer hard choices that this unprecedented economic disruption may require. While having such a process may be helpful given economic and future federal aid uncertainties, as designed it lacks sufficient transparency and accountability; this should be rectified in practice. In addition, the budget relies on short-term borrowing made necessary by the extension of income tax filing deadlines; while this is reasonable, the budget provides the Executive the authority to convert this short-term borrowing to long-term bonds, thereby allowing the State to borrow to pay for operating expenses—something which should only be done as a last resort.

New York State faced a \$7 billion budget gap even before the current economic disruption. Since the release of the Executive Budget, the budget gap grew due to revenue losses from the economic disruption, the Medicaid Redesign Team missing its target, and unanticipated spending on the pandemic response. DOB estimates this revenue loss as

high as \$15 billion in the current fiscal year; as the length of the economic downturn becomes more apparent, revenue losses may be even more severe than estimated in the budget.

Increased federal aid will provide some fiscal relief – approximately \$1.1 billion for education and up to \$4.5 billion for Medicaid in fiscal year 2021; it is unclear how much more direct relief state and local governments can expect from future federal legislation.

Uncertain of the ultimate revenue shortfall and potential of additional federal aid, State leaders adopted a budget presuming that changes could be necessary during the year. The budget enacts a new budget modification process that requires DOB to notify the Legislature of a 1 percent revenue shortfall or overspending and provides authority to DOB to make cuts if the Legislature does not adopt its own plan for addressing the shortfall within 10 days. Current uncertainties may necessitate ongoing revision of the budget, but the process lacks appropriate transparency requirements and can minimize the Legislature's role in setting priorities. To rectify these deficiencies, the Executive should make its plan publicly available so that the Legislature and public can review and debate. Flexibility and speed are necessary at this time, but this authority should not be used to employ unwise fiscal maneuvers. Furthermore, the Legislature should generate its own contingency plans as soon as possible, so that it can productively respond within the 10-day period if it so chooses.

The budget features spending restraint in the two largest areas of the budget – Medicaid and school aid – but continues or includes new expenditures on other nonessential, or even wasteful, programs. Year-to-year State school aid will decrease and be replaced by federal aid for modest growth in school aid overall; nevertheless, wealthy school districts will continue to receive State support even if they are affluent enough to fund a sound, basic education with local resources while underfunded districts' aid will remain stagnant.

The budget prudently adopts most of the Medicaid Redesign Team's proposals, with flexibility to implement changes later so that the State can receive additional federal aid. The State still has an underlying structural Medicaid problem that should be addressed without harming the health system's ability to respond to the pandemic. A poorly conceived provision makes local governments responsible for \$250 million in support for distressed hospitals that was previously provided by the State.

The Enacted Budget also continues economic development programs without any serious evaluation or evidence of their effectiveness. The Film Tax Credit will be limited instead of eliminated, STARTUP-NY will be reauthorized, Excelsior Jobs Tax Credit program extended and broadened in scope, and local incentive programs Industrial and Commercial Abatement Program (ICAP) and Relocation and Employment Assistance Program (REAP) also were extended. Other costly new programs, including an expansion of prevailing wage

requirements to publicly subsidized private construction projects, also were included in the Enacted Budget with little analysis or debate of their potential costs and economic impacts.

The Enacted Budget authorizes \$8 billion in short-term borrowing to cover liquidity needs due to extension of the income tax filing deadline; these obligations will be due at the end of fiscal year 2021, but may be extended beyond that time. In addition, the State will also be able to access a \$3 billion line of credit. Short-term borrowing to contend with the extension of the federal and state income tax filing dates to July is reasonable; however, that debt should not be extended or repaid with long-term debt. Using long-term debt for operating purposes obligates future generations of New Yorkers to pay for today's services and needs; this should only be done as a last resort."