



December 10, 2019

The Honorable Andrew M. Cuomo
Governor of the State of New York
Executive Chamber
State Capitol
Albany, NY 12224

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Andrew S. Rein

The Honorable Andrea Stewart-Cousins
Temporary President and Majority Leader
New York State Senate
Legislative Office Building
188 State Street, Room 907
Albany, NY 12247

The Honorable Carl Heastie
Speaker
New York State Assembly
Legislative Office Building
188 State Street, Room 932
Albany, NY 12248

Dear Governor Cuomo, Majority Leader Stewart-Cousins, and Speaker Heastie:

The Citizens Budget Commission welcomes the recognition that the State must immediately address its serious fiscal imbalance. We urge you also to recognize that actions to balance the budget should focus on restraining spending. The economy is still expanding and the State should take this opportunity to put its fiscal house in order. Aligning spending with projected receipts will strengthen both New York's competitiveness and the ability to weather a future economic recession.

This recommendation is grounded in the following facts.

First, the problem is big and demands quick action. The State's mid-year budget update reports a \$6.1 billion budget gap next fiscal year, and a four-year gap of \$22.2 billion.¹ In fact, the four-year gap is \$28.8 billion. The State's reporting understates the problem because it includes \$6.7 billion in savings that are not yet specified and assumes that \$2.2 billion is "solved" by permanently delaying annual Medicaid bill payments—an unsound fiscal practice.

Second, the gap is due to high and growing spending, not revenue declines. Revenues continue to grow steadily. Between fiscal years 2011 and 2020 State receipts will have grown 3.5 percent annually on average. Receipts are projected to continue to grow 2.1 percent annually on average between fiscal years 2020 and 2023.²

Spending growth, conversely, is accelerating, driven by Medicaid and school aid. Between fiscal years 2011 and 2017, total state operations spending grew an average of 2.7 percent annually. This growth rate accelerated to 3.6 percent annually on average between fiscal years 2017 and 2020. Spending growth is projected to accelerate further to 4.9 percent annually on average between fiscal years 2020 and 2023.³

Medicaid State spending increased 0.8 percent annually on average between fiscal years 2011 and 2017, but has increased 6.1 percent annually on average between fiscal years 2017 and 2020.⁴ New York's Medicaid costs are not only growing, but they are comparatively high; as of federal fiscal year 2017, the latest year data are available, New York's cost per Medicaid enrollee was the second highest in the nation and 50 percent higher than the national average.⁵ Previously unbudgeted Medicaid spending contributes \$12.5 billion to the total four-year State budget gap.

Between fiscal years 2011 and 2020 education aid increased 3.7 percent annually on average, twice the rate of inflation.⁶ Notably, wealthy districts with sufficient local resources to provide a sound basic education (SBE) received \$1.6 billion in state school aid in school year 2017-2018.⁷

Third, New York's tax burden is already significantly higher than most states, threatening the state's competitiveness. New York's State and local tax burden is the highest in the nation and 48 percent higher than the national average.⁸ New York State's top marginal personal income tax (PIT) rate is 8.82 percent, the sixth highest in the nation.⁹ One reason is the repeated extension of the "temporary" PIT surcharge, which was levied initially to help weather the 2007 recession. The top rate for New York City residents is an even higher 12.7 percent with City PIT.¹⁰

Furthermore, New York's average combined 8.49 percent State and local sales tax rate is the nation's 10th highest.¹¹ Last year New York expanded the real estate transfer tax, increasing rates on high-value New York City properties.¹²

New York's high tax burden combined with the federal cap on the deduction for State and local taxes (SALT) increases the risk that high-income earners will move to lower tax states.¹³ These individuals support a significant portion of state spending: one of every 5 dollars spent for state operating purposes comes from taxpayers earning more than \$1 million annually.¹⁴

With the economic expansion continuing, New York should take the opportunity to stabilize its budget and prepare for any economic slowdown. It should identify recurring savings to

bring spending in line with revenues. These savings should come from multiple sources in the budget.

Among other areas to consider for spending reductions, New York State should:

- *Reconstitute the Medicaid Redesign Team to identify savings.* The approach should be holistic, not only evaluating rates but also policies to address high and rapidly rising long-term care costs and to reform the \$3.6 billion in Medicaid supplemental payments so they are better directed to safety net hospitals in need.¹⁵ The Executive, with the support of the Legislature, also appropriately should exercise powers granted under the Medicaid global cap to prevent Medicaid spending from exceeding budgeted amounts in future periods.
- *Focus education aid on needy districts to fund fully SBE.* Last year spending increased \$800 million more than the amount needed for each district to fund an SBE.¹⁶
- *Reduce unproductive economic development program spending.* New York spends more than \$4.4 billion annually, and there is little evidence that many of these investments produce results.¹⁷
- *Consider reforms to retiree health benefits that were proposed repeatedly in recent Executive Budgets.*¹⁸ These reforms were projected to significantly reduce post-employment benefit costs and future liabilities.

Increasing taxes now would be counterproductive; it would make New York even more expensive for residents and business, decrease competitiveness, and reduce options to weather the next recession. If past is prologue, the revenue shortfall from a recession could add a whopping \$35 billion to the gaps the State identified.¹⁹ Temporary revenue increases may be one appropriate action to weather a recession, but retention of the PIT surcharge and other recently enacted taxes narrow options to balance the budget soundly in future recessions; enacting additional tax increases now would make it even harder.

Now is the time to make hard choices on spending and hold the line on the State's already high tax burden. The State has deferred action on the Medicaid-driven fiscal problem for quite some time, which only has made solutions potentially more painful. Immediate action is critical.

Sincerely,



Andrew S. Rein
President

¹ 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.pdf.

² State receipts data is based on total State Funds receipts. Adjustments are made to account for shifting of payments across fiscal years, conversion of the STAR benefit to a personal income tax benefit, reclassification of taxes collected on behalf of the Metropolitan Transportation Authority, and other financial plan maneuvers that alter the accounting of state payments or revenues. See: New York State Division of the Budget, *FY 2020 Mid-Year Update* (November 2019), pp. T-44 to T-48, and editions for fiscal year 2017 through 2019, www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-my.pdf.

³ State operating funds spending is calculated based on Citizens Budget Commission staff analysis of State financial plans. Adjustments are made to account for shifting of payments across fiscal years, conversion of the STAR benefit to a personal income tax benefit, reclassification of taxes collected on behalf of the Metropolitan Transportation Authority, and other financial plan maneuvers that alter the accounting of state payments or revenues.

⁴ Medicaid spending data is based on total State operating funds disbursements for the program. Spending for fiscal year 2011 is adjusted to account for enhanced federal aid. Spending for fiscal year 2019 is adjusted to account for \$1.7 billion in deferred to fiscal year 2020. Fiscal Year 2020 is adjusted to account for \$1.7 billion in payments deferred from fiscal year 2019 into fiscal year 2020 and \$2.2 billion in payments intended to be deferred from fiscal year 2020 into fiscal year 2021.

⁵ State-level spending data for federal fiscal year 2017 is obtained from CMS-64 expenditure report data. State-level enrollment data is obtained by subtracting CHP enrollment from total Medicaid and CHP enrollment. Sources: Centers for Medicare & Medicaid Services, "Expenditure Reports From MBES/CBES" (accessed December 9, 2019), www.medicare.gov/medicaid/finance/state-expenditure-reporting/expenditure-reports/index.html; Kaiser Family Foundation, "Total Monthly Medicaid and CHIP Enrollment" (accessed December 9, 2019), www.kff.org/health-reform/state-indicator/total-monthly-medicare-and-chip-enrollment/; and "Total Number of Children Ever Enrolled in CHIP Annually" (accessed December 9, 2019), www.kff.org/other/state-indicator/annual-chip-enrollment/.

⁶ Based on State operating funds spending on a State fiscal year basis. See: New York State Division of the Budget, *FY 2020 Mid-Year Update* (November 2019), p. 91, and editions for fiscal years 2012 through 2019, www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-my.pdf

⁷ David Friedfel, "Testimony on the Distribution of the Foundation Aid Formula as it Relates to Pupil and District Needs," (Citizens Budget Commission, December 3, 2019), <https://cbcny.org/advocacy/testimony-distribution-foundation-aid-formula-it-relates-pupil-and-district-needs>.

⁸ Tax burden is defined as the total of all State and Local taxes divided by total personal income. Source: Tax Policy Center, "Rankings of State and Local General Revenue as a Percentage of Personal Income, 2016" (December 11, 2018), <https://www.taxpolicycenter.org/statistics/rankings-state-and-local-general-revenue-percentage-personal-income>.

⁹ New York State Department of Taxation and Finance, Instructions for Form IT-201, p. 57, www.tax.ny.gov/pdf/current_forms/it/it201i.pdf; and Katherine Loughead and Emma Wei, *State Individual Income Tax Rates and Brackets for 2019* (Tax Foundation, March 2019), <https://taxfoundation.org/state-individual-income-tax-rates-brackets-2019/>.

¹⁰ New York State Department of Taxation and Finance, Instructions for Form IT-201, p. 69, www.tax.ny.gov/pdf/current_forms/it/it201i.pdf.

¹¹ Janelle Cammenga, *State and Local Sales Tax Rates, 2019* (Tax Foundation, January 2019), <https://taxfoundation.org/sales-tax-rates-2019/>.

¹² New York State Department of Taxation and Finance, "Real estate transfer tax" (accessed December 9, 2019), www.tax.ny.gov/bus/transfer/rptidx.htm.

¹³ Andrew Rein, *Practical Policy in Challenging Times* (Citizens Budget Commission, March 18, 2018), <https://cbcny.org/research/practical-policy-challenging-circumstances>.

¹⁴ Taxpayers with incomes greater than \$1 million have a personal income tax liability of approximately \$19.3 billion. That amount is equal to nearly one-fifth of total state operating funds spending of \$102 billion. Source: CBC staff analysis of data from New York State Division of the Budget, FY 2020 Economic and Revenue Outlook (January 2019), p. 182, <https://www.budget.ny.gov/pubs/archive/fy20/exec/ero/fy20ero.pdf>; and FY 2020 Mid-Year Update (November 2019), www.budget.ny.gov/pubs/archive/fy20/enac/fy20fp-en-myuu.pdf.

¹⁵ The State share of Medicaid long-term care costs in New York grew 32 percent from fiscal years 2015 to 2019, two times faster than other areas of Medicaid spending. New York State pays a greater share of long-term care costs via Medicaid compared to national averages, specifically for non-institutional long-term supports and services. Whereas 56 percent of home health costs are paid for by Medicaid in NYS, the national average for Medicaid's share of home health services was 36 percent in 2016. Since that time, the variance has likely grown as most of the Medicaid costs of implementing a higher minimum wage have been realized in the home care and personal care professions. Sources: New York State Department of Health, "Monthly and Regional Global Cap Updates" (accessed December 9, 2019), www.health.ny.gov/health_care/medicaid/regulations/global_cap/; 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>; Centers for Medicare & Medicaid Services, "National Health Expenditure Data" (December 5, 2019), Table 14, www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index; Jodi L. Liu and others, *An Assessment of the New York Health Act* (RAND Corporation, July 2018), p. 79, www.rand.org/content/dam/rand/pubs/research_reports/RR2400/RR2424/RAND_RR2424.pdf; and New York State Senate, *Staff Analysis of the FY 2020 Executive Budget* (January 22, 2019), p. 44, www.nysenate.gov/sites/default/files/article/attachment/wb_2020_final_repmin_offical_0.pdf.

¹⁶ David Friedfel, "Adopted Budget Continues Unequal Access to a Sound Basic Education" *Citizens Budget Commission Blog* (May 22, 2019), <https://cbcny.org/research/adopted-budget-continues-unequal-access-sound-basic-education>; and "Funding a Sound Basic Education in 2020" *Citizens Budget Commission Blog* (March 7, 2019), <https://cbcny.org/research/funding-sound-basic-education-2020>.

¹⁷ Riley Edwards, *10 Billion Reasons to Rethink Economic Development in New York*, (Citizens Budget Commission, February 2019), <https://cbcny.org/research/10-billion-reasons-rethink-economic-development-new-york>.

¹⁸ Patrick Orecki, "Budget Proposals with a Big Long-Term Payoff" *Citizens Budget Commission Blog* (March 7, 2019), <https://cbcny.org/research/budget-proposals-big-long-term-payoff>.

¹⁹ 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>.