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CBC Urges State Leaders to Adopt a "Bare Bones" Budget That Supports Pandemic Response

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New York, NY - March 17, 2020 - Citizens Budget Commission (CBC) President Andrew Rein urging adoption of an on-time New York State budget on behalf of CBC:

"A world pandemic has created unprecedented dangers and hardships in New York State and New York City. The economy has slowed abruptly, and a recession appears increasingly likely. Given the growing uncertainty, limited information available in the middle of the unfolding crisis, and need to support the response, the Governor and Legislature should adopt a crisis-response, "bare bones" budget for the fiscal year beginning April 1, 2020, recognizing that changes will be needed in the coming months.

State Comptroller Thomas DiNapoli just released an estimate that revenues are likely to be \$4 billion below Executive Budget projections, with a risk that a recession or sharper declines in the stock market could lower revenues by more than \$7 billion. To the extent previous recessions provide insight, the Citizens Budget Commission's analyses suggest State revenues could be \$34 billion short of projections over three years; however, as the Comptroller notes, the magnitude of the fiscal impact of the current crisis remain unclear. Revenue shortfalls from economically sensitive taxes are not yet known. The spending necessary to implement responses to the pandemic—including the likely needed health system capacity and pandemic mitigation strategies—also is uncertain as the number of cases grows and responses are shaped in real time. Federal legislation providing fiscal relief to states and individuals is pending; its scale and the conditions remain uncertain and may limit New York's options to address its underlying Medicaid budget gap.

Given the urgent time frame and formidable uncertainties, the CBC recommends the Governor and Legislature:

- **Quickly enact a "bare bones" budget that supports the estimated pandemic response need.** The enacted budget should fund adequately measures essential to cope with the new demands the pandemic is creating. With this exception, the budget should be "bare bones," that is, intended to sustain essential current service

needs. It should significantly limit spending, including curtailing education aid growth, and should not shift Medicaid costs to New York City and counties as proposed in the Executive Budget. To the extent possible, spending should be lower than any new estimate provided by the State Comptroller. Policy issues not essential to the budget should be deferred to enable full consideration in a clearer fiscal context.

- **Do not consider tax increases at this time.** New York’s already high taxes—including the repeatedly extended “temporary” personal income tax surcharge enacted to weather the last recession—and the federal cap on state and local tax deductions risk New York’s competitiveness.
- **Understand this budget will have to be revised in the coming months, as more information is available about the economic and fiscal impacts of the pandemic and federal responses.** The Governor and Legislature should plan for this eventuality. Enacting a short-term “extender” budget could be a reasonable option as long as it adheres to the “bare bones,” response-need approach.
- **Leverage and continue as needed the work of the Medicaid Redesign Team (MRT).** Before the pandemic, New York’s Medicaid program was experiencing unsustainable, unbudgeted expenditure growth that caused \$18 billion of the State’s \$35 billion five-year budget gap; the Governor deferred action and is relying on the MRT to design appropriate responses. The MRT should continue its work, and its recommendations should be incorporated in the enacted budget, in future modifications, or both.
- **Appropriately use emergency federal aid.** Emergency federal aid provided through a temporarily increased federal share for Medicaid (providing potentially \$4.5 billion in relief) should replace lost tax revenues due to economic decline or support the response. It should not substitute for the structural reforms to the State Medicaid program needed to close the pre-existing gap.

The immediate challenge for New York’s elected leaders is to quickly pass a budget that sustains essential public services, provides for emergency responses to the growing pandemic, and prepares New York for an economically uncertain future. The uncertain environment in which these decisions must be made suggests the budget will need revision in the coming months, and plans for timely reconsideration including adjustment to the legislative calendar should be made. However, the need for timely, prudent action in difficult times should not be an excuse for avoiding or delaying changes needed to promote the State’s long-term fiscal health. Medicaid reforms should still be identified and enacted. Emergencies such as the current pandemic will also require prudent use of available reserves, but plans should also be made for long-term strategies that provide more adequate reserves when difficult times recur.”