



NEW YORK STATE OF OPPORTUNITY | Division of the Budget

FEDERAL FUNDING

New Yorkers sent **\$48 billion** more to Washington than came back in Federal spending. The **largest net contribution** to the Federal government made by any state.*



FEDERAL THREATS

The Federal tax plan limits state and local tax deduction, a **\$14 billion** double-taxation of **1.7 million New Yorkers**.

The potential loss in Federal aid attributed Children's Health Insurance Program and the Essential Plan could cost **\$2 billion** in 2019.

* Based on 2015 data from the Rockefeller Institute of Government.

Since 2014



has enrolled more than **4.1 million New Yorkers** in affordable health coverage.

The number of uninsured New Yorkers has **declined** by nearly

900,000

Budget Highlights

Protections Against the Federal Tax Assault on New York. Legislation will be submitted to help protect New York taxpayers from the negative tax impacts of Federal tax law changes. Additionally, the Governor is accepting a preliminary report from the Department of Taxation and Finance outlining options for State tax reform in response to the Federal legislation.

Protecting Gains Made Possible by the Affordable Care Act. Since its inception in 2014, the NY State of Health program has enrolled more than 4.1 million New Yorkers in affordable health coverage. The number of uninsured New Yorkers has declined by nearly 900,000. Between 2013 and 2017 the rate of uninsured in the State declined from 10 percent to 4.7 percent, the lowest ever reported per the Centers for Disease Control.

Federal Funding is at Risk. Federal funds that support the most vulnerable New Yorkers are threatened, including in the areas of health care and human services. Any reductions in Federal aid could exacerbate New York's \$48 billion Federal balance of payments deficit.

The Executive Budget begins the process of protecting New Yorkers from the devastating Federal tax law changes, safeguards improvements to our health care system made possible by the Affordable Care Act, and responsibly employs Federal funds for programs that support the most vulnerable New Yorkers and those living at or near the poverty level.

Overview

The Federal government influences the economy and budget of states through grants, direct spending on its own programs, such as Medicare and Social Security, and through Federal tax policy. Federal policymakers place conditions on grants, mandate certain state actions, preempt state laws, change state and local tax bases and taxpayer behavior through tax policies, and influence industries through regulatory action.

Federal funding predictability, and otherwise sound management of the national economy are of crucial concern to states' budgets – especially in New York, where citizens pay \$48 billion more in Federal taxes than they receive back in Federal investments.

New York is one of 13 states with a “negative” balance of payment with the Federal government, per analysis by the Rockefeller Institute of Government using data from the 2015 Federal fiscal year. The \$48 billion net contribution to the Federal government made by New Yorkers and the New York economy is the largest of any state and equals the combined net contributions of 2nd ranked New Jersey and 3rd ranked Illinois. New York's people and economy paid the Federal government \$2,425 more per person than they received. By contrast, the average state experienced a positive balance of payments of about \$1,305 per capita. New York's negative balance of payments is driven primarily by Federal taxes, rather than spending. Payments from New York to the Federal government were \$12,820 per capita, or approximately \$3,401 higher than the national average, and Federal spending in New York was \$329 lower than the U.S. average, adding to the revenue disparity.

As with any State, Federal funding is an essential component of New York's Budget, totaling \$55.7 billion – approximately one-third of anticipated All Funds spending in FY 2019. Alongside State taxpayer resources, Federal funds finance many critical programs at both the State and local level, including health care, human services, education, public protection, transportation, and other services.

However, the policy direction taken by the Federal government under the current Presidential administration and Congress threatens funding for crucial Federal-State partnerships that provide direct benefits to New Yorkers. These include the Essential Health Plan, which provides insurance coverage to about 700,000 low to moderate income New Yorkers, and infrastructure investments such as the Gateway Tunnel Project, which will preserve and expand a critical connection for trains traveling the eastern seaboard. New Federal tax policy also stifles the State's long-term economic viability by limiting the State and Local Tax deduction, giving other states a competitive advantage over New York.

Responding to Federal Tax Reform

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, putting into place dramatic reforms to the Federal tax system.

The law enacts sweeping changes to both individual and corporate taxes. Among its most consequential reforms, the law permanently cuts the corporate tax rate by 40 percent.. It allows owners of certain "pass-through" entities to take a 20 percent income tax deduction and makes a number of changes to other business credits and deductions, including limiting the deduction for interest expenses and research and development expenditures.

For individual taxpayers paying Federal income tax, the law also makes a series of changes to credits and deductions, including limiting of the Federal deduction for State and local taxes, which is estimated to cost taxpayers in New York an additional \$14.3 billion per year. The new law will have a significant impact on the tax system and economy of the State of New York by undermining the competitiveness of the State's economy, and marks a dramatic broadening of the Federal tax base at the expense of New Yorkers. The law rolls back more than 100 years of precedent – the State tax system was built around the principle that the Federal government would not put a tax on taxes.

The State's income tax system interacts with the Federal system in numerous ways, and the Federal changes will have significant flow-through effects on State tax burdens and revenues. Given the far-reaching nature of the Federal law, New York State will

Performance Profile

Supporting School Meals. U.S. Department of Agriculture funding supports school breakfast and lunch meals for 3 million students in New York.

Subsidizing Child Care. 112,000 families in New York State received child care subsidies in Federal fiscal year 2017. Such subsidies were supported by Federal CCDF and TANF funds, as well as State and local dollars. The Federal government cut these funds in FY 2017 and the funds were restored by the State.

Water Infrastructure. 178 water projects financed with Clean Water and Drinking Water State Revolving Fund monies in FY 2017.

Critical Infrastructure Protection. The Joint Task Force - Empire Shield (JTF-ES) is a highly-trained National Guard unit comprised of active duty soldiers that support anti-terrorism and security missions. JTFES provides a visible security presence at high-profile locations such as transit hubs, bridges and tunnels. This activity is supported through the Urban Areas Security Initiative grant from the US Department of Homeland Security.

undertake extensive analysis as it considers how best to respond to such consequential reforms. The Governor will receive a preliminary report by the Department of Taxation and Finance to outline options for State tax reform in response to the Federal legislation.

The preliminary report outlines a series of proposals for consideration and comment, including a potential proposal for creating additional opportunities for tax-deductible charitable contributions, the possibility of reducing income taxes and shifting instead to a statewide payroll tax, and options for a new statewide unincorporated business tax. It discusses other impacts of the Federal law on the State, and potential responses.

Changes to the State tax code will be the result of a comprehensive and measured process based on three primary objectives: First, promoting fairness for New York's taxpayers in light of the Federal legislation; second, enhancing the competitiveness of New York's economy; and third, maintaining New York's revenue base.

Federal Funding

Federal funds are predominantly targeted at programs that support the most vulnerable New Yorkers and those living at or near the poverty level, such as Medicaid, Temporary Assistance for Needy Families (TANF), the Child Care and Development Fund (CCDF), Elementary and Secondary Education Act (ESEA) Title I grants, and Individuals with Disabilities Education Act (IDEA) grants. Other Federal resources are directed at infrastructure and public protection. Overall, the Federal resources expected to be utilized by the FY 2019 Budget include:

- **Medicaid** (\$37.1 billion). Federal Medicaid dollars help support health care for more than six million New Yorkers, including more than two million children. Medicaid is the single largest category of Federal funding, representing approximately two-thirds of Federal resources anticipated in the FY 2019 Budget.
- **Other Health and Human Services Programs** (\$11.4 billion). Support from the Federal government provides for a variety of other health programs administered by the Department of Health (DOH), as well as programs administered by the Office of Temporary and Disability Assistance (OTDA), the Office of Children and Family Services (OCFS), Homes and Community Renewal (HCR), and the Department of Labor (DOL), among others. Specific programs include the Essential Health Plan, TANF-funded public assistance benefits, Flexible Fund for Family Services, Home Energy Assistance Program (HEAP) benefits, Supplemental Nutrition Assistance Program (SNAP) administrative costs, Child Support administrative costs, Child Care, Foster Care, and the Unemployment Insurance Program administrative costs.
- **Education** (\$4.0 billion). K-12 education, special education and higher education receive Federal support. Similar to Medicaid and the human service programs, much of Federal education funding received is directed toward vulnerable New Yorkers, such as students in high poverty schools or those with disabilities.

- **Transportation** (\$1.8 billion). Federal resources support infrastructure investments in highway and transit systems throughout the State, including funding participation in ongoing transportation capital plans.
- **Public Protection** (\$1.1 billion). Federal funding supports various programs and operations of the State Police, the Department of Corrections and Community Supervision, the Office of Victim Services, the Division of Homeland Security and Emergency Services, and the Division of Military and Naval Affairs. Federal funds are also passed on to municipalities to support a variety of public safety programs.
- **All Other Funding** (\$0.4 billion). Several other programs in the Economic Development, Mental Hygiene, Parks and Environmental Conservation, and General Government Areas are also supported by Federal resources.

Federal Funding Trends

The \$55.7 billion in Federal funds expected to be utilized by New York State in FY 2019 includes increases in funding for Medicaid and other health programs that are improving outcomes for New Yorkers. Disbursements of Federal funding for Education, Transportation, Public Protection, and other uses has been more varied, fluctuating across a range from a 12% increase to a 55% decrease.

- Federal support for Medicaid has increased by \$7.0 billion (23 percent) over the past 5 years, primarily because of rising costs in the health services sector and expansions of coverage resulting from the Affordable Care Act (ACA).
- Federal support for other Health and Human Service Programs increased by \$3.9 billion (53 percent) over the past 5 years. This was also primarily driven by the ACA, specifically the creation of the Essential Health Plan, which covers about 700,000 low to moderate income New Yorkers.
- Transportation funding increased nearly \$200 million (12 percent) in the last 5 years, reflecting an increase in Federal highway aid and variations in the timing of obligations and disbursements.
- Federal receipts have consistently represented approximately one-third of all State budget revenue sources over the period.

Other program areas have seen decreases in their Federal resources. These include:

- Public Protection funding decreased by \$1.4 billion (55 percent) since FY 2015, however this is primarily due to the timing of Federal Emergency Management Agency (FEMA) Public Assistance funding for damages sustained during natural disasters.

- All Other Funds decreased by \$99 million (21 percent), primarily due to adjustments and accounting reclassifications mainly related to Medicaid payments made by DOH to other State agencies.

Table 4: Federal Disbursements by Program Area (Millions of Dollars)

Category	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Five Year Change	
						Dollars	Percent
Medicaid	30,052	32,053	34,461	36,733	37,073	7,020	23
Other Health and Social Welfare	7,426	9,067	10,310	11,381	11,353	3,926	53
Education	3,713	4,195	4,035	3,952	4,018	305	8
Transportation	1,609	1,827	2,092	1,658	1,807	198	12
Public Protection	2,462	1,970	1,460	1,380	1,108	(1,354)	-55
All Other	480	365	628	406	381	(99)	-21
Total	45,743	49,476	52,985	55,509	55,739	9,996	22

In FY 2015, Federal disbursements by the State for health and human services, including Medicaid represented approximately 82 percent of total Federal disbursements. In FY 2019, the percentage is expected to represent approximately 87 percent.

Federal Risks

The amount and composition of Federal funds received by the State has changed over time as a result of legislative and regulatory actions at the Federal level, and will likely continue to change in the coming year. Notable areas with potential for change include health care, human services and infrastructure policy. Any reductions in Federal aid could exacerbate New York’s already high Federal balance of payments deficit. New York already has the largest absolute balance of payments deficit among all states, sending nearly \$48 billion more to the Federal government in Federal tax revenue than received back in Federal spending in Federal FY 2015, according to the Rockefeller Institute’s analysis.

In contrast to the Federal government, state governments have state constitutional balanced budget requirements. The FY 2019 Executive Budget includes a mechanism to assist with budget balance and mitigate Federal risks. The Director of the Budget is charged with preparing a corrective action plan for consideration by the Legislature in the event that I) Federal aid for Medicaid is reduced by \$850 million or more, or II) Federal aid for all other programs is reduced by \$850 million or more.

The FY 2019 Executive Budget also creates a new account to ensure the continued availability and expansion of funding for quality health services to New York State residents, and mitigate risks associated with the loss of Federal health care funds. In addition, the Budget authorizes program modifications, if necessary, to preserve the Children’s Health Insurance Program (CHIP), and establishes a surcharge on excess health insurer gains for reinvestment in vital health care services for New Yorkers.

Notable Federal risks include:

- **The Children’s Health Insurance Program (CHIP).** Congress has yet to pass long-term funding for CHIP, which directs Federal support to Child Health Plus, a successful program that has provided health coverage to approximately 350,000 children in New York State. Should funding be allowed to lapse for the program many of these children may lose health insurance coverage.
- **Medicaid Disproportionate Share Hospital (DSH) Cuts.** For the first time, Congress has allowed DSH cuts initially included in the Patient Protection and Affordable Care Act (PPACA) to take effect. These cuts will mean \$165 million less for the State’s public and safety net hospitals in FY 2019 if not reversed. If allowed to remain in place, these cuts will grow to \$1.3 billion by FY 2025.
- **Medicaid Funding.** Despite surviving a number of attempts to alter the funding formula for Medicaid in 2017, the Medicaid program still faces threats from Congress. Medicaid plays a role in both state and Federal budgets. As a result of the joint financing structure, Medicaid acts as both an expenditure and the largest source of Federal revenue in New York State’s budget. Medicaid is also a countercyclical program. During economic downturns, individuals lose jobs, incomes decline and more individuals enroll in Medicaid. This increases program spending as state revenue declines, making it difficult to match rising expenditures. The influx of Federal Medicaid funds also has positive effects on New York State’s economy, resulting in a multiplier effect directly impacting not only the providers who received Medicaid payments for the services they provide to beneficiaries, but also indirectly affecting other businesses and industries.
- **Debt Financing.** The Tax Cuts and Jobs Act eliminated the advanced refunding of municipal bonds, cutting off the ability of states, local governments, and not-for-profit institutions from accessing savings when interest rates drop. Advanced refunding has saved New York State approximately \$1.1 billion since FY 2015.
- **Federal Debt Limit.** The Federal government is currently operating under “extraordinary measures” that allow the Treasury to continue meeting obligations despite the expiration of the latest temporary suspension of the Federal debt limit last month. The Congressional Budget Office projected in November 2017 that those extraordinary measures would be exhausted by late March or early April of this year.

If the debt limit is not raised or suspended in a timely fashion, it may cause the Federal government to default on its payments. A Federal government default, particularly for a prolonged period, could have a materially adverse effect on national and state economies, financial markets, and intergovernmental aid payments. The specific effects on the Financial Plan of a future Federal government default are unknown and impossible to predict. However, data from past economic downturns suggest that the State’s revenue loss could be substantial if the economy goes into a recession due to a Federal default.

A payment default by the United States may adversely affect the municipal bond market. Municipal issuers, as well as the State, could face higher borrowing costs and impaired market access. This would jeopardize planned capital investments in transportation infrastructure, higher education facilities, hazardous waste remediation, environmental projects, and economic development projects. Additionally, the market for and market value of outstanding municipal obligations, including municipal obligations of the State, could be adversely affected.

- **Budget Control Act.** The Budget Control Act (BCA) of 2011 temporarily raised the debt limit, established discretionary spending caps on the Federal government through Federal FY 2021, and instituted sequestration of some mandatory funds on which the State relies. Despite modest legislative adjustments to the discretionary caps contained in the BCA, the possibility for a reduction in Federal support is elevated as long as they remain in place. Congress passed legislation in 2013 and 2015 that temporarily increased the discretionary spending caps imposed by the BCA through Federal FY 2017. Similar adjustments to the BCA for Federal FY 2018 have yet to be passed into law, and failure to pass such changes could subsequently lead to cuts in the discretionary programs on which the State relies.