



Division of
the Budget

FEDERAL FUNDING

Governor Cuomo **leads the fight** against the unfair federal cap on State and local tax deductibility.

New York is the **number one donor** state in the nation, with taxpayers contributing **\$35.6 billion** more to the



federal government every year than the state gets back.
= #2 New Jersey and #3 Massachusetts, combined.

The Executive Budget **codifies key provisions** of the Affordable Care Act:

- > bans insurance limitations for preexisting conditions
- > requires all insurance policies sold in New York to cover the 10 essential benefits defined in the ACA
- > prohibits discriminatory benefit designs
- > protects consumers



nystateofhealth™

has enrolled more than **4.7 million New Yorkers** in affordable health coverage.



Health plans offered are, on average, **55% less expensive** than those available in 2013, prior to the creation of the marketplace.

ENCOURAGING CITIZENSHIP

NaturalizeNY set a record in 2018 with **6,100 New Yorkers** seeking naturalization. Overall, the program has covered naturalization costs for **1,684 low-income immigrants** since 2016.



Budget Highlights

Repealing the SALT Deduction Cap. The current Federal tax filing season is the first under the 2017 tax law. New Yorkers will be limited to deducting only \$10,000 for State and local taxes, which is estimated to cost taxpayers in New York an additional \$14.3 billion per year. The Governor continues to work to repeal this cap.

Protecting Gains Made Possible by the Affordable Care Act. The Executive Budget codifies key provisions of the ACA and enhanced State regulatory protections into State law, including the ban on insurance limitations for preexisting conditions, and the requirement that all insurance policies sold in New York cover the 10 essential benefits defined in the ACA.

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 \$35.6 billion Federal balance of payments deficit.

The Executive Budget utilizes Federal resources to support New Yorkers and employs Federal funds for programs at both the State and local level, including health care, human services, education, public protection, and other services. By managing the complex fiscal relationship between the State and the Federal governments, the Executive Budget plays an integral role in protecting New Yorkers from heightened uncertainty within the Federal government while protecting gains made possible by the Affordable Care Act.

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 \$35.6 billion more in Federal taxes than they receive back in Federal investments.

New York is one of 10 states with a “negative” balance of payment with the Federal government, per analysis by the Rockefeller Institute of Government using data from the 2017 Federal fiscal year. The \$35.6 billion net contribution to the Federal government made by New Yorkers and the New York economy is the largest of any state and nearly equals the combined net contributions of 2nd ranked New Jersey and 3rd ranked Massachusetts. New York's people and economy paid the Federal government \$1,792 more per person than they received. By contrast, the average state experienced a positive balance of payments of about \$1,925 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 \$12,906 per capita, or approximately \$3,375 higher than the national average, and Federal spending in New York was \$342 lower than the U.S. average, adding to the revenue disparity.

While New York's balance of payments improved in absolute and per capita terms from the prior year, it continued to move further away from the national average. In other words, relative to other

states, New York's balance of payments is getting worse and not better. New York's taxpayers remain an outsized supporter of Federal spending programs. Despite having significant programmatic needs, a relatively small amount returns to the State through wages, contracts, and social programs.

As with any state, Federal funding is an essential component of New York's Budget, totaling \$61.6 billion – approximately one-third of anticipated All Funds spending in FY 2020. Changes to Federal policy under the current Presidential administration and Congress may threaten funding for crucial Federal-State partnerships that provide direct benefits to New Yorkers.

Ongoing Federal Government Shutdown

The ongoing partial government shutdown that began December 22, 2018 is the longest in modern history. The longer it draws on, the higher the chance for significant impacts to the State's financial plan, localities and New Yorkers.

The shutdowns of the departments of Agriculture, Housing and Urban Development, Transportation, Homeland Security, and Justice are of particular concern. Crucial funding for food, economic and housing assistance have been put at risk by the shutdown, as well as funding for criminal justice and homeland security activities.

Federal Tax Reform

In December 2017, President Trump signed into law the Tax Cuts and Jobs Act, which disproportionately hurts high income states, like New York, which already contributes \$35.6 billion more to the Federal government than it gets back.

Most devastating to New Yorkers, Federal taxpayers are now only able to claim up to \$10,000 in state and local tax (SALT) deductions. The law is estimated to cost New Yorkers an additional \$14.3 billion this year. With the IRS potentially blocking some of New York's efforts to ease the Federal cap on SALT deductions brought upon by new Federal tax law, the Governor is calling for a necessary bipartisan fix. The Governor will continue to work with New York's congressional delegation to repeal the cap on SALT deductions.

Performance Profile

Encouraging Citizenship.

The NaturalizeNY program – the first-of-its-kind public-private partnership to encourage eligible immigrants in New York State to become U.S. citizens – set a new engagement record in 2018 with 6,100 New Yorkers seeking naturalization. Overall, the program has covered naturalization costs for 1,684 low-income immigrants since 2016.

Statue of Liberty & Ellis Island.

New York State has paid \$65,000 per day to keep the iconic Statue of Liberty National Monument and Ellis Island open during the ongoing shutdown of the National Parks Service, preserving tourism.

In the FY 2019 Budget, New York State responded. It created two State-operated Charitable Contribution Funds to accept donations for the purpose of improving health care and education in New York. The State established an alternative Employer Compensation Expense Program that businesses, which were spared from the SALT limitations, could opt into. New York also decoupled the State tax code from the Federal tax code, where necessary, to avoid more than \$1.5 billion in State tax increase brought solely by increases in Federal taxes. Further changes are made in the FY 2020 Executive Budget and can be found in the Revenue Actions chapter.

The new Federal tax law also permanently cut the corporate tax rate by 40 percent, and it allows “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.

The net result of these changes is that the Federal deficit is ballooning as revenue fails to keep up with spending. In the first quarter of the Federal fiscal year, which started on October 1, the Congressional Budget Office reported the deficit had climbed 41 percent from the same period a year earlier.

The circumstances could spark cuts to spending to offset the loss of revenue, putting the most vulnerable New Yorkers in the crosshairs.

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), 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 2020 Budget include:

- **Medicaid** (\$41.9 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 just over two-thirds of Federal resources anticipated in the FY 2020 Budget.
- **Other Health and Human Services Programs** (\$12.5 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, Foster Care, and the Unemployment Insurance Program administrative costs.

- **Education** (\$4.1 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** (\$1.6 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 \$61.6 billion in Federal funds expected to be utilized by New York State in FY 2020 includes increases in funding for Medicaid and other health and social welfare 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 13 percent increase to a 47 percent decrease.

- Federal support for Medicaid has increased by \$9.8 billion (31 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 \$3.5 billion (38 percent) over the past 5 years. This was also primarily driven by the ACA, specifically the creation of the Essential Health Plan, which covers over 740,000 low to moderate income New Yorkers.
- Federal receipts have consistently represented approximately one-third of all State budget revenue sources over the period.
- All Other Funds increased by \$47 million (13 percent), primarily due to increasing employment costs of federally funded state employees.

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

- Public Protection funding decreased just over \$900 million (47 percent) since FY 2016, however this is primarily due to the timing of Federal Emergency Management Agency (FEMA) Public Assistance funding for damages sustained during natural disasters.
- Transportation funding decreased just over \$200 million (12 percent) in the last 5 years, reflecting variations in the timing of obligations and disbursements.

Table 5: Federal Disbursements by Program Area

(Millions of Dollars) Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Five Year Change	
						Dollars	Percent
Medicaid	32,053	34,461	37,557	40,294	41,877	9,825	31
Other Health and Social Welfare	9,067	10,310	11,839	12,774	12,532	3,465	38
Education	4,195	4,035	3,691	4,018	4,070	-124	-3
Transportation	1,827	2,092	1,683	1,816	1,614	-213	-12
Public Protection	1,970	1,460	1,552	1,167	1,054	-917	-47
All Other	365	628	485	409	412	47	13
Total	49,476	52,985	56,806	60,476	61,560	12,083	24

In FY 2016, Federal disbursements by the State for health and human services, including Medicaid represented approximately 83 percent of total Federal disbursements. In FY 2020, the percentage is expected to represent approximately 88 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 \$35.6 billion more to the Federal government in Federal tax revenue than received back in Federal spending in Federal FY 2017, according to a Rockefeller Institute’s analysis.

The FY 2020 Executive Budget continues 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.

Notable Federal risks include:

- **Gateway Tunnel.** The new Gateway Tunnel must be funded. The existing tunnels – a federally owned asset connecting Newark, New Jersey and New York City – are seriously deteriorated and the damage was exacerbated by Superstorm Sandy. It is only a matter of time before one or both of the tunnels will be unusable, posing a serious economic hardship for New York City and the entire Northeast corridor. In 2015, the Federal Department of Transportation and New York and New Jersey reached a framework agreement in which the Federal government would fund 50 percent of the new Gateway Tunnel project, and New York and New Jersey would be responsible for financing the other half. Now, the Presidential administration has chosen to stop the agreement.
- **State and Local Tax (SALT) Deductions.** The current Federal tax filing season is the first under the 2017 tax law. Federal taxpayers will be limited to deducting only \$10,000 for state and local taxes, which is estimated to cost New Yorkers an additional \$14.3 billion per year. The longer this provision remains in Federal law, the more damage it can inflict on New York's tax base, real estate markets, and ultimately the State's economy. The Governor continues to work with the New York congressional delegation to repeal this cap.
- **Medicaid Disproportionate Share Hospital (DSH) Cuts.** DSH cuts initially included in the Affordable Care Act (ACA) are set to take effect in the upcoming Federal Fiscal Year, 2020, beginning October 1, 2019. DOB estimates that if the changes take effect as scheduled, New York will see the largest reduction among all states, costing the State \$7.2B in lost Federal DSH payments when fully phased in. These cuts will mean less funding for the State's public and safety net hospitals. Congress has previously blocked their implementation, since the initial implementation date of FFY 2014.
- **Census 2020.** The results of recent Censuses, as well as actions contemplated by the Commerce Department for the 2020 Census, indicate that New York State is exposed to being undercounted in the Census. This would have crucial carry over effects in the population estimates used in a myriad of Federal aid programs, leading New York to receive less funding than it otherwise would.
- **Federal Debt Limit.** The Federal government is currently operating under a temporary suspension of the debt limit, which is scheduled to expire March 1, 2019. Upon expiration of the suspension, the U.S. Treasury will operate under extraordinary measure for as long as possible to forestall a Federal default.

If the debt limit is not raised or suspended in a timely fashion, and a default on payments is caused, particularly for a prolonged period, it 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, 2015, and 2018 that temporarily increased the discretionary spending caps imposed by the BCA through Federal FY 2019. Similar adjustments will need to be made to the BCA for Federal FY 2020 to continue to forestall cuts in the discretionary programs on which the State relies.