Executive Summary

Troubling Times

This year's New York State budget negotiations take shape against a worrisome backdrop. The president and congress are threatening to dismantle the Affordable Care Act, make drastic cuts to programs that help millions of New Yorkers, and create a hostile environment for the states four million immigrants. The state has an important role to play to help make life better for all New Yorkers—perhaps, as the Simon and Garfunkel song had it, acting as a bridge over troubled water.

We don't know what lies on the horizon in terms of cuts to federal programs, but we do know that things are going to change, and likely not for the better. The policy ideas advanced by Washington thus far do not bode well for New York State. One-third, or $54 billion, of New York State's FY 2018 All Funds Budget is comprised of federal funds. Local governments get another $16 billion. The potential for substantial cuts in domestic spending poses gargantuan challenges for the state budget and budgets of local government entities throughout the state.

Millionaires' Tax Extension

To put the state on sounder footing, the Executive Budget proposes extending the millionaires' tax. This is a fiscally responsible budget choice that eliminates the projected FY 2018 budget shortfall, allows for funding of important new initiatives, and provides fiscal breathing room in the out-years. Extending the tax provides roughly $4 billion annually in additional revenues at a time when the state faces both uncertainty regarding federal funding and tremendous unmet need.

The assembly and the senate should build on the governor's proposed extension of the millionaires' tax by increasing the number of tax brackets and making the new structure permanent (the millionaires' tax is scheduled to expire at the end of 2017). The Fiscal Policy Institute has proposed a plan similar to the plan advanced recently by the assembly. FPI's plan would retain the phased-in middle class tax rates enacted last year and increase tax rates slightly for the wealthiest 1% of New York's taxpayers, generating roughly the same amount of revenue as the assembly's plan. Either plan would be a positive step in addressing our worst-in-the-nation income inequality.

Another Initiative Called Excelsior

The governor's "shining star" in this year's proposed budget is what he calls a "free college tuition" plan for full-time SUNY and CUNY students. This is a misleading term for what is nevertheless a good idea: making college more affordable for students whose family income is above the threshold for current financial aid. The governor anticipates the Excelsior Scholarship Program to close the tuition gap for families of SUNY and CUNY students making up to $125,000 per year. When fully phased in, by 2021, the governor pegs the annual price tag for the Excelsior Scholarships at a modest $163 million, though there is a good deal of doubt about whether that level of funding would be sufficient. The Excelsior Scholarships would do little to help make college more affordable for lower-income students who already get help to cover tuition costs but struggle to pay for books and other expenses; nor would it help the many people who fall through the cracks of the current tuition assistance program, from part-time students to those with children and families to students who are taking classes while incarcerated. Just as important, it would do nothing to maintain and improve quality at SUNY and CUNY, which have been starved of funds for years. It would, in fact, expose the systems to greater costs.

Two Percent Spending Cap

The governor often touts his two percent spending cap as the core feature of his approach to fiscal responsibility. However, the budget's selective adherence to the two percent cap has been causing real harm to many critical human infrastructure investment areas and to certain state operations. Increasingly, in recent years, budget actions are taken to reclassify expenditures or to shift funding to revenue sources for no reason other than to move the expenditures outside of areas covered by the spending cap. But for spending not favored, the cap is rigidly enforced.

This is unforced austerity budgeting. There is no need to keep spending under such a low cap at a time when the state's economy is expanding. And, selective enforcement of the spending cap creates unnecessary budgetary work to shift spending to different funding categories, while resulting in a harsh impact on many state services and on New York's children, families, and communities who bear the brunt of the cuts. When coupled with the governor's two percent local property tax cap, unforced austerity has meant that local government capacity in most parts of the state has suffered. What we end up with is deteriorating services, state and local job cuts and an inadequate public response to hardships afflicting many families.

School Aid at a Glance

Similar to last year, there is a nearly $1 billion increase in school aid in the budget, including an additional $428 million in Foundation Aid (approximately a 2.6% increase). This allocation is still not nearly enough to guarantee adequate resources for all students, especially the most vulnerable. Once again, additional state support remains critical, as the property tax cap will allow very limited growth in schools' primary local revenue source. In reality, the state's added investment in Pre-K to 12 education should be doubled.

Amidst the more attention-grabbing proposals, Governor Cuomo has proposed changes that would eliminate the Foundation Aid formula. This is a radical and shocking proposal. Foundation Aid is a formula designed to meet the state's constitutionally mandated obligation to provide a sound basic education to all students. Eliminating the Foundation Aid formula would mean a multi-billion-dollar debt would be wiped from the books and the spending gap per pupil between poor and wealthy schools in New York would likely grow larger.

What's *Not* New in Local Governments

Local governments in New York have been caught in a vice. Reduced state aid has added fiscal pressure from one side, while a state-imposed two percent local property tax cap has meant that even if they want to, localities do not have the capacity to increase revenues. Add to that, economic development policies that force localities to forgo tax revenues, and the localities are faced with little choice but to cut school funding and reduce other services. This year's Executive Budget once again holds Aid and Incentives for Municipalities (AIM) funding flat at $715 million, the same level it has been for the previous eight years. Astonishingly, payment of this meager amount of aid would become contingent upon the enactment of a new Countywide Shared Services Property Tax Savings Plan Initiative.

Social Welfare, Human Services, and the Executive Budget

Given New York's very high child poverty rates—astronomical in some areas—and its record levels of homelessness and hunger, it would make sense to invest more in fighting poverty. Unfortunately, due to the Executive Budget's continued adherence to the two percent state spending cap, state operating fund support for social welfare agencies for FY 2018 remains almost $900 million below FY 2011 levels. This represents a 21 percent decrease since the governor took office in 2011 (after adjusting for inflation). While the Office of Temporary Disability Assistance (OTDA) has a four percent increase in the governor's budget over FY 2017 after adjusting for inflation, other human service agencies and programs are slated for cuts.

The FY 2017 Executive Budget proposed several multi-year initiatives to combat the serious lack of affordable housing and growing number of people experiencing homelessness in New York State. The initiative committed $20 billion over five years to create and preserve 94,000 units of affordable housing. To advance the initiative, the New York State Assembly, Senate, Governor Cuomo and the Executive Office need to execute a memorandum of understanding (MOU) to release $2 billion in funding.

Immigration

Governor Cuomo can be a powerful speaker on immigration issues, and has stood up to some of the early onslaughts of the Trump administration against immigrants and refugees. He has also proposed some very positive ideas in recent speeches. The Executive Budget doesn't include as much as it should, though, to make these ideas a reality. The governor talked about a first-in-nation State-Led Private-Public Legal Defense Program, but the Executive Budget does not provide any funding to make this a reality. Refugee resettlement agencies are under attack; the state could help them get through a very tough period while at the same time helping shore up the economies of upstate cities. And, the long-awaited New York State DREAM Act should finally become a reality. The cost is minimal, and the return on investment is enormous. It has been the object of unseemly political gamesmanship in the past. This year the governor and the legislature should make it a priority to get it passed.

In this very worrisome political season, the state government can choose to make life better for New Yorkers or to let them be overwhelmed by the troubled waters flowing from the federal government. The state should provide the bridge to a better future.