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Budget Negotiations have Finally Started

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Final budget must omit tax cuts, shore up funding for essential services – transit, childcare, housing – and fix unemployment insurance

ALBANY, NY | *Fiscal Policy Institute Director Nathan Gusdorf released the following statement on State budget negotiations*:

After weeks of negotiating over non-budgetary policy issues such as a mask ban and discovery reform, our elected leaders have just begun to negotiate the actual budget. Many have criticized the late budget, but with an incredibly uncertain economic outlook and significant risks to federal funding, state policymakers have every reason to make slow and careful decisions.

The first priority for this budget must be to protect the State's fiscal outlook in the face of impending cuts to federal funding. This will require rejecting the income tax cut proposed in the Executive Budget, which will permanently cost $1 billion per year, abandoning a planned cut to the corporate tax that will cost another $1 billion per year, and reducing or eliminating the "inflation refund" which will cost $3 billion. The State has already lost $900 million in federal funding through executive action, including essential funding for flood mitigation, infectious disease prevention, and mental health services. It would simply be irresponsible to compound these fiscal risks with additional, unnecessary revenue losses. The State should also adopt the Legislative one-house proposals to increase taxes on the highest earners and most profitable corporations, which will provide a cushion against federal budget cuts.

The State must further prepare for federal policy risks by shoring up investment in its critical social services and public infrastructure. The MTA needs $2 billion in new annual revenue[a] to fund necessary capital improvements; the State's childcare subsidy program faces a funding shortfall of $700 million[b], threatening to undermine both past expansions and any future for a universal program; and NYCHA is at especially high risk[c] from federal funding cuts, due to the reliance of its operating budget on over $1 billion of federal assistance and chronic underfunding of its capital program, leaving tenants exposed to lead, lack of heating, and other un-fulfilled maintenance requests.

Finally, given impending economic turbulence, the State budget must urgently address two major economic risks: the lack of affordable housing and the structural insolvency of the State's unemployment insurance trust. The State's unemployment insurance benefit has been frozen since 2019, causing New Yorkers to lose out on $9 billion in benefits over the past five years.

The unemployment insurance system must be reformed[d] to provide for stable financing and a benefit that is adequate to keep workers out of poverty. And, without deep investment in housing production and protections for tenants against eviction, New York's homeless population will increase, and New York's economic growth will remain tepid.

It is widely expected that the legislature will need to reconvene for a special session later in the year to address federal funding losses, at which point it may become necessary to impose new revenue measures and draw down reserves to bridge funding gaps. For the moment, the State should prepare by protecting its revenue base – the final budget must not cut taxes – and shoring up funding for essential public services.

Links

a https://fiscalpolicy.org/policy-and-research/how-to-fund-the-mta
b https://fiscalpolicy.org/policy-and-research/ensuring-adequate-funding-for-childcare
c https://fiscalpolicy.org/policy-and-research/preventing-a-nycha-budget-crisis
d https://fiscalpolicy.org/policy-and-research/the-urgent-need-to-raise-unemployment-benefits