



Policy Brief

Federal Funding Cuts Could Cause Significant Budget Woes For NYS

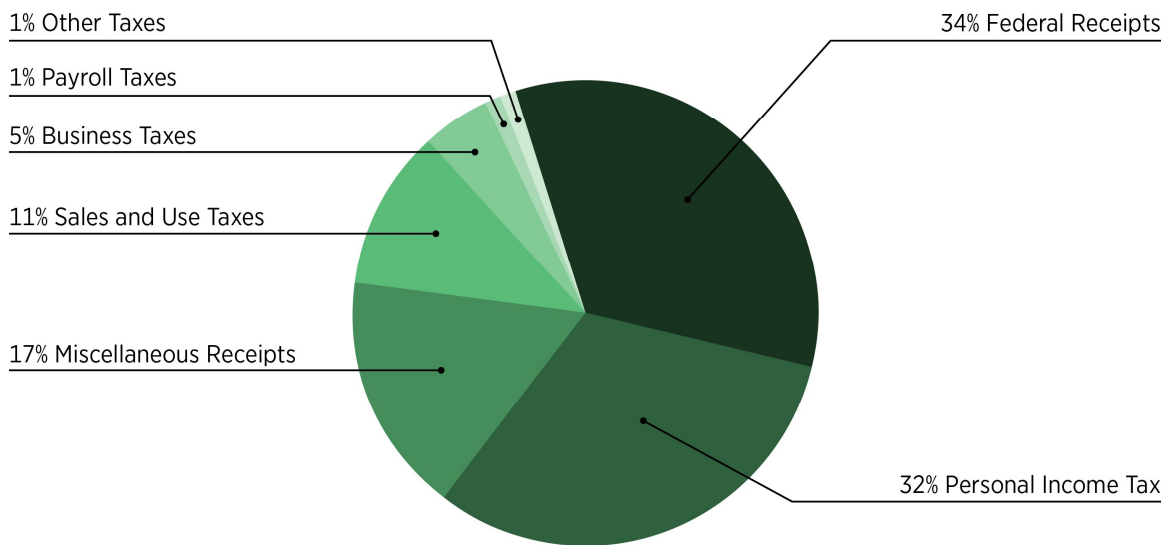
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The Importance of Federal Funding in NYS

One-third, or \$54.3 billion, of New York State’s FY 2018 All Funds Budget is comprised of federal funds. Under President Trump, and with a newly-empowered, Republican-dominated Congress taking control of the federal budget, the potential for substantial cuts in domestic spending poses gargantuan challenges for the New York State budget and the budgets of local government entities throughout the state (as in other states and localities around the country).

Fig 6. Revenue: 2018 Executive All Funds Budget

TOTALS \$160.4 BILLION



Source: FY 2018 Executive Budget Financial Plan, Jan. 2017.

As the chart indicates, federal funds account for 34 percent of receipts in the state's All Funds Budget, representing a larger share than even total personal income tax revenues.

Nearly \$34 billion in federal Medicaid dollars represent, by far, the biggest share of the \$54 billion in total federal aid received by the state. New York is scheduled to receive an additional \$3.7 billion in the coming fiscal year as the federal share of the state's Essential Plan, which provides health insurance to low- and moderate-income households not qualifying for Medicaid. New York is also scheduled to receive \$3.7 billion under the TANF block grant to cover public assistance, child care and other vital services for children and other low-income New Yorkers. The areas of school aid, public health, and capital projects (mainly transportation-related), each account for over \$2 billion in federal funding. Slightly over one billion dollars goes to homeland security law enforcement, and children's services areas.

The chart on the following page shows that all New Yorkers benefit in one way or another from the broad range of programmatic areas in which the state receives federal categorical funds. The chart shows only funds that flow through the state budget, however, and does not include the billions of federal dollars that flow directly to New Yorkers for Social Security, Supplemental Nutritional Assistance, or federal pensions.

Federal funding

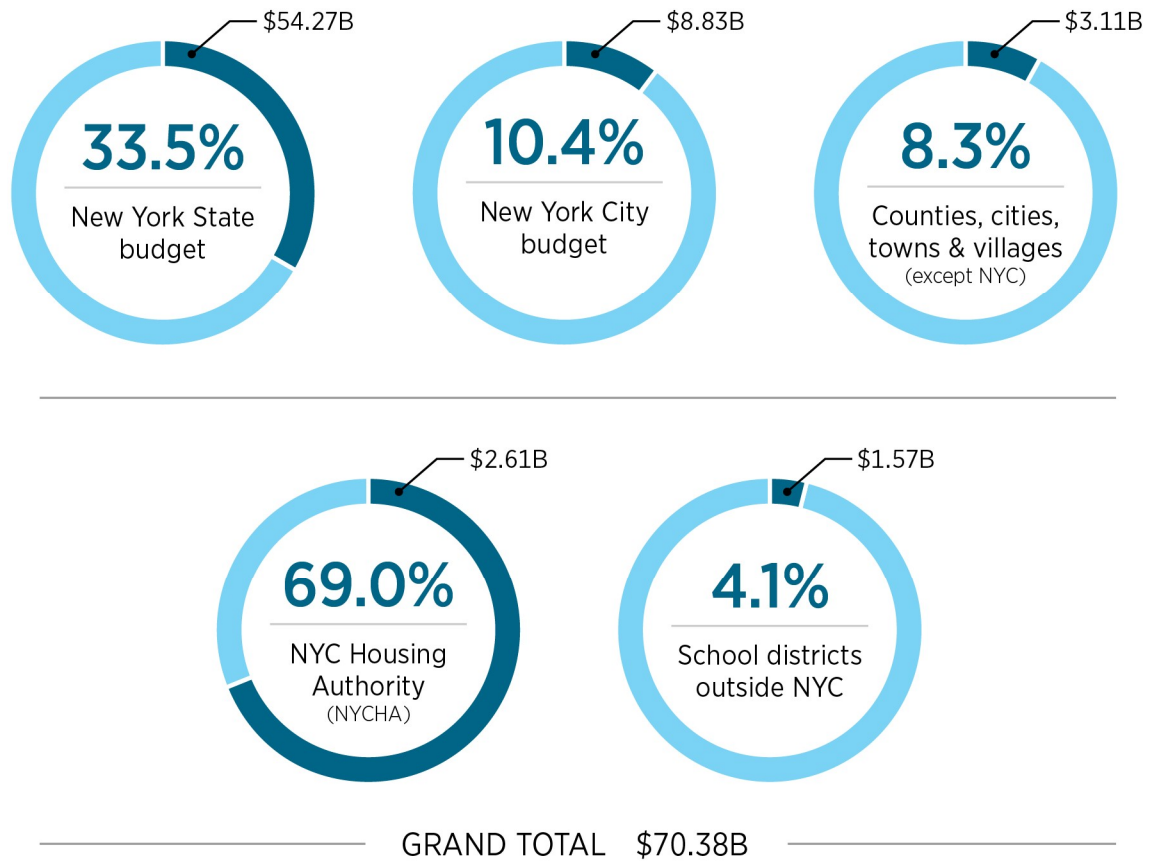
Fig 7. The Importance of Federal Funding in the NYS Budget

PROGRAM	FEDERAL \$	MAIN BENEFICIARIES AMONG NEW YORKERS
Medicaid	\$33.56B	6.2 million New Yorkers: low-income households, low-wage workers, the elderly, the disabled and patients with high-cost chronic conditions
Essential Plan	\$3.75B	620,000 covered: low- and moderate income households that don't qualify for Medicaid or Child Health Plus
Temporary & Disability Assistance	\$3.65B	Children, low-income households and persons with disabilities
K-12 School Aid	\$2.72B	All children
Public Health	\$2.32B	Everyone
Capital projects (largely transportation) & debt service	\$2.16B	Businesses and everyone
Homeland Security & related	\$1.13B	Businesses and everyone
Children's Services	\$1.01B	At-risk children
Special education programs	\$830M	Special needs children
Unemployment Insurance program administration and workforce training	\$507M	Businesses and workers
Higher education	\$335M	College students from low- and middle-income families
Other educational programs	\$272M	Children
Mental Hygiene (incl. alcoholism & substance abuse)	\$177M	People with alcohol abuse, substance abuse and mental health issues
Senior Services	\$115M	The elderly
Transportation	\$92M	Businesses and everyone
Housing	\$63M	Communities
Environmental Conservation	\$56M	Everyone
Law Department	\$40M	Businesses, consumers and workers
Fund transfers and all other programs	\$1.41B	
Total Federal Funds, FY 2018	\$54.23B	

Source: NYS Division of the Budget, FY 2018 Executive Budget Financial Plan.

New York City and other local governments are also highly dependent on federal aid. The chart on the following page shows that New York City, the NYC Housing Authority (NYCHA), school districts, and local general purpose governments receive a total of roughly \$16 billion annually in federal funds. Of the nearly \$9 billion in federal aid going to New York City, social welfare purposes account for the largest share, followed by education and housing. Over two-thirds of NYCHA’s budget comes from federal housing funds. Federal aid received by local governments around the state mainly goes to social welfare, public health and transportation programs. While federal aid represents six percent of local government revenues, state aid accounts for 23 percent of local revenue; so, local governments would certainly be affected if significant federal budget cuts severely constrain the state’s financial picture and its ability to provide local assistance.

Fig 8. NYS and Local Governments Receive About \$70 billion Annually in Federal Funding



Source: FY 2018 NYS Executive Budget, Preliminary FY 2018 NYC Budget, State Comptroller Local Finance data, NYC Housing Authority.

As a contingency measure, should there be significant federal aid reductions, the Executive Budget includes the following language with all appropriation bills:

“In the event that receipts, including but not limited to receipts from the federal government, are less than the amounts assumed in the 2017-2018 financial plan, as determined by the director of the budget, the amount available for payment under this appropriation may be reduced by the director of the budget in accordance with a written allocation plan promulgated by the director of the budget to offset that loss in receipts.”

This unprecedented budget language is sweeping and essentially allows the Executive to, as the Senate budget report states: “rewrite the Enacted Budget without approval of the Legislature.”¹

The biggest immediate risk to the State budget is the potential repeal of the Affordable Care Act (ACA.) Repeal jeopardizes health insurance for more than an estimated 2.7 million New Yorkers, according to the Governor’s Office. With the ACA, the portion of the state’s population without health insurance has fallen from 10 percent to five percent. Repeal would entail a direct state budget loss of \$3.7 billion in federal Medicaid dollars associated with expanded health insurance coverage in New York, and it would result in the loss of nearly \$600 million of federal funding that goes directly to counties.²

Block-granting Medicaid, favored by U.S. Rep. Tom Price, the nominee for health and human services secretary, would destabilize a system that covers 6.2 million New Yorkers, nearly a third of the state’s population. The history of block grants is one of locking states into lower funding levels than when funding can be triggered by the level of need of individuals. Block-granting would reduce Medicaid’s value as a counter-cyclical program helping families of individuals who lose health insurance when they lose jobs in a downturn.

The progress the federal government made under President Barack Obama in using federal tax policy to reduce income inequality very likely will be undone. As the latest Economic Report of the President demonstrated, Obama’s policies delivered the most significant reduction in market-generated inequality since the Great Society programs in the mid-1960s. The combined impact of his tax policy changes and taxing the wealthy to pay for expanded health coverage under the Affordable Care Act (Obamacare) cut by 20 percent the ratio of average income of the top 1 percent to the bottom 20 percent.³

¹ *Staff Analysis of the FY 2018 Executive Budget*, Report of the [New York] Senate Finance Committee, January 2017, p. 1.

² NYS Governor Andrew Cuomo, “Governor Cuomo Announces Impact of Potential Affordable Care Act Repeal in New York,” Press release, January 4, 2017.

³ President’s Council of Economic Advisors, 2017 Economic Report of the President, January 2017, chapter 3.

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While a detailed proposal has not yet been made public, the broad outlines of Trump's tax policy priorities are fairly clear from campaign and other documents. Priorities include scrapping the century-old estate tax, which likely would shower almost all of its benefits on the wealthiest 1 percent. Using data from the Tax Policy Center, it appears that New York State's top 1 percent could get a \$20 billion windfall. Eliminating the deductibility of state and local income taxes, hinted at by U.S. Treasury Secretary nominee Steven Mnuchin, could decrease the tax windfall for the rich in New York by \$8 billion.

In the event that draconian federal spending cuts threaten the well-being of millions of New Yorkers, the state should consider a special tax to recapture some of the federal windfall that would flow to the state's richest 1 percent. Whatever happens in Washington, Albany needs to extend and enhance the state's millionaires' tax. Without it, New York would be inflicting harmful budget cuts on itself.

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The Fiscal Policy Institute (www.fiscalspolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.