FPI
Fiscal Policy Institute

1 Lear Jet Lane
Latham, NY 12110
Tel: 917-565-0715
press@fiscalpolicy.org

By Nathan Gusdorf, *Executive Director* & Andrew Perry, *Senior Policy Analyst*
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7 Key Fiscal Policy Recommendations as Budget Approaches

Plans to fix the MTA, invest in higher education, lower housing costs, reduce child poverty, and raise wages

With New York State's fiscal year 2024 budget due April 1, 2024, the Governor and Legislature are nearing the end of negotiations on key policy priorities and the scale of new investments in public services. This brief provides an overview of FPI's recommendations on major fiscal policy areas at issue in budget negotiations.

Summary of recommendations

- **Taxes**: Raise the corporate tax in line with the Assembly budget proposal, and raise the personal income tax in line with both the Senate and Assembly budget proposals; adopt the Governor's proposal to increase the Payroll Mobility Tax.

- **MTA budget gap**: Fix the MTA operating deficit with recurring, sustainable revenue from a higher Payroll Mobility Tax rate and a higher corporate tax; increase state aid and use casino tax revenues to avoid a fare increase and improve service frequency.

- **Housing**: Enact land use requirements that increase the supply of housing in the New York metropolitan area. Housing security policy should use effective policy tools, including rental assistance, rather than tax incentives and be funded at the state, not local, level.

- **Public higher education**: Avoid tuition hikes at SUNY and CUNY; close operating deficits with recurring state aid.

- **Childcare and Child Poverty**: Raise the income threshold for childcare subsidies and reform the state child tax credit to end the exclusion of young children.

- **Minimum wage**: Phase in a higher base minimum wage, then index to inflation. The index should avoid limitations on future wage increases.

- **Unemployment insurance**: Reject the use of state debt to prepay the unemployment insurance system's federal debt.

Overview

The executive budget proposal limits spending growth to 2 percent, while legislative proposals modestly increase social investment.

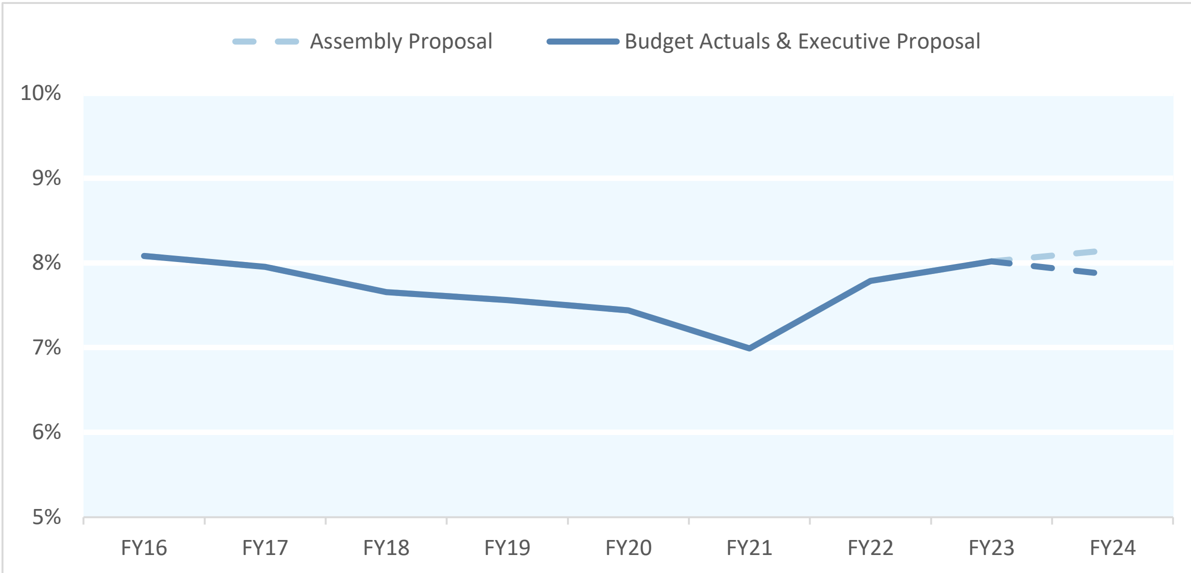
New York State's spending is set to either hold steady or expand modestly in fiscal year 2024 under competing visions put forward by the Governor and Legislature.[1]

- The executive budget would see state operating funds spending rise from $122.7 billion to $125.2 billion in the upcoming fiscal year — a 1.4 percent decrease from fiscal year 2023's inflation-adjusted spending of $127 billion.[2]
- The legislative budget proposals would increase spending to $129.9 billion in fiscal year 2024 – a 2.3 percent increase, after adjusting for inflation.

While state spending rose in fiscal year 2022 in response to the Covid pandemic, subsequent high inflation eroded modest nominal spending growth. Inflation-adjusted spending declined 2.0 percent in fiscal year 2023. Rather than representing a sharp increase in the size of state spending relative to the state's economy, fiscal year 2022 spending growth returned spending to pre-pandemic levels. Unprecedented federal stimulus drove personal income higher during the Covid pandemic. The state's personal income – the collective income of all residents – rose 8.5 percent in fiscal year 2021, driving the state budget's share of personal income from 7.4 percent in fiscal year 2020 to 7.0 percent.

The fiscal year 2022 budget, in which emergency Covid response spending was supported by a growing tax base and higher personal and corporate income tax rates, returned the budget's share of personal income to 7.8 percent – on par with its average level between fiscal years 2016 and 2019. The executive and legislative plans for fiscal year 2024 would yield budgets of 7.9 percent and 8.2 percent of personal income, respectively.[3] Because state spending primarily pays for public salaries – both directly and indirectly, through aid to localities – the budget's share of personal income provides a real-time gauge of the scale of public services in the state's economy.

Figure 1. State operating spending as a share of state personal income, fiscal years 2016 to 2024



In the March 1, 2023 economic and revenue consensus, the Governor and Legislature modestly upgraded revenue estimates for fiscal years 2023 and 2024, adding $800 million in state resources available for fiscal year 2024. The Assembly's budget proposal adds $3.9 billion in state spending beyond this level. This spending would be supported by proposed tax rate increases on corporate income and the highest-income 0.2 percent of New Yorkers, and provide funding for a range services, including the MTA and the SUNY and CUNY systems, bridging the budget gaps facing each system while averting fare and tuition hikes. Notably, the Senate and Assembly proposals would direct $800 million and $950 million, respectively, of new on-budget revenue to the MTA, while rejecting the executive proposal's $800 million of off-budget new revenue for the MTA – partially reducing the apparent spending gap between the proposals.

Tax proposals

The executive budget's status quo spending plan takes modest revenue action: extending a temporary top rate on the corporate tax by three years and raising the top rate on a payroll tax, which appears off-budget, dedicated to the MTA. By contrast, the Legislative plans, which include deeper investments in a range of services, take bolder action. Both houses would raise the personal income tax on the highest-income 0.2 percent of New Yorkers. The Senate and Assembly both reject the executive payroll tax hike and each propose their own corporate tax proposals. Finally, the Assembly included a pair of proposals that would tax streaming services and retail deliveries, directly the revenue to the MTA.

Figure 2. Summary of executive and legislative tax proposals

Budget Proposal	Tax Action	Revenue Estimate
Executive; accepted by Senate; modified by Assembly	Extend corporate tax surcharge three years	$810 million in FY2025
Executive; rejected by both Senate and Assembly	Raise top Payroll Mobility Tax rate by 0.14 percentage points	$800 million annually
Senate	Raise the MTA corporate tax surcharge from 30% to 45%	$930 million annually
Senate and Assembly	Raise top Personal Income Tax rates on income above $5 million by 0.5 percentage points	$710 million annually
Assembly	Extend raise corporate tax surcharge for three years and raise by 2 percentage points	$1.2 billion, annually in addition to executive budget's extended surcharge
Assembly	$0.25 fee on all home deliveries from retail sales	$197 million annually
Assembly	Expand current state and local sales taxes to digital streaming services	$110 million in FY2025

Recommendation:

- Personal Income Tax: Raise the top personal income tax rates on the $5 million and $25 million brackets by 0.5 percent, following the Senate and Assembly budget proposals.
- Business Taxes
    - Payroll Mobility Tax: Increase from 0.34 to 0.5 percent, following the executive budget.
    - Corporate Tax: Increase to 9.25 percent, on a permanent basis. Dedicate additional revenue from the MTA region to the MTA, following the Assembly budget proposal.
- Consumption Taxes and Fees
    - Include the sale of digital video streaming services in the sales tax base.

MTA budget gap

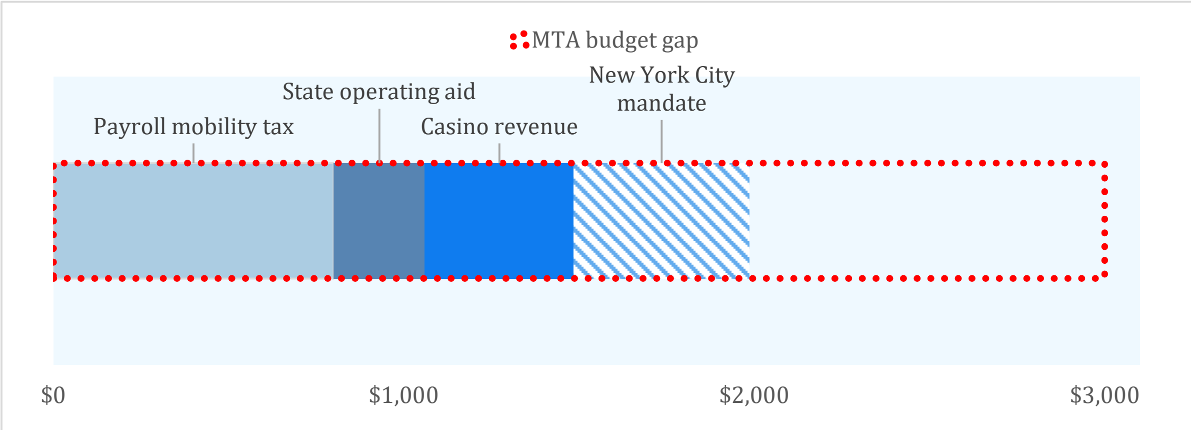
The Covid pandemic and subsequent shift to remote work has created a structural budget gap facing the Metropolitan Transportation Authority (MTA). Three years into the pandemic, ridership on the New York City subway remains at 70 percent of pre-pandemic levels, reducing the authority's fare revenue.[4] As a result, with emergency federal relief expiring, the MTA faces significant recurring budget gaps, which reach $2.8 billion in 2024, rising to $3 billion in subsequent years. The executive, Senate, and Assembly budget proposals each contain a suite of recurring and non-recurring financial support to close the MTA budget gap.

Executive budget MTA funding plan

The executive budget proposes bridging the MTA budget deficit by raising a dedicated MTA tax, raising state operating aid, redirecting expected casino revenue to the authority, and mandating a higher contribution from New York City. The recurring, state-controlled elements of the executive plan would provide $1.5 billion to the MTA per year – half of its recurring annual gap.[5]

- Recurring support
    - **Payroll Mobility Tax (PMT)**: The executive budget would raise the top rate of the PMT – a payroll tax collected from employers in the Metropolitan Commuter Transportation District (MCTD) – from 0.34 percent to 0.5 percent.[6] PMT revenue is statutorily dedicated to the MTA. The increase would raise $800 million annually.
    - **State operating aid**: Increase annual transfers from the state general fund by $260 million annually.
    - **Casino tax revenue**: Direct tax revenue collected from three newly licensed, but unbuilt, Downstate casinos to the MTA. Under the state's gaming statute, casino revenue is currently restricted to transfers to local governments hosting casinos, school aid, and property tax relief. The executive proposal would instead direct 80 percent of revenue from new casinos in suburban Downstate New York and 100 percent of revenue from New York City casinos to the MTA. While three Downstate casinos are due to be licensed, the timing of permitting, completion, and eventual revenue is unclear. The executive budget expects recurring casino revenue transfers to the MTA to provide from $426 million to $826 million per year.
    - **New York City mandate**: The executive budget would require New York City to raise its annual operating support for the MTA. Under the proposal, the city would be mandated to fully fund the paratransit operations and reduced student fare programs and to fund 47 percent of PMT tax exemptions. The executive budget estimates these mandates would cost the city $438 million in fiscal year 2024, although the budget briefing puts this figure at $500 million, and costs associated with the mandate are likely to rise in future years.

Figure 3. Executive budget new recurring revenue relative to outyear MTA budget gap



- Non-recurring
  - **State operating aid**: Provide the MTA with $300 million in one-off support in fiscal year 2024
  - **Casino license revenue**: Direct revenue raised by the sale of licenses for three Downstate casinos to the MTA. The timing of these licenses is unclear. The executive budget expects casino license fees to raise $1.5 billion in one-off revenue.

- The executive plan maintains the five percent MTA fare hikes scheduled for 2023.

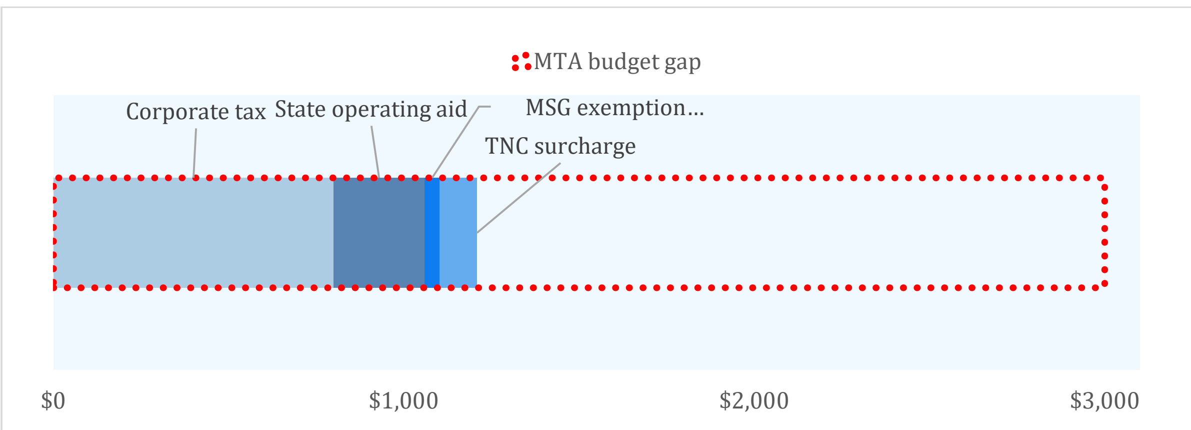
Senate MTA funding plan

A proposal to raise the corporate tax surcharge levied in the MTA's services region is the cornerstone of the Senate's MTA funding plan. Because the Senate rejects executive proposals to mandate contributions from New York City and redirect recurring casino revenue, its proposed recurring support for the MTA totals $1.2 billion – 40% of MTA's budget deficit.

- Recurring support
  - **Metropolitan Commuter Transportation District corporate tax surcharge**: The Senate would raise the corporate tax surcharge levied in the MCTD from 30 percent to 45 percent. Surcharge revenue is dedicated to mass transit systems. The increase would raise $930 million annually, of which the MTA would receive $800 million.[7]
  - **Transportation Network Company (TNC) surcharge**: the Senate would levy a 50 cent per ride surcharge on TNC – which refers to ridesharing companies including Uber and Lyft – trips originating in New York City. FPI estimates the surcharge would raise $106 million annually.

- **Repeal the Madison Square Garden tax exemption**: the Senate would repeal the venue's current tax break, and the direct the $43 million in annual savings to the MTA,[8]
- **State operating aid**: the Senate retains the executive budget's proposed operating support of $260 million.
- **Payroll Mobility Tax (PMT)**: the Senate rejects the PMT rate increase.
- **New York City mandate**: the Senate rejects the New York City mandate.
- **Casino tax revenue**: the Senate rejects redirecting recurring casino revenue to the MTA.
- **PMT exemption**: the Senate would exempt local governments in four suburban counties (Dutchess, Orange, Putnam, and Rockland) from the PMT as well driver's license and registration fees reserved for the MTA.[9] The Senate does not provide an estimate of how much this exemption would lower MTA revenue.

Figure 4. Senate proposed new recurring revenue relative to outyear MTA budget gap



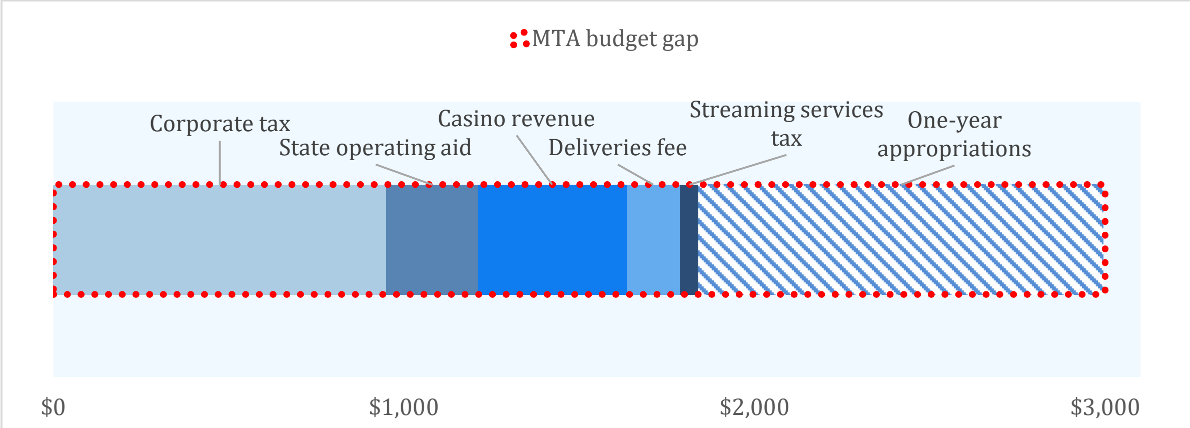
- Non-recurring support: the Senate maintains the executive budget proposals to provide the MTA with one-off state operating aid in fiscal year 2024 and casino license fee revenue in an unspecified future year.

Assembly MTA funding plan

The Assembly proposes bridging the MTA budget gap with revenue directed from a proposed increase in the temporary corporate tax surcharge. The Assembly additionally proposes a suite of state-funded appropriations in fiscal year 2024. If these appropriations were made recurring, the Assembly plan would fully fund the budget gap, bringing in $3.0 billion annually. If the Assembly's proposed state-funded transfers were non-recurring, the Assembly's tax proposal would still represent a gain over the executive plan, raising $1.8 billion in recurring revenue.

- Recurring support
    - **Corporate franchise tax (CFT)**: the Assembly amends the temporary higher rate of the CFT on businesses with more than $5 million in profit, raising the rate by two percentage points to 9.25 percent through tax year 2027. Additional revenue raised by the increase in the MCTD would be directed to the MTA. FPI estimates this could raise $950 million in annual revenue for the MTA, although the higher rates would only expire after fiscal year 2027.[10]
    - **State operating aid**: the Assembly proposes $1.15 billion in state general fund transfers to the MTA beyond the level proposed in the executive budget MTA funding plan. These transfers are comprised of four single-year appropriations:
        - $537 million in place of the PMT rate increase, which the Assembly rejects
        - $369 million in place of the New York City mandate, which the Assembly rejects
        - $196 million to avert an MTA fare increase
        - $50 million for a free bus pilot
    - **Casino tax revenue**: the Assembly retains the executive budget proposal to redirect recurring casino revenue to the MTA.
    - **Fee on delivery transactions**: the Assembly proposes imposing a $0.25 fee on all home deliveries from both online and offline retail sales. Revenue raised in New York City would be directly remitted to the MTA, revenue from MCTD counties other than the city would be directed to Downstate transit systems, including the MTA, and all other revenue would support Upstate New York transit systems. FPI estimates this would raise $151 million for the MTA per year.[11]
    - **Expand the sales tax to streaming services**: the Assembly would extend sales taxes to streaming services and amend tax law to make an annual fixed transfer to Downstate transit systems. The amount would phase-in beginning at $29 million in fiscal year 2024 and stabilizing at $63 million in fiscal year 2027 and subsequent years. Once phased-in, FPI estimates this would raise $54 million for the MTA per year.
- Non-recurring support: the Assembly maintains the executive budget proposals to provide the MTA with one-off state operating aid in fiscal year 2024 and casino license fee revenue in an unspecified future year.

Figure 5. Assembly proposed new recurring revenue relative to outyear MTA budget gap



Recommendation:

It is widely understood that New York City's economy depends on a fully functioning MTA system. Both the executive and legislative budget proposals take seriously the MTA's impending operating deficit, and propose a wide range of measures to close that gap.

FPI recommends that funding for the MTA follow basic principles of sound tax and fiscal policy: Revenue should come from stable, progressive, broad-based taxes. Moreover, good fiscal governance calls for simpler, clearer financing mechanisms, rather than a large number of smaller fees and taxes.

While the executive budget proposes an increased Payroll Mobility Tax (PMT), and the Legislature counter-proposes a higher corporate tax rate, FPI recommends that *both* proposals be implemented. Both of these taxes rely on stable tax bases that are closely connected to the importance of the MTA as a public service: payroll (a business's total salary expenses), and corporate profits. All businesses in the MTA region (the MCTD) rely on the dynamism of the city economy, whether or not they are within the five boroughs, and thus should shoulder the burden of making the MTA whole.

The PMT is a sound financing instrument because payroll tends to be stable year to year, fluctuating less than business profits in response to changes in the economy. The PMT is imposed on a business's total payroll, which is a reasonable tax base to finance the MTA. While this tax is formally paid by the employer, part of the cost will likely be shifted to employees.[12] This makes the PMT mildly regressive, but it is considerably less regressive than higher subway fares or other flat fees, such as the proposed delivery fee (to the extent borne by employees, the effect of the PMT would be proportional to their salaries). Further, only larger employers (with over $1.75 million in payroll) are subject to the higher PMT rate, so small businesses would remain unaffected.[13]

The PMT is an incomplete solution, however, as the executive budget's proposed PMT increase covers only one quarter of the total MTA operating deficit. Further, the PMT alone does not strike the right balance of progressivity. The PMT increase should be supplemented with a higher tax on corporate profits. Raising both the PMT rate and the corporate tax rate would be a holistically progressive proposal that maximizes fiscal stability and spreads the burden across both workers and corporate shareholders.

Many of the other funding mechanisms proposed in both the executive and legislative budgets are inferior solutions. While the Assembly budget proposes funding that would fully close the operating deficit, $1.15 billion comes out of annual appropriations. Appropriated funds are subject to legislative discretion each year, and thus are not a stable solution. Given the centrality of the MTA to the city and state economy, it is essential to minimize the amount of funding that is subject to political trade-offs in annual debates over appropriations.

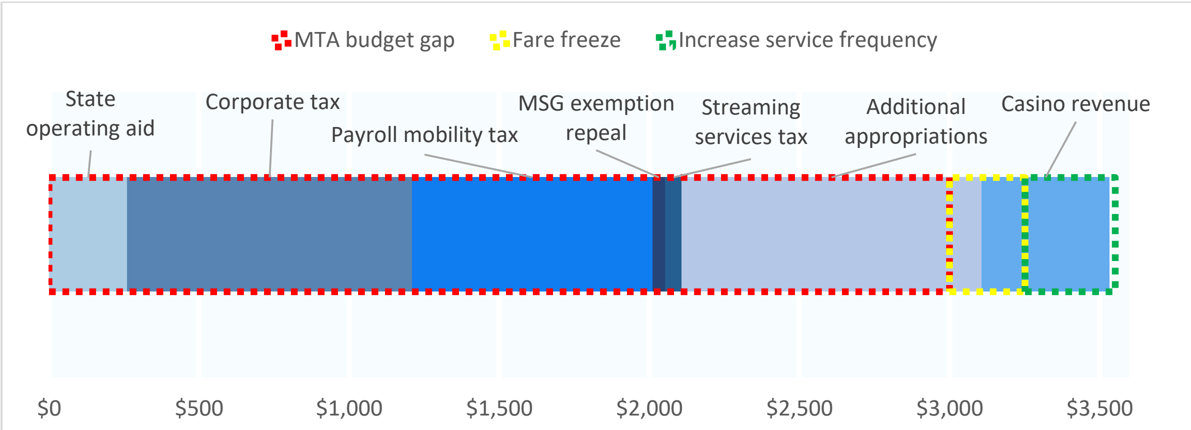
Other elements of the legislative budgets, such as the Senate's fee for the use of ridesharing services, and the Assembly's fee for delivery services, run contrary to sound principles of tax and fiscal policy. In general, user fees are sound policy choices where they either pay for operating costs (such as in the case of subway fares) or where there is a regulatory interest in influencing behavior (such as congestion pricing). Neither of these rationales applies in the case of the proposed fees for delivery or ridesharing services.

Broadening the base of existing taxes is preferable to narrowly drawn fees for specific services. In this respect, the Assembly proposal to include streaming video services in the sales tax base is a sound policy choice. In order to treat taxpayers fairly and avoid economic distortions, the sales tax should not make special exceptions. Video streaming services should be treated more like the sale of a good (e.g., purchasing a DVD) than the sale of a service (e.g., purchasing legal services).

Both the executive and legislative budget proposals divert casino licensing fees and some casino tax revenues – which had previously been statutorily dedicated to primary and secondary education funding – to MTA funding. While it is facially reasonable to use casino revenues to fund public transit (setting aside the issue of whether it is appropriate to divert earmarked education funding), they should not be a significant part of the formula for closing the operating deficit. Casino revenues are likely to fluctuate significantly year to year, and thus would be best used to invest in *improving* service rather than stabilizing it. Following the recommendations of the "Fix The MTA" legislative package, these variable revenues could be used to improve service quality, lower or eliminate bus fares in lower-income regions of the city, and avoid or defer fare increases.[14]

The MTA requires reliable, recurring sources of revenue to close its operating deficit. The best recurring revenue sources are broad-based taxes. Both the PMT and the Legislature's proposed tax increases on personal and corporate income provide reliable revenue, and should be adopted in conjunction with Downstate revenue dedicated to the MTA.

Figure 6. FPI recommended new recurring revenue relative to outyear MTA budget gap



Housing: Land use, tax abatements, and rental assistance

The fiscal year 2024 executive budget proposes a sweeping set of measures to tackle the state's housing shortage. The plan's centerpiece consists of two bills setting local-level growth targets and transit-adjacent density requirements, respectively, and allowing homebuilders to override local land use regulations in non-compliant localities. The plan also proposes five new, renewed, and extended tax incentives to facilitate housing production. In a recent brief, FPI estimated that these programs could collectively cost localities $2.8 billion per year if housing targets are met. The tax breaks would likely do little to spur housing production, as the chief barriers to development are regulatory, not financial.

The Senate and Assembly one-house budgets both substantially weaken the executive's land use proposals. While the Senate and Assembly counter-proposals differ from one another, they share a common approach. Both one-house bills remove the executive budget's proposed enforcement mechanism, which allows prospective builders of qualifying residential projects to override land use regulations in localities with restrictive zoning codes that do not comply with state-imposed housing production targets or, for localities near MTA train stations, residential density requirements. In place of an enforcement mechanism, the bills would offer incentive payments to localities that meet housing production goals or meet prescribed land use actions that allow for more housing. Both bills remove the executive's proposed transit-oriented development law, incorporating its density requirements as an optional land use action that allows localities to qualify for incentive payments.

The Senate retains an executive budget proposal to expand the ability for commercial properties in New York City to be converted to housing. As part of the plan, the Senate retains a proposed property tax break for New York City commercial-to-residential conversions that include affordable housing. The Senate also accepts the executive budget's proposed 421-p tax incentive for new multifamily developments for localities other than New York City. These two tax breaks could cost local governments as much as $550 million annually. The Assembly omits all of the executive's housing tax incentive proposals.

Both one-house bills propose creating the Housing Access Voucher Program (HAVP). The $250 million program would provide rental assistance for homeless individuals and families as well as those facing imminent homelessness. Program funds would be distributed to localities in proportion to their share of the state's severely rent burdened population. Further, the Senate and Assembly include $389 million and $385 million, respectively, for rental assistance. This funding would partly offset the expiration of $1.1 billion in emergency rental assistance appropriated in response to the Covid pandemic. While neither house includes Good Cause Eviction legislation – which would entitle tenants to lease renewal and cap legal annual rent increases at the higher of 3 percent or 50 percent above the inflation rate – both houses' budget resolutions include calls for greater tenant protections.

Figure 7. Overview of major housing proposals in executive and legislative budget proposals

	Executive	Senate	Assembly
Local Land Use			
Housing production targets	Proposed	Enforcement mechanism removed; proposed $250 million to support infrastructure doubled to $500 million incentive pool for localities that meet housing production targets or enact preferred land use actions	Enforcement mechanism removed; incentive payments based on population size to localities that develop plans to increase housing production; further payments to localities that meet production targets
Transit-oriented development	Proposed	Enforcement mechanism removed; incorporated into housing production targets as preferred land use action	Rejected; new units within a half mile of train station count as bonus toward housing production targets
Tax Abatements			
421-p	Proposed	Accepts; modifies benefit period, and affordability and tenancy regulations	Omitted
AHCC	Proposed	Accepts; adds prevailing wage requirements	Omitted
421-a extender	Proposed	Omitted	Omitted
J-51 renewal	Proposed	Omitted	Omitted
ADU abatement	Proposed	Omitted	Omitted
Rental Assistance and Tenant Protection			
Rental arrears assistance	Expiration of $1.1 billion emergency rental assistance	$389 million for emergency rental assistance	$385 million for rental arrears assistance
HAVP	Not included	$250 million to establish housing vouchers for individuals and families that are homeless or facing loss of housing[15]	
Good cause eviction	Not included	"supports advancing tenant protections that align with the core principles of Good Cause Eviction"	"explore pathways to protect tenants from arbitrary and capricious rent increases and unreasonable evictions of paying tenants."

Recommendation:

- **Land use**: The New York metropolitan area faces an acute housing shortage, as New York City's suburbs build significantly less housing than other major metropolitan suburbs. The executive budget's transit-oriented development plan, which prescribes higher levels of residential density near MTA train stations, includes enforcement mechanisms that allow multifamily housing with affordable units to be built in non-compliant localities. FPI recommends enacting this proposal, as fiscal incentives alone (as under the legislative proposals) are unlikely to significantly increase the housing supply in metropolitan area suburbs.

  Further, the legislature should enact the executive budget's pathways for commercial-to-residential conversions, but exclude the accompanying tax break. New York City's stock of aging office buildings pose a significant long-term threat to the city's property tax base and fiscal stability.[16]

- **Tax incentives**: The tax incentives proposed in the executive budget risk depriving localities of new revenue to support growing populations while doing little to spur housing production and should not be adopted. Supporting affordability should be funded at the state, not local, level using more effective policy tools.

- **Rental assistance and tenant protection**: The New York metro area's housing shortage affects households across the income distribution. A recent FPI report found that New Yorkers of all incomes are migrating to the metro area's out-of-state suburbs, which are adding far more housing than in-state suburbs and, consequently, have lower home prices. New in-state housing would slow or reverse this trend, bolstering the state's economic base.

  New market-rate housing alone, however, is insufficient to solve the crisis. Even if increased supply halts or reverses market price increases, as research suggests, prices will not fall enough to be affordable for low- and moderate-income renters across the state facing severe rent burdens. A comprehensive solution to the state's housing crisis would involve significantly more housing in the metropolitan area alongside effective housing security policy funded at the state level. Rental assistance, including HAVP, would provide housing stability to individuals and families priced out of market-rate housing.

  Finally, Good Cause Eviction, which would extend the right to lease renewal to all tenants, including those of market-rate housing, and limit allowable annual rent increases, is an important part of the solution. Good Cause would allow tenants already in suitable rental housing to remain housing secure regardless of changes in the market. For this reason, Good Cause is a key complement to policies that increase the supply of housing; while new housing supply will ensure New York can accommodate growth, Good Cause ensures incumbent New Yorkers can remain in their homes and neighborhoods.

SUNY and CUNY tuition hikes

Tuition at New York's public universities could rise by 3 to 9 percent per year under the executive budget. A recent FPI report found that the proposed tuition hikes could raise the cost of a four-year degree at the State University of New York's (SUNY) university centers by $22,300 – 52 percent – by 2027. These changes would vault the universities from among the U.S.'s most affordable public universities to among the least affordable.

Both the Senate and Assembly one-house bills omit these proposed tuition hikes and replace the foregone additional tuition revenue with state operating support. While the proposals differ, each recommends more than covering the value of the hikes:

- The executive budget estimates that the tuition hikes would raise SUNY revenue by $97 million per year and City University of New York (CUNY) by $31 million.
- The Assembly would offset this revenue for SUNY with $100 million in operating aid to SUNY and additional $100 million for a Campus Excellence Fund. The Assembly would also expand the executive budget's proposed $500 million matching grant fund to build university centers' endowments by $200 million, bringing the total fund to $700 million. For CUNY, the Assembly would provide $246 million in additional operating aid and create a $470 million endowment matching fund.
- The Senate would increase SUNY operating aid by $151 million. The Senate would also provide additional funding for CUNY, creating a $333 million endowment matching fund (a counterpart to the proposed SUNY fund) and appropriating $149 million in state operating aid.

Recommendation:

New York's public university systems face acute financial stress. Structural deficits at 19 SUNY campuses total $160 million, while three SUNY hospitals need a collective $175 million to support annual debt service payments.[17] At the same time CUNY faces $175 million in budget cuts from New York City. Both systems are national leaders in facilitating upward economic mobility.[18] Sharply raising their barriers to entry would mute their effectiveness at fostering economic inclusion and should be rejected. The Legislative proposals to replace foregone tuition revenue with state operating support should be enacted and raised to meet deficits at financially-distressed campuses and hospitals.

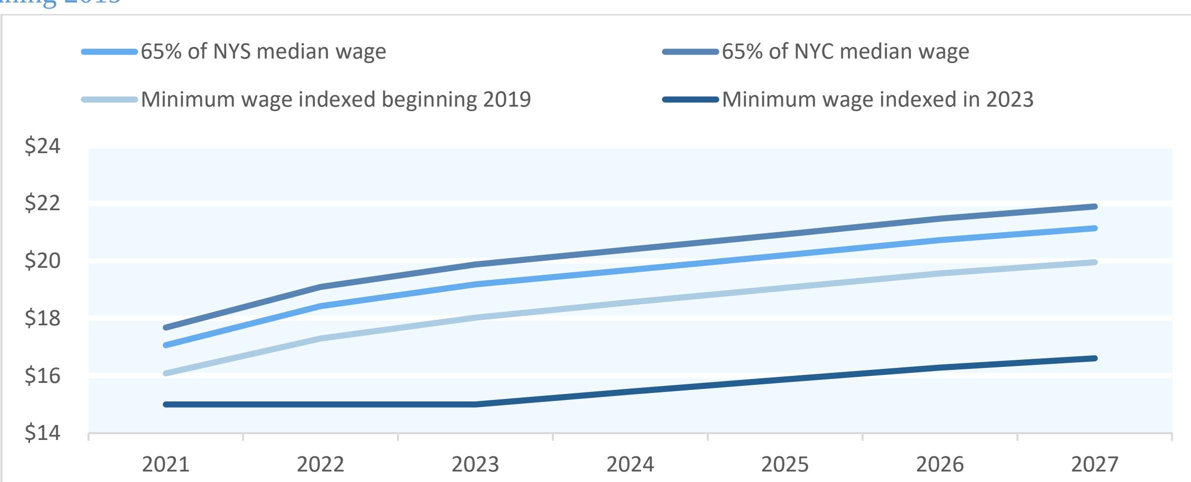
Indexing the minimum wage to inflation

New York State enacted a $15 minimum wage in fiscal year 2017. The wage phased-in by region, with the full $15 wage first coming into effect for large employers in New York City on December 31, 2018. In the intervening years, the minimum wage remained flat while inflation eroded the real value of $15 at the end of 2018 to $12.50 in 2023. If the minimum wage had been indexed to inflation once it reached $15, it would be worth $18.00 in 2023.

The executive budget aims to redress this by indexing the wage to inflation. However, the proposal fails to account for high recent inflation, caps annual increases at 3 percent, and includes brakes on annual increases in the event of prescribed economic downturns. The Senate and Assembly both omit the executive budget indexing proposal. Instead each budget resolution calls for raising the minimum wage to an unspecified higher base, then indexing to inflation.

New York could support a higher minimum wage without adverse economic effects. Evidence from local minimum wages in the U.S. has found that localities have raised minimum wages to 65 percent of the local median wage without reducing local employment.[19] Under this standard, New York State's minimum wage could reach $19.20 in 2023 and $19.70 in 2024. New York City, which has higher wages and living costs, could support a higher minimum wage: $19.90 in 2023 and $20.40 in 2024.[20]

Figure 8. 65% of State and City median wages and minimum wage under executive proposed index and index beginning 2019



Recommendation:

The cost of living in New York has risen dramatically since the minimum wage first reached $15. The state's economy, with its high wages relative to other states, could support a higher minimum wage. The minimum wage should be raised to $20, phasing in over three years. The wage should then be indexed to inflation.

Further, inflation should not permanently erode real wages for working New Yorkers. While economic evidence suggests that phasing in minimum wage increases may be advisable, limits on minimum wage increases in any one year should not lead to permanent reduction in the real wage. Rather, any excess inflation, above a given threshold, should be phased-in as part of subsequent annual increases to the minimum wage.

Childcare and child poverty

Childcare in New York State is among the most expensive in the U.S.[21] In response to the state's childcare cost crisis, lawmakers in recent years have taken steps to expand access to subsidized childcare. In fiscal year 2023, the state increased payment rates to subsidized childcare providers and raised the eligibility threshold from 200 percent of the federal poverty measure to 300 percent.

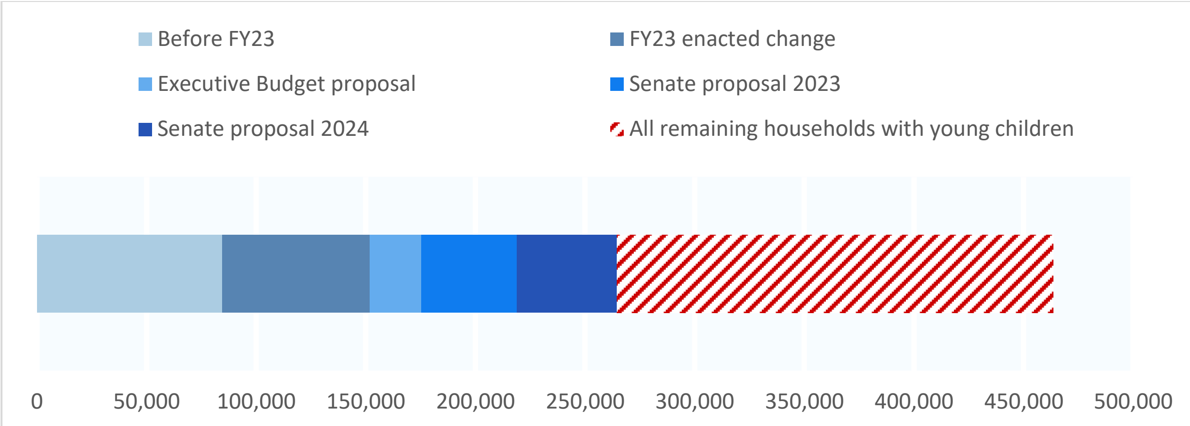
The fiscal year 2024 executive budget would continue to raise the eligibility threshold for subsidized childcare, from 300 percent of the federal poverty measure to 85 percent of New York's median income. The Senate one-house bill proposes further raising eligibility for subsidized childcare. Under the Senate plan, on October 1, 2023, families earning up to 103 percent of the state median income would be eligible for subsidized childcare. Effective October 1, 2024, the eligibility limit would rise to 124 percent of the median income. The Senate would appropriate an additional $623 million to expand eligibility and $500 million to enhance childcare workers' salaries. The Assembly accepts the executive budget proposal.

New York State is home to 463,600 households with children under age 6. Of these households:

- 18.2 percent, or 151,900, are currently eligible for subsidized childcare;
- 5.0 percent, or 23,400, would become eligible under the executive budget proposal;
- A further 9.4 percent, or 43,600, beyond those eligible under the executive budget proposal, would become eligible in 2023 under the Senate proposal; and
- A further 9.9 percent, or 45,800, would become eligible in 2024 under the Senate proposal;
- 42.9 percent, or 198,900, would remain ineligible for subsidized childcare after 2024 under the Senate proposal.[22]

The Assembly accepts the executive budget's proposed eligibility threshold, but takes a further step to support low-income families with children. The Assembly also proposes remedying the exclusion of children under 4 from New York's version of the federal Child Tax Credit (CTC), known as the Empire State Child Credit (ESCC). Children under 4 receive the federal CTC, but are excluded from the ESCC. The ESCC otherwise conforms to the CTC, which provides refundable tax credits to low- and moderate-income families with children, matching 33 percent of the value of the federal program. The Senate does not propose expanding the ESCC.

Figure 9. Number of households with young children eligible for state-subsidized childcare under former, current, and proposed eligibility thresholds



Recommendation:

New York's childcare crisis affects all New Yorkers with children and would be better addressed by a universal, rather than means-tested, program. While neither one-house budget proposed a universal childcare program, the Senate's proposal to raise the eligibility threshold to cover more than half of New York families with young children and appropriate funds to expand the state's childcare block grant could represent a path to a universal program. The Assembly's proposal to extend the ESCC to families with children under 4, who are included in the federal CTC, represents an overdue corrective, providing resources where they have the greatest benefit. Both proposals should be enacted.

Unemployment insurance debt paydown

The Covid pandemic hit New York State's economy harder than much of the rest of the U.S. Between February 2020 and April 2020, the state lost nearly two million jobs. Unemployment claims rose commensurately, from 167,000 in early March to 2.2 million in May 2020.[23] To support the unprecedented wave of unemployment, the federal government enacted temporary programs to bolster the nation's shaky unemployment insurance (UI) system. These programs supplemented weekly unemployment benefits by $600, extended the duration of benefits, and provided coverage to workers not covered by UI. While the federal government paid for these temporary emergency supports, states continued to pay for benefits disbursed under the existing system.

If a state UI system has inadequate reserves to pay for unemployment benefits provided by state law, it is required to continue to pay benefits and draw loans from the federal UI trust fund to cover any funding gaps. In recessions, it is common for states without sufficient state UI trust fund balances to incur significant debt to the federal system. If state UI funds do not repay federal UI loans in the prescribed time frame, the loans may begin bearing interest. Further, the federal UI system may begin to recapture loan balances by raising the federal unemployment tax (FUTA) paid by employers in the state. In states without an outstanding federal loan balance, FUTA imposes a 0.6 percent tax on the first $7,000 of each employee's income – $42 per employee per year. In delinquent states, FUTA rates rise 0.3 percent each year the balance remains.

As of the beginning of 2023, New York State's federal UI loan stood at $8.0 billion. In 2022, New York employers were charged a FUTA rate of 0.9 percent. If the loan is not repaid by November 10, 2023, the rate will rise to 1.2 percent – an increase of as much as $42 per employee per year, relative to normal circumstances.[24]

To avoid this increase and, potentially, to allow the state to qualify for additional interest deferral on its federal loan, the Assembly proposes issuing bonds to pay down the loan balance. The proposal would allow the Dormitory Authority of the State of New York (DASNY) – one of the state's principal debt issuers – to raise up to $2 billion in bonds dated no more than 15 years. While the Senate did not include such a proposal, its budget resolution expressed support for "exploring the use of conduit financing to provide unemployment insurance premium relief to business owners across the State."[25]

The Assembly proposal does not provide estimates or limitations on annual debt service associated with potential UI bonds. Using conservative estimates of the potential interest rate for high-grade rated municipal bonds, FPI estimates the debt service cost on $2 billion of 15-year bonds could total $168 million per year.[26]

Recommendation:

High and rising interest rates make a prospective bond issue to pay down federal UI loans costly for New York State. The bonds' potential benefit is modest, saving employers as much as $42 per employee per year. The UI bond authorization should not be included in the enacted budget.

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[1] New York State Assembly, 2023-24 Assembly Budget Summary (March 2023), https://nyassembly.gov/Reports/WAM/AssemblyBudgetProposal/2023/2023AssemblySummary.pdf. The State Senate does not produce summary financial tables. However, given the similarity of Senate and Assembly revenue proposals (See section 2), the total spending plans are likely on par.

[2] Adjusted to fiscal year 2022 dollars. Sources: New York State Division of the Budget, Fiscal Year 2024 Executive Budget Financial Plan (February 2022), https://www.budget.ny.gov/pubs/archive/fy24/ex/fp/fy24fp-ex.pdf; New York State Assembly, 2023-24 Assembly Budget Summary (March 2023), https://nyassembly.gov/Reports/WAM/AssemblyBudgetProposal/2023/2023AssemblySummary.pdf. Inflation adjusted to fiscal year basis. Past inflation from U.S. Bureau Labor Statistics, "CPI Databases" (accessed January 2023), https://www.bls.gov/cpi/data.htm; inflation projections from New York State Division of the Budget, Fiscal Year 2024 Executive Budget Economic and Revenue Outlook (February 2022), https://www.budget.ny.gov/pubs/archive/fy24/ex/ero/fy24ero.pdf.

[3] Bureau of Economic Analysis, "Quarterly Personal Income by State" (accessed March 2023), https://www.bea.gov/itable/regional-gdp-and-personal-income. New York State Division of the Budget, Fiscal Year 2024 Executive Budget Financial Plan (February 2022), https://www.budget.ny.gov/pubs/archive/fy24/ex/fp/fy24fp-ex.pdf.

[4] Metropolitan Transportation Authority, "MTA Performance Metrics" (accessed March 2023), https://metrics.mta.info/.

[5] Estimate includes PMT, additional state operating aid, and recurring casino revenue but excludes the New York City mandate and one-off aid.

[6] The MCTD comprises the 12 New York counties served by the MTA: New York City's five boroughs, Dutchess, Putnam, Orange, Rockland, Westchester, Nassau, and Suffolk.

[7] Revenue would be directed to the Metropolitan Mass Transportation Operating Account (MMTOA), of which 86% of funds are directed to the MTA.

[8] New York State Senate, 4008-b – fiscal year 2024 State Operations Budget – Part ZZZ (February 2022), https://legislation.nysenate.gov/pdf/bills/2023/s4000b; Reinvent Albany, "Memo of Support S1632/A846" (February 2023), https://reinventalbany.org/wp-content/uploads/2023/02/MOS-S1632-Kavanagh-_-A846-Weprin-MSG-tax-break-repeal.pdf?mc_cid=f04bfcb3ca&mc_eid=76c06c6fa9&mc_cid=0b6c74c429&mc_eid=UNIQID.

[9] New York State Senate, 4008-b – fiscal year 2024 State Operations Budget – Part EEEE (February 2022), https://legislation.nysenate.gov/pdf/bills/2023/s4000b

[10] Based on FPI's $1.2 billion revenue estimate for corporate tax increase and MCTD's share of state GDP (79.4 percent). Sources: Bureau of Economic Analysis, "Gross Domestic Product by County" (accessed March 2023), https://www.bea.gov/itable/regional-gdp-and-personal-income. See: Fiscal Policy Institute, "Revenue Projection: One House Budget Tax Proposals" (March 2023), https://fiscalpolicy.org/revenue-projection-legislatures-personal-income-tax-corporate-tax-proposals.

[11] FPI estimates based on New York City's share of state GDP (59.1%), other MCTD counties' share (20.2%), and share of MMTOA (a dedicated account funding Downstate transit systems) funding directed to MTA (86%).

[12] See, e.g., Dorian Carloni, "Revisiting the Extent to Which Payroll Taxes Are Passed Through to Employees: Working Paper 2021-06", *Congressional Budget Office*, June 2, 2021. https://www.cbo.gov/publication/57089.

[13] https://www.tax.ny.gov/bus/mctmt/emp.htm.

[14] Riders Alliance, "Six minute service" (accessed March 2023), https://www.ridersalliance.org/six-minute-service.

[15] New York State Spending, "4006–B – Part GG" (February 2023), https://legislation.nysenate.gov/pdf/bills/2023/s4006b; New York State Assembly, "A3006 – Part EE" (February 2023), https://nyassembly.gov/leg/?default_fld=&leg_video=&bn=A03006&term=2023&Summary=Y&Text=Y.

[16] Arpit Gupta, Vrinda Mittal, Stijn Van Nieuwerburgh, "Work From Home and the Office Real Estate Apocalypse" SSRN (November 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4124698.

[17] United University Professions, "Members to lawmakers: Love SUNY by funding SUNY" (February 2023), https://uupinfo.org/communications/uupdate/230228.php.

[18] Fiscal Policy Institute, "The True Cost of Tuition Hikes on SUNY & CUNY Students" (March 2023), https://fiscalpolicy.org/wp-content/uploads/2023/03/FPI-The-True-Cost-of-Tuition-Hikes-on-SUNY-and-CUNY-Students-1.pdf, page 6.

[19] Arindrajit Dube and Attila S. Lindner, "City Limits: What to Local-Area Minimum Wages Do?" NBER Working Paper 27928 (November 2020), https://www.nber.org/system/files/working_papers/w27928/w27928.pdf.

[20] FPI analysis of American Community Survey Public Use Microdata Sample, 2021 1-year file. Estimates of median wage at city and state level follow Dube and Lindner methodology described on page 31. Inflation projections from New York State Division of the

Budget, Fiscal Year 2024 Executive Budget Economic and Revenue Outlook (February 2022), https://www.budget.ny.gov/pubs/archive/fy24/ex/ero/fy24ero.pdf.
[21] Fiscal Policy Institute, *Annual Budget Briefing Book Fiscal Year 2024* (February 2023), https://fiscalpolicy.org/wp-content/uploads/2023/02/FPI-FY-2024-Budget-Briefing-Book.pdf, page 31.
[22] FPI analysis of American Community Survey Public Use Microdata Sample, 2021 1-year file.
[23] Fiscal Policy Institute, *Annual Budget Briefing Book Fiscal Year 2024* (February 2023), https://fiscalpolicy.org/wp-content/uploads/2023/02/FPI-FY-2024-Budget-Briefing-Book.pdf, page 3.
[24] U.S. Department of Labor, *State Unemployment Insurance Trust Fund Solvency Report 2023* (March 2023), https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2023.pdf.
[25] New York State Senate, Fiscal Year 2024 Budget Resolution No. 55, https://legislation.nysenate.gov/pdf/bills/2023/R555.
[26] DASNY bonds typically receive high-grade credit ratings (e.g., Moody's Aa1 to Aa3 and Fitch AA+ to AA-; see: Moody's "New York State Dormitory Authority" (accessed March 2023), https://www.moodys.com/credit-ratings/Dormitory-Authority-of-the-State-of-New-York-credit-rating-548375?lang=en&cy=can; Fitch, "New York State Dormitory Authority" (accessed March 2023), https://www.fitchratings.com/entity/new-york-state-dormitory-authority-ny-5901). DASNY UI bond interest rate estimated at 3 percent based on average 5 to 15 year municipal bond yield; see Raymond James, "Municipal Bond Investor Weekly" (March 2023), https://www.raymondjames.com/-/media/rj/dotcom/files/wealth-management/market-commentary-and-insights/bond-market-commentary/bond_investor.pdf.