



FEDERAL FUNDING

Governor Cuomo **leads the fight** against the unfair federal cap on State and local tax deductibility that costs New York taxpayers **up to \$15 billion.**

New York **continues to be the nation's number one donor** state, with taxpayers sending **\$22 billion**



more to the federal government than the state gets back.



Significant areas at risk for **decreased federal funding** include health care, human services and infrastructure funding.

2020 CENSUS

The Governor is Committing

\$70 million statewide



to help ensure every New Yorker is counted, including **\$10 million** in the FY 2021 Budget.

Federal Funding

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 paid \$22 billion more in Federal taxes in FFY 2018 than they receive back in Federal investment.

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 2018 Federal fiscal year. The \$22 billion net contribution to the Federal government made by New Yorkers and the New York economy is the largest of any state and more than the combined net contributions of 2nd ranked New Jersey and 3rd ranked Massachusetts. New York's people and economy paid the Federal government \$1,125 more per person than they received. By contrast, the average state experienced a positive balance of payments of about \$2.063 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 \$12,655 per capita, or approximately \$3,087 higher than the national average, and Federal spending in New York was \$101 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 \$59.5 billion – approximately one-third of anticipated All Funds spending in FY 2021. 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.

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 \$22 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 as much as \$15 billion annually. With the IRS blocking some of New York's efforts to ease the Federal cap on

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SALT deductions brought upon by the 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.

(See the Revenue section for further discussion of the impacts of the cap on SALT deductions.)

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. The deficit rose by 12 percent in the first two months of the 2020 fiscal year, according to the Congressional Budget Office (CBO). The deficit is on track to surpass \$1 trillion the 2020 fiscal year. CBO has called this deficit path "unsustainable" and warned that it will suppress economic growth.

The circumstances could spark spending cuts to offset the federal budget imbalance, putting the most vulnerable New Yorkers at risk.

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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 2021 Budget include:

- **Medicaid** (\$39.9 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 2021 Budget.
- **Other Health and Human Services Programs** (\$12.2 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.

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- **Public Protection** (\$1.3 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 \$59.5 billion in Federal funds expected to be utilized by New York State in FY 2021 includes increases in funding for 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 2 percent increase to a 35 percent decrease.

- Federal support for other Health and Human Service Programs increased by \$1.9 billion (18 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 decreased by \$216 million (35 percent), primarily due to increasing employment costs of federally funded state employees.

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

- Public Protection funding decreased by \$178 million (12 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 by \$525 million (25 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 2017	FY 2018	FY 2019	FY 2020	FY 2021	5 Year Change	
						Dollars	Percent
Medicaid	34,461	37,557	40,181	41,018	39,931	5,470	16%
Other Health & Social Welfare	10,310	11,839	12,368	11,954	12,204	1,894	18%
Education	4,035	3,691	4,360	4,070	4,128	93	2%
Transportation	2,092	1,683	1,698	1,614	1,567	(525)	-25%
Public Protection	1,460	1,552	1,283	1,362	1,282	(178)	-12%
All Other	628	485	530	386	412	(216)	-34%
Total	52,985	56,806	60,417	60,400	59,519	6,534	12%

In FY 2017, Federal disbursements by the State for health and human services, including Medicaid represented approximately 85 percent of total Federal disbursements. In FY 2021, 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 \$22 billion more to the Federal government in Federal tax revenue than received back in Federal spending in Federal FY 2018, according to a Rockefeller Institute’s analysis.

The FY 2021 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:

- **SNAP Regulations.** The U.S. Department of Agriculture has finalized one regulation and proposed two others that would undermine the Supplemental Nutrition Assistance Program (SNAP) that enables 1.6 million New York households to receive benefits. The finalized regulation related to work requirements for Able Bodied Adults Without Dependents (ABAWDs) will restrict the State’s flexibility to receive waivers in areas with high unemployment or a demonstrable lack of sufficient jobs and put approximately 113,000 people at risk of losing their benefits. Under a proposed rule on categorical eligibility, a newly required asset/resource test on non-categorically eligible households would penalize low-income households for working, for saving for the future or retirement even at the smallest levels, impacting 87,000 New Yorkers. The final proposed rule

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would further reduce the State's flexibility to account for utility costs in a household's income, resulting in reduced benefits for approximately 30 percent of SNAP households.

- **Medicaid Disproportionate Share Hospital (DSH) Cuts.** DSH cuts initially included in the Affordable Care Act (ACA) are set to take effect in the current Federal Fiscal Year, beginning May 23, 2020. 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.
- **Surface Transportation Reauthorization.** The Fixing America's Surface Transportation (FAST) Act, which funds Federal highway, transit, intercity rail, freight, highway traffic safety, and motor carrier safety programs is set to expire on September 30, 2020. In FFY 2020, the final year of the FAST Act, the State and State Transit Authorities are expected to receive \$3.3 billion in highway and transit funding alone. This funding will be at risk if the Federal government does not act to capitalize the Federal Highway Trust Fund and ensure that an extension of current law or a new authorization is in place prior to October 1, 2020.
- **Census 2020.** The results of recent Censuses 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. Recent population data also indicates that New York State is anticipated to lose one federal congressional seat in the 2020 Census. To help ensure every New Yorker is counted, the Governor has already launched a \$60 million statewide effort, and is proposing to expand that investment in the FY 2021 Budget to \$70 million.
- **Title X.** Last year the U.S. Department of Health and Human Services finalized regulatory changes to the federal Title X family planning program that block the availability of federal funds to family planning providers that also offer abortion services with other funds and prohibit participating providers from referring pregnant clients to abortion providers, among other changes. As a result of these changes the State withdrew from the programs, incurring a cost of over \$14 million annually to continue the services.