Published in the

What Will Be The Long-Term Impact Of The State Budget Agreement?

By David Friedfel

April 4, 2016

Gov. Andrew Cuomo's proposed budget projected out-year deficits of $1.2 billion, $3 billion and $3.4 billion in state fiscal years 2018, 2019, and 2020 (before unspecified savings associated with adherence to a 2 percent state operating spending growth cap). These significant deficits assumed that New York's economy would continue to grow and even accelerate over the next four years, which would make this recovery the longest in recent history.

If the economy grows as forecast, the actions taken in this year's budget – most notably the considerable increase in education aid and personal income tax cuts – will require sizeable spending reductions and tax increases in order to balance the state's financial plan. These budgetary actions will likely include holding the line on agency spending and extending the personal income tax surcharge on high-income earners, which is currently set to expire on December 31, 2017. However, if the economy slows or falls into a recession, which is reasonable given the duration of the current economic expansion, the impacts of the 2016-17 state budget agreement on future state budgets will be much more severe.

Similar to the last four state budgets, the adopted spending plan includes sizable increases in the two biggest budget items. State Medicaid spending will grow by 3.4 percent – a slight increase from the governor's proposal, but still in line with the Medicaid cap. State education spending will grow by 6.5 percent to $24.8 billion, exceeding the "cap" by almost 70 percent and securing New York's position as spending the most per pupil in the country. Much of the additional spending will go to moderate and wealthy districts via restoration of the money lost to the Gap Elimination Adjustment.

Tax policy will also change significantly. Married couples with incomes between $24,000 and $300,000 will see their state personal income taxes decrease beginning in 2018 – saving taxpayers $4.2 billion annually by 2025.

This budget also increases capital spending, adding $1 billion for the expansion of the Javits Center and $1.5 billion for high-tech economic development through the Urban Development Corporation, mostly upstate. The state also approved a $54 billion, five-year transportation capital plan – with investments split evenly between the MTA and upstate; however, the effect on the state's debt burden, which is already high, is unclear.

Founded in 1932, the Citizens Budget Commission is a research and watchdog organization for all taxpayers and no special interests devoted to enhancing New York's competitiveness through promotion of sound state and local budget and management practices.

Published in the

A number of worthwhile proposals would have helped to secure the state's financial future, but did not ultimately make it into the adopted budget: rationalizing retiree health insurance shares; capping STAR benefits; and extending rational funding plans for SUNY and CUNY. Fortunately, a few less-than-desirable proposals were rejected from the final budget: tax credits for donations to private schools or driving on the Thruway; and shifting almost $600 million in public university and Medicaid expenses from the state to New York City.

While many observers and policymakers will celebrate or decry individual components of the recently adopted budget, the long-term impact of the overall agreement on the state's financial plan must not be ignored.

David Friedfel is the director of state studies for the Citizens Budget Commission

Founded in 1932, the Citizens Budget Commission is a research and watchdog organization for all taxpayers and no special interests devoted to enhancing New York's competitiveness through promotion of sound state and local budget and management practices.