

Overview

The Federal government influences the economies and budget of the State, not only through grants, but also direct spending on its own programs, such as Medicare and Social Security. Fiscal ties between the Federal government and the states are only part of a complex relationship in which funding predictability has been a long-term concern.

Federal funding is an essential component of New York's Budget, totaling \$52 billion – nearly one-third of anticipated All Funds spending in FY 2018. Alongside State taxpayer resources, Federal funds finance a number of critical programs at both the State and local level, including health care, human services, education, public protection, transportation, and other services.

The Federal government seeks to influence state conduct in various ways such as: placing conditions on Federal grants; mandates included in Federal legislation; Federal preemption of state laws; Federal tax policies which affect state and local tax bases; regulatory actions taken by Federal agencies; and Federal exposure of state and local governments to liabilities.

Federal Funding

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), the Child Care and Development Fund (CCDF), 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 2018 Budget include:

Budget Highlights

\$52 billion in Federal funds included in the State's FY 2018 Budget. Federal funding accounts for nearly one-third of All Funds spending.

Medicaid. The largest source of Federal funds in the FY 2018 Budget, Medicaid accounts for nearly two-thirds of all Federal receipts.

Affordable Care Act. If the ACA were to be fully repealed, as has been discussed by the incoming presidential administration, an estimated 2.7 million New Yorkers would lose coverage.

Performance Profile

New York State of Health Exchange. Since its inception in 2014, the NY State of Health has enrolled more than 3.4 million New Yorkers in affordable health coverage. 2.7 million New Yorkers are receiving coverage under the Affordable Care Act. The number of uninsured New Yorkers has declined by nearly 850,000.

Decreasing the Uninsured. Between 2013 and 2015 the rate of uninsured in the State declined from 10 percent to 5 percent.

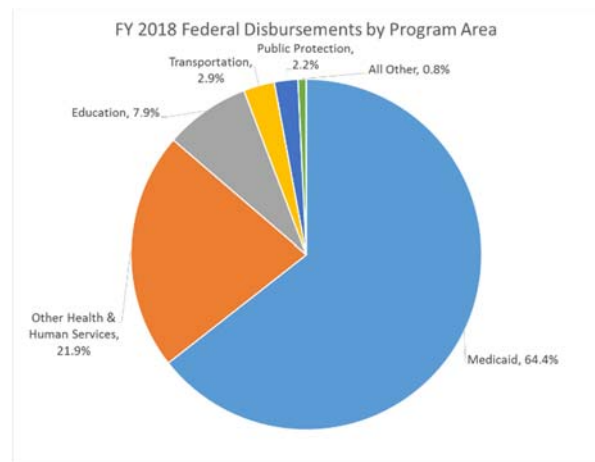
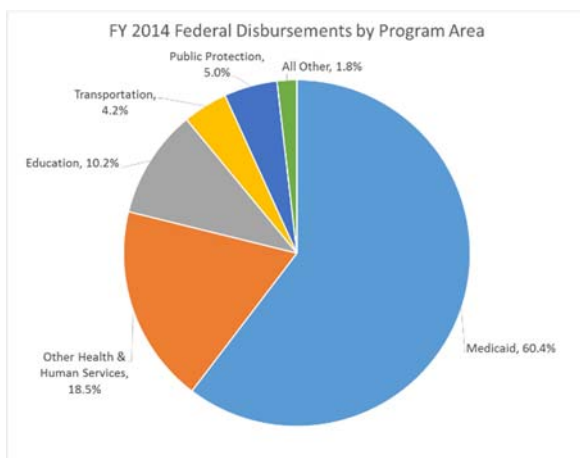
Medicaid Waiver. Governor Cuomo's Medicaid Redesign Team's innovative and collaborative work bent the cost curve for the Medicaid program, saving the State and Federal governments \$17 billion each. Almost half of the Federal savings is being returned to the State by the Federal Centers for Medicare and Medicaid Services (CMS). This \$8 billion in new Federal funding, over several years, will transform New York's health care system and ensure access to quality care for all Medicaid beneficiaries.

- **Medicaid** (\$33.5 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 nearly two-thirds of Federal resources anticipated in the FY 2018 Budget.
- **Other Health and Human Services Programs** (\$11.4 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, Child Care, 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** (\$1.5 billion). Federal resources support infrastructure investments in highway and transit systems throughout the State, including funding participation in the transportation capital plans enacted with the FY 2017 Budget.
- **Public Protection** (\$1.1 billion). Federal funding also 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). A number of 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 \$52 billion in Federal funds expected to be utilized by New York State in FY 2018 is an increase of \$10.9 billion or 26 percent compared to FY 2014. This increase is primarily driven by increases in funding for Medicaid and other health programs.



- Federal support for Medicaid has increased by \$8.7 billion (35 percent) over the past 5 years, primarily because of rising costs in the health services sector and expansions of coverage resulting from the Affordable Care Act (ACA).
- Federal support for other Health and Human Service Programs increased by \$3.8 billion (50 percent) over the past 5 years. This was also primarily driven by the ACA, specifically the creation of the Essential Plan, which now covers over 620,000 low to moderate income New Yorkers.
- In FY 2014, more than 60 percent of Federal disbursements by the State were Medicaid (nearly 80 percent when including non-Medicaid health and other human services expenditures).
- By FY 2018, the percentage had grown to nearly 65 percent (more than 86 percent with other non-Medicaid health and other human services expenditures), even as total Federal disbursements grew by nearly \$11 billion (26.4 percent) over the 5-year period.

- Federal receipts have consistently represented roughly one-third of all State budget revenue sources (31.8 percent in FY 2014, 33.8 percent in FY 2018), increasing by more than \$10 billion over the 5-year period.

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

- Public Protection funding decreased by just over \$912 million (-45 percent) since FY 2014, however this is primarily due to the completion of projects supported by Federal Emergency Management Agency (FEMA) Public Assistance funding for damages sustained during natural disasters.
- Transportation funding decreased by \$228 million (-13 percent) in the last 5 years, reflecting the phase-out of non-recurring resources as well as variations in the timing of obligations and disbursements.
- Education funding decreased by approximately \$76 million (-2 percent) over the last 5 years, primarily due to the expiration of Federal ARRA funds, including the Race to the Top program.
- All Other Funds decreased by \$365 million (-48%), including the expiration of ARRA funding for Department of Environmental Conservation (DEC) initiatives, as well as adjustments and accounting reclassifications primarily related to Medicaid payments made by DOH to other State agencies.

Table 4: Federal Disbursements by Program Area (Millions of Dollars)

Category	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5 Year Change	
						Dollars	Percent
Medicaid	24,848	30,052	32,056	32,428	33,528	8,680	34.9
Other Health and Human Services	7,617	7,426	9,067	10,722	11,405	3,789	49.7
Education	4,186	3,713	4,195	4,058	4,110	(76)	(1.8)
Transportation	1,720	1,609	1,827	1,568	1,492	(228)	(13.2)
Public Protection	2,043	2,462	1,970	1,752	1,131	(912)	(44.6)
All Other	758	480	365	330	393	(365)	(48.1)
Total	41,172	45,743	49,476	50,858	52,059	10,887	26.4

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 under the incoming Congress and administration. However, at this time it is not possible to predict the actual fiscal impact of future Federal policy shifts. Notable areas with potential for change include health care and infrastructure policy.

- **Affordable Care Act.** If the Affordable Care Act were fully repealed, as has been discussed by the incoming presidential administration, an estimated 2.7 million New Yorkers would lose coverage. The NY State of Health has successfully cut the percentage of uninsured New Yorkers in half, from 10 percent to five percent. It has also significantly expanded eligibility and access to health coverage, allowing hundreds of thousands of previously uninsured New Yorkers to achieve economic and healthcare security.
- **Implications of the Medicaid Financing Structure.** Medicaid plays a role in both state and Federal budgets. As a result of the joint financing structure, Medicaid acts as both an expenditure and the largest source of Federal revenue in New York State's budget. Medicaid is also a countercyclical program. During economic downturns, individuals lose jobs, incomes decline and more individuals enroll in Medicaid. This increases program spending as state revenue declines, making it difficult to match rising expenditures. The influx of Federal Medicaid funds also has positive effects on New York State's economy resulting in a multiplier effect directly affecting not only the providers who received Medicaid payments for the services they provide to beneficiaries, but also indirectly affecting other businesses and industries.
- **Predictable Revenue Streams.** Achieving fiscal sustainability is a challenge for all levels of government. Federal, state and local governments share in responsibility for providing public services and it is incumbent on each to develop budgetary practices that enable improved service delivery while lowering taxpayer costs. Federal laws and regulations define the relationships for covering the cost of programs that provide everything from public safety to health care to education.

The transition at the Federal level to a new administration and Congress has put in flux the flow of revenue for federally supported programs especially mandatory programs such as TANF and the Children's Health Insurance Program that are funded outside the Federal appropriations process and set to expire in Federal FY 2017. The Federal revenue streams supporting these programs, and others up for reauthorization, totaled more than \$42 billion nationally in FY 2016.

- **Tax Actions.** Potential Federal tax actions can have a substantial impact on states. Tax-exempt financing is the primary method for state and local governments to fund infrastructure and other projects. Federal actions that increase the cost to issue municipal bonds or diminish their market demand could significantly raise the cost to build important infrastructure projects that Governor Cuomo has made a priority. Additionally, Federal tax reform that preempts or limits New York's long-standing authority over its state budget and tax systems would have similar ramifications.
- **Federal Debt Ceiling.** Congress has passed three suspensions of the debt limit since 2013, the most recent extending through March of this year. If the debt limit is not raised or suspended in a timely fashion, it may cause the Federal government to default on its payments. A Federal government default, particularly for a prolonged period, could have a materially adverse effect on national and state economies, financial markets, and

intergovernmental aid payments. The specific effects on the Financial Plan of a future Federal government default are unknown and impossible to predict. However, data from past economic downturns suggest that the State's revenue loss could be substantial if the economy goes into a recession due to a Federal default.

A payment default by the United States may adversely affect the municipal bond market. Municipal issuers, as well as the State, could face higher borrowing costs and impaired market access. This would jeopardize planned capital investments in transportation infrastructure, higher education facilities, hazardous waste remediation, environmental projects, and economic development projects. Additionally, the market for and market value of outstanding municipal obligations, including municipal obligations of the State, could be adversely affected.

- **Budget Control Act.** The Budget Control Act (BCA) of 2011 raised the debt limit and established discretionary spending caps on the Federal government through Federal FY 2021. Despite modest legislative adjustments to the budgetary caps contained in the BCA, the possibility for a reduction in Federal support is elevated as long as the caps remain in place. The Bipartisan Budget Act of 2015 temporarily increased the discretionary spending caps imposed by the BCA through Federal FY 2017. Without similar adjustments to the BCA for Federal FY 2018, Congressional Budget Office (CBO) estimates that discretionary spending caps will be reduced. This could subsequently lead to cuts in the discretionary programs on which the State relies.