As appeared in *New York Slant,* January 15, 2016

"Cuomo's Shift of Costs to City is Fiscal Folly"

By Doug Turetsky

Whatever the reason behind Gov. Andrew Cuomo's proposed shift of some CUNY and Medicaid costs onto New York City's ledgers – whether it's a matter of how flush the city's budget is, or a way to start a conversation about efficiencies – one thing remains clear: These proposals add up to well more than half a billion dollars of red ink for the city.

If it's the latter argument, the proposed cuts are a strange way to begin that discussion. Consider the recent "conversation" between Mayor Bill de Blasio and the governor over sharing the costs of the MTA's $26 billion capital plan. The governor had a point – the city's contribution had fallen. As the Independent Budget Office has shown, the city's support for the MTA's capital plan had fallen way below the level it had provided in the 1980s and 1990s. The mayor agreed to provide $2.5 billion for the current plan and Gov. Cuomo said the state would put up $8.3 billion. But the governor's budget includes no new MTA money, only a vague promise that it will be there when needed.

History has shown that Albany's promises can be malleable. Just two years after a settlement was reached on the Campaign for Fiscal Equity lawsuit contending the state failed to adequately fund city schools, Albany stepped back from its commitment. IBO estimates that even with the $364 million increase in state education aid proposed by the governor for the upcoming year, the state is still about $1.9 billion short of what foundational aid for city schools would be under the terms of the agreement.

The notion that shifting a portion of expected growth in Medicaid costs back onto the city's books to prompt a discussion of efficiencies also comes up short. When it comes to determining who is eligible for Medicaid, what services will be covered, and the level of reimbursements and copays, it's Albany that sets the parameters under federal guidelines. Pushing a share of Medicaid's expected growth in costs onto New York City doesn't empower the city to make these decisions. What it does accomplish is enabling the state to offload some of the costs of its decisions onto the city.

If shifting more than half a billion dollars next fiscal year (an amount that could grow to well over a billion in the following years) in Medicaid and CUNY costs to the city is really a matter of the city's fiscal strength, as the state budget director initially argued, then one has to wonder if the city is paying a price for not recklessly spending its better-than-expected tax revenues. Unlike the state, the city must maintain a balanced budget throughout the year. The city's current-year surplus of about $960 million (by IBO's estimate) is used to keep next year's budget in balance. It's not "free" money.

The reserves the mayor and City Council have embedded in the city's financial plan are there to help the city weather the initial turbulence from an economic downturn. IBO recently assessed the effects on city tax revenues if we were to face a downturn of similar magnitude to the last two local recessions. We found that the city had roughly sufficient reserves to get us through the first 18 months, when decisions about spending cuts and tax increases could be made to enable the city to remain in balance over the ensuing months. Given the souring of the economy in China and the discord in Europe and the Middle East, the potential for a national downturn that would drag the city with it is very real.

As any kid from Queens knows, the city’s economy drives the state’s economy. Making it harder for the city to maintain its own fiscal balance puts added stress on the local economy and by extension the state a whole.