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New York Municipalities Feel Budget Crunch as Coronavirus Pandemic Squeezes Funding

Local governments cut expenses, freeze salaries amid hopes for federal funding

By Jimmy Vielkind

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Officials in Buffalo, the second-largest city in New York, were already preparing to borrow \$18 million to keep them in the black after [the novel coronavirus](#) caused municipal revenues—from parking meters to sales tax—to shrivel.

But when word came from Democratic Gov. Andrew Cuomo's administration that a \$98.4 million state grant due on June 25 would be about \$20 million short, the city raised its borrowing plans by 50%.

States and municipalities around the country are grappling with fiscal pain related to the virus, but in New York, the Democratic governor has pushed some of the state's problems down the funding food chain. Buffalo's grant was part of roughly [\\$4 billion in payments to localities and social-service providers](#) that have been tied up since April as the state deals with a projected \$13 billion revenue shortfall.

On July 1, the state sent a notice that it would hold back some funding support for mental-health services. The Civil Service Employees Association said on June 27 that the governor's office would continue to defer, until Oct. 1, higher wage rates that were set to take effect at the start of April.

In a statement, the union said it has filed a formal grievance over the delay and is pushing for retroactive payment, "but we also recognize the dire financial position the state is in and have no desire to see members laid off or furloughed."

Mr. Cuomo and Robert Mujica, the state budget director, said in May that [the state could reduce outlays by 20%](#) if a package of aid from the federal government doesn't come through. The state budget enacted in April gives the governor power to do so unilaterally, but any permanent changes to the budget are subject to review by the state Assembly and Senate.

Congress is eager to pass the next phase of coronavirus stimulus legislation, but the bipartisan spirit that was present months ago might be frayed as both parties weigh their differences. WSJ's Gerald F. Seib explains.

Photo: Eric Gay/Associated Press

So far, Messrs. Cuomo and Mujica say the payment reductions are simply deferrals, not permanent cuts. New York also borrowed \$4.5 billion to help improve its cash position after the Internal Revenue Service pushed the federal—and state—income-tax filing deadline from April 15 to July 15.

"We have no choice but to hold back 20% of all payments," said Freeman Klopott, a spokesman for Mr. Cuomo's Division of the Budget. "These are responsible budgeting actions required to maintain fiscal integrity, and we encourage local governments—which have many tools at their disposal—to also budget responsibly in these difficult times."

Mr. Cuomo has repeatedly called upon Congress to appropriate money to help states cope with revenue they have lost as a result of the pandemic. The Democratic-controlled House passed a roughly \$3.5 trillion relief bill

last month that was seen as a starting line for negotiations. It included \$1 trillion in additional aid for state and local governments, [including \\$35 billion for New York](#).

Republicans who control the Senate say they are wary of sending more money to state and local governments without additional accountability. Negotiations over a new federal spending bill begin in earnest later this month, lawmakers say.

In the interim, local governments are taking action to reduce expenses and services. Buffalo has frozen the salaries of nonunionized employees, reduced spending on capital projects and realized savings by letting employees continue to work from home.

Leaders in Westchester County last week offered a retirement incentive as they seek to offset revenue losses of up to \$250 million. The mayor of Albany announced in May that she would give up her salary for the rest of 2020.

“It’s the same story everywhere,” said Peter Baynes, executive director of the New York Conference of Mayors, which represents cities and villages. “The problem is, they just don’t know how temporary the fill needs to be for the hole. Temporary is a relative term, because it could go on indefinitely and it could ultimately be a cut.”

Some of the state’s biggest local-assistance payments are aid to school districts that are scheduled for later this summer, according to E.J. McMahon, research director for the Empire Center, a fiscally conservative think tank.

Mr. McMahon said Mr. Cuomo should permanently freeze public-sector wages rather than pushing the state’s cash problems to local governments and nonprofits.

“Basically, he’s transferring his cash flow problem to people who are much less able to shoulder it,” Mr. McMahon said. “It seems to be a fairly transparent way to get them to help put pressure on Congress to get more aid.”

Even if more money arrives, municipalities will face longer-term issues. Sales-tax collections, which are split between state and local governments, were 32.3% lower in May than the preceding year, according to State Comptroller Tom DiNapoli.

In March, April and May of this year, local governments received \$824 million less in sales-tax revenue than during the same period in 2019, his office said. The rating company Moody’s Investors Service said this would be a credit negative for counties and municipalities, some of which derive a large share of their budgets from sales tax.

Buffalo’s fiscal year began July 1, and its adopted budget assumes an \$18.5 million drop in sales-tax collections. It also assumed lower payments from the state, but about \$65 million in federal stimulus.

“The situation is fluid,” Betsey Ball, chief of staff to Buffalo Mayor Byron Brown, said in an interview. “We firmly stand by the fact that in order for all of us to fully recover, we need disaster-relief funding from the federal government.”

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