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Before the Joint Legislative Fiscal Committees

February 11, 2025

Governor Hochul's executive budget calls for the state share of Medicaid to increase by $6.4 billion or 17 percent – continuing a steep upward trend that she herself has called "unsustainable."

That assessment is hard to dispute. If the governor's budget is approved as written – with no additions by the Legislature – state Medicaid outlays in fiscal 2026 will rise to $44 billion, which is 60 percent larger than the $28 billion level she inherited just three years ago.

This extraordinary growth – at roughly triple the average rate of the previous decade – has come during a time when the state's economy is expanding, unemployment is low and poverty is stable or declining.

It also comes without a clear strategy for improving the health-care system, which is wracked by low-quality hospital care, long emergency room wait times, and widespread neglect and abuse in nursing homes.

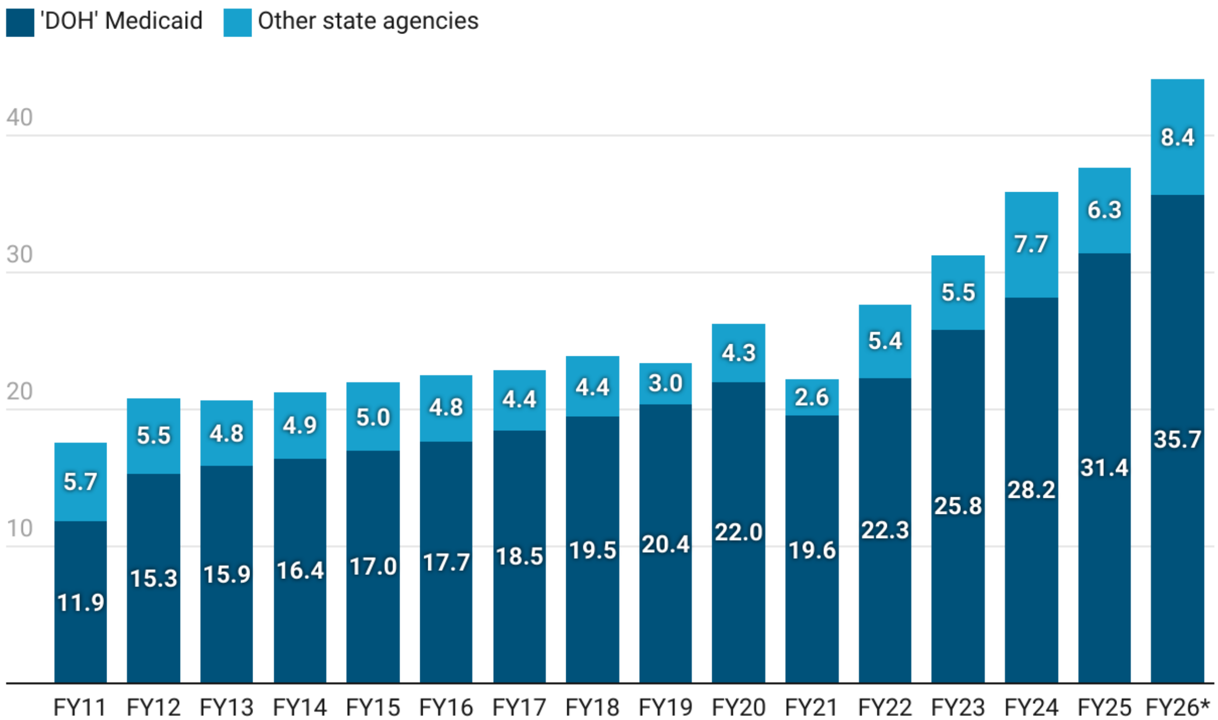
Instead, the governor's budget mainly just pumps more of the taxpayers' money into an already expensive and dysfunctional status quo.

Meanwhile, President Trump has declared his intention to reduce federal spending by trillions of dollars, a goal that would almost certainly entail significant cuts to Medicaid. As one of the most aggressive exploiters of Medicaid's system of federal matching funds, New York potentially stands to lose billions.

In the best of circumstances, aimlessly adding 17 percent to New York's already bloated Medicaid budget would be wasteful and risky. Doing so in the face of the shifting tides in Washington is reckless.

An especially imprudent component of the executive budget is her handling of the so-called MCO tax – a putative levy on managed care organizations that, at bottom, is a gimmick for drawing extra federal Medicaid money. As the governor acknowledges, federal officials are likely to close the regulatory loophole that makes this possible within two years. Yet the

State-share Medicaid spending in New York



**Proposed*

Chart: Empire Center • Source: NYS Division of the Budget • Created with Datawrapper

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governor proposes to use the bulk of $3.8 billion in proceeds to hike reimbursement rates for hospitals, nursing homes and other providers

This is a clear-cut case of using short-term revenue to finance ongoing expenses, which will leave a nine or 10-figure budget hole to be filled when the money runs out.

A better strategy would be to dedicate the MCO tax revenue for one-time expenses – such as grants to facilitate closing or merging underutilized hospitals – or to keep the cash in reserve as a hedge against federal cuts.

Another weak spot in the governor's plan is its lack of action to restrain spiraling long-term care costs, which she again acknowledges to be "unsustainable."

New York already employs proportionally more home health aides than any other state, and demand for Medicaid coverage of these expensive services is growing far faster than the aging of the population.[1] These are signs that state policies and procedures are incentivizing overuse and abuse.

Yet the Health Department has yet to implement tightened eligibility measures that the Legislature authorized in 2020. A recent comptroller's audit also found that the department has been slow to fully implement electronic visit verification, an anti-fraud tool that makes sure people are truly receiving the services that Medicaid pays for.

While those reforms languish, the state is moving hastily forward with an overhaul of the Consumer Directed Personal Assistance Program, in which hundreds of small companies known as fiscal intermediaries are being replaced by a single statewide contractor.

CDPAP has mushroomed over the past decade, with enrollment ballooning from 12,000 to more than 250,000 from 2015 to 2023 and Medicaid costs soaring to $9 billion a year.

The Hochul administration's overhaul does nothing to directly address this growth. Yet it would cause considerable disruption – and the danger of interrupted services – as hundreds of thousands of recipients and caregivers must switch from one provider to another. Meanwhile, the projected savings of $500 million could disappear if, as expected, the switch leads to unionization of the workforce.

The Legislature should re-examine this overhaul – and consider repealing it or slowing it down – to make sure the program's most vulnerable beneficiaries don't fall through the cracks.

Another way of controlling the cost of New York's Medicaid program would be to address what appears to be large-scale over-enrollment, as documented in a recent Empire Center report.[2]

Through Medicaid and the Essential Plan, New York offers government-financed health coverage to residents with incomes up to 250 percent of the federal poverty level, the highest threshold of any state. According to the Census Bureau, that income range encompassed about 5.5 million New Yorkers as of 2022.

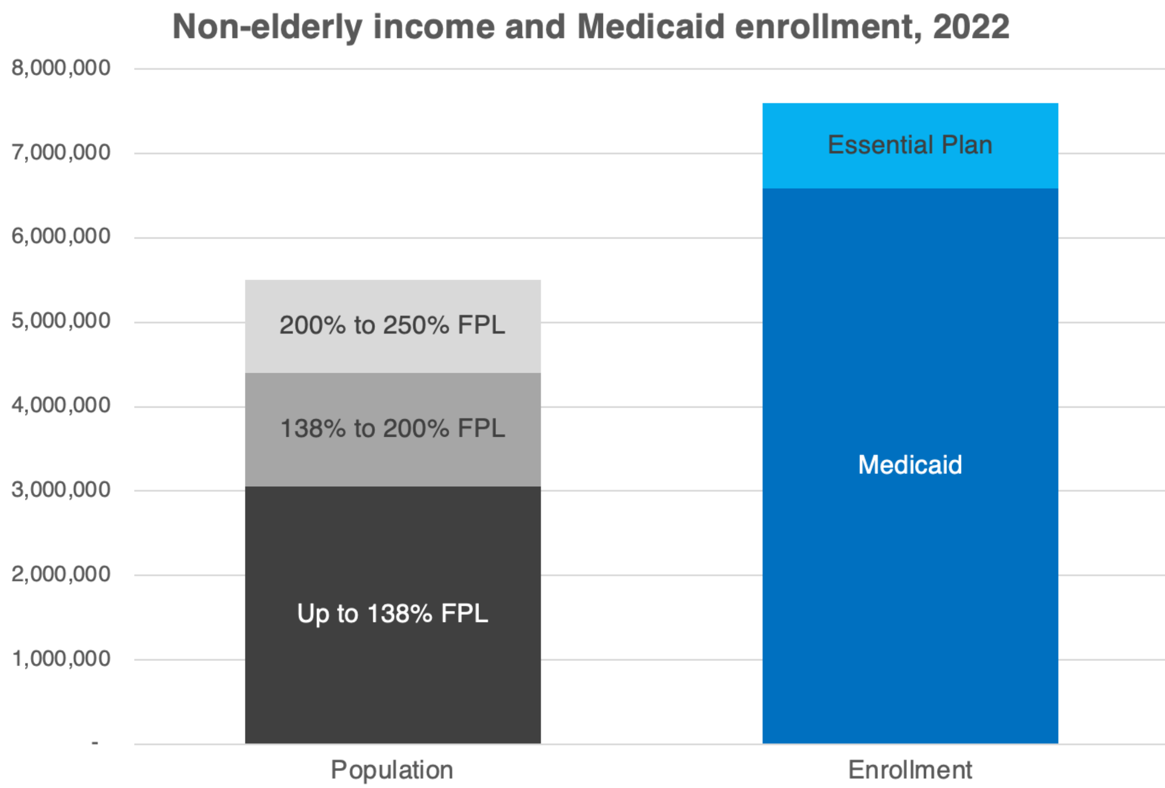
Yet enrollment in Medicaid alone that year was 6.6 million, and another 1 million were signed up for the Essential Plan. In other words, enrollment is roughly 2 million higher than it ought to be based on demographic estimates.

The Legislature should investigate this disparity and verify that Medicaid eligibility guidelines are being properly enforced.

As things stand, 44 percent of the state's residents are receiving Medicaid or Medicaid-like coverage – including 60 percent within New York City.

To finance that outsized level of coverage, the state has been drawing an outsized level of federal support – amounting to $3,073 per resident in 2023. That was the second-highest amount of any state, behind only New Mexico, and 69 percent above the national average.

It's impossible to know at this point whether Congress will approve these proposals – or whether the leadership will find enough votes to cut Medicaid at all. Yet the possible impact cannot be ignored or underestimated.



Two of the many proposals on the table in Washington include lowering the minimum federal matching rate to 40 percent instead of 50 percent and eliminating the enhanced matching rate of 90 percent for able-bodied adults. Taken together, these changes would cost New York about $12 billion per year in federal aid. Even so, the state's per capita federal funding would still be 12 percent above average.

Legislators should recognize that excessively running up Medicaid spending now, when coffers are full, would make it all the more painful to adjust if the president makes good on his budget-cutting promises or if the economy turns sour.

The governor's budget risks speeding New York toward a fiscal crash. For the good of Medicaid recipients and taxpayers alike, the people in this room should hit the brakes.

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[1] See Bill Hammond, "Long-Term Crisis: The Case for Reforming Medicaid 'Personal Care' in New York," Empire Center, Nov. 14, 2022. https://www.empirecenter.org/publications/long-term-crisis/

[2] Bill Hammond, "Medicaid Overdose: The Excessive Growth of State-Sponsored Health Coverage in New York," Empire Center, Nov. 26, 2024. https://www.empirecenter.org/publications/medicaid-overdose/