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Dear Legislator:

I am writing to convey the Citizens Budget Commission's recommendations for the State's budget for fiscal year 2006-07.

Last year the members of the Legislature and Governor George Pataki agreed upon the first on-time budget in 21 years, through a process more open than ever before. These praiseworthy procedural achievements should be repeated this year, and should be combined with improvements in the content of the budget.

With respect to the content of the budget, we make four recommendations:

1. *Restrain spending growth so that it does not exceed the rate of general inflation.* The Executive budget proposes increasing state funds spending 6.5 percent, on top of spending growth that exceeded the rate of inflation in each of the last ten years. Restraint is needed this year; the increase should be kept below the projected inflation rate of 2.7 percent. This should be accomplished by enhancing the Governor's Medicaid cost-containment proposals and by reducing other expenditures.

2. *Redesign proposed tax cuts to target more effectively economic competitiveness and to put the budget in balance by linking any cuts to offsetting expenditure reductions.* The CBC strongly supports significant tax cuts that promote the economic competitiveness of New York and that are prudently linked to offsetting expenditure reductions. However, only about \$1.3 billion of the \$3.1 billion in tax cuts proposed by the Governor are well targeted to promoting competitiveness; the elimination of the estate tax will keep New York attractive to older residents otherwise able to move to avoid the tax, and reductions in some personal income tax rates will also help retain and attract productive citizens. The other tax cuts promote objectives other than competitiveness such as family values, educational choice, and energy conservation. While worthwhile, these goals are not the highest priority for tax policy and should not consume additional resources in the face of projected budget gaps.

3. *Use the \$2.0 billion fiscal year 2005-06 surplus in ways appropriate for non-recurring resources rather than to increase the scale of the current operations.* The Governor proposes to use the entire \$2.0 billion 2005-06 surplus to cover operating costs in fiscal years 2007-08 and 2008-09. This is inadvisable, especially in light of the State's persistent reliance in recent years on

a variety of one-time resources to balance the budget. Prudent uses of an unanticipated surplus include debt reduction, pay-as-you-go capital spending, creating a rainy day fund and investing in technology that reduces operating costs. Given the State's high debt burden, the best among the acceptable uses is to reduce the cost of current and projected debt.

4. *Allocate State education aid more equitably and give priority to meeting the constitutional obligation to provide all students a sound basic education.* The Governor proposes \$20.8 billion in school aid, an increase of \$1.3 billion, including STAR, over the current year. However, this money is poorly targeted and fails to meet court mandates. School aid programs, including the School Tax Reduction (STAR) program, should be overhauled to allocate a larger proportion of funds to the more needy school districts and to be sufficient to meet spending levels that the Court of Appeals has specified as necessary for a sound basic education.

A staff memorandum elaborating on these recommendations is attached. We hope you find our analysis and recommendations useful. The CBC staff would be glad to discuss these ideas with you and address any questions you might have.

This letter does not address several important budget process and debt reform proposals that accompanied the Executive Budget. The CBC is considering recommendations relating to these issues and will communicate with you about them separately.

Sincerely,

Diana Fortuna
President