



# CITIZENS BUDGET COMMISSION

One Penn Plaza ▪ Suite 640 ▪ New York, NY 10119

Dear Legislator:

I am writing to convey the Citizens Budget Commission's recommendations for legislative action on the New York State budget for fiscal year 2007-08.

The Executive Budget submitted on January 31, 2007 by Governor Eliot Spitzer addresses three significant problems of long-standing concern to the CBC and of great importance to all New Yorkers:

- *A wasteful and ineffective health care financing system.* New York's Medicaid program is the most expensive in the nation and has been growing at nearly three times the rate of inflation in recent years, but it leaves more than 1.0 million residents uninsured. The high cost results largely from unnecessarily high provider payments, subsidy of a large number of residency positions at teaching hospitals, and excessive use of some types of hospital and home care.
- *Inadequate and badly targeted State aid for public schools.* The State's school aid does not provide some needy districts with sufficient resources to provide a sound basic education. At the same time it gives some wealthier districts disproportionately large payments that enable their residents to spend generously while maintaining a relatively modest tax effort.
- *The highest local tax burden in the nation.* New Yorkers bear the highest local tax burden in the nation. This burden arises in large part because of mandates imposed by the State requiring local spending on Medicaid, public employee pension benefits, and a large local share of financing for elementary and secondary education.

The CBC recommends the following with the respect to the Governor's proposals on these issues:

1. *Adopt the Governor's health care reform measures.* The measures will reduce Medicaid spending by about \$1.5 billion annually. The savings do not deny care to the needy; instead, the savings result largely from a freeze on already high hospital and nursing home payment rates, combating fraud, and putting reasonable limits on the payments for prescription drugs under Medicaid. In addition, the proposals would shift funds from wasteful support of unneeded graduate medical education programs and from underwriting undisciplined collective bargaining settlements by hospitals to support of insurance coverage for nearly 400,000 poor and near poor children. Most of these measures are consistent with recommendations made by the CBC in our 2004 report, *Confronting The Tradeoffs In Medicaid Cost Containment*, and our 2006 report, *Medicaid In New York*. These proposals deserve your prompt and strong support.
2. *Adopt the Governor's education finance reform package.* The proposals both increase State aid for education in order to meet court mandates to fund a sound basic education and reallocate funds in order to target the neediest districts. In the 2007-08 fiscal year State education aid is



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increased \$1.4 billion, and this sum grows to \$7.0 billion in fiscal year 2010-11. Local accountability for effective use of the enhanced funding is promoted through new standards of performance and restricting the uses of the funds to initiatives with demonstrated results. The proposal also consolidates more than 30 separate aid formulas into one “foundation grant.” The new allocation system assures districts adequate funds for a sound basic education and eliminates much of the distorted priorities in the complex and politicized distribution system that evolved in the past. Although it contains generous “hold harmless” provisions to assuage the adversely affected districts that benefited from prior practices, the proposal is otherwise highly consistent with recommendations made in the CBC’s 2005 report, *Can New York Get An “A” In School Finance Reform?* The new system should be enacted.

3. *Take time to consider carefully and to improve the Governor’s proposals to reduce local taxes.* Under Governor George Pataki, the School Tax Reduction (STAR) program was enacted in 1997 and was repeatedly expanded to reach \$3.4 billion in the current fiscal year. However, this program is seriously flawed as a measure to lower local property taxes. It gives State money to local school districts with the intention that these funds replace local tax dollars and keep local school taxes down. But, absent spending caps or other measures, school expenditures and taxes have continued to grow; much STAR money has not had the effect of actually lowering taxes. Moreover, the STAR funds have been allocated in a manner that favors wealthier school districts with relatively low tax burdens; poorer districts that need additional relief most get relatively little funding.

Governor Spitzer has proposed to increase the STAR program to \$6 billion annually while making only modest design changes that will not rectify its major flaws. The new plan targets aid somewhat more equitably by varying a district’s payments in relationship to the income of its homeowners, but the significant structural problems related to distributing aid without recognizing the tax burden borne by residential renters (except to a limited extent in New York City, which has some special provisions) and commercial property owners and to allowing school expenditures to increase largely unchecked are not addressed.

The creation of a State program to achieve significant, and much needed, local tax relief is proving to be more difficult than anticipated. New, and more imaginative, thinking is required. Before putting billions more into a program with major flaws, the Legislature should take time to analyze the issue more thoroughly. Wide-ranging ideas including greater State assumption of local Medicaid funding and reforms to local public employee pension financing should be considered along with improvements to the school tax approach. The creation of a joint legislative commission to examine the issue could create a forum for such analysis and perhaps generate the bolder initiatives that are required.



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Reconsidering the Governor's proposed expansion of STAR will also address another concern that the CBC shares with many other New Yorkers about the Executive Budget. It would increase annual spending of State funds 7.8 percent above this year's projected level, a rate that is unsustainable and should be curbed, unless there is commensurate economic growth resulting from the investment. Waiting to expand the STAR program until more effective substitutes are available would be one step toward finding needed economies in the State's spending plan.

Thank you for considering the CBC's recommendations. Members of our staff would be pleased to discuss our ideas with you as you consider action on the new budget.

Sincerely,

Diana Fortuna  
President