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Dear Legislator:

I am writing to convey the Citizens Budget Commission's recommendations for the fiscal year 2013-14 New York State budget. We reviewed Governor Andrew Cuomo's Executive Budget and the 30-day amendments thereto, and we stress two general points:

- Overall, there is much to like in the proposed budget; it continues progress in reducing the long-standing structural deficit by restraining expenditure growth and avoiding additional tax burdens.
- "Fine tuning" the proposed budget by rejecting or revising some misguided initiatives would enhance its effectiveness in using New Yorkers' tax dollars wisely.

There is much to like in the budget – so keep it that way.

The proposed budget continues the progress made by the Governor and the Legislature in the last two years. You passed responsible budgets that reined in growth in the largest areas of state spending, including labor and healthcare costs.

Continued spending restraint is essential, and the proposed budget meets this challenge. You should follow the pattern set in the last two years and keep state operating funds spending growth under 2 percent.

Although tax collections in recent months exceeded earlier expectations, you should resist the temptation to increase spending. The uptick in tax revenue is likely due to taxpayers responding to federal tax changes by accelerating income from 2013 to 2012. As a consequence, this year's good fortune may be offset by lower revenues next year. If unanticipated resources materialize in the 2013-14 fiscal year, they should be treated as non-recurring and used prudently for investments, such as debt reduction and/or rainy day fund deposits, to help improve the State's long-term financial standing and not to enlarge ongoing, operating expenses.

Continue Medicaid reforms. Staying on the path of spending control requires supporting reforms in Medicaid proposed in the Governor's budget. The Legislature should support the extension of the efforts of the Medicaid Redesign Team (MRT). The Governor's budget adds a year to the MRT authority to cap state-funded Medicaid spending based on national growth in healthcare prices. This should be approved and, indeed, extended for more than one year. In addition the MRT proposal to close the Medicaid eligibility loophole of "spousal refusal" should be adopted; relatively affluent New Yorkers should not be able to exploit this loophole to benefit from costly long-term care services at the expense of less well-off taxpayers. Medicaid dollars should be reserved for the neediest New Yorkers.

The Governor's budget addresses the federal government's intention to reduce its payments for services provided by the Office of People with Developmental Disabilities (OPWDD) by $1.1 billion a year. The Executive proposes to reduce state spending for OPWDD by $120 million; another $380 million in cuts is spread among Department of Health (DOH) programs. (Some of these cuts are described as "postponed investments.") The remainder of the federal reduction is to be offset by the expectation of $600 million in alternative federal aid. While the Governor is realistic in recognizing the likely loss of funding to support OPWDD services and the need to respond to this loss, the latter part of his plan could be improved. It is risky to rely on new federal aid "maximization" schemes or one-time savings. OPWDD has begun to reform many of its programs, and the budget includes the closure of the two remaining developmental centers. But further restructuring of DOH Medicaid services will likely be needed to reduce permanently baseline spending.

Pursue further savings in state operations. In state operations many successful reforms have been introduced and these efforts should be continued. Importantly, the budget includes two prison closures that should proceed. The inmate population has declined by almost 25 percent since 2000, and more facilities need to close to right-size capacity. Additional facility closures and service reforms in juvenile justice should also be approved.

The budget also proposes eliminating reimbursement for the additional Medicare Part B premium for high-income participants. New York is one of only five states that reimburse most or all of these premiums for retirees. Changes in this practice will help bring down the cost of providing health insurance for retirees and reduce the State's accrued Other Post-Employment Benefits liability.

Reject or revise proposals that would use taxpayer dollars unwisely.

While the overall design of the Governor's budget is sound and attractive, some of its parts require adjustment in order to make the proposals more cost-effective. We urge four specific modifications.

Improve the proposed school aid distribution. The Governor's budget proposes $21.1 billion in school aid, an increase of $888 million, or 4.4 percent, for the next school year. Of this sum, fully $328 million of the increase, and $378 million of the total, would not flow through the foundation aid formula and other formulas tied to district need and wealth. The total allocated outside the need-based formulas includes $203 million for a new, largely undefined "fiscal stabilization" fund and $175 million for an expanded competitive grant program.

Both of the proposed initiatives outside the need-based formulas should be improved. The "fiscal stabilization" fund should be targeted and used only as a one-time resource, lest it create an expectation that unsustainable operating spending will be supported through state aid.

The new funds for competitive grant programs should be reallocated to the basic foundation aid program. A CBC staff analysis of this year's competitive grants found that very few districts benefit. Out of a $50 million pool for school year 2012-13, only $17 million was awarded to 36 of the State's 696 districts. The competitive grant program should be fine-tuned and monitored before its funding is increased.

While the foundation aid formulas are preferable to expanded competitive grants, those formulas also need improvement. "Hold harmless" and other provisions that steer additional funding to wealthier districts where it is not needed to provide a quality education should be eliminated. Reforms to expense-based aids that reimburse districts for expenditures such as building projects and pupil transportation are also needed. For example, a CBC staff analysis of transportation aid showed how the formulas that drive this type of aid contribute to inequitable and inefficient outcomes.

Restrict the use of State Insurance Fund reserves. The proposed budget includes accounting changes at the State Insurance Fund (SIF) which will result in $2 billion in excess reserves. In fiscal year 2013-14 the budget would use $750 million of these funds as they should be used, for one-time expenses: $500 million for capital projects and $250 for debt retirement. Unfortunately in subsequent years the proposal is to use some of these funds to cover recurring operating expenses. The Legislature should require that all of the SIF reserves be used prudently for purposes such as capital investment and debt retirement.

Halt unjustified expansion of economic development spending. The proposed budget increases by more than $800 million spending for economic development activities. This includes $150 million for the Regional Economic Development Councils, $165 million for additional capital grants, $420 million for film tax breaks, $50 million for a venture capital fund, and $50 million for a marketing campaign. Although the Regional Economic Development Councils have improved oversight and accountability for the funds within their purview, most of the $7 billion now spent annually in New York on economic development lacks adequate controls or data to prove the investments are worthwhile. Until the State more systematically scrutinizes and justifies its subsidies for business, New York should not increase these expenditures.

More positive is the Governor's proposal to limit state sales tax breaks granted by local Industrial Development Agencies. This proposal would require projects to meet the standards of the Excelsior program and have Regional Council approval in order to receive any sales tax exemption. While a small step, this action would help align state and local government economic efforts and restrict state tax breaks to the most appropriate projects.

Reject the pension "stabilization" plan. In an effort to provide short-term fiscal relief for localities the Governor proposes an optional 25-year, fixed rate pension funding plan. Although the "stabilization" proposal would lower local government costs in the short run, in the long run costs would increase. The motivation for this proposal is understandable, but its adoption could threaten the viability of the pension funds and erode New York's historically good practice of paying pension bills on time.

Instead of adopting this unwise plan, the Legislature should enact real mandate relief measures that aid local governments. The binding arbitration law affecting local government workers expires in July; the Governor's proposed 2 percent cap on awards for fiscally distressed employers is a good way to begin the debate about how to better control labor costs borne by local governments. In addition, special education mandate relief proposals approved by the State Education Department last year should be reintroduced and passed this session. Finally, although some of the local burden for the Medicaid program was relieved last year by legislation lowering the cap on localities' growth in liability, New York's counties continue to pay for a much larger share of the program than counties in other states.

High priority should be assigned to using available state resources to transfer more of the cost of Medicaid to the State.

With your help New York adopted reforms that have started the State down a more fiscally responsible path, but more work is needed to assure a stable financial future. The passage of a fiscal year 2013-14 budget consistent with our recommendations would be another important step in the right direction.

Thank you for considering our recommendations. My staff and I are available should you have any questions.

Sincerely,

Carol Kellermann
President