

CITIZENS BUDGET COMMISSION

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CBC RECOMMENDS CHANGES TO GOVERNOR SPITZER'S EXECUTIVE BUDGET TO MAKE IT MORE SUITABLE TO CURRENT ECONOMIC TIMES

New York, NY – February 26, 2008 – The Citizens Budget Commission (CBC) released today a letter to New York State legislators recommending five changes to Governor Eliot Spitzer's Executive Budget – proposed on January 22, 2008, and updated with the 21-Day Amendments on February 12, 2008 – that would make it better suited to the current, uncertain, economic times, as well as more effective in using precious tax resources to support essential public services, and more supportive of lowered local tax burdens.

The significant progress made last year by the Legislature and the Governor sets the context for these suggestions. The passage of an on-time budget last year and the new procedures established for this year, including early revenue estimates and other features, increase the prospects for timely and responsible action this year. The actions taken last year on Medicaid cost containment, more equitable education aid, and other issues provide a solid base for greater advances this year.

The five changes recommended by CBC for the Executive Budget are the following:

1) Continue to revise estimates of tax receipts to reflect the changing economic conditions.

The national economy and New York State's economy are in a period of uncertainty with serious downside risks. To his credit, Governor Spitzer has lowered his projections of tax receipts to reflect new realities. The initial Executive Budget lowered estimates of total tax receipts for fiscal year 2008-09 from the October 2007 Mid-Year Report by \$728 million, and the 21-Day Amendments lowered the figure another \$418 million for a total reduction of more than \$1.1 billion. Unfortunately, further reductions are likely necessary to keep budget estimates realistic.

The updated Executive Budget counts on statewide personal income growing 4.3 percent in 2008; yet for the same period New York City budget officials are counting on local personal income growth of only 1.0 percent. The City is expecting its personal income tax collections to decline in each of the next two years, but the State's updated Executive Budget expects personal income tax receipts to grow at least 5.3 percent in each of the next two years.

2) Close the large projected budget gap with a program that relies less on one-shots and more on recurring expenditure reductions.

Being more realistic about available resources will mean facing an even bigger budget gap. The updated Executive Budget reflects a gap for fiscal year 2008-09 of \$5.3 billion; with updated tax receipts estimates the gap likely will be even larger.

The Executive Budget proposes to close the gap with measures that are about one-third “one shots,” one-fifth tax and fee increases, and less than half spending reductions. This mix involves too much short-sightedness and too little long-run planning. The heavy reliance on one-shots not only fails to address future problems but in some cases actually worsens the future problem by transferring spending from one year to the next. The cash accounting gimmicks include delaying school building aid payments of about \$180 million and \$95 million from increasing the amount of businesses’ first quarter estimated tax payments. A better strategy is to exercise more spending restraint.

The State’s \$124 billion budget provides major opportunities for slowing the rate of expenditure growth. The CBC has identified three options for significant budget savings (which are detailed in *Options for Budgetary Savings in New York State*, available at <http://www.cbcny.org>). The options include: a) continuing to reform Medicaid; b) restructuring fringe benefits for State employees; and c) eliminating funding for ineffective economic development programs.

3) Adhere to the basic principles of foundation-based education aid.

Last year’s Enacted Budget established new foundation-based education aid formulas that allocate school aid based on need, not politics. The new formulas are a major achievement; however, the inclusion of hold-harmless provisions and the last minute addition of “high tax” aid and alternative formula calculations detracted from the equitable distribution of aid. These measures sent \$329 million to wealthy school districts.

The 2008-09 Executive Budget proposes to alter foundation aid from last year’s planned amount while adding back high-tax aid and increasing special grants to New York City to help offset formula driven reductions. These deviations from foundation aid principles increasingly resemble the old “hold harmless” and “shares” approach that politicized the distribution of aid. Combined with higher-than-expected expense-based aid, total additions to planned school aid for 2008-09 exceed \$350 million. The CBC recommends keeping the commitment to the principles of need-based aid. The proposed adjustments should not be enacted.

4) Revise and defer new capital spending programs.

The State’s capital spending is growing enormously. The current year’s spending plan is up 30 percent or \$2 billion from last year, and the updated Executive Budget proposes to raise the figure in the coming fiscal year another 17 percent or \$1.5 billion to reach \$10.4 billion. This rapid expansion is misguided for two reasons: (1) the planned uses of much of the new money are questionable; and (2) the spending is financed heavily with borrowing that will enlarge an already-excessive debt burden.

A significant portion of the spending increase is for economic development projects. The Executive Budget proposes creating a new \$2.2 billion fund for economic development. But the State's record over more than a decade with economic development initiatives is weak. Any new capital program should start small and be explicitly linked to an assessment of needs and priorities and held accountable to outcome measures.

Most of the capital spending will be paid for by borrowing. Over the five-year capital plan, debt outstanding will increase 22 percent to \$61 billion and debt service will increase 46 percent to \$7 billion. In our 2005 report, *New York's Endangered Future: Debt Beyond Our Means*, the CBC documented that New York State's debt burden is already unaffordable – in that it is not only higher than that of nearly all other states in absolute size but also after account is taken of the state's relatively large tax base and other relevant factors.

5) Promote State efforts to lower local property taxes, and drop proposals that have the opposite effect.

The Executive Budget recognizes that new efforts are needed to lower New York's extraordinarily high local tax burden. The local tax burden in New York – outside New York City – exceeds the average in all other states by 57 percent. The Governor has created a Commission on Property Taxes to analyze the root causes of the local tax burden and recommend measures to provide meaningful relief. In addition, the Executive Budget proposes to delay increases in the Middle-Class STAR rebate program in order to allow time for the Commission to release its recommendations. It also caps growth in the local liability for pre-school special education costs. These are sensible steps toward more comprehensive reform.

Despite these positive measures to address the local tax burden, the Executive Budget includes proposals that move in the opposite direction. It would increase the local share of non-federal public assistance costs from 50 percent to 52 percent and would require greater local support for juvenile detention facilities, shifting \$88 million from the State to the local level. Shifting social service responsibilities to the local level adds undue burden to counties with the highest social service needs and does not constitute cost savings for taxpayers.

One additional CBC suggestion relates to a gubernatorial initiative that is not part of this year's budget but has long-run fiscal consequences – exploring a concession arrangement for the State lottery in order to obtain greater value from it. This is worth careful analysis, but we advise caution in pursuing arrangements that involve large, up-front, one-time payments and extensive contract periods. The structure of the concession and its multi-year revenue impacts should be carefully assessed when details of the proposal are fully developed.

The full text of the letter released today is available at www.cbcny.org.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.