



CITIZENS BUDGET COMMISSION

11 Penn Plaza Suite 900 New York, NY 10001

March 21, 2005

Dear Legislator:

The CBC congratulates you on your significant efforts to achieve the first on-time budget in 20 years.

This year has the potential to be a positive turning point, reversing the procedural and substantive faults of previous years' budgets. The progress that Governor George Pataki and you have made in creating a more open and timely process, combined with the upturn in tax revenues and the Governor's proposals for curbing expenditure growth, establish a promising basis for achieving needed improvements in the State's fiscal performance and condition.

In order to promote progress toward these goals, we make four recommendations to guide your actions in the coming week:

- 1. Significantly reduce spending on Medicaid and on ineffective programs.*** Approximately \$2.9 billion can be saved with Medicaid cuts that would not reduce services to those in need and cuts in other areas such as "member items" and excessive staffing that are wasteful. Some of these measures have been proposed by the Governor, and others should be a part of the Legislature's initiatives.
- 2. Make meaningful progress in a long-run realignment of State and local fiscal responsibilities for Medicaid and school financing.*** The two most important structural changes needed in the current statewide system of public finance are (a) eliminating the mandated local share of Medicaid costs, and (b) increasing State aid for school districts that have students with the greatest needs. These improvements will require several years to be implemented fully and effectively, but key actions should be taken this year. With respect to Medicaid, the Governor's proposal for a cap on local costs is a constructive first step. With respect to school aid, the Legislature should design a multi-year program that applies the judicially established standards for New York City schools on a statewide basis and that funds the needs entirely from statewide revenues.

3. ***Balance the budget with recurring revenues.*** In recent years, the State’s budget has not been balanced soundly and prudently; instead, a variety of one-time resources and fiscal gimmicks have been relied upon to meet cash needs. The Governor’s proposals for the coming year reduce, but do not eliminate, such practices. The Executive Budget contains over \$1.0 billion in objectionable “one-shots” and borrowing. Fortunately, since release of the Executive Budget in January, revisions to the tax revenue forecasts indicate that significant additional revenues—some recurring and some not recurring—are likely to be available. The recurring revenues should be used to help replace the objectionable measures. Existing and additional non-recurring revenue should be used to reduce debt rather than to increase recurring expenditure commitments.

4. ***Enact the budget on time and in full sunlight.*** The timetable agreed to by the Governor and the legislative leaders for this year is on track to produce an on-time budget and should be followed. The budget should be adopted without a message of necessity, thereby allowing members and the public time to understand it before a vote is taken. The adopted budget should also be published in a summary form that makes its contents clear to the public and should be accompanied by a four-year financial plan that indicates the consequences of this year’s decisions for future years’ budget gaps.

More is needed to reform New York State’s fiscal practices. Measures that relate to more than just this year’s budget are essential, including constitutional amendments to limit debt and permit a larger rainy day fund as well as new guidelines for the State’s numerous public authorities. Progress on these and other priority fiscal reforms, included in the CBC’s *The Palisades Principles*, is needed. However, passing a prudent budget on time and in an open fashion will be an encouraging basis for future reforms.

A staff memorandum elaborating on these points 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.

Sincerely,



H. Dale Hemmerdinger
Chairman



Diana Fortuna
President