

# ADDRESSING THE BUDGET CRISIS: WHAT DO YOU THINK?

I have outlined some of the difficult choices we face and would like to get your feedback. Realistically, this year our choices are spending cuts or revenue raisers. Below are some broad budget options as well as some specific proposals from the Governor's budget. Please indicate what your general priorities are by checking the appropriate lines. The list below is ordered by the percentage of the budget made up by these programs.

The following survey can also be completed online at: <http://www.nysenate.gov/senator/liz-krueger>

	MAINTAIN SPENDING	CUT SPENDING	NOT SURE
<b>BROAD BUDGETARY PRIORITIES (WITH 2010-2011 PROPOSED BUDGET FUNDING)</b>			
<b>Health Care</b> (\$50.3 billion) (50% Federal Match, Cut State, lose Fed \$)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>K-12 Education</b> (\$24.5 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Local Government Assistance</b> (\$9.6 billion) (e.g., Aid and Incentives to Municipalities)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Capital Projects/Infrastructure</b> (\$8.6 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Higher Education</b> (\$7.2 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Employee Benefits</b> (\$6.3 billion) (e.g., Pension, Health Care, Taxes)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Transportation</b> (\$4.7 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Local Welfare Assistance</b> (\$4.7 billion) (e.g., Public Assistance, Child Care)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Other Executive Agency Budgets</b> (\$4.7 billion) (e.g., Dept of Aging, Dept. of Environmental Conservation)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Corrections/State Police</b> (\$3.1 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>STAR Property Tax Rebates</b> (\$3 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Judiciary</b> (\$2 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Member Items</b> (\$170 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>POSSIBLE WAYS OF RAISING REVENUE</b>			
<b>Increase income tax on high wage earners</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Increase business taxes</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Cut refundable business tax credits</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Transfer Tax on stock transactions</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Commuter Tax</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Congestion Pricing</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Carbon Tax on pollution</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>SPECIFIC PROPOSALS FROM GOVERNOR'S BUDGET (WITH AMOUNT OF CUT OR REVENUE INCREASE)</b>			
<b>Decrease local school aid</b> (\$1.1 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Eliminate Aid and Incentives to Municipalities (AIM) funding for New York City</b> (\$301 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Cut Medicaid programs</b> (\$1 billion)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Cut Environmental Protection Fund</b> (\$79 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Cut Tuition Assistance (TAP) grants for college students</b> (\$33 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Cut community college aid</b> (\$56 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Allow SUNY and CUNY to increase their own tuition by campus and program and reduce state funding</b> (\$142.7 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Reduce funding for homeless services and supportive housing</b> (\$69 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Delay implementation of increase to public assistance grant</b> (\$14 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Across-the-board agency cuts</b> (\$500 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Allow liquor stores to sell more products and allow sale of wine in grocery stores</b> (revenue increase of \$250 million through franchise fees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Eliminate MTA payroll tax on sole proprietors earning less than \$100,000</b> (loss of \$29 million in revenue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Increase MTA payroll tax in NYC</b> (gain of \$453 million in revenue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Decrease payroll tax in suburbs</b> (loss of \$216 million in revenue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Tax on sugared sodas</b> (revenue increase of \$450 million)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## OTHER IDEAS FOR SPENDING CUTS OR REVENUE GENERATION

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# ALBANY UPDATE

*Reporting to residents of Midtown and the East Side  
on how the sausages are made in the State Capitol*



Dear Friend,

As I am sure you know, New York State, like much of the nation, faces an insecure financial future. We have high unemployment, inadequate tax collections, and a structural budget imbalance. As Vice-Chair of the Senate Finance Committee, my main responsibility for the first part of this year is to evaluate proposals to address the State's budget deficit. I recognize what a critical responsibility this is, and have been immersing myself in budget hearings and testimony from groups and individuals around the State to help me better understand our options. The numbers seem to change every week, and usually in the wrong direction, but as of this writing we are currently looking at an \$8.2 billion budget gap which we need to close.

While the housing market collapse and "Great Recession" are the immediate cause of the current budget crisis, some of the problem has much deeper roots. In December of last year, the Select Committee on Budget and Tax Reform, which I Chair, held a hearing during which witness after witness detailed chronic structural deficits in New York State's budget and the ways in which our budget process contributes to our fiscal problems. Structural deficits develop when budgetary decisions about spending do not take into account the longer term impact of those decisions, either because they address immediate fiscal problems with revenue which will not be around in future years, or because they commit the State to future spending beyond expected revenues.

These problems grew from decades of refusing to ask or answer the hard questions by Governors and both houses of the Legislature. Legislation has been passed and signed into law, outside the context of the budget, that has obligated us to spend billions in new annual costs and an endless stream of off-budget borrowing which must be paid back. Ironically,

when NYC got into trouble in the 1970s, the State mandated that the City had to follow common sense accounting and budget rules... and they have worked! But the State did not require its own budget-making to follow the same rules. Remember the adage "Do as we say, not as we do"? It's time to take our own advice.

The long-standing structural deficits and recent economic woes have left us with painful choices. We will be cutting services and funding of programs that you and I care about. Staffing patterns, salary levels and pension costs will all be up for review and negotiation. New construction will likely be placed on hold and commitments that the State has made to multi-year projects will be reviewed.

In short, how do we decide what to cut? What's more important—public education or senior services? Healthcare or anti-hunger programs? How do we pay for the most critical programs—raise taxes? Impose fees?

In this newsletter, I outline the extent of proposed cuts to the State and to New York City, in particular. I include a brief outline of the legislative process and budget timeline. I then give a list of "The Top Five Things You Don't Want to Know (But Need to Know) about the State Budget Process and What We Can Do Better." This analysis came out of the work of the Select Committee on Budget and Tax Reform which I formed for this purpose.

Finally, you get a chance to weigh in. What should we cut? Should we try to increase revenue? What proposals make the most sense for improving the process in the years ahead? At the end of this newsletter you will find a survey which I invite you to return. Or you can visit my website at <http://www.nysenate.gov/senator/liz-krueger> and fill out the online version.

*Liz*

If you want more regular updates, please join my email list by sending a message to [lkruer@senate.state.ny.us](mailto:lkruer@senate.state.ny.us) with "join lizlist" in the subject line.

## EXPULSION OF HIRAM MONSERRATE

I have always believed that elected officials should be held to a higher standard. Last month, I joined the vast majority of my colleagues in voting to expel Senator Hiram Monserrate. Expelling a colleague was not a vote I took lightly, but after an exhaustive bipartisan committee review of all his actions, the Senate had no choice but to act. Violence against women is unacceptable and because of his actions Hiram Monserrate had demonstrated he is not qualified to serve as a member of the Senate. Being a State Senator is a privilege, not an entitlement. It is unfortunate that Mr. Monserrate was unwilling to respect his constituents or the institution of the Senate by resigning upon his conviction. The already announced Special Election this month will ensure the people of this district do not lack for representation.

## SUMMARY OF THE EXECUTIVE BUDGET PROPOSAL

In addressing the deficit, the Governor proposed an array of painful cuts. Some of his proposals include:

- ▶ an across-the-board cut of \$500 million from all agency budgets;
- ▶ a school aid reduction of \$1.1 billion;
- ▶ a cut to State healthcare funding of \$1 billion;
- ▶ a \$79 million cut to the Environmental Protection Fund, with a moratorium on land acquisition through the fund;
- ▶ a \$33 million cut to TAP awards for college students and a \$56 million cut to community college aid; and
- ▶ \$69 million in cuts to programs for the homeless and supportive housing funded through Temporary Aid for Needy Families (TANF).

There is no doubt that if these cuts are implemented they will cause significant harm to critically important programs throughout the State. And there is also no doubt that either these cuts or others identified by the Legislature must be made in order to address the serious financial crisis we are in, particularly because the gap has grown since the Governor first announced his budget.

## SUMMARY OF EXECUTIVE BUDGET AS IT RELATES TO NYC

The Governor's budget also includes a number of proposed cuts and tax changes which would be particularly damaging to New York City, including:

- ▶ complete elimination of Aid and Incentives to Municipalities (AIM) funding for New York City. This is extremely unfair to the City: 100% of the City's aid is cut (some \$301.7 million) while the rest of the State is facing only a 2-5% cut in its aid (a total of \$18.5 million);
- ▶ limiting the NYC Personal Income Tax STAR Benefit. This is a backdoor tax increase which will cost New York City residents an estimated \$200 million in new taxes; STAR has always disproportionately benefited home-owners outside of New York City, and that fact will only be exacerbated by limiting the NYC Personal Income Tax STAR Benefit, which was designed to compensate for some of the inequalities in the STAR program;
- ▶ social service cuts which are likely to impact New York City disproportionately, as well as the most vulnerable New Yorkers throughout the State; the budget proposes the elimination of a number of Temporary Assistance for Needy Families (TANF) funded programs, such as Supportive Housing for Families, Summer Youth Employment, Flexible Fund for Family Services, Child Care Subsidies, and reduction in various homeless, refugee and employment programs, such as the Homeless Intervention Program, Citizenship Program, NYS Refugee Resettlement Assistance Program and HIV Welfare-to-Work Program; and
- ▶ adjusting the MTA payroll tax that was instituted last year to reduce the tax in the suburbs while increasing it in New York City. The Governor proposes increasing the tax rate for New York City businesses to 0.54 percent of payroll while reducing the rate for businesses outside of New York City in the Metropolitan Commuter Transportation District (MCTD) to 0.17 percent. The rate is currently the same for everyone at .34 percent of payroll. Under the new proposal, New York City businesses would now contribute 88 percent of all mobility tax revenues, up from 70 percent.

# 2009

SEPTEMBER

OCTOBER

NOVEMBER

Fall 2009  
Agency budget  
presentations

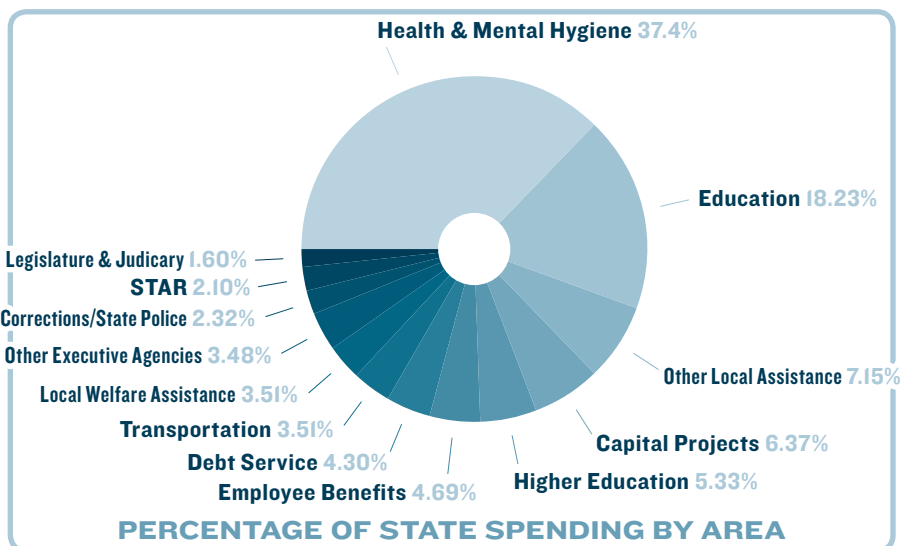
November 5 2009  
Quick-start revenue  
projections by Legis-  
lature and Governor

November 15  
Quick-Start C  
sus Revenue

## THE LEGISLATURE'S ROLE IN THE BUDGET

Beginning in late January and continuing through early February, the Legislature held a series of hearings to allow agency Commissioners to explain the executive budget proposal, and to hear from advocates, service providers, and other members of the public about the budget. These hearings are fascinating (if draining) events, which offer us vast amounts of information to be absorbed and synthesized. They also highlight the severe impacts of many of the cuts, which in some ways just makes our decisions harder, especially because the hearings tend to offer a lot more testimony about what programs should have funding restored and much less on alternatives which will either reduce spending or raise revenue to pay for those restorations. If you would like to see the full testimony submitted, it is available at: <http://www.nysenate.gov/initiative/budget2010>.

## WHERE DOES THE MONEY GO?



One thing is clear from this chart—unless there is a significant increase in revenues, there will have to be cuts to healthcare and education, which make up approximately 56% of the budget. Decisions about cutting these areas are also complicated by fiscal and legal concerns. For instance, a significant majority of health spending is Medicaid spending, which means that for every dollar of State Medicaid spending we cut, we lose another \$1.60 in Federal funds, exacerbating the impact of cuts. Cutting school aid can have serious consequences for the quality of education in the State and also potentially violates court decisions requiring additional funding for New York City Schools. In other districts, education cuts also have the potential to cause localities to increase property taxes to make up for the loss in State funding.

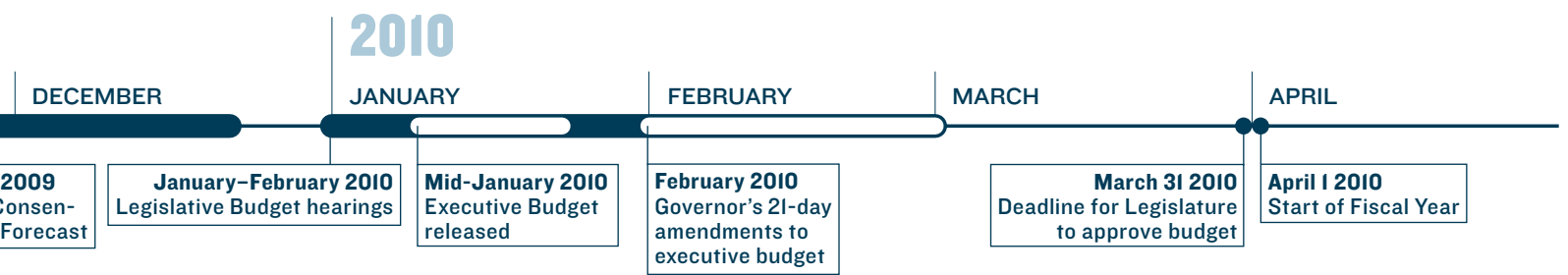


I joined my colleagues from both houses in nine days of hearings on the Governor's Budget Proposal. Here I listen to testimony at the February 1st hearing on taxes.

## GETTING TO A FINAL BUDGET

The other reality of Albany is the difficulty of reaching agreement on what actions to take, even on bills which are much less controversial than the budget decisions we face. Given the closely divided Senate, it is clear that to address a crisis of this magnitude, members of both the Majority and Minority Conferences will have to work together to accomplish our goals. It seems a consensus has emerged among leadership in both conferences that tax increases should be avoided, but there is much less of a consensus over what the cuts should be, and we will have to figure that out if we are to balance the budget without increasing taxes. I hope that we will all recognize that the stakes are too high to not work together, and I have been delivering this message both to members of my own Conference and to members of the Minority.





## THE TOP 5 THINGS YOU DON'T WANT TO KNOW (BUT NEED TO KNOW) ABOUT THE STATE BUDGET PROCESS AND WHAT WE CAN DO BETTER

### 1. SOMETIMES THE SENATE AND ASSEMBLY VOTE SEPARATELY ON THE BUDGET WITHOUT FIRST AGREEING ON THE TOTAL REVENUE.

Only within the last few years have we established a process for agreeing on projected revenues, but we still have a system where the Senate, Assembly and the Governor all have their own estimates of annual revenues. The lack of a binding estimate of revenues until very close to the budget deadline continues to produce problems that reverberate later in the fiscal planning process. And many years we vote on the spending bills *before* we agree to the revenue bill. Does that make any sense?

**We can do better.** We can make changes to create a revenue consensus with teeth.

- ▶ Create a legislative or independent budget office to generate more accurate and less politicized revenue forecasts. I sponsor legislation (S.4526) which would create a non-partisan Legislative Budget Office.
- ▶ Establish a procedure to create a binding revenue forecast either through an arbitration process or by increasing the authority of the State Comptroller.
- ▶ Require that the Revenue Bill be passed before we pass any spending bills so we know the bottom line is a balanced budget.

### 2. THE STATE VOTES ON A BUDGET BEFORE TAX REVENUE IS FULLY COLLECTED.

The State's fiscal year begins on April 1, which means the budget must be voted on before the April 15th tax deadline. Last year's over-optimistic revenue estimates resulted in a budget that was seriously out of balance by the fall and required the adoption of a painful deficit reduction plan.

**We can do better.** We can create more accurate and realistic budgets by moving the start of the budget year until after the end of tax season when we have actual revenue numbers. I sponsor legislation (S.5221) which would move the start of the fiscal year to June 1st.

### 3. THE STATE CONSIDERS THE BUDGET BALANCED AS LONG AS IT HAS CASH IN ITS WALLET AT YEAR'S END.

If you had \$20 in your bank account but owed \$10,000 on credit cards and hadn't paid your mortgage for two months, you might think you had a problem, but the State would consider your budget balanced.

This practice is called budgeting on a cash-basis. New York has been doing this for decades. This has enabled lawmakers to avoid making tough choices, and instead rely on strategies such as nonrecurring revenue "one-shots" and rolling expenses over from the current year to the next year to claim the current

budget is balanced. But the State's reliance on cash-basis budgeting blurs the State's actual fiscal reality and lures it deeper into debt. Reaching a short-term balance allows the Governor and Legislature to ignore the long-term implications of budget decisions. This has resulted in a growing structural deficit which the Governor estimates will reach \$12 billion by 2013-14, even if the dramatic cuts proposed in this year's budget are accepted.

**We can do better.** Lawmakers need a truer presentation of the State's financial condition. The State should adopt the Generally Accepted Accounting Principle (GAAP) standards which all U.S. publicly traded companies are required to use. Why should NY State be held to a lesser standard? GAAP-basis budgeting would prohibit the "gimmickry" which has been used to obscure deficits, and it promises to curtail a temptation for overspending.

### 4. THE GOVERNOR AND LEGISLATURE CREATE ANNUAL BUDGETS WITHOUT CONSIDERING FUTURE IMPACT.

While GAAP standards are a remedy for New York's dangerous habit of budgeting primarily for the short-term, they alone cannot guarantee the long-term financial stability of our state. For decades, the Governor and Legislature have chosen again and again to borrow money and use budgetary gimmicks to pay for current operating costs instead of making tough decisions. This has led to New York State having one of the largest state debts in the nation—more than \$52 billion dollars.

**We can do better.** We must implement a multi-year financial planning process in order to shift lawmakers' focus to the long-term and afford them the time to anticipate, prepare for and respond to changes in the State's fiscal picture.

### 5. MOST KEY BUDGET DECISIONS ARE MADE IN PRIVATE BY THE GOVERNOR AND THE LEADERS OF THE SENATE AND ASSEMBLY.

Albany has long been criticized for its behind-closed-doors budgetary process (the "three men in a room" phenomenon). Public conference committees, which review budget choices, can open up the process. Unfortunately, in New York, due to the small sums of appropriations overseen by conference committees, only accounting for a fraction of the total spending in their jurisdictional categories, conference committees have seen their credibility diminished.

**We can do better.** To be viewed as more than mere "window dressing," conference committees need to have the authority to debate publicly the more difficult budgetary issues, and to be responsible for a greater percentage of the budget.

Please complete the questionnaire on the other side of this page, separate it, and place it in an envelope and return it to:

Senator Liz Krueger  
211 East 43rd Street, Suite 401  
New York, NY 10017

or complete the questionnaire online at <http://www.nysenate.gov/senator/liz-krueger>