

Excerpted from *SCAA Reports*, Winter 2008

SOLVING THE BUDGET PUZZLE: SET PRIORITIES, FOLLOW THROUGH

“**T**here’s a light at the end of the tunnel – but it appears to be an oncoming subway train.” The old chestnut sounds even less funny after the failed November special session of the State Legislature. Since that session was called off, New York now faces a \$12.5 billion budget deficit in the next fiscal year, equal to 22% of the state General Fund.

Albany veterans have seen their share of economic downturns and dire budget crises. Legislative leaders angle for advantage, advocates line up to testify to the dire consequences of cuts to their program, sign trucks circle the Capitol, worried-teacher commercials run on heavy rotation. Ultimately, the messy process resolves into a balanced budget.

This crisis is similar to other recent downturns, but also different in a profound way. The current budget gap is deeper than ever before, and it is partly structural, not merely a trough in the business cycle. The financial sector, which produced 20% of New York State revenues last year, has been devastated. “The investment banking industry as we know it is over,” says Budget Director Laura Anglin.

The people of New York deserve better than gridlock. They cannot afford months of delay and petty rivalries, of key players demanding that their programs be singled out for protection, of deepening public cynicism about the ability of our elected officials to manage the state. If ever there were a time for collaboration and cooperation among all policy makers and among all sectors of our society, it is now. As Lyndon Johnson used to say, “Come, let us reason together.”

The people of New York also deserve better than to be hit with meat-cleaver cuts to essential state and

local services. While across-the-board cuts are politically safer, since every program takes the same haircut, they do the public no favors. Some programs are simply more vital than others, and cutting vital programs at the same rate as less important programs hurts the state.

Make no mistake: balancing the budget with across-the-board cuts does not represent fiscal prudence. It would require cutting every state program by almost one-fourth and devastating services essential to all New Yorkers, especially those struggling in the weak economy. It is legitimate to worry about raising New York’s already high taxes. But some alternatives could be even worse, much worse.

There is another path. The state could employ all of its fiscal levers. That means judiciously raising some taxes, eliminating some large tax breaks, tapping the rainy day fund, helping local governments reduce their own property taxes, getting federal assistance, and yes, cutting state spending significantly. It’s been done before, and not too long ago. In 2003, the state applied a mix of budget cuts and new taxes to close the budget gap. The economy rebounded rapidly. In 2009, the state should take a similar “all of the above” approach.

Setting Priorities and Following Through

The most important step can be summed up in two words: set priorities. Like any CEO or director of a large organization, the leaders of New York State should agree on the state’s top priorities, and then target areas that do not directly serve those priorities for heavier program cuts, higher taxes and new user fees. Here we offer our own perspective on the priorities that the state should set.

Three budget priorities for the State of New York

1. Protect programs that serve vulnerable New Yorkers.
2. Protect “seed corn” investments essential to the state’s future prosperity.
3. Give special consideration to programs that can show evidence of successful outcomes.

Some programs are indispensable. For example, many New Yorkers (and not only poor ones) live very close to the edge of a financial cliff. If they fall off the cliff, they get hurt. Their families get hurt. And the cost to the state actually goes up over time. The state can cut child prevention programs, such as home visiting for new parents to teach parenting skills, but then we can expect a rise in child abuse cases. The state can cut home care for the elderly, but then more will be forced into expensive nursing homes. The state can cut financial aid for low-income college students, but then fewer will attend college and get decent jobs. Is that the path we want New York to take?

Instead, the state should do whatever it takes to keep vulnerable families healthy, safe and off the street. We also need to protect our investments in the state’s workforce, institutions like community colleges, adult education, summer youth employment and apprenticeship programs, which serve low-income workers and private employers who will need skilled workers when the economy recovers. A few targeted economic development incentives make sense as well. Initiatives to develop infrastructure assets in struggling communities upstate and in New York City’s outer boroughs can yield hope over the next several years.

In order to save these high-priority programs in the face of a \$12.5 billion budget deficit, stakeholders need to be able to think about the budget from other perspectives than their own. That means bringing up a subject that hardly anyone outside the executive branch wants to talk about: cutting non-essential programs and raising revenues. Like other advocates, SCAA traditionally talks about the programs we think the state should expand or

protect. But these are not ordinary times, and someone has to go first.

We reviewed the state budget looking for programs that could be cut without hurting the vulnerable or damaging investment in the state’s future prosperity. We looked for new revenues that could be raised using the same criteria. A full list of proposals follows this article. Some proposals will be familiar to seasoned budget watchers, others less so.

Examples include:

- **Empire Zone program:** Originally created to assist low-income communities in attracting new investment and jobs, the Empire Zone program has become a costly untargeted subsidy lacking any real accountability for results. Abolishing the Empire Zone program would recoup almost \$600 million in tax revenue. As the economy recovers, New York should replace the Empire Zone program with an assortment of more effective programs that integrate economic and workforce development initiatives.
- **High tax aid to high-wealth school districts:** The state’s educational aid is based on a school district’s educational need and the community’s ability to support its schools with its property tax base. But along the way, millions have been diverted to school districts in prosperous communities as well. This is a mistake. School aid is not supposed to be a tax relief program, and many of these communities have significant fiscal resources and high graduation rates. By eliminating high-tax aid, New York could save \$200 million annually.
- **STAR:** The School Tax Relief (STAR) program has become a complex and regressive subsidy to prosperous school districts and homeowners. The recently established Middle-Class STAR Rebate should be abolished at a savings of \$1.2 billion. In addition, New York should implement the Commission on Property Tax Relief’s

recommendation to transform STAR into an income-based “circuit-breaker” program, while cutting overall funding by 10% at a savings of \$347 million.

- **Bundy Aid:** This program provides general operating subsidies to private colleges and universities in New York. Funding is skewed toward wealthy colleges possessing large endowments and real estate holdings. The Tuition Assistance Program does a better job of supporting low-income students attending private colleges. Suspending Bundy Aid would save more than \$40 million annually.
- **Tobacco tax enforcement:** All cigarette sales in New York are taxed, with one big exception: cigarettes sold on or by Indian reservations. The Indian reservation loophole costs New York more than \$500 million annually. Taking the legal steps necessary to reclaim this revenue will also discourage youth from smoking and improve public health.

Some knowledgeable readers may object that our proposals are politically unrealistic. That is undoubtedly true in some cases. Our goal is simply to show that with sufficient political will, the state can avoid cutting its most vital programs to the bone. Nevertheless, our elected officials are public servants. We urge them to follow the maxim of all good public servants: support strong cases, not strong advocates.

Others may disagree with the programs we target, arguing that some of these programs serve the disadvantaged, or represent an important investment, or will yield less revenue than we claim. They might be right as well. We welcome feedback and pledge to revise any factual errors.

On the other hand, we had to pass by many deserving targets for cost savings. We see particular promise in providing local and county services on a regionwide basis, as explored recently by the Commission on Local Government. New York’s many overlapping local and county government

entities evolved for historical reasons, not practical ones. Regionalizing social service districts, school districts and other municipal services would save hundreds of millions at the state and local levels, and improve the delivery of services as well.

The state also needs to look closely at the size and composition of its workforce, examine the utilization of contractors to perform state services, reduce accrued retirement costs by establishing a new pension tier, put capital projects on hold if they are not shovel-ready or essential for health and safety purposes, and establish revenue-raisers that reduce carbon emissions and dependence on foreign oil imports.

Each program that we target for cuts serves a constituency that deserves assistance; there are no easy savings to be had next year. Each tax and fee imposes an additional cost on someone who will feel it; there are no painless revenue-raisers at the state’s fingertips. We sympathize with every organization, company, provider and individual on our list, having seen programs we value targeted in past years. But as Martin Luther once said: “Here I stand. I can do no other.”

As New York struggles through a perfect storm of budgetary havoc, it seems clear that the usual approach – defend your own program and speak no evil of others – will make hard choices harder or even impossible to make. It is time to open up a discussion about New York’s top priorities and the sacrifices needed to protect them.

**Proposals for New Savings and Revenues,
New York State FY 2009-10**

(All revenues expressed in millions of dollars)

Budget Proposal	New Savings & Revenue
Education/Higher Education	
Eliminate state high-tax aid to prosperous school districts	\$202
Suspend Bundy Aid program	\$44
Economic Development	
Eliminate Empire Zone program	\$582
Health Care	
Increase covered lives assessment on insurance industry	\$120*
Shift financing for public health programs and Timothy's Law assistance to insurance assessments	\$140*
Reduce unspent Graduate Medical Education funding	\$23*
Enforce tobacco tax on Indian reservation tobacco sales to non-Indian customers	\$481
Human Services/ Public Safety	
Close six juvenile detention centers and downsize two others	\$17*
Close unneeded prisons, expand alternatives to incarceration	\$410
Abolish sex offender program in state psychiatric hospitals, house in existing correctional facilities.	\$40
Targeted Revenue Increases	
Restructure STAR into an income-based "circuit-breaker" program and cut by 10%	\$347
Eliminate Middle Class STAR Rebate	\$1,227
Establish temporary progressive income tax surcharge	\$4,300
Enact Bigger Better Bottle Bill*	\$118
Raise Beer Excise Tax from .11 cents to .25 cents	\$73
Economic Stabilization Fund	
Tap Economic Stabilization Fund	\$1,000
Total State Savings and Revenues	\$9,124

*Contained in Governor David Paterson's November 12, 2008 Special Session Budget Proposal