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ABSTRACT

This report provides an overview of the 1999-2000 executive budget for New York State. The budget calls for $72.7 billion in all funds spending and proposes that a $1.8 billion surplus from the 1998-99 fiscal year be used to fill budget gaps in fiscal years 2000-01 and 2001-02. The report focuses on spending for education, health and social services, revenue actions, and debt and capital. It opens with a financial overview, which discusses budget construction, surpluses, the budget process, and structural balance. The document outlines the perceived lack of equity in education finance and the financial status of higher education in the state. It discusses medicaid and welfare, child health insurance, the tobacco settlement, public assistance, and a proposed capital plan that marks a significant departure from recent debt issuance and capital-financing plans. Revenue actions are also highlighted, including tax cuts, fee actions, debt and debt service, financing sources, capital spending, and a debt-reform proposal. The overview states that the budget gap for 1999-2000 is small when compared to the gaps faced in recent years and has fallen substantially since its initial projection. Out-year gaps have also improved, which is due to reestimating revenue and spending and the availability of the $1.8 billion surplus. (RJM)

1999-00 BUDGET ANALYSIS

Review of the Governor's Proposed Budget

February 23, 1999

H. Carl McCall
State Comptroller

State of New York
Office of the State Comptroller
Office of Fiscal Research & Policy Analysis
Albany, New York 12236

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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 23, 1999

To the People of the State of New York:

The Governor's proposed 1999-00 Executive Budget contains a mix of both positive and troubling news. In sharp contrast to recent budgets, the Governor is proposing to curtail the State's spiraling debt burden. The reductions, however, do not occur until after one more year of over $1.3 billion in new debt. In addition, the budget does not address the need for meaningful reform of New York's debt practices. I have proposed a series of reforms that will ensure that our children's future is not hobbled by the financial decisions made today. I look forward to working with the Governor and Legislature to finally enact real debt reform for New York.

The Governor has taken a positive step by providing reserves to reduce the size of future budget gaps. This long-term approach to budgeting has been sorely lacking in New York. Despite these reserves, projections are for future gaps of over $1.5 billion that will worsen in an economic downturn. The past four years have witnessed some of the strongest revenue growth in history, and when the engine of that growth — Wall Street — falters, New York will not be prepared.

However, I am extremely concerned by the budget's overall impact on education. Although the Commissioner of Education and many others have criticized the budget as failing to include enough resources to support higher standards, mine is a criticism as much about the approach taken as it is about the level of resources. Certainly I can understand the desire to keep spending within the State's resources, but a budget that strives only for fiscal balance without also balancing the needs of our young people fails to pass a critical test.

And this budget fails education in a number of ways, including many that wouldn't cost an extra penny to correct. For example, a series of changes are urged that would impinge on local autonomy concerning school budgets, imposing not increased accountability, but simply a preference for less education. The Governor even proposes to essentially remove the independent regulation of education provided by the Regents. Although many observers have criticized this process, myself included, his proposals to simply eliminate functions — or remove them to agencies responsible only to him — are not positive solutions.

We must be concerned not only with school taxes, but also with what happens in the classroom, all of our classrooms. And over the long term, failing to invest in education can have a devastating impact on our economy and society. Taxpayers are concerned about more than just taxes — they also want good schools and affordable, accessible higher education.

Unfortunately, the Governor's school aid proposal ignores the relative needs of school districts and the widely varying degree of difficulty they will have in meeting the new higher standards. Similarly, the student aid cuts and lump sum reductions at the public universities do not adequately consider the needs of students, families or the longer term economic consequences of these changes.

The outlook for budget deliberations and the prospects for a timely budget are more disturbing this year than in the past. Although troubling, many of the deficiencies in the Governor's spending proposals can be easily addressed by the Legislature. The real conflict will center on the role of the Executive and Legislature in the budget process. The Governor has drafted his appropriation bills in a manner that the Legislature believes may restrict their ability to make modifications. Unless the Governor approaches budget negotiations flexibly, conflict over legislative modifications to the appropriation bills could result in a protracted budget battle and legal challenges.

Sincerely,

H. Carl McCall,
State Comptroller

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Overview

The 1999-00 Executive Budget proposes $72.7 billion in all funds spending, representing 1.8 percent growth over 1998-99. State funds spending grows by 1.9 percent and General Fund spending grows 1.4 percent. Spending growth is below the projected rate of inflation — a substantial change when compared to the nearly double-digit spending increases in 1998-99.

The Executive projects fiscal year 1998-99 will end with a $1.8 billion available surplus. The actual surplus is closer to $2 billion, but portions are unavailable because they are used for other purposes. The Governor proposes reserving $1.8 billion to fill budget gaps in fiscal years 2000-01 and 2001-02.

The budget gap for 1999-00 is small when compared to the gaps faced in recent years and has fallen substantially since its initial projection in June, 1998. The estimated gap for 1999-00 is now $2.3 billion lower than the initial estimate made when the 1998-99 budget was enacted. Revenue reestimates account for more than half of the revision and the remainder is related to spending reestimates. The upward adjustment in revenues of more than $1.1 billion in 1999-00 is based on better than expected revenues in the current year. On the spending side, however, there are no large revisions in the current year that would explain why spending would be so much lower than originally projected — it appears that the original estimates were erroneously high.

The gap going into fiscal year 1999-00 was only $636 million. This was closed with proposed spending reductions of almost $800 million, mainly in education and health, and $445 million in non-programmatic savings proposed in primarily in Medicaid and welfare. Spending additions of nearly $600 million include new tax cuts, debt reduction, and collective bargaining.

Structural Balance

Out year gaps have improved — $1.6 billion in 2000-01 and $2.6 billion in 2001-02. The reduction in the gaps is due to reestimating revenue and spending and the availability of the $1.8 billion surplus. Future gaps will worsen without the benefit of the surplus or if the economy weakens.

Education

School Finance

A $269 million, 2.3 percent school year increase brings state aid to just over $12 billion. Although this represents a year-to-year increase, it is a substantial cut from the $685 million increase that present law would provide.

Although the school aid proposal contains positive administrative simplification, some provisions tend to make school funding less equitable than it is at present. Across-the-board increases do not take district need into account and the elimination of many grant programs targeted at high need areas may tend to widen the current disparities. A proposed revenue cap could lock in substandard funding in many districts.

Higher Education

No tuition increase is proposed for the public universities, but there is a $59 million cut consisting primarily of lump sum reductions at SUNY and CUNY. The Tuition Assistance Program (TAP) is also cut significantly, lowering state expenditures by $106 million in 1999-00.

The TAP changes largely effect students at public universities, including a reduction in the share of tuition covered from 90 percent to 75 percent, and funding limits reflecting time taken to graduate. The changes are premised on a traditional model of student participation, and may have the effect of reducing access rather than time-to-degree, because large numbers of students with outside family and employment commitments would be adversely impacted.

The budget proposes eliminating all higher education functions from the Board of Regents and State Education Department (SED) without putting any other procedures in place. Administrative responsibilities would be transferred to the Higher Education Services Corporation (HESC), an agency under gubernatorial control.

Health and Social Welfare

Medicaid

Underlying growth in Medicaid continues to be in the 5 percent range. The Executive Budget includes $511 million in General Fund Medicaid savings. After the proposed reductions, state Medicaid costs are estimated to decline 1.6 percent. Of the $511 million, approximately $266 million represent cuts to the providers and the remaining $245 million are revenue maximizing measures. In addition, the Governor proposes accelerating the expiration of the health care provider assessments which offsets a portion of the proposed cuts. State changes in Medicaid also drive reductions in the Federal and local shares of the program. Taking all of these factors into account, providers revenues will be reduced by an estimated $767 million.

Child Health Plus (CHIP)

The Executive budget calls for a 46.9 percent increase, or $138 million, in CHIP funding for 1999-00. Enrollment has increased dramatically in recent months due to aggressive marketing and outreach campaigns. Enrollment is projected to increase to 300,000. This enrollment target reflects the transfer of approximately 80,000 children who are currently enrolled in CHIP into the Medicaid program. This is consistent with the findings of a recent audit by the Office of the State Comptroller that found that up to 63,000 children in CHIP were Medicaid-eligible and that the new federal funding would be at risk if the children were not moved to the appropriate program.

Welfare

The federal welfare windfall continues to grow this year and is estimated to total $1.4 billion in 1999-00. However, nearly $500 million is attributable to lower than expected caseloads in prior years. The Governor is proposing to use one quarter for general state and local fiscal relief, one quarter for future needs, slightly more than one quarter for child care and the remainder for other spending. Welfare caseloads continue to decline, reducing the funding needed for public assistance grants.

The Governor proposes setting aside $200 million in a reserve fund to provide additional child care funding over the next three years. Creation of the child care reserve is a step in the right direction. Although there are wide variations in the number of subsidies and slots for child care, the creation of the reserve recognizes the likelihood that further expansions will be needed. Recent audits and studies by the State Comptroller's Office have found that more planning is needed and that there will likely be shortfalls in the number of child care subsidies.

The 1999-00 Executive Budget contains no new funding for evaluation of welfare reform, but does include a reappropriation of $300,000 from 1998-99. Elements of a successful welfare evaluation program were described in detail in a report from the State Comptroller's office in 1997. Unfortunately, it does not appear that a comprehensive plan has been developed by the State to effectively evaluate welfare reform.

Debt and Capital

The proposed capital plan is a significant departure from recent debt issuance and capital financing plans. In prior years, the capital plan assumed a growing level of debt outstanding, increasing debt service costs, and a shrinking share of capital financed on a pay-as-you-go basis.

The new plan proposes a $1.3 billion increase in debt outstanding in 1999-00 followed by four years of maintaining debt at about that year's $37.5 billion level. The most recent capital plan assumed a steady increase in debt, reaching $41.9 billion in 2002-03. The reduction in new debt is accomplished by increasing the share of capital spending financed with cash. Total capital spending remains at roughly the same level as the prior plan.

Although the new plan addresses some of the symptoms of New York's weak debt management practices, it does not address the underlying problems. New York continues to require fundamental reform of its debt practices.

Despite a large surplus, the 1999-00 Executive Budget proposes spending restraint. General Fund spending reductions of more than $1.2 billion are proposed, primarily in education and health. Most of the cuts are reductions in spending increases current law formulas would provide. Approximately $450 million represent state savings that do not have programmatic effects. These cuts are partially offset by almost $600 million in new tax cuts, debt reduction, and anticipated collective bargaining increases. The Governor estimates the 1998-99 surplus will be $1.8 billion and he proposes reserving it to close gaps in fiscal years 2000-01 and 2001-02.

The fiscal health of the State continues to improve as receipts consistently outpace expectations. Wall Street is driving much of the State's economic success — but this growth cannot continue indefinitely. In the short term, reserves are at an all-time high and the State is expected to have a significant year-end surplus for the fourth consecutive year. These are positive steps, but more needs to be done to ensure long-term financial stability.

Size of the Proposed 1999-00 Budget

All funds[1] spending in the proposed budget totals $72.7 billion, an increase of $1.3 billion or 1.8 percent; state funds spending increases 1.9 percent, and General Fund spending increases 1.4 percent. Spending growth stays below the projected rate of inflation.

Spending by Fund Type
As presented in the 1999-00 Executive Budget

Comparison Basis:	Proposed 1999-00 Spending	Change Year to Year (amount and percent)
All funds	$72.7 billion	+ $1.3 billion, + 1.8 %
State funds	$49.4 billion	+ $915 million, + 1.9 %
General Fund	$37.1 billion	+ $528 million, + 1.4 %

1998-99 Surplus

Financial performance in 1998-99 has exceeded all expectations. The enacted budget projected a $761 million surplus; the Comptroller's report on the enacted budget noted that this was a conservative estimate and that the actual surplus was likely to be at least $1 billion. OSC now estimates the surplus will exceed $2 billion. Of this amount, $73 million is used to make a deposit

[1]All funds includes state funds plus federal funds. State funds is spending from state imposed taxes, fees and other charges; state funds includes dedicated funds, such as the Lottery. The General Fund contains all state-imposed taxes and fees that are not dedicated to a specific use.

in the tax stabilization reserve fund in 1998-99 and $158 million is used for budget relief in 1999-00. The Governor plans on reserving the remaining $1.793 billion surplus for future budget relief — $593 million in 2000-01 and $1.2 billion in 20001-02.

1998-99 Surplus by Source
(in millions)

Source	Amount
Excess balance in community projects fund due to vetoes	$158
Surplus in Enacted Budget	$761
Higher than expected Income Tax Receipts	$531
Higher than expected all other receipts	$350
Lower than expected Spending	$165
Delay in authorized 1998-99 community projects spending	($68)
Lower than expected STAR costs	$119
Lower credit reserves in the refund reserve account	$8
TOTAL SURPLUS	$2,024
Excess balance left in community projects fund as a resource for 1999-00	($158)
Unplanned deposit to the Tax Stabilization Reserve Fund	($73)
SURPLUS MOVED TO 1999-00	$1,793

The 1998-99 budget was enacted with a surplus of $761 million. In addition, there was an anticipated balance of $158 million in the community projects fund that the Executive counted as available for general spending in 1999-00.[2] This balance exists because the Governor vetoed $153 million of the total $311 million legislative addition for legislative initiatives.[3]

Receipts for 1998-99 are now expected to be $881 million higher. Much of the better-than-expected revenue collections have been driven by the Personal Income Tax, with strong growth in both withholding and estimated payments. New York is not alone in experiencing brisk revenue growth; the federal government has seen its income tax collections exceed expectations as have other states. It is likely that growth is due to strong financial markets combined with changes in federal tax policy.

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[2] In the past, balances in the community projects fund were not counted as part of the surplus. This was because there were appropriations against the available fund balance and spending was simply delayed. This is different from current circumstances where there are no appropriations for the $158 million and the funds were counted as budgetary resources from the time of budget enactment.

[3] The single appropriation providing for the transfer of the $311 million to the community projects fund was not vetoed.

Spending is expected to be $165 million lower than originally projected. However, $68 million is attributable to delays in community projects spending that will now be made in 1999-00. Therefore, slightly less than $100 million is considered an available surplus for 1999-00.

The estimated cost of STAR in 1998-99 was $704 million. However, due to lower than projected participation rates, the actual cost of the program will be only $585 million. This adds $119 million to the surplus.

The total General Fund surplus for the 1998-99 fiscal year is over $2 billion, more than twice the Executive's June 25, 1998 estimate. After making a $73 million deposit to the tax stabilization reserve fund and setting aside the portion attributable to the community projects fund, an estimated $1,793 million will be moved via the income tax refund reserve account into the 1999-00 budget.

1999-00 Budget Construction

When the 1998-99 budget passed, the Executive estimated the 1999-00 budget gap would be approximately $2.15 billion (excluding unspecified efficiencies and tobacco settlement monies). This estimate assumed the use of $761 million from the surplus. Without the surplus, the gap was $2.911 billion.

The estimated gap faced by the Executive when constructing the 1999-00 budget was only $636 million and this is without using any of the 1998-99 surplus. The budget gap for 1999-00 is small when compared to the gaps faced in recent years and has fallen substantially since its initial projection in June, 1998. The estimated gap for 1999-00 is now $2.3 billion lower than the initial estimate made when the 1998-99 budget was enacted. Revenue reestimates account for more than half of the revision and the remainder is related to spending reestimates. The upward adjustment in revenues of more than $1.1 billion in 1999-00 is based on better than expected revenues in the current year. On the spending side, however, there are no large revisions in the current year that would explain why spending would be so much lower than originally projected — it appears that the original estimates were erroneously high.

To close the 1999-00 gap of $636 million, the Executive proposes a number of spending reductions, including:

- $244 million less than current law for school aid (state fiscal year basis)
- $266 million in Medicaid cuts to providers
- $165 million less in higher education (mostly TAP)
- $115 million in other reductions
- $400 million from maximizing federal revenue in Medicaid and welfare
- $45 million from changing the SSI payment date which results in making 11 instead of 12 payments to the federal government

The Executive also proposes the following additions in spending:

- $250 million in debt reduction
- $165 million in accelerated tax cuts (health care provider gross receipts assessment)
- $100 million in reserve for collective bargaining costs
- $52 million in new tax cuts
- $32 million in miscellaneous additions identified in the 30 day amendments

Budget Process

Deliberations over the 1999-00 budget will be substantially more complicated this year than in the recent past. Issues confronting the Governor and Legislature include:

- Resolving the content of appropriation bills. The 1999-00 budget's appropriation bills include a large number of provisions that are not appropriations. These provisions were formerly contained in language bills or bills making amendments to permanent law.

- Financial penalties that will be imposed on legislators if the budget is not enacted by the beginning of the fiscal year. Legislation (Ch. 635, L. 1998) adopted at the end of 1998 requires that legislators' net pay be withheld until the budget has been adopted. This may add to the rancor of budget deliberations if the April 1 deadline is not met.

- The role of conference committees. In 1998-99, the Legislature instituted a conference committee system that substantially improved the openness of budget negotiations and provided meaningful participation in the budget process for rank-and-file legislators. The Governor's role, if any, in the conference committee process will be an issue to consider this year.

A fourth issue, the Governor's submission of the bulk of proposed appropriations in a single 1,415 page bill was resolved when the Governor amended his budget to split the proposal into four separate bills.

Conference Committees

The use of conference committees was a positive step towards budget reform in 1998-99. The Legislature has not yet, however, appointed committees to review the 1999-00 budget.

One significant modification to last year's process that should be considered is the Executive's role in conference committees. Unlike past practice, the 1998-99 budget was negotiated without the Governor's participation. This contributed to the large number of line item vetoes that the Governor issued when he acted on the adopted budget. A process that includes the Governor's participation may prevent similar vetoes in this year's budget.

Content of Appropriation Bills

New York's constitutional provisions related to budgeting contain a number of ambiguities over the content and structure of budget bills. Since the current system of Executive budgeting was adopted in New York in the early part of this century, conflict over the interpretation of these provisions has resulted in litigation and a series of decisions from New York's highest court. Budgeting has also changed dramatically since the 1920s, when appropriations contained authorization to pay specific positions within state government. Appropriations today are frequently complex, multi-billion dollar authorizations to provide funding for large programs. Budgeting in New York thus involves interpreting a patchwork of case law and archaic constitutional provisions.

Since 1993, budget legislation has been separated in three types of bills:

- Appropriation bills containing spending authorizations,
- Article VII bills making changes to permanent law, and
- Language bills that include provisions specifying how appropriations are to be administered.

Prior to 1993, language provisions were generally included as part of the negotiated appropriation bills. The requirement that language be included in separate bills is the result of the "Bankers" decision.[4] This case involved the Legislature's addition of a fee in an appropriation bill. The Court of Appeals determined that the fee was unconstitutional because the Legislature is constitutionally restricted to only striking out or reducing appropriations or adding new appropriations that are separately stated. Because the fee was not an appropriation, its inclusion in an appropriation bill was not permitted.

The 1999-00 Executive Budget contains a new variation on the Bankers theme. The Governor's appropriation bills contain a substantial number of language provisions, including much of the Executive's Medicaid cost containment and school aid proposals. Because the Bankers decision only addressed the Legislature's power to modify the Executive Budget, and did not address the Governor's ability to include language provisions in the budget proposal, the Governor added these provisions and appears to be taking the position that the Legislature will be restricted from amending these language provisions.[5]

Unless the Governor and the Legislature can come to an agreement on modifications to the language provisions, delays in budget adoption and litigation over the constitutionality of the Governor's proposal and/or the legislature's enacted budget are likely to occur.

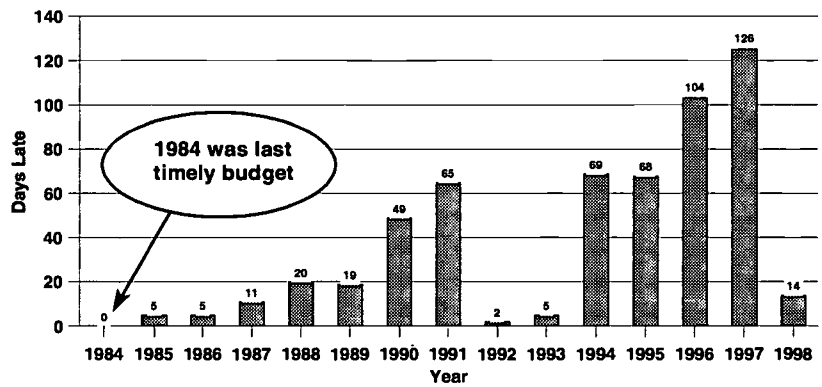
[4] New York State Bankers Association v. Wetzler, 81 NY2d 98, April 1, 1993.

[5] Letter from Speaker Sheldon Silver to Governor George E. Pataki, February 10, 1999.

The issues related to language in appropriation bills, the Legislature's ability to make changes to the Governor's proposals, and the extent of the Governor's power in exercising line item vetoes highlight the need for comprehensive reform of the State's budget process and significant changes to the State Finance law.

Late Budgets

Number of days past March 31 deadline



Future Budget Gaps

The Executive Budget projects a gap of $1.1 billion in 2000-01 and $2.1 billion in 2001-02. These gaps are artificially understated by assuming $500 million in unspecified savings in 2000-01 and 2001-02. In addition, these gaps are reduced by the use of $1.8 billion in reserve funds.

Executive Budget Projections for Future Year Budget Gaps
(in millions)

Multiyear Gap Projections	2000-01	2001-02
Executive Estimated Base Gap	$(2,236)	$(3,771)
Proposed Use of 98-99 Tax Reduction Reserve	$ 593	$ 1,200
Unspecified Efficiencies	$ 500	$ 500
Executive Estimate	$(1,143)	$(2,071)
Unspecified Efficiencies	$ (500)	$ (500)
Total Gap To Be Closed	$(1,643)	$(2,571)

Source: 1999-00 Executive Budget.

The Executive has included savings from unspecified efficiencies in the last few budgets. There is no plan that would produce the unspecified efficiencies — the Executive has included these savings as a placeholder. Because the Executive has tended to overestimate future spending, gaps have been reduced due to reestimates, rather than actual efficiencies.

The future gap estimates assume underlying growth in receipts that averages 3.6 percent over the two year period. This appears consistent with slowed economic growth since the average of the prior three years is more than double this rate.

Spending growth for 2000-01 and 2001-02 averages 4.2 percent, with local assistance spending growing at nearly 5 percent. Both Medicaid and welfare spending are projected to grow at higher rates in 2001-02 than 2000-01. Medicaid growth is estimated to be 5.7 percent in 2000-01 and 7.8 percent in 2001-02. Welfare is projected to increase only 2.7 percent in 2000-01 but at 6 percent in 2001-02 when caseloads are expected to stabilize and federal work requirements drive higher spending for support services. Proposed reductions in education spending from current law also contribute to the improvement in the gaps for 2000-01 and 2001-02.

The outlook for the next two years has improved when compared to gap estimates for prior years. Much of this appears to be attributable to more accurately reflecting growth in receipts and spending.

Reserves

The Executive budget includes more than $3.5 billion reserved for specific future spending needs or in rainy day funds. This amount represents almost 10 percent of total General Fund revenues and is much higher than it has been in the recent past.

Reserves
(in millions)

Source	Amount
Tax Stabilization Reserve Fund	$473
Contingency Reserve Fund	$100
1998-99 Surplus	$1,793
Set-aside for future welfare needs	$588
Set-aside for future child care needs	$200
Debt Reserve	$250
Reserve for Collective Bargaining	$100
Total	$3,504

The reserves have been created for a variety of purposes, including:

- The use of the Tax Stabilization Reserve Fund is restricted to unplanned budget deficits.
- The Contingency Reserve fund was created to provide reserves that the State could use for litigation-related costs.
- Although the Governor recommends using the 1998-99 surplus to pay for future tax cuts, these funds could be used for any purpose.
- The reserves related to welfare, $588 million and $200 million, are the result of excess federal funding. Pursuant to federal law, these funds cannot be used for non-welfare purposes.[6] However, the contingency fund for future welfare needs does provide a cushion for increased spending resulting from higher caseloads in the event of an economic downturn. The set-aside for child care provides additional funding over the next three years for increased child care needs related to stricter work participation requirements.

While almost all of the above funds have been earmarked for certain purposes, it is possible, with appropriate statutory changes, to use these monies, with the exception of the federal welfare

[6] Although these federal funds can provide State and local budget relief, this is limited by the maintenance of effort requirements.

funds, for other purposes. The only clear reserve for economic hardship is the Tax Stabilization Reserve Fund. This type of reserve needs to be expanded to ensure that the State is prepared for an economic downturn.

School Finance

Including modifications during the 30-day amendment period, the Executive Budget provides a $269 million, 2.3 percent school year increase, and brings total state aid to just over $12 billion. Although this represents a year-to-year increase, it is a substantial cut from the $685 million increase that present law would provide.[7] Present law funding increases are driven by a continuing phase-in of the formula enacted in 1993, but never fully funded, as well as by the series of multi-year initiatives enacted last year (largely those originally recommended in the Assembly's LADDER proposal).

Although the proposal contains some positive administrative simplification, some provisions tend to make school funding less equitable than it is at present. Below-inflation, across-the-board funding increases fail to take into account district need, and the elimination of many grant programs targeted at high need areas may tend to widen the current disparities among high and low wealth school districts.

The Commissioner of Education and the major education advocacy groups have all criticized the proposal, saying it will not support efforts to meet the new higher standards, especially in areas of high poverty, which require extra resources.

Simplification without Equity

The school aid proposal includes a dramatic simplification and consolidation of aid formulas, eliminating many categorical aids, complex calculations and "spend-to-get" requirements. A new educational improvement block grant is added to substitute for some of the eliminated aid categories. Such an approach could relieve administrative burdens on school districts and the State, make aid payments more predictable and provide school districts with much greater flexibility.

Unfortunately, the Executive's proposal also removes school districts' relative wealth from the majority of the aid calculation. That change, along with the elimination of a number of initiatives targeted to needs in poor and urban areas, make the proposal extremely anti-equity. A proposed revenue cap also would lock in substandard funding in many districts. This approach not only ignores the need to address equity affirmatively, it heightens the litigation risk the State is already facing with its school finance system under challenge (CFE v. State of New York).

[7] According to State Education Department estimates as of the time of the Executive Budget proposal. These estimates, however, have since been revised upwards as a result of revised school district data submissions, and as of the February 12 state aid estimates, present law is expected to provide an $867 million increase. Most of this change ($112 million) is due to increased reimbursements for building expenses.

The primary operating aid formulas that were based on school district wealth and other measures are replaced by a guaranteed minimum aid increase for all districts of 1.25 percent, which can be adjusted upward as high as 3 percent for school districts experiencing enrollment growth. This means that wealth and relative need have been effectively removed from more than half of the aid allocation — a change that is antithetical to the equalizing role that school aid has always been intended to provide.

It should be noted that a simplified aid structure in itself is not inconsistent with equity, or with the needs associated with higher standards. However, the specific proposals in the Executive Budget do not address either goal. Previous Comptroller's reports have advocated simplification under a block grant approach in combination with adequate funding and equitable formula reforms. Although the greater efficiency inherent in the simplified approach recommended by the Executive is worth pursuing, it should be pursued in a manner that also addresses equity and standards.

Block Grant

A $200 million block grant would replace separate funding streams for pre-kindergarten, full-day kindergarten, class size reduction and minor maintenance aid, as well as provide funding for any other programs of district choice. Although the aid would be distributed through an equalizing formula and provides flexible funding, the total dollar amount is less than what districts would have gotten under the present law.

Block Grant and Federal Funding Compared to Eliminated Aid Categories
(in millions)

	1998-99	1999-00	2000-01	2001-02
Eliminated Aid Categories:				
Pre-Kindergarten	$67	$100	$225	$500
Full-day Kindergarten	$13	$10	$10	$10
Class Size Reduction	–	$75	$140	$225
Minor Maintenance	$50	$50	$50	$80
Subtotal	$130	$235	$425	$815
New Funding:				
Proposed Block Grant*	–	$200	$200	$200
Federal Class Size Aid*	–	$104	$104	$104
Subtotal		$304	$304	$304

*The block grant is continued at the 1999-00 proposed level; federal aid is also assumed to continue at the expected level for 1999-00 (although the President has proposed a 17 percent increase).

In the coming year eliminated aid categories total $235 million (including $75 million for class size reduction). It should be noted that the elimination of class size reduction incentive aid, just as this previously enacted program was to have begun, was also proposed by the Regents, because a new category of federal aid is expected to provide $104 million in the upcoming year. The block grant and the new federal funding together exceed the eliminated aid categories for 1999-00, but are less than those categories in future years, as they were to have increased to $815 million.

Furthermore, the multi-year programs eliminated, such as pre-kindergarten and minor maintenance aid, are based on a legislative-executive agreement on which many districts have initiated programs and based their plans. For the pre-kindergarten program in particular, elimination of the incentive aid program (by folding it into the block grant) will in all probability cause districts to abandon their plans and prevent others from starting such programs. Pre-kindergarten programs are not mandatory and most school districts will simply not fund the programs without the earmarked funds. For example, even under the current program with dedicated funding, about half of the districts eligible chose to initiate programs.

Other Cuts/Changes

A new $25 million tax freeze/limitation incentive aid program that was to have begun this year was also eliminated. This proposal was strongly opposed in earlier Comptroller's reports, because the program was unworkable and unrealistic on several fronts. Research showed that it would have encouraged school districts to spend down fund balances or provided rewards for anomalous financial events (such as lagged state aid payments that create windfalls).

Other cuts to present law programs include a dramatic reduction in BOCES aid, an elimination of one category of limited English proficiency aid (a general formula remains), and two grant programs targeted to big city programs, Improving Pupil Performance (IPP) and Categorical Reading. During the 30-day amendment period, the Executive proposed a new $115 million program to help students in the big five cities meet the new fourth-grade reading and writing requirements. This program, EArly Grade Literacy Education (EAGLE) replaces the two eliminated categorical reading and performance programs, and as these programs currently provide $130 million in aid, EAGLE represents a 12 percent cut.

The BOCES cut is part of a two-year plan to eliminate separate reimbursements for programs provided through BOCES. Current aid levels are reduced by 25 percent (a cut of more than $80 million) for 1999-00 and then folded into general operating aid in the following year. This latter recommendation would have the probable impact of either eliminating or dramatically reducing BOCES services. Although BOCES have often been under scrutiny to make their services more cost effective and accountable, it is clear that the need for BOCES services still exists, particularly in smaller and rural districts that would be unable to provide occupational education and other vital services without them.

Facilities

The Governor's proposal pays increased building aid in accordance with present law and increased school district building expenditures. However, the proposal includes a provision to apply to future reimbursement rates; it removes a long-standing save-harmless provision. This means that virtually all districts will see reimbursement rate reductions, with some as much as 50 percent. This change could have a chilling effect on school construction in the coming year, derailing building plans encouraged through previous years' increases in reimbursements.

Minor maintenance aid, another program that was folded into the block grant, was created to promote better building maintenance. Previous Comptroller's reports have suggested this aid stream be increased and reformed in conjunction with other systemic reforms, such as those enacted with last year's RESCUE program. Given the critical school facility needs statewide and the ongoing problem of deferred maintenance, which exacerbates school building decay and potentially affects student performance, this recommendation is very unfortunate.

More positively, a proposal is to be introduced in the coming weeks that would allow school districts to obtain low cost borrowing and construction management services through the Dormitory Authority (DA), a statewide public authority which is exempt from the Wicks Law.

New York City/Moreland Act Commission

Just prior to the release of his budget, the Executive announced that a special investigative commission authorized under the provisions of the Moreland Act would be looking into attendance record keeping in New York City schools and the activities of the SCA. The timing and tone of the announcement have caused many observers to conclude that its real purpose is to draw attention from the state budget's impact on City schools.

Both the attendance issue and the School Construction Authority have been subjects of Comptroller's audits, and recommendations have already been made to improve both. In addition to the recommendation included in previous audit reports, the Comptroller has called for the SCA to be placed directly under the control of New York City's mayor, thus placing the responsibility under a single accountable elected public official. The Comptroller has criticized the initiation of a new and costly investigation at this time, because it will probably not add any further understanding of the problems and it would be more productive for government to focus on solutions.

Despite the Executive's promise last year to address equity issues in the formula, particularly for New York City, overall the changes do not accomplish this goal. New York City's aid increase is only $76 million, or 28 percent of the $269 million statewide increase. The Governor's office has responded to complaints from the New York City mayor and schools chancellor about their share of aid by saying that categorical eliminations shouldn't "count" in the shares calculation and also that the New York City enrollment figures are suspect, and thus the City schools may not deserve what they are now receiving.

STAR Program

The STAR program continues in implementation as scheduled, with non-senior taxpayers receiving the first installment of their tax relief this year (the program is phased-in over three years). The initial participation rates were somewhat lower than expected, and the 1998-99 cost for the exemptions fell to $500 million from $619.[8] The 1999-00 cost is projected to be roughly $1 billion (down from an initial estimate of $1.17 billion), but the fully implemented estimate of $2.7 billion is maintained, as participation rates are expected to increase with time.

At the time STAR was proposed and enacted, the Executive designated equal amounts of resources going to school aid and tax relief through STAR. Last year, the amount of money allocated to school aid ($850 million) actually exceeded the commitment to STAR. This year, however, the Executive's plan would devote $500 million to tax relief compared to $269 million for education.

New Cap on Revenues

A modified version of the cap on local school district revenues originally proposed with STAR is reintroduced, to be effective for 2000-2001 school year budgets. The cap purports to be targeted at high-spending districts, but it makes no distinction based on how much schools are spending per pupil. Rather, an automatic cap is imposed on districts with average spending increases over a two-year period exceeding a threshold (the lesser of 140 percent of the inflation rate, or 4 percent). The cap is similar to the current law cap applying to school districts where budgets are defeated by the voters, being set at the lower of 120 percent of the inflation rate or 4 percent. However, the new cap is applied to increases in the property tax levy (not overall spending) and can be overridden by a two-thirds "super-majority" vote by district residents. Additionally, a variety of new reporting mandates are imposed under a "truth in taxation" proposal, including "property tax report cards" and a requirement that school districts advertise to their voters any tax decrease that could occur if the school budget is voted down.

In support of the proposed cap the budget presentation referred to the STAR program as providing "an inviting target" for school districts to increase taxes. However, STAR is specifically designed so that school districts cannot spend the funds, which may only be used to provide exemptions for qualifying homeowners, and both the levy amount and tax rate are unaffected by the exemptions. Tax increases with or without the STAR program are therefore just as noticeable in the budget, and the renters and businesses not benefitting from STAR represent a substantial proportion of the property tax base, even the majority of it in many urban areas.

The imposition of a cap at this particular time is puzzling. School district spending and tax increases have declined substantially since the 1980's, particularly in the most recent years. For example, school district property tax levies increased only 3.1 percent in 1997-98 and 3.4 percent

[8]These amounts – $500 million and $619 million – exclude the portion of STAR related to the New York City personal income tax ($85 million).

in 1998-99; in contrast, state budget increases for these two years were 5.4 percent and 9.7 percent, respectively. Last year school district budgets passed at a record-breaking rate of 94 percent, providing another indication that voters are satisfied with school district taxing practices.

The proposed cap is very damaging to equity concerns, since it is imposed on low-spending and high-spending districts alike. Low-spending districts and districts with large concentrations of disadvantaged students have a much greater need to increase spending than wealthier areas with relatively fewer educational problems, and the proposed cap neither recognizes this need, nor differentiates between the radically differing circumstances among districts. School districts' governance procedures are generally more open than any other level of government, and the Executive's recommendation is an unwarranted intrusion into the process.

Charter Schools

Charter schools were authorized by legislation passed in December, and it is expected that some may begin to operate in the 2000-2001 school year (those that can get applications in by October 1999). The original legislation established a new fund to help stimulate charter school creation by funding start-up and facilities costs, to be supported by federal charter school funding (expected to be around $5-7 million for New York State in FFY 1999), as well as state funds and private donations. The federal funds, however, may not be used to purchase buildings or build new structures, and are thus inconsistent with one of the major purposes identified for the fund. The Executive Budget appropriates $1 million in state funds to the stimulus fund, which overall is given $10 million in appropriation authority to provide for expenditure of federal funds and private donations. Elsewhere in the budget $750,000 is appropriated to SUNY and $275,000 to the Education Department for their implementation activities.

Regents Regulatory Authority

The Governor's budget includes a regulatory proposal that would directly interfere with the New York State Board of Regents' constitutionally authorized independent regulation of educational matters. Under his proposal, a new provision of law would require the Regents to obtain the approval of the Governor's Office of Regulatory Reform before implementing any regulation with fiscal consequences. For example, under such a provision, the Regents would have had to obtain approval from the Governor to raise graduation requirements. In essence, this change would place the Executive in a position of control over educational issues in a manner contrary to the constitutional outline for governance by an independent, non-political board.

Higher Education

No tuition increase is proposed for the public universities, but there is a $59 million cut consisting of lump sum reductions at SUNY and CUNY ($32 million and $24 million respectively), and $3 million from eliminating state funding for the charge-back to counties for students attending the Fashion Institute of Technology (FIT), which would increase local government costs. The Tuition

Assistance Program (TAP) is also cut significantly, lowering state expenditures by $106 million in the 1999-00 fiscal year.

Public University Systems

The reductions in SUNY and CUNY's 1999-00 operating budgets are identified as savings from "efforts to improve cost-efficiency and productivity without disrupting essential academic services," although there is no plan as to how the savings will be achieved. In essence, the public university budgets have been "straight-lined," with no funding provided for inflation, either for personnel or other expenses. SUNY estimates that they will need $32 million to fund collective bargaining agreements already in place for faculty and staff, and $11.8 million for other inflationary increases, such as for rents, library and instructional materials and equipment. This year's budget continues the long-term pattern of erosion in state support for the public higher education, and is considered by many to have a significant negative affect on academic quality evidenced by the decline in numbers and proportions of full-time faculty. A $16 million legislative addition to address this issue was vetoed last year.

Although funding for community colleges was not cut in the budget proposal, an increase in operating support for these institutions was not funded, and the Chancellors of both public university systems have identified this as a high priority. The State currently provides aid of $2,050 per student, and the State University Board of Trustees had requested an increase of $150 in this amount, which would apply to both SUNY and CUNY community colleges. Although community colleges were originally created under a model of one-third support each from state funds, local tax revenues and tuition, the share provided by the State has fallen below that level in recent years. The requested increase would cost approximately $28 million and SUNY estimates it would raise the State's share of support for their institutions to 32 percent (from about 30 percent this year).

TAP Reductions

The biggest cut in the TAP program is effected through a reduction in the share of the tuition covered from 90 percent to 75 percent. This change generally affects only public sector colleges, because the contribution for students at private sector colleges with their higher tuition levels is limited by a ceiling (and thus this percentage reduction is without effect at virtually all private sector institutions). Other changes would limit the number of semesters for which students may receive TAP while pursuing an associate degree, require TAP recipients to register for 15 credit hours per semester, reducing awards by 80 percent if less are earned, and change income definitions.

The shorter limit on number of semesters for aid and the 15-credit requirement are both described as encouraging timely completion of degree programs. However, there is a significant concern that these changes would have the effect of reducing access rather than time-to-degree, because large numbers of non-traditional students with outside family and employment commitments would be adversely impacted.

Another proposal known as the Achievement Incentive Dividend (AID) would pay a "bonus" to students completing an associates degree within two years or a baccalaureate within four years. The aid incentive can be substantial, equaling as much as $3,800 at SUNY for a maximum aid recipient earning a four-year degree; it is calculated as a refund of TAP award reductions, including the 25 percent remaining after the 75 percent reimbursement and the $200 reduction in the 3rd and 4th year grants (also known as the "upper-cut"). However, the bonus would be paid after a degree is obtained, and funds would thus be diverted from assisting students during the time they are in college.

Last year's budget called for two studies, one covering TAP and student aid generally, and one focused on the issue of assistance for part-time study. Both studies are to be completed this spring and it would be advantageous for any restructuring of student aid to include their input.

Regents Higher Education Functions

The budget proposes eliminating all higher education functions from the Board of Regents and State Education Department (SED). Administrative responsibilities would be transferred to the Higher Education Services Corporation (HESC), including those for Bundy Aid, the HEOP program and other opportunity programs. The Regents' regulatory and planning processes for higher education would simply be abolished without any other processes put in place, which is described as devolving decision-making.

Although the Executive has proposed similar actions repeatedly in the past, the memorandum in support of this year's proposal cited a report from the Comptroller's Office, *New York State's Higher Education Policy Vacuum* (September 1998) as justification for the recommendation. The Comptroller's report cited did identify problems and shortcomings in the current planning and policy development process, and it also recommended that a new statewide higher education coordinating board be considered. However, the *Policy Vacuum* report did not propose simply abolishing the current structures, and this recommendation is not endorsed by the Comptroller.

Medicaid

The Executive Budget includes proposals that reduce General Fund Medicaid spending by $511 million in 1999-00. Of this amount, $266 million directly reduces payments to providers. The remaining $245 million reduces state Medicaid costs by maximizing federal payments. The aggregate impact of the provider cuts, after including the federal and local shares of Medicaid, is approximately $848 million. These reductions are offset by a estimated net benefit of $82 million attributable to the proposed elimination of health care provider assessments one year early. In addition, the Executive Budget continues cost containment actions that have been in place since 1996-97 and were scheduled to sunset on March 31, 1999.

Assuming enactment of the Governor's proposals, state Medicaid costs are estimated to increase 2.3 percent in 1998-99 and decrease 1.6 percent in 1999-00. In order to obtain underlying growth in program spending, adjustments need to be made, they include:

- ✓ The 53rd Medicaid payment paid in 1997-98. The extra payment causes program growth to be overstated in that year. It also has the effect of artificially deflating program growth in 1998-99;
- ✓ The value of proposed cost containment and revenue maximizing actions;
- ✓ The value of non-recurring spending offsets.

Department of Health General Fund Medicaid Spending: Executive Budget
(in millions)

	Amount	Growth	Program Growth
1997-98 Actual	$5,374	1.5%	4.1%
1998-99 Estimated	$5,585	2.4%	4.6%
1999-00 Proposed	$5,498	-1.6%	5.4%

Estimated program growth in state Medicaid spending is approximately 4.6 percent in 1998-99 and 5.4 percent in 1999-00. Absent any other factors, Medicaid would be expected to grow between 2.5 and 3.0 percent due to scheduled inflationary rate increases. Other factors affecting state growth include changes in utilization and enrollment. Although total enrollment is projected to remain stable, the number of Medicaid-only enrollees who tend to use more services, is expected to continue to increase. Enrollment will rise further due to the transition of approximately 80,000 Medicaid-eligible Child Health Plus (CHIP) enrollees into Medicaid.

At the national level, the Congressional Budget Office projects federal Medicaid spending will grow 7.0 percent in federal fiscal year 1999 and 8.0 percent in 2000.[9] At the local level, New York City is projecting growth of 3.8 percent. While the national and local estimated growth rates provide some insight into the overall trends, caution must be used when extrapolating to the State since the State's share of total Medicaid costs differ from the federal and local shares and depends on the type of medical service.

Approximately one-third of the total cut in provider payments is attributable to eliminating inflationary increases. The cost containment package also includes an estimated 15 percent reduction in Medicaid support for Graduate Medical Education (GME). In general, the provider cuts are allocated among hospitals, nursing homes, home care, and others consistent with their share of total Medicaid expenditures. Continuation of prior year cost containment, first enacted in 1996-97, results in the continuation of approximately $600 million in state savings.

The Executive proposes $180 million in additional hospital and nursing home intergovernmental transfers (IGTs), which have no negative fiscal impact on providers. The intergovernmental transfer is a mechanism that allows the State to maximize federal Medicaid funding. There are upper thresholds on the level of IGTs the federal government allows. The proposed elimination of Medicaid reimbursable provider assessments provides room for additional IGT actions. The Governor contends that since the managed care program will soon be mandatory, the favorable, reduced local share for managed care that was supposed to encourage enrollment under the voluntary program is no longer necessary and should be eliminated.

The Executive Budget proposes accelerating the scheduled expiration of provider assessments by one year. The 0.1 percent assessment on hospital gross receipts and the 2.4 percent assessment on nursing home receipts would be eliminated on April 1, 1999. The elimination of the hospital and clinic assessments reduces their taxes by $33.4 million. The 2.4 percent nursing home assessment lowers nursing home taxes by $190 million; however, the assessment was reimbursable through the Medicaid rates so the net benefit to nursing homes is $48.3 million. To derive the overall provider impact the aggregate impact of the Medicaid cuts should be combined with the positive impacts of the proposed tax reductions. This reduces the total provider cuts from $848 million to $767 million.

[9] The Economic and Budget Outlook: Fiscal Years 2000-2009. Congressional Budget Office. January 1999.

1999-00 Proposed Medicaid Reductions [10]
(in millions)

Provider Type	Description	State Impact	Provider Impact
Hospitals	Offset inflationary increases	$29	$114
	Graduate Medical Education (GME) reduction	$23	$93
	Other reductions	$42	$168
	Additional Intergovernmental Transfers (IGT)	$40	$0
Nursing Homes	Offset inflationary increases	$53	$133
	Other reductions	$44	$110
	Additional Intergovernmental Transfers (IGT)	$140	$0
	Notwithstand cap on provider assessments	$30	$0 [11]
Home Care	Offset inflationary increases	$23	$58
	Other reductions	$23	$58
Physicians and other providers	Medicare crossover	$29	$116
Managed Care	Local share shift and imposition of co-pay	$35	$0
Combined		$511	$848

1999-00 Estimated Net Change in Provider Revenues[12]
(in millions)

Provider Type	Medicaid Impact	Provider Assessments	Net Impact
Hospitals/Clinics	($375)	$33	($342)
Nursing Homes	($243)	$48	($195)
Home Care	($115)	$0	($115)
All Other	($116)	$0	($116)
Total	($848)	$82	($767)

[10] Figures may not add precisely due to rounding.

[11] Although it could be argued that notwithstanding the cap on provider assessments deprives health care providers of planned rebates, the cap on assessment collections has been consistently ignored since it was first created and it does not represent any year to year change in policy.

[12] Figures may not add precisely due to rounding.

Child Health Insurance Plus (CHIP)

CHIP was created in 1991 to help make health insurance more affordable for children. Many children were ineligible for Medicaid because their families' earnings were over the eligibility threshold, yet these same families earned too little to afford to pay for insurance. CHIP pays for, or subsidizes, health insurance for these children.

The federal Balanced Budget Act of 1997 included a new block grant program for states to provide expanded health insurance coverage for children. New York will now receive approximately $256 million annually in federal funds. This new funding, combined with existing state funding enabled the State, after some debate, to dramatically expand and improve the current program. [13] Legislation passed last year expanded the number of children eligible for the program, expanded the covered services to include vision, dental and certain mental health visits, and reduced the premium payments made by families.

The State has embarked on an aggressive marketing and outreach campaign to alert eligible families and children of CHIP. The results are remarkable -- enrollment has increased from 153,000 in November of 1997 to 261,000 one year later. The enrollment goal for 1999-00 increases by nearly 100,000 to 300,000, after accounting for the movement of Medicaid-eligible children to the appropriate program. Thousands of children currently enrolled in CHIP are eligible for Medicaid and must be moved to that program in order to ensure receipt of the full amount of federal funding. A recent audit by the Office of the State Comptroller found an estimated 41 percent of CHIP enrollees, 63,000 for the period covered by the audit, appeared eligible for Medicaid. [14] Ultimately, the Executive's enrollment target for CHIP is 384,000 children.

Child Health Insurance Program Summary
(in millions)

Program	1998-99	1999-00	Change	Growth
Federal Funds	$182	$278	$96	52.7%
State Funds	$112	$154	$42	37.5%
Total Spending	$294	$432	$138	46.9%

[13] Initially, the Governor proposed only a modest reduction in the required family CHIP premium contribution and an expansion in the services covered by CHIP (vision, dental and mental health). However, according to a report by the Office of the State Comptroller entitled Child Health Insurance: Current Issues and Policy Options (June 3, 1998) the Governor's plan left an estimated $650 million in available funding unspent over the next six years.

[14] Office of the State Comptroller, Management of Child Health Plus Program, Report 97-S-10, April 1998.

The State portion of CHIP funding comes from the Health Care Initiatives Pool created by the Health Care Reform Act of 1996. This was the legislation that deregulated hospital rates paid by non-Medicaid or non-Medicare payors. This legislation, and the associated surcharges and pools, expires on December 31, 1999.

Tobacco Settlement

On November 17, 1998 eight state attorneys general announced they had successfully negotiated a settlement with the largest tobacco companies. The settlement will cover the 46 states that had not already reached settlements with the industry. Approval is considered final when 80 percent of the 46 states have entered into the agreement or June 30, 2000, whichever is earlier. The total settlement is valued at $206 billion over 25 years.

New York would receive payments indefinitely — over the next 25 years they are expected to total approximately $25 billion. Companies would deposit $306 million in an interest bearing account in 1998 as a down payment and the first annual payment of $818 million would be made in 2000. New York and California receive about the same award and represent the two largest state settlement amounts. Although it is possible, the State does not expect to receive any settlement payments until fiscal year 2000-01.

New York's Consent Decree was approved in State Supreme Court on December 24, 1998. This agreement provides for the distribution of the settlement funds with the State's localities since they too paid a share of the increased health costs associated with smoking, particularly in the Medicaid program. New York State would receive approximately 51 percent of the total settlement, New York City would receive 26.7 percent and the balance of 22.3 percent would accrue to other localities. However, New York City, Erie and Westchester, all of whom had pending related litigation, filed an appeal with the courts on January 22, 1999, contending that the distribution formula was not fair for their respective localities.

The Executive Budget proposes creating a new tobacco fund that would receive all monies from the settlement. The legislation creating this fund would also dedicate 75 percent of the State's share of the settlement to reduce debt and the remaining 25 percent to pay for unspecified health initiatives. The health care allocation would be deposited in one or more of the existing Health Care Reform Act pools (bad debt and charity care, health care initiatives, or professional education). Since these pools expire on December 31, 1999 it is unclear on what area the Governor intends to focus and whether current funding would be increased or supplanted by this addition.

The following table outlines the settlement funds the Executive expects the State will receive over the next few years. The estimates differ from those released by the Attorney General because they incorporate a number of adjustments called for by Master Settlement. The major adjustment is the volume adjustment — if volume declines the base settlement award is reduced. The downward trend in consumption is expected to accelerate due to price increases and anti-smoking campaigns.

Estimated Tobacco Settlement
(in millions)

	00-01	01-02	02-03	03-04
Proposed Dedication to Debt Reduction	$437	$337	$366	$346
Proposed Dedication to Health Initiatives	$146	$112	$122	$115
State Share	$583	$449	$488	$461
Local Share	$543	$418	$455	$430
Total	$1,126	$867	$943	$891

Source: Division of the Budget

New York will be receiving these new tobacco settlement funds because the State and its localities have spent billions of dollars on treating the negative health consequences associated with smoking. Although there are no restrictions on the tobacco funds, future smoking related costs could be reduced if the State wisely spent a substantial share of the newly available resources on health related initiatives that include target youth prevention. Using a portion of the tobacco settlement to reduce debt may be controversial. Although the State's debt burden is clearly excessive, there are also a host of pressing health care needs.

Public Assistance

Major programmatic and financing changes were recently made to New York's public assistance programs in response to the Federal Personal Responsibility and Work Act. Aid to Families with Dependent Children was replaced with Family Assistance which consists of a time-limited cash grant. Home Relief was replaced with a new safety net program for adults, which in many instances will provide non-cash benefits. Both programs have a number of federal and state-imposed work requirements. If the federal work requirements, which gradually increase over the next five years, are not met, the State could face substantial fiscal penalties.

Federal funding is provided to New York through an annual block grant of $2.4 billion. The amount of this grant is based on the 1995 public assistance caseload. Since that time, caseloads have declined significantly and New York now receives a greater share of total program costs from the federal government. The additional amount of federal funding compared to the old program is often called the "welfare windfall."

Each year the base level of the welfare windfall has grown because caseloads continue to decline even further than the year before. In 1997-98, the first year the State received a windfall, the base level associated with that fiscal year was $624 million. This amount has grown to an estimated $937 million for 1999-00.

Allocation of Available Federal Welfare Windfall Monies
(in millions)

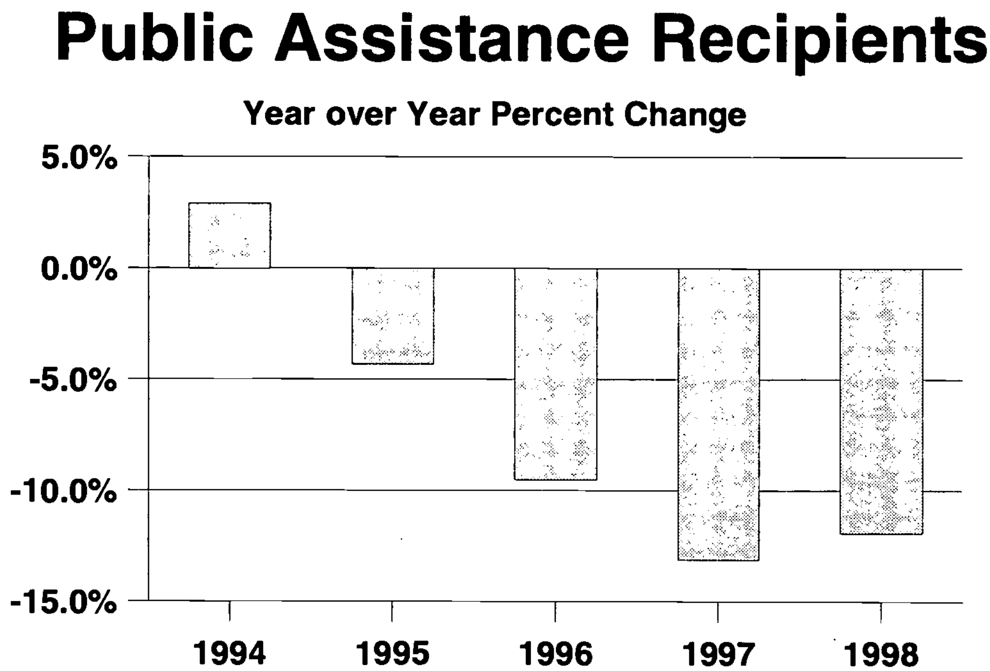
Program	1999-00
Set-Aside for Future Needs	$370
State Fiscal Relief	$166
Local Fiscal Relief	$192
Support for Welfare to Work (training, education, drug screening, etc)	$200
Reserve for Future Child Care Needs	$200
Transfer to Child Care Block Grant	$188
Transition and Incentive funding for local districts	$68
Welfare Systems Redesign	$50
Total	$1,433

The 1999-00 proposed budget calls for using $357 million of the base year excess federal funding for general state and local fiscal relief. The remaining $580 million is allocated for other employment and child care programs and reserve funds for future program needs.

The amount of federal windfall allocated in the 1999-00 proposed budget is actually $1.4 billion. This allocation is larger than the base year windfall due to lower than expected 1998-99 caseloads and other spending that is obligated but not yet spent. Of the nearly $500 million in prior year funding, approximately $100 million is attributable 1997-98 and the remaining $400 million is associated with 1998-99.

In order for the State to draw down the full amount of the federal block grant, spending must hit the required maintenance of effort level (MOE). The estimated MOE is $1.718 billion and the State is currently spending just about that amount. However, as caseload declines persist it may become more difficult for the State to continue to meet the MOE requirements.

For the first nine months of 1998, the monthly average number of public assistance recipients declined 11.9 percent following declines of 9.5 and 13.1 percent respectively for 1996 and 1997. For 1999-00, the Executive projects the number of public assistance recipients will decline by another 7 percent. The safety net caseload is expected to decline at a faster rate than the family assistance caseload.



Due to the projected decline in caseloads, General Fund spending on the family assistance and safety net program is expected to decrease 8.5 percent to $752 million. The Supplemental Security Income (SSI) caseload is estimated to remain stable and spending declines by 5.1 percent. This is the net effect of savings of $45 million, introduced in the Governor's 30 day amendments, from only making 11 payments instead of 12 offset somewhat by scheduled inflationary increases.

Assistance Programs: General Fund
(in millions)

Program	1998-99	1999-00	Change	Growth
Family Assistance	$483	$450	($33)	-6.8%
Safety Net	$339	$302	($37)	-10.9%
State Share of SSI	$569	$540	($29)	-5.1%
Total	$1,391	$1,292	($99)	-7.1%

General Fund support for the Food Assistance program is reduced nearly $26 million to reflect the federal restoration of food stamps to certain non-citizen children, disabled adults and elderly.

The 1999-00 Executive Budget contains no new appropriations for evaluation of the new public assistance programs. The 1998-99 enacted budget contained $300,000 from the 1998-99 federal block grant for evaluation of the State's restructured public assistance program. None of these monies were spent and are reappropriated in the 1999-00 proposed budget. Elements of a successful welfare evaluation program were described in detail in a report from the Comptroller's office in 1997.[15] Unfortunately, it does not appear that a comprehensive plan has been developed by the State to effectively evaluate welfare reform.

Children and Families

Total disbursements for the Office of Children and Family Services would increase by 3.4 percent to $2.6 billion. A decline of $47 million in General Fund spending is more than offset by an increase of $132 million in federal spending. The increase in federal spending is primarily attributable to higher spending from TANF block grant funds.

Children and Families Proposed Spending
(in millions)

	1998-99	1999-00	Change	Percent
General Fund	$1,127	$1,080	($47)	-4.2%
Federal and Special Revenue Funds	$1,377	$1,509	$132	9.6%
Total	$2,504	$2,589	$85	3.4%

Child Care

Total funding under the 1999-00 Executive Budget for the Child Care Block Grant increases $120 million to $580 million. The block grant was created in 1997-98 and combines the public assistance, transitional, at-risk, and state low income day care into one seamless funding stream. The increase in the block grant is almost entirely due to the proposed transfer of $188 million in federal welfare block grant funds. The Governor estimates that the increased funding will support 13,000 new subsidies, bringing total subsidies to 138,000. This estimate incorporates projected increases to rates prompted by the market survey that is required by the Federal government.

In addition, the Governor proposes setting aside $200 million from the federal welfare block grant to create a three year reserve fund to support child care. Of this amount, $175 million would be allocated to local districts and the remaining $25 million would be available, through a competitive process, for other child care capacity building expenditures. The amount allocated to the localities would be based in part on historical child care costs, the availability of child care, and cost

[15]Office of the State Comptroller, *Evaluating Welfare Reform: A Proposal for New York.*

of child care. Localities would only be eligible for these additional funds if they had spent all the other sources of child care funding.

The creation of the child care reserve is a step in the right direction. Although there are wide variations in the number of subsidies and slots for child care, the creation of the reserve recognizes the likelihood that further expansions will be needed. A recent audit by the State Comptroller's Office found that better advance planning was required by the agency to ensure adequate child care was available to meet the new federal work requirements under public assistance. This audit also estimated that over 100,000 children will need some form of child care in 2001.[16] A report by the State Comptroller's Office found that the New York City child care system is currently operating at capacity, has long waiting lists, and over 60,000 new slots would be required due to the work provisions of welfare reform, with an annual cost of up to $225 million beginning in FY 2000.[17]

Federal Adoption and Safe Families Act

The proposed 1999-00 budget also includes additional funding of approximately $17 million for State compliance with the Federal Adoption and Safe Families Act (ASFA). ASFA was enacted on November 19, 1997. The major programmatic implication was shifting the top priority from reunification of the family to the health and safety of the child. For example, if there was a history of any abuse or neglect, family reunification would take a back seat to placing the child with non-relatives that would provide a safe and healthy home. In addition, the required time for hearing proceedings was shortened and stricter background checks is now mandatory.

This new legislation presents an opportunity for the State to increase the number of children adopted into permanent homes. At the same time, successful implementation of the new provisions will require some significant adjustments. The challenges facing the State include managing the dramatic rise in the number of children in the adoption pipeline, expanding recruitment of eligible adoptive parents and managing the increasing caseloads in the courts.[18]

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[16] Office of the State Comptroller, "Child Day Care Planning under Welfare Reform" (Report 97-S-50), October 19, 1998.

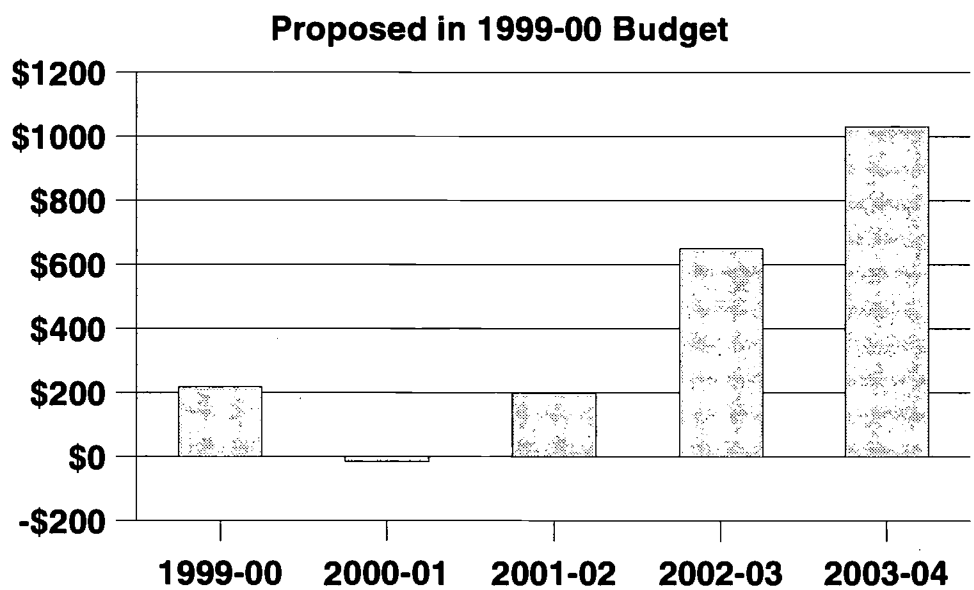
[17] Office of the State Deputy Comptroller for New York City, "Child Care Services in New York City" (Report 4-98), December 18, 1997.

[18] An audit on the adoption program found that the agency needed to improve, among other things, its advertising of children freed for adoption. Office of the State Comptroller, "New York State's Adoption Subsidy Program" (Report 96-S-20), February 4, 1997.

Tax Cuts

The Executive budget proposes a package of reductions that cost $218 million in the first year and $1.031 billion when fully implemented. The centerpiece of the proposal is a two year income tax cut that begins in 2002-03. The package reduces the bank and insurance tax rate and begins to convert the base for utility taxation from gross receipts to net income. The Governor's plan also includes accelerating the scheduled expiration of medical provider assessments. This has a one-time net financial plan cost of $165 million in 1999-00.

Incremental Cost of Tax Cuts



The Governor's tax cut package has almost no effect in 2000-01 and minimal cost in 2001-02. It is not until 2002-03 and 2003-04 that significant tax reductions occur. However, the costs of already scheduled tax cuts are significant over the next few fiscal years.

Tax Reductions Included in the 1999-00 Proposed Budget
(in millions)

Description	99-00	00-01	01-02	02-03	03-04
Lower Bank and Insurance Tax Rates	$0	$2	$70	$110	$150
Restructure and Reduce Energy Taxes	$17	($27)	$58	$121	$155
Sales Tax Credit for Energy	$33	$5	($2)	$0	$0
Lower AMT rate	$0	$0	$12	$12	$12
Employer Tax Credit for New Jobs in Cities	$0	$0	$30	$60	$60
Capital Asset Exclusion	$0	$0	$5	$5	$20
Emerging Technology Tax Credit Expansion	$0	$0	$20	$20	$20
Personal Income Tax Cut	$0	$0	$0	$315	$604
Estate Tax Conformity	$1	$1	$3	$5	$8
Low and Moderate Income Housing	$2	$2	$2	$2	$2
Alternative Fuel Vehicles	$0	$3	$0	$0	$0
Provider Assessment Acceleration	$165	$0	$0	$0	$0
TOTAL	$218	($15)[19]	$198	$650	$1,031

Source: Division of the Budget

Description of the Governor's 1999-00 tax cut package

Personal Income Tax Reduction. A series of changes to the personal income tax would reduce the tax burden for middle income families. It is a two-year income tax cut proposal that begins in the year 2002. The full annual cost, in 2003-04, is $604 million.

The Governor's plan would increase the current dependent exemption from $1,000 to $2,000. This helps all families that currently pay taxes and the maximum benefit for taxpayers would be $68.50 per child.

The income threshold where the top income tax bracket of 6.85 percent would begin would be increased for all taxpayers. The maximum benefit would be $190 for a married couple and $95 for single individuals.

For married couples, the top tax rate which currently applies to taxable income of more than $40,000 (about $53,000 gross income) would be increased by $20,000. This bracket restructuring would not help those couples with gross income below $53,000. Nor would it help couples with gross income above $150,000 because they are required to pay the top tax rate on all of their income.

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[19] On an aggregate basis, the tax changes in this one year raise revenues. This is due to timing and other effects of the transition from a gross receipts based tax (Article 9) to a net income based tax (Article 9-A).

The personal income tax proposal would have an impact on New York City since their income tax conforms with the State definition of income. They would automatically inherit the increase in the dependent exemption. It is estimated that their tax receipts would decline by approximately $45 million when the plan was fully implemented.

Tax Reduction for Banks and Insurance Companies. The 1997 tax cut package will reduce the tax rate on general corporations from 9.0 percent to 7.5 percent. The Governor's plan calls for the same reductions in the tax rate paid by banks and insurance companies. This tax cut was also included in the Senate's tax cut proposal. It is estimated to cost $150 million when fully implemented.

Lowering Utility Taxes. A series of changes to the existing energy tax structure is proposed, including: repealing the tax on importing natural gas, repealing the gross receipts tax on utility companies and replacing it with an income-based tax, and reducing the gross receipts tax rate that applies to the transportation and distribution of energy. This is estimated to cost $155 million when fully implemented.

The *gross receipts tax on health care providers* (hospitals, nursing homes, etc.) is already scheduled to be reduced and eliminated. The Governor proposes accelerating the existing phase-out of these taxes by one year. This reduces receipts by approximately $223 million in 1999-00 ($33 million in General Fund). However, since a large portion of these assessments were reimbursable through the Medicaid rates, and the State will no longer pay increased Medicaid costs, the net financial plan impact is $165 million. Since this is an acceleration, it does not increase out-year costs above the levels already planned for in the financial plan.

Jobs Tax Credit for Cities. A tax credit would be offered to employers who expand their workforce and locate the new employees in cities. It is expected to cost $60 million when fully implemented.

Other tax cuts of $64 million. These include enhancing tax credits for emerging technology companies, special treatment of certain capital assets gains for businesses, tax credit to encourage housing development and construction for low and moderate income families and a further reduction in the corporate alternative minimum tax rate.

Total Value of Tax Cuts Enacted Since 1994-95
(in millions)

Description	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL TAX CUTS (Annual value)	$ 3,899	$ 6,143	$ 7,434	$ 9,594	$ 11,410	$ 12,898	$ 13,819	$ 14,200
1994-95 Tax Reductions	$ 1,369	$ 1,609	$ 1,689	$ 1,725	$ 1,759	$ 1,825	$ 1,878	$ 1,878
1995-96 Tax Reductions	$ 2,447	$ 4,278	$ 4,443	$ 4,590	$ 4,811	$ 5,018	$ 5,263	$ 5,263
Personal Income Tax Cut	$ 2,307	$ 4,120	$ 4,282	$ 4,434	$ 4,654	$ 4,859	$ 5,103	$ 5,103
Other	$ 140	$ 158	$ 161	$ 156	$ 157	$ 159	$ 160	$ 160
1996-97 Tax Reductions	$ 83	$ 184	$ 201	$ 242	$ 271	$ 279	$ 289	$ 289
1997-98 Tax Reductions		$ 52	$ 394	$ 1,815	$ 3,652	$ 4,839	$ 4,894	$ 4,894
School Property Tax (STAR)		$ 0	$ 187	$ 1,020	$ 1,862	$ 2,700	$ 2,700	$ 2,700
Other		$ 52	$ 207	$ 795	$ 1,790	$ 2,139	$ 2,194	$ 2,194
1998-99 Tax Reductions		$ 20	$ 707	$ 922	$ 931	$ 739	$ 845	$ 845
School Property Tax (STAR) Acceleration			$ 517	$ 366	$ 192	$ 8	$ 10	$ 10
Other		$ 20	$ 190	$ 556	$ 739	$ 731	$ 835	$ 835
1999-00 Proposed Tax Reductions				$ 218	$ (15)	$ 198	$ 650	$ 1,031

Source: New York State Department of Taxation and Finance, *New York State Fiscal Year 1994-95 Budget: Summary of Tax Provision*, June 1994; *State of New York 1995-96 Tax Provisions*, June 1995; *Summary of 1996-97 Tax Provisions*, August 1996; *Summary of 1997-98 Tax Provisions*, September 1997; *Summary of 1998-99 Tax Provisions*, August 1998. Note: the total value of the tax cut enacted in 1994-95 for that fiscal year was $471 million, and $981 million in 1995-96. The total value of the tax cut enacted in 1995-96 for that fiscal year was $575 million

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Incremental Value of Tax Cuts Enacted Since 1994-95
(in millions)

Description	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL TAX CUTS (Incremental value)	$ 2,343	$ 2,244	$ 1,291	$ 2,078	$ 1,898	$ 1,489	$ 921	$ 381
1994-95 Tax Reductions	$ 388	$ 240	$ 80	$ 36	$ 34	$ 66	$ 53	$ 0
1995-96 Tax Reductions	$ 1,872	$ 1,831	$ 165	$ 147	$ 221	$ 207	$ 245	$ 0
Personal Income Tax Cut	$ 1,792	$ 1,813	$ 162	$ 152	$ 220	$ 205	$ 244	$ 0
Other	$ 80	$ 18	$ 3	$ (5)	$ 1	$ 2	$ 1	$ 0
1996-97 Tax Reductions	$ 83	$ 101	$ 17	$ 41	$ 29	$ 8	$ 10	$ 0
1997-98 Tax Reductions		$ 52	$ 342	$ 1,421	$ 1,837	$ 1,187	$ 55	$ 0
School Property Tax (STAR)		$ 0	$ 187	$ 833	$ 842	$ 838	$ 0	$ 0
Other		$ 52	$ 155	$ 588	$ 995	$ 349	$ 55	$ 0
1998-99 Tax Reductions		$ 20	$ 687	$ 215	$ 9	$ (192)	$ 106	$ 0
School Property Tax (STAR) Acceleration			$ 517	$ (151)	$ (174)	$ (184)	$ 2	$ 0
Other		$ 20	$ 170	$ 366	$ 183	$ (8)	$ 104	$ 0
1999-00 Proposed Tax Reduction				$ 218	$ (233)	$ 213	$ 452	$ 381

Source: New York State Department of Taxation and Finance, *New York State Fiscal Year 1994-95 Budget: Summary of Tax Provision*, June 1994; *State of New York 1995-96 Tax Provisions*, June 1995; *Summary of 1996-97 Tax Provisions*, August 1996; *Summary of 1997-98 Tax Provisions*, September 1997; *Summary of 1998-99 Tax Provisions*, August 1998.

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Fee Actions

The Governor recommends a number of actions that enhance, preserve, or increase revenue. Actions that enhance revenue total $88.5 million, provisions that preserve revenue total $176.1 million, and changes that raise revenue total $29.4 million. The major revenue enhancements involve changes to existing lottery and racing programs. The primary revenue preservation is an estimated $148 million in receipts attributable to the elimination of the Quickdraw lottery game sunset. Most of the revenue raisers are increases to existing user fees.

Summary of Revenue Actions
(in millions)

Description	Amount
Revenue Enhancements	$88.5
Impose a new use tax on gas or electric service	$10.0
Eliminate existing Quickdraw game restrictions	$45.0
Increase instant lottery game payout	$20.0
Impose additional surcharge on racing and wagering taxes	$13.5
Revenue Preservation	$176.1
Eliminate Quickdraw sunset	$148.0
Extend Manhattan parking provisions	$1.5
Extend the existing pesticide registration fees	$1.6
Eliminate the sunset on mandatory traffic surcharges	$25.0
Fee Increases	$29.4
Correctional Services (commissary prices)	$2.8
Environmental Conservation (clean air permits, petroleum fee)	$13.2
Health (X-ray registration fee)	$0.3
County clerks retention fees	$4.1
Parks and Recreation (day use park fees, golf fees, pool admission fees, cabin fees, empire passport charge)	$9.0

Non-Recurring Actions (One-Shots)

The Executive Budget includes $78 million in one-time actions, consisting of $45 million from permanently deferring one month of Supplemental Security Income (SSI) payments to the federal government, $15 million in loan repayments from the Long Island Power Authority (LIPA), $8 million from the sale of the State Office Building at 270 Broadway, and debt recovery activities for outstanding traffic tickets. The remaining actions are largely comprised of fund sweeps and transfers from the General Fund.

The capital plan submitted with the 1999-00 Executive Budget is a significant departure from recent debt issuance and capital financing plans. In prior years, the capital plan assumed a growing level of debt outstanding, increasing debt service costs, and a shrinking share of capital financed on a pay-as-you-go basis.

The new plan proposes a $1.3 billion increase in debt outstanding in 1999-00 followed by four years of maintaining debt at about that year's $37.5 billion level. The most recent capital plan assumed a steady increase in debt, reaching $41.9 billion in 2002-03. The reduction in new debt is accomplished by increasing the share of capital spending financed with cash. Total capital spending remains at roughly the same level as the prior plan.

Although the new plan addresses some of the symptoms of New York's weak debt management practices, it does not address the underlying problems. New York continues to require fundamental reform of its debt practices. A discussion of the Comptroller's debt reform proposal is included in this section.

Debt

The five-year capital plan included in the Executive Budget projects a substantial slowing in the planned growth in state debt. After a $1.3 billion increase in 1999-00, state supported debt is projected to remain slightly above $37 billion. This is a significant departure from the most recent capital plan, which assumed total debt would grow to $41.9 billion in 2002-03.

Projected State Supported Debt Outstanding
1999-00 Executive Budget Compared to July 1998 Capital Plan
(in billions)

	1998-99	1999-00	2000-01	2001-02	2002-03	2004-05
1999-00 Capital Plan	$36.1	$37.5	$37.7	$37.7	$37.5	$37.2
July 1998 Plan	$36.5	$38.2	$39.5	$40.7	$41.9	NA

Debt Service

The rate of growth in debt service also slows when compared to the most recent capital plan. Debt service is projected to increase by $468 million in 1999-00 to $3.9 billion; the Governor's capital plan projects that debt service expenses will remain at $3.9 billion for the following four years.

Projected State Supported Debt Outstanding
1999-00 Executive Budget Compared to July 1998 Capital Plan
(in billions)

	1998-99	1999-00	2000-01	2001-02	2002-03	2004-05
1999-00 Capital Plan	\$3.4	\$3.9	\$4.0	\$4.1	\$4.0	\$3.9
July 1998 Plan	\$3.5	\$3.9	\$4.2	\$4.4	\$4.5	NA

Financing Sources

The reductions in debt proposed by the Governor are made possible by significantly increasing the amount of capital financed in cash with state dollars, large projected increases in federal funds, and use of a portion of the national tobacco settlement for pay-as-you-go financing. The first two of these funding shifts are centered in Department of Transportation programs.

Fiscal year 1999-00 is the final year of the current five-year transportation capital program. The Governor's proposals to make significant changes in transportation capital financing, absent a new, comprehensive transportation plan, should be viewed with some skepticism. The Legislature will likely have its own priorities that could significantly change the mix of financing under a new plan.

The table that follows compares the Governor's proposed capital plan with the plan released following enactment of the 1998-99 budget. Pay-as-you-go financing increased substantially beginning in 2000-01, with the increase exceeding \$1 billion in 2002-03. The projection for pay-as-you-go financing in 2002-03 represents a four-fold increase over the July 1998 plan. The increase is largely attributable to use of the Dedicated Highway and Bridge Trust Fund to directly finance capital spending; this dedicated fund will also receive increased deposits from existing taxes.

Federal funds available for state capital spending also increase significantly in the new plan, with most of the increase resulting from transportation programs. If these funds are not available, the planned reductions in debt would be at risk.

Comparison of Pay as You Go and Federal Financing Sources
1999-00 Proposed Capital Plan and July 1998 Plan
(in millions)

	1998-99	1999-00	2000-01	2001-02	2002-03	2004-05
Pay as you go						
1999-00 Plan	$1,037.2	$961.7	$1,405.3	$1,396.0	$1,420.3	$1,388.8
July 1998 Plan	$954.4	$796.7	$621.2	$449.7	$382.0	NA
Current-prior plan	$82.8	$165.0	$784.1	$946.3	$1,038.3	NA
Federal Grants						
1999-00 Plan	$1,243.5	$1,406.5	$1,581.4	$1,399.8	$1,346.1	$1,345.0
July 1998 Plan	$1,238.8	$1,133.5	$1,072.6	$1,002.2	$1,025.1	NA
Current-prior plan	$4.8	$273.0	$508.8	$397.7	$321.0	NA

The Debt Reduction Reserve Fund, which was created as part of the 1998-99 budget with a $50 million deposit, is proposed to receive $250 million in 1999-00. Thereafter, it will be funded with 25 percent of New York's share of tobacco settlement funds. The portion deposited to the Debt Reduction Reserve Fund is projected to be $437 million in 2000-01, $337 million in 2001-02, $366 million in 2002-03, and $346 million in 2003-04.

Capital Spending

Capital spending for the new five year plan is roughly consistent with the previous plan. The largest area of spending in transportation, which accounts for over half of all capital disbursements. The environment, public protection and mental hygiene are the other significant program areas.

Major changes in priorities compared to the most recent plan include:

✓ Construction of a new 750 bed maximum security prison, which is funded with $180 million in new state appropriations and $80 million in federal funds

✓ Although capital spending overall for transportation remains at about the prior plan's level, contract awards will be reduced from prior planned levels.

Capital Spending by Function: 1999-00 Capital Plan
(in millions)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Transportation	$ 2,439.5	$ 2,608.6	$ 2,654.3	$ 2,482.6	$ 2,417.3	$ 2,356.2
Environment						
Clean Water/Clean Air, EPF	$ 240.5	$ 253.8	$ 290.9	$ 301.1	$ 294.7	$ 290.7
Federal/Other	$ 475.3	$ 454.9	$ 442.3	$ 348.7	$ 250.9	$ 184.3
Education	$ 246.4	$ 272.9	$ 286.2	$ 297.0	$ 328.8	$ 404.7
Public Protection	$ 385.3	$ 378.2	$ 375.7	$ 238.4	$ 187.2	$ 187.6
Mental Hygiene	$ 282.0	$ 271.3	$ 263.9	$ 248.1	$ 234.0	$ 232.0
Housing/Economic Development	$ 107.9	$ 92.8	$ 92.8	$ 94.3	$ 98.3	$ 99.8
Other	$ 90.6	$ 80.4	$ 90.1	$ 83.3	$ 56.6	$ 49.6
TOTAL	$ 4,267.6	$ 4,412.9	$ 4,496.3	$ 4,093.6	$ 3,867.8	$ 3,805.0

The Comptroller's Debt Reform Proposal

The Comptroller's package of debt reform legislation would create meaningful reform through statute, which could be enacted immediately to limit new debt, and a constitutional amendment, which would provide a permanent solution.

The package of legislation would:

✓ **Ban back-door borrowing**. The State would be prohibited from using backdoor borrowing through public authorities to finance State projects.

✓ **Create a new form of debt to replace back-door borrowing.** This new type of debt would be backed by a dedicated revenue source (to be specified in future legislation). Because this debt would be paid whether or not there is an appropriation, it should result in lower interest rates and reduced borrowing costs.

The legislation creates two caps to limit debt: the first limits new debt as a percent of personal income; the second cap limits debt service as a percent of revenues. The two-pronged approach will ensure that future debt is affordable. The capital plan submitted with the 1999-00 budget significantly reduces planned debt issuance. If this plan is adopted, the caps will not limit debt during the next five years. However, based on the previous capital plan, the caps would have begun imposing limits on new debt in 2001-02. The caps are designed to eventually reduce debt outstanding to a level closer to the national average.

✓ **Cap debt**. All future General Obligation bonds and the new revenue debt would be capped at 3.5 percent of state personal income; the cap is cumulative and applies to all debt issued and outstanding after the legislation is enacted.

- If enacted through statute, the cap could take effect immediately and would be fully phased in at 3.5 percent of personal income in 2008-09. The constitutional amendment would take effect in 2002-03, and would be phased in by 2011-12.

- The cap would provide a long-term approach to cutting New York's debt -- currently at 6.5 percent of state personal income -- by almost 50 percent.

✓ **Cap debt service**. No debt could be issued if the State's total debt service exceeded 5.75 percent of governmental funds receipts. In 1998-99, debt service represents 4.8 percent of governmental funds receipts. The 1999-00 proposed five-year capital plan would approach, but not exceed the cap. The previous capital plan would have resulted in debt service reaching the cap in 2000-01.

✓ **Limit debt to capital projects**. Debt could not be issued to finance operating expenses.

✓ **Create a Debt Management Board**. This Board would set policy related to debt management issues (such as refundings, debt structure, credit enhancement) and set policy guidelines on the use of debt for the capital budget. It would include the Governor, Comptroller, Budget Director, Assembly Speaker and Temporary President of the Senate.

✓ **Require Public hearings**. The Governor would be required to hold public hearings on the capital plan.

✓ **Allow multiple bond acts**. Eliminates the existing prohibition against multiple bond resolutions being placed on the ballot in a single year to encourage more frequent use of GO debt and enhance public participation.

Improvements in Comptroller's New Reform Proposals

The Comptroller's proposed package offers a number of improvements compared to the 1995 constitutional amendment rejected by the voters:

✓ The ban on backdoor borrowing is complete; the 1995 amendment allowed several exceptions.

✓ The cap on debt is tighter; the Comptroller's proposal limits debt to 3.5 percent of personal income. The 1995 proposal set the cap at 4.4 percent and did not count General Obligation debt against the cap.

✓ The Comptroller's proposal adds a second cap that would limit total debt service to an affordable percentage of state revenues. The 1995 amendment did not include this dual cap structure.

COMPARISON OF DEBT REFORM PROPOSALS

	1995 Constitutional Amendment Defeated by Voters	Comptroller's New Proposal: Statute & Constitutional Amendment
The Ban	Prohibits "backdoor" borrowing (debt of a public authority, municipality, or other entity supported by appropriations of State revenues) for State capital or operating purposes and certain municipal purposes, with exceptions such as: 1)Court facilities 2)Large judgements 3)Natural disasters and economic emergencies	Prohibits all "backdoor" borrowing for State capital and operating purposes or for grants by or on behalf of the State.
Revenue Debt	Creates new category of non-voter approved revenue debt backed by specific stream of revenues.	Creates new category of non-voter approved revenue debt backed by specific stream of revenues.
Cap	New revenue debt — but not GO — subject to cap: Outstanding debt not to exceed 4.4 percent of state personal income; phased in over 11 years.	By statute *and* constitution amendment, dual cap restrictions apply to *all* new debt outstanding (including GO and revenue debt) 1)Outstanding debt not to exceed 3.5 percent of state personal income. 2)Debt service cannot be greater than 5.75 percent of governmental fund receipts.
Capital Planning	Governor to submit detailed multi-year capital plan to Legislature each year; requires public hearings on capital plan.	Governor to submit detailed multi-year capital plan to Legislature each year; requires public hearings on capital plan.
Limit debt to capital purposes	Debt may only be issued for capital purposes.	Debt may only be issued for capital purposes.
Multiple Bond Acts	Authorizes state to propose more than one bond act at a time for consideration by the voters.	Authorizes state to propose more than one bond act at a time for consideration by the voters.
Debt Management Board	No proposal.	Create statutory Debt Management Board (Comptroller, legislative leaders, Governor, Budget Director) to make recommendations for debt policy guidelines to Governor and Legislature. Comptroller to collect and analyze data on state debt.

COMPONENTS OF COMPTROLLER McCALL'S DEBT REFORM PACKAGE

Description	Statutory Proposal	Constitutional Amendment
Debt Management Board (Comptroller, Governor, Budget Director, Assembly Speaker, Temporary President of the Senate)	Part of statutory proposal	
Ban Backdoor Borrowing		Part of Constitutional Amendment
Authorize New Revenue Debt		Part of Constitutional Amendment
Cap on Debt Outstanding	Statutory cap begins at 1 percent of personal income in 2000 and increases to 3.5 percent in 2008	Constitutional cap begins at 0.5 percent of personal income in 2003 and increases to 3.5 percent in 2012.
Cap on Debt Service as a Percent of Governmental Funds Receipts	5.75 percent beginning September 1, 1999	5.75 percent beginning January 1, 2002.
Require Governor to Hold Hearings on the Capital Plan		Part of Constitutional Amendment
Require Governor to Produce a Multi-year Capital Plan	Currently required in statute.	Part of Constitutional Amendment
Allow Multiple General Obligation Bond Resolutions to be Considered by Voters		Part of Constitutional Amendment
Limit Debt to Capital Purposes	Part of statutory proposal	Part of Constitutional Amendment

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