by Michael Bloomberg
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Â MAYOR MICHAEL R. BLOOMBERG TESTIFIES BEFORE THE NEW YORK STATE JOINT FISCAL COMMITTEES ON THE 2005-2006 EXECUTIVE BUDGET

Chairman Johnson, Chairman Farrell, distinguished members of the Senate Finance and Assembly Ways and Means Committees:

Thank you for this opportunity to address your committees regarding the proposed Executive Budget for State Fiscal Year 2005-2006.

I come to you from a city that has faced enormous challenges, and sustained serious losses, over the last several days. The weekend's winter storm tested the ability of our City agencies to respond to emergency conditions—and they performed superbly in keeping New Yorkers safe under extremely severe conditions.

But yesterday, in battling two separate fires, three of New York City's bravest, Lieutenant Curtis Meyran, Firefighter John Bellew, and Firefighter Richard T. Sclafani, fell. Several other city firefighters sustained serious injuries.

Their bravery, their sacrifice, and especially, the loss of the three courageous men who perished yesterday weigh heavily on our hearts, and remind us of the constant dangers that are valiantly faced by those who protect the rest of us. We also offer our prayers and condolences to the loved ones that they leave behind.

All of us have duties to the people of New York—and that is why I come before you to seek your urgent cooperation in repairing a number of serious flaws in the Governor's budget. Because there are elements on both the revenue and expenditure sides of this proposed budget that, if not corrected, will fall short of meeting the needs of our people and sustaining the future of our city.

More seriously than that, some would hurt New Yorkers by undermining our ability to provide all our people with first-rate health care, improve our quality of life, and ensure the high-quality education that is the basic civil right of all our children.

On the revenue side, these include: ensuring fair treatment to New York City homeowners in the “Co-Star” and Family Health-Plus programs; and providing accelerated sales tax relief by holding to our promise to end the regressive sales tax on clothing.

On the expense side, we must begin to reform Medicaid in a way that protects the health of our most vulnerable New Yorkers, the viability of local governments, and the future of the health and medical research sector of our economy. We must also do more to provide capital support for our vital mass transit system. And the State must meet its obligations to New York City’s school children and comply with the court order in the Campaign for Fiscal Equity lawsuit.

These are significant challenges. The Legislature and the Governor must meet the needs of 18 million people. We understand that it’s not easy; we have 8 million New Yorkers of our own to serve.

But I am confident that the Legislature and Governor can work together with our Administration to resolve these and other issues. After all, we have a strong record of success to build on.

First as to the revenue side of the Governor’s budget. Many elements in it will have no cost to State taxpayers but will provide significant relief to the City. These include, for example, tort reform, expansion of the red light camera program, and repeal of the State Wicks Law.

The Governor’s budget also proposes fiscal relief for local governments around the State. However, a number of these proposals either exclude the City or deny City taxpayers the same benefits as taxpayers across the State. They must be corrected.

The City is, for example, not included in the across-the-board increase in revenue sharing provided to all local governments. This is the second time in the past five years that the City has been specifically excluded from increases in this flexible and consistent source of revenue.

The Governor's budget also proposes "Co-Star. " It would provide additional State tax relief to homeowners in localities that keep growth in local government spending below the 3% rate of inflation. This may be possible in some of our counties. But non-discretionary costs and unfunded mandates make it impossible in New York City.

Here's what I mean. In the City's preliminary budget that I will present on Thursday, we will project that Medicaid, pensions and fringe benefits for City employees, and other expenses beyond our control will grow by a total of almost 8% in the next fiscal year.

I see no reason why New York City homeowners should be excluded from Co-Star because of circumstances so completely beyond their, or our, control.

The Governor also proposes to accelerate the State's takeover of the local costs of the Family Health-Plus program. We like that idea—but once again, New York City is excluded from the same treatment as the rest of the State. Currently, the Governor's budget calls for the State to assume the total cost of Family Health-Plus in every other part of the state by October 1st, but would delay full relief for New York City until next January. There's nothing fair about that, and it should be changed.

Our City University students—many of whom work one or more jobs and bear enormous responsibilities in looking after children or other family members—also would also be burdened by the proposed tuition increases included in the Governor's budget. We should do all we can to encourage, not discourage, them in their studies.

These and other issues in the Governor's budget will be described in detail in the written submission my staff will make to you in the coming days. I urge you to take steps to address them.

The Governor's budget also accelerates the expiration of the personal income tax surcharge enacted after the recent fiscal crisis. It would, in fact have a retroactive sunset of December 31st, 2004.

The sales tax surcharge also would expire on schedule this May 31st. I want to commend the governor for standing by his pledge to sunset the sales tax surcharge—an economic disincentive that drives shoppers and jobs to New Jersey and Connecticut.

Ending that surcharge as promised also is essential to keeping faith with taxpayers who came through for the city when it mattered most. That's the same reason why we enacted the City property tax rebate, which we could not have done without your help and approval last year; it will be included in next year's budget as well. It provides much-needed relief to city dwellers who pay a higher-than-average share of the State's taxes.

But in the arena of tax relief, I believe that we can do better than that. Rather than accelerating the sunset of the PIT surcharge, I urge instead ending the sales tax on clothing and shoes to expire on June 1st, as originally scheduled. Holding to that pledge would provide much fairer tax relief to a much broader number of New Yorkers than the PIT proposal would.

After all, the PIT surcharge only applies to the top two income brackets in the State. But everyone pays the sales tax on clothing. And the PIT surcharge is also a deductible item on Federal income tax returns; the sales tax on clothing certainly is not.

With New York City's economy gaining strengthâ€¦ with our population growingâ€¦ and with our quality of life improvingâ€¦ our long-term prospects are excellent. They will be made even stronger if the State government continues to work with us to address our most urgent problems on the expense side of the budget.

Foremost among these is Medicaid. New York State's Medicaid program is among the most generous in the nation. As a result, Medicaid spending is becoming increasingly burdensome for local governments who see its mounting expenses as a threat to our ability to ensure public safety and provide the vital services that are our responsibility.

In New York City alone, State-mandated Medicaid expenses are expected to cost $4.9 billion in the coming fiscal year. These mounting expenses—and the fact that local governments have no input into program design—is why this has become an issue of intense concern to county governments across the state.

That's why for the last three years I have come to Albany and testified before this joint committee in support of the position of the New York State Association of Counties: A hard cap of the local share of Medicaid at 2003 levels, with all future growth to be paid by the State.

The Governor has taken an important first step toward Medicaid reform with his proposal for a "soft" cap on the local share of Medicaid at 2005 levels—soft, because it requires local governments to assume small and gradually diminishing annual increases in Medicaid costs. This would save the City of New York hundreds of millions of dollars annually, and would encourage more responsible Medicaid spending.

Easing the pressure on local government budgets is an important part of solving the Medicaid problem in New York State.

But it is only one element of a complex equation. Because in containing Medicaid costs, we must neither sacrifice quality of care to our most vulnerable New Yorkers, nor unwittingly jeopardize the stability of our public and private hospitals.

Unfortunately, we face such potential problems. On the plus side, the Governor's budget projects that New York City will save approximately $400 million in cost containment and Medicaid cap proposals—and as Mayor, I find that good news. But it is offset by the impact these proposals would have on our public and private hospitals.

Under the Governor's proposals, our Health and Hospitals Corporation would sustain an approximately $275 million annual reduction in support from the Medicaid program.

There would, for example, be a statewide assessment on all hospital receipts of seven-tenths of one per cent. This does not sound like a lot—but for a system the size of HHC, it is. This would, in fact, be an annual cost of up to $30 million to HHC. This "gross receipts tax" would also impose serious new financial burdens on our private hospitals.

A change in the benefit structure of the Medicaid-funded Family Health-Plus program would also add to HHC's expenses by eliminating patient reimbursement for mental health services.

But in New York City, the reality is that patients denied mental health care by Family Health-Plus would in all probability wind up as uninsured patients in our public hospitals, which have a mandate to treat everyone, regardless of ability to pay. The cost of their treatment would be borne by New York City's taxpayers.

I will cite a third and final example: The Executive Budget also proposes to retroactively alter the method for determining Graduate Medical Education payments to our City's teaching hospitals. These GME payments are crucial to maintaining the fiscal stability of our hospitals and providing quality medical training. Changing the GME rates could cost public and private hospitals $275 million annually.

Let me add that the Governor's budget also throws new burdens on our public and private hospitals by limiting support to local health departments, including New York City's. We've made enormous strides in reducing smoking and managing such chronic diseases as diabetes and asthma, which cut down on costly hospitalizations.

Little wonder, then, that the Greater New York Hospital Association sees grave problems in the Governor's budget. And the result is that the long-term health of our economy, as well as our population, is jeopardized. Because in New York, many of our health care institutions are also deeply involved in medical research—and medical researchers, and the breakthroughs and jobs they produce, will inevitably gravitate to the most hospitable environments.

Right now, New York is not doing enough in this arena. California and New Jersey are forging ahead in promoting stem cell research; we are not. Despite the Governor's long-standing support for fostering biotechnology in New York State—evidenced again in this proposed budget—New York still lags in this important and growing industry. The chill that our hospitals feel in Medicaid cost containment could further hamper our efforts to nurture biotechnology in New York.

Containing the cost of Medicaid has the long-term effect of pushing decisions about Medicaid coverage back in the hands of the Legislature. But can you look yourselves in the

mirror and say, “We have the medical and technical knowledge necessary to make such truly life and death judgments? We know how to run a hospital?”

There must be a cap on local Medicaid spending, and one should be approved this year. But at the same time, I also urge you to avail yourselves of the enormous wealth of talent our state has in the areas of medicine, medical research, public health, hospital administration, and insurance.

Empanel a commission of our best minds in these fields. Ask our star-studded Doctors and Hospital Administrators to serve. Seek their guidance, and let them make the decisions about how to best care for the Medicaid patients of our state, and how our hospitals and research institutions can adapt to and thrive in the new environment we are creating.

All local governments need relief. But we should approach decisions on Medicaid coverage and reimbursements, and on ensuring the quality of health care all New Yorker receive, with the advice, counsel, and support of the leaders of our critically important health care industry. Government decisions will benefit from their knowledge.

Maintaining and improving our mass transit system is also critical to the long-term economic health of our city and state. And I am deeply disappointed by the failure of the Governor’s proposed budget to adequately support the MTA’s capital needs.

Look at the MTA’s core program of keeping the existing subway system in good repair. The Governor’s proposed support for that is some $2 billion less than the MTA’s request—well short of what is needed simply to keep the existing system operating efficiently.

The Second Avenue subway and Long Island railroad access to Grand Central Terminal also are seriously under-funded, putting the future of these major projects in jeopardy.

I remain firmly convinced, as I testified last fall, that the MTA can do far more that it has to put its own financial house in order, by reducing unnecessary spending and increasing the productivity of its operations. But that does not change the scope of its capital needs.

The residents and government of New York City are more than doing our share. New York City straphangers already pay a greater share of the transit system's operating costs than the riders of any other transit system in the nation.

The City contributes about $400 million a year directly to cover MTA operating and capital needs. On top of that, the City will now increase its annual subsidy to the MTA for the operation of seven franchise bus lines that serve New York City by another $200 million.

Also, the one and only major new transit project that is included in the Governor's budget is the one that New York City alone is paying for: The $2 billion extension of the Number "7" line. This is just one more example of the City bearing the costs of the State's inaction.

We are, in fact, the only local government in the MTA's service area that has contributed capital monies to the rebuilding of the system over the last two decades. The other 11 counties in the metropolitan area have not, despite benefiting from the resulting improvements to the bus, subway and commuter rail system.

We're prepared to continue to support the system's capital needs, and its operating expenses, in the future. But taxpayers in the suburban and upstate counties must do their share, too. It's an essential investment in the long-term future of the New York metropolitan region—the economic engine of the Empire State.

The future of our city and state ultimately depend most heavily on the successful reform of New York City's public schools.

Thanks to the authority you granted us three years ago by passing the New York City School Governance Reform Law, we've overhauled and streamlined the management of the nation's largest school system.

We've established accountability where none existed. We've improved the recruitment

and training of the next generation of school principals. We've ended the discredited practice of social promotion, and set and enforced standards in the classroom. We've made our schools safer.

Student test scores are rising; the number of schools under state "registration review" has been cut in half and is now at an all-time low. Graduation rates have climbed each of the last three years.

We are, in short, on our way to creating the best big-city public school system in the nation.

State legislation laid the groundwork for these achievements. State financial support has played a critical part in our efforts.

And now more than ever, State leadership in meeting the educational needs of our 1.1 million school children is essential.

By lifting the cap on the number of charter schools that can be created in our city, and by proposing measures that will help us further reform the School Construction Authority, the Governor's budget includes some welcome steps in this direction.

These new construction reforms will allow the SCA to further lower the cost of construction, which is especially important given the enormous capital needs the City faces.

But far more must be done, both in helping us meet our normal, fixed expenses, and also in redressing the State's long and well-documented failure to provide New York City school children with a sound basic education.

To begin with, we need a firm State commitment to covering a fair share of the fixed expenses of the New York City public school system. The Governor's budget provides our city with an additional $85 million in education funds for the coming year.

I applaud the Governor for recognizing that while New York City has 37% of the state's public school students, the extraordinary needs of those students require that we receive more than 37% of the statewide increase in State education spending.

This represents a start—but only that. The fixed expenses of the New York City Department of Education continue to increase far beyond the $85 million the Governor proposes. Before we provide any additional funding for the schools, or start new programs, we must find the resources to maintain existing programs.

Fixed costs such as pensions, debt service, student transportation and fringe benefits are estimated to increase by almost $350 million dollars in the City's next fiscal year. The budget for Fiscal 2006 that I will release Thursday will address these needs and I hope that the State will provide, at the very least, its equitable share of these fixed expenses in the upcoming year.

The greatest disappointment in the Governor's budget is its failure to adequately address the court order and masters panel report in the Campaign for Fiscal Equity lawsuit.

The budget fails utterly to address the State's need to contribute its fair share to our five-year capital program. It is absolutely essential to easing overcrowding, reducing class size in the lower grades, and building the labs, gyms, and other facilities that no one can dispute are desperately needed in New York City schools.

Allowing the City's Transitional Finance Authority to borrow an additional $2.8 billion, as the Executive budget proposes, is not what I call state aid.

The State's inaction in meeting the capital needs of City schools for the last two years leads to the inevitable conclusion that we cannot anticipate any assistance in the current fiscal year, either. The City therefore has no choice but to amend our current capital plan to reflect that failure.

I want to make it plain, however, that the City will continue to move forward in meeting the capital needs of our school system. We will continue to provide an historic level of funding for the capital plan: $6.5 billion over five years. And our preliminary ten-year capital plan will continue to reflect a matching $6.5 billion commitment from the State.

The Sound Basic Education grant to New York City in the Governor's budget comes to $2 billion over five years—less than 40% of the amount recommended by the CFE masters panel. It is built on the regressive and financially unstable foundation of video lottery terminals.

Raising state revenue via these terminals is regressive because the people most inclined to play them have the least amount of disposable income. And income from such gambling is notoriously unpredictable- just look at the history of gaming industry stocks.

New York City's major educational costs, such as our contracts with suppliers, our 130,000 Department of Education employees, and our debt service, are fixed. We can't meet those fixed expenses with such wildly variable revenue sources. We must balance our budget each year. Also, we can't wait for funds that may well be tied up in years of litigation.

The proposed grant also requires the City to provide a 40% match to the State's monies. This fails on grounds of both equity and practicality.

First of all, let me remind you that residents of the five boroughs already annually pay $11.1 billion a year more in State taxes than we receive in State spending.

In fact, New York City supplies more than 40% of State tax revenues. That means we would already provide more than 40% of the State's share of the proposed Sound Basic Education grant.

Requiring another 40% payment from us on top of that in the form of a local match would saddle New York City taxpayers with a wildly disproportionate share of complying with the CFE court order.

To add insult to injury, the State proposes to fund its 60% share of this grant from dedicated funding from VLT parlors, five of which would be located in New York City. This means that New York City residents are either directly or indirectly paying for the entire resolution of the CFE court order.

For years the people of New York City have been severely shortchanged by State education funding policy. It is manifestly unfair to ask us to redress the effects, let alone bear such an outrageously large share of the burden.

We are already more than doing our part. Since 2001, the City has increased public school funding by more than $1.5 billion, a figure almost double the additional $777 million provided by the State over the same period of time.

Requiring the city to pay any part of the CFE settlement would also be enormously counterproductive. Because virtually every dollar the City would commit to this matching grant would be a dollar taken from services going to public school children and their families.

It would force us to eliminate day care slotsâ€¦ to cut back public health clinic hoursâ€¦ or to make it harder and harder for the city to detect and prevent instances of child abuse and neglect.

Ladies and gentlemen, there is still time for the State to reasonably and realistically meet its Constitutional obligation to provide New York City's school children with the sound basic education that is theirs by right. I ask you to seize this opportunity.

We can also seize an important opportunity to keep New York City's economy growing for decades to come. Last month, the Legislature and Governor took the first step when you approved the long-awaited expansion of the Javits Convention Center. Conventions and trade show are critical to our tourism industry, which supports more than a quarter-million jobs in our city, and which closed out 2004 hosting a record of nearly 40 million tourists to New York City. Many of the nation's other major cities are well ahead of New York in constructing modern convention facilities. But your passage of that legislation, and the Governor's signing it

into law, puts New York City back in the game. It lets us start to build the subway we need to get the Far West Side, and the expanded convention center.

But the other leg of our three-legged stool must also be approved: the New York Sports and Convention Center. Without all three legs, it's awfully difficult to balance the stool â€“ or, in this case, to get private developers to invest. The lack of the catalyst the Sports and Convention Center would provide would be devastating to the schedule we need for jobs NOW!

These three steps are all integral and inter-related in developing the now largely desolate Far West Side of Manhattan, where the Javits Center is located. The next step will be building a deck over the rail yards in this area, upon which we will construct a building capable of hosting major events, of being the future home field for the New York Jets, and of being a major arena for the 2012 Olympics, should the city be chosen to host the Games.

The Governor wisely includes in his proposed budget the authority to issue $300 million in State bonds for constructing this rail yards deck—money which the City is pledged to match. This investment will be repaid many times over through the creation of 7,000 permanent jobs, thousands of construction jobs, and $1.4 billion in City and State tax revenues over and above the cost of retiring the 30-year bonds.

The increased tax revenues will pay for essential services—for City teachers, police officers, and firefighters, and for State employees, for decades to come. The Sports and Convention Center will also turbo-charge the economic engine of the Empire State. For that reason, it is very important that the Public Authorities Control Board approve plans for the Sports and Convention Center before a delegation from the International Olympics Committee visits New York City next month. Failure to do so also will quickly end the city's chances of being picked to host the 2012 games.

On Thursday, I will present the City's budget for Fiscal Year 2006. We are required by law to balance our budget, and in order to do that, the preliminary budget will include measures required to close a projected deficit of some $3 billion. The primary cause of this gap is the City's growing non-discretionary spending on such items as pensions, health benefits and the City's share of Medicaid. These annual costs for the City have gone up a total of $7 billion since Fiscal 2001. Our municipal employees may not see the results of many of the fringe and pension add-ons approved by the State in their pay stubs and W-2s—but our taxpayers must come up with the money just the same.

When our Administration took office three years ago, the city's economy was hemorrhaging jobs. City government faced a $5 billion budget gap—a gap that grew to $6.5 billion a year later. Putting the City's fiscal house in order required making painful decisions. Since 2001, we have cut some $3.8 billion from City tax levy expenditures since 2001. Over the same period, we have reduced the size of the City-funded municipal workforce by some 16,000 people. We proposed an 18.5% increase in the City property tax rate. Had we not acted then, our City would now face the unpleasant job of closing a gap in the next fiscal year of $9.6 billion—three times what we project for Fiscal 2006.

The support of our State legislative leaders was critical in helping us achieve what we have and, for that, let me say thank you. During our first two years in office, you approved $2.7 billion in measures instrumental to our budget-balancing efforts and economic recovery. The results speak for themselves. Today, crime, already at historic lows when we assumed office, is down another 14% from three years ago. In 2004, New York City had the fewest murders since 1963â€¦ the fewest fire deaths since 1916â€¦and the fewest traffic fatalities since 1910.

Our streets are cleaner than they have been in 30 years. We're expanding our parks and opening up our magnificent and long-neglected waterfront. We are approaching the midpoint of the largest affordable housing initiative the city has seen in 20 years.

Today, our economy is growing again, and there is increased business confidence in New York's future.

Now in order to maintain this progress, we need additional resources for New York City—resources which I will describe in the budget presentation on Thursday.

Before taking your questions, I want to conclude with one last observation. A welcome feature of the Governor's budget is that it includes $180 million in Federal funds to comply with the Help America Vote Act, or "HAVA." Congress passed HAVA in 2002 in order to prevent the kind of problems that made Florida notorious in the 2000 Presidential election. These HAVA funds give us the opportunity to modernize voting machines throughout the state by the federally mandated deadline of 2006. New York City is home to approximately 42% of the state's eligible voting age population. The New York City Board of Elections, the largest Board of Elections in the State, should therefore receive at least 42% of the Federal HAVA dollars

appropriated to the State, either though direct grants, or through the State's purchase of new voting machines.

Ensuring the integrity of our elections is a great opportunity to begin to make good on our obligation to provide the people of New York State with the open and accountable government they have made it clear they want and expect.

Our Administration is prepared to work with the Legislature and the Governor to accomplish thatâ€¦and also to craft a state budget that responsibly and fairly meets the needs of all the people of our state.