

CITIZENS BUDGET COMMISSION

1 Penn Plaza * Suite 640 * New York, NY 10119

Contact: Charles Brecher Diana Fortuna
212-279-2605, ext. 315 212-279-2605, ext. 322

CBC SUGGESTS IMPROVEMENTS TO THE CITY'S JANUARY FINANCIAL PLAN, WHILE PRAISING THE MAYOR FOR HIS PROPOSAL TO CREATE A HEALTH INSURANCE TRUST FUND

New York, NY – March 22, 2006 – The Citizens Budget Commission (CBC) today released a letter to Mayor Michael Bloomberg analyzing his January Financial Plan and suggesting ways to improve it as it evolves into the Executive Budget scheduled for release next month.

The letter emphasizes the Commission's enthusiasm for the Mayor's proposal to create a Health Insurance Trust Fund and deposit about \$3 billion into it over the next two years. The Fund will make a significant contribution to addressing the City's enormous future fiscal obligation created by the current policy of paying the full cost of comprehensive health insurance for retired workers and their dependents. The proposed deposits exceed the cash liability in each year by about \$1 billion, leaving the City in two years with \$2 billion in added resources at the end of fiscal year 2007 to help finance this future obligation. In praising the Fund, the Commission notes that the Fund's strength will be determined by three factors:

“First, as you propose, deposits into this fund should be irrevocable; there should be no potential to divert them to other purposes in the future. Second, the Fund's transactions and condition should be transparent. Since the Fund will be an off-budget entity maintained with deposits from the general fund, there should be consistent, comprehensive and clear reporting of its activities to ensure transparency and accountability. Third, deposits should continue beyond the first two years. The City should commit to a long-term funding policy for retiree health insurance benefits, and should appropriate funds in each future year in accord with a predetermined schedule in order to reduce its unfunded liabilities for this purpose.”

The Commission notes that the policy underlying this fiscal obligation is unusually generous and urges the City to revise that policy consistent with a recent CBC report, *The Case for Redesigning Retirement Benefits for New York's Public Employees*.

The Commission also suggests three noteworthy ways to improve the January Plan:

- ***Better Use of the Surplus*** – Surplus revenues should be used to prepare the City for future economic downturns and reduce future fiscal obligations, not as one-shots to help cover operating deficits. The City’s surplus is larger than the \$2 billion of unanticipated resources to be allocated this year to the Health Insurance Trust Fund, and the January Plan proposes devoting the remainder of these funds to less prudent purposes. The Plan proposes that \$3.2 billion generated in fiscal year 2006 be “rolled over” to provide fully 55 percent of the total gap-closing actions needed to bring the fiscal year 2007 budget into balance. Rolling a surplus into the next year through prepayments of expenses has become a common budgetary practice; however, the repeated use of unanticipated resources to reduce projected deficits and support ongoing operations masks a structural imbalance and only postpones taking needed actions to achieve true budget balance.
- ***Restraint on Spending*** – The City should exercise greater restraint in its spending plans. City-funded expenditures grew at an average of 8 percent annually from fiscal year 2002 to 2005 – a rate much higher than general price inflation. The January Plan projects growth in expenditures at an annual average rate of 3.5 percent for fiscal years 2006 – 2010, but the Plan does not reflect the risks of new costs from future rounds of collective bargaining and from the implementation of the State Court decision in the CFE case, which may boost future expenditure requirements.

Aggressive efforts should be made to limit the major drivers of expenditures: the so-called “uncontrollables” – debt service, Medicaid, pensions and fringe benefits. These items have grown at an average annual rate of 11 percent for the past four fiscal years, compared to only 4.7 percent for the rest of the budget. According to the January Plan, the “uncontrollables” will grow 6 percent annually, on average, compared to 1 percent for the rest of the budget. CBC has recommended ways of controlling the “uncontrollables” in two recent reports: *The Myth of the “Uncontrollables”* and *Confronting the Tradeoffs in Medicaid Cost Containmentment*.

Reducing the Cost of Government – New approaches should be developed to increase productivity and thereby reduce the cost of providing public services. Besides reining in the “uncontrollables,” another way to reduce spending is to lower the unit cost of providing services. In that regard, there should be greater focus in the *Mayor’s Management Report* on reporting the unit cost for the services provided by City government. Such reporting would allow for greater precision in cost-reduction and for comparison with other local governments. For example, the City-funded cost per item circulated by the libraries is estimated to be \$5.54 in New York City, compared to \$1.99 in Phoenix and \$4.50 in San Diego.

The text of the entire letter is available online at www.cbcny.org, as are the reports mentioned above.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.