

## Memo

To: Members of Budget Policy Committee  
From: Carol Kellermann and Betsy Lynam  
Date: February 4, 2010  
RE: Positions and Proposed Work Plan for CBC's State Budget Commentary 2010

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At the Budget Policy Committee (BPC) meeting last week we promised to circulate to the committee an outline of planned blog topics on the state budget. This is our work plan; tentative dates for publication are included. Once most of the posts are up, we will send a letter to legislators drawing their attention to our blog and also noting that we oppose the cuts to TAP grants and the postponement of the TANF grant increases. Let us know if you have questions or comments:

- I. The School Aid reductions proposed by the Governor are necessary and appropriate at this time. *Post by Feb. 16*
  - i. School aid comprises a quarter of state operating fund spending. It has grown rapidly—at a pace that far exceeds inflation and personal income growth.
  - ii. New York's school spending far exceeds national norms—67 percent above U.S. average on a per pupil basis.
  - iii. Targeted reductions of 2 percent to 5 percent are reasonable at this time of fiscal stress. Indeed, proper targeting to needy districts now and in the future is the key to continuing the State commitment to improving financing adequacy.
  
2. The nonspecific \$250 million place holder for workforce savings is insufficient. *Post by February 19*
  - i. New York's compensation costs exceed public and private sector trends (BLS ECI trend), inflation, and personal income growth. Employment in the public sector is growing as compared to growth in the private sector. Contracts lock in place raises of 11.5 percent over four years and were negotiated in better times. To curb these costs the Governor has proposed \$250 million in savings that are as yet TBD.
  - ii. Although contracts cannot be abrogated, more aggressive proposals are required. This year's package is LESS aggressive than last year's but fiscal conditions have not improved. Retirees need to pay more of their health insurance premiums and there should be a wage freeze.
  - iii. Temporary pension contribution deferrals proposed to artificially lower costs in the short run are an unacceptable substitute for permanent savings. Tier V, although a positive step for the future, should be paired with a smaller, more effective workforce. The

workforce the Governor controls has been reduced by 4,000 since his first budget still well above 2003-04 levels. He is now proposing only another 900 in job cuts and has promised the unions no layoffs. State employees in other areas—namely the Judiciary, the Legislature, and SUNY/CUNY-- are still on the rise.

3. The proposal to allow SUNY and CUNY to set and retain tuition creates a sensible financing structure to put these institutions on firmer footing for the future. *Post by Feb 25*
  - i. The current financing mechanisms for public higher education are tied too closely to political imperatives and the budget cycle.
  - ii. Tuition is not high compared to other states and the HEPI (higher education price index)
  - iii. Not all public higher education students are poor
  - iv. Differential tuition would allow for the pursuit of excellence at highly regarded schools and in high demand fields of study and higher rates for out of state students
  - v. To cover budget cuts this year, tuition could be raised by \$\_\_\_\_, or \_\_\_\_ percent, on average. All else being equal New York's tuition would still be comparable to that in peer states.
  
4. Hiding the true cost of pensions from taxpayers *Post by March 1*
  - i. Along with the budget the Governor submitted legislation to borrow operating funds from the pension funds. This constitutes nothing more than a deficit financing, and it masks the true costs of public employee pensions from the taxpayer.
  - ii. The proposal works like this \_\_\_\_\_
  - iii. In the short run the differences are not that dramatic, just a point or two off true costs, but by the out-years the differences grow striking and will be more hidden than even what taxpayers know of the scheme next year.
  - iv. Using a model developed with typical pension fund assumptions the CBC estimates that the total cost of the scheme will be \$\_\_\_\_ billion, if market returns hold to the 8 percent upon which the funds base their actuarial tables. In essence to save \$2B upfront over five years the State is prepared to pay \$\_\_\_\_ billion over 16 years, and that is only if the market recovers enough to make 8 percent as the model specifies.
  - v. The scheme is ill advised. For example, a straightforward deficit financing would cost only \$\_\_ billion. Our pension funds are relatively sound because the bills have been paid. State leaders should resist the urge to erode the asset by borrowing against it.