

CITIZENS BUDGET COMMISSION

11 Penn Plaza * Suite 900 * New York, NY 10001

March 24, 2004

Hon. Joseph L. Bruno
Majority Leader
New York State Senate
909 LOB
Albany, NY 12247

Dear Senator Bruno:

The enclosed publication, entitled "The Palisades Principles," presents the ten actions that a statewide conference organized by the Citizens Budget Commission voted to be the most important for improving the State's fiscal performance. The conference, held in Palisades, NY, brought together more than 150 government and civic leaders, business executives, labor leaders, social service agency heads, academic experts, and media representatives from across the state.

The purpose of the conference was to identify ways to "fix" New York's fiscal practices, and the group considered numerous fiscal reform measures. The ten measures that received the most votes are described in the first five pages of "The Palisades Principles," and we hope you will review them carefully.

We also hope that you will join the many concerned New Yorkers who attended the conference in embracing The Palisades Principles. A Legislative Conference Committee is now considering budgetary reforms, and these recommendations should be at the core of the legislative proposals they bring to the floor. The Palisades Principles should be the essence of what New York State adopts as meaningful budget reform.

The Palisades Principles also provide a framework for deciding upon the specifics of the State's budget for fiscal year 2004-05. The Executive Budget prepared by Governor George Pataki has many praiseworthy proposals for dealing with New York State's formidable fiscal problems. But the Governor's budget also falls short of meeting all the standards set by the Palisades Principles, and should, therefore, be modified by the Legislature.

The Citizens Budget Commission recommends that you and your colleagues in the legislature take the following actions with respect to the fiscal year 2004-5 budget.

Bring the budget into balance by controlling expenditure growth in ways that do not harm public services. This seemingly simple recommendation is based on three important, and often ignored, facts.

1. *The State's budget is not balanced.* When viewed in terms of Generally Accepted Accounting Principles, the State's General Fund has gone from an accumulated surplus of \$3.9 billion at the end of fiscal year 2001 to a projected deficit of nearly \$2.0 billion at the end of fiscal year 2004. The Executive Budget for 2004-05 would incur another annual deficit that would raise the accumulated deficit to nearly \$2.7 billion.
2. *The budgetary imbalance is due primarily to a lack of discipline in controlling expenditure growth.* In 2001 a national recession and the terrorist attacks combined to reduce the State's revenues. Despite the lack of resources, the State continued to increase expenditures in an unsustainable fashion. In fiscal year 2002, spending was up 6.6 percent; in fiscal year 2003, it was up 6.9 percent; and in fiscal year 2004 it will rise another 6 percent. The Governor's proposal for fiscal year 2005 would increase spending by another 3.5 percent.
3. *There are substantial opportunities to cut spending without harming services.* With State spending approaching \$100 billion annually, there are multiple opportunities to achieve savings without harmful service cuts. Two studies by the Citizens Budget Commission illustrate this point:
 - Medicaid – A report released last month, titled *Confronting the Tradeoffs in Medicaid Cost Containment*, shows how to save \$4.6 billion annually in the Medicaid program without reducing the program's effectiveness. These savings result from paying hospitals and nursing homes at rates that reflect only competitive costs (\$2.5 billion annually), limiting excessive personal care services (\$1.0 billion annually), closing loopholes in eligibility for long-term care services (\$608 million annually), and enrolling more eligible individuals in managed care plans (\$489 million annually). A summary of this report will be mailed to you soon, and the full report is now available at the Commission's website, www.cbcny.org.
 - Department of Correctional Services – A report released in 2000, titled *Making More Effective Use of New York State's Prisons*, shows how to save at least \$100 million annually in prison costs without reducing public safety. It points to cost-effective alternatives to incarceration that can be used for prisoners in the final months of their sentences, including already tested options such as "boot camps" and the Comprehensive Alcohol and Substance Abuse Treatment program as well as new initiatives and a re-engineered parole system. This report is also available on our web site.

While Medicaid and prisons are two large areas of spending that the Commission has studied, there are other major functions that also provide opportunities for savings. In particular, pension fund contributions for State employees are rising rapidly. The Governor and the Legislature should consider a joint panel to develop recommendations for redesigning the State's public employee pension systems in ways that reduce future costs by changing benefits rather than just deferring costs through rescheduling contribution payments.

Reduce the State's debt burden by ending borrowing for operating purposes and curbing non-essential capital projects. By every relevant measure New York State has one of the highest debt burdens in the nation. This striking fact led the Legislature to adopt a statutory program of "debt reform" in 2001. But the \$4.5 billion in borrowing against future tobacco settlement revenues has been exempt from these limits, and the debt burden continues to grow rapidly despite these reforms. Two strategies are essential.

1. *Stop borrowing to fund operating deficits.* In fiscal year 2003-04 the State borrowed about \$4.5 billion to help pay for operating expense incurred in the previous and current fiscal years. The Governor has proposed using an additional \$181 million of last year's borrowing proceeds for fiscal year 2004-05 operating expenses, and he would borrow another \$440 million from the employee pension funds largely by "stretching" into the future the otherwise mandated annual pension fund contributions. Both measures should be dropped from the budget.
2. *Drop non-essential capital projects.* The Governor proposes capital spending in the coming fiscal year of nearly \$6.7 billion, a significant increase from the current year and from previous years. Much of this spending is for important investments in needed infrastructure, but the enlarged capital budget also contains projects that can be deferred to better times or even eliminated, such as work on the State Fair Grounds and rebuilding the Oxford Veteran's Home.

Provide financial relief to local governments. Local government taxes in New York are by far the highest in the nation, and this is due largely to mandates imposed on counties and cities by the State. The most troubling mandate is the unusually high share of Medicaid costs that are pushed onto local governments, but other burdens arise from State regulation of the pension systems and collective bargaining rules for local government employees. These problems can be addressed in the next State budget by:

- *Beginning a multi-year assumption of local Medicaid costs.* Proposals have been made for the State to take over the current local costs for the Family Health Plus part of Medicaid or for the long-term care services under Medicaid. Either of these steps should be taken as a beginning of a long-run program to have the State pay for all Medicaid expenses.

- *Changing collective bargaining rules.* The Governor has proposed requiring arbitration panels for local government collective bargaining to make a local government's ability to pay a priority consideration. This legislation should be adopted.

We hope you find *The Palisades Principles* to be a useful framework for thinking about how to improve the State's fiscal practices and that you will give our recommendations for the coming year's budget careful consideration. The Commission's staff would be glad to discuss these ideas with you and address any questions you might have.

Sincerely,

H. Dale Hemmerdinger
Chairman

Diana Fortuna
President