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OP-ED CONTRIBUTOR

An Easy Trim

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THE State of New York has begun preparing its annual budget using a quick start process that the governor and the Legislature approved last January. Starting three months earlier than normal, the process allows for longer and more open deliberations. The new procedures are intended to bring greater accountability to the practice of secretive last-minute negotiations over how to spend more than $120 billion of taxpayers' money.

As part of the process, at the start of November, the governor released estimates of projected revenues and budget gaps. They present quite a challenge. A slowed economy and salary increases recently negotiated with employee unions have driven budget gaps to $4.3 billion in the coming year and $6.2 billion and $7.9 billion in the next two years. Legislators subsequently completed their version of the arithmetic. They concur that budget gaps are likely to be of this magnitude.

If state leaders want to avoid tax increases in what is already one of the most heavily taxed states in the nation, they will need to find savings of about $6 billion to $7 billion per year over the next three years.

The good news is that at least $5 billion in annual savings can be generated without reducing state services. Some of these proposals will face strong political opposition from special interests. But in the end, elected officials will have to choose whether to sustain inefficient services by raising taxes and relying on fiscal gimmicks, or to exercise political leadership to limit spending to programs that serve the public effectively.

The three largest areas of savings involve Medicaid ($2 billion in annual savings), fringe benefits for state employees ($1.1 billion) and ineffective economic development programs ($800 million).

MEDICAID New York spends far beyond national norms for its Medicaid program in total and per beneficiary. The state's spending per beneficiary, $7,910, is 69 percent above the national average. Yet the quality of care New Yorkers get is no better and is in some areas markedly worse.

New York could save money by reducing non-competitive institutional rates like those paid to nursing homes, which are higher than national norms even after adjusting for differences in the cost of living and the health of patients. The state could also close eligibility loopholes for individuals with significant personal assets, particularly those with enough money to defray the cost of their own care. And limiting how many hours of "personal care services" (like housekeeping services by home health attendants) the state's Medicaid program will cover would be a huge savings.

FRINGE BENEFITS Many state workers are now paid more than their private-sector counterparts; the

generous health insurance and retirement packages developed to attract them to work in the public sector are, therefore, no longer necessary.

The state should restructure its health insurance to bring it in line with other public-sector employers. This means that an additional 4 percent contribution toward family plan premiums from current workers should be required. For retirees, New York should insist on a larger contribution toward premiums and eliminate repayment for Medicare Part B premiums, which cover doctors' services, outpatient hospital care, X-rays, laboratory services and other diagnostic tests. Only six states pay any part of their employees' Medicare premiums; New York pays the full cost.

The state should also restructure pensions. Its employees and retirees have unusually generous pension benefits compared to other public and private-sector workers (with state-required contributions now costing $1.1 billion per year). The most practical approach would be to change the pension benefits for future employees by creating a new tier for them.

ECONOMIC DEVELOPMENT PROGRAMS New York's Empire Zones and Centers of Excellence, two large economic development programs, are not working. Empire Zones should be cut from the budget and the money set aside for Centers of Excellence should be reduced.

The tax credits given away through the Empire Zone program will amount to $558 million this year. And yet, a 2004 audit by the state comptroller found that only 30 percent of recipients of these tax credits met or exceeded their employment targets, 23 percent reduced employment and the remainder fell short of their goal. Efforts to improve this program have failed, and it should, therefore, be ended.

As for Centers of Excellence, the state has committed $586 million to this program. Of that, $342 million is intended for the State University of New York at Albany, while the remainder will be spread around less successful centers, which have not attracted essential private investment. The state should scale back the program to cover only SUNY/Albany.

Of course, there are a number of other moves the state could undertake: shrinking the size of the prison system to reflect the 11 percent drop in the number of inmates since 1999, increasing the work week for state employees to 40 hours from 37.5, and streamlining the judiciary system, as recommended by Chief Judge Judith Kaye.

Even seemingly obvious changes, like going to a 40-hour work week (already the standard in most public-sector jobs) will meet fierce opposition. But New York's economy and its ability to provide jobs, depends on better fiscal discipline.

New Yorkers shouldn't have to pay higher taxes, lose jobs and put up with substandard services to please the special interests, and getting a handle on the state's budget is the best place to start.

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