



Testimony at the Town Hall Meeting on the New York State Budget November 27, 2007 – 1:00 p.m.

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Good afternoon and thanks for the opportunity to testify today. It is a pleasure to see a more open State budget process this year. I am Elizabeth Lynam, Deputy Research Director at the Citizens Budget Commission. As you know, the Citizens Budget Commission is a nonprofit nonpartisan watchdog group dedicated to influencing constructive change in the finances and services of New York City and State government.

New York State government is a large and complex enterprise that both provides direct service to the public and funnels aid to local governments for the functions they perform. The budget for the State now exceeds \$120 billion. Not only is New York's budget big, it is expected to grow significantly over the next four years. With the multi-year financial commitments that were enacted this past year fueling growth and revenues that are not expected to grow as fast as spending, the new projections released in October present quite a challenge. The budget gap is expected to be \$4.3 billion in the coming year increasing to the more daunting \$6.2 billion and \$7.9 billion over the next two years. And although the spending commitments were made in areas that were arguably priority needs for the State, future budgets still need to be balanced.

The key challenge facing State leaders is how to maintain the commitments that have already been made, leave capacity for future needs that may arise to be funded, and identify and adopt measures to make spending more cost effective in other areas to yield much needed financial plan savings. The Citizens Budget Commission has recently completed a study of potential budgetary savings, and the good news is that at least \$5 billion in savings can be generated annually without reducing State services. Some of these proposals will face strong political opposition from entrenched special interests. In the end, elected officials will have to choose whether to sustain inefficient services by raising taxes and relying on fiscal gimmicks, or exercise the political leadership necessary to limit spending to programs that effectively serve the public.

The report, *Options for Budgetary Savings in New York State*, released on October 17 and available at www.cbcny.org, proposes nine options for more effective spending. The three largest, each with projected annual savings of at least \$500 million, are:

- **Continue to restructure Medicaid to target benefits to the neediest New Yorkers (for annual savings of \$1.988 billion)**

New York spends far beyond national norms for its Medicaid program in total and per beneficiary. New York accounts for over 14 percent of Medicaid spending nationally while covering 8.6 percent of all beneficiaries. New York's spending per beneficiary, \$7,910, is nearly 69 percent above the national average. Options for savings include the following:

- **Reduce non-competitive institutional rates.** Rates paid to hospitals and nursing homes in New York State are higher than national norms even after adjusting for differences in the cost of living and the health of patients.
 - **Close eligibility loopholes for the non-poor.** More generous long-term care eligibility contributes significantly to unusually high Medicaid costs.
 - **Reduce excessive utilization of some services.** The hours of personal care services provided by Medicaid in New York are beyond reasonable levels, relative to national standards.
- **Reduce State operations costs by restructuring fringe benefits for employees (\$1.138 billion)**

Many government 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 no longer justified. As a result, the following changes are warranted:

- **Health Insurance Restructuring.** If the State were to bring its practices more in line just with other public-sector employers, it would require an additional 4 percent contribution toward family plan premiums for post-1983 hires. This would save the State an estimated \$75 million annually. For retirees, New York could require a 50 percent contribution toward premiums and eliminate repayment for Medicare Part B premiums to save \$639 million.
 - **Pension Restructuring.** New York State employees and retirees also have unusually generous pension benefits compared to other public and private-sector workers. State- required pension contributions more than quadrupled from \$274 million in 2002 to \$1.1 billion in 2006. While changing the pension benefits of current employees would require an amendment to the New York State Constitution, pension benefits for new employees can be changed legislatively. The creation of a new “tier” for future employees would address this problem and eventually save \$424 million.
- **Reduce and restructure ineffective economic development programs (\$802 million)**
 - **End the Empire Zones Program.** The combination of tax credits being given away through the program will amount to \$558 million in calendar year 2007.

A 2004 audit by the State Comptroller's Office found that 23 percent of businesses receiving empire zone tax credits reduced employment, while only 30 percent of recipients met or exceeded their employment targets.

- **Scale back the Centers of Excellence (CoE) program.** The State has made funding commitments for the CoE program through 2006 of \$586 million. Of that, \$342 million is slated to go to the somewhat successful center at UAlbany while the remainder will be spread around the other less successful centers. The State could scale back the size of the program to fund only UAlbany and shut down the others for a savings of \$244 million.

Among the list of additional savings ideas are: 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); better capital planning and streamlining of administrative, purchasing, and human resources functions; more targeted school aid formulas; and streamlining the judiciary, as recommended by Chief Judge Judith Kaye.

Many of the changes I've mentioned will meet with fierce opposition. But so should the alternatives—service reductions, tax hikes, and fiscal gimmicks. New Yorkers should instead demand more cost effective delivery of State services and hold their leaders accountable for achieving necessary reforms.

Thanks again for the opportunity to speak with you this afternoon. I'd be happy to take questions.