



# Options for Budgetary Savings in New York State

Citizens Budget Commission – October 17, 2007

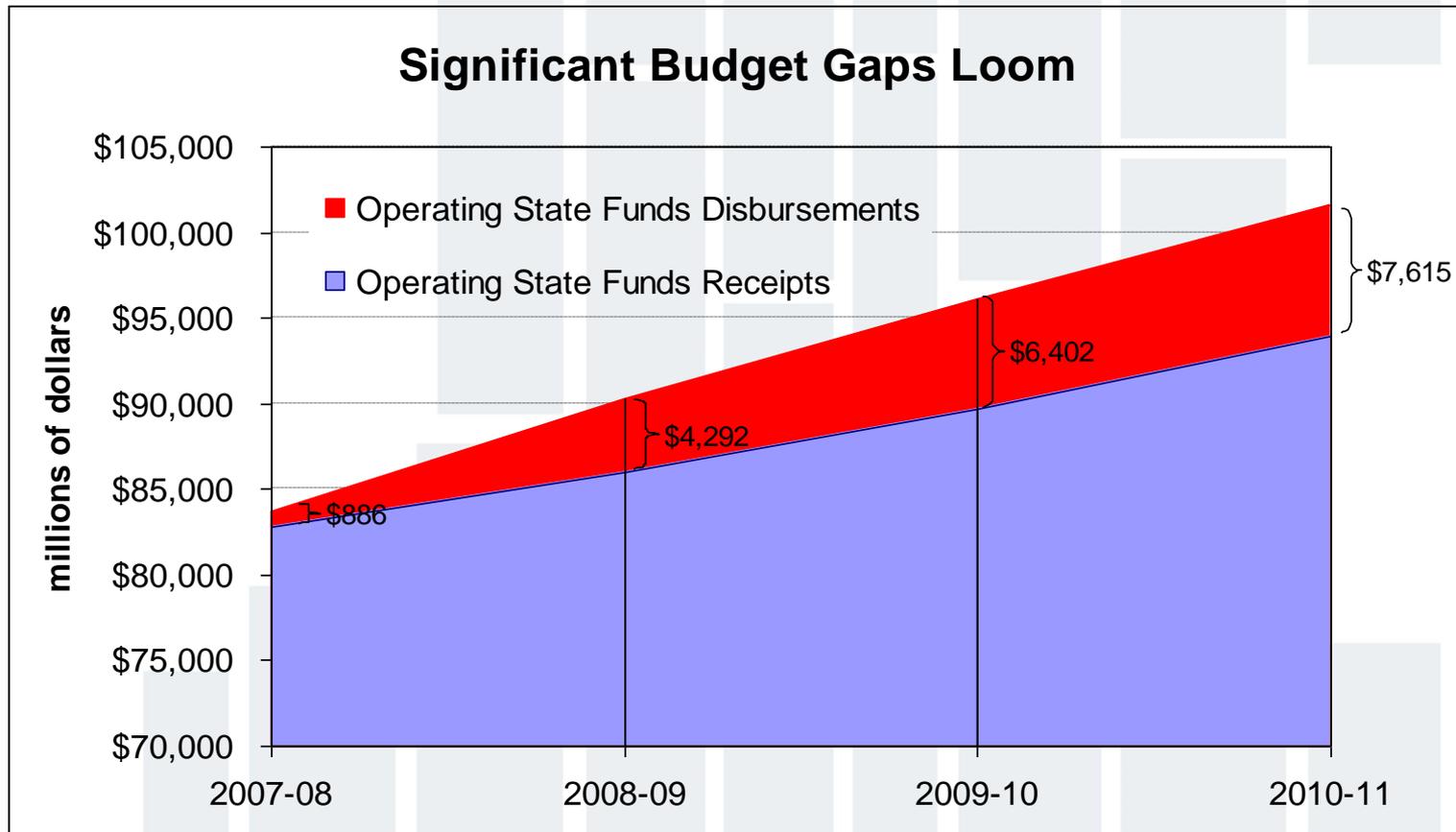
# AGENDA

- I. The Problem – State spending that is expected to surpass our ability to pay for it**
  
- II. Options for Closing Budget Gaps**

# 1. History of Spending Growth

- From 1994-95 to 2006-07 the State budget increased by 83 percent, with an average annual growth of 5.6 percent (twice the rate of inflation)
- The main drivers of spending are increases in education and health and welfare, which account for 57 percent of the increase
- Tax cuts and spending increases have been prioritized over other long-term needs (such as debt reduction and finding effective ways to reduce high local taxes)

## 2. Major spending commitments create large future year budget gaps



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School Aid Commitments Continue to Phase In  
(millions of dollars)

	2008	2009	2010	2011
Growth in School Aid	\$1,767	\$3,122	\$5,340	\$7,639

Growth in School Aid Over Three Years: \$5.9 billion

## 2. Major spending commitments create large future year budget gaps

Capital Spending Has Grown Sharply  
(millions of dollars)

	2005	2006	2007	2008
Total Capital Projects Fund (on-budget)	\$4,036	\$5,131	\$5,558	\$7,351
Total Off-budget	\$881	\$1,017	\$1,712	\$2,719
Total Capital Spending (on and off-budget)	\$4,917	\$6,148	\$7,270	\$10,070

### **3. Other needs may add to imbalance of the financial plan**

- More Universal Health Insurance Coverage
- Health Insurance and other post employment benefits for retirees
- More Universal Pre-Kindergarten Programs

# Options for Closing Budget Gaps

1. Phase out school aid for the wealthiest districts (Savings = \$334 million)
  - Foundation Aid formula was an improvement but needs modifications:
    - More stringent application of local tax levy provisions
    - Phase out aid for the wealthiest top 10% of districts
  
2. Continue Medicaid Restructuring—target benefits to the neediest New Yorkers (Savings = \$1,988 million)
  - Reduce non-competitive institutional rates
  - Close eligibility loopholes for the non-poor
    - State takeover of estate recovery for spousal refusal
    - Apply asset look-back to home care
    - Decrease home value exemption to lower federal standard
  - Reduce excessive utilization for some services

# Options for Closing Budget Gaps

3. Reduce State Operations Costs—restructure state employee fringe benefits  
(Savings = \$1,138 million)
  - Health Insurance Changes—require additional contributions
  - Pension changes—exclude overtime from base, define eligibility more narrowly, establish minimum age requirement for all employees, and increase required contributions
4. Increase state employee work week  
(Savings = \$227 million)
  - Increase work week from 37.5 hours to 40 hours
5. Streamline purchasing, back office functions, human resources, and payroll processing  
(Savings = \$333 million)

# Options for Closing Budget Gaps

6. Restructure Economic Development Programs (Savings = \$802 million)
- End the Empire Zones Program
    - A 2004 audit found that 23 percent of Empire Zone businesses actually reduced employment rather than increasing it
    - Abuses occur when companies use “shirt changing” tactics to qualify for program
    - 2005 reforms have not been effective yet
  
  - Scale Back the Centers of Excellence Program
    - Only the Albany Center has been successful at leveraging private investment
    - Other Centers of Excellence should be closed

# Options for Closing Budget Gaps

## 7. Develop a Capital Plan that will provide spending discipline (Savings = \$100 million)

- No coordinated capital planning occurs that weighs competing needs
- Multi-year capital plans are often supplemented over time
- An increasing amount of capital spending occurs “off-budget”

## 8. Close unnecessary correctional facilities (Savings = \$ 410 million)

- Inmate population has decreased 11 % since 1999 but correctional staffing has decreased by less than 1 %
- Stringent reuse plans should be altered to permit closure of underutilized facilities
- Alternatives to incarceration programs should be explored

## 9. Streamline the Judiciary (Savings = \$59 million)

- Commission of Court Reform recommendations
  - Reconfigure nine trial courts into a two-tier system
  - Lift cap on number of Supreme Court justices
  - Create fifth Appellate district

# Summary of Savings Options for New York State

(dollars in millions)

Option	Estimated Annual Savings
<b>Phase Out School Aid for the Wealthiest School Districts</b>	<b>\$334</b>
<b>Continue to Restructure Medicaid Programs to Target Benefits to the Neediest New Yorkers</b>	<b>\$1,988</b>
<i>Reduce non-competitive institutional rates</i>	860
Hospitals	125
Nursing Homes	735
<i>Close eligibility loop-holes for the non-poor</i>	454
State recovery on spousal refusal	45
Look-back on home care and lower home value exemption	409
<i>Reduce excessive utilization of some services</i>	433
<i>Expand Managed Care to High-Cost Populations</i>	241
<b>Restructure Fringe Benefits for Employees and Retirees</b>	<b>\$1,138</b>
<i>Health insurance restructuring</i>	714
Higher premium for employees with family coverage	75
Higher premium for retirees and elimination of Part B reimbursement	639
<i>New Tier on the pension system when fully implemented</i>	424
<b>Increasing the State Employee Work Week</b>	<b>\$227</b>
<b>Streamline Purchasing and Other Back Office Functions</b>	<b>\$333</b>
<b>Reduce and Restructure Ineffective Economic Development Programs</b>	<b>\$802</b>
<i>Empire Zones</i>	558
<i>Centers of Excellence</i>	244
<b>Develop a Comprehensive Capital Plan</b>	<b>\$100</b>
<b>Close Unnecessary Correctional Facilities</b>	<b>\$410</b>
<i>Close unneeded facilities</i>	310
<i>Implement additional successful alternatives to incarceration</i>	100
<b>Streamline the Judiciary</b>	<b>\$59</b>
<b>TOTAL</b>	<b>\$5,391</b>



# **Citizens Budget Commission**

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