

**RIGHTSIZING NEW YORK'S
BUDGET:
WHY AND HOW IT CAN BE
DONE**

December, 2008

**RIGHTSIZING NEW YORK'S
BUDGET:
WHY AND HOW IT CAN BE
DONE**

December, 2008

EMPIRE  CENTER
FOR NEW YORK STATE POLICY
A project of the Manhattan Institute for Policy Research

1 South Washington Street
Suite 400
Rochester, NY 14614
585.325.6360

100 State Street
Suite 330
Albany, NY 12207
518.432.9428

www.cgr.org

RIGHTSIZING NEW YORK'S BUDGET: WHY AND HOW IT CAN BE DONE

December, 2008

SUMMARY

New York State government faces its most significant fiscal crisis in decades. And this is not just another cyclical downturn. What's left of Wall Street will be significantly leaner, less profitable and more heavily regulated than the securities industry whose explosive growth fueled the expansion of state spending for much of the past 25 years.

The Empire Center for New York State Policy and the Center for Governmental Research brought policymakers and analysts together on Dec. 9 in Albany to examine ways to bring spending in line with realistic projections of future revenue. The following report summarizes key points made by the conference participants.

TABLE OF CONTENTS

Summary	i
Table of Contents	ii
RIGHTSIZING NEW YORK'S BUDGET: WHY AND HOW IT CAN BE DONE	1
The Comptroller's Assessment	1
Earthquake on Wall Street	1
Meeting the Medicaid Challenge.....	2
Where the Bucks Are	3
Appendix A: State Comptroller Thomas P. DiNapoli's Prepared Remarks	
Appendix B: Earthquake on Wall Street	
Appendix C: Rightsizing Medicaid	
Appendix D: Meeting the Medicaid Challenge	
Appendix E: Where the Bucks Are	
Appendix F: What's No Longer Affordable for New York State	
Appendix G: School Spending – Where it Goes	
Appendix H: Public Sector Collective Bargaining in NYS	
Appendix I: Saving Tax Dollars on Capital Spending and Economic Development Programs in New York State	

RIGHTSIZING NEW YORK'S BUDGET: WHY AND HOW IT CAN BE DONE

New York State government faces its most significant fiscal crisis in decades. And this is not just another cyclical downturn. What's left of Wall Street will be significantly leaner, less profitable and more heavily regulated than the securities industry whose explosive growth fueled the expansion of state spending for much of the past 25 years.

The Empire Center for New York State Policy and the Center for Governmental Research brought policymakers and analysts together on Dec. 9 in Albany to examine ways to bring spending in line with realistic projections of future revenue.

The Comptroller's Assessment

The conference's keynote speaker was state Comptroller Thomas DiNapoli, a former assemblyman, who called himself a reformed sinner when it comes to spending.

"New York has a long and not-so-glorious tradition of budget shortsightedness," DiNapoli said. "We have not lived, even in good times, within our means."

With business tax collections down nearly 7% this year and personal income tax collections expected to be almost flat, the state expects a \$1.6 billion deficit in the current fiscal year ending March 31. Next year, the deficit estimate is \$2.5 billion, and over the next three years, deficits could exceed \$30 billion.

"The state's financial weakness has been developing for years. To meet this challenge, everything should be on the table," DiNapoli said.

Earthquake on Wall Street

Kathryn Wylde, president of the Partnership for New York City, chronicled the implosion of the financial services industry and made the stark point that Wall Street and New York may never be what they were.

"A permanent downsizing of the industry is underway and New York City may lose as many as 250,000 jobs from the industry and its multipliers by 2012. New York is emerging from this crisis with a profoundly different economic profile than we went in with," said Wylde, whose organization of business leaders advocates on behalf of New York City.

This fiscal crisis, which “Wall Streeters describe as their 100-year storm,” is different from past economic downturns because of its scale and because of the reaction from government. The federal government will exercise unprecedented control over the banking industry and put in place new regulations on the financial industry.

Despite the potential of these actions to dampen innovation and growth on Wall Street, Wylde said she and other leaders are confident New York can recover, if state government takes the right actions. Those include seeking federal help, supporting Wall Street, reforming economic development and revising the state’s tax code.

And the state must learn to live within its means, now that it can’t count on hefty tax proceeds from the financial industry.

“Without its profits and bonuses, New York State has no choice but to restructure its expense budget and reform its economic development policies,” Wylde said.

Meeting the Medicaid Challenge

The conference next turned attention to the state’s Medicaid program, which provides health insurance to the poor, elderly and disabled and consumes roughly a third of the state budget.

Kathy Kuhmerker, formerly the state’s Medicaid director, now with the Lewin Group, compared New York’s spending with national benchmarks. Overall, New York’s per-enrollee spending is 66% higher than the nation’s. The biggest disparities are in care for the elderly (New York is 79% higher) and for the disabled (New York is 92% higher). In spending for children, New York is 24% higher.

About 75% of all Medicaid spending in New York is for just 21% of enrollees, those with special needs. Nationally, a separate analysis of 2004 data found that just 5% of enrollees consumed 57% of Medicaid spending.

Ways to target unusually high spending was the focus of Bill Carpenter, former Monroe County budget director and Medicaid czar, who is now with Salient Corp.

Carpenter explained how Monroe County used data-mining technology to uncover fraud and abuse in pharmacy claims, such as providers paid after the deaths of their patients and enrollees using an unusually high level of services. For example, the county targeted 10 enrollees who had 798 emergency room visits in a year, including three who went to the ER 55 times for headaches.

The pharmacy audits uncovered a chain of pharmacies for which 25% of prescriptions were written by one doctor. The county's investigation discovered the doctor had not actually written any of the prescriptions. The technology can also be used to improve medical practice and gain efficiencies by analyzing the type of care provided and outcomes for patients such as those with diabetes.

But Medicaid will continue to be a sinkhole for budget dollars until the political dynamics of health-care spending change, according to Raymond Meier, a former Republican state senator.

Because the federal government and counties both pick up a share of Medicaid spending, state politicians can expand programs without having to pick up the full tab, Meier explained. About 34 cents of every Medicaid dollar comes from the state, with 50% funded federally and the rest coming from counties.

"The political calculus is this: Expand benefits, hand out goodies, give people stuff, pay 34% of the cost, take 100% of the credit," Meier said.

Medicaid is also viewed as a jobs program because its funding stream is so important to health-care providers, who employ more than a million people in the state, Meier said. Add to that the political influence of the powerful unions representing those workers.

"You can only win the debate if you change the terms," Meier said. Advocates for restraining Medicaid spending must look for new arguments, such as allowing consumers more say over health-care decisions, and developing new allies, such as advocates for the rights of people with disabilities who favor care in non-institutional (and less costly) settings.

Where the Bucks Are

Focusing merely on the economic downturn fails to adequately explain the state's projected \$12.5 billion deficit in the coming fiscal year, noted E.J. McMahon, director of the Empire Center.

Nearly \$6.7 billion of the gap comes from projected spending increases, including an additional \$2.1 billion for schools and \$1.8 billion for Medicaid. Revenue declines account for \$5.8 billion of the gap.

Aid to schools has grown 76% over the last 10 years and would grow another 29% over the next three years under current law. That's despite the fact that enrollment has declined and is now expected to be flat, McMahon said. Medicaid spending is projected to grow 32% over the next three years.

The state needs to eliminate unnecessary agencies (such as the Consumer Protection Board), eliminate mandates that drive costs for local government and reduce spending in all branches of government, including the Legislature, McMahon said.

Historically, the Legislature has been reluctant to cut popular programs, like education and health care. "We're going to need years of misery before they deal with this," McMahon said.

Elizabeth Lynam of the Citizens Budget Commission offered several other ideas for spending reductions, including:

- Cut aid to wealthy school districts;
- Eliminate ineffective programs, such as the Empire Zones economic-development program;
- Reduce spending by large bureaucracies, including the state Education Department and the prison system.

While the cuts need to be deep, they should not be across-the-board, nor should the state simply shift the pain to local governments, Lynam said.

In the education area, Thomas Rogers of the New York State Council of School Superintendents suggested restructuring the state's costly special education programs.

New York's special education system is the second most expensive in the nation, with far-higher salaries and staff-student ratios and more students in segregated educational settings (i.e., classrooms and schools separate from the regular student population) than the nation. Yet New York's graduation rate for disabled students is below the national average, Rogers said.

State regulations add significant cost to the system. If New York were to reduce spending to the national average, it would save \$1.3 billion a year, Rogers said.

Changes in compensation to public employees also need to be part of the budget solution, said Joseph Stefko of the Center for Governmental Research. Generous contracts with public employee unions are driving up taxpayer costs for health insurance and inflating the public workforce.

"I don't see any way out of this fiscal mess without rethinking employee compensation," Stefko said.

Stefko's analysis of school district employee contracts in Monroe County found most districts pay 90% or more of health insurance premiums for employees. In the private sector nationally, employers pick up 83% of the cost for individual plans and 71% of the tab for family plans. Reducing the district contribution to those national benchmarks would save taxpayers \$27 million a year.

Similarly, public employees in Buffalo average 61 paid days off a year, compared to a national average of 38, a phenomenon that balloons the public workforce.

To obtain savings at the local and state level, the state must change provisions in state law that tilt the playing field in contract negotiations toward unions by guaranteeing that current benefits (including step raises) continue even while contract talks are underway. Specifically, Stefko called for a rewrite of the Taylor Law and Triborough Amendment.

Thomas Sanzillo, a former first deputy comptroller, suggested the state could save millions or even billions of dollars by reforming its contracting process. Cumbersome rules discourage many contractors from bidding, so the state ends up choosing between a relatively small number of bidders.

"What that means is that the state is not getting a market price. It is getting the price that those who wish to bid will charge. The system is broken," said Sanzillo, now with TR Rose Associates.

Appendix A: State Comptroller Thomas P. DiNapoli's Prepared Remarks



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

**State Comptroller Thomas P. DiNapoli's Prepared Remarks
Rightsizing New York Government
Albany Institute of History and Art
December 9, 2008**

Good afternoon. Let me start off by thanking The Empire Center for New York State Policy and the Center for Governmental Research for hosting this discussion about New York's fiscal future.

Your focus on rightsizing New York government is a most timely and challenging topic. It boils down to the simple concept of fiscal responsibility and achieving budgetary discipline at a time of budget deficits and economic recession.

It's a subject I've addressed in the two budget reviews I've submitted since I became comptroller – early in 2008 at the start of the financial meltdown and back in 2007, the last year of the happy days of outsized revenue expectations and significant spending increases for state programs.

Now, as someone who served in the legislature for 20 years, you could label me a reformed sinner when it comes to fiscal responsibility. Well, so be it. I was raised to believe confession is the first step on the road to redemption.

In times like these, we all need to get fiscal religion.

So, I'd like to talk about three things today. First, I'll to recap how we got to where we are.

Second, I'd like to lay out a few proposals for savings and efficiency in state programs and some proposals for budget reform.

And last, I'd like to present a framework for real change in the way state government provides the services New Yorkers need.

It's not news to anyone in this audience that New York has a long, not-so-glorious tradition of budget shortsightedness. Our budgets make spending commitments for future years that aren't sustainable. We have, even in good times, not lived within our means.

We have created spending plans without full consideration for future costs. We've relied on too many gimmicks, such as one shot revenues and overly optimistic revenue estimates. And we have used debt as a surrogate for wealth.

Since fiscal year 2002-03, the State has relied on more than \$21.5 billion in one-shots to balance the budget. Ongoing costs were paid for with one-time revenues, creating built-in shortfalls for future budgets.

Some of our budget sins were absolved by an overheated economy, particularly with respect to Wall Street revenues that grew like there was no end in sight.

But in 2008, the meltdown in the real estate and financial markets laid bare past mistakes and the recession sent revenues plummeting.

You know the numbers. The state deficit will reach at least \$1.6 billion for the current fiscal year ending in March.

Next year's deficit is expected to reach at least \$12.6 billion and the cumulative deficit for the three-year period through 2010-11 could go beyond \$30 billion.

This fiscal year, personal income tax receipts are expected to grow by only \$256 million, or 0.7 percent. Compare that to last year's growth rate of 5.7 percent, and you can see the impact this decline is having.

And 09-10 looks worse. Personal income taxes are expected to drop by 3.4 percent. Business taxes are projected to decline by 6.8 percent this year and rise only slightly in 2009-10.

Our Wall Street report released last month found the financial crisis could cost New York State and New York City 225,000 jobs and \$6.5 billion in tax revenue over the next two years. The report is available on line. I hope you'll take a moment to read it. It's a reminder of just how vital the financial services industry is to the State's economy.

The economic recession, brought on by the ongoing crisis in the national and global financial markets, halted growth in state revenues. But the truth is, the state's financial weakness has been developing for years. The point is: our troubles didn't start when Wall Street collapsed.

Wall Street was the explosion, but the fuse was lit years before.

And now the crisis has presented New York with a serious budget challenge.

Governor Paterson is right. To meet this challenge everything should be on the table. The governor is also right that before we start talking about new taxes, we must address the spending side first.

I was hopeful when the governor called the Legislature back to Albany shortly after Election Day. Unfortunately, no action was taken to close the gap in this year's budget and to get a start on what's ahead.

It was a lost opportunity, a missed chance to get things moving.

Next week, the governor will release his budget proposal, well in advance of the statutory deadline. All stakeholders will have ample time to analyze, debate and possibly improve upon what will no doubt be a budget proposal built on tough choices.

As the debate on next year's budget proceeds, there are a number of actions that can be taken right now that would generate savings. These actions could save the State hundreds of millions of dollars through fiscal year 2009-10. Most of these actions don't require legislation. They are basic, good management steps.

We could start by collecting the millions loans owed to the state by public benefit corporations.

That's \$197.3 million we've identified that the state should start to collect right now.

And we should reduce the number of consultant contracts and establish performance goals for the consultant contracts we do utilize.

We could also achieve significant cost savings by starting to minimize redundancy by consolidating agency administrative functions like payroll, voucher payments and IT services.

When you're talking about rightsizing state expenditures, you also address the need for greater accountability. The comptroller's office has a clear role in advancing accountability.

I have directed my staff to step up audits focused on cost savings, operational efficiencies and identifying opportunities to maximize state revenue.

For instance, we're looking hard at Medicaid. Shortly, I'll be releasing an audit that looks at the Department of Health's underutilization of eMedNY, the system designed to catch fraud and errors in Medicaid billing.

Earlier this year, our auditors found a dentist in Brooklyn who billed – and was paid for pulling 32 teeth from the same patient in the same day.

Another dentist drilled and filled –and billed for – more than 50 teeth in one patient's mouth – again, all in one day.

The human mouth has only 32 teeth in all, so there must be some pretty interesting dental patients out there.

These claims were processed and paid because the health department didn't effectively use eMed.

These individual cases may not seem like a lot of money. But in these difficult times, our mantra must be that every dime counts, especially when they're taxpayer dimes.

And we should take some other steps at this time of fiscal challenge to reform our budget process to bring long term financial stability to the state.

For too long, state budgets have been approved with spending and revenue decisions that have been narrowly focused on current year impact. There's little or no focus on out-year spending plans.

New York needs to clearly identify parameters of affordability and we need to, on a multi-year basis, align spending with available revenue.

Today, the financial plan includes estimates of future budget deficits or surpluses. But there's no requirement to address how those future budget shortfalls will be taken care of.

Our budget process should be amended to require that budget gap projections be accompanied by a plan to close the gap. We also need to make the budget more transparent and understandable so that taxpayers can review the impact of budget decisions.

I've tried to promote transparency by posting financial information about the state and local governments on Open Book New York, our recently launched, easy to use website.

But we need to drill deeper into the budget details to empower citizens with relevant information so they can be a part of state policy debates.

Every appropriation in every budget bill, and every project in the capital plan should carry accompanying cash disbursement estimates. This will allow for open comparisons of budget bills with financial plan documents that are updated throughout the year, as well as comparisons with actual results reported by my office.

These budget reform ideas are focused on bringing discipline and accountability to the budget process. However, the budget process is only one responsibility of state government.

The real opportunity for change is how we provide the services funded by that budget.

Lincoln once said “The legitimate purpose of government is to do for the community of people that which they cannot do so well for themselves.”

I think we’ve lost sight of that purpose. In too many instances, we’ve added so many layers of programs on top of each other that we’ve lost sight of what those programs are trying to accomplish.

If we were building a new structure to provide government services, there’s no one in this room who would build the model we have in place in New York State today.

Let’s not just talk about right sizing New York state government. Let’s talk about bringing a new focus on how New York State government serves its citizens.

Medicaid spending for 2009-10 could exceed \$46 billion. Included in that \$46 billion are any number of worthwhile programs focused on children. But there are similar programs within the Office of Children and Family Services, the Department of Education, and other state agencies.

Parents confronted with a child with special needs will be dealing with an alphabet soup of agencies and programs --Medicaid, mental health services, juvenile delinquency prevention, educational services...

Each separate service requires not only individual caseworkers, but individual files, individual computer programs, individual sets of paperwork, individual processing...

Dealing with a child with special needs on this kind of fragmented basis not only costs more, it raises concerns about the state’s ability to provide every child with the best possible care.

This isn’t just a human services concern. There are similar examples in every virtually sector of government.

Another example: there are more than two dozen agencies and authorities that support or implement capital projects in New York State. There’s no prioritization, no coordinated long range plan among all those agencies and authorities.

Last year I proposed requiring a comprehensive capital plan for the state. This approach would have the added advantage of making sure our state is ready for President-elect Obama’s infrastructure investment plan. Unfortunately, we still don’t have a statewide capital plan.

How many different economic development programs do we have? Are they coordinated, interactive? Do they avoid redundancy?

The bottom line is, we need to strip away the layers and reexamine government from the perspective of the citizen. New York’s government must begin, in this time of crisis, not only to manage the budget to live within our means, but to begin the process of bringing government back to its original mission.

Real reform would realign agency spending programs with the core purposes of those agencies. I’m proposing we look at every service government provides and examine those services from the perspective of our customers, not our agencies.

I don't mean just one stop shopping, I mean a customer based, outcome driven government, all with an eye toward making sure the ends are the focus of the means.

I don't pretend to have the complete roadmap. But I know New York cannot keep doing business as usual, because New York State doesn't have the dollars to pay for business as usual.

Obviously, there will be tough decisions ahead for the state and the country. The state is facing diminishing resources and struggling to find cost savings in all areas of the budget.

We have to avoid temptation and avoid the budget gimmicks and the bad borrowing of the past to fix our current problems. We need to set parameters of affordability and then stay within those spending parameters.

We also need to refocus our efforts on helping our citizens, clarifying our mission and focusing not on pieces of a particular problem, but the whole problem. And even in times of fiscal crisis, we cannot abandon our most vulnerable citizens - the elderly, the disabled, our children. Those are the people who rely on the government most.

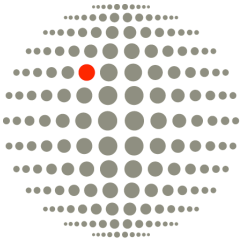
I believe in Abraham Lincoln's "legitimate purpose" for government. But that legitimate purpose and fiscally responsible behavior are not mutually exclusive goals.

Let's do what we can right now. Let's find those immediate savings, let's make those reforms to our budget process. But let's take advantage of the opportunity for change and broaden our vision of government.

Let's set bigger goals. Let's build a better model of government that recognizes fiscal realities and still remembers what the legitimate purpose of government is.

Thank you.

Appendix B: Earthquake on Wall Street



Partnership for New York City

Earthquake on Wall Street

Remarks to the Empire Center for NYS Policy & Center for Governmental Research Conference on Rightsizing New York's Budget

December 9, 2008

By Kathryn Wylde, President & CEO
Partnership for New York City

Thanks to E.J. McMahon, the panelists and organizations that have come together today to frame a constructive response to the budget crisis confronting New York State. I am reminded of a phrase I learned in high school Latin: *per aspera ad astra* (through difficulty, toward the stars). This year's budget process will be arduous and painful. But it could also be an opportunity to reach for a new constellation of fiscal and economic development policies. Hopefully today's conference is a step in that direction.

The Partnership for New York City is an organization of international and local business leaders. It was established in the wake of the 1970's fiscal crisis by David Rockefeller, who believed civic engagement should be part of the job description of a CEO. In the Rockefeller tradition, the Partnership has taken a practical, non-ideological approach to public policy and budget issues. We have supported expanded investment in education, affordable housing and public transit; we have advocated for an increase in the state minimum wage, congestion pricing and even some tax increases. The Partnership has frequently partnered with organized labor, most recently joining union leaders, the Governor and Speaker Silver on a trip to Washington DC to push for a federal stimulus package that will provide relief to the state.

The Partnership's core mission, however, is to tap business expertise to help the city and state frame policies and programs that promote economic growth, attract private investment and generate private sector jobs. Ultimately, broad-based economic growth is the key to generating new state revenues and

eliminating the budget deficit. So I welcomed E.J.'s invitation to open today's program with some observations about how New York State's economy and budget will be affected by the global financial crisis. My remarks will not be upbeat, but neither are our economic and fiscal realities.

First, let me summarize how the business community looks at the current status of our economy. We are about one year into what will probably turn out to be a two-year, global recession that started in the housing markets, moved to the financial markets and now has infected virtually every sector. The depth and length of this recession is being driven by loss of confidence in our financial system on the part of consumers and investors around the world. In less than a year, the imputed value of US real estate, stocks, and bonds has fallen by more than \$15 trillion - more than any period since the Great Depression - and no one thinks we have hit bottom. Recovery, when it comes, will not be a sharp upward turn of fortune. Instead, the American economy is likely to bump along on the bottom for some time.

However tough things are for the country, they are going to be worse for New York because Wall Street is the epicenter of the financial system collapse. For much of the last century, the robust manufacturing and agricultural producers of Upstate New York subsidized our downstate urban centers. That pattern reversed starting in the 1980's, with globalization and the emergence of Wall Street as the center of world finance. As we entered the 21st Century, the financial services industry was generating more than 25% of the total \$900B economic output of the New York Metropolitan Region and surplus tax revenues from the city and its suburbs were subsidizing the rest of the state. At lunch today, Comptroller DiNapoli will say more about the enormous contribution that the industry has made to the city and state economy and tax rolls, to the health of our pension funds, and to employment across all sectors.

The crisis of 2008 has been the ultimate Emperor-has-no-Clothes moment for Wall Street. When the housing bubble burst, financial firms were stuck with large portfolios of securities which had questionable worth and that no one wanted to buy. Trading stopped, markets froze, and only the federal government - with its power to print money - could save the system from total collapse. Investment banking institutions that had leveraged their capital reserves at ratios of more than 30 to 1 did not have sufficient capital to honor all their potential liabilities and had to undertake the difficult process of de-leveraging. The result is an on-going credit crunch, as institutions are forced to hold onto every penny of capital - including the federal TARP money - to backstop the falling value of their own assets. There is also serious downsizing, with industry employment already down 20% this year.

The problems of Wall Street create serious collateral damage to other sectors of the New York economy . Our most robust sources of job growth for the past decade -- professional services, retail and tourism, and information services -- all depend on clients and customers in financial services. Similarly, Wall Street has been the dominant force in New York philanthropy and in angel funding for early stage business ventures. And New York's real estate industry is most profoundly effected, both high end residential and commercial office leasing and development. Not only are lay offs and consolidations of big firms creating significant office vacancies, but restructuring of the industry suggests that large numbers of support jobs will be relocated from \$80 a square foot space to cheaper places. Belt-tightening is the new mantra on Wall Street.

Of course, this is not the first Wall Street crisis to hit New York. Following the stock market collapse in October, 1987, the city lost 329,000 jobs. The terror attacks on 9/11 cost 125,000 jobs. In both cases, the jobs were fully recovered within a few years.

But this crisis is different. Wall Streeters describe this as their 100-year storm. In a matter of months, a global industry has fundamentally changed and will never look like it did just one year ago. The City Comptroller projects that \$28 billion in bonuses that have helped generate tax revenue surpluses in recent years will be down 50% to \$14 billion this year and decline further in 2009. The State Comptroller estimates that State revenues from the Street will be down at least \$4.5 billion over the next two budget cycles.

If there is one message I want to deliver today it is that we cannot treat what is happening in New York as a normal recession or a cyclical downturn. It is not. It is structural. The highly leveraged investment-banking business model is gone, and the huge profits and inflated payrolls of Wall Street have gone with it. A permanent downsizing of the industry is underway and New York City may lose as many as 250,000 jobs from the industry and its multipliers by 2012. New York is emerging from this crisis with a profoundly different economic profile than we went in with.

There are three primary factors that distinguish this from past downturns:

- First is the sheer scale of the damage to the institutions that made New York the world financial capital. It started just about six months ago, when Bear Stearns blew up and was acquired for pennies on the dollar by JPMorgan Chase. Lehman Brothers, having survived 100 years of market ups and downs, was wiped out - with Britain's Barclays and Japan's Nomura Securities picking up the pieces. Wachovia - which had established a strong New York presence by acquiring Fleet Bank and Prudential Securities - has dissolved into California-based Wells Fargo.

Merrill Lynch became the property of Charlotte-based Bank of America – and anyone who doubts that this is a new world just has to ask a Merrill Lynch banker what they think of BofA’s compensation structure. Citi – which had long been New York City’s largest private sector employer -- has laid off 78,000 people worldwide. Goldman Sachs and Morgan Stanley – the last major American investment banks left standing -- converted to federally regulated bank holding companies. AIG, while still strong in insurance, went bankrupt as a result of its credit default swap business. Our credit card issuers and hedge funds are standing by, waiting for the other shoe to drop. In short, the industry is already a shadow of its former self and the crisis is still running.

- The second new reality is that the U.S. banking industry has been effectively nationalized, with the federal government becoming a partner in every major firm. All nine of the large TARP recipients are members of the Partnership for New York City – illustrating the concentration of rescue activity in New York. As part of their investment agreement, the Federal government has mandated restrictions on executive compensation and prohibitions on risk-taking. The result will be lower profits and a less aggressive, less innovative posture for US firms in the global marketplace. It will also mean significantly lower tax revenues for New York City and State.
- Finally, over the next year, it is certain that Congress will put in place a new financial regulatory system. It will focus on risk aversion, rather than competitiveness. This system will not allow the kind of leveraged financing that made investment banking so lucrative. The new regime will also extend regulatory controls to hedge funds, asset managers and the whole array of small and varied financial firms that have previously existed outside the system and contributed to the depth and wealth of New York’s industry. Foreign Direct Investment may also suffer in a new regulatory environment. A Partnership study has documented that FDI represented 9% of our state economic growth over the past five years. One in 20 NYC workers is employed by a foreign company, mostly in financial services. A change in the regulatory environment may make the US less attractive to these companies and dilute what has been a critical source of economic activity and jobs for the state.

Despite these challenges, among the survivors on Wall Street and the leaders of the Partnership there is confidence in the long term future of New York so long as government and business take the right actions in response to the current crisis. Financial centers around the world are suffering through the same problems, so we are not losing ground in a competitive context. London is as worried about the dampening effects of the regulatory regime coming down

from Brussels as we are about Washington. New York's buzz and its attraction to young people, professional talent and to foreign investors are temporarily diminished but still strong.

What do we need to do to reclaim our position as a leader and resolve our fiscal and economic challenges? Here are a few abbreviated suggestions:

- New York should be first in line with great ideas for securing and deploying proceeds of the Obama economic stimulus package.
- We should support our financial services industry as it regroups and seeks to restore confidence in the financial markets and end the credit crunch. We have opportunities, in financial technology and in the insurance sector (which remains a bright spot in the financial services industry) to lead the next generation of innovation and maintain our international pre-eminence.
- We must reform our broken economic development programs and create a comprehensive plan for reviving the entire state economy. We need new, highly targeted incentives to attract high wage, private sector jobs and to create regional clusters of economic activity in high tech industries. In addition to financial services, energy and green technology, nanotech, biotech and life sciences are all areas where New York State has competitive advantage that can be leveraged into job creation and business development.
- We need to revise our state tax structure, simplifying the business tax regime and aligning tax policies with a contemporary model for economic growth.
- Finally, we need to maximize our state assets – both in terms of reform of our procurement and contracting for infrastructure maintenance and development along the lines being advanced by the Governor's commission on this topic – and through incentives for universities and business research and development operations to collaborate and commercialize their ideas within the state.

To figure out how to move forward, it's useful to look back at how we got here. Over the past decade, housing prices rose three times as fast as household income. Americans were living off credit cards and the proceeds of home equity loans that were predicated on ever-rising housing values. By 2007, the American consumer debt to income ratio was at an all-time high. The bubble burst and so began our first-ever, consumer-driven recession.

Throughout this period, New York State government was doing exactly the same thing as the American consumer -- piling up debt, surviving on non-recurring revenues, living beyond its means. The financial services industry, which experienced huge growth in its size and profitability as it led the city and state into the global economy over the past two decades, was simultaneously an enabler of state government's excesses. Without its profits and bonuses, New York State has no choice but to restructure its expense budget and reform its economic development policies. It is time to chart a new course - one where future headlines proclaim New York's prominence as a diversified high tech, high wage state that remains America's gateway to the global marketplace.

The lesson I learned high school Latin is useful today. It is the budget this year that is the difficulty we must get through. And it is the new economy we must build that can take us, if not to the starry heavens, at least to a better place than we are today. The Partnership looks forward to working with you to meet this challenge.

Appendix C: Rightsizing Medicaid



“Rightsizing Medicaid”

Kathy Kuhmerker
Vice President, The Lewin Group

Empire Center for New York State Policy/Center for
Governmental Research Conference
December 9, 2008



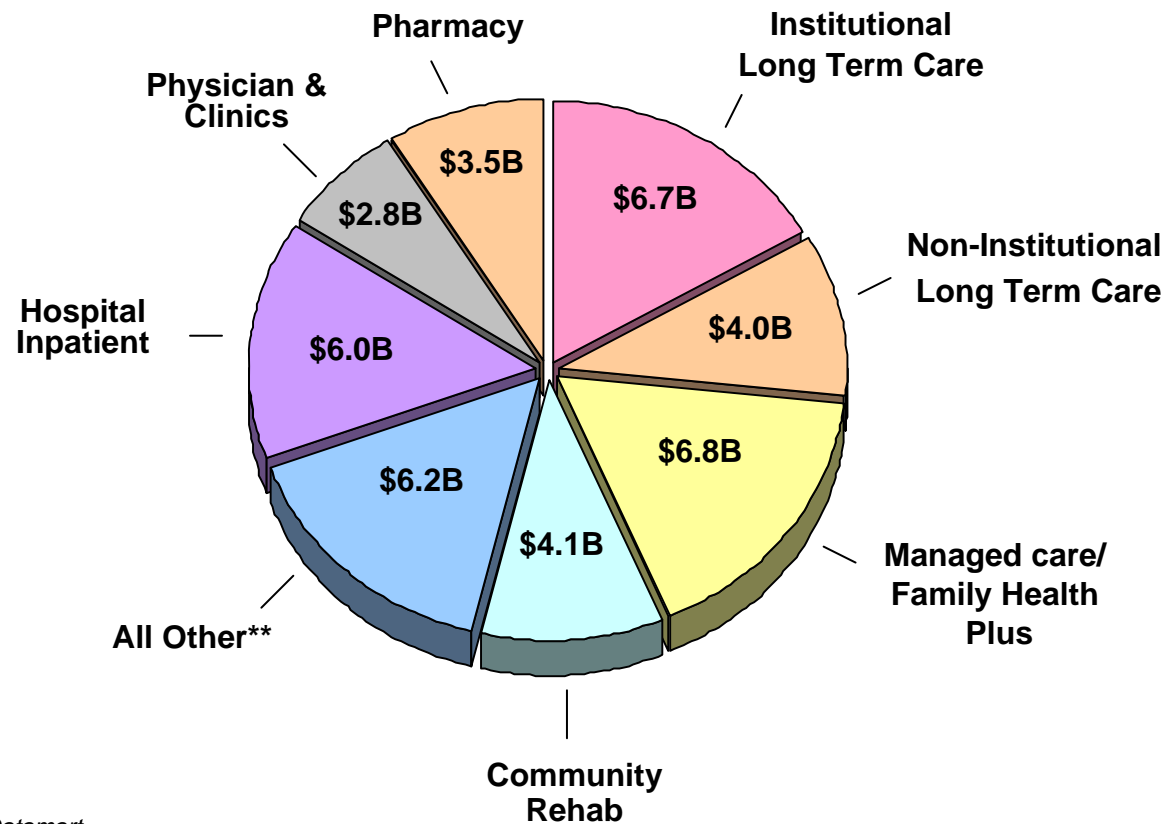
Overview

- Background on New York's Medicaid Program
- Medicaid Spending
 - New York
 - Nationally
- Getting to the "Right Size" of the Medicaid Program
 - Short-term
 - Longer-term

Fundamentals of New York's Medicaid Program

- The program is administered and funded by three levels of government:
 - Federal
 - State
 - County (and New York City)
- Eligibility is a function of income and resources
 - All individuals receiving cash assistance are eligible
 - Individuals with higher incomes and resources can also be eligible (the “medically needy”)
- New York provides a comprehensive set of benefits, including both mandated and optional services

NY Medicaid Expenditures By Service Type*



Source: DOH/OHIP Datamart

*Does not include off-line payments

**Includes Transportation, Case Management, OMR Developmental Center and OMR Group Homes, etc.

How does NY's Medicaid Spending Compare to Spending in Other States?

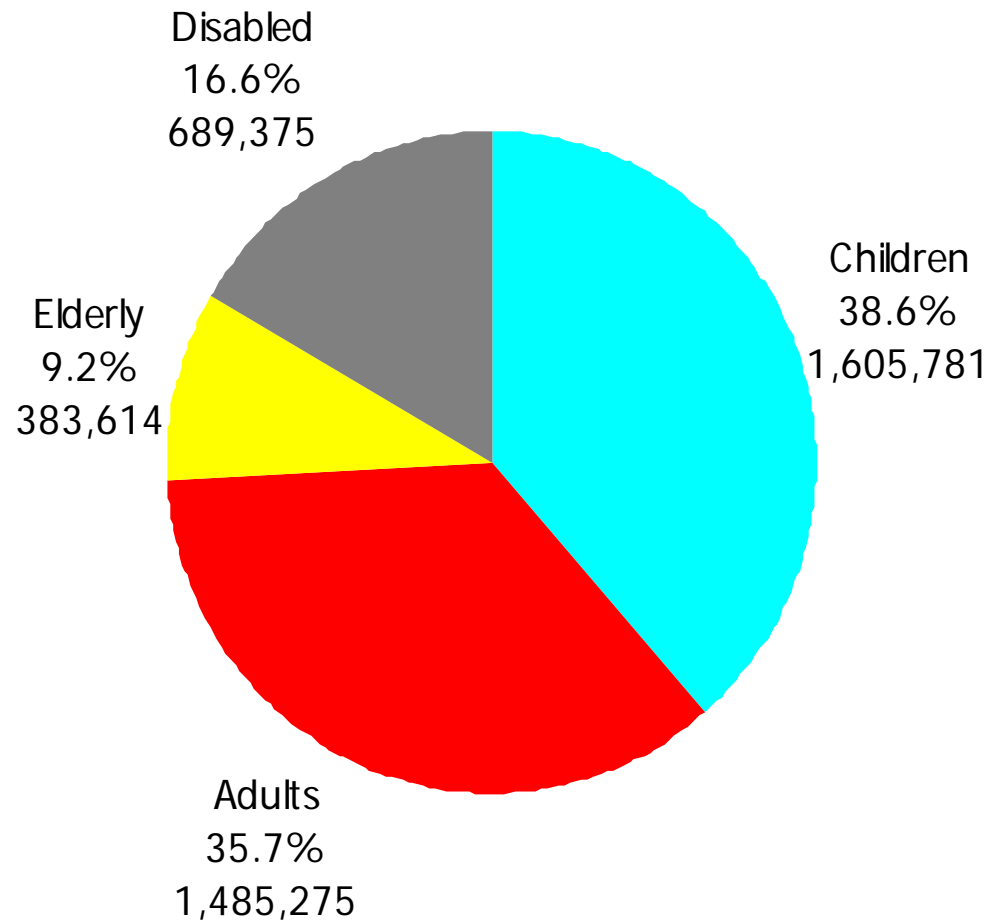
- New York spends more per enrollee than the national average: \$7,733 vs. \$4,662
- New York also spends more than its neighboring states:
 - PA: \$5,932
 - MA: \$6,837
 - NJ: \$7,022
 - CT: \$7,212
- But spending is not consistently greater across all groups:

	Children	Adults	Elderly	Disabled	Total
United States	\$1,617	\$2,102	\$11,839	\$13,524	\$4,662
New York	\$2,000	\$3,509	\$21,223	\$25,945	\$7,733
% NY greater than national average	23.7%	66.9%	79.3%	91.8%	65.9%

Source: Kaiser Family Foundation, FY 2005 data

Non-Disabled Children and Adults are Almost 75% of the Medicaid Population

Distribution of New York Medicaid Enrollees

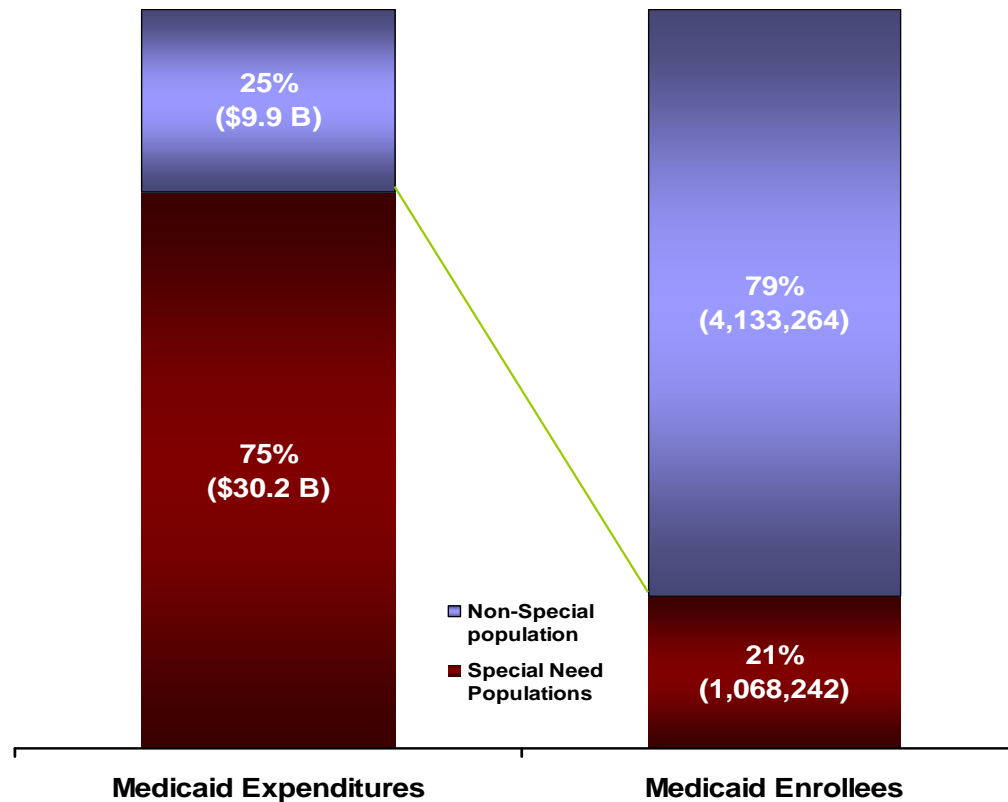


How Does NY Medicaid Spending Compare to the Cost of Health Insurance?

- The average Medicaid cost for non-disabled children and adults in New York was \$2,725 in 2005
- The average employer-based family health insurance premium in NY in 2006 was \$12,075
- Assuming 4 individuals per family, and inflating the Medicaid costs by 10% to approximate costs in 2006:
 - The average Medicaid cost was \$2,995
 - The average cost of health insurance per person was \$3,018

Source: Kaiser Family Foundation, FY 2005 and CY 2006 data

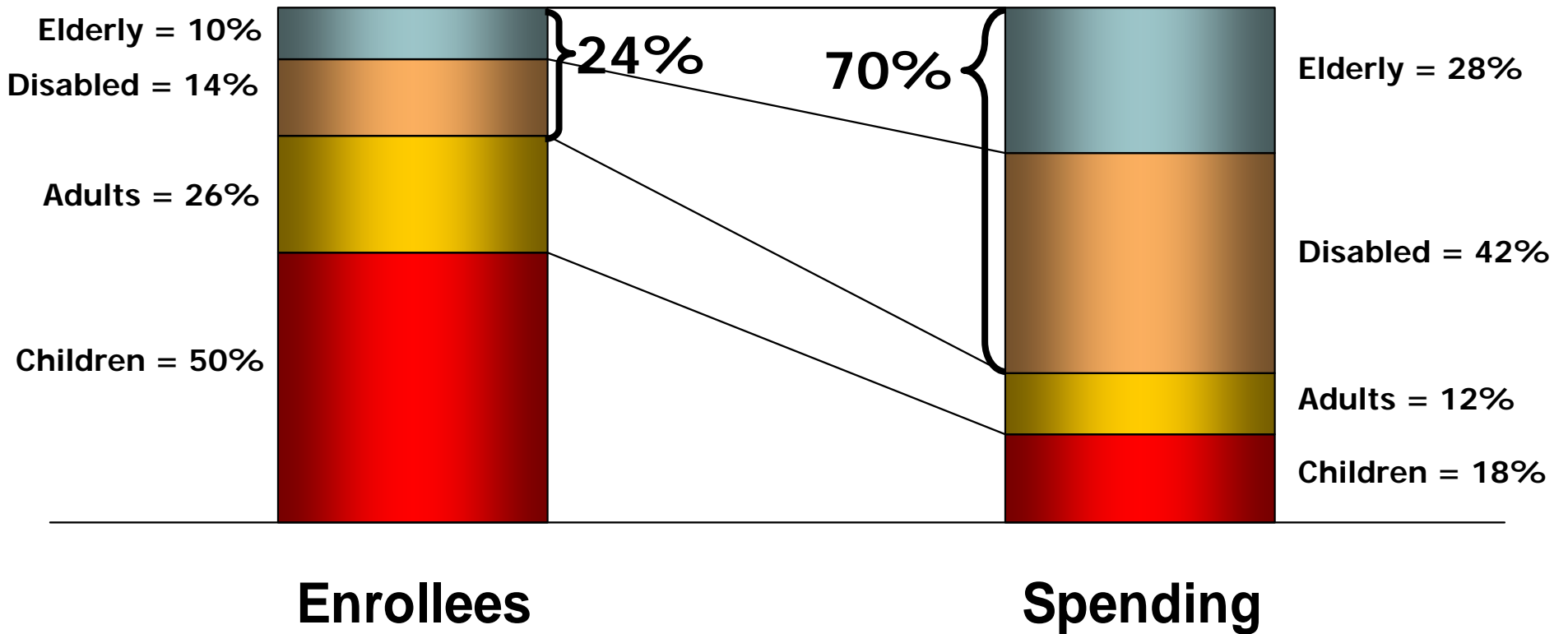
But 75% of Spending is for the 20% of the Medicaid Population that Have Special Needs



(Source: Deborah Bachrach, United Hospital Fund Conference Presentation, July 10, 2008.)

Nationally, Medicaid Spending is Also Disproportionately for the Elderly and Disabled

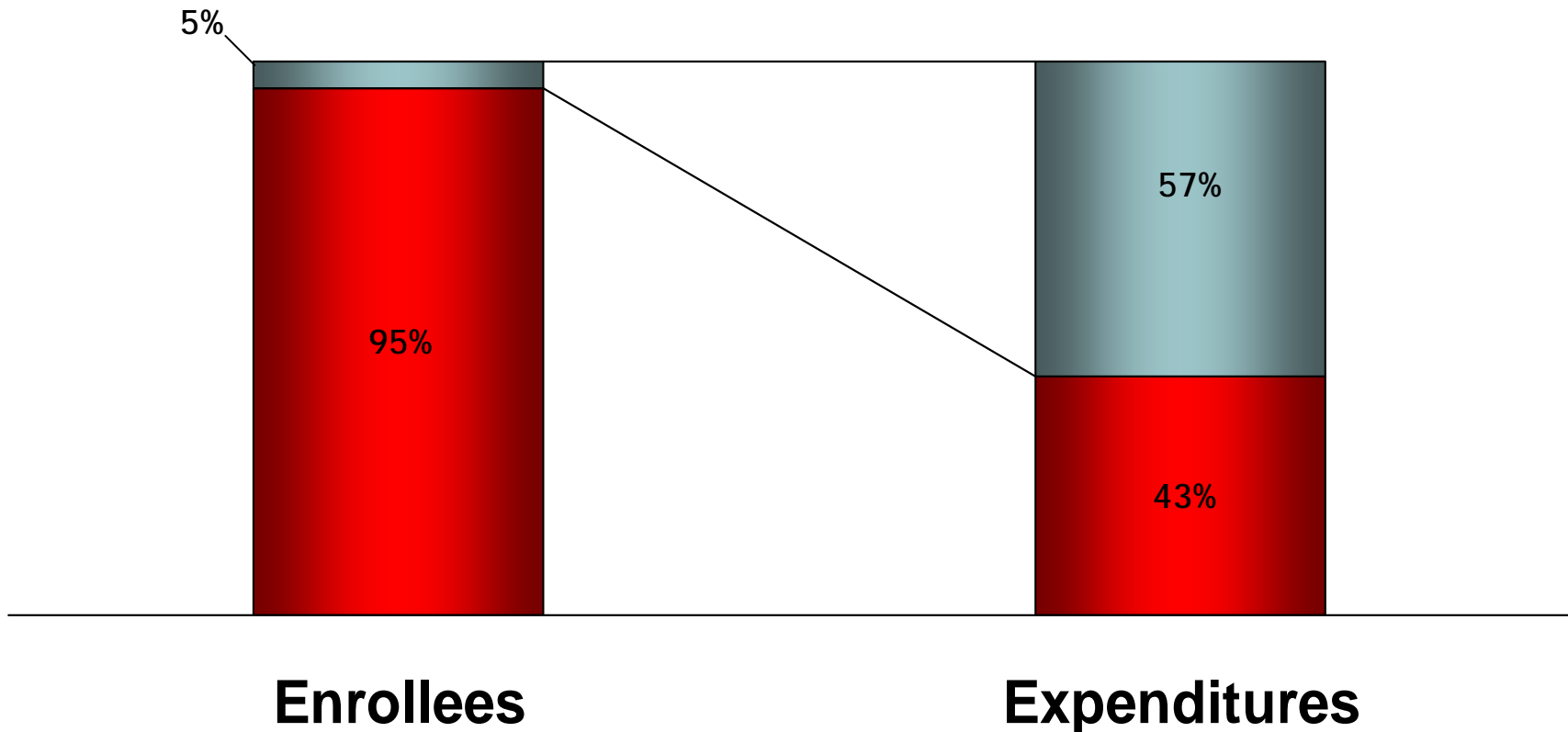
70% of Medicaid Spending on Benefits in 2005 is for Elderly and Disabled



Source: Kaiser Family Foundation, FY 2005 data.

Medicaid Spending is Concentrated on an Even Smaller Proportion of Enrollees

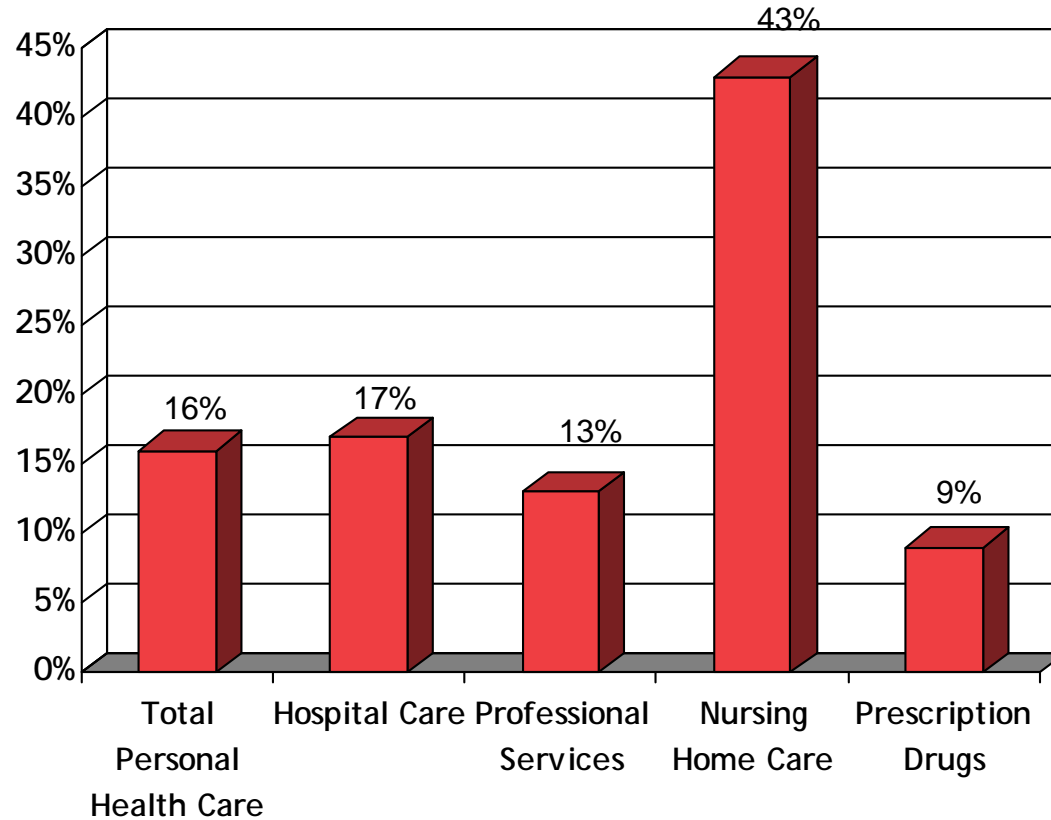
- 5% of Medicaid enrollees accounted for 57% of Medicaid spending in 2004.



Source: Kaiser Family Foundation, MSIS 2004 data.

Medicaid Supports the Health Care Industry

Medicaid as a share of national personal health care spending:



Total National Spending (Billions)

Total National Spending (Billions)	\$1,762	\$648	\$660	\$125	\$217
------------------------------------	---------	-------	-------	-------	-------

Medicaid is a Counter-Cyclical Program

- The need for the program grows:
 - when the economy worsens
 - people lose their jobs
 - employers cut back on health coverage
- Just when states cannot afford to support the program with additional funds

There are a Limited Number of Short-Term Changes that can be Taken to Reduce Medicaid Spending

- Reduce provider payments
- Reduce or eliminate benefits
- Reduce eligibility levels
- Reduce fraud, waste and abuse
- Increase revenues

Fundamental Change Requires Longer-Term Approaches

- Coordination of Care
 - Care and Disease Management
 - Medical Homes
 - Focus on co-morbidities
- Payment Reform
 - Pay-for-Performance
 - Quality and Value Purchasing
- Health Information Technology
 - Electronic Medical and Health Records
 - Predictive Modeling

But What IS the “Right Size?”

- What should Medicaid be paying for?
- Who should Medicaid be covering?
- What should the financial relationship of the federal, state and local governments in the Medicaid program be?
- What role should Medicaid play in the overall health care system?

New York's Medicaid Program Provides a Comprehensive Benefit Package

▪ **Mandated Services:**

- Inpatient hospital
- Outpatient hospital
- Nursing facility services
- Home health care
- Family planning
- Rural health clinic
- Laboratory and x-ray
- Early and periodic screening, diagnosis, and treatment (EPSDT)

▪ **Optional Services:**

- Free-standing clinic
- Intermediate care facility services for the developmentally disabled
- Eye care/Dental/Audiology
- Drugs
- Physical, speech and occupational therapy
- Prosthetic devices and orthotic appliances
- Private duty nursing
- Personal care services
- Transportation/Hospice/Case management
- Inpatient psychiatric facility services for individuals under 21 and over 65

Contact Information

Kathy Kuhmerker

Vice President, The Lewin Group

703-269-5592

kathy.kuhmerker@lewin.com

Appendix D: Meeting the Medicaid Challenge



SALIENT

Enabling Performance-Based Government

Rightsizing New York's Budget
Meeting the Medicaid Challenge
Tuesday, December 9, 2008

Using Technology to Meet the Medicaid Challenge

Bill Carpenter
COO, Salient Corporation
bcarpenter@Salient.com

Goals for the Presentation

- How Monroe County has used Technology to:
 - Target fraud, waste, and abuse in the Medicaid program
 - Promote best practice approaches for quality improvement and cost saving initiatives for special populations
- What makes the Technology Unique
- Opportunities and Estimate for Savings

Why Focus on Medicaid?

- NYS Medicaid Program is the largest in the nation and spending on per capita basis exceeds other large states
- NYS represents 15% of the Federal Medicaid Budget but 7% of the country's population (CMS)

Why Focus on Medicaid?

NEW YORK'S MEDICAID SPENDING EXCEEDS OTHER LARGE STATES				
State	Medicaid Expenditures (\$ in Millions)	State Population (In Thousands)	Per Capita Expenditures	
New York	\$43,554	19,306	\$2,256	
California	\$33,840	36,458	\$928	
Texas	\$17,684	23,508	\$752	
Pennsylvania	\$15,402	12,441	\$1,238	
Florida	\$12,621	18,090	\$698	
Ohio	\$11,768	11,478	\$1,025	
Illinois	\$9,967	12,832	\$777	
Massachusetts	\$9,561	6,437	\$1,485	
New Jersey	\$9,109	8,725	\$1,044	
Michigan	\$8,237	10,096	\$816	
Wisconsin	\$4,617	5,557	\$831	
Total U.S.	\$296,935	298,817	\$994	

Source: CMS 64 FFY 2006, Beneficiaries FFY 2004 & Census 7/1/06

New York's Medicaid program is the largest in the nation and spending on a per-capita basis exceeds other large states.

Medicaid Fraud, Waste and Abuse Demonstration Project

- Demonstration authorized in 2005 as part of legislation that capped local share of Medicaid
- Monroe one of 12 original demonstration counties
- As agent of Office of the Medicaid Inspector General, counties can pursue provider fraud, waste, and abuse via audits and/or investigations
- Counties have financial incentive to participate

Monroe County Success with Data Mining

1. Fraud, Waste & Abuse Demonstration Project
2. Restricted Recipients
3. Claims Paid after Date of Death
4. Viagra Abuse
5. Frequent Emergency Room Use
6. Diabetes Quality Improvement Initiative
7. Developmentally Disabled Study

1. Demonstration Project: Pharmacy Audits

- Reviewed claims for hundreds of pharmacies
- Targeted those with highest cost for compliance audits
- Found variety of issues from minor paperwork errors to blatant fraud

Pharmacy Audits (Cont.)

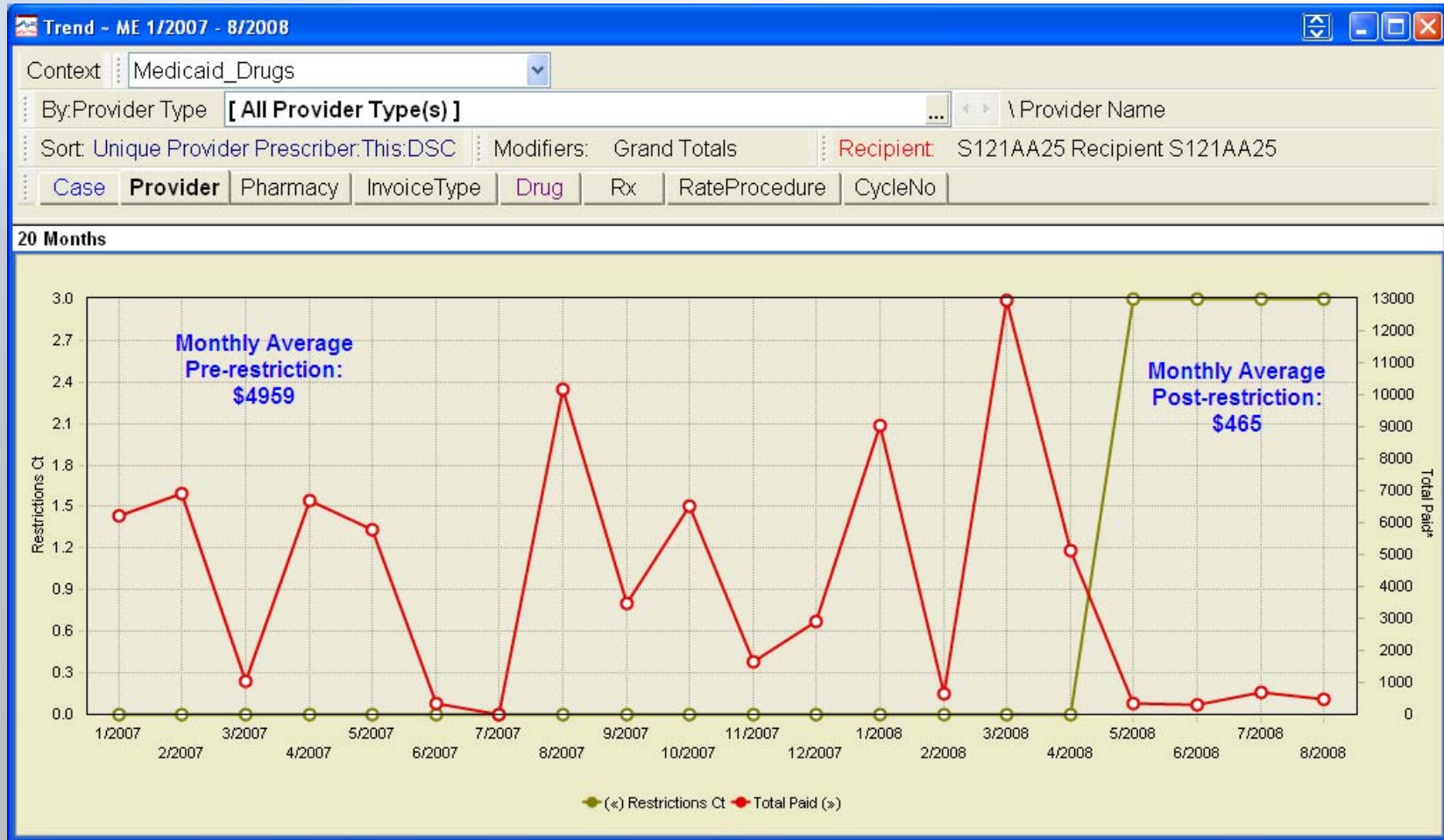
One Example of Pharmacy Outlier Behavior...

- A chain of pharmacies with as many as 25% of prescriptions claimed attributed to a single prescriber
- Prescriptions were not consistent with prescriber's specialty
- When interviewed, prescriber stated that he wrote few prescriptions
- Investigation revealed that none of prescriptions were actually written by prescriber

2. Restricted Recipients

- NYS is responsible for reviewing service utilization and restricting Medicaid recipients to a single pharmacy or physician when warranted
- Using data mining, Monroe County
 - became proactive in making recipient referrals to the state
 - **Result:** cost avoidance, with approximately 35% decrease in cost for restricted recipients

Restricted Recipients: Cost Avoidance Post-restriction



3. Claims Paid After Date of Death

Monroe County found 73 providers who were paid for claims for dates after client was deceased.

Trend Volume Mix - Total Svcs Paid - ME 2/2006 - 12/2006

Context: Medicaid_Services Claim Type: Managed Care (HMO/PCMP) >

By: DeathMonth 2006-01 \ Paid Provider Name Sort: Name:ASC Modifiers:

Filters: DeathMonth:Died 2006

Case Recipient Provider PaidProvider ReferringProvider InvoiceType PrimDiagnosis

11 Months

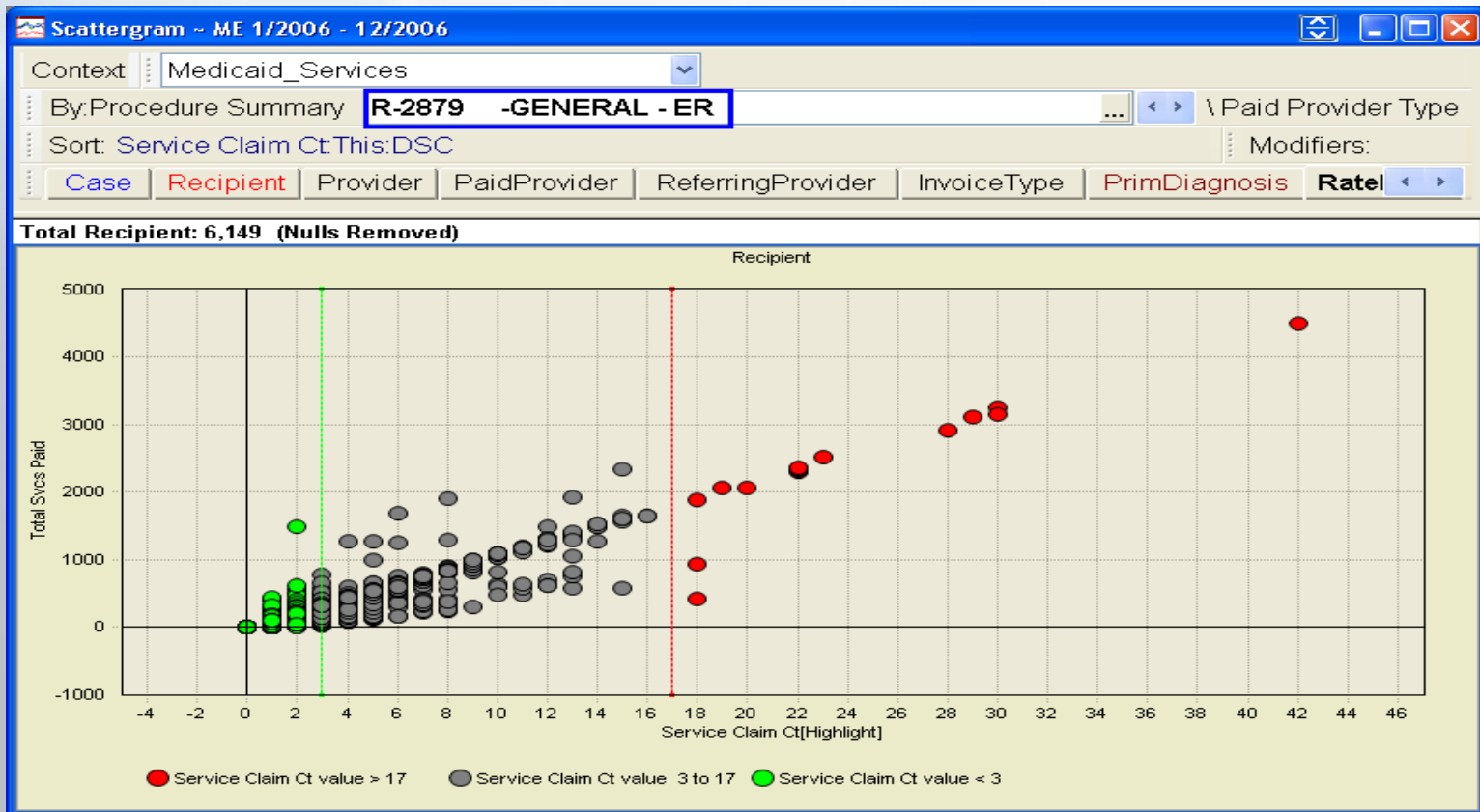
Total Svcs Paid	2/2006	3/2006	4/2006	5/2006	6/2006	7/2006	8/2006	9/2006	10/2006	11/2006	12/2006	Average	Totals
2006-01	925	925	1,278	1,278	1,278	1,287	1,287	1,287	1,287	1,287	1,287	1,219	13,405
2006-03	0	0	0	0	0	0	0	0	0	0	0	0	0
2006-04	21	21	21	0	0	0	0	0	0	0	0	6	63
2006-05	53	26	0	0	0	0	0	0	0	0	0	7	79
2006-07	15	15	15	15	15	0	0	0	0	0	0	7	76
2006-08	26	26	26	26	0	0	0	0	0	0	0	10	105
2006-10	72	72	72	72	72	73	46	46	0	0	0	48	524
2006-11	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,647	0	0	1,386	15,246
2006-12	473	473	669	669	669	669	53	53	53	0	0	344	3,780
Totals	3,285	3,258	3,781	3,760	3,733	3,728	3,086	3,086	2,987	1,287	1,287	3,025	33,278

4. Viagra Abuse

- Prior to June of 2006, Viagra and other similar ED drugs were covered under the NYS Medicaid Program
- Stringent rules regarding the dispensing of ED drugs
 - Prescription fills of any ED drug allowed only once every 30 days
 - No more than 6 doses per fill
- Found dozens of recipients receiving multiple drugs, some from different pharmacies, many from the same pharmacy

5. Frequent ER Users

- The top 10 recipients had a total of 798 emergency room claims in 2006. And, 3 of these recipients, accounting for 55 claims were diagnosed with *headaches*.



6. Rochester Region Quality Improvement Initiative Diabetes Project

In 2007 –

There were over 5,000 diabetic Medicaid recipients in Monroe County, identified according to HEDIS specifications, costing over \$90M.

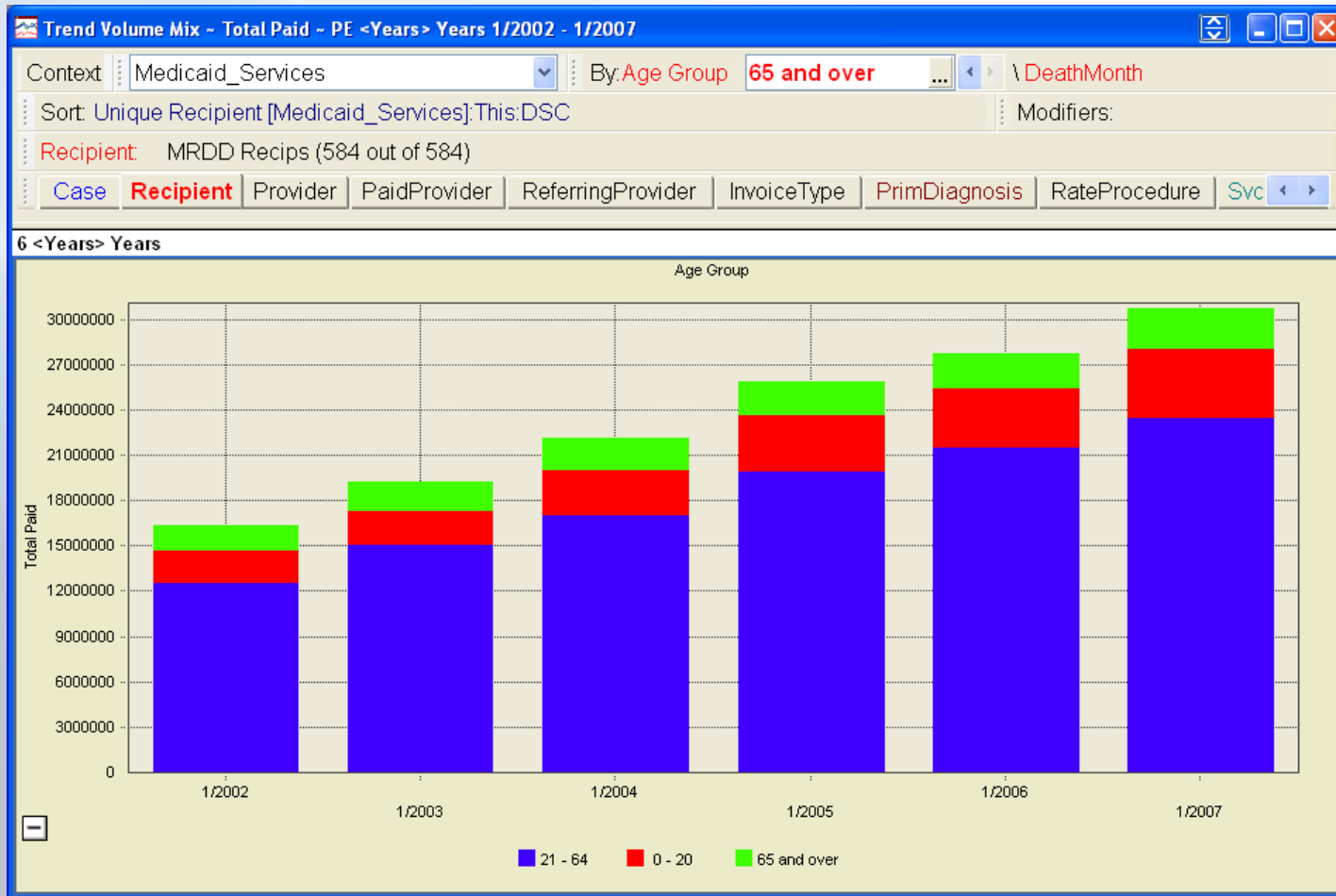
Rochester Region Quality Improvement Initiative Diabetes Project (Cont.)

- National pilot to provide better care for diabetic patients
- Monroe County partnership with local health insurers and Finger Lakes Health Systems Agency
- Each insurer supplying specific data regarding their diabetic patients' care to FLHSA
- Data used by physicians to improve the quality of care of their patients while lowering costs by avoiding more expensive inpatient and emergency care

7. Developmentally Disabled

- B. Thomas Golisano Foundation study of Medicaid spending on Monroe County recipients with developmental disabilities to identify opportunities to:
 - Lower per recipient cost to make the program fiscally sustainable
 - Improve quality of care

Developmentally Disabled (Cont.)



Developmentally Disabled (Cont.)

- Findings:
 - Medicaid spending on those with disabilities accounts for 21% of total spending for 3% of eligibles
 - Overall spending growth: >11% per year
 - Per capita spending growth: about 10% per year
- Next Steps: Golisano Foundation convening stakeholders to share information and encourage discussion to create a sustainable path going forward

Monroe County Experience

- Fraud, Abuse and Waste minimization requires that it:
 - first be identified
 - then action implemented
 - to control costs
 - without harming the health outcome for the individual or cohort.
- And significant savings will result...

And Now About Salient....

and its technology that enabled
Monroe County's Success

Salient Corporation

- Founded 1986
- Performance Management experts using the Salient UXT[®] Platform
- Worldwide presence
 - 61 countries
 - 280 Customers
 - 31,000+ users
- Dedicated Public Sector Business Unit

What Makes Salient Unique

- **Speed**
 - Reduces time to intelligence by orders of magnitude
- **Specificity**
 - Transactional data is preserved with no compromise
- **Simplicity**
 - Enables non-technical users to utilize information without outside support

What Salient Provides

- **Coherency:** A way to integrate data from many “silos” and sources
- **Transparency:** Pervasive visibility of the enterprise
- **Controllability:** Immediate feedback to monitor processes and improve practices continuously

Monroe County Success with Data Mining

- Fraud, Waste & Abuse Demonstration Project
- Restricted Recipients
- Claims Paid after Date of Death
- Viagra Abuse
- Diabetes Quality Improvement Initiative
- Developmentally Disabled Study

Chemung and Onondaga

Salient's NYS Presence

- Albany
- Broome
- Chautauqua
- Chemung
- Erie
- Monroe
- Nassau
- Niagara
- Onondaga
- Suffolk
- Ulster
- Westchester

Current HHS Solutions

- Medicaid
 - Complete Oversight of Cost and Utilization
- CaseMinder for Social Services
 - Case Action
 - Welfare to Work
 - WMS Payments

CaseMinder for Social Services

Immediate operational value, especially during fiscal crisis

Case Actions	Are we opening more cases? How many cases by type (e.g., HEAP, Food Stamp, Temporary Assistance, Medicaid, Services)? What is timeliness of application and recertification processing?
Payments	Where does the money go? Who are the high cost cases? Are there ways to better manage?
Welfare to Work	Are we engaging clients in countable employment activities? Are we meeting participation rate expectations?

The background features a gradient from dark blue on the left to light blue on the right, with several diagonal white lines crossing the frame. The text "Thank You!" is centered in a bold, black, sans-serif font.

Thank You!

Appendix E: Where the Bucks Are

Rightsizing NY's Budget

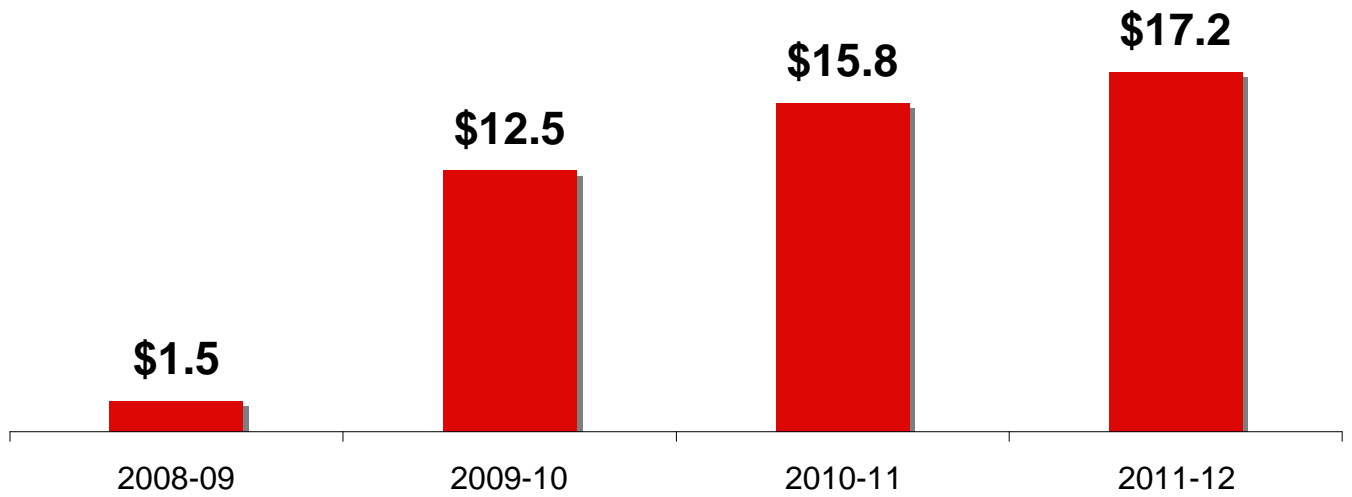
Panel: "Where the Bucks Are"

Presentation of E.J. McMahon

December 9, 2008

EMPIRE  CENTER
FOR NEW YORK STATE POLICY
A project of the Manhattan Institute for Policy Research

Projected NY State Budget Gaps (in billions)



Source: Division of the Budget, Mid-Year Financial Plan Update

Fiscal Crises in Context

	Projected Gap (millions)	% of Base Spending
1991-92	\$6,000	20%
1995-96	\$5,000	15%
2002-04*	\$11,500	29%
2008-10**	\$13,993	25%

* includes \$2.2 billion in 2002-03 and \$9.3 billion in 2003-04

** includes \$1.5 billion in 2008-09 and \$12.5 billion in 2009-10

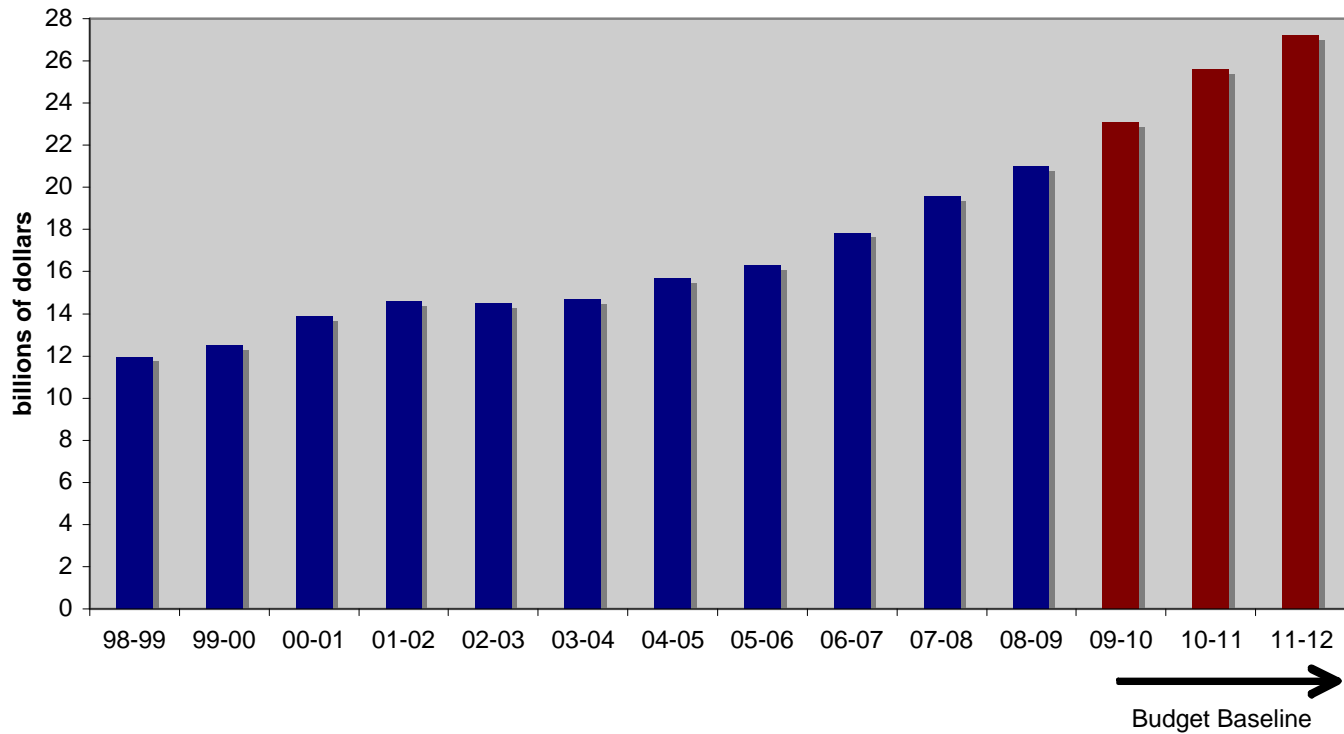
Source: Mid-Year Financial Plan Update for 2008-09; Executive Budget for earlier years

Building Blocks of the 2009-10 Budget Gap

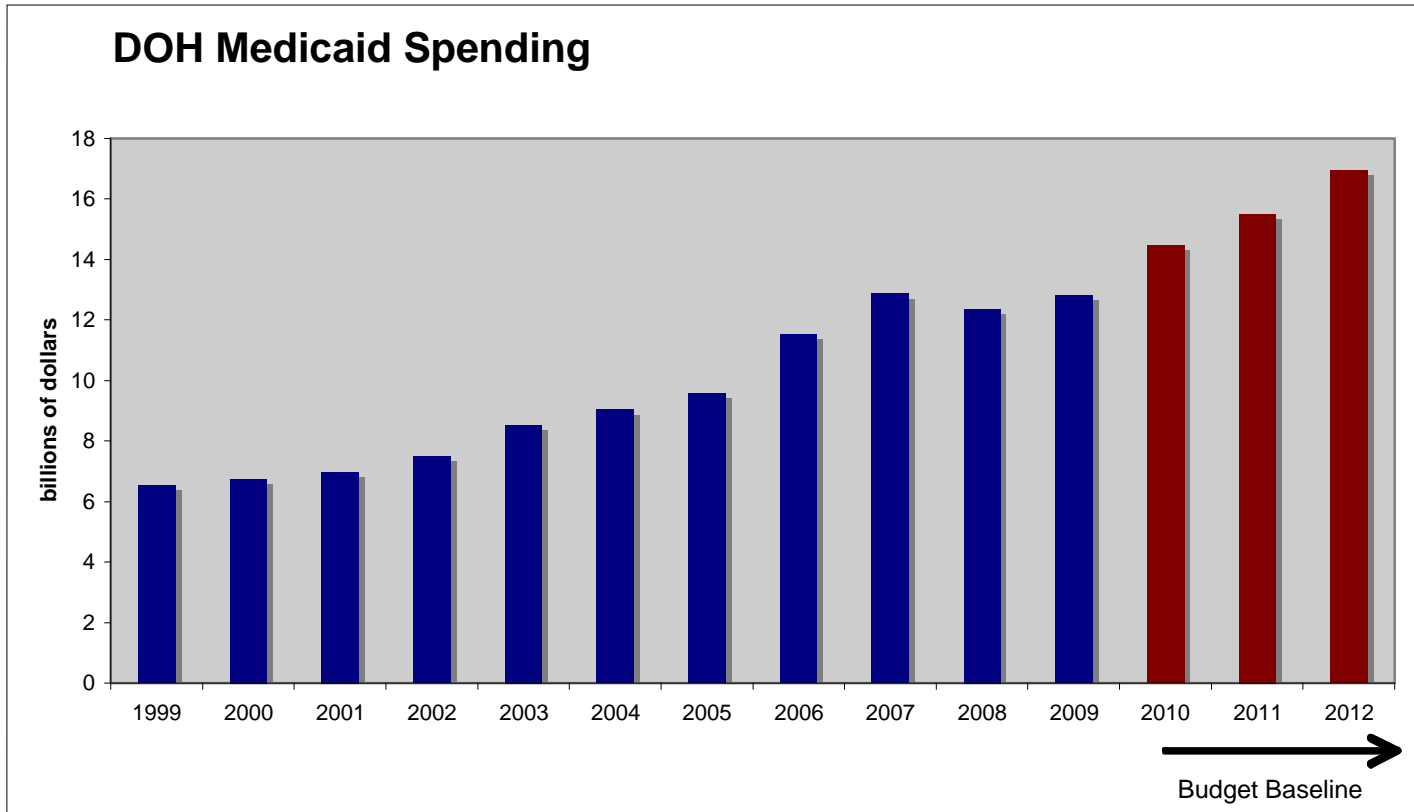
BASELINE SPENDING INCREASES:	Change	Rate
Medicaid	1,848	21%
<i>Program</i>	964	
<i>Other (53rd Cycle and Timing of Certain Payments)</i>	650	
<i>Cap/FHP Takeover</i>	234	
School Aid	2,192	12%
Children and Family Services	198	11%
Local Government Aid	168	14%
All Other Local Government Assistance	277	3%
State Operations	819	10%
<i>Personal Service</i>	263	
<i>Non-Personal Service</i>	156	
<i>Collective Bargaining Reserve</i>	400	
General State Charges	533	17%
Transfers to Other Funds	655	12%
Total	6,690	12%
BASELINE REVENUE & OTHER CHANGES:		
Drop in Receipts	3,092	-6%
<i>STAR Rebate Second Phase</i>	690	
Drop in Reserves	1,032	
December Special Session Hangover	1,475	
Potential HCRA shortfall	229	
Total	5,828	
TOTAL 2009-10 BUDGET GAP (10/08)	12,518	

Source: Division of the Budget, Mid-Year Financial Plan Update

State Aid to Public Schools

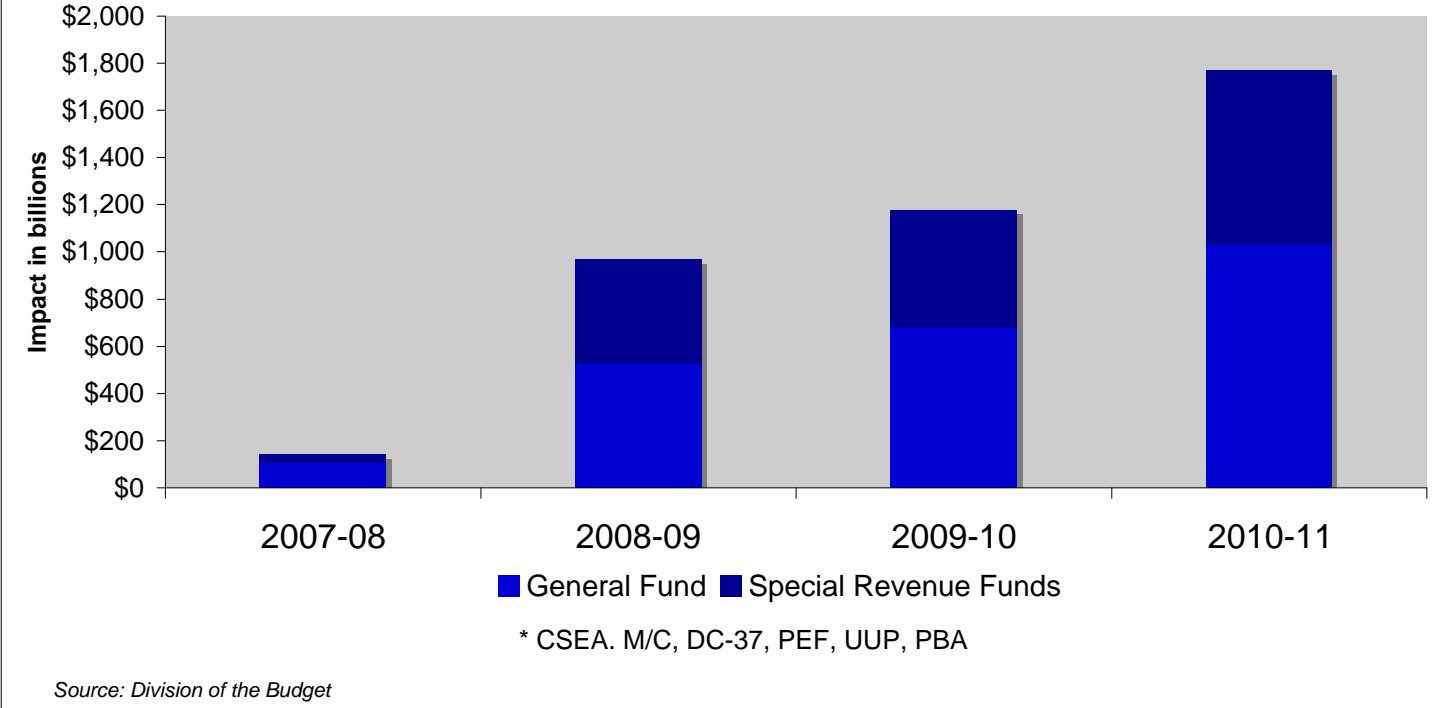


State aid to K-12 schools has risen 76% in the last 10 years, including 29% in the last three years, and the baseline calls a further 29% hike over the next three years. Enrollment during this period has decreased slightly, and is projected to remain flat over the next three years.

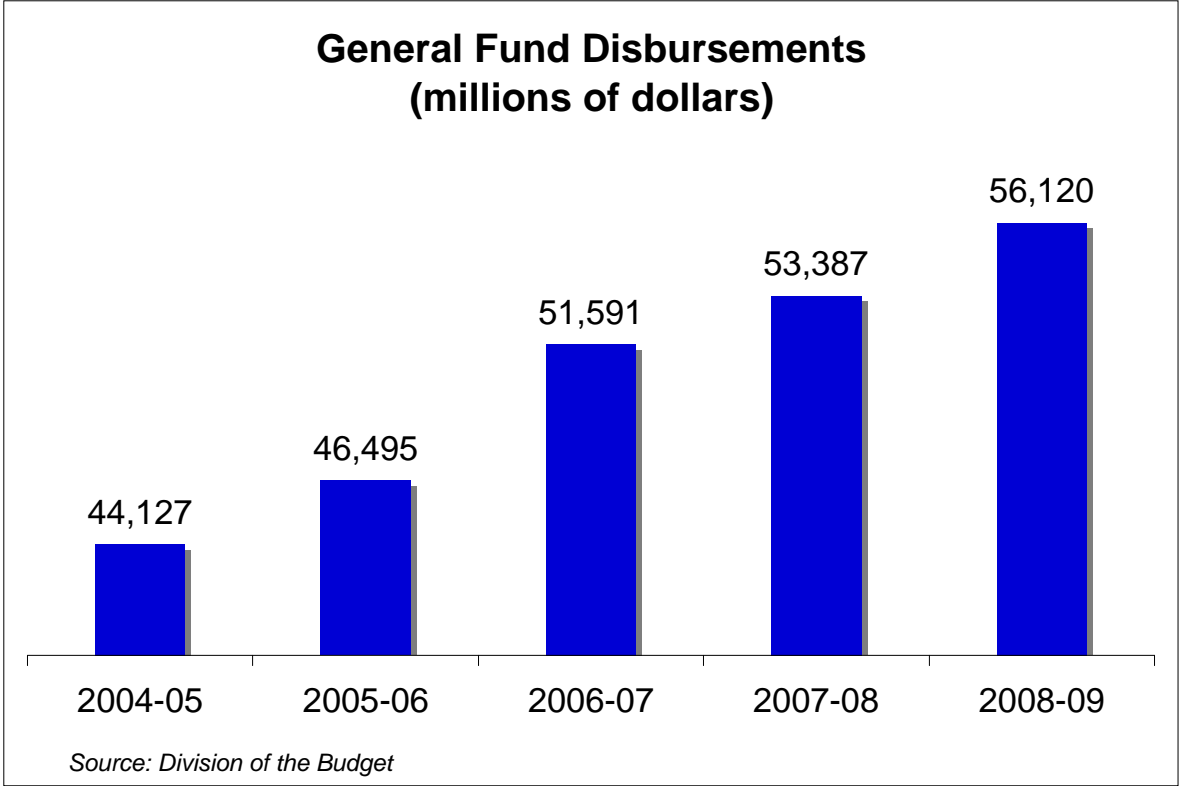


Medicaid spending is up only 11% in the last three years—including a *decrease* in fiscal 2007-08—but is projected to rise 32% over the next three years.

Impact of Settled State Union Contracts*



Wage increases under state worker labor contracts ratified since 2007 have added \$525 million to the General Fund and \$1 billion to the All Funds budget. Unless modified, the cost of these agreements will double by 2010-11. These figures do not include a \$400 million reserve in 2009-10 for unresolved contracts with unions representing corrections officers and State Police investigators, among others.



Over the past four years, General Fund spending has risen 27 percent. If this portion of the budget had grown just 1 percent more slowly per year during this period, it would now total \$2 billion less.



?

1. Set priorities -- focus on essentials.
2. Prune all branches.
3. Link local aid cuts to significant mandate relief.
4. Think long-term.

Appendix F: What's No Longer Affordable for New York State



What's No Longer Affordable for New York State

December 9, 2008

Elizabeth Lynam

Citizens Budget Commission

Overview

- I. The Problem: In order to contend with a shrinking revenue base going forward State leaders must grapple with the reality that continuing to do business as usual is not an option**
- II. What is no longer affordable?**
 - 1. Programs that do not work**
 - 2. Employee benefits that are above and beyond what is offered by our competitors**
 - 3. Padding in programs that sweeten the pie/grease the political wheels for specific regions or groups**
 - 4. Further erosion of NY's competitiveness**

1. Programs that do not work

- A history of incremental add-ons and very limited performance measurement and accountability works against reexamination
- Examples
 - Empire Zones; Centers of Excellence; NYSTAR; Power for Jobs; ESDC
 - State Education Department
 - Extensive tax credits for various interests
 - Some agencies –DOC for example- no longer need to be as large ; Juvenile Justice another example

Fund for performance and need

2. Employee benefits above and beyond

- Powerful interests have long run the show; public employee benefits in New York are more generous and more expensive
- Examples
 - For employees- health insurance premium sharing is 10 percent; public sector average is 14 percent
 - For retirees- Medicare part B premiums – feds do not pay; only six states pay any share; NY pays 90 percent
 - Pensions – 94 percent of public systems DO NOT count OT in FAS; NY does
 - Separate units negotiating and purchasing; why

Pay for fair and reasonable benefits

2. Padding our programs

- Shares, hold harmless provisions, and other political third rails
- Examples
 - School aid formulas enriched with high tax aid and minimum grants for the wealthiest- top 10% are 30 times wealthier than lowest 10%
 - MA providers re-basing included hold harmless for nursing homes, for example, whose rates were due to come down
 - MA program includes eligibility loopholes that drive up costs of long term care (personal care; home value; estate recovery)- cost per beneficiary is 70 percent above the national average
- Limit program spending in programs to help the needy to the neediest; target all reductions to those that can best afford them

2. Further erosion of NY's competitiveness

- Higher taxes may be more appealing options for legislators but NY's already running behind
- **Examples**
 - Overall burden 33% above; local burden 78% above
 - Traditional relationship of local units to the State predicates more cost off loading to the local level
 - State tax hikes typically accompanied by local tax hikes, in part because of off loading to the locals
- State relationship with locals must change
 - Mandate relief
 - Consolidation- among units and across functions for better purchasing power
 - Revenue relationship

Conclusion

These principles will be hard to apply. However, they are ultimately less harmful than some of the traditional alternatives:

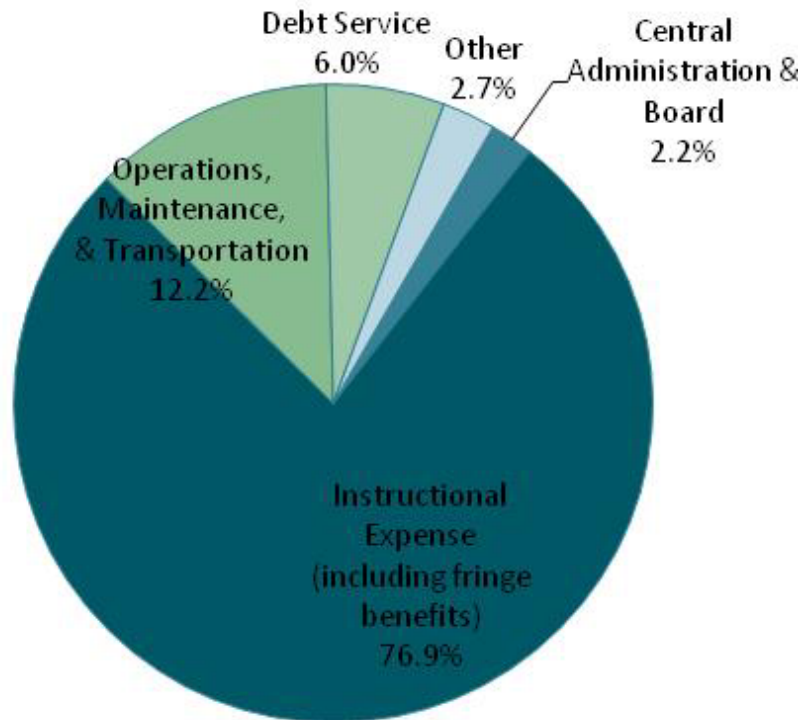
- across-the-board cutting, or
- buck passing to the local level

They require time and real leadership

Appendix G: School Spending – Where it Goes

School Spending – Where it Goes

NYS school districts excluding NYC

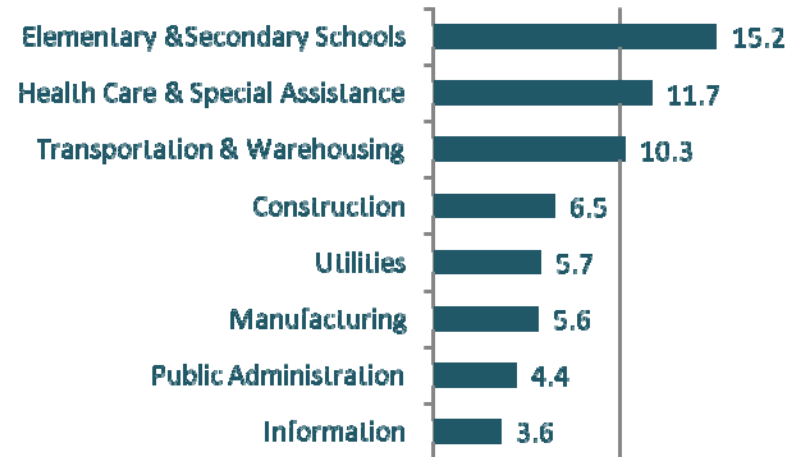


Source: Council analysis of NYSED 2005-06 School District Fiscal Profiles; *NYC excluded*

71% of spending is for personnel:

- 52% salaries
- 19% benefits

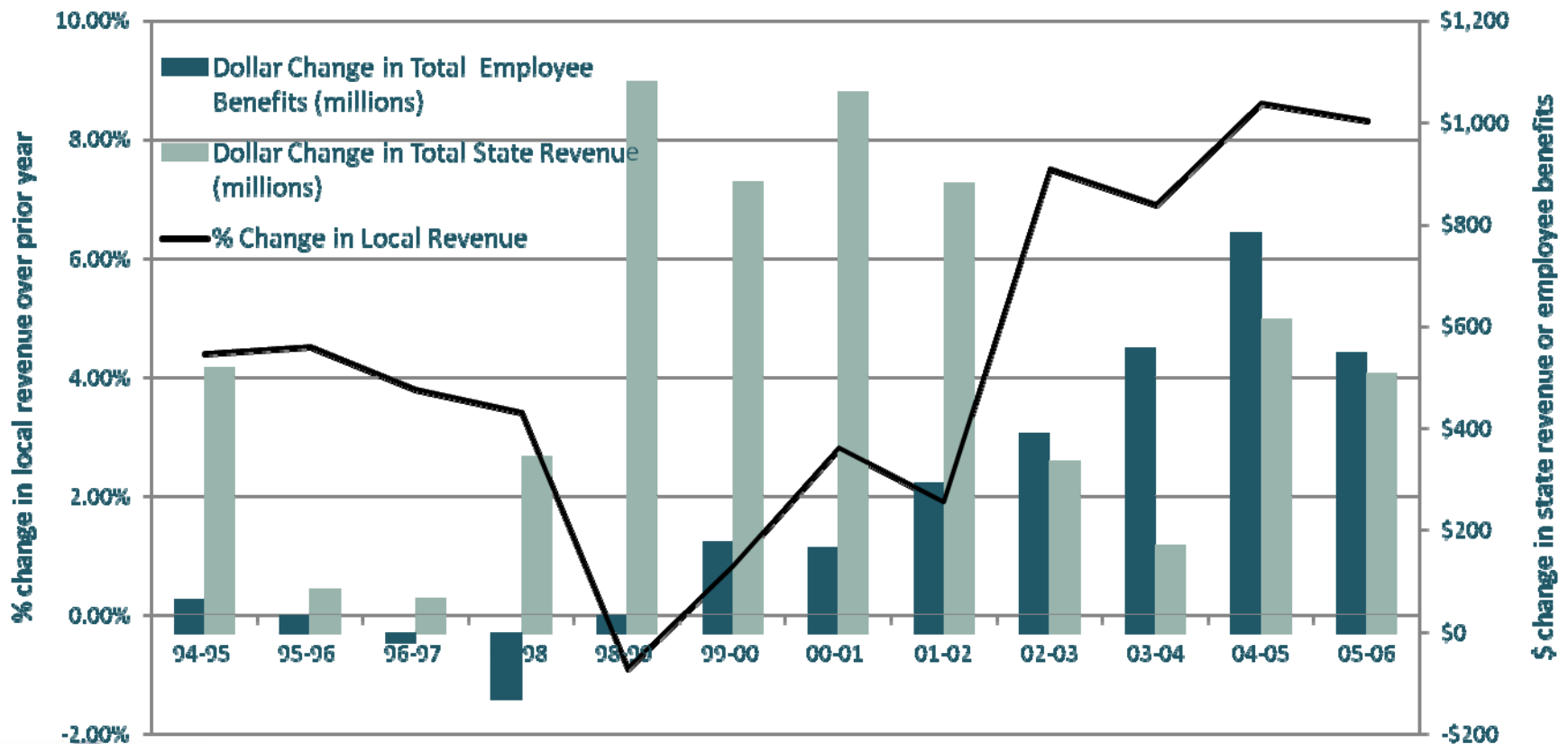
Schools have relatively few managers: # of employees per administrator



Source: Educational Research Service, Inc. *Answering the Critics of School Administration: What Are the Facts?* (2005)

Employee benefit cost increases exceeded state aid increases between 2002-03 and 2005-06

Pension costs have stabilized in more recent years, but what happens when current market downturn is factored into contribution rates?



Special education (for students with disabilities) is a major cost-driver

- New York has the 2nd most costly special education system in the country.
- We can't really blame the Feds:
 - SED's own analysis of NYS policies which exceed Federal requirements is 30+ pages long.
- If NYS were to reduce spending simply to the national average it would save \$1.3 billion per year.
- Our results don't justify this spending, and all these regulations aren't working: our special education graduation rate is below the national average.
- Yet last year, Lawmakers and the Governor enacted 2 costly new mandates.

Special Education Practices: Where New York Ranks Among the States

2nd - Special education salaries as % of all instructional salaries.

3rd - Ratio of special education personnel to students with disabilities.

4th - Percentage of special education students in regular classrooms less than 40% of week.

4th - Percentage of special education students served in separate schools.

Superintendents' targets for cost savings (informal survey results)

Local Action	State Help Desired
Energy conservation (e.g., cut back on transportation, building improvements)	Special education (e.g., pare back to US regulations)
Health insurance (e.g., increase employee contributions, join consortia)	Health insurance (e.g., state or regional plans).
Staff reductions	General mandate relief/no new mandates.
Non-personnel (e.g., freeze)	Personnel (e.g., Triborough, regional bargaining; streamline discipline/removal)
Other personnel (e.g., smaller negotiated salary increases, cut professional development)	Pensions (e.g., employee contributions past 10 years, other).
Greater use of BOCES, other shared services.	Transportation law amendments

Other Cost Savings?

- School Consolidation:
 - Revenue: Schools as tax shelters.
 - 68 districts have more than \$1 million per pupil in property wealth;
 - 23 of those districts have fewer than 350 pupils, most have less than 1500;
 - If they were all to tax at the state average property tax rate, they would generate **\$1.8 billion** in additional revenue.
 - Expenditures: Is the juice worth the squeeze?
 - Of the 194 districts <1000 kids, 145 are below average wealth, 2/3rds already spend below the state average. Even if they could all save 5%, this would amount to just \$78 million statewide.
- Universal Health Insurance Plans?
- Co-location of social/health services.
- Intergovernmental collaboration.

Appendix H: Public Sector Collective Bargaining in NYS

Public Sector Collective Bargaining in NYS

“Rightsizing New York’s Budget”

Albany, NY

Dec 9, 2008

**Joseph Stefko, Ph.D.
Director, Public Finance**

CGR

Rochester • Albany

The Issue

- A need to systematically rethink workforce costs in NYS
- And not just at the state level, since:
 1. Significant local spending originates w/ the state
 2. Up to $\frac{3}{4}$ of local spending funds workforce costs

The Issue

- The state, through its aid to localities and school districts, is funding workforce costs that are unacceptably (and unnecessarily) high

The Public Cost of Vanity



Photos provided by Dr. Jeffrey Meilman

Before and after: One of the more popular procedures among public employees in the Buffalo Niagara region is eyelid surgery. Some 440 of these procedures were done at a cost of \$250,000 during the past 2 years.

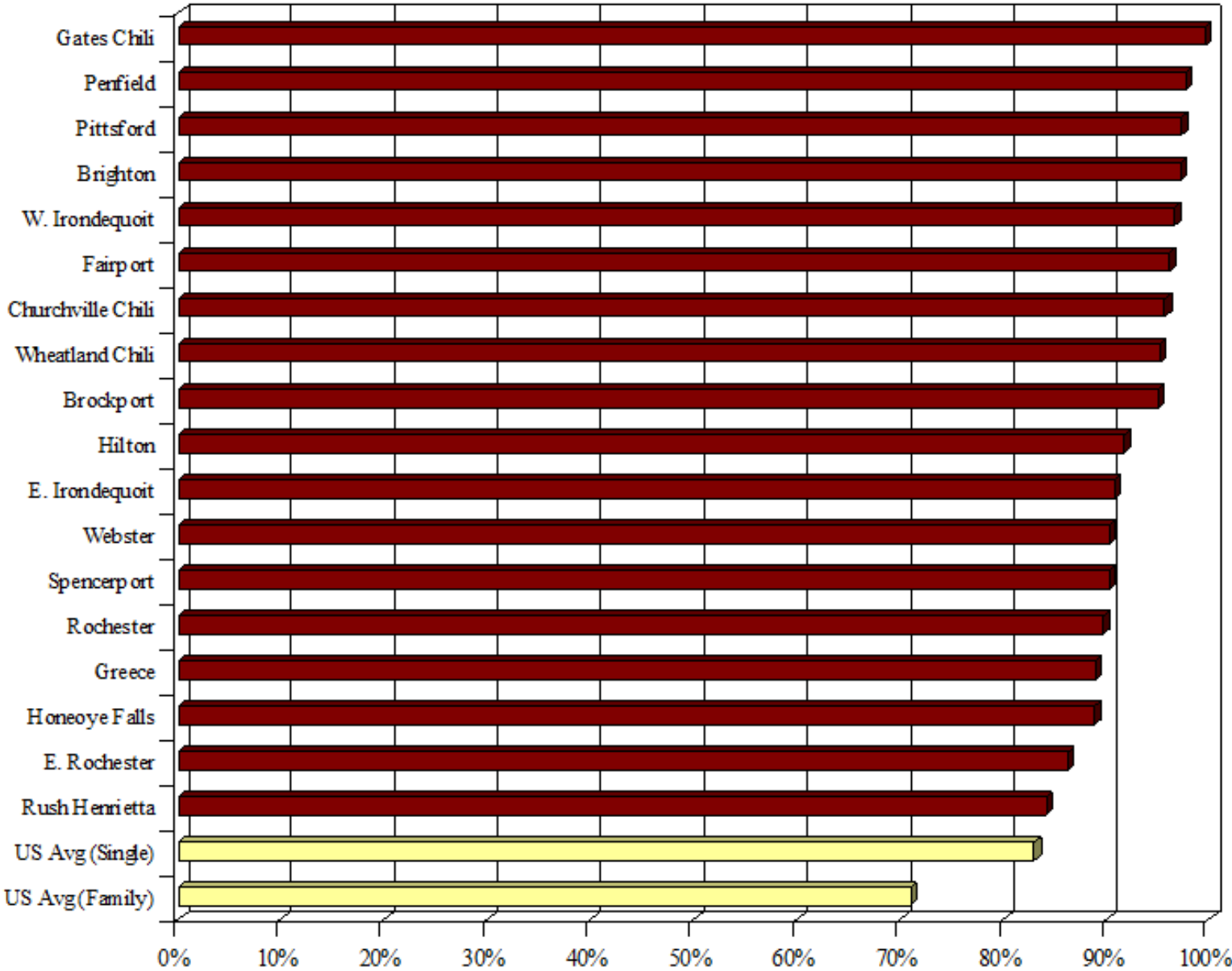
Procedure	City Employees*		City Schools		Niagara County	
	Surgeries	Cost	Surgeries	Cost	Surgeries	Cost
Breast enlargement	152	\$105,162	60	\$46,171	56	\$42,473
Breast lift	40	\$34,094	44	\$46,205	33	\$24,631
Breast reduction	42	\$37,376	58	\$68,995	15	\$14,769
Excess skin removal	202	\$91,294	178	\$108,422	83	\$68,314
Eyelid tightening, reshaping	159	\$74,770	159	\$89,189	119	\$85,172
Face lift	181	\$131,970	273	\$213,802	134	\$151,546
Hair transplant	126	\$299,281	15	\$33,855	6	\$14,289
Liposuction	363	\$153,877	303	\$185,882	231	\$127,819
Nose reconstruction	40	\$35,324	38	\$36,001	23	\$14,342
Remove varicose/spider veins	58	\$5,110	206	\$15,407	70	\$17,420
Skin repair, refreshing	2,315	\$429,370	2,648	\$594,187	2,566	\$612,335

*primarily police/fire

Source: BlueCross BlueShield, Buffalo Public Schools, Niagara County

Source: The Buffalo News

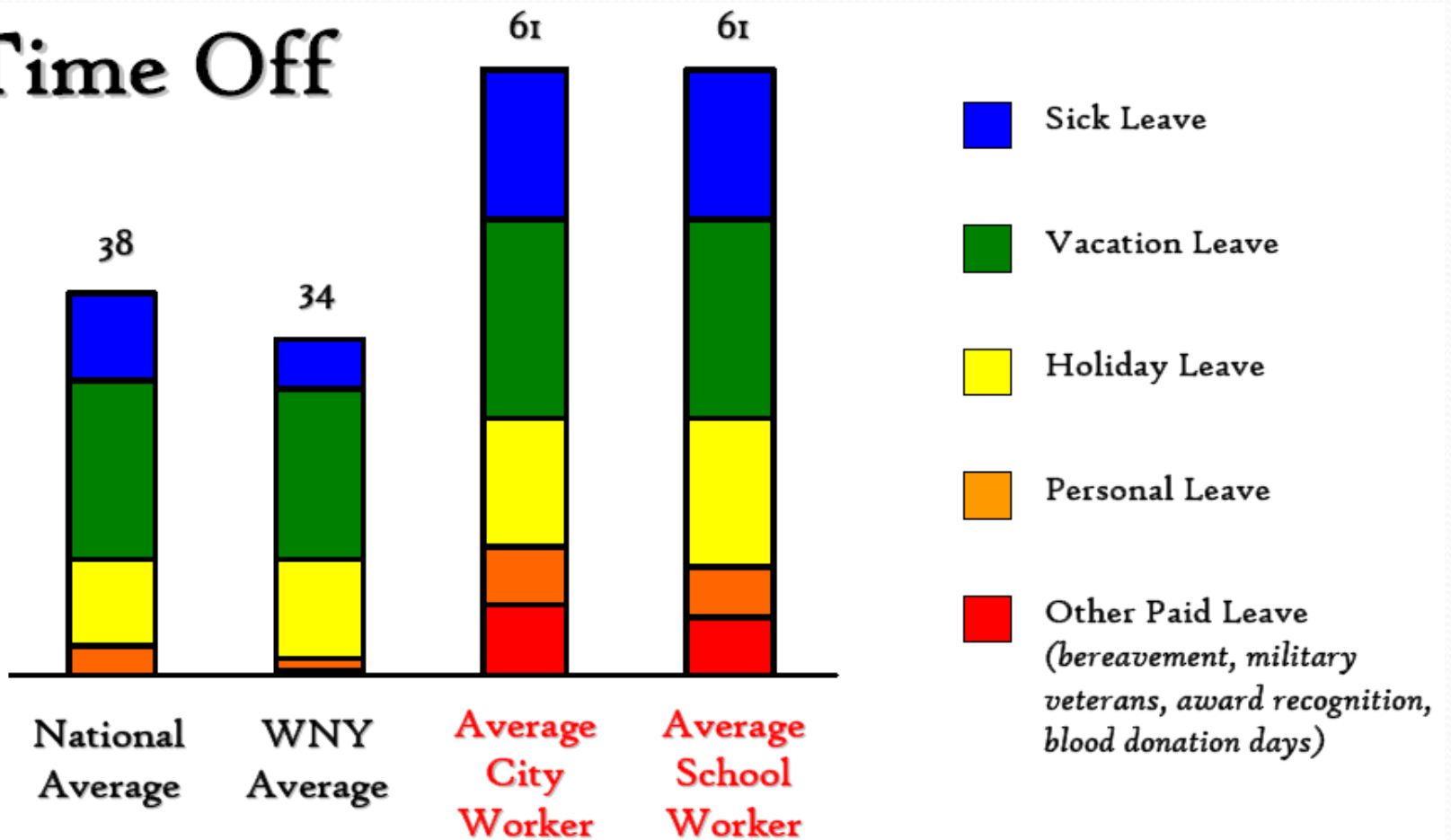
% of Employee Health Benefits Paid by Monroe Co. School Districts



**Savings by District if Health Benefit
Contributions = National Avg**

	Net Savings (in million \$)	Savings Per Student
Brighton	\$1.16	\$322
Brockport	\$1.33	\$313
Church Chili	\$1.26	\$292
East Irond	\$0.72	\$212
East Roch	\$0.19	\$152
Fairport	\$1.97	\$276
Gates Chili	\$1.27	\$253
Greece	\$2.63	\$195
Hilton	\$1.00	\$223
Honeoye Fls	\$0.45	\$173
Penfield	\$1.73	\$357
Pittsford	\$1.67	\$278
Rochester	\$7.01	\$206
Rush Herr	\$0.95	\$166
Spencerport	\$0.98	\$227
Webster	\$1.84	\$210
West Irond	\$0.95	\$241
Wheat Chili	\$0.28	\$341
Total	\$27.41	\$232

Paid Time Off



Source: Buffalo Fiscal Stability Authority

Only Two Solutions?

- Cut Services
- Raise Taxes

Taylor and Triborough

- Tilt negotiating framework
- Existing benefit levels become the “floor”
- Status quo guarantees impact negotiations
- Insulate CBAs from macroeconomic factors

Eliminating the *Status Quo* Guarantee

Fixing Triborough

§ 209-a. Improper employer practices; improper employee organization practices; application. 1. Improper employer practices. It shall be an improper practice for a public employer or its agents deliberately (e) to refuse to continue all the terms of an expired agreement until a new agreement is negotiated

Fixing Taylor

4. The term "terms and conditions of employment" means salaries, wages, hours and other terms and conditions of employment provided,

Appendix I: Saving Tax Dollars on Capital Spending and Economic Development Programs in New York State

**SAVING TAX DOLLARS ON CAPITAL SPENDING
AND ECONOMIC DEVELOPMENT PROGRAMS IN
NEW YORK STATE**

**Presented at “Rightsizing the Budget” Forum
December 9, 2008
Albany, New York**

**TR Rose Associates
150 East 49th Street
New York, New York, 10017**

Thank you Ericka and thank you EJ, for making this event possible.

Since leaving state government a little over a year ago I have had the great pleasure of consulting for the New York City Partnership. Kathy Wylde and her organization have given me the opportunity to continue working on a lot of the ideas I cared about when working for government. So, I want to thank her publicly for that chance.

I agreed to be part of this event today because I am, like most of you, worried. For over the past twenty years my work has been to support all of the major forms of spending on education, health, environment, public assistance, affordable housing, the state workforce and economic development..

After you spend sometime in the Comptroller's office if you are alert to it, you realize most of these worthy efforts have become captives of mission drift.

Once good ideas, a lot of the spending deemed as important to progressive government have become wasteful, insulated and impervious to change.

I have two topics today, but they are really the same – I am to address how money can be saved as we spend on capital projects --- and what could be done to save money on the state's economic development programs.

Each issue addresses a different way that state expenditures interact with the private economy.

So, let's get to the capital spending side of the discussion.

Some numbers are useful to start:

- DOB projects annual capital outlays of just over \$9 billion between now and 2013 -- that is \$56 billion – about \$24 billion will be financed with pay as you go contributions, and the rest by debt.
- The MTA Capital budget anticipates spending at \$8 billion per year... local governments \$1.6 billion annually.... NYC - \$3 billion annually and IDA's approximately \$700 million annually.

Not all debt goes to capital expenditures. These admittedly crude and incomplete numbers place spending at upward of \$24 billion annually.

If we review the many reports from state and local government school districts and public authorities, this capital spending supports an impressive set of projects. For the most part, these projects are not only evidence that government is working to improve communities, the level and type of projects also stimulate our economy –for the construction trades and the financial services industry. -

But, let me be blunt: there is far too much waste in the way we spend these dollars. Ironically, most of the waste is created by rules and regulations we have adopted to protect against waste.

Unfortunately, I only have ten minutes, but if you want to know why we have the government contracting rules we have today – you can start with Kenneth Ackerman's recent biography of Boss Tweed.

The basic theory of government contracting assumes that through competitive bidding, based on objective design specifications – the state receives a market price from a credible vendor. It is a good idea. When I served at the Comptroller's Office we saw a large part of our work as helping the state determine if it had in fact received a market price for a given product or service.

However, the rules have grown too cumbersome over the years to handle a new, dynamic economy. Consequently, on major capital projects there are too few bidders. Last week I read in the papers where a huge water system project in New York City had skyrocketed in cost, in part, because there were too few bidders. The rules have been around so long that anyone who plays the game has figured out how to abuse them.?

Large private sector builders are now global in their reach. They can forego New York's large, but not large enough capital program --- and they do. What that means is that the State is not getting a market price. It is getting the price that those who wish to bid will charge. The system is broken.

Our state contracting officials know this, the contracting community knows this, our political leaders know this --- and nothing changes. Last week I attended an AIA conference that put the waste factor at somewhere between 2% and 15% . The meeting was held in a small room that was only half full up the street at Rockefeller College. None of the major contracting agencies were there.

We do not need another study. New York State and New York City pay more than the rest of the country for heavy capital projects and that is unacceptable.

If the state has the appetite for real change, and it should, it could adopt the American Bar Associations 2007 Model Code for Public Infrastructure Procurement. There are many practices outlined in this code that would save money. It would also take some getting used to by state procurement professionals. But the effort is worth it.

If the state decides it must study this code and waste more time, than there are other smaller ways to reform the system in the short term.

1. A few years ago the Comptroller asked for a new flexibility in the state's procurement rules. Make those changes. This would at least allow for some experimentation with some of the procurement models that are contained in the model code.

2. Pay construction vendors on a timely basis. ...Agree to risk sharing and reduce bond insurance costs. ...the end of the bid process should be the beginning of construction, not an expensive, long drawn out contract process that adds no value. These changes can be instituted without legislative action.

During any study period, the state should realize that it already has experience with a variety of procurement models.

Ask the Dormitory Authority to produce a report on the varied procurement and bidding processes it uses because of the large variety of clients it serves. Those clients are governed by different contract laws, but also by a number of different procurement models that boards of directors of their client organizations have adopted over the years. The experiential base is there but everyone acts as if changes in state finance law or relevant municipal law that would save dollars on contracting are somehow a foreign concept.

On the construction side, we know the problems, the solutions are there --- it is a crime against the taxpayers that we continue to use 19th century contracting ideas in the 21st century.

One word on the other side of the coin ---- getting good debt deals. One anecdote will suffice. The Comptroller signs off on debt issuances. In 2005 the state's Bridge and Highway Fund went into the market for \$2.9 billion to fund the system. The bond deal did not meet the Comptroller's prudence standards, so questions were raised. To make a very long story short, the questions produced almost \$1 billion in savings over the 20 year life of the bond deal. Lesson to state and local government --- now more than ever -- scrutinize any bond deal for fat and waste -- it is there. Put pressure on every bond deal -- on the structure of the deal and the size of payments to investment banks, lawyers and underwriters.

When the state spends money to put construction workers to work it should not waste money on high interest payments and large payouts to underwriters and lawyers.

Another way in which the state government interacts with the private sector is with the provision of a series of payments to businesses that locate in the state or remain in the state and meet certain regulations. We know these programs by their alphabet soup names --- but they fall most commonly under the name of Empire Zone -- and a host of loan and grant programs that are passed by the legislature on a regular basis.

The performance of Empire Zone programs are fundamentally flawed. For the \$500+ million the state now spends on the program it does not receive measurable numbers of jobs, nor can anyone tell if the companies the state invests with are healthier because of the business incentives. Laying this out chapter and verse would take too long --- review the work of the Comptroller's Office, State Assemblymembers Richard Brodsky and Joe Morelle -- and the work of the state's newspapers. Most of the major papers in the state have looked at how these programs have played out in local communities.

This year, let's eliminate the Empire zones program. First year savings would be at least \$50 million. That would occur if we simply stopped it in its tracks. Because of the long term liabilities involved, the numbers increase over time. The savings is more if the state acts aggressively to enforce compliance of program rules, and less if it chooses to accept the status quo.

Some new policies must be developed to improve New York's business climate, but the state has had periods in the past where there were no "economic development programs" – the sky did not fall. And, we are in a recession, now is the time to plan for better programs so that when investment starts up again, New York can take advantage of it.

We can argue about what goes in its place. There are a number of good ideas in circulation.

On the various loans and grants programs I would argue that they too need to be frozen. No more, until the state adopts a business strategy that has a chance of succeeding and the funding is aligned with that plan.

My recommendation extends to any of ESDC's named programs --- and also to the host of economic development initiatives that are annually funded through member items. Freeze them this year and work out a program that is something more than a legislator responding to a constituent request for money.

If the state adopted some of the suggestions I have made today it would save millions. Adopt more and you save billions. Adopt them all and you begin to put the state on the right track toward ---- more capital projects funded for the same or less dollars, and a new economic development climate where job creation and healthy companies are the priority.