



Testimony to

Assembly Ways and Means Committee

*Executive Proposal to Reduce the Estimated Budget Deficit
for the 2009-2010 State Fiscal Year*

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Mr. Chairman, and members of the Assembly Ways & Means Committee, my name is Kenneth Adams and I am President of The Business Council of New York State, Inc. We represent more than 3,000 private sector employers across New York State. On behalf of those members, I appreciate this opportunity to provide you with our views on addressing the state's fiscal problems.

The Business Council urges the legislature to enact the deficit reduction plan proposed by Governor Paterson on October 15. This recommendation is based on six key principles.

The state's budget deficit is real, is significant, and will be worse next year. The long-term solution is economic growth and more jobs. When we testified before the Legislature's joint budget hearings this past February, we raised concerns that the budget would perpetuate an unsustainably high level of government spending, and was out of step with our economic capabilities.

While the Executive Budget contained some spending reductions, we argued that larger cuts were needed to produce a balanced budget in Fiscal 2010 and avoid even larger deficits in future fiscal years.

As the budget was being negotiated, and new tax proposals put on the table, we argued that they would damage the state's economic climate and were unlikely to produce the level of revenues expected. With job losses, reduced business revenues, a significant drop in capital gains, and a permanent restructuring of New York City's financial sector, it was clear to us that we were not going to squeeze significant new revenues out of our faltering state economy.

Unfortunately, events have proven us right.

Right after passage of the FY 2010 budget, the Division of Budget projected a \$2.2 billion deficit for next year. Now, based on current law, revenue trends and economic forecasts, Comptroller DiNapoli has projected a deficit for Fiscal 2011 of up to \$11 billion.

At the national level, there are signs that the recession is ebbing, and the economy is showing some signs of growth. However, New York had done little to position itself to participate in the national recovery.

Economic recovery will be driven by new private sector investment and job growth.

In the past year (August 2008 to August 2009, using recent Department of Labor Data), New York State lost 207,000 private sector jobs. Unemployment rates in New York City are over 10 percent and above 8 percent in many regions upstate. Employers in New York will need to re-create those jobs, and create thousands more, simply to put the unemployed back to work and to keep up with a growing population. The alternative is a continued loss of young, talented people to states with more competitive economic climates and greater economic opportunities.

We, and a significant number of our members, believe the state legislature needs to return to Albany and reduce the size and cost of state and local government, and the cost burdens it imposes on the private sector and job growth. The legislature needs to act now to close this year's budget gap, and to reduce the state's longer term structural deficit.

No new taxes or fees to close the deficit. The Governor and legislative leaders need to make a commitment to all New Yorkers that they will not impose new taxes or fees, or raise existing taxes or fees, in closing the Fiscal 2010 budget gap.

This past session, the budget included more than \$6 billion in expected new revenues, and the session ended with passage of a new \$1.5 billion downstate payroll tax.

The state's economy, and its business and individual taxpayers simply cannot afford new or increased taxes.

Moreover, the state's real problem is on the spending side, not the revenue side. Significant increases in state spending, at levels well above the rate of inflation, have been adopted year after year, resulting in spending levels well above national averages.

Even with the proposed DRP reduction of \$287 million in Medicaid, the state's Medicaid spending this fiscal year— bolstered by increased federal assistance — will be at more than \$36 billion, \$3.3 billion or 10 percent above Fiscal 2009 levels.

Likewise, even with the proposed reductions in school aid, state budget funding for schools will be more than \$24 billion, nearly \$1 billion, or 4.4 percent, above last year's levels.

The deficit reduction plan proposed by Governor Paterson is a realistic, effective response. Last week, we and other business groups expressed support for Governor Paterson's proposed deficit reduction plan — especially its avoidance of new revenue measures to close this year's budget gap. However, we are concerned that his proposed cuts may not go far enough to fully eliminate the current fiscal year shortfall and its long-term structural deficit.

Among other measures, the DRP included \$1.3 billion in savings to be achieved through an across the board 10 percent reduction in remaining local assistance spending, with few exceptions.

We support the Governor's DRP plan, and call on the legislature to do what's necessary to enact it into law as soon as possible.

Reductions in local assistance spending are essential, since local assistance accounts for the vast majority (78 percent) of all state taxpayer-financed spending. With less than half of the current fiscal year remaining, it would be

difficult if not impossible to achieve these necessary cuts in state agency spending alone.

We must consider actions to reduce the size and cost of the state workforce. While the DRP provides necessary first steps, we are concerned that more may be needed to be done to close this year's budget gap, and it seems certain that additional actions will be necessary to bring the FY 2011 budget into balance. Among other measures, such as restructuring school aid and Medicaid, we will need to reduce the size and cost of the state's payroll. And it is unquestionable that a Tier V pension system must be implemented immediately to control spiraling pension costs in the future.

We understand the devastating effect that the loss of a job means to workers and their families, and would recommend state layoffs only if necessary, after other reasonable steps are taken to reduce the cost of state payroll.

The Governor should call for, and the legislature should support, a hard hiring freeze at the state and local level for Fiscal 2010 and 2011. We believe that on an annual basis, this would reduce the state's labor force by 5 percent through attrition and save about \$1.2 billion each year at the state level (a comparable hiring freeze at the local level would save about \$4.5 billion statewide, and would reduce spending pressures on the state budget.) New York State spends \$10.6 billion annually on personnel. A hard hiring freeze --an absolute halt to hiring any new state workers -- is a common-sense step that pales in comparison to the job losses endured in the private sector.

If additional savings are needed, the Governor should call for, and the legislature should support, a give-back of the 3 percent increase in state salaries that went into effect in April. Reducing this to 1.5 percent saves \$90 million; eliminating it altogether saves \$180 million per year (based on estimates in the FY 2010 Executive Budget). We believe this is appropriate given the state's financial situation; it is workable given our current low rate of inflation; and is preferable to layoffs.

We call on the representatives of the state workforce to work with the Administration to negotiate these types of cost savings that are essential to avoiding layoffs. These changes would require consent of unions, and in some cases, approval of the state legislature.

We believe cooperation in achieving these cost reductions is essential to bringing the state's budget back toward long-term balance.

In March 2009 Governor Paterson proposed the elimination of 8,900 state government positions, a workforce reduction of about 4 percent, in response to a refusal by state-employee unions to negotiate relatively modest wage concessions. While potentially a last resort, layoffs may become a necessary resort in the absence of other steps to reduce the cost of state government.

We must enact key fiscal reforms to assure long term solvency. The proposed DRP includes fundamental structural reforms that The Business Council

strongly supports, including public pension reform and imposition of a cap on state spending.

We agree that the state should adopt a new Tier V pension, a measure that would produce savings of nearly \$50 billion over the next thirty years for state and local governments.

An effective spending cap would limit state operating fund spending increases to the average inflation rate over the previous three years.

The Business Council supports these and other reform measures, such as a real property tax cap, repeal of the Wicks law and state debt reform.

While these proposals will not all provide immediate savings, they will help address New York's structural imbalances. The sooner we begin work on this reform agenda, the sooner we will begin seeing its impact on state and local budgets.

New York is not alone. We believe that it is essential for New York State to make these hard choices to bring our budget back into long term balance, and to bring state government spending back to sensible levels that avoid the recurring need for new and increased taxes and fees.

Other states have already adopted aggressive cost containment measures, reducing budgets and reducing the cost of state government payrolls. For example:

- earlier this month, Pennsylvania adopted a budget that spends less than the prior year, even counting federal stimulus funds; and avoids any new or increased broad based taxes.
- earlier this year, New Jersey approved a budget that reduced state spending by 12 percent, with spending \$2 billion less than their Fiscal 2006 budget.
- California imposed a three day per month furlough for most state employees, equivalent to a pay cut of nearly 10 percent.

Actions like these are necessary to reduce the burden of state government on the economy, to improve the competitiveness of our economy and employers, and allow our businesses to position themselves to participate in the national economic recovery.

Overall, Governor Paterson has put forth a realistic and necessary plan to balance the state budget with needed cuts in spending.

We have no doubt that this proposal will be attacked by some special interests. However, given the state of the economy and New York's budget gaps, these are the kinds of hard but necessary choices our members expect out of Albany.

And we believe these are the hard but necessary choices that are expected, and will be respected, by individual taxpayers and voters.

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