

# For budget cuts, look no further than the biggest expenses

BY JOSEPH SPECTOR • GANNETT ALBANY BUREAU • JANUARY 31, 2011

---

ALBANY — As Gov. Andrew Cuomo plans to release his 2011-12 budget Tuesday, he will undoubtedly look to make cuts in the biggest expenses: Medicaid, **education** and personnel costs.

They account for nearly 65 percent of the state's \$92 billion operating budget in the coming fiscal year that starts April 1. Cuomo may propose to lay off as many as 15,000 workers and cut schools and **health** care by billions of dollars.

The Democratic governor will look to rein in expenses that for decades have outpaced revenue. And growing costs are expected to leave the state buried in deficit for years to come.

The state's fiscal picture is grim: a \$42 billion budget gap over the next three fiscal years — \$10 billion in the upcoming year, \$15 billion in 2012-13 and \$17 billion in 2013-14.

"The State of New York spends too much money. It is that blunt and it is that simple," Cuomo said in his State of the State address this month.

Estimated growth in Medicaid and **school** aid in fiscal 2011-12 alone accounts for more than two-thirds of the state's projected \$10 billion gap, budget projections show.

The state share of Medicaid, the health-insurance program for the poor and disabled, is expected to soar from \$12 billion to nearly \$18 billion over the next two years, an almost 50 percent increase.

School aid is expected to jump nearly 15 percent, to more than \$23 billion this year.

Fiscal experts say Cuomo has to retool a state budget with unsustainable growth rates.

"The math is the math. If you want big savings, you have to go to the areas where we spend a lot of money — and that's school aid, employee compensation and Medicaid," said Elizabeth Lynam, deputy research director for the **Citizens** Budget Commission.

In a report this month, Lynam wrote that Medicaid costs are expected to grow 39 percent over the next four years — even as the state already spends 70 percent above the national average. Employee costs are predicted to grow 19 percent over four years, while education aid is to go up 30 percent.

A look at the state's major cost drivers:

---

The program represents about 26 percent of the operating budget, slightly more than school aid, according to a report this month from a Medicaid Redesign Team set up by Cuomo.

Medicaid enrollment has soared, from 2.7 million enrollees in 2000 to 4.7 million in 2010 — fueled by an expansion of the Family Health Plus program and an aging population.

As a result, costs are skyrocketing: from \$45.6 billion in fiscal 2008-09 to a projected \$75 billion by 2014-15, the governor's group found.

The Citizens Budget **Commission** said the largest expense is for the elderly and disabled, who make up about 24 percent of enrollees but consume about 75 percent of the expenses. Costs are also growing because federal stimulus aid is running out. The state pays about 35 percent of the cost of the \$54 billion program, with the federal government paying 50 percent and local governments paying 15 percent.

Cuomo has vowed to transform Medicaid and has tasked the redesign team — made up of industry leaders, unions and lawmakers — to come up with recommendations by March 1.

On Tuesday, Cuomo may put forth a budget-cutting target for Medicaid, rumored to be between \$2 billion and \$3 billion in state cuts, and ask the panel to find how to meet it. But cutting Medicaid is tricky: Doing so could also mean a loss of federal matching aid.

Health-care groups are warning that sweeping cuts without reforms to help hospitals and doctors would be ill-advised, hurting patients and facilities. Thirty hospitals in New York have closed in the past decade.

"Up to this point, government health-care policy, especially in New York, has been about hitting a budget number," said William Van Slyke, spokesman for the Healthcare Association of New York State. "So we need to have a health-care policy discussion."

## **Education**

Cuomo has said that schools should no longer expect rapid rises in aid from Albany. From 1994 through 2009, inflation was about 2.7 percent a year, but education aid went up an average 6 percent a year, Cuomo has said.

New York spent \$17,173 per **student** in the 2007-08 year, more than any other state and 67 percent more than the national average, according to U.S. census data.

---

School officials said they already dealt with a \$1.4 billion decrease in aid in the current fiscal year and warn that deeper cuts would erode classroom learning. They are calling on Cuomo to continue higher income **taxes** for people making more than \$200,000 a year, a provision set to expire at year's end. It brings in about \$5 billion in annual revenue.

"Revenues and cost savings should come to the front of the line before we are cutting librarians, guidance counselors and teachers out of our classrooms," said Billy Easton, **executive director** of the Alliance for Quality Education.

Schools also want relief from state mandates, saying that costs for pensions and health care are driving higher expenses.

### **Personnel costs**

The state's work force of about 220,000 dealt with about 900 layoffs last year under former Gov. David Paterson, and Cuomo is expected to call for a larger work-force reduction as part of his plan to consolidate state services. He also wants a one-year pay freeze.

The expense of the work force is expected to rise from \$14.7 billion in fiscal 2009-10 to \$17.5 billion in the 2013-14 budget, fueled largely by increases in pension and health-care costs, the Citizens Budget Commission said.

Cuomo is expected to propose a new pension tier to lower costs among new public employees. But current pensioners' benefits are protected by the constitution, meaning it would take decades to provide significant savings among new hires.

A report in December from the Empire Center for New York State Policy estimates that pension costs will skyrocket in the next five years, putting added burdens on governments and schools.

Unions plan to battle Cuomo over any massive layoffs, but they say they are willing to work with him. Most of the state's major labor contracts expire this year.

Unions said personnel costs represent only about 14 percent of the state budget, but the Citizens Budget Commission put the number around 18 percent.

"We're just asking for fairness across-the-board and if our members are going to be asked to sacrifice, that others are also sharing in that sacrifice," said Darcy Wells, spokeswoman for the Public Employees Federation, one of the state's largest unions.

---