



**Campaign for Fiscal Equity, Inc.**



**ALTERNATIVES TO THE SCHOOL AID CUTS IN THE GOVERNOR'S PROPOSED 2009-10 DEFICIT REDUCTION PLAN (DRP)**

**\$1.225 Billion of Governor's Proposed DRP Does Not Do Immediate Damage to Economic Recovery**

- Governor Paterson's proposed DRP includes \$1.225 billion in gap closing actions that, according to the Fiscal Policy Institute, will not have the kind of immediate negative effect on the economic recovery that would be almost certain to result from the state operations and local assistance budget cuts being proposed by the Governor. Of these \$1.225 billion in actions, the Governor is proposing to implement \$349 million of actions administratively and is asking the Legislature and/or others for the authority necessary to implement \$876 million of these actions.

**Taking Advantage of Lower Interest Rates to Refinance State Debt**

- Refinancing outstanding state debt on which savings can be realized because of the current low interest rate environment holds out the prospect of significantly greater savings than the \$100 million in savings that the Governor has included in his proposed DRP from refinancing and other debt management actions. Senate Majority estimates that refinancing the state's outstanding tobacco settlement securitization bonds alone could save as much as \$500 million. New York City has saved over \$200 million through the refinancing of bonds in the past 3 months.

**Rainy Day Fund**

- The state has been using the money in the Tax Stabilization Reserve Fund (\$1.031 billion) and the Statutory Rainy Day Reserve Fund (\$175 million) for cash flow purposes. However, unless it takes a long-term loan from one or both of these funds, on March 31, it must end the fiscal year with a balance that is large enough to fully replenish these two reserve funds. The state can legally, legitimately and in a fiscally prudent way take a loan from one or both of these funds that is sufficient to close out the budget year in balance. While the Statutory Rainy Day Reserve Fund is only two years old, the Tax Stabilization Reserve Fund dates back to 1943 and the state has borrowed from it on several occasions in the past without the negative repercussions that Governor Paterson claims would result from borrowing from this reserve fund. Under Governor Carey, the state borrowed from the TSRF at the end of the 1975, 1976 and 1979 fiscal years. Under Governor Cuomo, the state borrowed from the TSRF at the end of the 1983, 1988, 1989 and 1992 fiscal years. Loans from the TSRF are repayable in three equal installments within 6 years.

**Elimination of Empire Zone Program**

- Elimination of the Empire Zone (EZ) program, which provides tax breaks to businesses in the name of job creation but which has been ineffective and fraught with abuse. In practice, the EZ program has given benefits

to many firms that have not created the number of jobs promised and some of which have not created any jobs. Eliminating the Empire Zone program would save the state approximately \$600 million (Fiscal Policy Institute, Citizens Budget Commission, and others).

### **Bulk Purchasing of Prescription Drugs**

- Bulk purchasing of prescription drugs by conservative estimates would save between \$100 million and a few hundred million dollars.

### **Prescription Drugs Self-Insurance**

- New York State should consider self-insurance for prescriptions drugs. A 2007 study of states by Bucks Consultants found that by replacing traditional health insurance programs for state employees with state self-insurance states typically realized savings of 3% to 7%.

### **Collection of Sales Tax on Tobacco Products Sold to Non-Native American Purchasers**

- Collection of hundreds of millions of dollars in taxes that are due from non-Native Americans on tobacco products sold at Native American retail outlets. Native Americans should be provided coupons to ensure their unfettered right to purchase these tobacco products tax free, but the state should be collecting taxes due from other purchasers (Fiscal Policy Institute, American Cancer Society, and others).

### **Energy Savings in Schools and State Agencies**

- NYSERDA estimates that through the Energy Smart Schools Program energy costs for school districts can be reduced upwards of 30%. New York taxpayers spend \$1 billion on energy for schools outside New York City. Aggressive implementation of Energy Smart Schools Program could readily save \$200 million through reduced energy use in New York State K-12 school districts (outside of New York City). Implementation of similar energy conservation programs throughout all state agencies could produce substantial additional savings.

#### **Energy Smart Schools Program examples of cost savings to date:**

***Rochester City School District*** (49 schools) - During the 2003-2004 the District saved \$750,000. Since 2007, Rochester's energy program has expanded and now saves the school district in excess of \$1,000,000 per year in utility and maintenance costs.

***Indian River Central School District*** (8 schools) - Over the course of 2006-2007, has achieved a cost savings of well over \$100,000.

***Cohoes City School District*** (6 schools) - Between 2004 and 2006 District achieved a \$130,000 cost savings.

### **Reduce Use of Costly Consultants**

- **Contracting Out:** In SFY 2007-08, the state spent \$2.78 billion on consultants and paid them an average annual rate of \$126,503. Consultants charge 54% more than state employees who do the same work including the cost of state employee benefits. Consultant spending for the first half of this year is at the same rate as last year. The state should reduce the use of these high priced consultants before any state employee loses their job or pay. Replacing half of these consultants with state employees will save the state over \$730 million over the next three years (Fiscal Policy Institute).

### **Regarding the cash flow issue the state is facing:**

- While facing cash flow problems in December 2009, the State anticipates a significant influx of cash from the collection of Personal Income Tax payments in January 2010, which will address those immediate term cash flow problems. If necessary, it would be far preferable to defer some portion of school aid payments (up to \$686 million) from December to early February, rather than making school aid cuts of that magnitude.