



## memo

**TO:** Ken Brynien

**FROM:** Thomas Cetrino and Brian Curran

**DATE:** October 14, 2008

**RE:** *Budget Cut Alternatives to Layoffs for October 21, 2008 Meeting*

We believe the State must make every effort to avoid layoffs as layoffs and other serious cuts in State services are counterproductive in a recession and according to Joseph Stiglitz are more harmful to the State economy than a temporary income tax increase on wealthier New Yorkers. At the very least the State must close its up to \$8 billion budget gap with an equal share of revenue raisers and budget cuts. The following options should help the State achieve that goal.

1. Increase the income tax on wealthier New Yorkers; ranging from the millionaire tax approved by the Assembly to the temporary surcharge that we enacted in 2001. This option will generate between **\$2 billion and \$7 billion in revenue depending on the income levels and rates.**
2. Reduce consultant costs by instituting a freeze on all new consultant contracts, requiring a budget waiver to enter into those contracts, and by examining all current consultant contracts as to which can be terminated and which can be done by State employees at a lower cost. **Savings: up to \$750 million a year.**

### Discussion

State expenditures for consultant contracts have increased from \$2.26 billion in SFY 2003-04 to \$2.78 billion in SFY 2007-08 (see Attachment 1). The largest increases have been in Information Technology (IT) Design and Development, IT Software Maintenance, IT Hardware Maintenance, and Engineering Supervision. Consultant contract expenditures for the first five months of SFY 2008-09 show little if any reduction from SFY 2007-08 (see Attachment 1). The Comptroller, KPMG, and PEF have done studies that show that consultants cost between 50% and 75% more than State employees who could do most of their work. During the last hiring freeze State agencies found it easier to hire consultants to get work done that had to be completed than to hire State employees even if it was less expensive to hire State employees. We have anecdotal evidence from our members that this is once again occurring. The Division of Budget needs to institute new restrictions on new consultant contracts and more aggressively review current consultant contracts for potential savings.

3. Enact the bigger better bottle bill which will generate **\$200 million in additional revenue** in a full fiscal year.

4. Collect taxes that are due – especially cigarette taxes on reservation purchases by non-Indians – yield estimates range from **\$400 million to \$1.6 billion a year.**
5. Reform economic development programs to level the playing field among businesses in NYS:
  - ✓ improve the effectiveness and accountability of Industrial Development Agencies,
  - ✓ apply Brownfield Clean Up Program reforms to “grandfathered” projects, and
  - ✓ phase out the Empire Zones program (Savings begin at \$50 million/yr, rising to \$500 million after 10 years )
6. Improve the way Limited Liability Company’s annual fees are calculated (DOB calculated \$75 million/year in savings in 2007) and close other corporate tax loopholes.
7. Use the State’s tremendous purchasing power to see reduced prices from drug manufacturers for prescription drugs for Medicaid, State employees, and other State programs. This would generate **approximately \$100 million a year.**
8. Use the Tax Stabilization Reserve Fund and the Rainy Day Reserve Fund which together have \$1 billion and are intended to be used in fiscal emergencies.
9. Eliminate all “occasional” employees who are retired but have returned to work for the State on a part-time basis. Freeze all new appointments that require 211 waivers. **Estimated savings up to \$150 million**

#### **Discussion**

The State spent over \$411.2 million in SFY 2007-08 on temporary employees and has spent \$200.4 million on these employees during the first five months of SFY 2008-09 (see Attachment 2). This appears to be the same rate of spending on these employees as last year. Included in these costs are the salaries of State employees who retire and come back to work for the State at a salary below \$30,000 (if they are paid more they must get a 211 waiver to work for the State and collect their retirement). These employees may be able to escape a layoff using normal layoff procedures by an agency just not targeting the title they work in. We believe such employees should be the first to leave the State payroll prior to implementing any layoffs. This is consistent with the law that requires provisional and temporary employees in a title that is targeted for layoff to be the first to lose their jobs. In addition the State should freeze all 211 waivers during the current fiscal crises. Employees who are supplementing their retirement salaries should not be working over employees who depend on their salaries for their daily existence.

10. Eliminate or severely restrict overtime by hiring full-time employees to handle the overtime hours. In SFY 2007-08 the State spent \$485.7 million on overtime costs that are not contractually obligated and has spent \$196.1 million on such costs in the first five months of SFY 2008-09 (see Attachment 2). This appears to be about the same rate of spending on overtime as the last fiscal year. If employees are hired to work this overtime the State would **save up to \$160 million a year.**