



BUDGET WATCH '03

ALSO IN THIS SERIES:

<i>Spending</i>	Nov. 7
<i>Medicaid</i>	Nov. 12
<i>School aid</i>	Nov. 15
<i>Tax burden</i>	Nov. 19
<i>Payrolls</i>	Nov. 22
<i>Local taxes</i>	Dec. 3
<i>Health care</i>	Dec. 13

Some key facts to consider:

- In 1995, Governor Pataki and the Legislature eliminated a \$5 billion budget gap and cut taxes—without the benefit of new revenue from casino gambling and the national tobacco settlement.
- Employee benefits and other “general state charges” will cost \$3.4 billion this year; health insurance is up 11 percent.
- The coming year will bring additional tax cuts to reduce the tax burden on residential and commercial electricity users, help New York’s key financial sector, and increase the earned-income tax credit for the working poor.
- Simply holding overall state-funds spending to the rate of inflation over the last five years could have saved the state \$7.9 billion this year.

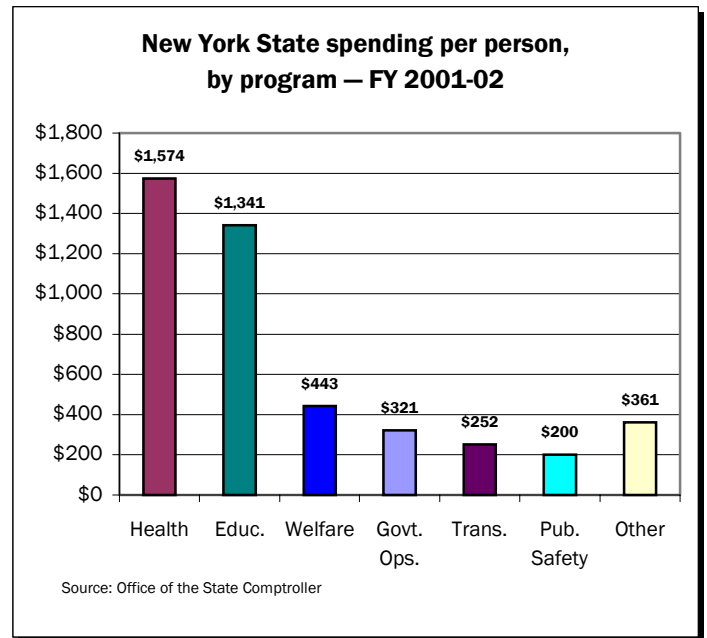
FISCAL UPDATE: THE STATE BUDGET SHOWS WHY SPENDING RESTRAINT IS A GOOD THING

With the 2002-03 fiscal year nearly three-quarters complete, it’s a good time to take stock of what we know—and don’t know—about the state of the state budget.

The \$90 billion financial plan Governor Pataki and the Legislature enacted last year represents an overall spending increase of roughly 6 percent, or \$5 billion, from the previous year. (The actual increase was even larger than that; the state will spend some \$1.2 billion this year through Health Care Reform Act accounts that are entirely outside the financial plan, an additional increase of several hundred million dollars.)

A big increase in spending was possible this year, despite a decline in revenues, only because Governor Pataki insisted on building up \$6 billion in surpluses during the boom years of 1998 through 2000.

Members of the Legislature are always subject to a wider variety of spending constituencies than the governor; thus, the Legislature traditionally seeks to spend more than the



governor proposes. When the economy is strong, that’s not necessarily a problem.

But when the state enters a recession, or even periods of slower growth, spending every dollar we think we have can create enormous budget gaps. Those, typically, are then ascribed to “revenue shortfalls.”

The truth is, however, that if you spend more than you have, your problem is spending, not revenues.

We don’t know yet how the current fiscal year will end. We do know this: Keeping spending under control is absolutely essential—in good times and, especially, in bad.

WHERE DOES \$90 BILLION GO? (NOT, MAINLY, TO STATE AGENCIES)

As an initial response to the need for spending restraint, Budget Director Carole E. Stone has asked state agencies to cut spending by 5 percent through the end of this fiscal year.

For the 2003-04 fiscal year, starting next April 1, agencies are reportedly preparing budget

requests that are 5 to 10 percent below this year.

State officials expect to achieve some cost reductions by trimming payrolls that have grown noticeably in recent years—a worthy goal. But agency operations represent only 20 percent of all state-

funds spending (i.e., not counting federal aid) this year.

To find real savings, Albany will have to look at the two-thirds or so of spending that goes to “local assistance”—starting with the truly big items, Medicaid and school aid.