NYDailyNews.com
DAILY NEWS

New York must slash spending: It's the state's only way out of this huge, growing budget hole

By Carol Kellermann

Thursday, October 15th 2009, 4:00 AM

New York State must come to terms with a harsh economic reality: It can no longer tax and borrow its way out of the current economic crisis and remain competitive as a place to live, work and do business. Spending cuts are required, and they won't be easy.

Three-quarters of the state's revenues come from three sources: Sales taxes and user fees; the personal income tax, and business taxes. And they're all declining. Personal income tax revenue is off 22% from last year, despite higher rates that went into effect in April.

At the same time, the state's spending in its three biggest areas - Medicaid, personnel costs and education - continues to grow at rates that cannot be sustained.

Medicaid. Medicaid spending is expected to grow by 36% over the next three years. This is on top of expenses of $7,746 per beneficiary - a figure that is 67% above the national average and the fourth highest among states. Although New York's spending tops the chart, its quality of care does not; a 2009 Commonwealth Fund scorecard ranked us 21st among the states in health system performance.

Personnel costs. Expenses for compensation of state employees are expected to grow by 24% over the next three years. That is far out of line with the realities in the private sector, where job losses and cutbacks continue.

On top of contractual increases that will take wages up by 13.6% from 2007 to 2011, this growth is driven by New York's overly generous and costly fringe benefits. Employee health care expenses are expected to increase by 29%, while required pension contributions are expected to grow a staggering 55%. New York's pension benefits are especially costly as a result of a defined benefit plan with very low employee contributions, many people retiring on disability and overtime pay counted toward the base for purposes of determining the pensionable salary.

Education. Education aid to local school districts, a $26 billion outlay, has more than doubled in the past 10 years. Additional increases of another 20% are planned over the next three years.

New York now spends 65% more than the national average per pupil. Providing a quality education is, of course, of paramount importance. But not all of the spending is needed. For example, New York sends aid not just to needy districts, but also to wealthy ones with abundant resources to support well-funded schools.

This continued spending growth despite declining revenue means that next year's projected gap is at least $4.6 billion and growing. By 2012-13, when the federal stimulus funds have been spent and the state's three-year personal income tax increase expires, the gap will reach $18.2 billion. There are no easy outs.

Increasing taxes is not the answer. A recent study by the Tax Foundation ranked New York 49th among the states for tax climate - meaning we're second-to-last for hospitality toward economic growth.

Passing costs on to local governments is not the answer. New York's local tax burden is already the highest in the nation, putting tremendous pressure on families and businesses.

Borrowing is not the answer. New York's planned $58 billion in outstanding state-supported debt by 2013-14 already bumps up against the state's debt cap. Deficit bonds would jeopardize the state's credit ratings and compromise its ability to make crucial capital investments.

The only viable solution is to do what New York lacked the political discipline to do when the economy was stronger: Cut spending. Unless the state makes aggressive reductions now, it will be forced into making acrossthe-board cuts in the future that will be far more painful.

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