



Governor Paterson's Remarks on the Need to Cap State Spending
Albany, New York
May 4, 2009

Good afternoon. Today I want to propose a major reform in the way New York State government is accountable and also affordable, and that is imposing a cap on state spending.

If we cap the amount of resources that we spend—if we limit the appropriations in our upcoming budgets—we will bring a whole new value system to Albany. We are going to ask government to live under the same conditions that taxpayers do: that we live within our means.

Since this administration began a little over a year ago, we have tried to do that. We passed an enacted budget in 2008 that was less than the proposed budget. In 2009, we passed a budget with State Operating Funds spending limited to 0.7 percent. That's the first time that's happened in the last 14 years. In addition, we reduced our out-year budget deficits from \$85.4 billion to \$24.6 billion. That's a 70 percent decrease.

Now, while that pleases me, I'm still not satisfied—because, in our five-year budget plan that we announced last week, we still indicated that we have a \$24.6 billion deficit over the next three years. And admittedly, though that is less than \$60 billion—which is what we had to grapple with this year—it still demonstrates the need for us to reduce our spending.

Albany has had a culture of spending over the last few decades. What we do is, in periods of thrift, we overspend whatever amount of taxes we collect in Wall Street booms, and then, when we have a downturn in the economy, we wind up having to pay for it in tax increases or draconian budget cuts.

This is a system that has to be pre-empted. It has to stop now.

Overspending is not just an abstract concept. It's something that really hurts people. It's hurting seniors. It's hurting working families. It's hurting businesses that try to create jobs. And it's hurting younger people who are growing up and moving out of this state at higher proportions than ever.

So we've got to find a way to reduce spending. Therefore, I'm announcing today that I'm going to introduce legislation that will put a cap on state spending.

The State Operating Funds spending growth rate will be reduced to the annualized inflation rate over the preceding three calendar years. We'll take the average of the inflation rate—the flex

inflation rate over three years—and that will be the cap by which we cannot exceed in terms of spending.

State Operating Funds spending is the measure of all state spending with the exception of major capital expenses and, of course, federal aid. We use this as a measure because we think this is the measure by which taxpayers will best be able to operate the government.

And we are, in addition, going to try to save, and triple the state's Rainy Day Fund, which is approximately \$1.2 billion right now, because this is disaster relief, this is for a major emergency, and the cost of those types of threats is a lot greater than it is now.

And so, that brings us to the question as to whether or not a spending cap would have made a difference had we imposed it earlier, and will it make a difference now? We have done an assessment of the budget years 2003-04 through 2007-08. In that five-year period, State Operating Funds spending went from about \$52 billion to about \$77 billion, which was an 8 percent annual increase.

Now, had we had a spending cap at that time, and we were operating on the inflation rate average from the previous three years—going back to 2000 in the beginning and then moving up as the years went on—the increase would have been 2.6 percent per year, and State Operating Funds spending would have increased to \$60 billion.

It's interesting to me that \$77 billion over \$60 billion yields a \$17 billion savings that we would have derived if we had a spending cap over the last five years—which is almost the exact amount of this year's deficit that we relieved when we passed the budget on April 1st.

So, basically, what we have been experiencing is an extreme recession. Had it been during a normal five-year cycle, we would have had tremendous savings, and we would have had surpluses. And better that we here in government fight over how to spend surpluses than how to reduce deficits. And that is the reason that we are introducing the spending cap.

I'll be looking forward to showing this to my partners in government. We will be having a public leaders' meeting on Wednesday. I will raise it at that time and try to get some support for it.

I realize there are those who feel that there are necessary programs that require a lot of spending, and I respect their position. But the fact is that this spending has jeopardized the same public that we are trying to serve.

As I go around the state, I hear people saying that what they really want is to have health care and education and public protection services, but they don't like these huge deficits, which they have to pay for in the end in taxes and fees and cuts to many of the programs that were originally introduced to them.

So, I think now is really the time to listen to their voices. Now is the time to live within our means. And now is really the time to impose a cap on our state spending.

I will be introducing this legislation in the next few days, and I would be interested in your comments or questions at this time.

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