

# States' Long-Term Budget Gaps: Are There Any Solutions?

## Expenditure Solutions: An Overview

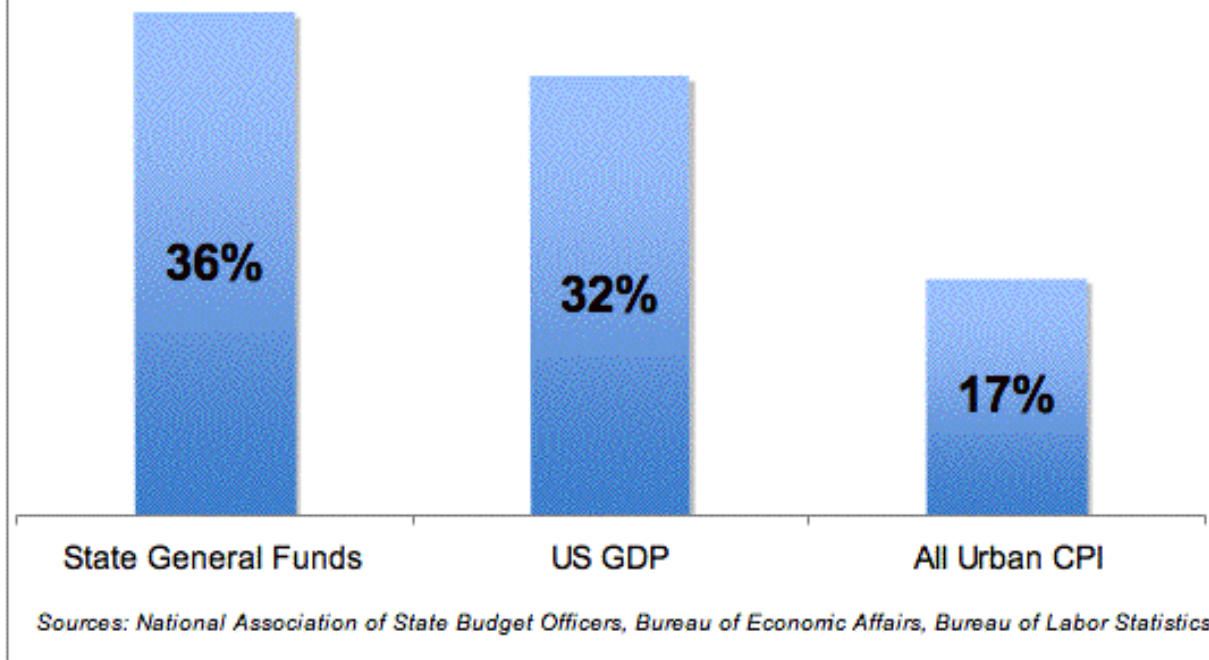
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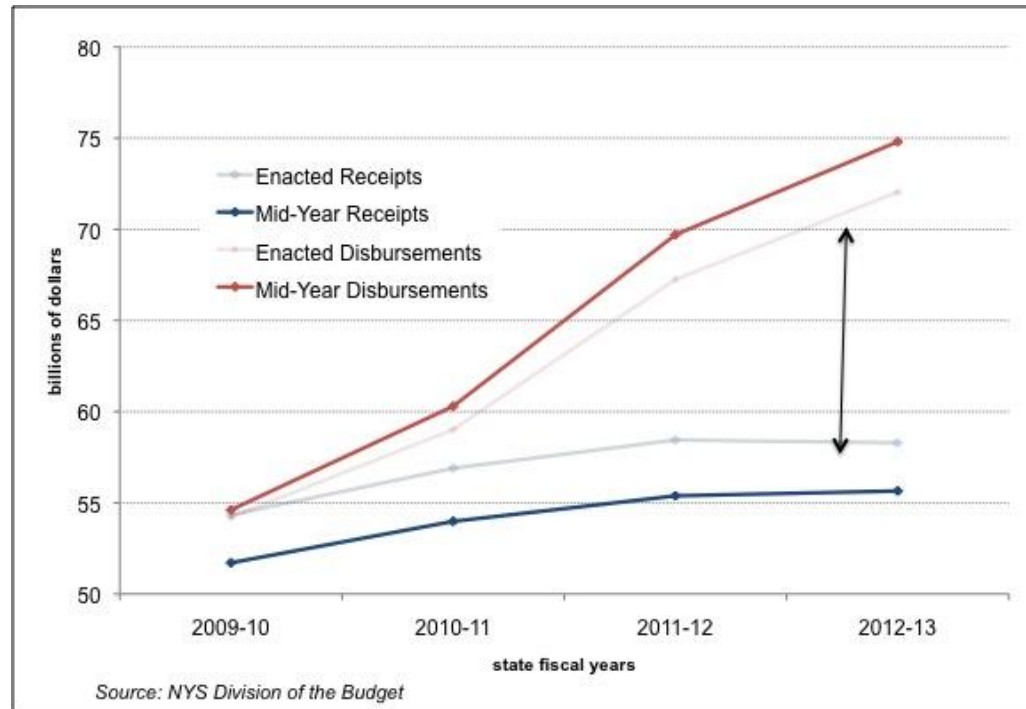
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## 2003-2008 Growth in State General Funds and Other Indicators



# Baseline Blues



Next year’s New York State gap—one of the nation’s largest—is primarily due to a projected 10.4 increase in “current law” baseline expenditures; total growth over next three years projected at 35 percent.

# Focusing on What Matters

- Adopt the “Priorities of Government” (POG) approach used successfully, e.g., in the state of Washington to close that state’s 2003 budget gap by focusing on four key questions  
...

# Priorities of Government (POG)

1. *What is the forecasted revenue for the next budget cycle?*
2. *What are the essential services that the state must deliver?*
3. *How will the state measure its progress in accomplishing its goals?*
4. *What is the most effective way to accomplish the state's goals with the money available?*
  - If it's a core function, what level should provide it?
  - How can services be provided efficiently and effectively?
  - How can market forces and competition be introduced into core functions, assuring costs are controlled and quality enhanced?

# Tapping Market Forces and Competition

Establish a state Competition Council to:

- Conduct annual inventory of all services and activities provided by state agencies, public authorities, local governments
- Establish priorities for competitive outsourcing of services and managed competitions between in-house workers and private firms to provide services
- Develop accounting models for determining the fully allocated and unit costs of commercial activities

# Fear Not One-Shots

- But carefully evaluate asset sales – avoid short-sighted securitization of revenue streams.
- Link non-recurring revenues to structural reforms that take time to generate savings in a multi-year context.

# Establish Clear Goals

- Not just short-term gap closing, but near- and long-term recovery.
- Specifics will differ by state, but all need to strive for stable and sustainable finances.
- Big rainy-day funds are not enough—better to have emergency plans in advance.

# Memo to Washington:

- Hold the Stimulus II, please.
- If you insist, eliminate categorical restrictions such as FMAP, but also...
- Attach strings designed to ensure that funds are used to engineer transition to sustainable and stable budgets, not put off the inevitable.

“Public sector wage increases should be avoided as they are not well targeted, difficult to reverse, and similar to transfers in their effectiveness.”

-- *“Fiscal Policy for the Crisis”*  
*International Monetary Fund*  
*December 29, 2008*