

**Remarks of David J. Rosen
Legislative Budget and Finance Officer
To the Assembly Budget Committee
April 6, 2006**

The members of this committee and your Legislative colleagues face an extraordinary challenge as you begin to craft the Fiscal Year 2007 budget bill. The starting point for your review is the budget plan offered by the Governor.

The Governor's plan would reduce the structural deficit, but not eliminate it.

The Governor's plan relies on more than \$1.5 billion from new tax initiatives, while using about \$500 million of nonrecurring revenues.

The Governor's plan would reduce spending by several billion dollars from a theoretical level that would have fulfilled the State's constitutional and statutory obligations, but it increases nominal spending by \$2.6 billion.

Where does the increased spending go in the Governor's plan?

\$1 billion goes to fund pensions for school teachers and other public employees, although pension funding will not meet the statutory requirement.

\$700 million goes to replace revenue sources that were used to fund homestead rebates (\$400 million from FY05 supplemental appropriation) and hospital charity care (from the unemployment compensation fund) in the current year but are unavailable in FY 2007.

\$450 million goes for increased debt service costs, the result of decisions made in earlier years.

These three items account more than 80% of the net spending growth.

The Governor's plan contains many cuts. Some may be relatively easy choices as outside revenue opportunities, program efficiencies and operational improvements are employed; but many are painful as you have heard in the public hearings.

The Office of Legislative Services stands ready to assist you in this process. Today we will present our revenue forecast for the FY07 budget and then I will conclude with a few comments about the other ways we will assist you.

Revenues

While the Constitution charges the Governor with the responsibility to certify the revenues that are available to support the budget, the Legislature has an important role in the consideration of revenues. Annually at your first and last budget review session OLS comes before you and presents our take on the revenue picture.

There have been times in the past when OLS disagreed sharply with the Executive's revenue forecast, but for the last four years those differences have been small and mostly technical. Again this year the differences are not dramatic.

For the remainder of FY06 and FY07 – OLS projects revenue collections \$186 million less than the Executive Estimate. In both years OLS projects lower income tax revenues than does the Executive, and somewhat higher revenues for most other taxes on which there is disagreement.

These differences are not significant from a forecasting perspective (0.6%), but I fully understand that when you craft the budget bill in mid-June \$186 million more or less will be very significant.

The OLS income tax forecast is \$110 million lower than the Executive for FY06 and \$245 million lower for FY07. As we have noted in recent years, changes in income distribution and the steep graduation of our income tax rates have made the income tax more volatile and more dependent upon the not-easily forecast final April payments. The roots of the income tax differences between OLS and the Executive this year are rather technical and relate to how the rate increase on income above \$500,000 is being reflected in the components of the income tax collections for FY05 and FY06. For FY07 the forecast difference is a function of our lower projected base (from FY06) and a slightly lower growth rate assumption.

When we and the Executive come back before you to discuss revenues again, the final payments will have been tabulated and I would expect that

much of the disagreement between our income tax forecasts will be resolved. It is also possible – given the volatility to which I referred – that the final collections may surprise all of us.

In the aggregate for all of the other revenue differences, OLS expects \$83 million more in FY06 and \$86 million more in FY07 than the Executive. These differences, which appear in tables on pages A2 and A3 of the TAX AND REVENUE OUTLOOK, result from variations in the interpretation of current revenue collection patterns or small differences in our expectations about economic developments over the next fifteen months. I will spare you a discussion of these individual items, but would be happy to entertain any questions that you may have.

So as not to confuse forecast differences with policy choices, our revenue totals assume that all of the Governor's proposed tax changes are enacted and that those changes, with one exception, will produce the revenue attributed to them by the Governor. The exception is the cigarette tax increase which we score as worth \$20 million less than the Executive. In several other instances we may have forecast differences once the details of the proposal are made available.

BUDGET ANALYSIS

More substantial and probably more important than our annual revenue forecasts are the department by department budget analyses produced by OLS fiscal analysts for this committee and the Legislature. Because of the timing of this year's budget message and the committee hearing schedules, we will have to do in four weeks what in other years we did in ten.

Like any managers faced with a resource shortage – here the resource is time – we have tried to find a way to work smarter. As we strive to provide the committees with all the essential information you need, we will be modifying the format of the work products we give you. I have asked our analysts to focus on the key issues in each department, to emphasize quality of analysis over quantity of pages. The analysis books that you will receive for each department this year will be leaner, but I hope they will be no less useful. We will be omitting some of the descriptive material and departmental overviews. I feel comfortable doing this because our colleagues in the Executive branch do a very good job in presenting similar material in the Governor’s budget. I recommend the page or two of description at the beginning of each department in the Governor’s budget to anyone seeking an overview.

The production of the departmental analysis books is not the end of our work. If there are elements of a department’s budget about which you have questions after you read our books, ask us and we will dig further. The OLS staff is an important resource, available to the committee or to individual members as you look to craft your appropriations bill.

After the budget process is complete – and after we recover from it - we will for the first time produce department by department descriptions of what is contained in the enacted budget. There is a good historical record of budgets as proposed by the Governor, but a much more limited documentation of the budgets as enacted by the Legislature. We would like to change that pattern going forward.

These changes in our work products are spurred by this year's budget calendar, but may be improvements that should be continued in years when time is not so limited. I look forward to feedback from the committee as we decide how to proceed.

Our job is to assist you perform the daunting task you face. Please let us know how we can help.