
Nervous in New York

The Legislature finally hammered out a budget with the governor, but the Empire State has plenty of red ink in its future.

BY IRENE JAY LIU

Over the past two and a half years, New York has faced tectonic shifts in the political landscape. A governor resigned in disgrace, Democrats seized control of the Senate for the first time in more than four decades and state leaders have struggled to find their footing during the worst economy since the Great Depression.

While Wall Street's collapse shocked the nation, the effect in New York was devastating, says economist Donald J. Boyd, a senior fellow at the Nelson A. Rockefeller Institute in Albany who tracks state revenues. New York coffers have shrunk as income and sales tax revenues sink, while unemployment and demand for social services grows.

"The financial services industry accounts for about 20 percent of New York's tax revenue, reflecting taxes on the incomes of investment bankers, securities brokers, portfolio managers and other high-earners in the industry, along with corporate taxes on the companies themselves and on banks," he says. "New Yorkers have far greater capital gains, on average, than U.S. taxpayers as a whole."

The result can be seen clearly in April's tax returns: New York's personal income tax

fell by 48 percent from a year ago, Boyd says. "Largely as a result, New York's revenue fell about \$239 million short of its cash-flow projection in April, and the state will face a new gap in the budget adopted in early April."

That was the fiscal mess that Governor David Paterson inherited after he took over the office in March 2008 after former Governor Eliot Spitzer resigned in the wake of a prostitution scandal.

Soon after taking office, Paterson warned of the impending state fiscal crisis. He cut his executive budget by more than 10 percent and persuaded Assembly Speaker Sheldon Silver, a Democrat, and Senate Majority Leader Dean Skelos, a Republican, to make \$427 million in mid-year cuts in the summer of 2008.

He called the Legislature back for more cuts in November, after Democrats won the majority in the Senate. But Senate Republicans, who controlled the chamber until the new year, wouldn't negotiate.

Instead, Skelos said he would put the

Editor's note: This is one in a series of in-depth state fiscal profiles as legislatures grapple with the recession, deep budget shortfalls and painful decisions on how to cut spending and increase revenue.

governor's draft budget bill to a vote in the Senate in November, but without the usual negotiation process aimed at producing a bill that could pass. Skelos made clear he would not vote for it. At a public leaders' meeting called by the governor in lieu of a special session to make the cuts, Skelos said he understood the need to cut spending, but that those decisions, particularly cuts to health care and school aid, "cannot be made in a vacuum."

Skelos defended his decision to bring the governor's bill to the floor by turning the governor's own words against him: "You stated, 'I wanted the Senate and Assembly to vote on my bill, whatever way the bills go.' The Senate is ready to honor your request."



ASSEMBLY SPEAKER
SHELDON SILVER
NEW YORK



SENATOR
DEAN SKELOS
NEW YORK

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SKIP DICKSTEIN/TIMES UNION

Senator Dean Skelos, who was majority leader when Republicans controlled the chamber, congratulated Senator Malcolm Smith in January after he became majority leader. Since then, there has been an upheaval in the Senate that has left the caucuses split 31-31 and it is unclear who is in charge.

DEEP CUTS

When Paterson introduced his FY 2010 budget in mid-December, he also made a proposal to close the \$13.7 billion shortfall in FY 2009 budget. He suggested \$9.5 billion in cuts, \$3.1 billion in measures to raise revenue, and another \$1.1 billion in one-time

cuts and revenue increases.

The proposed FY 2010 budget included severe cuts to health spending. In response, influential health care interests launched a multi-million dollar television ad campaign to protest the cuts. One commercial featured a blind man asking the legally blind gover-

nor, "Why are you doing this to me?"

Between late December and late May, voter approval for Paterson plunged from 53 percent to 27 percent, according to polls conducted by Quinnipiac University and Siena College. It was the lowest approval rating ever for a New York governor. A number of factors contributed to his plummeting popularity, including his handling of the U.S. Senate appointment to replace Hillary Clinton and his inconsistent message on the budget.

As the process dragged on, Paterson would jokingly lament, “Why do I have to be governor when all this has to happen?”

DEMOCRATS IN DISARRAY

Senate Democrats had their own problems. Although they controlled the Senate 32-30, they fought among themselves over who should lead the chamber. A “Gang of Four” rogue Democrats withheld their support of Senator Malcolm Smith as leader. It was not until January that the “gang” put their support behind Smith, but by then Democrats were months behind in their transition into the majority.

At press time, the situation in the Senate was in upheaval. As of late June, the chamber was split 31-31 after Democratic Senator Pedro Espada Jr. joined the Republicans. Paterson was considering calling a special session and talks on power sharing were continuing.

With the Senate in disarray and Paterson politically weakened, Assembly Speaker Silver and his veteran budget staff dominated the negotiations that began in late 2008. Silver was a longtime backer of an income tax hike on wealthy New Yorkers and had pledged to work on a “timely” budget of “shared sacrifice.”

Silver acknowledged that cuts to education and health care were necessary, noting that those two areas alone constitute more than 50 percent of the state budget. But, he insisted that they would not fall disproportionately on those two areas.

“We will insist that this government be deliberate and thoughtful about cuts and not walk away from our historic obligation to the education, safety and health of our citizens,” Silver said in December.

In February, the Legislature closed an additional \$2.4 billion shortfall in the FY 2009 budget, mostly through delayed payments, a state university system tuition hike, and one-shot sweeps of various state funds. The gap in the FY 2010 budget, however, continued

to grow by the billions in the weeks that followed. By the budget’s April 1 constitutional deadline, the estimated FY 2010 shortfall had ballooned to \$17.7 billion.

With the deadline looming, Paterson, Silver and Smith huddled in secret negotiations. Rank-and-file lawmakers, especially members of the minority Republican conferences, were kept largely in the dark about the details of the budget.

“I need a flashlight to walk the halls, that’s how dark it is in regard to democracy,” Assembly Minority Leader James Tedisco said in the final week of budget negotiations in late March.

Senate Republicans said they would vote against the budget and warned that they would not be present in the chamber for quorum if the Legislature tried to bypass the three-day “aging” period for budget bills with a message of necessity.

FINALLY A DEAL

By March 29, state leaders emerged with a deal in hand. The budget agreement closed the state’s estimated \$17.7 billion budget gap for FY 2010 through roughly \$6.2 billion in federal stimulus spending, \$5.2 billion in cuts to an array of programs, and \$6.3 billion in new revenue—including an increase in the personal income tax on affluent New Yorkers.

The Legislature restored \$3 billion of the \$9.5 billion in cuts originally proposed by the governor in December, paid for with federal stimulus money, taxes, fees and other revenue increases.

A large portion of the \$5.2 billion in cuts was in the state’s health care system, which saw \$2.3 billion in cuts statewide. A significant percentage of the governor’s proposed cuts to Medicaid were restored by the Legislature in the final budget using federal stimulus money. Education was largely insulated from cuts, with \$1.2 billion in federal stimulus money that was specifically designated for school aid.

The budget process included a confrontation between Paterson and public employees. Because union leaders refused what the governor called “modest concessions,” he proposed laying off 8,700 state workers. In early June, a deal was struck with public employee unions to offer \$20,000 buyouts for employees who would voluntarily leave their positions, thus avoiding layoffs.



ASSEMBLYMAN
JOEL MILLER
NEW YORK

In the new budget, state spending increased about 1 percent, totaling \$78.7 billion. The total state budget, which includes all federal funds, increased about 8.5 percent from FY 2009 to \$131.9 billion.

PROBLEMS NOT OVER

The budget was panned from all fronts. Fiscal conservatives said Paterson reneged on his promise of fiscal restraint in approving the income tax hike. Liberals decried the cuts to services. The federal stimulus money closed this year’s budget, but the shortfall is projected to be \$24.6 billion over the next three years.

Paterson struggled to defend the budget after the deal was announced. “None of this makes sense,” he said when asked if it was logical to raise taxes during a recession. “I can’t tell you that our fiscal woes will be over.”

Skelos found himself in rare agreement with the governor. “This budget doesn’t make sense for the people of this state, no matter how the governor tries to spin down the impact of massive tax hikes and runaway spending.”

Comptroller Thomas DiNapoli cautioned that the budget reflected an “over reliance on non-recurring federal stimulus funds and new tax revenues projected to materialize at a time of declining tax receipts.” Only weeks after passage, New York already was slipping into the red. On May 19, DiNapoli announced a \$239.1 million shortfall in April revenues.

On May 20, Paterson said he’s expecting a \$3 billion shortfall in state revenues this year, on top of the \$2.5 billion deficit already projected for the 2010-2011 budget.

The looming question for many, however, is how the state will balance the budget when federal stimulus funds run out in two years.

“When the federal money disappears,” Assemblyman Joel Miller told the *Albany Times Union* in April, “we are going to fall over the cliff.”



ASSEMBLY MINORITY
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