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*Facing Tough Times, Spitzer Prepares for Budget Battle*  
By Nicholas Confessore

Declining enrollment in Medicaid will produce the first drop in state spending on the program in almost a decade, Albany budget officials are estimating.

But the decrease — a boon for the Spitzer administration in its efforts to reduce New York's historically burdensome health care costs — is a rare bit of good fiscal news, as Gov. Eliot Spitzer and the Legislature prepare for battle over how to fill a budget gap estimated at \$4.3 billion.

The chance of a recession lurks in the background, and with it, the likelihood of further drops in tax revenue. Next November's elections loom just down the road, weakening lawmakers' incentive to compromise on spending. And Mr. Spitzer has already forsworn raising taxes.

As was the case last year, some of the sharpest elbowing will probably come over health care spending, along with state aid to schools. "Health care will clearly be one of the flash points in the budget," said Paul E. Francis, the governor's budget director, in an interview last week.

Mr. Spitzer's efforts to cut the state's payments to hospitals and nursing homes last year provoked a showdown with the state's powerful alliance of hospitals and health care unions, including an episode in March in which Mr. Spitzer dressed down hospital association and union executives in the audience during a speech in Midtown.

The executives responded with millions of dollars in blistering television and radio advertisements. The governor obtained most of the savings he sought, but at some cost to his popularity with the voters.

And after enduring months of scandal over efforts to tarnish the state's top Republican, followed

by public outrage over his plan to issue driver's licenses to illegal immigrants, Mr. Spitzer will begin his second year with a pronounced deficit in his own political capital.

"I think that on both sides there is a genuine desire to have a more civil debate than there was last year," Mr. Francis said. "But at the same time, I think they are clearly going to be forceful in protecting their workers."

Kenneth E. Raske, the president of the Greater New York Hospital Association, said there had already been extensive talks with the administration as well as the Legislature. The association's members, he said, were bearing the brunt of the current budget's health cuts as well as the pain of hospital closings recommended last year by a state commission. "I say to myself, 'Why should this industry be targeted for any cuts? It's already done its share,'" Mr. Raske said.

The hospitals and the health workers' unions are likely to find a sympathetic ear among Senate Republicans, a key ally in past budget fights.

The Senate and the State Assembly seem in broad agreement with the administration over the threats posed by the crumbling real estate market and layoffs on Wall Street. But the Senate majority leader, Joseph L. Bruno, recently suggested that the state could tap one-time revenue sources, like cash reserves, to meet any potential budget gap.

**"We know it's going to be a tough year. We know it's going to be an election year," said Robert B. Ward, the deputy director of the Rockefeller Institute of Government, a nonpartisan research organization in Albany. "When you put those two things together, you sometimes end up with what we call 'creative solutions.'"**

Elizabeth Lynam, the deputy research director of the Citizens Budget Commission, a group that generally advocates lower spending, said the outlook for the approaching negotiations “doesn’t sound very promising.”

The commission was among several groups that criticized the budget enacted this year, which totaled about \$121 billion.

Though cuts to health care spending will be necessary again, Mr. Francis said, they are likely to be distributed differently.

Even before negotiations begin during the next legislative session, moreover, Mr. Spitzer will need to act on outstanding issues from the last one, like renewing the state’s horse-racing franchise, imposing new restrictions on campaign financing and approving capital spending.

Mr. Francis said specific dollar cuts and spending targets would remain in flux until Mr. Spitzer officially proposes a budget next year. He also said that

continued turmoil on Wall Street — which supplies as much as a fifth of all state tax revenue — might make things worse. “This is a difficult budget year,” he said. “You have to be willing to accept less.” In the coming fiscal year, he said, the governor would rather have a budget that kept spending in check than one that met the April budget deadline.

Putting aside capital projects, which the administration has argued should be considered separately from the state’s annual operating expenses, Mr. Francis says the administration will seek a budget that keeps spending growth at 5.3 percent or lower.

That is well above the rate of inflation but in line with the rate of long-term personal income growth, a less stringent measure that Mr. Spitzer and his aides argue is a better barometer of spending discipline.

“We expect that the Legislature will find additional savings to pay for any additional spending they propose,” Mr. Francis said.