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State faces tight times

Paterson to reiterate need for possibly drastic measures to make up for revenue shortfalls

By Rick Karlin

ALBANY — Later today, Gov. David Paterson turns up the volume on his message of bad economic news.

During a televised message scheduled for 5:10 p.m., Paterson is expected to lay out projected shortfalls in state revenues that may require cutbacks in spending, services and jobs.

Through the late spring and summer, the governor has been warning of hard times ahead — he issued similar forecasts at least twice last week, and he's long spoken of a possible \$5 billion gap next year. But he's said little so far regarding how he expects to deal with budget shortfalls beyond calling for a 3.35 percent reduction among state agencies.

The governor's brief address will be followed on Wednesday morning by a press conference with Paterson and Budget Director Laura L. Anglin that will give a more detailed look at the situation.

Strictly by the numbers, state revenues haven't plummeted, although they've grown steadily weaker over the last year. That has been the trend nationwide, according to the Rockefeller Institute of Government, which tracks such figures around the country.

Nationally, sales tax revenues did not grow during the last quarter for the first time in six years, according to the institute. And considering inflation and increases in spending, state tax revenue actually dropped some 5 percent.

While state workers on Monday were buzzing with talk of possible hiring freezes, early retirement incentives or even layoffs, the best indication of what

the governor is planning may have come earlier this month with a little-noticed bulletin he sent to state agencies titled "New Process To Better Prioritize State Spending."

The notice instructs the various state agencies to look at their core mission and evaluate the myriad programs they run to determine how necessary each might be.

"The governor believes in the midst of a fiscal crisis we have to separate the critical functions of state government from those that we can't afford," said Division of Budget spokeswoman Jeffrey Gordon.

"This is the first time in my memory that such a thing has been done," said Robert Ward, deputy director of the Rockefeller Institute.

Ward said such a approach makes sense, especially when it's compared with an across-the-board cut that would apply to all state agencies.

Even so, the governor's priority-setting could mean that specific agencies and programs may be slated for cuts.

With that in mind, here's a quick look at how the governor may be able to tighten the fiscal belt, which this year encompasses \$121.6 billion in expenditures.

Raise taxes. Some groups and Assembly Democrats have proposed raising income taxes on the state's highest earners to help fund property tax rebates for low- and middle-income homeowners; the idea of an income or corporate tax "surcharge" has certainly come up during past budget crunches. In the early 1990s, for instance, the state imposed a 15 percent corporate tax surcharge which was phased out later in the decade. The governor could call legislators back for that.

Employee givebacks in pay, benefits or overtime. With public employee unions recently negotiating contracts, Paterson would have to convince union leaders to come back to the bargaining table, which would be difficult, say observers. Moreover, there's been no indication the governor has sought to do so. "So far, we've not heard from him," said Darcy Wells, spokeswoman for the Public Employees Federation, a major state union.

Cutbacks in aid to counties and school districts. This, however, could drive up local taxes, essentially passing the bill down the line.

Job cuts. The nuclear option, but one that the governor could choose if the options listed above prove to be politically unpalatable to lawmakers and unions. But while the term conjures images of thousands of state workers out on the street, the reality

probably wouldn't be that harsh: Job reductions frequently entail lots of "bumping," in which laid-off workers move into vacant, albeit lower-paying, jobs.

According to the state Department of Civil Service, for instance, there were 64,450 vacancies earlier this month out of 238,352 positions, allowing for lots of bumping into unfilled slots. (A note of caution: Not all of those unfilled positions are funded.)

Either way, there may be no way to avoid dealing with personnel when talking about the state's financial bind, since 67 percent of state operation dollars go to employee costs.

"It's hard to imagine how you're getting out of this fiscal mess without examining public employee compensation," said Elizabeth Lynam, deputy research director at the Citizens Budget Commission, which follows state finances.