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N.Y. Governor Cuts $630M from Agencies

By Ted Phillips

With Wall Street reeling from dramatic losses and growing out-year budget gaps, New York Gov. David Paterson yesterday announced $630 million of cuts to state agency spending to close a projected gap in fiscal 2009.

Although the updated financial plan released yesterday shows capital spending and borrowing declining this year compared to the enacted budget, they are set to increase over the state's five-year financial plan.

We did not expect such a mammoth collapse in revenues," Paterson said. "As painful as it is, we are going to find a way to professionally address our budget woes."

The state has entered a recession, said state budget director Laura Anglin.

Tax revenues for the current fiscal year are now projected to come in at $615 million less than what was projected in April when the current budget was passed. The biggest drop, $510 million, comes from a fall-off in business taxes. Weakened consumer demand has hit sales and use taxes, which are projected to be $161 million less than assumed in the enacted budget. Personal income tax receipts and miscellaneous receipts projections were revised slightly upward.

New York gets 20% of its revenue from Wall Street. The state's enacted budget in April assumed bonuses would drop by 11.1% compared to the previous year, but now projects those bonuses will fall by 20.5%. Since the third quarter of 2007, the New York securities industry has lost $42 billion. The state projects that during the current downturn, New York's financial services industry will contract by 6% with layoffs reaching 35,000.

Reliance on Wall Street for revenue has "always been an issue that New York City and New York State deals with," said Robin Prunty, senior director at Standard & Poor's. "It's historically been cyclical over time and we're in one of those cycles, and not on the upside."

Although the state is cutting back on capital spending in the current year, according to the first-quarter update of its five-year financial plan released yesterday, capital spending and borrowing are projected to increase during the plan. Paterson said the state could consider cutting back on its borrowing and capital spending.

"If this financial situation doesn't turn around, we'll have no other choice," he said.

Since the budget was enacted, New York's projected capital spending for fiscal 2009 has fallen by $102 million to $6.98 billion due to reduced spending on environmental projects, transportation, and higher education. Despite this reduction, capital spending will increase over the state's five year financial plan by $832 million, primarily because of an additional $803 million of spending on the State University of New York system.

Similarly, debt issuance will fall by $269 million with drops in most sectors in the current fiscal year but will increase during the plan by a net $309 million. The increase is mostly due to a $528 million increase in bonding for SUNY.

Although the cuts to operating spending announced yesterday would close the gap that has opened up in the current fiscal year, Paterson called on the Legislature to work with his office to find an additional $600 million in cuts in an emergency session on Aug. 19 in part to deal with future deficits, including a $6.4 billion gap projected for next year. Paterson had initially stated the session would take place on Aug. 29.

The governor imposed a hiring freeze on state agencies and all future hires will have to be approved by the Division of Budget. Paterson said that the state may have to consider cutting staff.

Paterson's office is meeting with outside advisers to come up with proposals for public-private partnerships to generate revenue from state assets, though he did not offer many details.

"We're not looking to sell state assets, we're not looking at this as any kind of a one-shot, we don't want to sell the Thruway," Paterson said. "In terms of lease-backed programs, management programs, we're just looking at ways to be more efficient."

The governor said all options were on the table, but raising taxes would be a last resort.

"Taxes are addictive," Paterson said. "When you start taxing people, people start thinking of ways to spend the money that you tax and never get to the debt you were trying to address."

The governor's quick action is a departure from past fiscal crises the state has faced, according to Robert Ward, deputy director at the Rockefeller Institute, a public policy think tank connected to SUNY.

"What is different this time is the governor is reacting earlier than we've seen in the past and that's a very positive step," Ward said. "The idea is to keep a significant problem from becoming a very bad problem."