



Press Release

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The Governor and Legislative Leaders Must Include New Revenues and Better Budget Balancing Solutions as They Seek to Address the State's Fiscal Woes Fiscal Relief Needed From Washington

(Albany, N.Y.) Today in Albany, the Better Choice Budget Campaign, a coalition of over 100 non-profit, labor and faith based organizations representing nearly one million New Yorkers, called upon Governor Paterson and legislative leaders to formulate a comprehensive approach to budget balancing and fair taxation that enhances New York's economic future. Today's announcement by the Governor clearly means that New York is entering an unprecedented era of fiscal and economic challenge.

The groups urged that the current \$1.5 billion mid-year deficit be addressed by using monies in the **Tax Stabilization Reserve Fund (\$1.039 – more details below)** and by eliminating wasteful state spending instead of more across the board cuts in essential state services. The coalition also called upon NYS Congressional delegation to help bring a federal fiscal relief package to fruition and for state leaders to restore fairness to the state's income tax system by asking the wealthiest to pay more.

Ron Deutsch, Executive Director of New Yorkers for Fiscal Fairness stated that "If the Governor is interested in truly 'sharing the pain' of these cuts it is time for him to look elsewhere and to stop balancing the budget on the backs of those that can least afford it. The cuts made earlier in the year are already having a damaging impact on non-profit organizations that deliver state services to a wide variety of constituent groups across the state. It's time for the Governor and the Leaders to examine New York's history books as they develop plans to dig the state out of the current fiscal crises."

At the national as well as at the state level, our leaders need to chart a new course that balances the needs of Main Street and Wall Street and puts our economy on a recovery path that fairly rewards all workers and businesses. For New York State, the current crisis necessitates a fundamental restructuring of our fiscal affairs. Budget gaps must be addressed with spending cuts and savings that do not jeopardize our short- and long-term economic health and with comprehensive revenue reforms that re-program squandered resources to make the tax system fairer.

The Governor stated today that this mid-year deficit could grow to \$1.5 billion. All indications are that the Governor will seek to close this deficit with additional across-the-board cuts—on top of the across the board cuts made earlier this year: 3.35 percent in July, 7 percent in August (\$630 million), and \$423 million in cuts that the Legislature agreed to in the last special session.

These across-the-board budget cuts will be devastating to state services and will disproportionately hurt New York's most vulnerable populations. It flies in the face of what Presidential hopeful Barak Obama often discusses when it comes to cutting the budget – we should use a scalpel and not a hatchet.

We must also acknowledge that since the proposed cuts this year are for the remaining third of the 2008-09 fiscal year, when fully annualized, they would be three times greater. If the State cut \$2 billion in spending for the remainder of this fiscal year, then next year, for fiscal year 2009-2010, we would see \$6 billion in cuts to services, which would be devastating!

The groups urged the Governor and leaders to examine how the state has balanced its budgets in the past and learn from that record, as well as re-examine past tax cutting actions—such as the STAR program and the STAR rebates-- that have squandered resources and placed more of the tax burden on low- and middle-income families.

The Governor has already taken administrative actions to cut state agencies' operating budgets by 10 percent and the Legislature agreed to an additional \$423 million in budget cuts in the August 19th special session.

In January of 2003, Governor Pataki acknowledged that New York State had built up a combined deficit of \$11.5 billion for the upcoming 2003-04 fiscal year and the close-out of 2002-03. At that time he proposed closing that gap primarily through service cuts.

In April and May of that year, Senate Majority Leader Joseph Bruno and Assembly Speaker Sheldon Silver led the Legislature in adopting, over the Governor's vetoes, a much more practical approach to balancing the state budget including a temporary three-year income tax increase of less than one percent on taxpayers with taxable incomes above \$500,000, and a smaller increase on families with taxable incomes above \$150,000. This approach to budget balancing helped New York rebound faster than it did from the 1990s recession – when it had relied on a strategy of only massive budget and

service cuts. It did not have the negative impact on the state's economy, or on the number of high-income taxpayers in the state, that Governor Pataki predicted in vetoing the Legislature's budget bills. In fact, the number of high-income returns grew steadily from about 245,000 in 2002 to an estimated 420,000 in 2007 and employment in the state increased each year that the temporary surcharge was in place. The wealthiest New Yorkers (over \$200,000) also saw their incomes increase 108% between 2003-2008 (those below \$200,000 only saw an increase of 15% over the same time period).

"The lessons to be learned from New York's fiscal policy choices during the last two recessions are clear. The balanced approach to balancing the state's budget that was adopted in 2003 worked much better than the deep service cuts of the early 1990s which prolonged and deepened the effects of that recession on New York State," said Frank Mauro, Executive Director of the Fiscal Policy Institute.

Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics (recently appointed chairman of the Governor's Council of Economic Advisors), explains in his March 2008 letter to Governor Paterson and Legislative leaders that an increase in the tax on the portions of families' incomes over some relatively high level is the least damaging mechanism for balancing state budgets during recessions. In contrast, cuts in government spending on goods and services that are produced locally (like education and healthcare) and cuts in transfer payments to lower-income families are most damaging to the economy since they come closest to taking dollar for dollar out of the local economy.

Rather than slashing programs-The BETTER CHOICE is to:

1. Use the Tax Stabilization Reserve Fund to solve our mid-year budget gap:

The Tax Stabilization Reserve Fund (TSRF) is for unplanned end of year deficits. It is an important backstop or cushion for getting through the current fiscal year. It also supports a well-informed debate over expenditures and revenues in the 2009-10 state budget—which can be a little more deliberative than usual, since the Governor will be proposing his Executive Budget on December 16, 2008, which is 5 weeks earlier than required.

The Legislature cannot pass a law transferring money from the Tax Stabilization Reserve Fund to the General Fund, nor can it pass a law requiring the Governor to use the money from this fund. The Governor simply has to borrow the amount needed from it on March 31, 2008, if disbursements exceed receipts and money available to make those disbursements. The relevance of the TSRF to the current situation is that (1) NYS has a reserve fund of \$1.039 billion that it can borrow from if disbursements made during the 2008-09 SFY end up exceeding the receipts and money available for use during the 2008-09 SFY. That means that the Legislature should not make more cuts during the current fiscal year than are necessary given this \$1 billion cushion.

2. Advocate strongly for a Federal Relief Package:

The Governor and Legislative leaders must work with the NYS Congressional delegation to put together a federal relief package—as was done in 2003 when the state was facing an \$11.5 billion deficit. In 2003, the federal government provided \$20 billion in fiscal relief to states: \$10 billion as enhanced FMAP (Federal Medicaid Assistance Percentage) and \$10 billion as a block grant. New York received \$1.5 billion in enhanced FMAP and \$645 as flexible block grant, which greatly helped the state’s financial situation.

3. Restore Progressivity and Fairness to the State’s Personal Income Tax:

Place additional tax brackets on the highest-income New Yorkers, as was done during the 2003 economic crisis. This simple solution could yield between \$4.3 to \$6 billion, depending on income levels and rates. (A chart below from the Fiscal Policy Institute lays out some possible scenarios.)

Hypothetical Graduated Rate Options					
<u>\$200,000</u> <u>to</u> <u>\$500,000</u>	<u>\$500,000</u> <u>to \$1</u> <u>million</u>	<u>\$1 million</u> <u>to \$5</u> <u>million</u>	<u>\$5 million</u> <u>to \$10</u> <u>million</u>	<u>Over \$10</u> <u>million</u>	Estimated Annual Revenue
1.00%	2.00%	3.00%	3.00%	3.00%	\$4.3 Billion
1.50%	2.50%	3.50%	3.50%	3.50%	\$5.2 Billion
1.00%	2.50%	4.00%	4.00%	4.00%	\$5.5 Billion
1.00%	2.00%	3.00%	4.00%	5.00%	\$5.1 Billion
1.50%	2.50%	3.50%	4.50%	5.50%	\$6 Billion

Other important ways to help balance the budget next year:

- **Collect taxes that are due**—especially cigarette taxes on reservation purchases by non-Indians. Yield estimates range from \$400 million to \$1.6 billion a year.
- **Close the bottle bill loophole** so the state receives deposits from unreturned bottles rather than the industry keeping the money. This would yield approximately \$200 million per year.
- **Reform or eliminate economic development programs** to level the playing field among businesses in NYS:
 - Improve the effectiveness and accountability of Industrial Development Agencies,
 - Apply Brownfield Clean Up Program reforms to “grandfathered” projects and save up to \$500 million
 - Phase out or eliminate the Empire Zones program. Savings begin at \$50 million per year, rising to \$500 million after 10 years.

- **Close corporate tax loopholes:** Improve the way limited liability corporations' annual fees are calculated (for which DOB calculated \$75 million/year in savings in 2007) and close other corporate tax loopholes.
- **Lower prescription drug prices:** Use the state's tremendous purchasing power to see reduced prices from drug manufacturers for prescription drugs for Medicaid, state employees, and other state programs. This could yield a\$100 million or more per year.
- **Reduce the use of costly consultants receiving sweetheart contracts**—hired to do work that state workers can and should be doing. This will yield savings of \$250-\$500 million.

The groups continue to urge he Governor and the Legislature to learn from the past and balance the budget in a way that does not disproportionately hurt New Yorks most vulnerable populations.

Organizations Supporting Better Choice Budget Campaign

ACCORD Corp.
 AFSCME New York
 Albany Presbytery
 American Federation of Government Employees (AFGE)-Local 1151
 ARISE (A Regional Initiative to Support Empowerment)
 Association to Benefit Children
 Capital Area Council of Churches
 Capital District Community Loan Fund
 Capital Region Ecumenical Organization
 Center for Working families
 Central New York Citizens in Action, Inc
 Chemung County Housing Coalition
 Citizen Action of New York State
 Citizens Committee for Children of NY
 Citizens Environmental Coalition
 Civil Service Employees Association (CSEA)
 Class Size Matters
 Coalition for Economic Justice (Buffalo)
 Coalition for the Homeless
 Community Service Society
 Cortland County Community Action Program
 Delaware Opportunities Inc.
 District Council 1707 (DC-1707)
 District Council 37 (DC-37)
 Dutchess Outreach, Inc.

Elmira Community Kitchen
 Empire Justice Center
 Empire State Economic Security Campaign (ES2)
 Environmental Advocates of New York State
 Faith and Hunger Network of NYS
 Fiscal Policy Institute
 FOCUS Churches of Albany
 Grace Smith House, Inc. (Rochester)
 Greater New York Labor Religion Coalition
 Greater NY Labor-Religion Coalition
 Green education and Legal Fund
 Health and Welfare Council of Long Island
 HELP USA
 Homeless Alliance of WNY, Inc. (Buffalo)
 House of Mercy, Rochester
 Housing Works, Inc.
 Hunger Action Network of NYS
 Joint Council for Economic Opportunity of Clinton and Franklin Counties
 Justice and Peace Center
 Labor-Religion Coalition – Chemung County
 Labor-Religion Coalition of the Capital District
 Leviticus 25:23 Alternative Fund, Inc
 Little Sisters of the Assumption Family Health Service
 Lutheran Statewide Advocacy
 Metro Justice (Rochester)

MicroBizBuffalo
MicroBizNewYork
Mohawk Valley Community Action Agency
Mount Vernon United Tenants
Neighborhood Preservation Coalition of
NYS
New York City Coalition Against Hunger
New York City Aids housing Network
(NYCAHN)
New York Jobs with Justice
New York State AFL-CIO
New York State Alliance for Retired
Americans
New York State Coalition Against Domestic
Violence
New York State Community Action
Association (NYSCAA)
New York State Episcopal Public Policy
Network
New York State Labor Religion Coalition
New York State United Teachers (NYSUT)
New York State Weatherization Directors
Association
New York Statewide Senior Action Council
New Yorkers for Fiscal Fairness
Nurses United CWA Local 1168
Nutrition Consortium of NYS
NY UNIVERSAL LIVING WAGE
Campaign
NYC AIDS Housing Network (NYCAHN)
Opportunities for Broome, Inc.
Partnership for the Homeless
Partnership for the Public Good (Buffalo
Coalition)
Prevent Child Abuse New York
Progressive Research & Action Center, Inc.
Public Employees Federation
Public Policy and Education Fund
Public Utility Law Project (PULP)
Real Majority Project (Poughkeepsie)
Regional Synod of Albany,
Reformed Church in American
Rochester Poor People's Alliance
Rural Housing Coalition of NYS
Rural Opportunities, Inc.
Saratoga County Economic Opportunity
Council, Inc.
Schenectady Community Action Program
Schenectady Inner City Ministry
Schuyler Center for Analysis and Advocacy
(SCAA)

Sierra Club Atlantic Chapter
Sisters of Charity of New York, Office of
Justice and Peace
Southern tier Labor Religion Coalition
Staten Island Welfare Advocacy Network
The Interfaith Alliance of NYS
Unity House
Van Wie Group, LLC
Warren-Hamilton Counties Community
Action Agency
Welfare Rights Initiative of Hunter College
West Side Campaign Against Hunger
Westchester Community Opportunity
Program
Westchester Progressive Forum
Women's Center for Education and Career
Advancement
Women's Enterprise Development Center