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New York Senate Passes Revenue Bill to Complete Overdue Budget

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By Michael Quint

Aug. 4 (Bloomberg) -- New York's Senate approved an \$869 million revenue bill, the last piece of a \$136 billion budget that was more than four months late, to close a \$9.2 billion deficit.

The revenue package approved yesterday includes \$330 million from a sales tax on clothing purchases of less than \$110 and \$100 million from a limit on charitable deductions for 3,500 taxpayers who earn more than \$10 million a year. Earlier, both chambers passed a contingency plan to cut as much as \$1.08 billion of spending if federal Medicaid funds trail forecasts.

The completed budget "protects the programs that New Yorkers depend on and ends Albany's history of overspending, overborrowing and overtaxing," said Travis Proulx, a spokesman for Senate Democratic leader John Sampson of Brooklyn. He called the plan "fair and balanced."

Governor David Paterson said it was the first time in state history that lawmakers anticipated federal revenue would be less than initially projected and "put spending cuts in place to fill the gap."

Republican Senators voted against the bill because it contains increased taxes or fees, said Senator John DeFrancisco, a Republican from Syracuse.

The budget was the latest since 2004, when it wasn't approved until Aug. 11, a record 133 days into the fiscal year. The delay didn't result in cuts in the state's debt ratings, or a jump in its bond yields.

State Bond Prices

New York's personal-income tax-backed bonds due in 2039 traded yesterday at 5.61 percent, or 1.55 percentage points more than Treasuries, compared with a 1.50 percentage point spread when the bonds sold in November 2009. In the short-term market, a seven-day rate for some state-backed bonds was reset to 0.22 percent on July 29, compared with a national average of 0.35 percent on that date, according to Bloomberg data.

The state's general-obligation bonds are rated Aa2 by Moody's and AA by Standard & Poor's and Fitch Ratings, the third highest grades for all three. Bonds backed by personal-income taxes are rated AAA by S&P, the highest grade, and AA by Fitch.

Passing the revenue bill will alleviate a cash squeeze that forced New York, the nation's third-most populous state, to shuffle funds between accounts and delay payments while running on emergency spending bills. The state's next cash shortage is projected to occur on Sept. 1, when school-aid payments could be delayed, Erik Kriss, a budget division spokesman, said in July.

Education-Aid Cuts

In June, Paterson vetoed \$419 million of education spending approved by lawmakers, saying it was needed to balance the budget.

"The Legislature's revenue bill provides enough to balance the budget," assuming lawmakers don't override the governor's vetoes and the Medicaid money is received in full, Kriss said.

Spending will increase from last year by about 2 percent under the Legislature's plan, "making this only the fourth time in the last 30 years that spending rose less inflation," said Austin Shafran, a spokesman for Senate Democrats.

Parts of the budget were pushed through the Legislature during June by Paterson, in the first use of emergency spending bills that lawmakers had to pass or cause a government shutdown.

By using his veto power and emergency spending bills, Paterson "was able to get a budget that probably contains more spending reductions than the Legislature would like, so that was a good outcome," said Elizabeth Lynam, deputy research director at the Citizens Budget Commission, a New York City group that analyzes state finances.

Deficit-Closing Measures

The deficit was closed with \$5.2 billion of spending cuts before the governor's vetoes, and \$1 billion of new or increased taxes and fees, including \$290 million from higher taxes on tobacco, said Shafran.

The completed budget also assumes the state's tax collections will be \$275 million more than projected, and \$250 million of savings from the state workforce.

"The spending reductions are substantial and recurring and will help reduce the deficit in future years," Lynam said. "The plan follows the general contours of what the governor proposed."

The budget calls for the state to spend \$79.2 billion of its own money this year, excluding federal aid and outlays for capital projects, a 0.3 percent increase from the year that ended March 31, Kriss said. All spending, including federal aid, would rise 2.4 percent to \$134.4 billion, he said. Those figures are adjusted

to exclude spending that was shifted to this year from last year, to save cash, Kriss said.

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