



## New York \$131.8 Billion Plan Depends on Taxes and Aid (Update2)

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By Michael Quint

March 30 (Bloomberg) -- **New York** Governor **David Paterson** and legislative leaders agreed on a \$131.8 billion budget for next year that cuts spending less than initially proposed and adds \$5.2 billion of new levies, including a higher income tax on joint filers with adjusted incomes above \$300,000.

New York, the third-largest U.S. state by population, faced a record deficit of \$17.7 billion for the fiscal year beginning April 1, as the economic recession and layoffs on Wall Street cut tax collections and increased demand for government services such as unemployment compensation.

Total spending under the plan would rise 9 percent from this year if federal stimulus money is included, or 1 percent to \$54 billion if only state money is counted. The \$17.7 billion gap was closed with \$5.1 billion of spending cuts, \$5.2 billion of new or increased taxes, \$6.2 billion of federal stimulus money and \$1.1 billion of one-time revenue, according to tabulations from the Assembly.

"The tone of the original budget, which is that we have to cut spending" was preserved, Paterson said at a news conference in Albany today. Income taxes were increased only after the deficit estimates grew another \$4.7 billion during the past six weeks, he said.

### No Recession 'Floor'

Paterson said the spending and tax plan called for "shared sacrifice" that "stabilizes our finances." He said a \$3 billion or \$4 billion deficit may emerge in the course of this year, and will require additional spending cuts or more taxes and fees, such as those set aside when federal aid rose as part of the economic stimulus plan. The once-considered taxes covered a variety of items such as theater tickets, audio downloads, gym memberships and sugary soft drinks.

"We have not found the floor of this recession," Paterson said.

The higher tax rates are proposed to end after three years. A new rate of 7.85 percent would apply to adjusted gross incomes between \$200,000 and \$500,000 for single filers who are not head of a household; \$250,000 to \$500,000 for single heads of household; and \$300,000 to \$500,000 for married couples filing a joint return. The new rate for adjusted gross income above \$500,000 is 8.97 percent for all filers, the same top rate as in neighboring New Jersey.

About 360,000 taxpayers, including 121,000 who are not residents of New York state and 60,000 small businesses, would be subject to the higher rates, according to an analysis by the office of the Senate Minority Leader **Dean Skelos**.

### Affluents' Exodus Debated

Many small business owners pay their tax through a personal income tax return, so the higher rates hurt their ability to expand or hire additional workers, said Michael Elmendorf, the New York director of the National Federation of Independent Business. The possibility that a higher tax rate would lead affluent New Yorkers to leave the state was debated in the months leading to the agreement.

New York's existing top tax rate is 6.85 percent for joint filers with adjusted gross income exceeding \$40,000.

The budget agreement was reached March 28 after weeks of closed-door sessions involving Paterson, Senate Majority Leader **Malcolm Smith** and Assembly Speaker **Sheldon Silver**. All three are Democrats from New

York City.

It was the first budget since 1965 in which the Senate Republican leader wasn't among the three top negotiators. Democrats won a 32-30 majority in the Senate in last November's election.

#### Homeowner Rebates

"This disgraceful budget would increase state spending to unsustainable levels," said Skelos, a Republican from Rockville Centre, Long Island. Taxes and fees will rise by \$8 billion, including a \$600 million increase in electric and gas bills on what are already the highest utility rates in the U.S., Skelos said.

About \$1.7 billion of state rebates to homeowners, a popular measure among Republican senators representing suburbs, were eliminated.

Republicans said during the months of debate over the tax and fee increases that the higher sums would hurt the economy and stifle new job creation.

The plan includes increased fees for vehicle registration and licenses for hairdressers.

"There is too much new revenue and not enough spending cuts," said **Elizabeth Lynam**, deputy research director at the New York City-based Citizens Budget Commission.

#### 'Failing Grade'

The governor and lawmakers get "a failing grade" for not using more of the federal stimulus money to replace other state spending, which "needs to be ramped down over time," said Lynam, whose group is a nonprofit, business-funded fiscal **monitoring organization**.

The additional federal money helped restore some of the cuts proposed by Paterson for hospitals, nursing homes and home care that receive money under the Medicaid health-care program for the poor. Paterson proposed cuts of \$3.5 billion in December and now expects savings of \$1.6 billion.

State aid to schools, the largest item in the budget, will total \$21.9 billion, up \$405 million from this year. Schools are also expected to receive an additional \$852 million of stimulus funds.

#### Stimulus Limits

Before agreeing to the budget plan, Paterson warned lawmakers that the federal stimulus money will last for only two years, and if it was used in lieu of spending cuts the state may face future budget crises.

Lawmakers can begin voting on the budget bills as soon as tomorrow, unless debate and amendments push that date back. Yesterday morning, bills were in stacks one-foot (30.5 centimeters) high on lawmakers' desks.

Paterson and lawmakers promised a budget by the start of the new fiscal year, a deadline that previous administrations often failed to meet. Before 2005, the state had 20 consecutive years of late budgets, with delays sometimes lasting into August, causing problems for schools and others dependent on state aid.

In his initial **budget** presented in December, Paterson proposed \$9.1 billion of spending cuts and \$4.1 billion of tax and fee increases without raising income taxes. That prompted a barrage of radio and television advertising by labor unions, urging the reductions be restored with money from higher income taxes.

A Marist College poll released earlier this month found Paterson's approval rating at 26 percent, the lowest in the 27 years that the school conducted opinion sampling on the state's governors.

#### State Unemployment

Paterson, who often called an income tax increase a "last resort," said March 27 he was pushing lawmakers for more spending cuts.

Underscoring New York's economic deterioration, the state Labor Department said on March 26 that New York's unemployment rate rose a record 0.7 percentage-point in February to 7.7 percent, the highest since 1993. In New York City, the jobless rate rose 1.2 percentage points to 8.1 percent in February.

To contact the reporter on this story: **Michael Quint** in Albany, New York, at [mquint@bloomberg.net](mailto:mquint@bloomberg.net).

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