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Under pressure to close a deficit in 1990, the state sold Attica Correctional Facility to the state's Urban Development Corp.

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## FOCUS: STATE BUDGET

# \$200 million Attica debt now costs state \$566 million

## Awash in red ink, sights are set on more borrowing

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ALBANY — As state officials float a plan to borrow money to help reduce the state's red ink, they might want to consider the lesson from two decades ago with the "sale" of the Attica prison — the poster child of all fiscal gimmicks.

Under pressure to close a deficit in 1990, the state sold Attica Correctional Facility to the state's Urban Development Corp., an authority that is supposed to be charged with economic-development efforts. The agency then leased the facility back to the state.

How did it work out?

A generation later, the state has so far paid back \$344 million on that \$200 million loan.

But, like a homeowner desperate for cash and unwilling to cut expenses, the state refinanced and in some years paid no principal on the Attica borrowing so that today New York still owes more than \$222 million in principal and interest. All that on a borrowing two-thirds of the way through its 30-year term.

"It is symbolic of fiscal gimmicks used to avoid a more serious question of controlling spending in another part of the budget," State Comptroller Thomas P. DiNapoli said of the Attica borrowing. This year, New Yorkers will spend \$21 million in financing for a paper transfer that had no practical effect on the operation of the prison.

Today, state officials are again considering a less painful — though more costly over the long term — option to just cutting costs and raising revenues: deficit borrowing. And just like in 1990, during the administration of Gov. Mario M. Cuomo, and several times since then, a new possible round of borrowing is already being defended as fiscally sound and with plenty of built-in controls aimed at defusing critics.

But those controls all have something in common: Anything lawmakers agree to in 2010 does not have to be followed by lawmakers the following year, or the year after that, or ever.

Faced with the task of cutting popular programs such as education and health care in an election year, state lawmakers are considering a proposal — advanced by Lt. Gov. Richard Ravitch — to head to the bond market to eliminate some of the \$9 billion in red ink projected for the fiscal year that starts April 1.

Ravitch has declined to discuss his proposal with reporters, and Gov. David A. Paterson, who appointed Ravitch to the job, Tuesday dismissed the idea of deficit borrowing without some sort of fiscal discipline like a cap on future spending growth.

Still, legislative leaders, including Assembly Speaker Sheldon Silver, D-Manhattan, who has been in control of the 150-member house during some of the state's most prolific borrowing periods over the last 16 years, are far from ruling out borrowing to close the deficit.

New York is already awash in borrowing. DiNapoli issued a report Tuesday pointing out that the state has become the “national example of the imprudent use of borrowing,” such as using bond funds to pay operating costs or for things such as pork-barrel spending.

DiNapoli and others warn that New York may be heading down the same path again: borrowing to avoid attacking what Paterson describes as the state's structural spending problem. Paterson said the budget is slated to grow at about 8 percent a year over the coming five years — with revenues to pay for the spending projected at just 3 percent annual growth.

The 1990 Attica borrowing may be one of the more obvious backdoor maneuvers — borrowing without voter approval — but it was hardly the biggest.

Indeed, DiNapoli said Tuesday, the state has \$9.8 billion on the books that officials borrowed in past years just to close deficits, which is one-sixth the total state-issued debt. Just to pay off those deficit borrowings from red ink that is just a distant memory, today's taxpayers spend \$1.1 billion annually.

In 2002, the state borrowed billions against money it was to receive over decades to come from the big settlement of a lawsuit against the tobacco industry. A decade earlier, it issued \$4.3 billion in long-term debt to stop annual springtime short-term borrowing. And in 2003, the state took over debt issued to rescue New York City — from the mid-1970s.

Today, just 7 percent of borrowings are approved by voters, down from 40 percent in 1985, the comptroller's office says.

The warnings from DiNapoli are simple: Annual payments for borrowings are one of the fastest-growing areas of the budget, and they keep coming at a time when revenues are slowing. He said that it would be a “mistake” if deficit borrowing were used to delay confronting the state's spending problems.

“The bottom line is it can't be used as an excuse to avoid spending reductions,” said Elizabeth Lynam of the Citizens Budget Commission, which Tuesday released a report showing that each resident of the state would have to pay \$3,700 to satisfy the borrowings — the fifth-highest per-capita rate in the nation.

Tuesday, Silver talked of some sort of control board being proposed by Ravitch as part of a borrowing

package, but no one envisions it with the power to dictate spending such as control boards in Erie County and Buffalo have done.

Silver and other lawmakers have rejected Paterson's calls for a spending cap. Silver's counterpart in the Senate, Democratic Conference Leader John L Sampson of Brooklyn, said he has a "sense of hesitancy" over deficit borrowing. But many veteran lawmakers are convinced that the trial balloon floated by Democrats this week will, in the end, become real.

"The gimmicks always backfire. They always end up costing more, even though they're sold to the people as a stopgap solution," said Assemblyman James P. Hayes, R-Amherst.

Paterson kept the door open to borrowing — if there were some sort of "quantified spending reduction" in the form of a cap on future spending growth. After a private meeting with Senate Republicans, the governor called the Ravitch proposal a "concept" to deal with the next five years of projected deficits that total more than \$62 billion.

The governor then said the state might need to borrow to help close the current year's deficit for the fiscal year ending in three weeks. That shortfall is expected to total \$2.1 billion.

Asked about his borrowing proposal this week, Ravitch said, "I'm not going to tell you what the contents are."

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