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NY economy still sinking; Paterson says \$2.1B deficit means 'difficult choices' ahead

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Associated Press

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ALBANY, N.Y. — New York's economic slump continues, with the state's 100 wealthiest taxpayers so far reporting half the earnings of a year ago and sales tax revenues dropping by a historic amount, a state budget report released Thursday shows.

The new report from the Division of Budget shows trends combining to create a \$2.1 billion deficit just three months after the budget was adopted for the current fiscal year. It also projects a four-year shortfall of \$13 billion more than previously forecast.

"Although the budget enacted in April took substantial action to close a combined \$20.1 billion budget gap, the fact remains that revenues have continued to fall, and this will force us to make further difficult choices," Gov. David Paterson said.

Paterson plans to present a revised budget to the Legislature in September, and said he wants to focus on spending cuts.

State Budget Director Robert Megna said the recovery would be slow and would lag behind the national recovery by months.

The report indicates the state recession will end sometime in the second half of 2010, a bit later than previously believed.

Job losses in the state are expected to continue into next year and the unemployment rate to peak at 9.1 percent in the spring of 2010. Since August, New York has lost 236,000 jobs. The state unemployment rate last month stood at 8.7 percent.

Paterson and the Legislature adopted a \$131.8 billion budget in April. It increased taxes, including income taxes for top earners. Even so, the report says, the state has already accumulated a \$2.1 billion deficit and a projected four-year shortfall of \$38.2 billion that is \$13 billion greater than was predicted in April.

Megna blamed the new figures on the difficulty of budgeting during a volatile recession.

At least 14 states — Alaska, Arizona, California, Connecticut, Florida, Illinois, Indiana, Kentucky, Mississippi, New York, Texas, Vermont, Virginia and West Virginia — have called legislators back for another round of budget work. Special sessions also are possible in Georgia, Minnesota, New Mexico, Oklahoma and Utah.

In New York, sales tax revenue dropped by a record of more than 10 percent since last October, accounting for \$400 million of the current shortfall. Sales tax collections are expected to level out around October, a year after consumers started spending less amid Wall Street's meltdown and a torrent of bad economic news.

Last year, the state collected about \$1 billion from top earners. Those collections may come in at only \$500 million, lower than forecast when the income tax rate was increased last spring for those making more than \$1 million. Still, the tax increase is expected to result in a net gain over time.


Budget officials said top wage earners may be using extensions to delay payment until spring, could be earning less or some may have moved out of state.

Elizabeth Lynam of the Citizens Budget Commission said the nonpartisan watchdog group would oppose efforts to increase taxes to address the revised state figures.

"It is imperative at this point that the state begin to develop plans to permanently reduce spending," Lynam said. "Additional tax increases are not an option."

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