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\$2.1B budget deficit forecast

In a repeat performance, a problem emerges shortly after the budget is passed; more cuts are expected

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ALBANY -- The state Budget Division on Thursday projected a \$2.1 billion deficit this fiscal year, with the deficit ballooning to \$18.2 billion by 2012 if no action is taken.

The situation means lawmakers will almost surely be back at the Capitol in September after Gov. David Paterson devises a plan for spending cuts.

At the same time, a plan to move state workers off the payroll by encouraging retirement widened its scope.

The distressing budget news comes almost exactly a year after Paterson's first major address on the state's looming fiscal woes, a statewide speech in which he called the Legislature back to deal with the what was then identified as a looming \$6.4 billion deficit for the 2009-10 fiscal year. (New York's fiscal year runs April through March.)

Despite the cuts and subsequent reductions, the deficit returned.

Newly installed Budget Director Robert Megna blamed the entire shortfall of \$2.1 billion on the declining forecast for tax receipts. Megna cited the recession, steep job losses and lowered income tax payments -- especially from Wall Street -- as the prime causes of this year's deficit.

In years ahead, rising pension costs due to lower investment returns will continue the flow of red ink.

Megna said the state's general fund may actually run out of cash by November, which would force it to borrow from other funds which typically are used to store money needed for a variety of purposes, ranging from school aid to lottery payouts.

It wouldn't be the first time the state borrowed from its so-called Short Term Investment Pool, but this year lawmakers loosened the rules so they can pay back the pool in four months instead of the traditional time frame of a month.

Megna added Paterson and Richard Ravitch -- whose appointment earlier this month as lieutenant governor is currently a matter of legal dispute -- are working on an Economic and Fiscal Recovery Plan to be released in September.

Nonpartisan budget watchdogs and Republicans said the shortfall was the result of chronic over-spending.

"They didn't do a lot in the budget to contain costs. Instead, they raised taxes by \$8 billion. It seems like that's the same cycle," said Elizabeth Lynam, deputy research director of the Citizens Budget Commission.

She was referring to the state's \$121.7 billion budget, which included income tax hikes on the wealthy and dozens of new fees. The state, she added, has yet to get a handle on costly public employee pensions and benefits.

"It was the wrong budget at the wrong time," said Senate Republican Minority Leader Dean Skelos, noting Republicans voted against the Democratic-approved budget.

Assembly Democratic Speaker Sheldon Silver said his chamber would work with the Senate and Paterson to fix the problem.

Megna said he expected the pain to continue right through next summer, when he believes the recession will hit a trough and begin to turn around.

His report noted wages are projected to fall 4.8 percent this year, the sharpest drop since the state started keeping records in 1975. Wall Street is blamed for much of the decline.

State officials also quietly relaxed the standards for a \$20,000 buyout package offered to state workers -- a plan that followed Paterson's decision to give up almost 9,000 layoffs.

The buyout was intended to move roughly 4,500 people off the payroll. One of the original requirements was workers taking the package must be eligible for retirement or have 10 years of state employment. In a memo Thursday amended the 10-year rule, which is now a suggested guideline. State agencies are expected to submit their individual criteria for the buyouts by the end of the summer.

Dismal figures

Budget figures sagged in the first quarter of this year.

First quarter general fund revenues were \$305 million below initial projections.

First quarter personal income tax collections were \$7.7 billion, down 35 percent year to year, or \$584 million below projections.

First quarter sales tax collections were \$2.6 billion, down 6 percent year to year, or \$159 million below projections.

Source: Division of Budget