

# Threat on aid is now reality

Prompted by shortfall, Paterson says he's holding back \$750M in local aid

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ALBANY -- As he has threatened, Gov. David Paterson on Sunday said he is withholding \$750 million in local aid that had been scheduled to go out starting Tuesday. The move was prompted by a looming shortfall for the current fiscal year that's estimated to reach between \$500 million to \$1 billion.

The delays include more than \$500 million in scheduled school aid payments and \$112 million to cities and counties. Additionally, the governor will hold back \$47 million set to go to health insurance firms that cover state employees. That change, however, should have no direct impact on those workers.

"I can't say this enough: The state has run out of money," Paterson said during a news conference in New York City to announce the move.

The delay of \$750 million will be combined with short-term borrowing of \$250 million from a series of other state accounts -- including the so-called "rainy-day fund," a step that critics have previously said Paterson should take to avert budget cuts.

Paterson stressed that these are payment delays rather than cuts, although he hasn't ruled out imposing them as reductions in his 2010-2011 budget proposal, which is slated to be released next month.

His move could provoke a lawsuit involving the state Senate, whose members have been battling the governor over budgetary issues.

That fight continued Sunday at the governor's news conference, where he noted that "many legislators, not all of them" made an irresponsible choice by failing to address the full deficit earlier this month, when leaders reached at agreement to close \$2.7 billion of the \$3.2 billion estimated deficit for the current fiscal year.

The Legislature, under pressure from powerful teachers unions and school lobbyists, refused to cut any school aid midyear. School officials contended the midyear cuts would force layoffs and hurt instruction.

"The question is, who is going to wake up and face reality and who is going to continue sleeping on the job?" Paterson said.

"Constantly attacking the Legislature is easy, but it doesn't solve people's problems," said Austin Shafran, spokesman for Democratic Conference Leader John Sampson. "New Yorkers don't want political rancor or self-indulgent theatrics; they want their leaders to work together to get things done."

The governor's move could force some towns, cities, counties and school districts to borrow money in the short term in order to cover their costs, which include salaries, benefits and a large payment for their retirees' pensions.

Some localities could in turn be forced to raise local property taxes to cover the cost of borrowing. While most city and county budgets already are set for the coming year, school budgets aren't developed and voted on until the spring.

The \$750 million will eventually be paid as revenues roll into state coffers -- but there is no timetable for that. "This is a cash-management action," said Matt Anderson, spokesman for the Budget Division.

January typically brings a boost in state revenue due to income taxes on Wall Street bonuses, but it remains unclear if those payments have sufficiently recovered from the financial market collapse of a year ago.

News of the payment delays drew criticism from municipalities and counties, who said it merely pushes costs down from the state to localities.

"If allowed to stand, loss of this state aid will wreak havoc on city finances, especially the 44 cities with only days remaining in their fiscal year," said Peter Baynes, executive director of the State Conference of Mayors. "... Rather than solving the state's deficit, this is a shifting of the problem onto another level of government with even less fiscal capacity."

Others, though, said holding back the payments makes sense, given the state's fiscal situation.

"If the funds are not available to make these payments at this time, then they should not be made," said Elizabeth Lynam, deputy research director for the Citizens Budget Commission, in an e-mail.

The school delay is twofold: \$436 million held back from school districts for the cost of the School Tax Reduction, or STAR, property tax break given to homeowners; and \$146 million in regular school aid.

Also, the governor is holding back \$76 million in human services costs to counties and \$45 million to cities.

The amounts that were originally scheduled to be paid were as follows: \$2.3 billion for STAR; \$1.5 billion in school aid; \$450 million in payments to cities through the Aid and Incentives to Municipalities program; \$398 million to counties for human services reimbursements; and \$247 million in payments to health insurers.

Together, they total \$4.9 billion.