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## Rough time for budget plan?

Governor asks \$134B in his spending proposal, but lawmakers are already talking about major changes

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ALBANY -- Gov. David Paterson unveiled a "recovery" budget on Tuesday that keeps year-to-year state spending increases below 1 percent through tax hikes on items like cigarettes and soda, combined with sharp reductions in health and education spending.

The moves, he said, are needed to close what would otherwise be a \$7.4 billion budget deficit in the 2010-2011 fiscal year, which starts on April 1.

"Since the day I became governor, I have warned that New York is facing an inevitable fiscal reckoning," Paterson told the legislative leaders and agency chiefs gathered in the Hart Theatre at The Egg.

It was an especially suitable setting: The arts facility would lose its state funding under the governor's plan.

Lawmakers, who like Paterson are up for re-election this year, reacted coolly to the \$134 billion plan, with only two of the governor's proposals -- a moratorium on state purchases of recreational land and enforcing tax collection on tobacco sales on Indian reservations -- prompting applause.

The governor had barely finished speaking before lawmakers began saying they would attempt to reverse Paterson's proposed cuts to education and health care -- more than \$1 billion each. The school reductions add up to a 5 percent trim.

"There are going to be significant restorations," warned state Sen. Carl Kruger, D-Brooklyn, who heads the Senate Finance Committee.

"I'm particularly concerned about the health care cuts," added Assembly Democratic Majority Leader Ron Canestrari, D-Cohoes, who believes the budget proposal would be "catastrophic" for nursing homes in particular.

In addition to school and health care cuts, Paterson's plan seeks more than \$1 billion in savings from state agencies. This includes a projected \$250 million in unspecified workforce costs, to be accomplished through negotiation. Last year, public employee unions refused his request to forgo raises; the governor has promised not to lay off members of the major state worker unions, PEF and CSEA.

To raise revenue, Paterson asks for some \$1 billion in tax hikes, including an increase in the cigarette tax of \$1 per pack, bringing the total tax to \$3.75 and boosting the cost of the average pack to around \$8.

An excise sugar tax on soda and flavored drinks, which would be paid by bottlers, is a variation of a so-called "fat tax" that Paterson floated but abandoned last year. The administration suggests it would add a penny per ounce to consumers' cost; bottlers predict it will add 68 cents to the price of a 2-liter soft drink bottle, which now costs about \$1.39.

The new beverage tax would apply to soda, sports drinks, energy drinks, bottled coffee and tea, and fruit and vegetable drinks containing less than 70 percent natural fruit or vegetable juice.

Dr. Richard Daines, the state health commissioner, said the cigarette and beverage revenue-raisers, taken together, were "a triple play: It generates revenue, reduces obesity (and smoking) and saves on health care costs in the future."

Daines said he believes a soda tax will pass this year because of the increasing evidence that sweetened drinks contribute to obesity, and the massive hole it would leave in the budget if it is not approved.

The budget proposal calls for higher taxes on hospital bills, home care, nursing homes and doctor services in hospitals, totaling \$240.2 million. Parents of children needing early intervention will have to contribute, paying quarterly fees of between \$45 to \$540 based on income.

Still, state money spent on health care will increase by \$1.1 billion under Paterson's plan, a 6 percent bump. When the federal Medicaid contribution is included, New York's total Medicaid budget is \$51.5 billion, a 1.8 percent increase from last year.

The budget also calls for allowing the sale of wine in grocery stores, which last year didn't make it through the Legislature; legalizing mixed martial arts competitions; and adding automated cameras that could lead to speeding tickets in construction zones or perilous highway stretches.

While last year's budget was freighted with dozens of hidden tax hikes, this year's plan is fairly straightforward, noted Elizabeth Lynam, deputy research director at the Citizens Budget Commission, a financial watchdog group.

"You don't see a million fees and fines," Lynam said. The governor, she added, has "put the ball squarely in the court of the Legislature."

But "there's a certain amount of hydraulics in this: You push down, they push up," said

E.J. McMahon, director of the Empire Center for New York State Policy. "There's not enough pushing down" in Paterson's plan.

Conservation groups found nothing to like about the budget, which cuts \$79 million from the Environmental Protection Fund, a drop of 35 percent. Since 1993, the fund has relied on real estate taxes to pay for land conservation, municipal recycling programs, landfill closures, farmland preservation, zoos and botanical gardens, and care for state parks.

In addition, the proposed budget would cut 54 jobs at the state Department of Environmental Conservation; 67 jobs at the state Office of Parks, Recreation and Historic Preservation; and 10 jobs at the Adirondack Park Agency.

However, the budget does call for spending \$3 million on staff at DEC, the Health Department and the Department of Public Service for staff oversight of natural gas drilling permits expected to result from development of the Marcellus Shale, an underground gas-laden rock formation that stretches from the Catskills to the Southern Tier.

To help pay for the state's expenses, the budget proposes a 3 percent tax on gas wells that use the "hydrofracking" technique to pump out the gas. However, the budget shows the state expects no revenue from the tax this year, and just \$1 million in 2011-12, much less than what it would cost the state to oversee drilling.

While the emphasis was on cuts, Paterson's plan did include expansions of certain programs: It would create the Excelsior Jobs Program -- a replacement for Empire Zones -- that would offer tax credits of up to \$10,000 per job, among other benefits, for companies that "create and maintain" at least 50 jobs for five years.

Paterson's plan to break the long-standing barrier to getting taxes, or at least price parity, in cigarettes sold by Native American merchants amounts to the boldest move by a governor since 1997, when Gov. George Pataki sought to aggressively enforce tax policies, said Russell Sciandra, a lobbyist for the American Cancer Society.

Paterson, whose office called Indian leaders in advance, announced he would attempt to enforce a 2008 law that would penalize tax stamping agents who provide unstamped cigarettes to sellers -- essentially meaning Indian retailers could only get products the state considered legal. The state is expected to produce new regulations soon.

Paterson's plan calls for allowing video lottery terminal operations to be open longer, generating \$33 million more next year and \$54 million in the year after.

Total revenues from video lottery terminal gaming in 2010-2011 are expected to reach \$557 million from the existing eight VLT parlors. An facility at the Aqueduct race track would not open until October 2011, the following fiscal year, although the \$250 million

up-front payment from the winning bidder on the Aqueduct project is booked for this year -- meaning the winner would have at least 21 months to build.

While the proposal reduces overall arts funding by 18 percent (to \$44.2 million), arts in the Capital Region would receive a double hit: In addition to The Egg, the Troy-based New York State Theater Institute would be cut loose from regular state funding. Last year's budget proposal called for a merger of the two groups, although that provision did not make it into the final legislation.

Peter Lesser, executive director of The Egg, said he had not expected the proposed cut. If it goes through, The Egg staff and board would be forced to raise five times as much in outside funds as they do now. "We're surprised by this, but we do understand what's going on with the economy," Lesser said.

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### **The checkout counter**

Here are a few of the elements of Gov. David Paterson's budget that, if enacted, would have the most direct impact on consumers, and the revenue the state is hoping to raise:

**A \$1 per pack increase in the cigarette excise tax:** \$218 million on 2010-11, \$211 million in 2011-12

**A new tax on beverage syrups and soft drinks that works out to a penny an ounce:** \$465 million in 2010-11, \$1 billion in 2011-12

**Allowing the sale of wine in grocery stores:** Revenue would be generated through a franchise fee paid by retailers, generating \$93 million in 2010-11, \$54 million in 2011-2012

### **The big picture**

Under the governor's budget proposal:

- State spending would increase 0.9 percent
- Total spending, including federal funds, would increase 0.6 percent
- Total size of the state budget: \$134 billion

Source: Budget Division