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## GOVERNOR PATERSON REOPENS BUDGET PROCESS, ORDERING CURRENT-YEAR SPENDING CUTS, SPECIAL LEGISLATIVE SESSION AND HARD HIRING FREEZE TO ADDRESS PLUMMETING STATE REVENUES

Says Action Necessary to Reduce Spending as Economy Deteriorates and New York Enters a Recession

Governor Will Work with Legislature to Produce \$1.2 Billion in Savings

Saying that New York has now officially entered a recession, Governor David A. Paterson today took significant action to reduce spending both this year and next year to address plummeting revenues related to a deteriorating economy.

Today, he ordered executive state agencies to reduce spending by \$630 million in the current fiscal year, a roughly seven percent reduction in state agency spending on top of the 3.35 percent reduction already included in the 2008-09 Enacted Budget; implemented a hard hiring freeze; and called the Legislature back to Albany for a special session to work with him to reduce spending by an additional \$600 million in the current year. Combined, these actions will produce savings of \$1.2 billion, eliminate the potential current year shortfall and begin the process of closing future budget gaps.

"With the economy deteriorating and revenues plummeting, I have ordered state agencies to take immediate action to reduce spending and control hiring, but that is just the first step," said Governor Paterson. "We must and we will go further. I am meeting the legislature halfway to our savings goal, and calling them back to work with me to find ways to reduce our spending, just as millions of New York families are being forced to do."

Governor Paterson made his remarks following the release of the Division of the Budget's (DOB) First Quarterly Update to its 2008-09 Financial Plan, which included revised budgetary projections for the 2008-09 through 2011-12 fiscal years. Highlights of the report include: Revenue Declines: This new report detailed a potential General Fund shortfall of \$630 million in the current fiscal year, which Governor Paterson has immediately addressed with his order to cut agency spending by that same amount. This potential \$630 million shortfall reflects a revenue decline of \$615 million, primarily in business taxes, and a marginal spending increase of \$15 million. In total, the State has now revised its revenue estimates downward for 2008-09 by \$2.3 billion since April 2007.

Increased Budget Gaps: The out-year deficit facing the State in 2009-10 has grown from \$5.0 billion at the time of budget enactment to \$6.4 billion. The cumulative budget deficit over the next three fiscal years has increased from \$21.5 billion to \$26.2 billion – up \$4.7 billion in less

than 90 days.

Overall spending: State operating spending for the 2008-09 fiscal year is now projected to be \$80.5 billion, a \$356 million decrease from the Enacted Budget. The proposed \$630 million in reductions are offset by additional spending of \$261 million for labor settlements by two independent entities (the Judiciary and CUNY) and a marginal net increase of \$13 million in other programmatic areas.

These rising deficits are due in large part to a faltering economy, which has severely impacted state revenues. Since the budget was enacted in April, New York's economy – particularly on Wall Street, a sector that accounts for 20 percent of state revenues – has deteriorated even further than initially projected, now reaching levels last seen during the period following the September 11, 2001 attacks.

State economists are now, for the first time since 2003, forecasting that New York has officially entered a recession. There are a number of troubling indicators across the State's economy: Bear Market/Subprime Fallout: The financial services industry has not recovered from the subprime mortgage crisis as quickly as initially expected. In fact, Wall Street has now officially entered a bear market across all three major indexes (defined as a twenty percent drop in stock prices).

Bank Failures: The FDIC's takeover of Indymac Bank represents the largest bank failure in a quarter of a century. Additionally, Fannie Mae and Freddie Mac, the lifeblood of the mortgage industry, continue to struggle to avoid collapse.

Wall Street Losses and Layoffs: The New York securities industry has reported \$42 billion in losses since the third quarter of 2007 (\$22.8 billion in the first quarter of 2007 alone). Even in the three quarters following September 11, 2001, these firms posted a cumulative profit of \$6.5 billion. Moreover, layoffs in that sector are expected to total 35,000 or six percent of their overall workforce. This is commensurate with the seven percent drop in Wall Street's workforce that occurred after September 11, 2001.

Plummeting Bonuses and Capital Gains: As a result of these problems on Wall Street, state economists have reduced their forecasts for financial services sector bonuses and capital gains – both of which are critical drivers of state revenue – compared to the time when the budget was enacted. Wall Street bonuses are now projected to decline by 20.5 percent – nearly double the 11.1 percent decline that was initially projected in April. Capital gains tax collections are forecast to fall by 24 percent, down from a 16 percent decline in April.

Rising Inflation: Inflation in 2008-09 is now expected to total 4.2 percent, compared to 3.1 percent at the time of budget enactment. This represents the highest level of inflation in nearly two decades (since 1990-91) and, given the current slow rate of economic growth, raises the specter of stagflation.

Slowing Wage Growth: New York wage growth for 2008 has been reduced by more than half from 2.0 percent to an anemic 0.8 percent.

#### The Governor's Response

To address the deteriorating economy, Governor Paterson is taking a number of actions to reduce spending and improve the fiscal integrity of the State:

**Agency Spending Reductions:** Governor Paterson is ordering executive state agencies to implement an immediate \$630 million reduction in 2008-09 spending. This represents a roughly 7 percent cut on top of the 3.35 percent reduction the governor called for as his first act in office. **Hiring Freeze:** Governor Paterson is also ordering an immediate hard hiring freeze. Until further notice, only absolutely essential positions will be filled. All new hires will have to be approved by the Division of the Budget.

**Special "Economic" Session of the Legislature:** While the current economic forecast represents the best information now available and agency spending cuts will fully close the potential \$630 million 2008-09 gap, there are no guarantees that revenue projections will remain unchanged throughout the remainder of the fiscal year. Moreover, the State faces significant deficits in the coming years that it must begin to address. As such, Governor Paterson will call a special "economic" session of the Legislature August 19 to consider \$600 million of additional spending cuts.

#### Revenues and Spending

General Fund state revenues for 2008-09 are expected to come in \$615 million lower than expected at the time of the Enacted Budget. Business taxes represent the largest portion of the decline and are now forecast to be \$510 million below initial projections. Sales tax revenues are expected to be down \$161 million because of slowing consumer demand in the weakening economy. These changes were offset by a \$25 million increase in projected personal income tax collections, which is related almost entirely to final tax payments based on strong economic performance in the first half of 2007. Miscellaneous receipts are also expected to be higher than projected by \$31 million.

Spending was also initially projected to be marginally higher than previously estimated by \$15 million in 2008-09. When combined with the \$615 million decline in revenues, this created a total potential shortfall of \$630 million, which will be entirely eliminated by Governor Paterson's order to make additional reductions in agency spending.

#### Out-year Deficits

The State's out-year budget deficits have grown to \$6.4 billion in 2009-10, \$9.3 billion in 2010-11, and \$10.5 billion in 2011-12 – a cumulative total of \$26.2 billion over that three-year time period. When the budget was enacted, these gaps totaled \$5.0 billion in 2009-10, \$7.7 billion in 2010-11, and \$8.8 billion in 2011-12 – a cumulative total of \$21.5 billion.

### Overall Spending

According to DOB's updated first quarter forecast, 2008-09 State Operating Funds spending is expected to total \$80.5 billion, an increase of 4.5 percent compared to the prior year. All Funds spending is expected to total \$121.3 billion, an increase of 4.5 percent. General Fund spending is expected to total \$56.2 billion, an increase of 5.2 percent.

At the time of budget enactment, State Operating Funds spending was expected to total \$80.9 billion (5.0 percent increase), All Funds spending was expected to total \$121.6 billion (4.8 percent increase), and General Fund spending was expected to total \$56.4 billion (5.6 percent increase).

### State Workforce

The overall size of the state workforce is now expected to total 200,251 at the close of the 2008-09 fiscal year, an increase of 497 over 2007-08. Originally, the Enacted Budget assumed an increase of 1,416. This nearly two-third cut in the increase reflects the impact of the 3.35 percent across-the-board agency spending reduction, as well as Governor Paterson's directive to limit hiring to absolutely essential positions.

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