

Press Release

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Déjà Vu All Over Again – Budget Balancing in Bad Times Raising Revenue Needs to be Part of the Solution Lessons From the Last Two Recessions

(Albany, N.Y.) The Better Choice Budget Coalition, a large coalition of over 100 non-profit, labor and faith based organizations representing nearly one million New Yorkers, called upon Governor Paterson today to **not** cut essential state services to needy populations across the state. The groups urged the Governor to examine how the state has balanced its budgets in the past and to do what has been most effective so we do not make the same mistakes twice. They urged the Governor to support a high end income tax on the wealthiest 1% of New Yorkers to help address the budget shortfall in a balanced way.

A few days ago the Governor proposed additional cuts (a menu of \$1 billion in cuts) to this year's state budget, on top of the cuts (3.35%) that he made earlier this year and has called the Legislature back to Albany for a Special Session to act on his proposals. He has said we need significant cuts to state expenditures, but he has completely ignored the revenue side of the budget equation. The Governor calls for "shared sacrifice" but seems to be targeting those with the least means rather than those with the most.

Ron Deutsch, Executive Director of New Yorkers for Fiscal Fairness stated that "The cuts made earlier in the year are already having a damaging impact on non-profit organizations that deliver state services to a wide variety of constituent groups across the state. It's time for the Governor to take a lesson from New York's history books as he develops his plan to dig the state out of the current fiscal crises."

"The lessons to be learned from New York's fiscal policy choices during the last two recessions are clear. The balanced approach to the state's budget that was adopted in 2003 worked much better than the deep service cuts of the early 1990s which prolonged and deepened the effects of that recession on New York State, said Frank Mauro, Executive Director of the Fiscal Policy Institute.

Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, and the chairman of Governor Paterson's new Council of Economic Advisors explains that an increase in the tax on the portions of families' incomes over some relatively high level is the least damaging mechanism for balancing state budgets during recessions. In contrast, cuts in government spending on goods and services that are produced locally (like education and healthcare) and cuts in transfer payments to lower-income families are most damaging to the economy since they come closest to taking dollar for dollar out of the local economy.

"We understand that New York State is facing a significant deficit and appreciate the Governor's tackling of the issue; however we urge Governor Paterson and the Legislature to learn from history. New York has been in financial straights before and in 2003 New York successfully navigated a similar situation by addressing the issue from both sides of the fiscal equation by making cuts to expenses but by also increasing revenue by implementing a small temporary increase in taxes on those most able to afford it. Economists understand that you don't decrease funds to programs and services during a recession. These dollars are spent in local communities and directly impact local economies. They also understand that high end tax increases do less harm in such an environment. Putting into place a small increase designed to impact only the State's top 1% will not only generate needed revenue to the State's budget equation but will also add a measure of fairness and equity to the solution. By only proposing cuts, the impact of the deficit reduction plan will only be felt by those most in need, something we know to be unworkable in the long run." stated Denise Harlow, Executive Director of the New York State Community Action Association.

Anne Erickson, President & CEO of the Empire Justice Center felt that, "The Governor's proposed cuts will have a devastating impact on our state's social safety net, slashing funding for hundreds of non profit organizations that serve poor and low income New Yorkers. Many of these programs are essential to keeping people employed, avoiding increased state and local costs, and even generating increased federal payments to the state. Many of these proposed cuts are not only unfair and unbalanced they will cause severe pain in communities across the state. Most devastating would be the proposed 50% cuts to "legislative adds" or "member items" – which fund many non profit programs annually. This cut would bring the civil legal services delivery system, which already received a 50% cut in state funding this year, to its knees – providers would be funded at just 25% of the 2007 state funding level."

"It makes no sense for the Governor or the Legislature to even consider cutting programs that help homeless and disabled New Yorkers to access federal disability benefits and housing, or that help people stay in their own homes in these bad economic times. Such programs should be exempt from cuts that only

grow the operating deficits of non-profits - ours could reach a half-million dollars - and leave people who have nothing to languish in limbo on the streets and in expensive shelters," stated Shelly Nortz, Deputy Executive Director for Policy with Coalition for the Homeless. "We need a balanced approach to solving the state's fiscal situation, not reckless across-the-board cuts that deepen the pain for the neediest New Yorkers."

"Especially during difficult fiscal times, state leaders must maintain their commitment to protect safety net services for our most vulnerable citizens. Many of us represent both those vulnerable New Yorkers and the already hard pressed local service providers who make up that safety net," said Harvey Rosenthal, executive director of the New York Association of Psychiatric Rehabilitation Services.

"Many of those groups have just felt the effects of the last 2% cut and cannot possibly absorb an additional 6% more," he said. "We seek a more balanced strategy that avoids causing more pain and cost in the long run. Weakening critical supports will drive people to emergency, shelter, hospital and forensic settings that are ultimately far more costly to people with disabilities and taxpayers alike."

Statewide Senior Action's Executive Director Justin Cunningham urged both Governor Paterson and the State Legislature to take a balanced approach when dealing with our current fiscal crisis. "The proposed cuts in Medicaid funding for pharmacies, hospitals, and nursing homes will further weaken the infrastructure that supports not only older New Yorkers but all citizens of New York State. These proposed cuts would have the most dramatic effect on low income seniors who need help the most which is why we support an additional tax on the wealthiest one percent of New Yorkers, to help soften the impact on our State's health and human services programs," he said.

BALCONY Co- Chairman Bruce Ventimiglia, Chairman of Saratoga Capital Management, LLC stated that "BALCONY – the Business and Labor Coalition of New York, is concerned that the New York State budget is being balanced by Governor Paterson disproportionately on the backs of workers who are middle and low income wage earners, and that the Governor's approach will result in a loss of essential services which could further damage our State's economy. Many businesses in New York, which rely upon our State's services, stand ready to share the responsibility for keeping our State solvent. Furthermore, there are thousands of wealthy New Yorkers who are ready, willing and able to do their fair share to help us maintain our State's economy. We call upon the State Legislature to adopt a balanced approach to our budget shortfall and to consider policies that restore tax equity to our state and local tax system."

"Solutions to the budget deficit should address the problems that created it. It was not caused by excessive state spending but instead excessive tax cuts for the rich in recent year combined with poor management of the economy by our elected officials. The most recent example of this is the failure to properly oversee financial institutions and mortgage lenders. Real people will be hurt from the proposed across the board cuts in state spending, especially when this is done during an economic down turn. A more balanced approach should start with restoring fairness to our state tax system, so that the janitors in Trump Towers don't pay the same income tax rate as Mr. Trump," said Mark Dunlea, Executive Director of Hunger Action Network.

Dunlea said that anti-hunger groups were already upset with the earlier cuts in state spending for emergency food and school meals and worry that the new cuts will impact even more programs such as job training, basic literacy programs and child care.

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Déjà Vu All Over Again – Budget Balancing in Bad Times Lessons From the Last Two Recessions

Governor Paterson has sounded the warning bell that the economy is in trouble and the deficit is growing. Just this week he proposed additional cuts (a menu of \$1 billion in cuts) to this year's state budget, on top of the cuts (3.35%) that he made earlier this year and has called the Legislature back to Albany for a Special Session to act on his proposals. He has said we need significant cuts to state expenditures, but he has completely ignored the revenue side of the budget equation. The Governor calls for "shared sacrifice" but seems to be targeting those with the least means rather than those with the most.

Indeed, the cuts made earlier in the year are already having a damaging impact on non-profit organizations that deliver state services to a wide variety of constituent groups across the state. It's time for the Governor to take a lesson from New York's history books as he develops his plan to dig the state out of the current fiscal crises.

In January of 2003, New York State built up a combined deficit of \$11.5 billion for the upcoming 2003-04 fiscal year and the close-out of 2002-03; and Governor Pataki proposed closing that gap primarily through service cuts. In response to the Governor's proposal, Senate Majority Leader Bruno and Assembly Speaker Sheldon Silver led the Legislature in adopting, over the Governor's vetoes, a much more practical approach to balancing the state budget including a temporary three-year income tax increase of less than one percent on taxpayers with taxable incomes above \$500,000, and a smaller increase on families with taxable incomes above \$150,000. This approach to budget balancing helped New York rebound faster than it did from the 1990s recession – when it had relied on a strategy of only massive budget and service cuts. It did not have the negative impact on the state's economy, or on the number of high-income taxpayers in the state, that Governor Pataki predicted in vetoing the Legislature's budget bills. In fact, the number of high-income returns grew steadily from about 245,000 in 2002 to an estimated 420,000 in 2007 and employment in the state increased each year that the temporary surcharge was in place. The wealthiest New Yorkers (over \$200,000) also saw their incomes increase 108% between 2003-2008 (those below \$200,000 only saw an increase of 15% over the same time period).

The lessons to be learned from New York's fiscal policy choices during the last two recessions are clear. The balanced approach to the state's budget that was adopted in 2003 worked much better than the deep service cuts of the early 1990s which prolonged and deepened the effects of that recession on New York State.

Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, and the chairman of Governor Paterson's new Council of Economic Advisors explains that an increase in the tax on the portions of families' incomes over some relatively high level (i.e., a tax on the portions of incomes that are least likely to be spent) is the least damaging mechanism for balancing state budgets during recessions. In contrast, cuts in government spending on goods and services that are produced locally (like education and healthcare) and cuts in transfer payments to lower-income families are most damaging to the economy since they come closest to taking dollar for dollar out of the local economy.

Learning from the Past! Solutions to Our Budget Crisis:

The more than 100 members of the Better Choice Budget Campaign (representing nearly 1 million New Yorkers) believe that New York State needs to take a balanced approach to balancing the state's budget problems.

We support making the wealthiest 1% of New Yorkers pay their fair share.

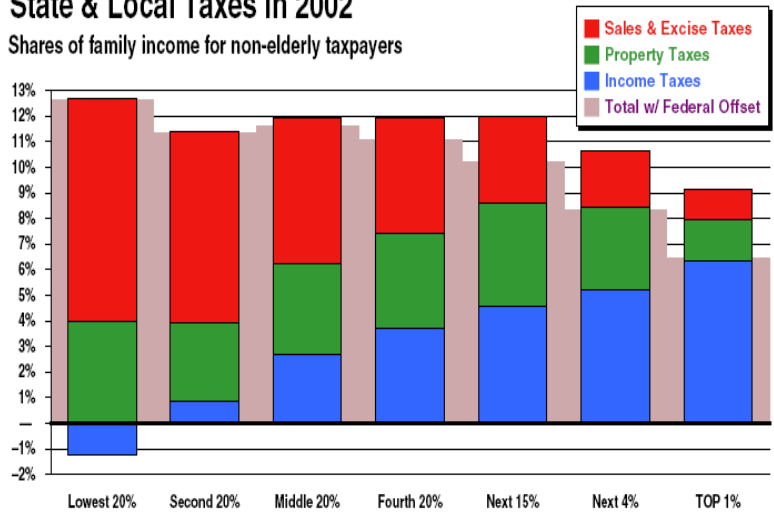
Currently, low and middle-income families in New York pay a much greater share of their income in state and local taxes than the richest New Yorkers. This is because of the pressure that the state has placed on local property and sales taxes over the last 30 years as it has moved New York State's income tax system from one with 14 brackets ranging from 2% to 15% to one with five brackets in a very narrow range from 4% to 6.85%.

The most recent detailed study of the impact of New York's overall state-local tax system on families at different income levels found that the richest one percent of families - those with an average income of \$1.6 million - paid only 6.5% of their income in state and local income, property, and sales taxes; while the overall state-local tax burden for families in the middle-of-the-income distribution (those with incomes between \$27,000 and \$44,000) was 11.6%. The poorest New Yorkers - those with incomes below \$15,000 - carried the highest tax burden, 12.6% of their overall income.

New York

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 - \$27,000	\$27,000 - \$44,000	\$44,000 - \$74,000	\$74,000 - \$160,000	\$160,000 - \$634,000	\$634,000 or more
Average Income in Group	\$8,700	\$20,700	\$34,900	\$56,800	\$102,000	\$250,000	\$1,663,000
Sales & Excise Taxes	9.5%	7.5%	5.7%	4.5%	3.4%	2.2%	1.2%
General Sales—Individuals	3.9%	3.6%	2.9%	2.5%	1.9%	1.3%	0.7%
Other Sales & Excise—Ind.	2.7%	1.6%	1.1%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.9%	2.3%	1.7%	1.3%	0.9%	0.6%	0.4%
Property Taxes	4.4%	3.0%	3.5%	3.7%	4.1%	3.2%	1.6%
Property Taxes on Families	3.9%	2.7%	3.1%	3.2%	3.5%	2.7%	0.7%
Other Property Taxes	0.5%	0.4%	0.4%	0.5%	0.5%	0.6%	0.9%
Income Taxes	-1.2%	0.8%	2.7%	3.7%	4.6%	5.2%	6.3%
Personal Income Tax	-1.3%	0.8%	2.6%	3.7%	4.5%	5.1%	6.0%
Corporate Income Tax	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	12.7%	11.4%	11.9%	11.9%	12.0%	10.6%	9.1%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.8%	-1.8%	-2.3%	-2.7%
TOTAL AFTER OFFSET	12.6%	11.3%	11.6%	11.1%	10.2%	8.4%	6.5%

Note: Table shows 2002 tax law at 2000 income levels.

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Let's take a balanced approach to balancing this state budget. Let's not place the burden on those that can least afford it. Let's ask the wealthiest New Yorkers to step up to the plate and help out the state in this fiscal crisis. 78% of New Yorker's support making the wealthiest pay their fair share. Its time that the Governor listened to them!

For more information please contact Ron Deutsch, New Yorkers for Fiscal Fairness (518)452-2130