

Higher taxes surface in talks

Governor advances idea of new levies plus budget cuts as way to close gap

By **JIMMY VIELKIND**, Capitol bureau

First published in print: Friday, June 25, 2010

ALBANY -- With four days left until the deadline imposed by Gov. David Paterson, legislators found themselves lost in the some of the thorniest weeds of budget negotiations: taxes.

"I would say that we're pretty close, but we're down to the point where the real tough decisions are being made," Paterson said during a radio interview Thursday.

"Taxes are regrettable," he continued. "Certainly we don't want to increase them at this particular time, but a combination of a few taxes and some rather severe cuts to services is the best, I think, solution."

Dan Cantor, executive director of the Working Families Party, arrived at the Capitol to push legislators to increase income taxes or tax bonuses paid to high earners. On the other side of the issue, Mike Elmendorf of the National Federation of Independent Businesses attempted to hold senators -- including Democrats who narrowly control the chamber and Republicans who have voted against other tax increases -- to hold firm to a commitment not to raise taxes.

"It's practically the 11th hour, and everyone is suddenly talking about taxes again -- even people like the governor, who said we made a mistake raising them last year," Elmendorf said. "At least they're not talking about borrowing, too. A thin silver lining."

Paterson declined to specify what revenue-generating proposals might end up in the final agreement. In January's executive budget proposal, he proposed a tax on sugary drinks that has never gained legislative favor; a proposal to sell wine in grocery stores; and an expansion of lottery and video-lottery gambling.

In addition, legislative leaders confirmed Thursday they may reinstate a 4 percent state tax on clothing and shoes. Sources familiar with the budget process said lawmakers may eliminate the state income tax deduction for charitable donations by people making over \$10 million.

The state has bridged roughly half of its \$9.2 billion deficit, but has enacted over two-thirds of its spending plan -- leaving a very big chunk of missing funds.

An overall budget was due April 1, but lawmakers have continued negotiating while passing weekly extender bills. Paterson threatened last week that if a complete budget was not adopted, he would submit his proposed budget in the language of an extender, forcing lawmakers to pass education cuts and taxes many don't support or shut down government instead.

The governor did not meet Thursday with legislative leaders, who instead conducted their own private meeting.

"I really have some concern when you're talking about, you know, taxes and fees," Senate Democratic Conference Leader John Sampson said of ending the sales tax exemption. "I know we're getting very close, but this is something I'm listening (to) and I'm discussing with my conference. ... There hasn't been any final determination."

Sampson brushed off the issue of whether the budget should reflect the possible loss of \$1 billion in federal Medicaid funds. Sampson cited New York City Mayor Michael Bloomberg's decision to book \$600 million of the money as if it were still coming, and said he planned to do the same: "We're going to continue to plug away until we hear otherwise," he said.

But Paterson is convinced the state needs to plan as if the federal funds aren't coming.

Sampson confirmed lawmakers are considering a trick to restore education funding, which Paterson wants to reduce by \$1.4 billion. Assembly Democrats restored \$600 million of the cuts, and Senate Democrats holding out for a property tax relief program will accept the restoration with a catch: Funds earmarked for all but the state's five largest urban districts must be dedicated to reduce property taxes.

"These districts already passed their budgets, I assume they tightened their belts," said Deputy Majority Leader Jeff Klein, D-Bronx, who is pushing the proposal. "It just doesn't make sense, once you passed the budget and have made the tough choices. ... This is a great way to reduce the tax levy even further."

Education advocates said the plan makes no sense and was disingenuous.

"Why would an elected official be opposed to using school aid to education our school children?," asked Billy Easton of the Alliance for Quality Education.

Speaking Thursday, Assembly Speaker Sheldon Silver sounded a bit like a Zen master when asked for his prediction of whether the plan could come together over the weekend.

"We'll have a budget deal when we have a budget deal," he said. "And we'll enact a budget when we have a budget deal."