



Council of Churches
Presentation
Revenue Issues in NYS

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New Yorkers for Fiscal Fairness



Economic Context

- Four years of moderate job and income growth in New York appear to be coming to an end.
- The U.S. economic expansion since mid-2003 was heavily fueled by debt, much of it related to an unsustainable housing bubble.
- Wall Street's turmoil bodes ill for New York and the nation.
- Mortgage foreclosure problems will worsen in New York.



2008-09 Enacted Budget



Enacted Budget Overview

- Balanced budget passed with minimal delay on April 9, 2008.
- Spends less than Exec. Budget for first time in a decade.
- Closed \$5.2 billion General Fund deficit *without* tapping rainy day reserves.
- Governor Paterson's first act in office was to propose \$800 million in across-the-board cuts, \$710 million of which were implemented
- Makes important investments in education, health care coverage and economic development



2008-09 Budget Gap

General Fund Deficit	\$5.2 B
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Legislative Initiatives	\$873M
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2008-09 Budget Gap	\$6.1 B
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\$6.1 billion Gap Closing Plan

**Labor
Reserves**

\$620 million

**Revenue
Actions**

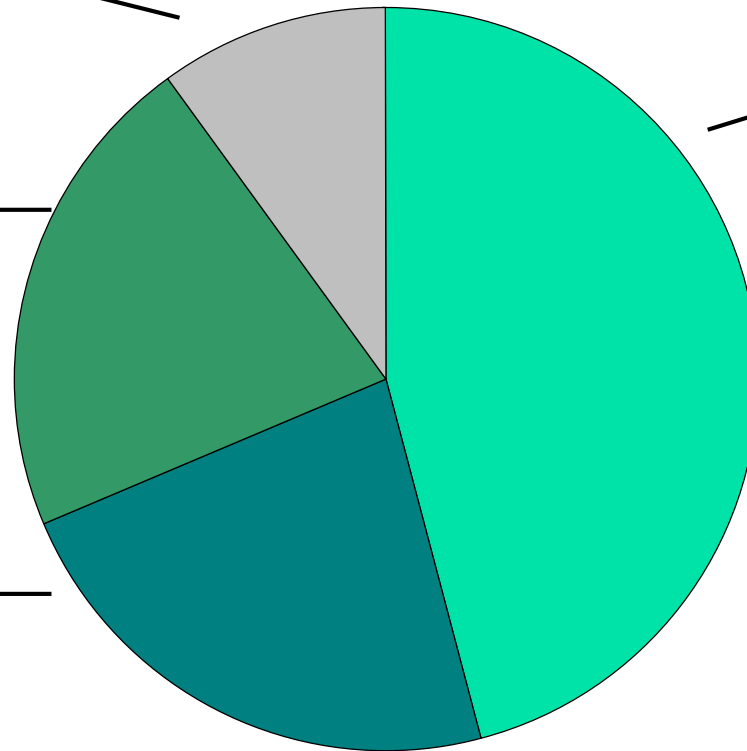
\$1.3 billion

**Non-recurring
Actions**

\$1.3 billion

**Savings
Actions**

\$2.8 billion



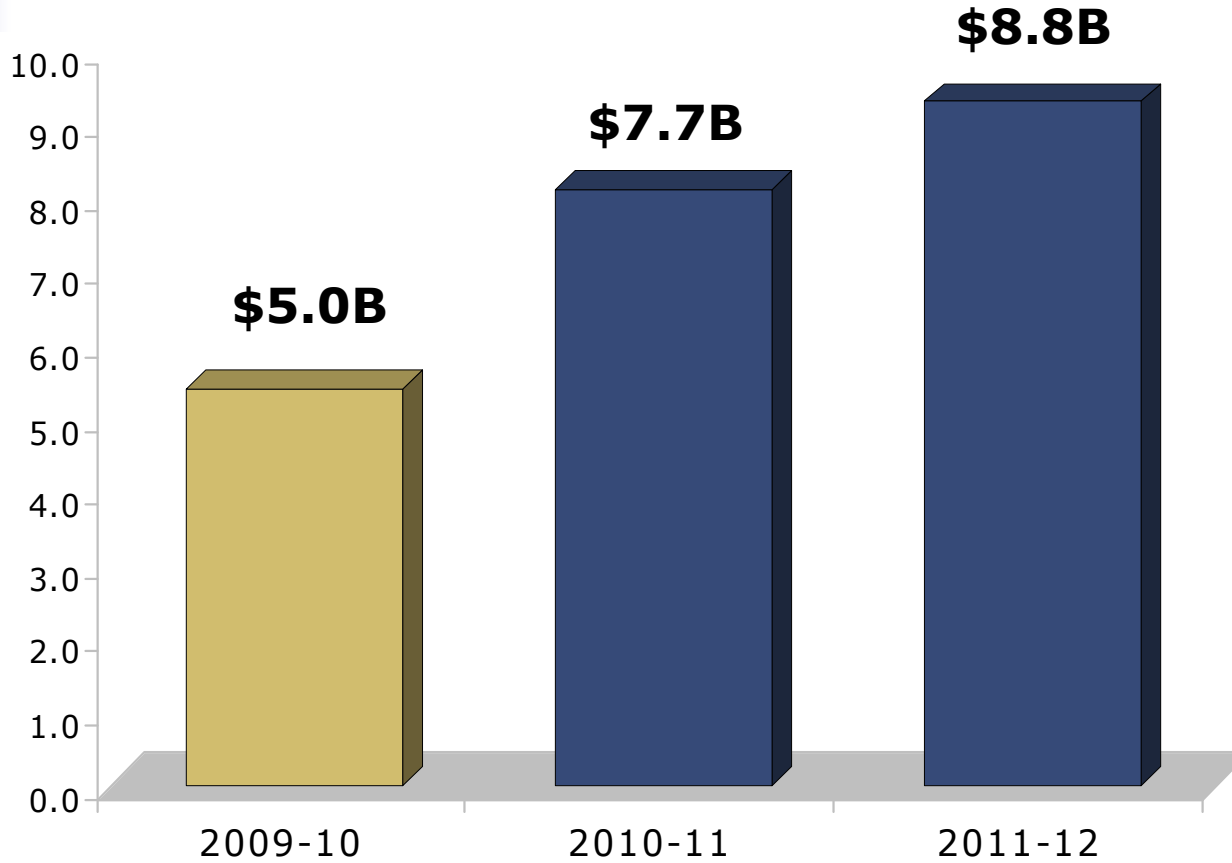


Major Policy Initiatives

- **K-12 Education**: \$1.8 billion school aid increase
- **Economic Development**: \$1.6 billion statewide economic development capital plan (\$700 million Upstate Revitalization Fund)
- **Health Care**: Provides access to coverage for all New York's 400,000 uninsured children; begins reforming reimbursement system to invest in primary and preventative care;
- **Higher Education**: Nearly \$2.5 billion capital investment in SUNY and CUNY projects; authorizes creation of Endowment, but does not specify funding source.

Significant Out-year Budget Gaps

Projected Out-year General Fund Deficits

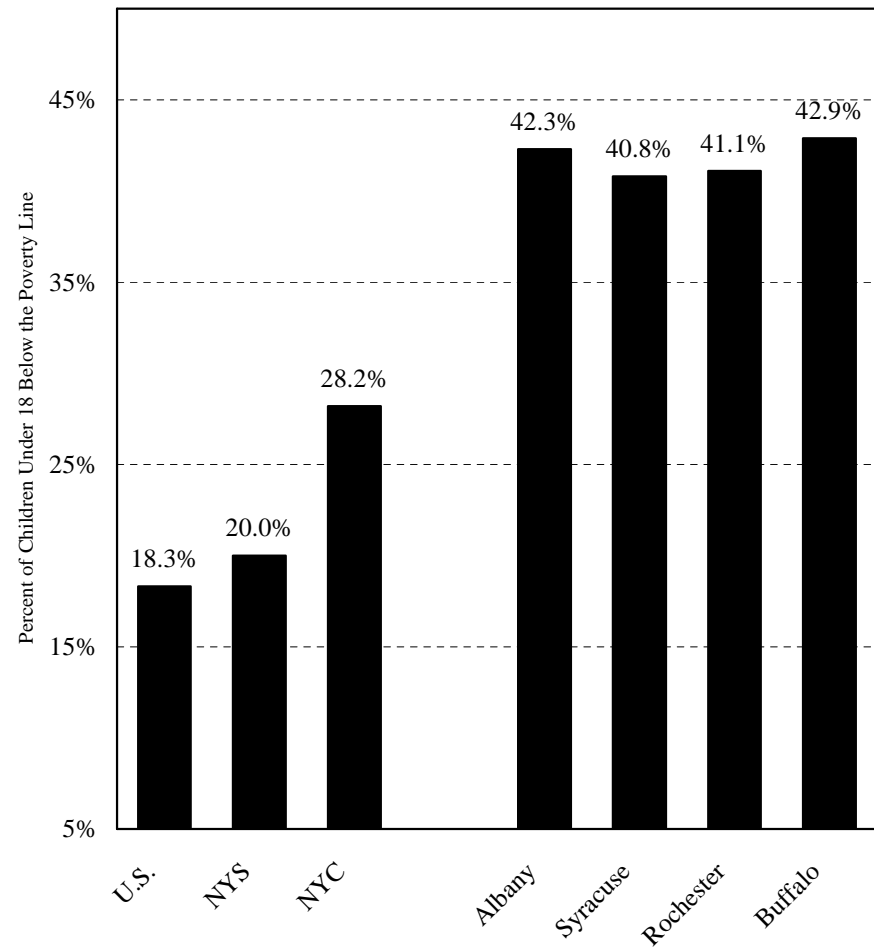
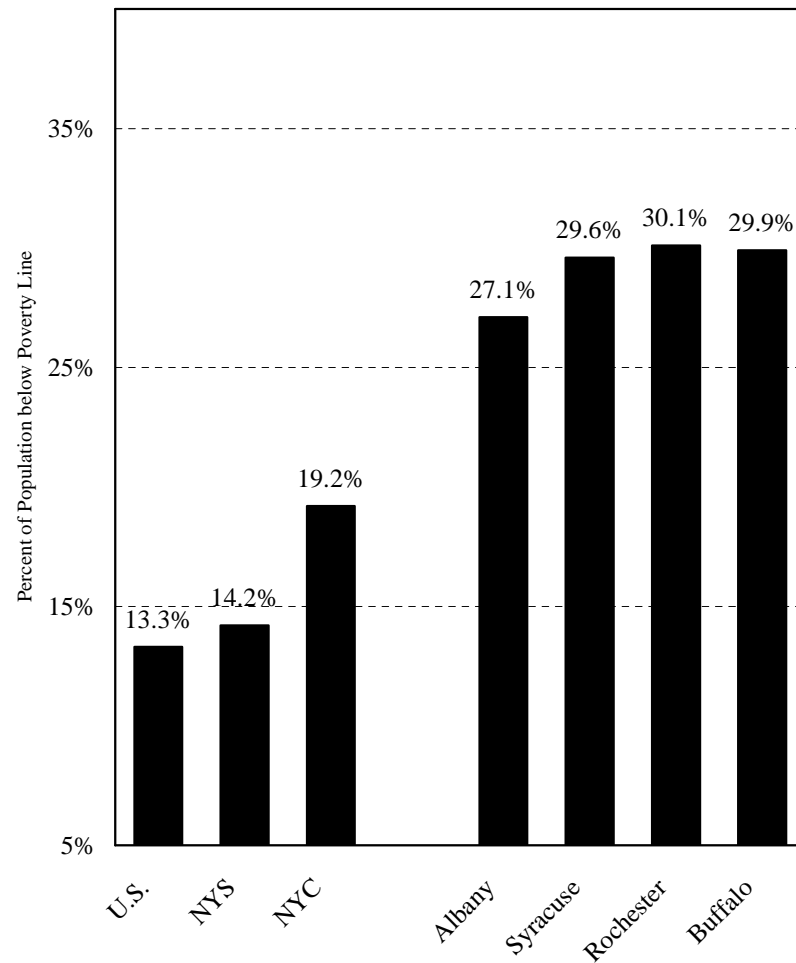




While the economic slowdown takes center stage, New York also needs to understand and address four “troubling trends.”

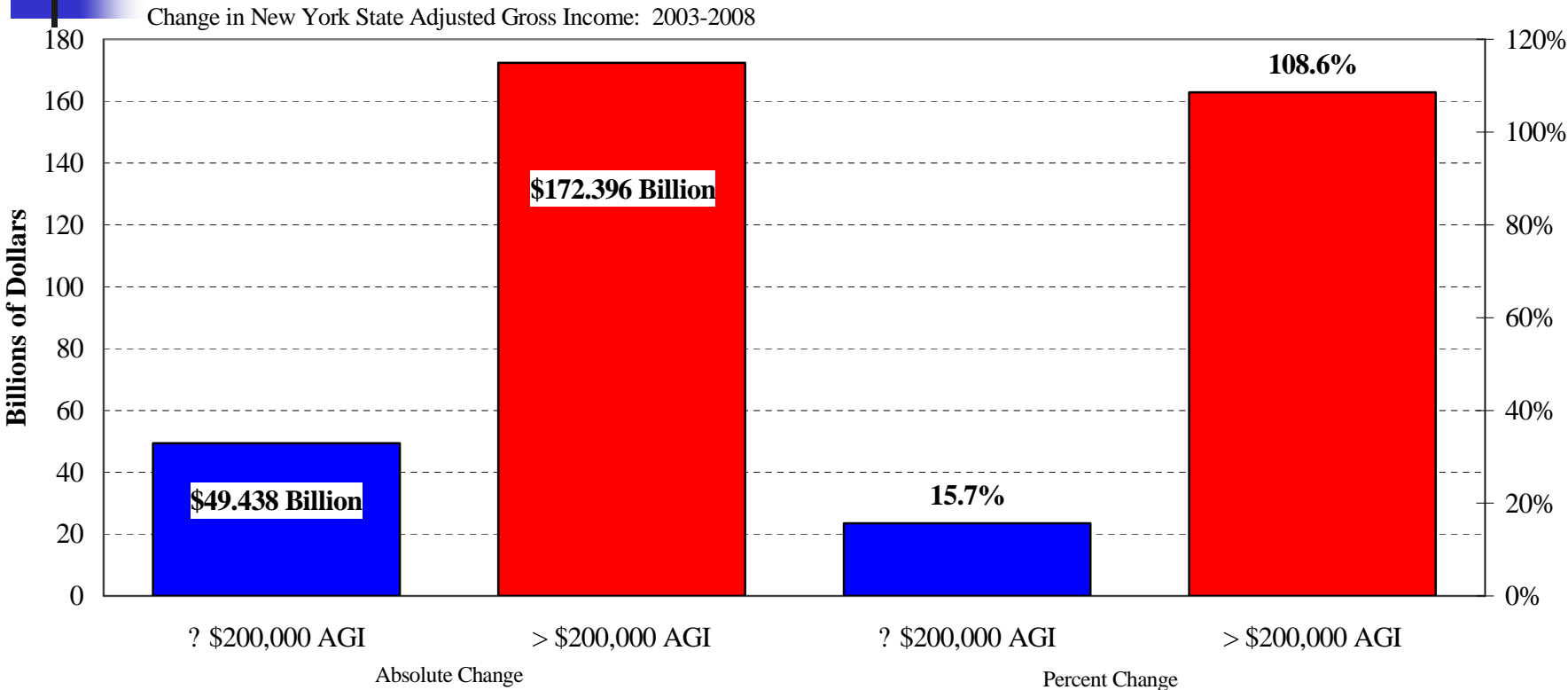
- The deterioration in job quality—less economic security, fewer benefits
- Wage-productivity gap—New York’s productivity grows but outstrips wage growth
- The reality that just getting a job isn’t enough to lift families out of poverty—the increase in the working poor
- The widest income gap among states between rich and poor and between the rich and the middle class

Poverty rates are much higher in the major upstate cities than in New York City or the national average.

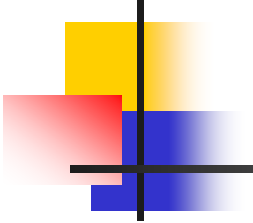


Source: American Community

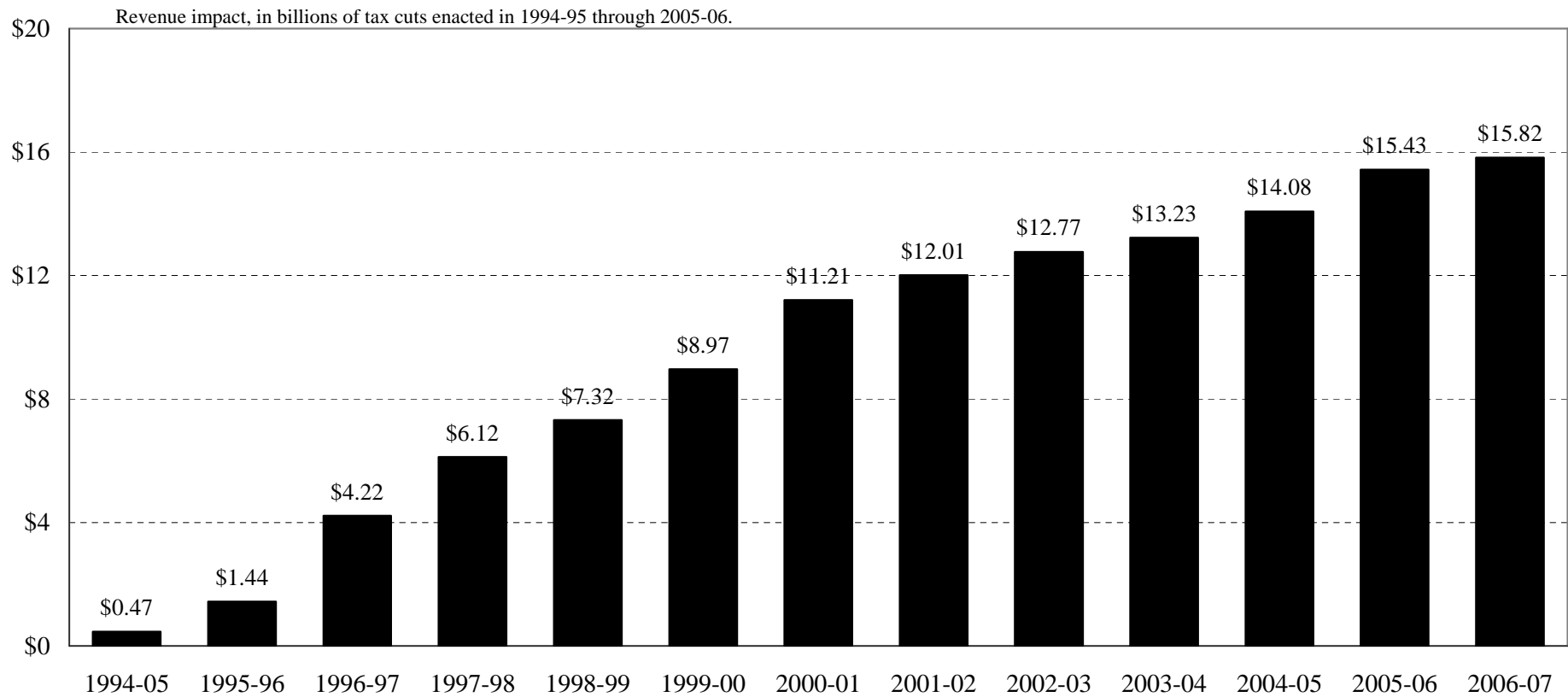
New York's income growth since 2003 has been concentrated among the top five percent.



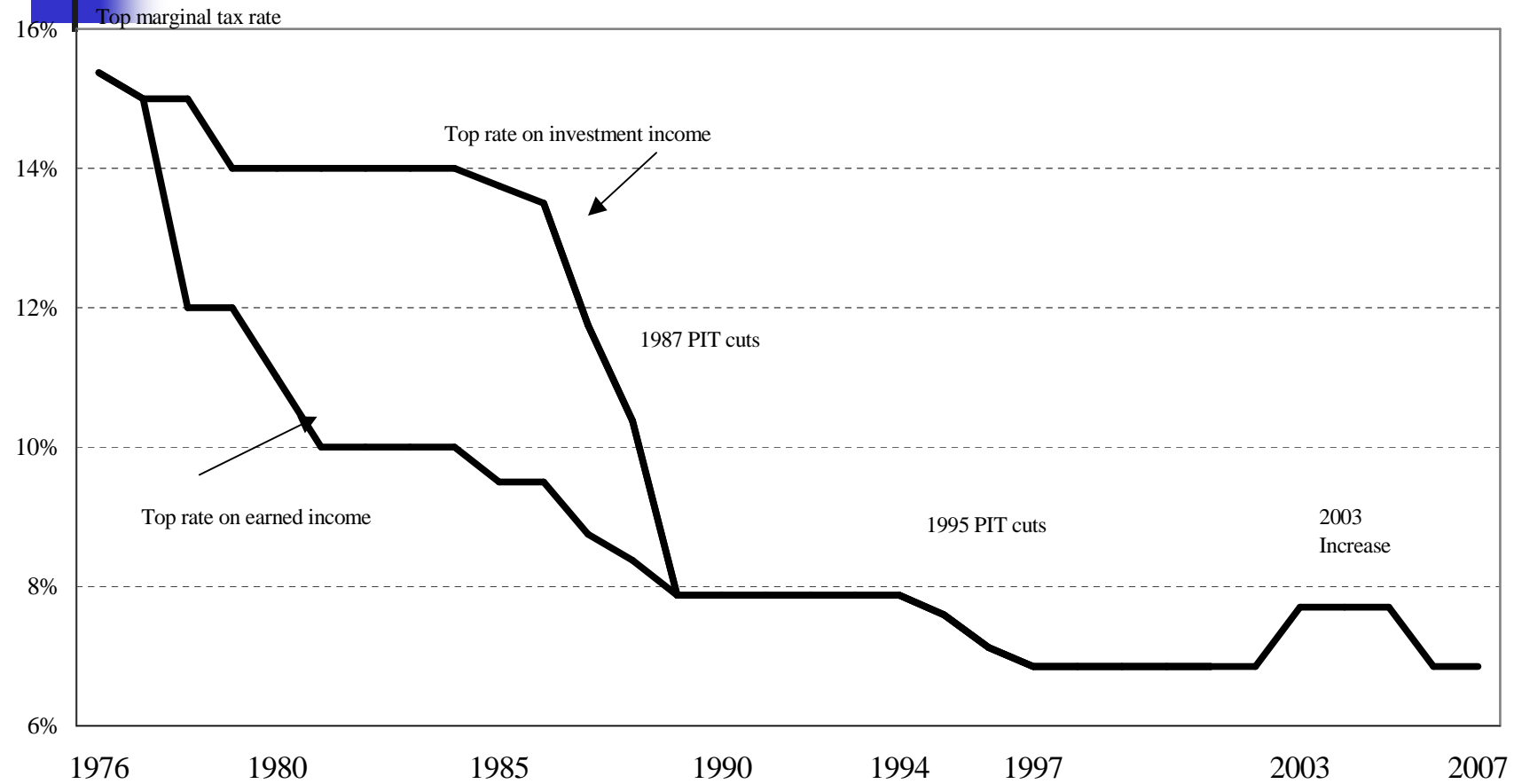
Source: New York State Division of the Budget.



The tax cuts enacted since 1994 are reducing state revenues by over \$16 billion.



New York State has cut its top personal income tax rate by more than 50 percent over the last 30 years -from 15.375% to 6.85%.



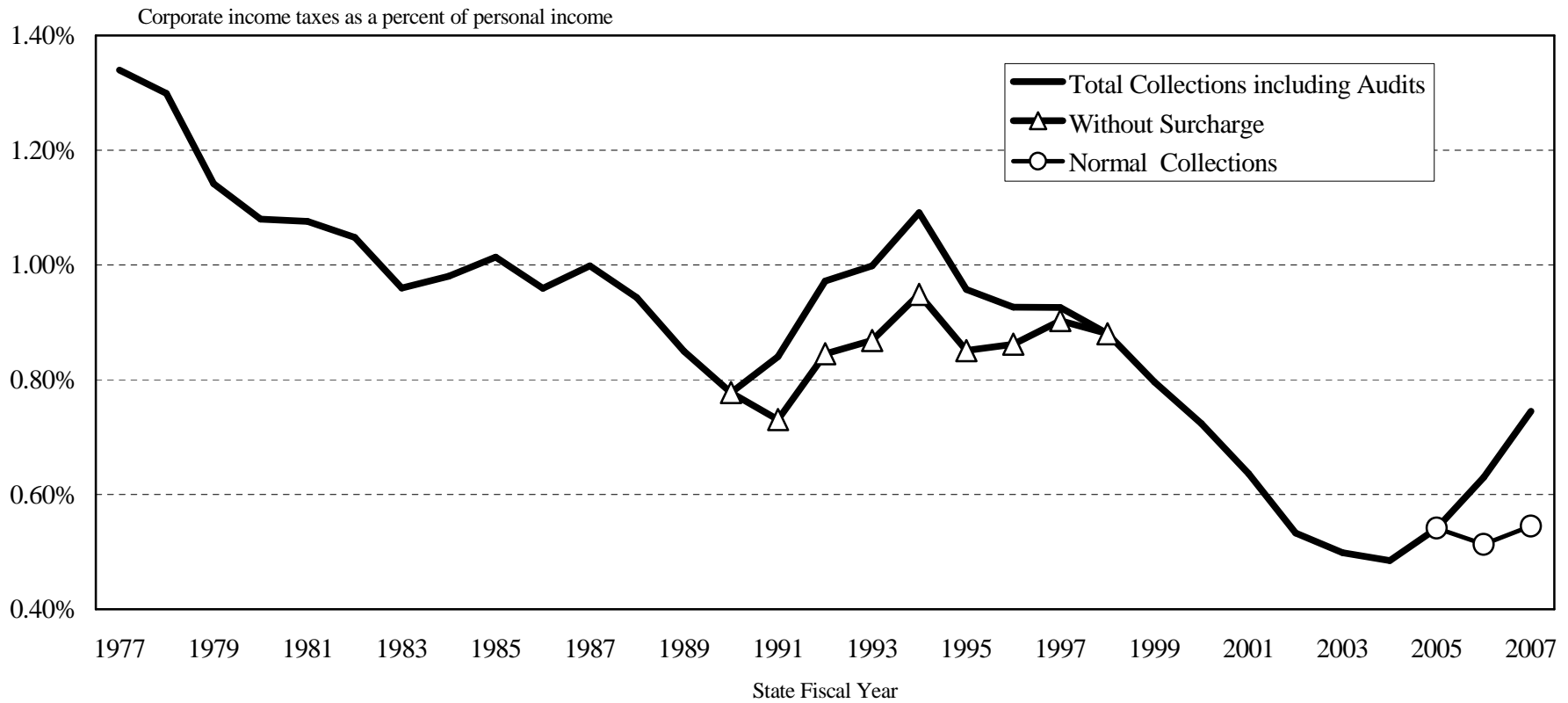


New York's top state personal income tax rate is at an historical low relative to New Jersey and Connecticut.

	<u>1976</u>	<u>1985</u>	<u>2003</u>	<u>2004</u>	<u>2006</u>
New York	15.375%	9.5%	7.7%	7.7%	6.85%
New Jersey	2.5%	3.5%	6.37%	8.97%	8.97%
Connecticut	0	0	5.0%	5.0%	5.0%

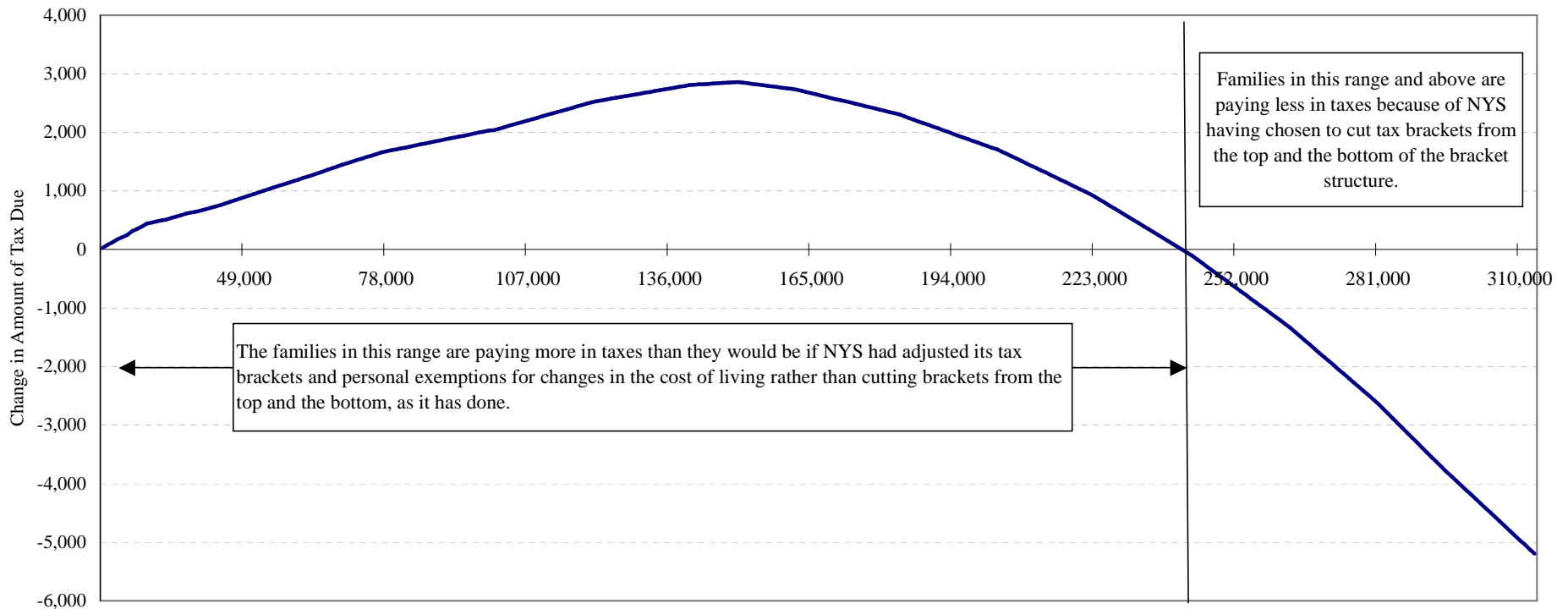
Note: The tax rates shown above are for wages, salaries and business income. Prior to 1991, Connecticut taxed the interest, dividends and capital gains of high income residents but it did not tax business income, wages, salaries and other income. From 1978 through 1988, New York employed a dual rate system in which it applied a higher top rate to investment income than to wages, salaries and business income. For 1985, the top rate applicable to investment income was 13.5%.

Corporate income tax revenues have fallen substantially relative to the size of the economy.



Note: Includes the state's main income tax on general corporations (the Corporate Franchise Tax, Article 9-A & 13), as well as the Corporation and Utilities Tax (Article 9), the Insurance Tax (Article 33) and the Bank Tax (Article 32).

Over the past 30 years, NYS has shifted the tax burden and greatly reduced tax revenues by having cut personal income tax rates from the top and bottom rather than adjusting the state's tax brackets and the personal exemption amounts for inflation.

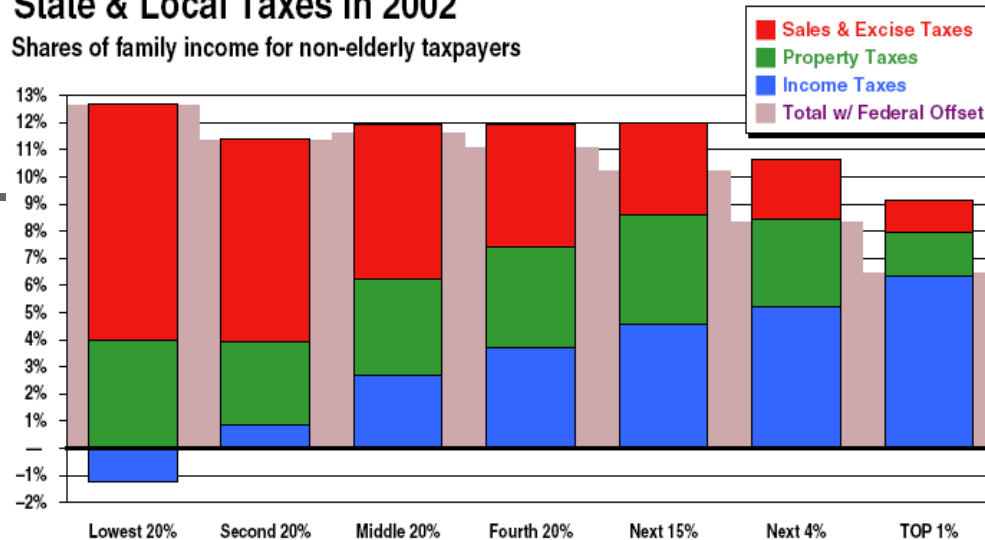


New York Adjusted Gross Income, from \$20,000 to \$313,000, of Families of 4 - weighted average of standard vs. itemized deductions - includes Household Credit

New York

State & Local Taxes in 2002

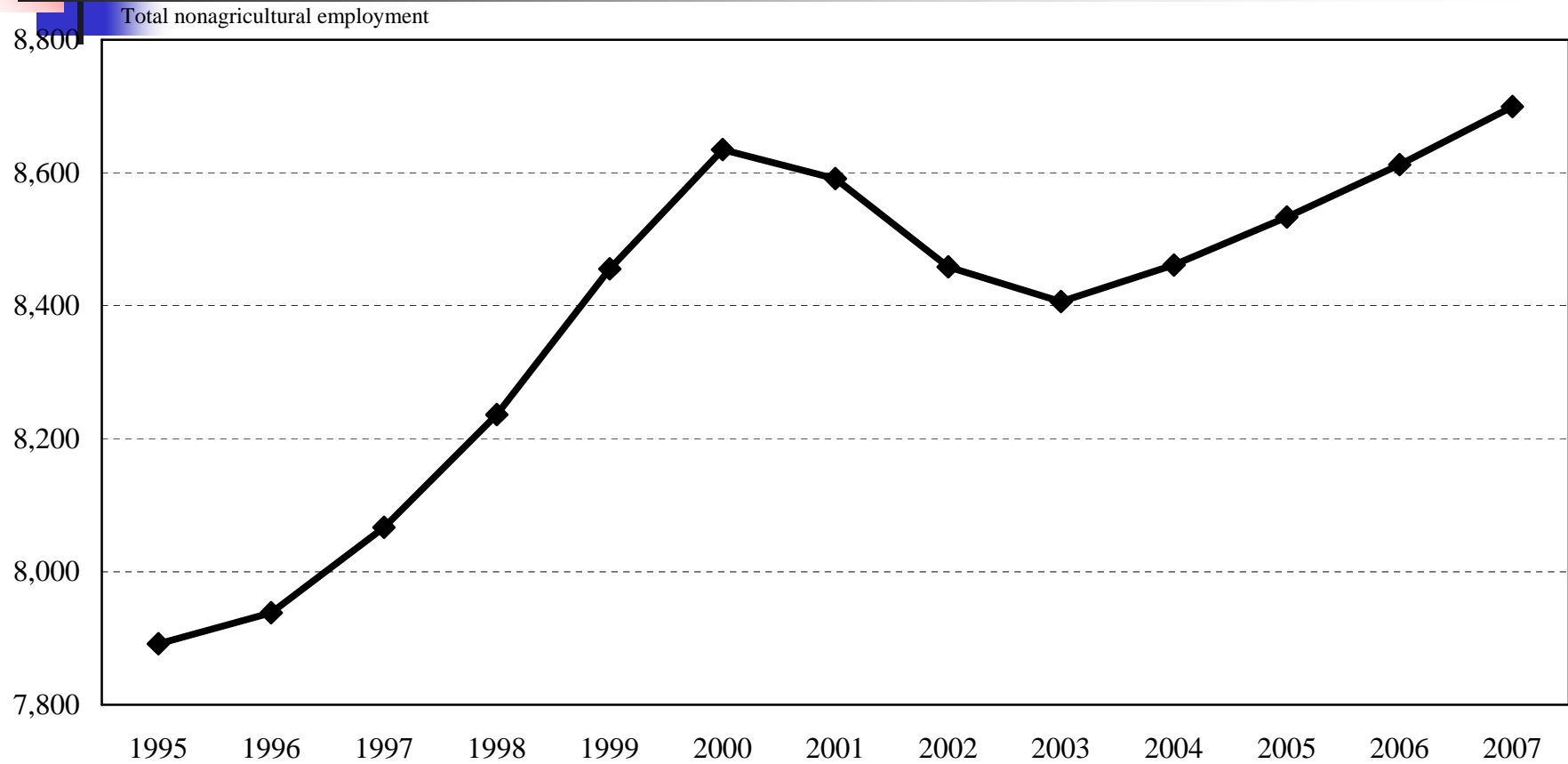
Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
	Income Range	\$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%

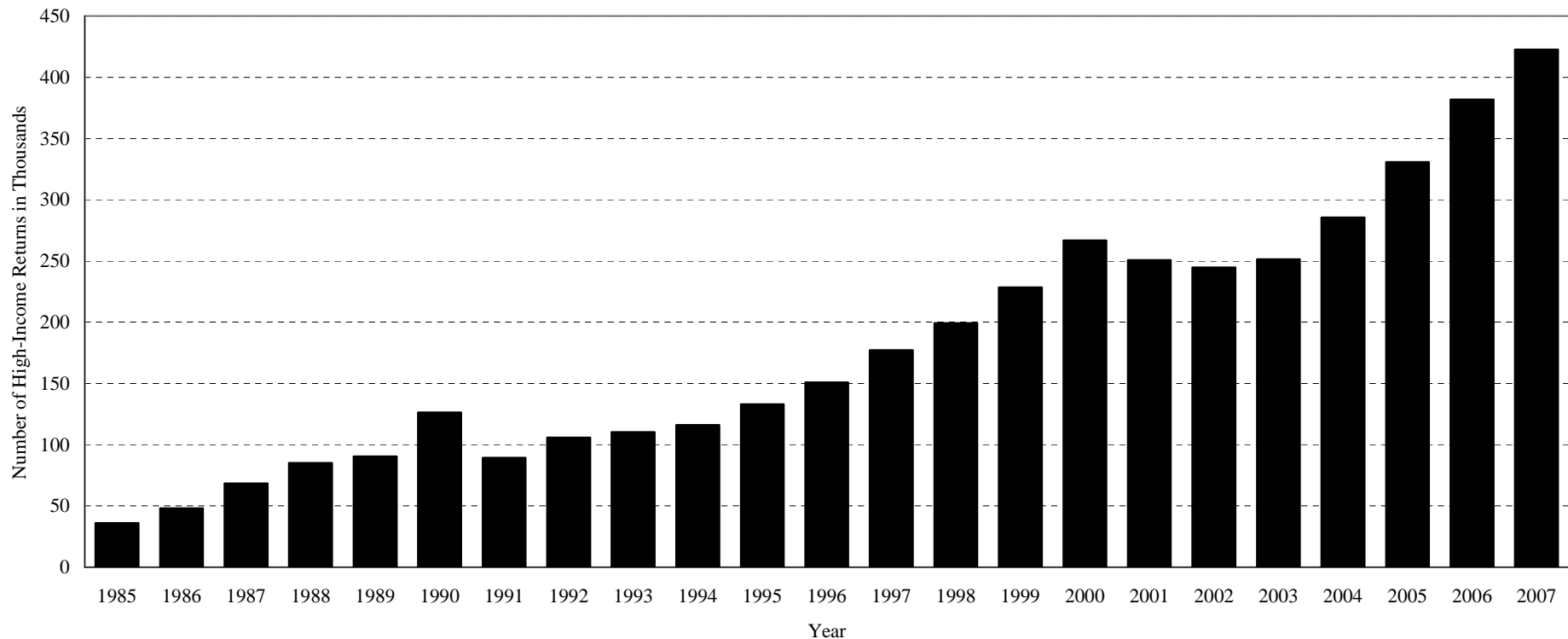
Note: Table shows 2002 tax law at 2000 income levels.

The 2003 tax increases did not have the negative economic effects that Governor Pataki predicted.

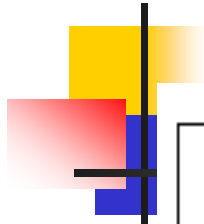


Source: US Department of Labor. 2007 annual employment level projected based on 11-month change.

Following the 2003 adoption of the 3-year temporary increase in the top rate on the personal income tax, the number of high-income returns grew significantly.




Source: New York State Division of the Budget, , Economic and Revenue Forecast, Executive Budget 2007-08



Hypothetical Graduated Rate Options

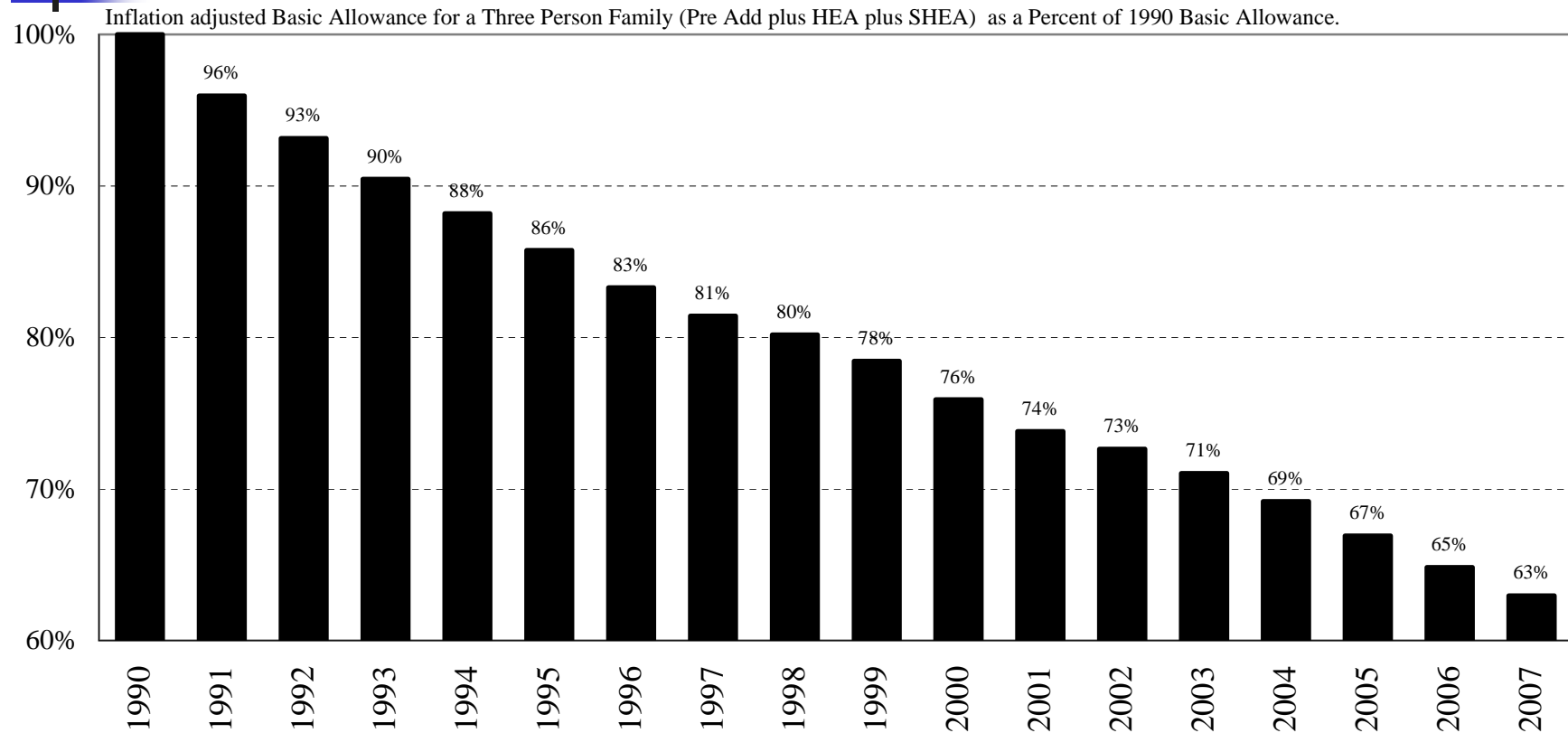
<u>\$200,000 to \$500,000</u>	<u>\$500,000 to \$1 million</u>	<u>\$1 million to \$5 million</u>	<u>\$5 million to \$10 million</u>	<u>Over \$10 million</u>	Estimated Annual Revenue
1.00%	2.00%	3.00%	3.00%	3.00%	\$4.3 Billion
1.50%	2.50%	3.50%	3.50%	3.50%	\$5.2 Billion
1.00%	2.50%	4.00%	4.00%	4.00%	\$5.5 Billion
1.00%	2.00%	3.00%	4.00%	5.00%	\$5.1 Billion
1.50%	2.50%	3.50%	4.50%	5.50%	\$6 Billion



How can we reduce pressure on property taxes?

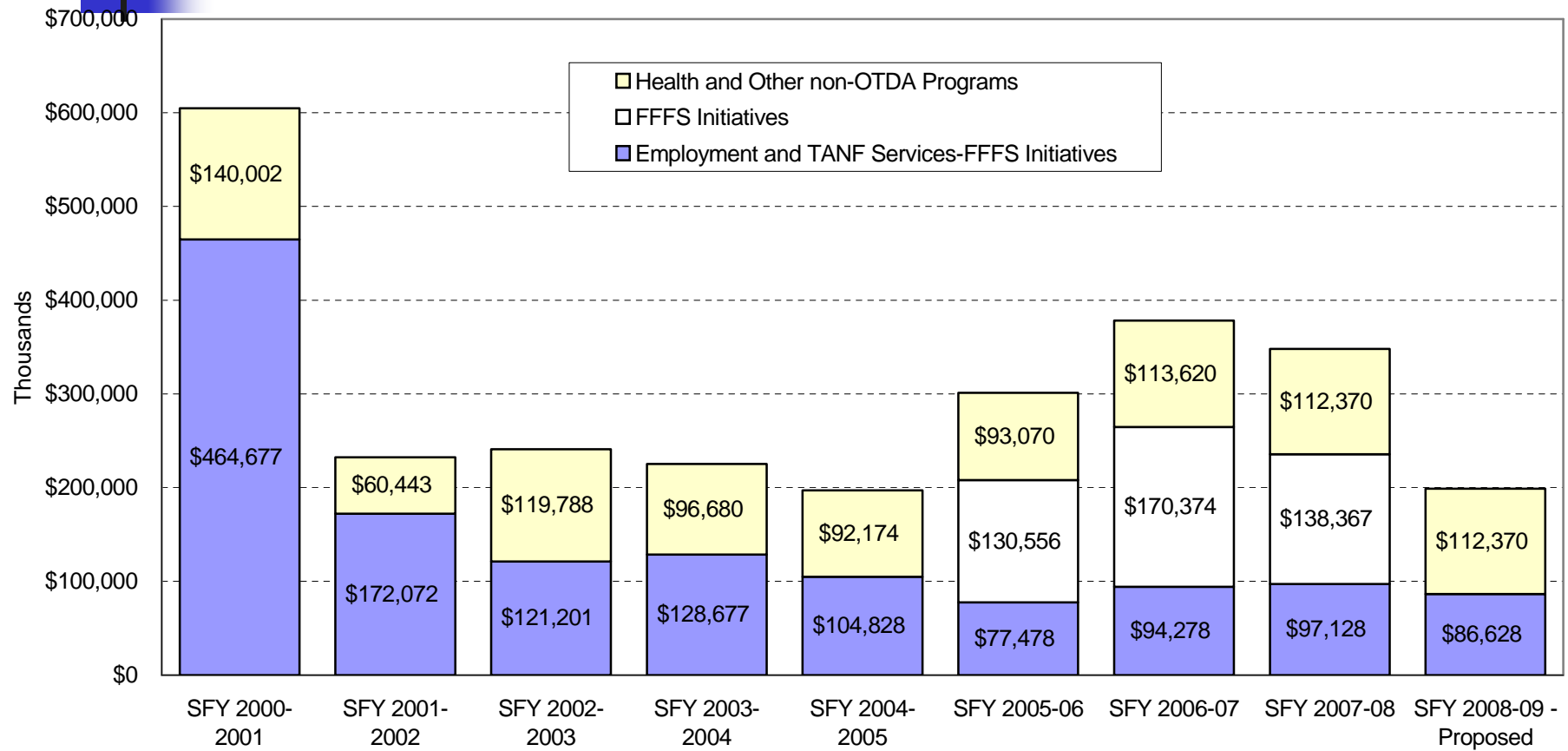
- Provide Revenue Sharing at Statutory levels
- Gradual State takeover of County share of Medicaid costs based on ability to pay
- Increase state share of education revenues
- Replace STAR with a middle class circuit breaker – Little/Galef Bill

New York's Basic Cash Assistance Allowance has not been increased since 1990. It has lost more than a third of its purchasing power since then.



TANF Funds available for employment, training and education are not sufficient.

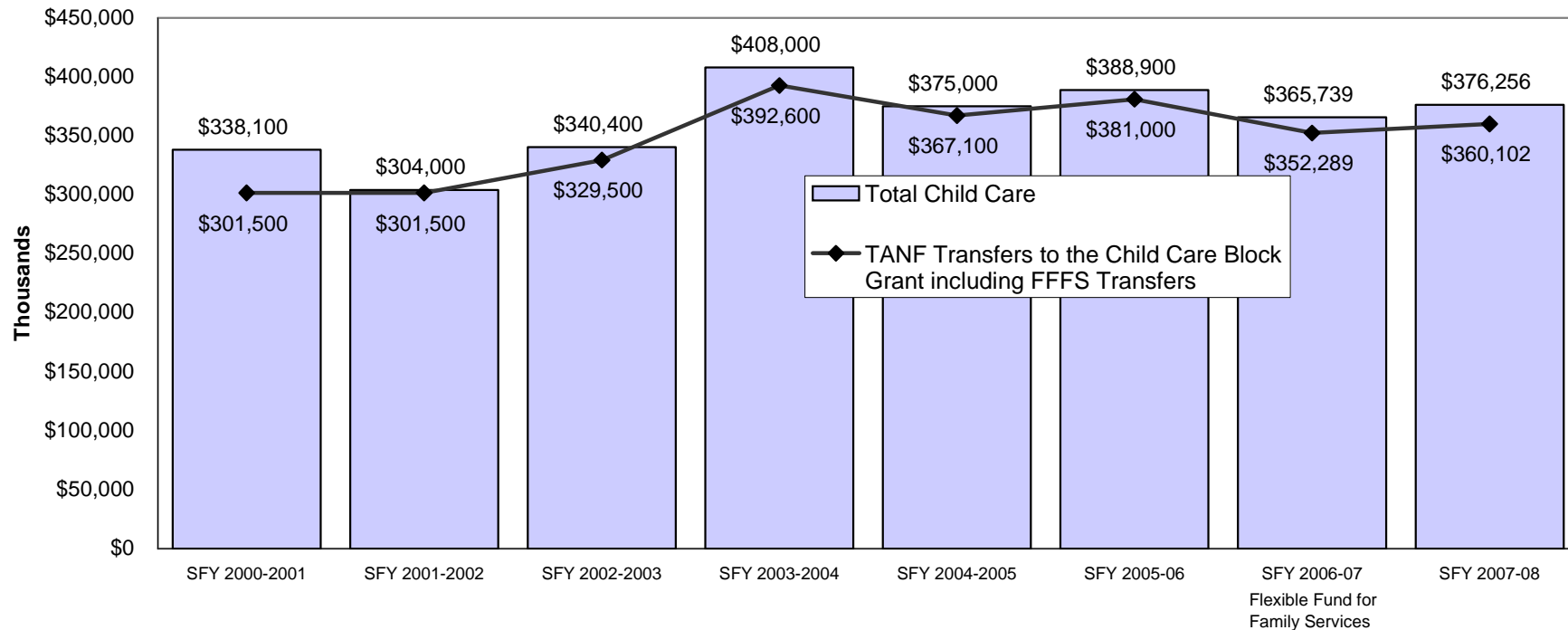
Even if we include the social services districts' FFFS allocations for TANF services and employment services, only a small fraction of the "surplus" goes these initiatives.



Source: NYS Division of Budget and Flexible Fund for Family Services Plans

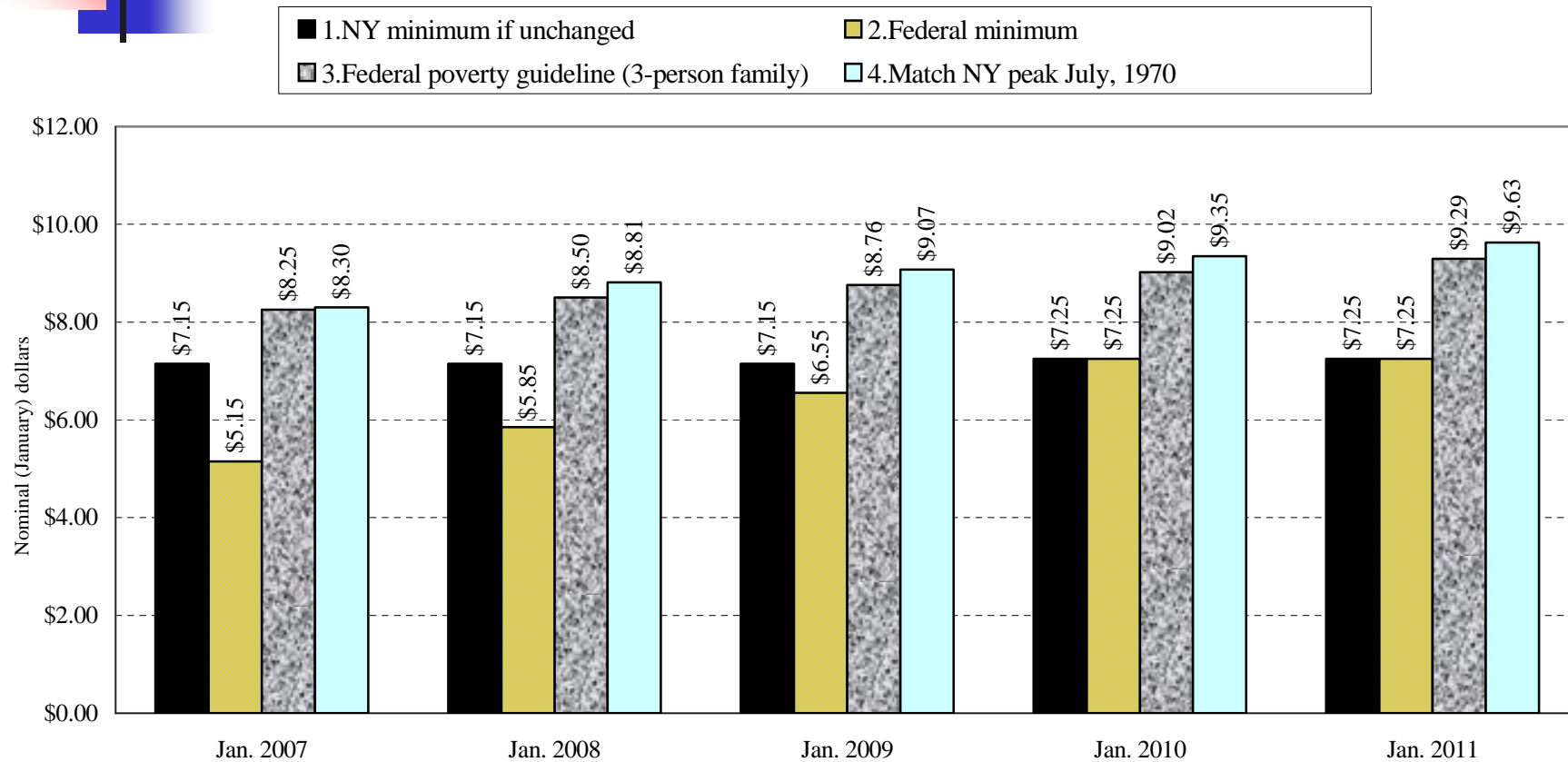
Use of TANF funds for child care peaked in 2003-04. Even when transfers from the FFFS and legislative child care initiatives are included in the totals, fewer TANF funds went to child care in 2007-08 than were allocated for that purpose in 2005-06.

This trend is not consistent with the new emphasis on meeting federal work requirements.



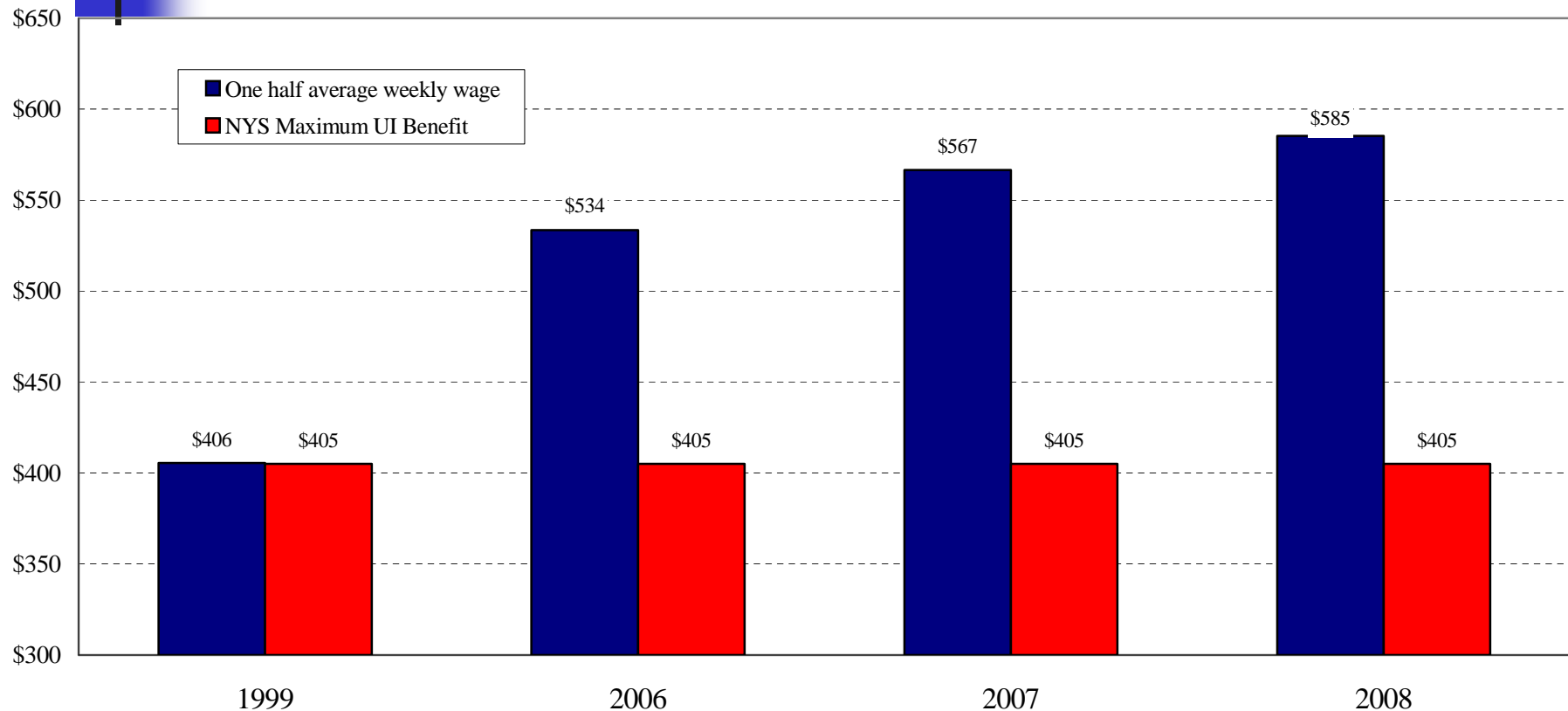
Source: NYS Division of Budget and Flexible Fund for Family Services Plans

To restore the minimum wage to its July 1970 purchasing power, New York would have to increase its minimum wage to \$9.63 by January 2011.



Year-to-year projections assume 3% annual increase in CPI. Federal poverty guideline for 2008 estimated by FPI following HHS methodology.

New York State's maximum weekly Unemployment Insurance benefit has not kept pace with wage growth.



Source: Average weekly wages from the Bureau of Labor Statistics. 2007 and 2008 estimated based on NYS DOB forecasts of growth in wage per employee in the contained in the Multi-year Financial Plan Projections, October 31, 2007.



Better Choice Budget Campaign Revenue Raising Options

- Increase top marginal rates of the personal income tax
- Restructure and economic development subsidy programs (Empire Zones and IDAs)
- Close remaining corporate tax loopholes
- Force lower prescription drug prices
- Enact “Bigger, Better Bottle Bill” and reclaim unclaimed deposits
- Stop contracting out work to pricey private consultants if state workers can do the work



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