

The New York Times

November 10, 2008

Paterson Says Schools and Medicaid Will Face Cuts

By Danny Hakim

SAN JUAN, P.R. — Gov. David A. Paterson said in an interview on Sunday that he would almost certainly seek billions of dollars in cuts to Medicaid, as well as midyear reductions in school aid, to address New York's worsening fiscal condition.

He also said he expected to urge labor unions to reopen the contracts they have struck on behalf of public employees as a way to avoid or decrease layoffs.

Such a step is reminiscent of measures taken by New York City in the financial crisis of the 1970s or moves made more recently by the Big Three domestic automakers to reduce their labor costs after years of granting steady raises and comprehensive health and pension benefits.

Those same types of wage and benefit concessions have long weighed on New York, though the catalyst for the state's current predicament has been the collapse in tax revenue from Wall Street.

The governor, who spent more than two decades as a state senator representing Harlem, said he would be forced to cut even programs he sponsored as a legislator, and he expected to preside over a turbulent period for the state government.

"There'll be protests, and because of the drastic nature of the cuts, those who protest will have very valid points, for which I don't have any answer, other than 'What's your idea?'" Mr. Paterson said. "We're not going to close a \$12.5 billion deficit with 5 percent cuts to health and education."

Asked if the cuts for education and health care programs would be in the billions of dollars next year, he said, "Unquestionably."

His comments, made during an interview between sessions at a conference held here by Latino lawmakers from New York State, put to rest any doubts about the depth of the state's fiscal crisis.

Some of the cuts will be sought when lawmakers return to Albany on Nov. 18 for a special session to help close a \$1.5 billion budget gap for the current fiscal year, which

ends in March, and to get an early start on next year's budget. Any cuts would need support from the Legislature. And the governor will have to propose far steeper cuts when he introduces a budget next month for the fiscal year that ends in March 2010 — that budget will need to close a \$12.5 billion deficit.

Cutting school aid in the middle of the school year, if it comes to pass, will represent an about-face from the sharp increases undertaken by former Gov. Eliot Spitzer to end years of court challenges by advocacy groups that contended that New York City schools were being shortchanged by Albany. The state has not made midyear school aid cuts since the early 1990s, and schools in New York City and elsewhere are already feeling the pinch as municipalities cut their own budgets.

Since taking over in March, after Mr. Spitzer's resignation, Mr. Paterson has been aggressive in sounding the alarm about the state's fiscal woes, at times even suggesting that his predecessor's staff should have moved more quickly to prepare for the recession.

But the governor, who has sometimes made his liberal base uneasy with his newfound mantra of cost-cutting, has by far his toughest fights ahead of him. Reopening labor contracts would prove difficult, because state law bars the government from unilaterally altering the terms of such agreements, though the unions might face the threat of layoffs if they refused.

"They realistically see that it's one of the options that I would have to examine, and I realistically understand that that really is a place that they don't want to go," Mr. Paterson said.

"There is only a harm if the union sees it as a harm," the governor added. "As long as the union sees that as a viable option in lieu of layoffs, then I think you have a partnership."

Mr. Paterson said he had not broached the issue with labor leaders in so many words, though he believed they knew it was a subject on the horizon.

"No one actually has said it, but we say things to each other like, what we said back in September was, 'If this gets any worse, we know what we're going to have to do,' " he said.

How the Legislature will respond remains to be seen; Mr. Paterson must negotiate with the Senate amid significant leadership turmoil.

Dean G. Skelos, the Senate majority leader and a Long Island Republican, has vowed to block education cuts in the Nov. 18 special session — "New York State must not balance its budget by offloading its costs to schools," he said recently, and he has been hailed by teachers' unions for ruling out such cuts.

But Democrats won 32 of 62 seats in the Senate in Tuesday's election, winning a majority for the first time in more than four decades. Three Democrats, however, have yet to commit to supporting the Senate minority leader, Malcolm Smith, a Queens Democrat, as majority leader when the new Legislature is seated in January.

That leaves the Senate's leadership uncertain at an inopportune moment. Mr. Smith said little to reporters this weekend.

Both he and Mr. Skelos were here to woo two key Latino lawmakers who had not yet decided whom to support as leader.

Dan Weiller, a spokesman for Assembly Speaker Sheldon Silver, the Legislature's top Democrat, said, "The speaker has said repeatedly that everything is on the table and that we're prepared to work with the governor and the Senate to make tough choices."

Cuts in school aid and Medicaid are sure to be contentious. Unions representing teachers and hospital workers are among the most powerful special interests in Albany and have waged high-profile publicity campaigns in the past to ward off such cuts.

"Obviously, we will argue strongly against it," said Richard C. Iannuzzi, president of New York State United Teachers.

"It's not like putting off a construction project or an investment; you're talking here about a year in a child's life," he said. "It's hard to make that up."

Mr. Iannuzzi's union also encompasses the United University Professions, a local that represents tens of thousands of faculty members at state universities. While he acknowledged that layoffs were "a threat the governor has the ability to make," he was cool to the idea of reopening labor contracts.

"If the only purpose in reopening it is to take something out, I don't see a lot of our locals entering into that conversation," he said. "If there is some incentive that appeals to them, then we'll enter into that conversation."

Mr. Paterson also said a number of steps were being considered, including long-term leases of state assets; he has already set up a commission to study such proposals.

"I don't want to do things that affect the ability of future legislators and governors to govern," Mr. Paterson said, "but I do want to find ways to leverage some of the assets we have."

In more flush times, raising money through gimmicks or "one-shot" infusions of capital raised by selling assets or privatizing state resources was frowned on by budget watchdogs. But, the governor said, "we're in a one-shot period" because of "the sheer volume of the deficit."

Mr. Paterson said he was girding for the backlash.

"I don't need a protest for it to bother me; I used to fight for some of these causes," he said, adding that the situation would only worsen by waiting.

"I'll feel pain in my stomach," he said, "but my conscience will be clear."