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Paterson Calls for $5.2 Billion in Budget Savings

By DANNY HAKIM

ALBANY — State aid to schools and hospitals would be cut sharply in the next four months and thousands of state workers would be asked to defer five days of pay under an emergency deficit reduction plan unveiled by Gov. David A. Paterson on Wednesday.

The plan calls for reducing state spending, with some revenue increases, to save $2 billion by April, and $5.2 billion over the next 16 months. Health care and education, the two largest pieces of the $121 billion budget, would bear the brunt of the reductions as the state tries to contain a deepening fiscal crisis.

Even if the Legislature were to approve Mr. Paterson's plan at a special session next week, the state would still face an $8.8 billion shortfall for the fiscal year that begins on April 1. And support for the cuts in the Legislature is far from certain, particularly among Republicans who lead the Senate and staunchly defend state aid to education.

Little was spared as Mr. Paterson, a Democrat, proposed the first midyear cuts in public school aid since the early 1990s. He said he would ask labor unions to reopen previously negotiated contracts and agree to forgo 3-percent raises next year for state workers — the kind of drastic step New York City took in the fiscal crisis of the 1970s.

He also said he would seek tuition increases at state universities, starting with a $300 rise in the spring semester. And he proposed reducing Medicaid reimbursements sharply and closing half a dozen juvenile detention centers around the state, which he said were underused.

While he avoided proposing across-the-board tax increases, the governor said he wanted to raise taxes on health insurers, a cost likely to be passed on to the public, and to extend the 5-cent deposit now charged for soda and beer to bottled water.

“This is the worst economic crisis in this country since the Great Depression,” he said at a news conference in New York City on Wednesday morning. “That’s not an alarming statement, as it may have been when I said it in July. It’s now real.”

The Senate Republicans have struck close alliances with labor unions and promised to ward off cuts to education — but at the same time they say they will not accept tax increases. Suburban school aid is particularly important to Senator Dean G. Skelos, the majority leader and a Long Island Republican.

“Education aid cuts, midyear, are unfair,” Mr. Skelos said Wednesday night, adding: “I don’t see anything creative in this budget. It’s just hack away, hack away.”

He did not offer any alternative cuts, instead calling on the governor to release his plan for next year’s budget now, even though Mr. Paterson already plans to release it on Dec. 16, more than a month ahead of schedule.

“These important decisions about New York’s future cannot be made in a vacuum,” Mr. Skelos said.

Senator Thomas W. Libous, a Binghamton Republican and the deputy majority leader, said in an interview that taking “money away that’s already been given to people, already been put in their budgets” was “not fair.”

Last week’s election results are likely to complicate the budget negotiations. Democrats captured 32 of 62 seats in the Senate, winning a majority for the first time in more than four decades. Three Democrats, however, have refused to back the current minority leader, Malcolm A. Smith, to become the new majority leader, leaving the Democratic caucus in disarray.

The Legislature must come up with something, because the state faces a $1.5 billion deficit in the budget for the 2009 fiscal year, which ends on March 31, and a $12.5 billion deficit for the 2010 fiscal year. State law requires that the budget be balanced.

While the catalyst for the current crisis has been the collapse of the financial industry, the state’s main source of tax revenue, Mr. Paterson said that years of excessive spending had left the state’s budget in need of drastic streamlining.

Wall Street has “bailed us out for a number of years,” the governor said, but “now the well has run dry.”

The governor said he would not seek layoffs, but labor leaders have expressed reluctance to agree to reopen contracts negotiated on behalf of the state’s roughly 200,000 workers. Mr. Paterson could resort to job cuts if the unions do not back down, and he would say only that he was not seeking layoffs right now.

The governor is also proposing to require state retirees to pay far more for health insurance. The state now pays 90 percent of their premiums; that could fall as low as 50 percent under the plan.

In the pay deferral plan, state employees would work five days without pay this fiscal year; they would get the money when they retire, at their future pay levels.

Almost every interest group touched by the cuts weighed in with outrage.

“Governor Paterson’s proposal is an assault on services at every level and will unnecessarily cause great harm,” said Danny Donohue, the president of the state’s Civil Service Employees Association. Billy Easton, the executive director of the Alliance for Quality Education, an advocacy group, said, “This is money that is going into classrooms today that the governor wants to take out tomorrow.”

And Daniel Sisto, the president of the Healthcare Association of New York State, a statewide trade group for hospitals, said in an interview that he was “stunned by the magnitude of what they’re trying to do.”

“This will be the third time they’ve cut health care this year and we have another budget round coming in December,” Mr. Sisto said. “We’re doing a budget, it seems, for every season.”

The governor argued that New York’s spending was still high in many areas. Many cuts would reduce growth in spending, rather than actually reduce spending from last year. But many wealthier school districts would see actual cuts in state aid, while most poorer districts would get smaller increases than anticipated.

“We think many of the advocates may not like these cuts, but they can’t say these are beyond the parameters of what would be reasonable to cut at this time, with this deficit,” Mr. Paterson said.

Assembly Speaker Sheldon Silver of New York, the Legislature’s top Democrat, said in a statement that Mr. Paterson had put forward “a bold plan” that “recognizes the painful reality that this crisis is unlike any we have faced in our adult lives and will require deep cuts.”

Under the governor's plan, $585 million would be cut from school aid in the current fiscal year and another $844 million next year. The plan would reduce aid to school districts across the state and also reduce spending on math and science grants, libraries, arts grants and special teacher mentoring programs.

Students at the State University and the City University of New York would see tuition increase $300 in the spring session and $600 next year. Those increases would largely offset cuts of $348 million in state aid to the universities over this and next year.

Medicaid and other health care programs would be cut by $572 million this year and $1.2 billion next year under the governor's plan. He is proposing to reduce the amount the state reimburses health care providers for various procedures, and also to eliminate the annual inflation adjustment to Medicaid reimbursements.

Aid to New York City would also be cut by $41 million this year, to $205 million. That cut comes as the city is already dealing with its own budget crisis.

"We have already taken cuts in education, compared to other counties," Mayor Michael R. Bloomberg told reporters at an event in Queens. "I want to make sure we're not penalized for having done the right thing."

The governor's plan did get some good reviews.

Kenneth Adams, chief executive of the Business Council of New York State, said Mr. Paterson "presented a plan that makes difficult but necessary choices to reduce state spending to close an unprecedented budget gap that gets worse by the day." He added, "The state simply cannot tax its way out of this crisis."

Nicholas Confessore, Jeremy W. Peters and Fernanda Santos contributed reporting.

This article has been revised to reflect the following correction:

Correction: November 14, 2008
An article and headlines on Thursday about Gov. David A. Paterson's emergency plan to cut the state budget deficit misstated, in some editions, the methods by which he hopes to achieve $5.2 billion in savings over the next 16 months. Most savings will come from spending cuts, with some from revenue increases; the savings will not come through cuts alone. A picture caption in some editions also misstated the methods by which he plans to save $2 billion in the current fiscal year. Those savings will also come mostly from cuts and some revenue increases, not entirely from cuts.