

THE STRATEGY GROUP

**ANALYSIS OF THE NEW YORK STATE
BUDGET SITUATION**

Prepared for

TOBACCO INDUSTRY LABOR MANAGEMENT COMMITTEE

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ANALYSIS OF THE NEW YORK STATE BUDGET SITUATION

In the 1970's, the State of New York was plagued with a well deserved reputation for high taxes. Supply-siders and conservative politicians blamed these taxes for the loss of as many as one million people and 500,000 jobs. Desperate to stem the flow of people and jobs, both personal and corporate income taxes were cut during the last years of Hugh Carey's administration. Later, the state shared in the strong recovery that hit the northeast in early 1980's--and continued into the latter years of the decade. Spurred on by the national and regional recoveries, revenue from personal income and sale taxes grew steadily, allowing the Governor to increase the budget without new taxes.

In the election year of 1986, after two consecutive budget surpluses, Governor Mario Cuomo and the legislature seized the opportunity created by the sunny fiscal times to give the taxpayers an "across the board" 5 year income tax cut, that would, among other things, slash the top income tax rate from 10% to 7% by 1991. This measure increased the percentage of the budget that relied on sales tax revenue.

Last year, however, the slowing regional economy dealt New York State a \$1.7 billion shortfall, and the gap for fiscal 1990-91 could reach \$2.2 billion. Sales tax revenue, both this year and last, failed to reach projected levels. Corporate tax revenue, too, has failed to keep pace with projections. As a result, New York must deal with a serious budget gap for a second straight year--this time, however, the dealing must be done in the midst of an election year. To make matters worse, New York City may be \$1 billion short this upcoming year. A prolonged revenue slump could push the city toward bankruptcy again, as in 1975. The state may be called upon to help bail the Big Apple out again.

Many observers, particularly those on the left, feel that the income tax cut has left New York with a legacy of recurring structural deficits. They argue that the sales tax is the most volatile source of income for the state, and that every business slump will mean chaos in the budget. They would like to see the final year of the income tax cut repealed to restore a more reliable flow of revenue. One thing is clear: regardless of what or who is to blame for New York's fiscal mess, the state must find additional sources of revenue for the coming fiscal year.

The following paper will examine the current status of the New York State budget. It will review the fiscal position of the state, and lay out the options to raise new revenue. The paper will then assess the political motivation of the Governor and the legislature. Lastly, it will provide detailed analysis of some of the major labor and public interest groups who have significant impact on the budget process. The goal is to discover ways to raise revenue in the most equitable and politically realistic manner, and provide a blueprint for creating a more progressive tax system in the Empire State.

Background

For all practical purposes, New York State has one of the most closed budget processes in the nation. Control over the budget lies in the hands of three very powerful individuals: the Governor, the Senate Majority Leader, and the Speaker of the Assembly. Yes, there are influential behind-the-scenes players such as the Business Council, but when the spoils get divvied up, these are the three that sit at the table.

Forging a budget, then, becomes a balancing act between these three forces, especially since the legislature is split between the Republican Senate and the Democratic Assembly. Each house is highly partisan, with minority opposition that is often powerless against the majority leadership. This forces the Governor to steer a middle course, often mediating conflicting positions between the two on revenue and spending.

Governor Cuomo has been especially adept at playing one house off against the other, maintaining the political high ground--or at least the middle ground. Rarely does the Governor find a united legislature opposing him. This political framework allows the Governor of New York to guide the budget process by institutionalizing the conflict of interests within the Legislature--allowing him the freedom to give and take with both sides--without getting mired in the kind of individual lobbying and hand-to-hand combat with which most other Governors must contend.

There are, however, issues that divide members along geographic, rather than partisan, lines. Sometimes, a proposed tax will impact one region more than others, as is the case with the gas tax. People in upstate and Long Island depend much more heavily on their own automobiles for transportation than publicly transported New York City residents, and thus bear more of the burden of taxes on gasoline. Thus, while New York's process is dominated by partisan politics, the upstate-downstate dichotomy also affects the budget (and choice of revenue sources) as well.

Last year, State Comptroller Edward Regan rode to the rescue of the Governor and Legislature when he revealed that state pension funds were exceeding their profit projections. This windfall was quickly pounced on, as the formulas for payments by counties, cities, towns, villages, and school districts on behalf of their workers were changed, saving these local governments over \$325 million. The state used this windfall as a substitute for state aid and revenue sharing. This saved the state hundreds of millions of dollars, while having a revenue neutral impact on most local units of government. Counties, for example, lost a total of \$79 million in state monies, while receiving \$78 million in breaks on their pension fund payments.

While this windfall helped close the Fiscal 1989-90 budget gap, there won't be any such windfall to fall back on this time around.

Even with the pension fund windfall, the state still needed to come up with a cool \$1.2 billion in new revenues last year. The shortfall was closed with a number of

gimmicks, one time revenue raisers, and a series of increases in taxes. Some of these options may be available for Fiscal 1990-91, others will not.

For starters, the Legislature agreed to change various administrative regulations and practices that netted \$230 million. Most of these were changes had to do with interest paid by the state to taxpayers, automation of withholding payments due the state, and other measures to speed up cash flow and cut financial costs to the state. There are few, if any, administrative options left to raise new revenue for the 1990-91 gap.

In addition, \$462 million was raised by hiking or restructuring miscellaneous fees, including shifting motor vehicle registrations to a once every two years basis (\$102 million) of this projected new revenue. Much of the revenue from these measures are one shot deals.

Since there will be no formal budget proposals until Governor Cuomo's budget comes out in mid-January, the following is an unofficial list of revenue raising options that may be available to the state. These options represent the alternatives which are making the rounds of the gossip mill in Albany, or legislative initiatives which have failed in the past.

Revenue Options

For the purposes of this paper, we will analyze the revenue options in these categories: personal income tax, sales tax, business taxes, motor vehicle taxes, tobacco taxes, alcohol taxes, and minor taxes. Last year's revenue raisers will be discussed, as well as this year's most talked about options.

Personal Income Tax

Of the so called "big three" taxes, the Personal Income Tax (PIT) is by far the largest source of state revenue, accounting for almost 50% of all receipts. The 1986 PIT cut will be at the center of this spring's budget battle. The five year plan reduced taxes for low and middle income families in it's first three phases, then shifted the benefit to the upper classes in the fourth and fifth phases. In fact, the fourth and fifth phases are a bit of a misnomer. While they cut taxes for those earning over \$100,000, they actually raise taxes for those under \$40,000. The fiscal effect of the cut was to put more of the tax burden onto sales and business taxes, both of which are more susceptible to economic shocks, and are in fact the two areas which have performed well below projections.

Last year, the battle over the tax cut pitted the Republican State Senate and the major business lobbies against the Assembly and a first-of-its-kind coalition of labor, community organizations, church groups, and education interests, called the Coalition on Economic Priorities. The coalition fought to stave off cuts in services by calling for the delay of the fourth year of the cut, at a savings of \$400 million. The business interests

defeated this proposal; ironically, by proposing a series of corporate and other taxes, including so-called "sin taxes".

However, the momentum has changed. Due to the enormity of this year's debt compared to last year's, and the fact that most of the painless options to raise revenue were used last spring, the last phase of the cut is in jeopardy. Governor Cuomo, who resisted delay last year, supports it now. Moreover, many of the groups that supported delay last year are now calling for repeal, citing both tax fairness reasons and the desire to correct what they feel is a structural problem in the tax system. They argue that reducing the top rate of the income tax from 10% to 7% will cause a permanent revenue problem. Indeed, revenue growth has fallen from 9% per year to 4-5% since the 1986 tax cut. Bowing to these realities, the Business Council and the Chamber of Commerce are now reassessing their position on the cut. The issue this time may not be whether to delay the cut or not, but whether to delay or repeal.

Killing or delaying the final phase of the tax cut will produce \$400 million for Fiscal 1990-91, and \$1.5 billion for Fiscal 1991-92. The reason that the benefit is split over two fiscal years is that the cut was engineered by the Republicans to begin each October 1, in the middle of New York's fiscal year. This was done to water down and backload the tax cut from a revenue point of view. This allowed those who sought to protect the cut to argue that delaying the fourth phase would only generate \$400 million for Fiscal 1989-90, a key to winning the battle last year. This spring is the last opportunity to act on the tax cut, because by next spring the last phase will already be in place. While the delay or repeal means only \$400 million this fiscal year, it's the \$1.5 billion next year that the progressive coalition really believes is essential to ward off large scale budget cuts in the future.

Sales Tax

The sales tax accounts for just under 20% of the state's revenue. The tax is collected from businesses statewide by counties at 7%, and in some areas at 8 and 8.25%. The state takes 4%, and the rest stays with the county, ostensibly to pay for some of the state mandated programs. Besides food, the New York sales tax has few exemptions, and also has the highest rates in the country. This makes New York's one of the most regressive sales taxes outside of the South, where virtually every state has taxes on food sales as well as moderately high rates.

Despite the regressive nature of this tax, sales taxes were broadened slightly last spring. The tax was extended to include mailers and other materials produced by out of state printers, prefab building products made out of state, and to include the full price of a cigarette pack, including excise and wholesale taxes. These measures raised just \$50 million last year. This year, the only way to produce significant new revenue from sales taxes is to include food sales, or raise the rate. With both the Governor and most of the Legislature up for reelection this fall, these options are virtually out of the question. However, there is talk of broadening the sales tax to include services consumed by upper income groups, such as selected legal and accounting services.

Business Taxes

The final of the big three taxes are those on businesses and corporations, which make up about 12% of the state's revenue. Due to cuts in corporate tax rates in the late 1970s and early 1980s, combined with the continuing existence of major loopholes, the share of the state's revenue from corporate sources has dropped steadily. This at a time when corporate profits have shown growth over the last few years. The enormity of this year's gap, coupled with a deep feeling by many that corporations are not paying their fair share has created a great deal of support for closing loopholes.

Many of the corporate loopholes that were repealed at the federal level in 1986 still exist in New York. Proposals to repeal the investment tax credit, the employment incentive credit, the double weighted sales credit, and others could save the state \$300 to 430 million in lost revenue. Tremendous support for repealing the deductibility of interest on mergers and acquisitions has grown, as well as support for a 5% tax on international banking activities. Closing loopholes or raising the paltry \$250 corporate minimum tax would prevent large, profitable corporations from avoiding tax payments to the state. These measures could save up to \$580 million in revenue for Fiscal 1990-91. Next to the income tax cut, this could emerge as the other key battle ground.

Last year, some loopholes were closed, and taxes were imposed on some mergers and acquisitions. Along with raising some fees and other minor taxes, corporate tax revenue was raised \$204 million. While the current alternative minimum tax rate was raised last year to 5% from 3.5%, a push for still higher rates may be in the offing. Closing loopholes seems to have more support than raising the actual tax rates on businesses.

Motor Vehicle Taxes

Taxes on drivers seemed to be one of the few user taxes that were not raised last year. Fuel taxes, vehicle fees, and highway use taxes net about \$944 million each year, just 3% of the state's total revenue. In addition, a gross receipts tax on petroleum businesses nets another \$144 million.

Raising the present \$.08 per gallon tax on gasoline has been strongly advocated by Felix Rohatyn, a top Wall Street financier and close confidant of Governor Cuomo. Since it has not been raised in the last several years, it may very well emerge as a prime candidate for a hike. Raising the tax by a nickle would generate \$255 million in new revenue. However, the heavy reliance on automobiles by taxpayers outside of New York City could touch off an upstate-downstate battle over the gas tax hike.

Tobacco Taxes

Tobacco taxes will total somewhere around \$550 million this year. In Fiscal 1989-90, the cigarette tax was increased from 21 to 33 cents a pack. In addition, a 15% tax on the wholesale price of all tobacco products was adopted, as was an extension of the sales tax to the entire price of a pack, in effect taxing these two taxes. The total new

revenue gained from these changes should total about \$200 million for Fiscal 1989-90, a 36% increase. Prior to the rate hike, collections from cigarette taxes had been dropping due to lower consumption.

Theoretically, these rates could be raised again, but that is not likely for two reasons. First, tobacco taxes are not widely believed to raise enough revenue due to falling consumption, and two, they were just raised substantially last year. Other states have extended cigarette taxes onto all tobacco products on a per unit basis. While this has not been talked about in New York, it remains a remote possibility.

Alcohol Taxes

Like tobacco, "sin" taxes on alcohol were jacked up, doubling beer taxes, raising wine rates an average of 57%, and increasing distilled spirits levies from \$1.08 to \$1.40 per liter, a 30% increase. Despite the dramatic rise alcohol tax rates, revenue is only expected to rise 30% due to a long term drop in consumption. As with tobacco, last year's hikes make other revenue raisers more attractive than alcohol taxes.

Other Taxes and Revenue

This final segment encompasses several other revenue sources, including the state lottery, and makes up the last 12% of state receipts. Among last years new revenue raisers, Real estate gains and transfer taxes were boosted last year by \$73 million. An additional 1% transfer tax was added on "mansions", those homes which sold for \$1 million or more. Other luxury taxes may become option this year. Look for estate and gift taxes, as well as taxes on pari-mutual betting, to be on the table as well.

Positions of Major Political Players

Governor Mario Cuomo

Governor Cuomo enjoys a national reputation as a defender of the liberal welfare state. In his unforgettable 1984 Democratic National Convention keynote address in San Francisco, he spun a tale of two cities in America, calling for government once again to be compassionate to the less fortunate. However, at budget time in Albany lately, Governor Cuomo has been Scrooge almost as often as he has been Santa.

Shortly after his first election in 1982, Cuomo cut a few corporate taxes. Before his 1986 reelection, he worked with the legislature on the PIT cut. With revenues from the sales and corporate taxes falling short of expected levels, Cuomo is now forced to cut spending. Last year, most counties lost their revenue sharing; this year towns and cities may be next. To close a \$250 million gap in mid year Fiscal 1989-90, he cut state spending 2% across the board. While some programs, most notably aid to education, have grown, most social spending programs have leveled off or been cut. More cuts may be coming.

Rather than biting the bullet on the tax cut delay last year, Cuomo has saved the pain for Spring 1990, an election year. He has already come out for the delay this year, and has been since moving to box in opposition to this position. First, Cuomo called for increased spending on prisons and programs to fight drugs, hoping to make conservative Senate Republicans have to choose between the tax cut and money to fight the drug war.

Next, the Governor's Council on Fiscal and Economic Priorities (COFEP) leaked a list of possible revenue options that included proposals to end the mortgage interest deduction, tax social security benefits, and raise sales taxes. Talk of these proposals, which are totally unacceptable to most taxpayers, would make the delay of the PTT cut seem like the reasonable thing to do. Lastly, the Governor's budget office has high-balled the budget gap at \$2.2 billion, both to prod action and to ease the pain if the final figure is lower. Clearly, Cuomo knows he must raise revenue, and that the tax cut delay is the safest ground to move on.

It is unclear where Cuomo will move beyond cuts and the delay. Last year, Cuomo pushed for seizing \$60 million in unclaimed bottle deposits, but was rebuffed in both houses due to strong lobbying by the beverage industry. He also proposed taxes on cable television and entertainment centers, including bowling alleys, but was shot down by the Senate. This year, closing corporate loopholes seems to be the easiest concept to sell to voters. Of the remaining options, perhaps the gas tax pushed by his close advisor Rohatyn is the next place he will go to find new revenue. Cuomo will push for the delay, while allowing himself wiggle room on other taxes.

While Cuomo is heavily favored to win reelection, he must be leery of proposing more new taxes. The new chairman of the State Republican Party, Patrick Barrett, the former CEO of Avis Rent-a-Car and a multi-millionaire, has pledged to raise \$15 million for Cuomo's defeat. Barrett, who is trying to get Rudolph Guillian to run, has already assembled a number of Republican legislators known as the "brick team", who have begun to hurl stones at the Governor on a range of issues, including the budget and the tax cut.

The State Assembly

The Assembly for years has been controlled by downstate Democrats. The last three Speakers have come from New York City, and have been the champions of liberal social programs in the budget process. Certainly, this is true of current Speaker Mel Miller, a streetwise alley fighter from Brooklyn. Miller enjoys a 92-58 Democratic advantage in the lower house that gives him total control (he lost only one vote last session in his chamber). Alone among the three principal individuals in the budget process, he supported delay of the tax cut last year, and worked with the Coalition to stop the fourth phase of the cut.

Despite his own liberal leanings and those of his colleagues in the lower house, Miller is not likely to support outright repeal of the tax cut this year, an election year. To win reelection as Speaker, Miller must preserve working control of the Assembly by

reelecting those members who make up his base, and by staying in step with his members. Going to the wall for the potentially unpopular repeal could shake his hold on the Speaker's chair, and thus he will probably stand with the Governor on delay.

There are, perhaps, only two other plausible scenarios. If Miller decides that he is secure, protecting long term revenue may become the top priority, and compel him to push for repeal. Or, perhaps he may come out for repeal as a tactic for winning delay.

Miller's top concern is revenue, pure and simple. He wishes to protect the projects that are important to his members, again to maintain his power in the Assembly. He is concerned about tax fairness, as evidenced by his support of delay last year. But that concern is a secondary one, and did not stop him from backing last year's budget compromise, with its huge increases in excise taxes.

Being from Brooklyn and with most of his Democratic colleagues from downstate as well, Miller may want a gas tax to be at least part of the equation. He has not taken a public position on this other taxes as yet, although it would be hard to believe that he would oppose loophole closure.

The State Senate

Unlike the Assembly, the Senate has been controlled by Republicans from outside of New York City. Warren Anderson, the longtime Majority Leader from upstate Binghamton, retired in 1986 after many years of battling to retrench New York's burgeoning welfare programs. His successor, Ralph Marino, has continued the fight to limit state spending and cut taxes. He comes from Long Island, scene of brewing tax revolt sentiment in Suffolk and Nassau Counties. He embodies the strong anti-tax position by the Senate leadership, who have made lower personal income taxes their number one tool for economic development.

Marino, working under Anderson, was a key player in drafting the 1986 PIT cut, and took the lead on defeating the delay of fourth phase of the cut last year. This year, preservation of the cut is the number one priority. Despite the seemingly slim 34-27 majority, Senate Republicans have shown strict discipline on budget policy, and have virtually neutralized the Democratic opposition. The Democrats have waged several unsuccessful attempts to wrest control of the Senate from the Republicans, failing mostly due to their inability to win in suburban middle and upper class districts. Advocating the delay or repeal of the tax cut is not the way the Democrats will win in these areas. The Republican leadership intends to fight delay and repeal for economic development reasons, and in doing so will further entrench themselves in the upstate and suburban New York counties. They will no doubt make this stand a campaign issue against the Governor.

Those in the leadership office are hostile to closing corporate loopholes. In fact, they even reject the label "loophole", instead calling them incentives to keep businesses and jobs in the state. The Republicans are much more likely to favor the gas tax and other user fees, along with spending cuts to close the gap.

Besides Marino, the other key power on revenue policy in the Senate is Tarky Lombardi of Syracuse, longtime chair of the Senate Finance Committee. He, like Marino, has long advocated income tax cuts to spur economic growth. He and other upstaters, who have considerable clout in the Senate, may oppose the gas tax in addition to the delay. Lombardi has been receptive to eliminating corporate tax credits in the past, and may offer some in return for no delay or repeal of the PIT cut. However, he will wait until Cuomo's budget is unveiled in January before taking stands on these and other revenue options.

Positions of the Significant Labor and Public Interest Groups

AFL-CIO and the Coalition on Economic Priorities

The AFL-CIO was one of the driving forces in putting together the broad based Coalition on Economic Priorities. The number one goal of the AFL-CIO and the Coalition is to protect revenue for state programs, both in the short and long term. They feel that the final phases of the cut are unfair, because they give deep cuts to the rich while actually raising taxes on those who make \$40,000 or less. Furthermore, cuts in state aid and revenue sharing for municipalities will mean higher local property taxes, which affect low and middle income taxpayers and small businesses most. They counter the economic development arguments of the business community by stressing the importance of investing in human capital and infrastructure in economic development. They assert that businesses are leaving New York not because of high taxes, but by quality of life.

Politically, the diverse elements of the 56 member coalition were organized around a single issue, the delay of the cut. While they lost the battle on the cut last year, they more or less won the war on revenue, as \$1.2 million in tax and fee increases averted deeper cuts in state spending. Due to this diversity, the Coalition has avoided taking specific stands on other revenue proposals. However, they would only accept consumption taxes if delaying the cut were impossible. And while some members of this group will fight independently for repeal, the Coalition will maintain the delay policy this year.

The Coalition is chaired by Edward Cleary, President of the AFL-CIO; Edwin Crawford, Executive Director of the New York State Association of Counties; and Rev. Dr. Arleon Kelley, Executive Director of the New York State Council of Churches. The AFL-CIO has taken the lead role, assigning Assistant COPE Director Suzie Spilker Ballantyne (a friend of ours) to direct the day-to-day activities of the Coalition. The other two groups have been far out in front on this issue as well, leading the free press campaign and participating in lobbying.

Unlike other members of the coalition, the AFL-CIO is unlikely to take positions independent of the coalition, since they are so closely identified with it. Unless

otherwise noted, all of the following groups are members of the coalition. (see appendix for a complete list of last year's members)

New York State Association of Counties

NYSAC, which represents all 62 counties in the state, not surprisingly lists funding for the counties as its top priority. As in other states, New York mandates spending on welfare and other programs, but does not give the counties enough money to pay for them. This leaves counties with no other choice but to raise property and sales taxes, which have already been driven up by mounting police, fire, and especially solid waste removal service costs. Thus, any cuts in revenue sharing and state aid are disastrous for counties.

Ed Crawford's leading role in the coalition has brought the considerable lobbying power of NYSAC to the Coalition. They use county elected officials to lobby their own representatives one- on-one, an especially effective tactic in an election year. Local elected officials have access to the press and other leaders back home, where they can attack uncooperative senators and assemblypersons. Executive Director Mike Martin played a large role in coordinating these lobbying efforts for the Coalition.

Despite these efforts, many counties received less money than previous years from the state. The changing of pension fund payment formulas saved many counties from deep cuts in services and new tax hikes. Most revenue sharing was lost, however, and if towns and cities lose their revenue sharing this year, they will have to turn to counties to bail them out, because the counties collect virtually all local taxes.

Because of the intertwined nature of their revenue sources, NYSAC works closely with the New York State Conference of Mayors, the New York State Municipalities Council, and the Association of Towns. All of these groups support delay of the tax cut as opposed to repeal, because their members are elected officials who do not want to be on the wrong side of the tax issue. They all have no problem with raising gas, alcohol, and cigarette taxes, as long as it means that state aid to municipalities continues to flow. They are reluctant to support corporate tax rate hikes for fear of losing business support at home, although they may be open to some loophole closure. Where NYSAC and the others differ is on the sales tax. The counties, all but four of which take 3% of the sales tax, want to have the option of boosting their sales tax to 4%, without having to allocate any of the increase to cities and towns. Obviously, the other groups want to have the current allocation formulas applied to any sales tax hike.

New York State Council of Churches

The Council of Churches is an umbrella of Protestant and Orthodox churches in the state, including virtually all Christian churches except the Roman Catholics Church. They want government to assume responsibility for the care of its less fortunate citizens. Their goal is to maintain and expand funding for social service provision, environmental protection, health care, and worker's benefits, and as such, revenue is key.

However, the Council is equally concerned with how revenue is raised. Ironically, it's the churches which can be counted on to oppose "sin" taxes, because they believe that the tax is even more regressive than the sales tax, due to consumption habits of the poor. The gas tax is also unacceptable due to regressivity. They do not accept the supply side theory that the PIT cut will help economic development. In fact, the Council supports repeal of the cut because of the structural fiscal problems that it creates. The only sales tax they support would be a tax on luxury items. They are not reflexively supportive of raising corporate tax rates, but may back some loophole closure measures, such as on mergers and acquisitions.

As one of the three chairs of the coalition, Rev. Arleon Kelley, has led the Council's campaign on the budget. Together with Ed Block, the Executive Director, Kelley oversees Impact, the Council's political arm. They organize busloads to lobby in Albany, as well as other grass roots lobbying on local levels. They have good relations with both houses, and lend a certain moral authority to the Coalition's press events.

AFSCME and Civil Service Employees Association

AFSCME, together with CSEA, represents 400,000 state and local employees, as well as workers in prisons, health care facilities, and mental institutions. As such, their primary concern is funding the jobs of their membership. However, unlike their counterparts in other states, New York AFSCME is highly supportive of tax fairness.

While their first priority is the repeal of the PIT cut, AFSCME intends to lead the fight to close corporate loopholes. Ed Draves, the state Political Director, believes that \$360 to 580 million can be raised by changing the tax code. Draves heads a sophisticated and well funded operation that is one of the most active and effective unions in local and state elections. Since their huge membership resides all over the state, AFSCME is a major player with the Governor and both houses. They use their bankroll and membership well in lobbying the leadership, and can also organize at the grassroots. In addition, Don Kelly of CSEA knows the details of tax policy as well as anyone in labor.

AFSCME and CSEA refuse to consider any consumption taxes without at least delay of the PIT and some increase in corporate tax revenue. They do support extending the sales tax to services consumed by the wealthy, however. They are a member of the Coalition, but like many others, will act independently on repeal and loophole closure.

New York State United Teachers Federation

NYSUT represents over 300,000 public school teachers, university professors, school aids, bus drivers, and support personnel. They represent New York City teachers, as well as all of the large cities upstate except Buffalo.

State aid to school districts and municipalities is by far their number one goal, although they are also concerned with traditional labor issues as well. They believe that repeal is not politically possible, and therefore favor delay. They liken the state's

situation to a company who makes a five year profit plan, only to realize in the fourth year that their projections were off. They argue that this businesslike approach is the political middle ground, and the best way to protect revenue. They do not rule out any taxes, including consumption taxes. They also are flexible on corporate rates and loopholes, although they would like to prevent any further drop in revenue growth from business taxes.

Politically, NYSUT is a diverse, well funded, respected organization. Under the able direction of Tom Hobart, one of the state's top labor leaders, NYSUT enjoys a strong electoral reputation. Their members are highly educated, and have a long tradition of political activism, probably the most active labor membership. Like AFSCME, their large membership is all over the state, giving them great leverage with all three major players in the budget process. They retain 6 full time lobbyists, and have hundreds of paid staffers in local offices who can organize grassroots lobbying as well. They are affiliated with the American Federation of Teachers, the AFL-CIO, and the Coalition.

New York State Building and Construction Trades Council

The Building Trades Council represents 210,000 workers in 275 affiliated locals in New York, mostly employed in large commercial developments and government projects. They have been strong supporters of Governor Cuomo, whose "Rebuild New York" transportation bond issue created several billion dollars in new construction projects, mostly in road and bridge repair. Their concerns are usually more economic than social--things like preserving and enforcing the prevailing wage, workmen's compensation, and disability benefits. Their membership tends to be the most conservative part of the labor movement.

On the budget, they are concerned about preserving housing aid programs and other related construction generating projects. They strongly support repeal of the PIT cut, and intend to make that their number one issue this year. They oppose the gas tax, unless it is allocated for road repair and improvement. They dislike user taxes, but are not against them if they come with repeal or delay of the tax cut. They strongly feel that corporations simply do not pay their fair share, and support both loophole closure and rate hikes on businesses.

Hank Landau, the chief operative of the council, indicated that despite their conservative membership, the trades have a better working relationship with the Assembly than the Senate, and are especially close to Mel Miller and Frank Barbero. They play the inside game, using contributions to leverage legislators. They are not overly involved in electoral politics, although the IBEW and Carpenters tend to be quite active, especially upstate. They have a small Albany staff, and the membership is not as active in lobbying as the teachers or public employees.

Service Employees International Union

SEIU is a diversified union, representing 175,000 public and private sector employees in sanitation, maintenance, clerical, health care facilities, and some upstate municipal employees. This includes the Professional Employees Federation, who represent technicians and personnel in state institutions. PEF is also affiliated with NYSUT as well.

Carmine Roberto of SEIU named jobs, revenue, and fairness in that order as their goals for the budget. They strongly support repeal, because the vast majority of their members are in the lower income class, and will pay higher taxes during the last phase of the PIT cut. While they would like to see corporate tax revenue increase, they are leery of calling for higher taxes on the employers of their private sector members. They are not strongly in favor alcohol or tobacco taxes, because they are regressive and do not raise enough revenue. Since 40,000 of their workers live upstate, they are against hiking the gas tax, unless it is allocated to health care institutions. Totally against any sales tax that discriminates against lower income people.

SEIU tends to have a better relationship with the Senate leadership than the Assembly, especially with Tarky Lombardi. However, they do maintain ties with many Assembly members as well. They are not known for their strength electorally, although PEF has contributed heavily to candidates in both houses.

Teamsters

Like SEIU, the Teamsters are a diverse union. Their 250,000 members are municipal housing employees in New York City, beer truck drivers in Buffalo, and many other private and public sector workers. They are a loosely organized union, but have some players that are important in the budget process.

One key player is Barry Feinstein of New York, who is a longtime ally of Governor Cuomo's, and often sits in the middle of negotiations between the state and public sector employees. The Teamsters play the inside game, with little electoral activity outside of New York.

The union is united on a couple of revenue options, but different locals have opposing views on others. They are solidly for repeal, and are unified against alcohol taxes. They could swallow further tobacco taxes if that were part of the bargain struck to get delay or repeal. They are split on the gas tax, with the downstate public sector for it, and the upstate drivers and others against. Likewise, public sector members are for loophole closure and some corporate rate hikes, but private sector workers are concerned that these measures may cost jobs, and oppose these proposals.

At this point, only Teamster Local 237 is a member of the Coalition.

Communications Workers of America

CWA is still recovering from the tumultuous NYNEX strike, which has driven the union deep into debt, and exhausted their political apparatus. Their internal problems will far outweigh their legislative agenda.

CWA is, however, in the forefront of the progressive labor movement. Political Director Jan Peters is one of the top liberal leaders statewide, and has used CWA's previously large financial and organizational resources to back minority and alternative candidates across the state. Until this year, they were a strong electoral player in gubernatorial, Senate, and Assembly races. They had been the largest funder of Citizen Action of New York, and have worked well with them in supporting their inside lobbying with grassroots efforts. Once the union gets back on its feet, this relationship will prosper again.

CWA represents 90,000 workers in the state, mostly with NYNEX's New York Telephone subsidiary. They also include among its members nurses, mental institutions, and some public sector employees. They believe that the revenue problem is critical, and are long supporters of repeal, both for fairness and fiscal stability. They are very strongly in favor of loophole closure, and substantially raising the corporate minimum tax. They could swallow a gas tax, but only after these other two options were locked in first. They are less opposed to sin taxes than the gas tax. They strongly oppose raising the sales tax, but do support broadening it to include services consumed by the wealthy.

United Auto Workers

The UAW represents 70,000 members, mostly automobile workers in western New York. They are very heavily involved in electoral politics, especially in Buffalo, Syracuse, and, to a lesser extent, New York City. As such, they have strong ties to the Governor, Mel Miller, and many upstate senators.

Their top political operative is Jimmy Duncan, one of the most respected and sophisticated leaders in both the labor movement and in the upstate political community. He and the local presidents are very adept in lobbying local representatives in both houses, and can also organize grassroots campaigns as well.

The UAW will actively support repeal, and believe that raising the sales tax is the worst option. They are concerned that raising corporate taxes may cost jobs, although they feel that the diminishing growth of corporate tax receipts should be halted. They support taxing mergers and acquisitions, and closing any loopholes associated with them. They oppose the gas tax for obvious reasons--their members drive cars, and the tax is regressive. The intensity of the UAW's opposition to "sin" taxes is less than is the case with gas taxes, yet nonetheless, they dislike their regressive nature.

United Steelworkers of America

There are some very strong similarities between the Steelworkers and the UAW. Both have an upstate base, and are key players in western New York politics. Like Duncan of the UAW, District Director Lou Thomas and Political Director Joe Benbenek are well respected both inside the labor movement and out. Even most of their tax positions are the same. The one difference is that while the UAW has survived tough economic times, the Steelworkers have declined sharply.

The USWA now represents 18,000 workers, virtually all of whom live upstate. They have had to diversify to survive, and now represent chemical workers, Pepsi employees, and even some municipal employees. They have a great number of retirees, especially in Buffalo and Syracuse.

USWA supports delay of the cut, but could possibly push for repeal if momentum develops. They are less opposed to the gas tax than the UAW, but still dislike it. They are concerned about corporate tax rate hikes effecting jobs in the state, but could support loophole closure measures. They are not against sin taxes, but they strongly oppose any new sales taxes.

International Association of Machinists

The Machinists have 40,000 members, the largest number of which work at the sprawling Miller Beer Plant in upstate Fulton. They also represent hundreds of small manufacturing jobs, again mostly upstate.

They are not known for widespread electoral activity, but they do get involved in targeted races that involve the legislative leadership. They seem to have a better relationship with the Assembly than the Senate.

The Machinists are not a member of the Coalition, and as of yet do not have a position on the PIT cut. They are solidly against alcohol taxes, and since Miller Beer is a subsidiary of Philip Morris, probably will oppose cigarette taxes as well. They do not have a clear position on the gas tax, but since their members live upstate, they could be brought around to opposing it. They support a sales tax on services consumed by the wealthy, but are against raising the rate. While they are very concerned about the impact of corporate taxes on jobs, they do support closure of the mergers and acquisitions interest loophole.

United Food and Commercial Workers

The UFCW represents 35,000 packing house, supermarket, and other retail food employees upstate, and another 40,000 downstate. They concentrate their political activities in the eastern New York cities of Utica, Albany, Schenectady, and Poughkeepsie, where they are effective in organizational and financial support of candidates for both houses. Joe Tierno and Joe Talarico direct their political and lobbying operations.

While the UFCW was not a member of the coalition last year, they will be this year. They support delay over repeal, because they think it is the more politically reasonable option. They would support continuing the PIT if it is restructured to give part of the cut to low and middle class families. The UFCW feels that the property and sales tax systems are regressive and outmoded, and support efforts to reform this system. They oppose the gas tax, but do not have problems with sin taxes.

New York Public Interest Research Interest Group

NYPIRG is one of the best organizations of its kind in the country. They have 60,000 members, with 17 affiliate offices at colleges and universities across the state. NYPIRG is adept at grassroots organizing and lobbying, as well as with local press events. They use paid door to door canvassers to recruit members and build support for legislative issues. Their research arm is well respected for studies on a wide range of issues, from energy to environment to taxes. Director Blair Homer also mentioned that they are no longer affiliated with USPIRG.

NYPIRG took a very active role in the coalition's fight for delay of the PIT cut last year, and are considering a leading role in the push for repeal. They are very supportive of the AFSCME proposals to close corporate loopholes and raise minimum tax, but resist raising other business rates. They consider all consumption taxes regressive, and will accept them only after the PIT cut is repealed and corporate revenue is raised. If they had to take consumption taxes, they would support sin taxes before a gas tax.

Citizen Action of New York

Citizen Action in many ways resembles NYPIRG. They too boast 60,000 members, and are very adept at door to door canvassing, grassroots organization, nonpartisan voter registration, and press events. Whereas NYPIRG is strongest in college areas, Citizens Action focuses in the urban areas. They are the better funded of the two, with substantial contributions from CWA and AFSCME. The internal problems at CWA may result in less cash for Citizen Action, but it should not have a large impact on their efforts in lobbying on the budget.

They are strong supporters of repeal of the PIT, and will take a lead role in influencing public opinion. They are also in favor of the corporate loophole closure measures advocated by AFSCME. They oppose raising gas tax and sales tax rate hikes, but are not against sin taxes.

Community Service Society

The Community Service Society is an endowed non-profit umbrella for community based organizations in New York City. They are concerned with funding for social welfare programs. As such, their number one goal is to preserve revenue for these

programs over the long haul. They are one of the largest advocacy groups in the state, producing reports to community based organizations on legislative measures, and guiding their lobbying activities.

Executive Director David Jones explained that their support of repeal is based on the argument that businesses and individuals are leaving the state due to quality of life issues, not high taxes. This assertion is especially true in New York, as documented by news stories on companies who have relocated from Manhattan. They favor loophole closures, but are not knee-jerk supporters of business tax hikes because of the possible negative impact on jobs. Despite the fact that they are a downstate group, they oppose the gas tax because many poor areas of New York City are not served by public transportation, leaving junk cars and gypsy cabs as the only means of transport for many to find and sustain employment. They also are against all consumption taxes due to their regressive nature, although they support sales taxes on services consumed by the rich.

National Women's Political Caucus

The Women's Caucus is not a large group, with just 1,400 members statewide. However, they are developing campaign techniques that identify voters on issues of importance to women. They have been very successful with this program in Westchester County, where last year efforts by the Caucus and other groups are credited with the victory of Congresswoman Nita Lowey over a longtime incumbent, and the victories of Senate and Assembly candidates as well.

The Caucus is a coalition member that is strong on repeal. They believe that corporations do not pay as much in taxes as families do, and support tax hikes and loophole closures. They feel that consumption taxes are regressive, and strongly oppose the gas and sales tax hikes. However, due to large contributions from Philip Morris to the Caucus, they are not taking a position on sin taxes.

Conclusion

The tax fight in New York boils down to the status of the Personal Income Tax cut. The Senate has vowed to fight to keep the cut intact, although that position will be untenable if the Business Council and the Chamber of Commerce reconsider their support of the final phase of the cut. Even if these groups decide to fight, the fact that the Governor is siding with the Assembly on delay will most likely dictate at least a one year delay of the cut, just as Cuomo's support last year preserved the fourth year of the cut. Repeal has a great deal of support on the left, but is probably not possible in an election year.

The Coalition on Economic Priorities may be under pressure to push for repeal over delay, but doing so would cost them at least a few members, including the key Association of Counties. They will most likely support delay, allowing individual members to lobby independently.

However, the PIT cut delay or repeal still only means \$400 million in added revenue. If the gap is indeed \$2 billion, there will have to be other sources of new revenue. The band aid approach used last year could be replicated this spring, with fees and smaller user's taxes raised. If this happens, the gas tax is the first place that the Legislature may go. However, the largest chunk of revenue could be raised by corporate tax loophole closure, and raising of the corporate minimum tax above its paltry \$250 level. Making Xerox or other large corporations pay more than this minimum would probably be very popular with voters, and this would bring more stable long term revenue into the system.

It is unlikely that sin taxes will be raised this year, due to last year's increases, the low amount of revenue generated by these taxes, and the long term downward trend of alcohol and tobacco consumption.

A tax increase is inevitable, and a delay in the cut is likely. After that, the situation in New York's budget process is muddled to say the least. Much more will be known about this Spring's budget when Cuomo unveils his budget in mid January.

APPENDIX I

MEMBERS OF COALITION ON ECONOMIC PRIORITIES

Alliance of New York State Arts Councils
American Federation of State, County, and Municipal Employees
Association of Towns of the State of New York
Citizen Action of New York
Civil Service Employees Association - AFSCME 1000
Communication Workers of America
Community Service Society
Empire State Crafts Alliance
Hunger Action Network
International Ladies Garment Workers Union
Joint Public Affairs Committee for Older Adults
Labor Council for Latin American Advancement
League of Women Voters
Local 1199 -RWDSU
The Media Alliance
National Association of Social Workers, New York State Chapter
National Association for the Advancement of Colored People - New York State
National Women's Political Caucus - New York State
New York Committee for Occupational Safety and Health
New York Federation of Reform Synagogues
New York Foundation for the Arts
New York Public Interest Research Group
New York State AFL-CIO
New York State Arts and Cultural Coalition
New York State Association of City Councils'
New York State Association of Counties
New York State Association of Museums
New York State Building and Construction Trades Council
New York State Child Care Coordinating Council
New York State Conference of Mayors and other Municipal Officials
New York State Council of Churches
New York State Family Day Care Association
New York State Professional Firefighters
New York State Public Employees Federation
New York State United Teachers
Non-Profit Resource Center
Professional Staff Congress of City University
Rural Opportunities, Inc.
Safety and Health Council - New York Chapter of National Safety Council
Service Employees International Union
Student Association of the State University
Teamster - Local 237
Transport Workers of Greater New York

**United Auto Workers
United Cerebral Palsy
United Federation of Teachers
United Steelworkers of America
United University Professions of SUNY
The Urban League of the Albany Area, Inc.**