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IBO Report: Budget Shortfalls Grow as City Faces Long, Protracted Recession

Report Also Details \$1.5 Billion in 2009 Federal Stimulus Act Tax Savings for New Yorkers

The New York City Independent Budget Office today released its report on the Mayor's Preliminary Budget for 2010 and Financial Plan through 2013. The report presents IBO's estimate of revenue and spending based on the Mayor's proposals. In this report IBO finds that despite a substantial level of proposed spending cuts, declining tax revenue leaves the city facing a \$1.4 billion budget gap in fiscal year 2010, which begins July 1. IBO projects the shortfall for 2011 is \$5.0 billion, \$1.7 billion more than the Mayor's estimate.

"For some time the city dodged the worst of the recession gripping much of the country. That is no longer the case," said IBO Director Ronnie Lowenstein. "The collapse of the financial system is fueling the U.S. and global recession. Because finance is the industry that drives New York City's economy, we now expect the local downturn to be particularly steep and protracted," added Lowenstein, "In the long term, we may not be able to count on Wall Street generating the kind of tax revenues for the city as it has in the past."

IBO presented the outlines of its latest economic and revenue forecast at a City Council hearing on March 9. At the hearing we estimated the city would lose nearly 270,000 jobs from the first quarter of calendar year 2008 through the second quarter of 2010 and that city tax revenues would decline by \$2.6 billion this year. Taking into account the effect of the decision by the Governor and legislative leaders to withdraw the proposal to extend the state sales tax to a broader range of goods and services, a tax increase also proposed in the Mayor's Preliminary Budget, IBO now projects that city tax revenues will decline \$1.5 billion in 2010. This report provides additional details behind these and other estimates.

Today's report provides new details as well on the federal stimulus act and its fiscal implications for the city and its residents. In addition to a very rough estimate of \$4 billion in expense funding and \$500 million in capital funding that may flow to city coffers over the next two years, IBO has calculated that 2.9 million city households will benefit from the little-discussed tax credit provisions in the stimulus act. The Making Work Pay tax credit, enhanced earned income tax credit, and increase in the refundability of the child tax credit will provide New York City residents with \$1.5 billion in federal tax savings in 2009. The alternative minimum tax "patch" associated with the stimulus act will save 651,000 households an additional \$1.7 billion in federal tax liability in 2009.

Much of the expected effects from the stimulus act have been included in our projections of the city's budget gaps. The biggest source of local fiscal relief in the bill comes from the federal government increasing its share of Medicaid, and the Mayor has already penciled in \$1 billion of budget relief from this change in his 2010 budget.

IBO's review of the Mayor's spending plans highlights a variety of issues. Among them:

- The cost of exporting the city's trash to landfills and incinerators outside the five boroughs continues to grow, rising from a projected \$315 million in 2009 to \$395 million in 2012.
- Planned public safety reductions would lower the number of police officers to the lowest level since 1990 and the number of firefighters to the lowest level since 1980.
- With a public school budget of \$17.3 billion in 2010, \$290 million less than this year, the settlement of the Campaign for Fiscal Equity lawsuit appears to have been put on hold. From the January 2008 Financial Plan through the most recent financial plan, the public schools budget for 2010 has been reduced by \$956 million, \$563 million of that from classroom instruction.
- The Bloomberg Administration is proposing a variety of actions that would reduce the average daily population in the city's jails by roughly 1,700 from the average of 13,850 in 2008.
- The Preliminary Budget includes a \$5.1 million cut in the HomeBase program, which the Mayor had launched as a key component of his five-year plan to reduce homelessness in the city. The program is funded at roughly \$12 million this year.
- The number of red-light cameras would increase from 100 to about 520 and the fine for running a red light would double from \$50 to \$100. These changes require state approval.

IBO's report in the Mayor's 2010 Preliminary Budget and Financial Plan through 2013 is available on our Web site at: www.ibo.nyc.ny.us/iboreports/March2009final.pdf. A free, printed copy of the 62-page report is also available by calling 212-442-0632.