



THE CITY OF NEW YORK INDEPENDENT BUDGET OFFICE

110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
<http://www.ibo.nyc.ny.us>

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Contact: Doug Turetsky
212-442-0629/917-513-7488

IBO Releases Analysis of Mayor's Preliminary Budget for 2011

The New York City Independent Budget Office today released its analysis of the Mayor's Preliminary Budget for 2011 and Financial Plan through 2014. The report finds that under the Mayor's plan, the city will end the current fiscal year with a surplus of nearly \$3 billion. With the expectation that this surplus will be used to prepay some of next year's expenditures and that the Mayor's plan for reducing city-funded spending by \$1.1 billion and extending taxes to coop mortgages and aviation fuel are adopted, 2011 will end with a small surplus.

But with little surplus available for 2012 and beyond shortfalls emerge. IBO projects a \$2.6 billion shortfall for 2012, \$540 million less than the Mayor.

"Although the city's fiscal picture looks better today than many of us assumed it would 12 months ago, there are still ample reasons for caution," said IBO Director Ronnie Lowenstein.

"The U.S. economic recovery now underway has yet to prove it can be self-sustaining as the effect of federal stimulus funds wanes. But a more immediate risk to the city's budget comes from the state, which threatens substantial cuts in local aid as Albany addresses its own fiscal problems." Lowenstein noted that neither the Mayor's Preliminary Budget nor IBO's analysis factors in the Governor's budget proposals.

The new report, *Analysis of the Mayor's Preliminary Budget for 2011*, presents IBO's own economic and revenue forecasts and examines some of the Mayor's key budget proposals.

Among our findings:

Economics and Tax Revenues

- IBO is now estimating a net loss of 172,900 jobs—including 152,500 private-sector jobs—in the city from the third quarter of December 2008, when employment last peaked, through the first quarter of this year. These job losses, while devastating for the families who are affected directly, are well below the losses suffered during the last two recessions.
- The relative mildness of the local recession is attributable to a number of factors, including the financial industry's surprisingly rapid return to profitability and long-term structural changes in local employment. The current recession is the city's first in which manufacturing job losses are expected to be more than offset by job gains in health and education.
- As the city recoups its lost jobs, which IBO projects will occur in 2013, more than half of the job growth will come from health and education and business services.

- City tax revenues would have declined for a second consecutive year if not for increases in the sales and property taxes as well as state and federal tax changes. If not for these changes, our projection of \$36.2 billion in tax revenue for this year would be \$2.1 billion lower.

Spending

- Surpluses from prior years are masking underlying shortfalls in the city budget for 2010 and 2011. On an operating basis, city-funded expenditures would exceed city-funded revenues by \$2.7 billion in 2010 and \$2.8 billion in 2011.
- Year-over-year spending on classroom instruction would decline by \$261 million (3.3 percent) under the Mayor's Preliminary Budget plan.
- Spending on public assistance will be \$1.6 billion in 2010, an increase of 19 percent over 2009, and remain near that level through 2014.
- Health and Hospitals Corporation operating expenses are expected to exceed revenues by nearly \$1.5 billion in 2011—an 86 percent jump over the 2010 shortfall. The hospitals corporation may reduce its staffing by as much as 2,600 to address growing deficits.

IBO's 60-page report is available at <http://www.ibo.nyc.ny.us/iboreports/march2010final.pdf>. Free, printed copies can be requested by calling 212-442-0632 or e-mailing iboenews@ibo.nyc.ny.us.