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IBO Releases Analysis of Mayor's Preliminary Budget for 2007 Plan Manages Budget Surplus Cautiously, Avoiding New Spending or Tax Cuts

The Independent Budget Office today released its analysis of the Mayor's Preliminary Budget for 2007 and Financial Plan through 2010. The report finds that under the Mayor's plan the city will end the current fiscal year with a surplus of \$3.1 billion that will be used to prepay some of next year's expenses and close the 2007 budget gap.

The Mayor's Preliminary Budget for 2007 takes a cautious approach to the city's current budget surplus. With the assumption that much of the surplus is fleeting—the result of short-term revenue spikes and one-time savings due to accounting and actuarial changes—the plan contains little in the way of new spending or tax cuts.

“The budget plan largely seeks to use the surplus in ways that do not commit the city to recurring expenditures or tax reductions that could be difficult to sustain in future years,” said IBO Director Ronnie Lowenstein. Based on this approach, the Bloomberg Administration has sought to take money “off the table” through steps such as creating a health care trust fund for retirees and funding it with \$1 billion of the 2006 surplus (and another \$1 billion in 2007) and delaying the receipt of more than \$350 million in tobacco revenue.

Lowenstein noted that the measures in the budget plan are not the only ways to use the surplus prudently. “For example, using some of the surplus for pay-as-you-go capital spending for housing, schools, and other city infrastructure needs would not commit the city to recurring expenditures and help reduce the growing cost of debt service in future years.”

As in recent years, overall city spending will grow faster than revenues through 2010—largely because of spending growth for debt service, pensions, and other big-ticket costs over which the city has limited near-term control—even as expenditures on most city services will remain flat. IBO projects that total city spending will grow from \$53.6 billion this year to \$60.7 billion in 2010.

IBO's report analyzes the Mayor's budget plan and presents our own independent forecast of revenues and expenditures. Among our findings:

- If the budget plan did not include money for starting the retiree health fund and delay the receipt of tobacco revenue, this year's budget surplus would be \$1.2 billion higher.
- IBO estimates that in 2008, 2009, and 2010 the city's budget shortfalls are roughly \$1 billion a year less than the Bloomberg Administration has projected.
- IBO's lower budget gap estimates stem in part from our higher forecast of property tax revenues, which are \$313 million higher than the Mayor's in 2007 and grow to \$1.2 billion above his projection for 2010.

There are several issues that could temper the city's current fiscal strength. With the Health and Hospitals Corporation facing a shortfall of more than \$500 million in 2007, there may be increasing pressure on the Mayor and City Council to help the public hospital system close its budget gap. Although the Mayor's plan includes funding in a labor reserve to cover wage increases for the city's unions at roughly half the rate of inflation, this may prove insufficient given recent settlements and several consecutive years of larger-than-expected city budget surpluses. In addition, the eventual settlement of the Campaign for Fiscal Equity lawsuit may result not only in additional state education aid but the city spending more of its own funds on schools as well.

Sections of the report were made available during the City Council's budget hearings. The full, 133-page report is available on IBO's Web site at www.ibo.nyc.ny.us. A free, printed copy can be obtained by calling IBO at 212-442-0632.