



THE CITY OF NEW YORK  
INDEPENDENT BUDGET OFFICE

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**Prior Budget Surpluses Temporarily Helping City to Weather Economic Downturn;  
School-Based Budget Cuts May Be Deeper than Recognized**

The New York City Independent Budget Office today released its report on the Mayor's Preliminary Budget for 2009 and financial plan through 2012. The report, which presents IBO's estimates of revenue and spending based on the Mayor's proposals, finds that despite the local economic downturn, the city has no budgetary shortfall for 2009 and a relatively modest gap of \$2.1 billion in 2010.

This generally positive short-term outlook is driven in part by the large surpluses the city accumulated during the past few years, which are helping to make up for expected declines in tax revenue in 2008 and 2009. After the surplus is exhausted in 2010, budget gaps of around \$5 billion emerge in each of the next two years.

"Our economic and tax revenue forecast for the city assumes a relatively brief and mild recession. But the economic situation is particularly precarious. If the problems affecting Wall Street and housing worsen, the recession will be deeper and the fiscal pressures on the city will quickly mount," said IBO Director Ronnie Lowenstein.

IBO's economic forecast projects job growth in the city to stall this year and next, in large part due to a loss of more than 20,000 financial-sector jobs over the two years. Based on this forecast, IBO projects that tax revenue will decline for two consecutive years, falling by 2.6 percent to \$36.5 billion this year and then fall another 2.9 percent to \$35.4 billion in 2009. IBO's economic forecast, while hardly upbeat, was completed in late February, before the collapse of Bear Stearns.

IBO's analysis of the Mayor's spending plans finds that the proposed reductions to school budgets may be deeper than previously recognized. Other actions in the Mayor's preliminary budget plan such as shifting the cost of information technology to schools will increase the school-based cuts beyond the \$99.0 million already pulled from school budgets this year and \$180.7 million planned in 2009. IBO estimates that school budgets may face additional reductions of \$14.0 million this and \$43.0 million in 2009.

Our report also notes that the Mayor's preliminary budget may not provide sufficient funding for sheltering homeless families. The proposed budget for 2009 is \$46.3 million less than actual spending in 2007, when the average number of families in the shelter system was 1,200 less than now.

In addition, the preliminary budget and financial plan may underestimate the cost of health insurance for municipal employees and retirees. Higher health insurance inflation and a greater number of retirees than anticipated in the Mayor's budget could increase costs by roughly \$37 million in 2009 and \$48 million by 2012. IBO projects that the merger and proposed for-profit conversion of GHI and HIP could add \$300 million or more to annual city health insurance spending.

IBO projects spending will grow from \$61.3 billion in 2008 to \$71.8 billion in 2012 under the Mayor's financial plan. One of the major reasons for this growth in spending is the Mayor's decision to mirror recent settlements with firefighters and other uniformed services unions and assume 4.0 percent annual salary increases for other city employees with upcoming contract negotiations. The Mayor may still choose not to agree to terms at this level, particularly in light of the fact that economic conditions have worsened since those other agreements were reached.

IBO's report on the Mayor's 2009 Preliminary Budget and financial plan through 2012 is available on our Web site at: <http://www.ibo.nyc.ny.us/iboreports/March2008final.pdf> . A free, printed copy of the 63-page report is also available by calling 212-442-0632.