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IBO Releases Analysis of Mayor's Preliminary Budget for 2008

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Today's Bright Fiscal Picture Dims as an Economic Slowdown May Threaten Spending and Tax Cut Plans

The Independent Budget Office today released its analysis of the Mayor's Preliminary Budget for 2008 and Financial Plan through 2011. The report finds that under the Mayor's plan the city will end the current fiscal year with a surplus of \$3.9 billion—enough to eliminate the 2008 gap and help lower the projected shortfall for 2009.

But with IBO and others expecting the pace of economic activity to slow, weaker tax revenue growth will not be sufficient to keep pace with expected spending increases. Even with the transfer of some of this year's surplus to 2009, IBO expects a remaining budget shortfall of \$2.8 billion in 2009. Gaps of over \$3 billion are forecast in the following two years.

Also affecting revenue growth are the Mayor's proposals for a property tax rate cut and other tax reductions that IBO estimates would mean \$1.3 billion in foregone revenue in 2008, growing to \$1.6 billion in 2011. Although the Mayor presented the cut in property tax rates, the largest of his tax reduction proposals, as a one-year measure to be considered for extension "if conditions permit," it is included in each year of the Financial Plan.

"The budget gaps the city faces are smaller both in dollar terms and as a percentage of city-generated tax and other revenues than we have faced in recent years," said IBO Director Ronnie Lowenstein. "But with the proposed property tax rate cuts equaling about one-fourth of the annual budget shortfall in 2009-2011, it may be particularly hard to maintain this tax reduction longer-term unless spending reductions or other tax increases are used to offset the cost."

While IBO projects tax revenues will total \$35.7 billion this fiscal year, 5.7 percent above last year, our outlook for 2008 is quite different. With the expectation that the real estate market will weaken and tax collections from the business income and sales taxes will be relatively flat, we project tax revenues will grow in 2008 only 1.8 percent above their 2007 level—before the effect of the proposed tax cuts. This "baseline" estimate (excluding the effects of the proposed tax cuts) is \$100 million *below* the Bloomberg Administration's. We expect somewhat faster tax revenue growth in the following years.

IBO projects that city spending will increase from \$58.1 billion this fiscal year to \$67.8 billion in 2011. A large share of the city's additional spending under the Mayor's plan comes from the

anticipation of additional state funding for education—\$723 million in 2008 and rising to \$2.3 billion in 2011. In addition, some of the same “big ticket” items that have been driving spending upwards in recent years are also expected to continue to rise at a fast pace—debt service, pension contributions, and health and other benefits for municipal workers. But there are also some other sources of new spending, from \$65 million in initiatives stemming from the Mayor’s Commission on Economic Opportunity to higher-than-expected costs for continuing the closure of Fresh Kills and exporting the city’s trash to landfills and incinerators outside the five boroughs.

“This year’s IBO report on the Preliminary Budget and Financial Plan also features a continuation of our efforts to make it easier to understand the city’s budget,” noted Lowenstein. “We have sought wherever possible to present agency spending in terms of programs, which is how most New Yorkers think about city spending.”

Based on these program categories, we provide spending comparisons from prior years, the current year, and the projection for 2008. This offers a better representation of how spending may be changing than in the standard Preliminary Budget and Financial Plan format, which only shows plan-to-plan, or quarterly, shifts. To ensure comparability with the Mayor’s Preliminary Budget, we also discuss the main spending changes in the same dollar terms as presented in his proposals.

Sections of the report were made available during the City Council’s budget hearings. The full, 160-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.