As appeared in: **New York Post, January 13, 2004**

Busted Budget
Mikes's $1.7b dilema

By Ronnie Lowenstein

When Mayor Michael Bloomberg unveils a new budget plan for the city this week, the rhetoric from City Hall should be far less gloomy than it was just a year ago. With the local economy improving and tax collections growing, New York City's fiscal picture has brightened. Indeed, the Mayor has even proposed a rebate for some New Yorkers of the nearly $2 billion property tax increase that was passed in November 2002 to help close what was then a $6.4 billion budget gap.

But while the city's near-term fiscal outlook may be better, obstacles remain. Despite increases in the property and other taxes and several rounds of budget cuts, the city's expenditure growth continues to eclipse revenue growth.

Based on Independent Budget Office projections, this rise in spending (along with the phase out of some of the tax hikes) leaves the city with a $1.7 billion shortfall in the fiscal year that begins in July, and a budget gap that doubles the next year.

In other words, the city continues to stumble under the weight of its "structural imbalance."

City spending is climbing even though the mayor and City Council have curtailed expenditure increases for most programs and services. Under the city's current financial plan for fiscal years 2004 through 2007, which provides no new funding for municipal workers, spending by most city agencies would not keep pace with inflation.

For example, spending on health and social services will rise at a modest rate of 1.8 percent—from $11.8 billion in 2004 to $12.5 billion in 2007. Department of Education spending will rise at an annual average rate of just 1.3 percent, with spending increasing from $12.7 billion in 2004 to $13.2 billion in 2007. Spending for the city's uniformed services—the police, fire, correction, and sanitation departments—is projected to dip by $96 million, falling from $6.5 billion in 2004 to $6.4 billion in 2007.

So if total spending on basic city services is relatively flat, what is causing expenditures to spiral? Just a few big-ticket items: Medicaid, pensions and fringe benefits for city employees, and debt service.

- The city's share of Medicaid costs is expected to rise from nearly $4 billion this year to $4.5 billion next year, and reach $4.9 billion by 2007. Much of the recent growth in Medicaid spending has been spurred by Albany's decision to create the Family Health Plus program to provide health insurance for low-income families.
- The city's need to cover recent investment losses and provide state-mandated cost-of- living increases for retirees is pushing up municipal expenditures on

pension funds for city workers. The city's contribution to its five pension funds will grow by $610 million in 2005 and total just over $3 billion; by 2007, the city cost will reach $4.2 billion.

- Interest and principal payments on city-backed debt will grow from $3.4 billion this year to $4.9 billion in 2007.

Driven primarily by these few costly items, the city's total spending will rise at an annual average rate of 3.7 percent from 2004 through 2007.

And while the upturn in the local economy is pushing up tax revenue, the rise isn't enough to keep pace with the city's increase in total spending.

The Independent Budget Office estimates that tax collections in 2004 will be $26.3 billion—13 percent higher than last fiscal year. But roughly two-thirds of this rise results from the property, personal income, and sales tax increases enacted over the past 14 months. As of January 1, the personal income tax increase started to phase out, and will be eliminated, along with the sales tax increase, in the next two years.

"Baseline" growth in these taxes will be largely offset by the phasing out of the increases. The overall result will be a modest rise in annual average tax revenue of 2.4 percent through 2007—considerably lower than the annual average rise in spending.

The mayor and the City Council worked hard to bring the city back from the fiscal brink last year, but given the basic structural imbalance between revenues and spending considerably more remains to be done. Until we get beyond simply making do from one year to the next, the city will continue to lurch from year-to-year on the fiscal brink.

A longer-term view of budget balance would enable better planning of service delivery as well as help us make wiser choices about the mix and level of city taxes. Although the city is already required to produce a four-year financial plan, most of the attention from policymakers and the public is on the next year.

So as you listen to the Mayor's budget presentation, look beyond the picture for the upcoming fiscal year and make the following year part of the focus too.

Ronnie Lowenstein is director of the city's Independent Budget Office.