



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

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IBO Analysis of the Executive Budget Finds Larger Surpluses,
Smaller Gaps in Future Years

IBO today released its analysis of the Mayor's Executive Budget for 2007 and financial plan through 2010, which finds that the city will end the current year with a surplus of \$3.5 billion, \$100 million more than the Mayor estimated. This year's surplus would be nearly \$2.0 billion higher if the Mayor had not taken this money "off the table" in 2006 and redirected much of it for use in 2008 and beyond.

The report also finds that the city will have a surplus of more than \$400 million in 2007, despite IBO's expectation of a slowing economy in the coming year. While IBO does project budget shortfalls in 2008 through 2010, these estimates are roughly \$1 billion below the Mayor's for each of these years.

"Our gap projections diverge from those of the Mayor in a key way," said IBO Director Ronnie Lowenstein. "The 2007 Executive Budget repeats the same patterns as other recent Bloomberg Administration budget plans, with projections of an increasing current year surplus followed by substantial out-year gaps. IBO sees a slightly higher surplus this year and significantly smaller gaps in the future."

Much of the divergence between IBO's and the Mayor's projections of future budget gaps result from differences in estimates of property tax revenues, particularly in 2008 through 2010. Because assessment increases are phased in over time for many properties, a large portion of the recent rise in housing values still remains to be reflected in property tax receipts.

IBO estimates that spending will be \$53.7 billion in 2007, not including the expenditures prepaid with the 2006 surplus. Spending will grow to \$61.1 billion by 2010. Much of the increased spending continues to be driven by a few, costly portions of the budget over which the city has limited near-term control: pension contributions and health benefits for city workers, debt service, and the settling of lawsuits against the city. City Medicaid spending, while still costly, is no longer rising rapidly because of the state cap on annual increases as well as its takeover of Family Health Plus costs.

The report notes that there are a number of uncertainties that could significantly affect IBO's budget projections. For example, the eventual resolution of the Campaign for Fiscal Equity lawsuit could well mean higher city education spending along with new state aid. It also remains to be seen whether Albany will in fact appropriate enough building aid to finance its share of the

recently announced school construction borrowing without offsetting reductions in aid the city was already expecting to receive.

IBO's economic and tax revenue projections include both upside potential and downside risk. Over the past two years, the local economy has generated far more in tax revenues than forecasters expected. If higher-than-expected receipts are the result of long-term changes that IBO and others have not yet accounted for, tax revenues could again be much higher than projected. Conversely, there are a number of factors that could temper the economic forecast underlying our tax revenue projections, including the threat of rising interest rates, spiraling oil prices, and a weakening housing market.

IBO's *Analysis of the Mayor's Executive Budget for 2007* is available on the Web at <http://www.ibo.nyc.ny.us/iboreports/may2006.pdf> and a free, printed copy of the report can be obtained by calling 212-442-0632.