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## At A Fiscal Crossroads:

# While Moderate Economic Growth Helps Shrink Budget Gaps, Reasons for Concern Remain

With little fanfare, the Bloomberg Administration last month issued its update of the budget for this fiscal year and financial plan for the ensuing years through 2015. The understated release reflects a budget plan that appears to leave the city idling at a fiscal crossroads as the Bloomberg Administration scans ahead, trying to discern where the roads may lead.

Given current economic and political uncertainties, it would not be hard to be thrown off course. The fragility of the U.S. and international economies and recent weakness in the city's financial sector are cause for concern. Other keys to the direction of the roads ahead lie in Washington and Albany and what will happen to the levels of state and federal aid for the city.

While waiting to see what develops on the horizon, the Mayor's November 2011 Financial Plan has proposed a \$1.5 billion set of measures over two years to reduce city-funded spending. The budget plan also effectively zeroes out the Retiree Health Benefits Trust Fund with \$1.0 billion allocations of its remaining assets in both 2013 and 2014. Even with these steps, the Mayor's budget plans for 2013-2015 show growing multibillion dollar shortfalls.

IBO's own economic forecast and tax revenue and spending projections map a different road. At the national level, IBO's forecast of moderate increases in inflation-adjusted gross domestic product (GDP), 2.5 percent in calendar year 2012 and 3.0 percent in 2013, are 0.7 percentage points above the Mayor's estimate for each year. Our projection for job growth in the city is another key difference, with IBO projecting the creation of about 89,000 jobs over the next two years, about 27,000 more than the Mayor estimates. Differences in the two economic forecasts drive differences in the forecast of tax revenues. IBO's tax revenue projections are a bit lower than the Mayor's for 2012 and play a large role in leaving a small deficit of \$242 million that can be closed with the typical year-end budget and accounting adjustments. But our tax revenue projections for 2013 and beyond are increasingly stronger than those of the Bloomberg Administration and help narrow the projected shortfalls.

Based on IBO's tax and spending projections under the Bloomberg Administration's November 2011 Financial Plan, we estimate a budget shortfall of \$1.2 billion in 2013, nearly \$800 million less than the Mayor. For 2014, our gap projection is \$2.2 billion, \$1.7 billion less than the Mayor's; for 2015 our gap estimate is \$1.9 billion, nearly \$3 billion below the Mayor's.

Also available: [Additional Tables on Revenue, Expenditure and Economic Projections](#) @ [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us)



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