by Glenn Pasanen
Tuesday, March 09, 2004 12:00 AM -

Â So many people are so optimistic about budget surpluses in the city's budget both this year and next â€" the Independent Budget Office projects a $1.6 billion surplus for the current fiscal year, ending in June, and more than a $500 million surplus next year â€" that the mayor and the city council are bickering over not whether but how to cut taxes.

But in terms of basic city services, the budget prospect is far less comforting. City expenditures in the mayor's current plan grow from $46.5 billion in 2004 to $52.3 billion, according to projections by the Independent Budget Office, which represents three percent a year. This, however, is misleading: Most city programs and services average only 0.4 percent growth per year. Several are actually losing funding over the next four years, among them youth services, aging, cultural affairs, children's services, parks, and housing. Most of the growth in spending comes from mandated expenses for debt service, pensions, Medicaid, and fringe benefits.

This problem of flat or declining city-service funding is compounded by the persistence of longer-term budget deficits, an average of more than $2.2 billion a year from 2006 to 2008, according to the Independent Budget Office. One major cause of these shifting priorities and future deficits is the city's roller-coaster approach to tax policy.

BUDGET UNCERTAINTIES

At the council's preliminary budget hearing earlier this month, Ronnie Lowenstein, director of the Independent Budget Office, listed four uncertainties in the mayor's four-year plan:

- the absence of any money for **wage increases** (each one percent increase in wages costs about $200 million)
- the dependence on new federal and state **aid**
- accelerating **pension costs** (perhaps $300 million more than the mayor's projected $600 million increase in 2005)
- and ("a huge uncertainty") the possibility that the city will have to bear a share of the anticipated new **schools funding** stemming from the Campaign for Fiscal Equity's successful suit against the state's education funding system.

School Aid

The campaign's March 1 proposal for funding the schools (which they call a "work-in-progress") suggests a statewide, fully-implemented plan to provide a sound basic education to all students would cost $9.5 billion more than is currently being spent, 49 percent of which ($4.7 billion) would go to New York City. The big unknown is how much of that $4.7 billion would come from increased city, not state, funding. The campaign's own estimate (see page 27 of their proposal) would represent a 35 percent increase in city-funded per capita funding from the 2001-2002 year ($4,362 per pupil) to the fully-implemented year ($5,878).

State Takeover Of City's Debt In Doubt

Several other uncertainties revolve around Governor George Pataki, his many public authorities, and the state legislature. The good news in early March was the decision of the state appellate division to approve the legislature' s $2.5 billion five-year takeover of the city's Municipal Assistance Corporation debt, a move the Governor has blocked. ($500 million of that deal is still part of this fiscal year's budget.) The bad news was a state authority's appeal of the decision to the state's highest court.

State Aid, State Authorities

On another front, the projected $400 million in new state aid is, as always, a question mark at this point. The City Comptroller says half of the $400 million is at risk. But still another major uncertainty is how Governor George Pataki will help or hinder the city in a number of economic development and governance issues that, at least tangentially, can affect the city's budget. A highly critical report on public authorities from the office of the state comptroller, Alan G. Hevesi, is a reminder of how secretive, self-serving, and unaccountable state authorities can be: "A culture of arrogance," he says, "pervades these entities."

Through one or another such authority, the governor controls the future of the World Trade Center site, the Javits Center expansion, Governors Island, and the Olympics/Jets/commercial West Side project. The style of such authorities was illustrated at a recent Baruch College Newman Institute seminar about the "Lessons of Battery Park City." A founder and one of three current board members of the Battery Park City Authority proposed to fill in another 25 acres of the Hudson River at its north end and suggested the Authority take over all development in downtown Manhattan, including Governors Island.

BUDGET BALANCING

The mayor's bold fiscal strokes last year have had a very positive effect on the current plan. The large budget surplus for this year and the smaller anticipated surplus for next year stem in large part from the property, personal income, and sales tax increases that the mayor proposed and, with modest changes, the council enacted in the last budget cycle. On the other hand, the mayor and council made the increases temporary, ignoring the chance to achieve structural budget balance, i.e., a long-term balance between revenues and expenditures.

Losing $1 Billion In Tax Revenues

As the new tax rates are phased out, the city will lose over $1 billion a year in tax revenues, most of it from the progressive personal income tax, where the cancellation of two top rates (4.25% and 4.45%, for couples making over $150,000 and $500,000, respectively) will sharply narrow the gap between rates for lower- and higher-income New Yorkers. The 4.45 percent top rate, incidentally, was the prevailing top rate for most of the 1990s, through both bad and good economic times.

The balanced-budget news has prompted competing tax relief programs between the mayor and council. The mayor wants to give up $250 million in property tax revenues through a

rebate of $400 for co-op, condo, and house owners' property taxes. That leaves out any relief for renters and business owners.

Council Speaker Gifford Miller announced a $300 million tax-cut package in his February 25 State of the City speech, including property tax relief for low-income seniors and the two percent across-the-board property tax rate decrease. The relief for seniors is progressive, and the inclusion of renters in the plan is more broad-based than the mayor's plan.

But the council rate decrease is only two percent, and therefore the bulk of the property tax relief will go to larger commercial owners. And neither the mayor nor speaker's plan addresses the existing complexities and inequities in the property tax system. House owners on average have a better tax deal than co-op owners, and co-op owners have a lower burden than condo owners. Worse, the average renter, who earns less than the average owner, carries a much higher burden than the average owner.

SHIFTING AWAY FROM SERVICE PRIORITIES

The financial plan's comfort with technical budget balancing and the lack of any vision in the 2004-2008 financial plan means that the increasingly smaller share of city funding devoted to basic services goes unattended. Beyond the bickering over a tax-relief package, the mayor and council will apparently spend the spring fighting, as usual, over "hidden service cuts" â€“ the hundreds of programs funded by council and borough president initiatives that are simply left out of any four-year plan because the mayor calls them one-year-only programs.

So while the mayor and council bicker into June over perhaps $400 million of tax relief and budget restorations, the longer-term shift in budget priorities unfolds as if inevitable. Most service spending is flat or declining, while overall expenditures grow from $46.5 billion to $52.3 billion. IBO figures show Medicaid and pension costs skyrocket in dollars and as a share of the budget:

â€˜ In 2004, Medicaid costs $3.4 billion, or 7.4 percent of the total budget
â€˜ In 2008, Medicaid costs $4.5 billion, or 8.5 percent of the total budget

â€˜ In 2004, pension costs are $2.4 billion, or 5.2 percent of the total budget
â€˜ In 2008, pension costs are $4.2 billion, or 8.1 percent of the total budget

In contrast, basic services lose dollars and/or shares of the budget:

â€˜ In 2004, education spending is $12.7 billion, or 27.4 percent of the budget
â€˜ In 2008, education spending is $13.5 billion, or 25.8 percent of the budget

â€˜ In 2004, police spending is $3.5 billion, or 7.5 percent of the budget
â€˜ In 2008, police spending is $3.5 billion, or 6.6 percent of the budget

â€˜ In 2004, children's services spending is $2.6 billion, 4.9 percent of the budget
â€˜ In 2008, children's services spending is $2.2 billion, 4.1 percent of the budget

â€˜ In 2004, aging spending is $224 million, or 0.48 percent of the budget
â€˜ In 2008, aging spending is $199 million, or 0.38 percent of the budget

All in all, it would be good if the mayor and council could temper their bickering and publicly address some of the larger uncertainties that their own budget and their own governor pose for them in coming months.

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