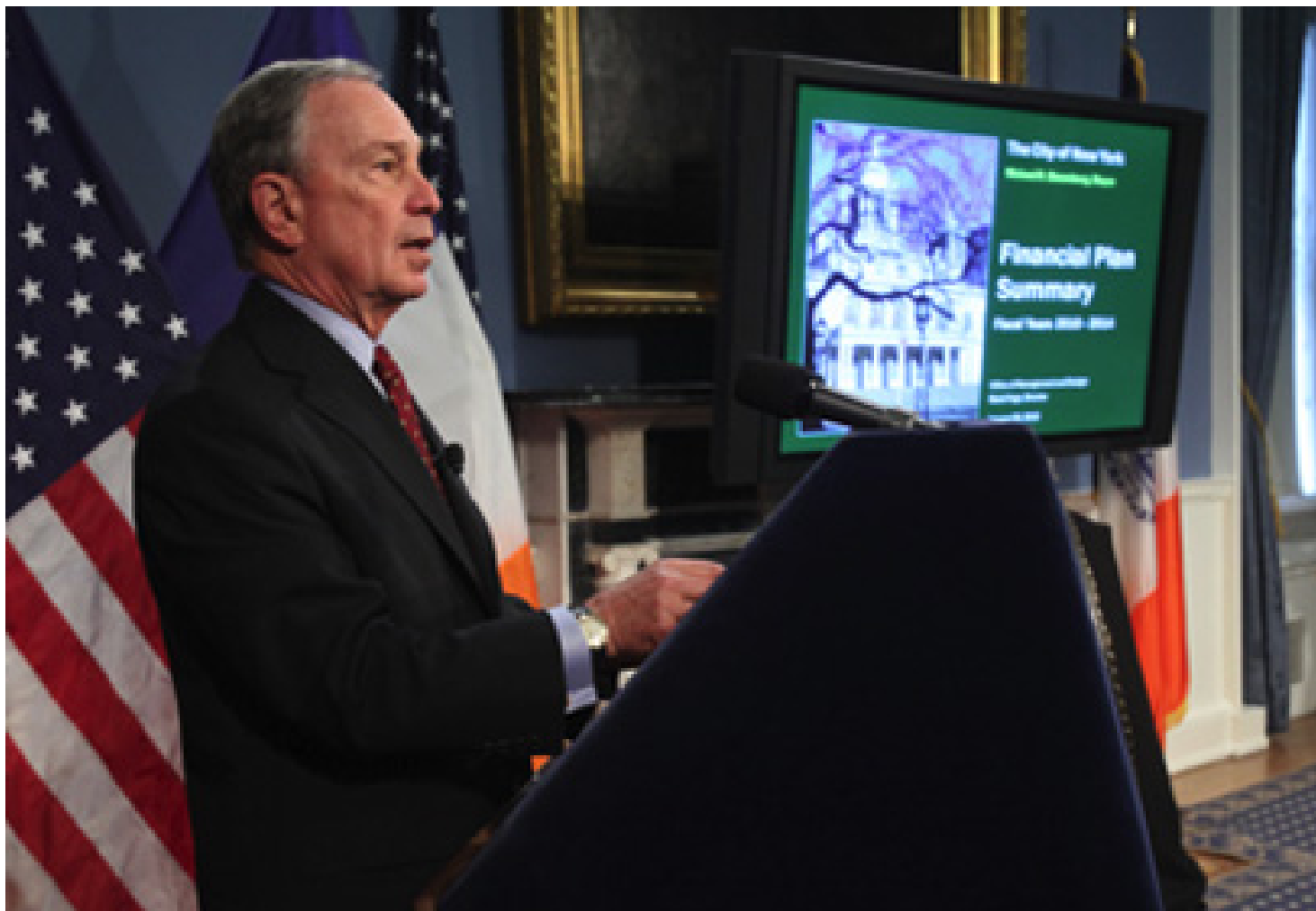


## Bloomberg Takes Out a New Budget Playbook

by Glenn Pasanen

Thursday, February 02, 2012 02:47 PM - Last Updated Tuesday, June 04, 2013 01:51 PM

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Spencer T. Tucker

Last month, Mayor Michael Bloomberg fueled what Paul Krugman has [described](#) as "a recurrent fantasy about a Bloomberg third-party candidacy that will save America" when he presided over the convention of new political group dubbed [No Labels](#).

"No Labels," of course, implies a nonpartisan, non-ideological effort, but, whatever progressive positions Bloomberg holds to on social issues, the mayor's fiscal strategy over the last three years has come from a standard conservative political playbook: reduced services -- especially in education and human services -- criticisms of city unions, expanded privatization and regressive tax policy. In his [State of the City](#) speech on Jan. 19, Bloomberg reiterated these positions. He called for smaller government. He took aim at public employee unions, pledged to chip away at seniority privileges and [scale back pensions](#). And he vowed not to raise taxes.

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The speech came only days after the City Council, having gotten some items restored, [signed off](#) on Bloomberg's latest budget-cutting modification, his ninth in the past three years. A substantial 10th slice is likely with the release next month of the preliminary budget for fiscal year 2012. What these serial budget cuts make clear is that New York, once a laboratory for national liberal policies, is conducting an experiment in urban conservative policy.



### ANALYSIS

The current strategy is very much at odds with that of the first-term Bloomberg administration. The mayor's [response in November 2002](#) to the fiscal crisis following 9/11 and the accompanying recession did resemble a "No Labels" strategy. For instance, its emergency \$6 billion budget-cutting plan was split equally between much higher taxes and service reductions. It was nonpartisan and apolitical, based on shared sacrifices from all New Yorkers.

### The City's Fiscal Condition

The focus on cuts in education and human services next year looks premature in terms of the city's actual fiscal condition. According to the Independent Budget Office's [December Fiscal Outlook](#), New York City is in surprisingly good shape. It has lost fewer jobs than projected, and increased city revenues, not acknowledged in the city's November plan, will add \$525 million to the current fiscal year budget, \$790 million in fiscal 2012, and an average of \$2 billion in each of the following two years.

That helps create a \$1.7 billion surplus this fiscal year and shrinks the city's projected budget deficit for 2012 to \$1.1 billion -- a nominal figure at this date in a projected \$67.5 billion budget. It also reduces the city's projected deficits for 2013 and 2014.

The Independent Budget Office's forecasts are a reminder that the city, in spite of billions of dollars in budget reductions, is reducing the pace of growth of spending, not actual spending. From 2011 to 2014, city spending (including state and federal funding) will grow from \$65.1 billion to \$74.6 billion. Admittedly the city still does not know how much the state will reduce its funding for schools and general aid. That, the Independent Budget Office, concedes, is a wild card in its predictions.

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The IBO projections, indeed, are more optimistic than those of state and city fiscal monitors. The State Financial Control Board [December staff report](#) on the November modification makes the bleakest, worst-case projection. It finds the fiscal 2012 deficit could reach \$3.9 billion, with markedly higher amounts in later years.

### Managing Deficits: Privatization

In his latest effort to reduce the deficit -- whatever its size -- Bloomberg has increasingly underscored another conservative strategy -- privatization. The new deputy mayor for operations, Stephen Goldsmith, the former mayor of Indianapolis, is famous for privatizing city public services. His first public action, a [published review](#) of several city agency programs offered a rather blunt critique of current Bloomberg administration practices, but promised a \$500 million savings with better management over the next four years.

Since then, the management news has not been so good, and Goldsmith has much to attend to beyond his [role in the snow snafu](#) in December.

One goal of privatization is saving money. In some cases -- most notably the [CityTime](#) payroll management project, which is more than [10 times over budget](#) -- this goal clearly has not been met.

Yet concerns about contracting practices are nothing new. City Limits magazine, for instance, recently [noted](#) that it identified problems with the CityTime contract more than two years ago. It also quoted Lillian Roberts, executive director of the city's largest public employee union, [DC37](#), as saying that the federal indictments in that case are "merely the tip of the iceberg and an outrageous example of the greed and corruption that are the result of an unregulated procurement process."

The city's efforts to upgrade and modernize its 911 emergency response system have been [plagued](#) by cost overruns and missed deadlines, with the city removing one contractor and in the midst of trying to get its money back from another. Last month City Comptroller John Liu [rejected](#) a \$286 million contract for another 911 project.

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The Daily News has been [investigating](#) the Department of Education's use of consultants and reported in January that, between 2008 and 2010, the department spent some \$200 million on consultants. In 2010, more than 100 consultants got over \$100,000 each, and close to two dozen received over \$200,000.

The Independent Budget Office, which is doing a series of studies of the department, reported in a December [blog](#), "What is Yellow and Rises at the Same Time it Falls," that school transportation contracting costs will exceed \$1 billion this school year. In the last five years, it found, costs have risen by \$115 million while ridership has fallen. Some reasons for the increase are unclear although non-competitive contracts and fewer contractors may be factors, along with higher gas prices.

City Comptroller John Liu added to the questions surrounding contracting with an [announcement](#) in November, entitled, "Trim Fat Around City Contracts Before Resorting to Layoffs and Service Cuts" that cites "\$157.4 million in potential savings through audits of city agencies."

### Education and Social Services Cuts

While private companies and organizations still get city contracts, some groups are being asked to bear the brunt of the city's budget problems. Over the past eight years, the administration's concept of sacrifice has narrowed considerably. The city comptroller's [December report](#) on the city's economy and finances, for instance, notes that the city's budget cutting -- almost \$600 million this year and over \$1 billion in 2012 -- is nearly 90 percent service cuts and 10 percent new revenues.

According to the state comptroller's [review of the November budget plan](#) recently approved with some modification by the City Council, those cuts "would fall hardest on the city's schools and the neediest citizens." The city comptroller points out that cuts in education total \$670 million over the 2011 and 2012 fiscal years and that the number of teachers is scheduled to be reduced by 5,398 in 2012, nearly 4,000 by layoffs and the balance by attrition. Teachers would represent 70 percent of all headcount reductions in city departments in 2012. (In contrast, there will be no reduction in uniformed police officers.)

The [Mayor's Management Report](#) gives little information about the impact of nine rounds of

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cuts on human services. But the four-year plan of the November modification is pretty clear about Bloomberg administration priorities: Over the next four years, children's services would be cut by nearly 6 percent, homeless services by 6.6 percent, and health and mental hygiene by over 7 percent. During this time, housing and libraries would lose 23 percent, cultural affairs 29 percent, and youth and community development 33 percent.

### Labor and Deficits

More than anything, else, though, the mayor plans to rely on pension reductions and labor concessions to rein spending. In his State of the City speech last week, he [laid out](#) a number of proposals for accomplishing this, including raising the retirement age for future non-uniformed city workers to 65, getting rid of a bonus for uniformed workers and allowing the city to negotiate pensions with the unions, something currently

[barred by state law](#)

. Bloomberg pledged not to approve any salary increases for city workers "unless they are accompanied by reforms in benefit packages that produce the savings we need to continue making investments in our future and protecting vital services."

That reflects what already was in his November plan. After several years of annual 4 percent increases, the mayor drew a line in the sand and said the unions will self-fund any raises, through productivity savings and/or benefit concessions.

Much of the uncertainty about future budget deficits comes from the unresolved negotiations with the city's unions. Contracts for a number of unions -- DC37, the police and firefighter unions, and the Communications Workers of America, which together represent nearly 50 percent of the workforce -- have already expired. According to the state comptroller, raises at the projected inflation rate would cost over \$1 billion a year.

Further, the mayor has long delayed any settlement with the teachers and supervisors unions, who have been working without a contract. At stake in any final deal is, according to the city comptroller, nearly \$900 million in this fiscal year and \$800 million to \$900 million in each of the following three years -- none of which is included in the November modification.

The new pressure on city labor echoes a national argument by many governors, including New York's Andrew Cuomo, that public-sector workers are over-compensated, and that taxpayers can no longer afford early retirement ages, rising pension costs and health plans that strike many who work in the private sector as generous. But Michael Powell in a recent New York

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Times article [wrote](#) , "A raft of recent studies found that public salaries, even with benefits included, are equivalent to or lag slightly behind those of private sector workers." (He did not offer figures for New York City alone.)

### Read His Lips

Perhaps the most significant indication of the mayor's recent shift to conservative political strategies is his rejection of income tax hikes. During the 2002 fiscal crisis, the mayor raised average property tax rates by 17.5 percent and temporarily increased personal tax rates for higher income people for three years, much as Mayors David Dinkins and Rudolph Giuliani did in the 1990s. Bloomberg also instituted a three-year, temporary sales tax increase.

The average property tax remains the same in 2011 (market valuation increases, however, have raised assessments, thus raising actual tax bills). The regressive city sales tax, recently raised to 4.5 percent, is at a historic high. The higher personal income tax rates on wealthier New Yorkers, however, reverted to lower rates in 2006, although the Independent Budget Office [found](#) no evidence that anyone left the city because of the tax increase -- one argument used by the mayor to explain his refusal to re-introduce higher rates.

The mayor has vowed to continue his no tax increase policy. "Let me be clear," he said in his State of the City speech, "we will not raise taxes to balance the budget." Increasing taxes, he said, "would undermine our recovery by driving people and businesses to lower-tax cities and states and deterring investment from overseas."

This decision not to raise taxes on the most affluent New Yorkers takes hundreds of millions of dollars off the budget table. The Independent Budget Office's [Budget Options report](#) last February noted that a modest tax rise -- still lower than the 2003-2005 rates -- on high-income New Yorkers would raise almost \$500 million in 2011 and \$678 million in 2013, approximating the education department cuts in 2011 and 2012. The rates would affect only the 8.4 percent of taxpayers with adjusted gross income over \$125,000, who would pay an average of \$9,500 more than they currently pay.

But the appeal of tax cuts for high-income taxpayers, as seen in the two-year extension of the Bush federal tax cuts for the nation's wealthiest, seems to outweigh any argument for shared sacrifice. This persists in spite of the fact that that, according to [Citizens for Tax Justice](#) , "the combined taxes levied by federal, state, and local governments in the United States are among the lowest in the developed world."

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Incidentally, Citizens for Tax Justice [reports](#) that the extended personal income and new estate tax cuts in the December compromise will mean an average tax break of \$120,726 for the top 1 percent of New York State taxpayers, those with an average income of \$2.3 million. They will receive 43 percent of the total tax cut in New York State, while the average benefit for the 20 percent of New Yorkers with the lowest incomes, averaging \$11,975 a year, will be \$182.

Across the country and in New York City, these actions -- fewer human services, attacks on labor, lower taxes, privatization, growing inequality, less shared sacrifice -- are the ingredients on a familiar political label: conservatism. Perhaps we should address -- rather than deny -- political labels, so that we can better understand what is happening.

Glenn Pasanen, who teaches political science at Lehman College, has been in charge of Gotham Gazette's finance topic page since 2001.