For elected officials who tend to look at budgets one year at a time, the news lately has been very encouraging, especially in an election year. The state budget was passed by the deadline for the first time in 21 years! Three separate fiscal monitors are optimistic about the city's finances, and the Independent Budget Office predicts a $2.5 billion surplus by June, some $500 million more than the mayor projected two months ago.

But let's take a closer look.

The State Budget

The new state budget passed by the legislature (the governor may still veto parts of it) may be on time, but it does little to help the city's long-term prospects. Worse, it has several regressive components. The big blow is that state education aid to the city will grow only by $325 million next year, in the face of the state Court of Appeals' order in the Campaign for Fiscal Equity case to add $1.4 billion.

On the tax side, the little guy gets hit the hardest. The temporary state sales tax increase set two years ago was allowed to sunset on schedule in May. But in an all-too-familiar, last-minute deal, the Metropolitan Transportation Authority share of the sales tax (0.25 percent) was increased to 0.375 percent (The total city/state/MTA sales tax, if the city lets its increase sunset, will be 8.375 percent.)

This adds insult to injury. On top of the apparent bargain-rate sale by the MTA to the Jets and the recent fare increases, city residents (and residents of metropolitan counties) will now pay the MTA some $250 million more next year. For car owners, fees will go up by $180 million.

Then there is the broken promise of a tax cut that would help lower-income residents. The scheduled restoration of the sales tax exemption on clothing costing less than $110 was killed, making the sales tax even more regressive. At the same time, the promise to sunset the progressive state personal income tax increases was kept -- a $1 billion benefit to the state' s wealthiest residents.

The City's Preliminary Budget

Several new fiscal reports describe what could be called a city financial plan on automatic pilot. Mandated city expenses â€“ Medicaid, pensions, health benefits, and debt service â€“ increase substantially over four years. Projections for everything else â€“ the discretionary programs ordinarily adjusted one way or another each year â€“ are pretty much flat. There is no vision, no sense of priorities in the plan. Further, flat spending on city services, adjusted for inflation, translates into a long-term cut in actual dollars and, presumably, services.

But three fiscal monitors do share short-term optimism about the city's fiscal condition. A report (in pdf format) by the state comptroller says, "Fortunately, the budget has benefited for the second year in a row from an unexpected surge in tax revenue." (Last year the surge came from Wall Street revenues; this year it is real estate transactions.)

With this year's budget surplus used to help balance next year's budget, the state comptroller sees the 2006 risks as "manageable for this point in the financial planning process." Similarly, a report
(in pdf format) by the city comptroller says the 2006 budget "appears on course toward balance assuming the risks it contains are expeditiously addressed." The big risk is the "ambitious" assumption of $750 million in budget relief from state and federal governments.

A state financial control report (in pdf format), like the two others, focuses on the structural problem: Fringe benefits, pensions, Medicaid, and debt service are "projected to rise at a pace that outstrips the growth in tax revenues." Other risks include the court-mandated education spending ignored in the new state budget and uncertainty about future labor settlements.

The city comptroller adds a worry about the Health and Hospitals Corporation, which, he says, faces budget gaps ranging from $485 million to $636 million in fiscal years 2006 to 2009. Those gaps might require the city to increase its recent $150 million subsidy to the corporation.

Building Better Measurements Of Management Performance

The Independent Budget Office (Analysis of the Mayor's Preliminary Budget for 2006 and Financial Plan through 2009) paints an optimistic picture. It projects that this fiscal year's tax revenues will be $1.5 billion higher than last June's adopted budget claimed, helping boost the 2005 surplus to $2.5 billion. Looking further ahead, the IBO projects 2008 and 2009 deficits to $3.0 billion and $2.2 billion, respectively, much lower than earlier estimates.

This brightening picture unfolds even though tax revenues in 2006 will actually decline by more than $140 million, primarily because of lower property-related taxes and the sunset of the city's own temporary personal income and sales tax increases from 2003.

But the report also reveals a curious loss of revenue â€“ and one which adds to the inequality of the city's bizarre property tax system (discussed in earlier Finance topic page articles) while giving a benefit to a relatively few homeowners. Next year, the city will (assuming the property tax rate remains the same) lose $31 million in tax levy from a new assessment process affecting one-, two-, and three-family homes.

The benefit (in addition to the $400 homeowner rebate set for next year) goes to some 50,000 owners, who will get an average savings of $775, while the other 630,000 owners will actually pay about $60 more on average.

What's most interesting about the IBO's 154-page report, however, is its new focus on program budgeting, which will assist researchers looking at city management issues. Program budgeting differs from the mayor's "units of appropriation" budgeting (which lump dollars into large categories like "personal service" (PS) and other-than-personal-service (OTPS)). The IBO use of program data numbers is to "link budgetary resources to the results produced," a tool, in other words, to measure accountability.

For example, the Preliminary Mayor's Management Report (Preliminary Fiscal 2005 Mayor's Management Report (PMMR)), released in February, lists the Department of Education's $13.7 billion in 2005 expenditures on one line only. (The city charter' section 12 (In PDF format) says the Preliminary Mayor's Management Report should link such numbers to program goals and results, but in practice it does not do that in a way that measures performance.)

The IBO report, in contrast, lists four program areas of education expenditures â€“ instruction ($10.3 billion in 2005), administration ($629 million), non-instructional support ($2.0 billion), and non-public school payments ($812 million) â€“ over five years.

Instruction dollars, it turns out, are up 24 percent over the past four years, and non-public school payments are up 46 percent over the same period.

For the Administration for Children's Services, the Preliminary Mayor's Management Report lists one-line expenditures of $2.1 billion in 2005. The IBO breaks that into nine program areas, from child care ($478 million in 2005) and Head Start ($152 million) to adoption ($326 million) and foster care ($802 million). That breakdown then allows the IBO to analyze shifts in spending among the program areas in an agency undergoing major adjustments in its in-house and contracting services.

This is only a first step â€“ more program lines would be better â€“ but with a city financial plan on automatic pilot and mayor's management reports that dodge their accountability mandate, this IBO innovation provides a useful starting point for measuring administrative performance.

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