

Campaign 2005: 10 Budget Choices Facing The Next Mayor

by Glenn Pasanen

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Whoever is mayor on January, 2006 will face monumental decisions about New York City's budget, thanks in part to the \$4.5 billion deficits projected for each of the next two fiscal years.

A budget ultimately reflects the values of those who make it and approve it, and the mayor's choices on the following ten budget-related issues go to the heart of his or her values and vision for the city.

1. **Education** Education plays an immense role in the city's finances, with spending on it for operational expenses expected to reach \$17 billion in 2006, or 32 percent of the total city budget. The city's share of that funding has increased an average of almost four percent each year since 2000.

The big unknown in education is the city's obligation, if any, to meet the state court order in the Campaign for Fiscal Equity lawsuit. The court has ordered an increase in city education operational spending by \$5.6 billion over four years and \$9.2 billion in capital spending over the next five years. It is not clear what the state and city shares would be.

Specific issue: **Whether the city will share in the new spending required by the CFE case, and how much that share will be.**

2. **City Workforce.**

No city union currently has a contract for the 2006-2009 financial plan period. Yet, the Bloomberg administration's current plan assumes future settlements will be at half the rate of inflation. Higher agreements will mean finding hundreds of millions of additional dollars.

Specific issue: **Negotiating union contracts, and paying for future city labor settlements.**

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3. Public Safety

Major crimes continue to decline in New York City, even as the number of police officers declined by some 3,700 officers in 2005, or over nine percent, from a peak of approximately 40,000 in 2000, according to a report by the [Independent Budget Office](#) (in pdf format). The agency's report also notes that another reasonable money-saving budget choice is available -- civilianization, using lower-paid civilians to do work currently being done by higher-paid uniformed officers.

Specific issue: **What the number of uniformed police officers should be, and whether to expand civilianization in the department.**

4. Sanitation

One of the major increases in city spending in the past few years has been the escalating cost of residential waste disposal. Disposal has tripled in cost since the closing of the Fresh Kills landfill in Staten Island in 1998, to \$300 million currently, according to a recent [Independent Budget Office report](#) (in pdf format). The use of new marine transfer stations and rail lines that would reduce the costs of the very expensive truck-based system used today raises important cost, equity, and environmental issues.

Specific issue: **How to reduce the escalating costs of the current truck-based waste disposal system in the city**

5. Overtime

The cost of overtime for police, firefighters, and the city's other uniformed services in 2005 again reached more than \$700 million, nearly \$200 million more than was initially budgeted for the year, according to a report by the Financial Control Board. The underestimating of overtime costs is, in fact, a pattern that goes back well into the 1990s, and the Financial Control Board sees the pattern continuing in the Bloomberg administration's new financial plan.

Specific issue: **What management measures to employ in order to reduce the exceedingly high overtime costs for the uniformed services.**

6. Property Tax

The city's property tax will bring in an estimated \$12.4 billion in 2006, or about 43 percent of all city tax revenues. It's also the only city tax projected to increase substantially in the next four years (by \$3.2 billion, says the Financial Control Board). The tax became a hot issue in November 2002 when Mayor Bloomberg and the City Council increased the rate by 18.5 percent -- after a decade in which the average tax rate had been frozen. The \$1.8 billion in new revenues produced by the increase helped solve a budget deficit that at one point had reached \$6 billion.

The mayor's \$400 rebate to homeowners -- continued in the four-year plan at a cost of over \$250 million a year -- has wiped out that increase for many homeowners, but has left the burden on commercial owners and renters (who pay a substantial percentage of a landlord's property tax). The rebates have exacerbated a [bizarre, confusing property tax system](#) in which private house owners pay lower property taxes than coop and condo owners; worse yet, renters, with lower incomes than homeowners on average, pay by far the highest residential rate.

Specific issue: **What to do to reform the city's bizarre property tax system, while maintaining its place as a vital source of city revenue.**

7. Personal Income Tax

The personal income tax, or PIT, is the second largest -- and most progressive -- city tax, bringing in \$6 billion (20 percent of tax revenues) in 2005. Its rates currently range from 2.9 percent of income for lower-paid taxpayers to 4.45 percent for households earning over \$500,000. The two highest rates (4.25 and 4.45 percent), which added about \$540 million in revenues to the 2005 budget, will be eliminated at the end of this calendar year. That will make the PIT less progressive, and make it more difficult to resolve the city's long-term budget

deficits.

Specific issue: **Whether to restore the higher personal income tax rates for higher-earning New Yorkers.**

8. Rainy Day Fund and Structural Budget Balance

The \$3.5 billion surplus in the fiscal year 2005, along with the \$1.9 billion surplus in 2004, have triggered a lot of interest, most recently by the City Comptroller in his July report, in establishing a so-called “rainy day fund,” which means saving all (or some of) any budget surplus and setting up procedures for using it over time – as, say, when an economic recession cuts revenues sharply. Under current state law, any surplus must be spent in the fiscal year of the surplus.

Mayors Rudolph Giuliani and Michael Bloomberg have used billions of dollars of annual surpluses to pre-pay the next year’s expenses. That is politically attractive – I call the surplus a “sunny day fund” for mayors – because it’s an easy way to avoid new taxes or reduced spending for 12 months. The downside is that it’s a one-time revenue. Without the recent surplus, the mayor and council would have had to find \$3.5 billion in service cuts and new revenues. If there were \$3.5 billion of recurring cuts and revenues in the 2006 budget, next year’s deficit at this point would be \$1 billion, not \$4.5 billion; the four-year plan would be considered close to “structurally balanced,” that is, long-term revenue and expense projections would be roughly equal.

Specific issue: **Whether to create a rainy day fund as the most reasonable way to achieve a more structurally balanced financial plan**

9. Capital Budget

The July report by the Financial Control Board calls the Bloomberg administration’s latest 10-year, \$62.4 billion capital budget strategy – the separate city budget that funds (by borrowing money in the financial markets) the rehabilitation, replacement, and new construction

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of public facilities “by far the largest ten-year strategy ever presented.” The education portion is \$18 billion, or 29 percent of the total. Since the debt service for this capital work is paid out of the operating budget, fiscal monitors worry about the burden of such an investment: \$4.3 billion in debt service in 2006 (14.4 percent of city tax revenues), rising to \$5.9 billion in 2009 (17.4 percent of city tax revenues).

Specific issue: **Whether to support the city’s current 10-year capital budget strategy and its priorities.**

10. Budget Process

The current mayor’s [Charter Revision Commission](#) has spent eleven months discussing possible changes in the city’s charter, and their work has focused in large part on two important questions: 1) public (and fiscal monitor) access to city budget information, and 2) the quality (and usefulness) of many charter-mandated budget and management reports. (The commission has said it is no longer considering the second question for the ballot in November, but it remains an important issue.) A running theme among critics of the commission’s proposals has been deep concern about possible expansion of the already extraordinary power that the city’s mayors have over the city budget.

Specific issue: **What to do to expand the public’s knowledge of, and participation in, the city’s annual budget process.**

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