Published in the

CRAIN'S NEW YORK BUSINESS

Poking Holes in the City's Claims of Fiscal Conservatism

Spending increase to outpace tax growth by more than three-to-one in new city budget

By Erik Engquist

June 22, 2016

Self-congratulations abounded earlier this month as the de Blasio administration and the City Council passed the 2017 budget, largely because they set aside $1.5 billion for reserves. The council took extra pride in increasing the rainy-day fund for retiree health benefits by $250 million beyond what the mayor had proposed, while adding about the same amount in expenditures to the mayor's plan.

"For the first time I can remember, the council's advocacy matched new spending and new savings just about equally," Councilman Brad Lander, D-Brooklyn, told constituents in his newsletter.

But put in perspective, the numbers don't exactly indicate that fiscal conservatism has taken hold.

Consider that the mayor and council budgeted $3.2 billion more spending even though they project tax revenue to increase by just $854 million. They did it by using $4 billion in surplus accrued in the fiscal year ending June 30, during which tax collections exceeded expectations.

A quarter of the spending increase will go to debt service—the cost of paying off the bonds that the city issues for capital projects ($868 million was added to the School Construction Authority's capital plan; the authority's annual budget will be $11 billion). Always a concern to budget hawks, debt service will rise by about 13% in the new fiscal year.

The second largest percentage increase is for public assistance, in line with the philosophy of the de Blasio administration and council to help New Yorkers in need. It will rise by about 7%, according to the Citizens Budget Commission.

But despite that gain, public assistance accounts for just 3% of the $3.2 billion in added spending. The biggest chunk of the increase, 32%, is for "other than personal service," meaning non-payroll costs such as outside contracts and energy bills. Just behind that is debt service (25%, as noted), followed by pension and fringe benefits (20%) and salaries (17%).

Salaries account for such a large chunk of the new spending because the city has so many employees—roughly 323,000, up 10% since 2012—not because individual salaries soared. In fact, the city will spend just 2% more on salaries in 2017 than in the current fiscal year. But when the modest pay increases (which stem from collective-bargaining agreements between the de Blasio

Published in the

CRAIN'S NEW YORK BUSINESS

administration and public-employee unions) are applied to a huge work force, it adds up to a big number.

This will hardly be the first time that city spending grows quickly during an economic boom. It happened in the 2000s, even as the Bloomberg administration socked away billions of dollars—which came in handy when the recession hit in late 2007.

And the budget could well prove to be more conservative than it appears. Mayors typically underestimate future revenue because they would rather cope with a surplus than a deficit during the fiscal year. And surpluses at year's end make the next budget easier to create, as it did this spring.