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The Big Difference in Next Year's New York City Budget

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Earlier this month, Mayor Michael Bloomberg presented New York City's Financial Plan for the next four years. It demonstrates a stark new reality: there is no large surplus of revenues, as there has been in past years, to help balance the budget. This fact will dramatically alter the fiscal context in which the mayor and the City Council balance future budgets -- beginning with next year's on July 1.

For the past decade, the City has benefited from tax revenues that were consistently and significantly larger than anticipated. In every fiscal year from 2003 to 2011, actual tax revenues were at least $1 billion above the sum originally budgeted, providing a crucial cushion in the budgeting process.

As the economy surged in the mid-2000s, powered by a strong real estate market and Wall Street earnings, unanticipated tax revenues grew, reaching a high of $5.3 billion in fiscal year 2007. Even in recession years like 2009, conservative economic forecasting resulted in over $1 billion in additional tax revenues. These "surplus" taxes have been essential to balancing the budget and providing for additional spending and reserves to be drawn upon in subsequent years.
What's different now? The latest budget update shows fiscal year 2012 tax collections are running only $114 million above the initially budgeted sum -- an increase of less than 0.3 percent on total tax revenues of $42.2 billion. For the first time in a decade, tax revenues are not exceeding expectations; they are just on target.

While fiscal year 2012 is only half done, it is unlikely that the City will end the current fiscal year with unanticipated revenues of the magnitude to which its leaders have become accustomed. A look back at prior years' plans indicates that outsized tax collections are usually apparent by mid-year. For example, this time last year, the February 2011 plan indicated $1.1 billion in additional tax revenues for fiscal year 2011, and the year ended with $1.6 billion in higher-than-initially-anticipated tax revenues.
Indeed, this year the City's revenue forecast may actually be optimistic rather than conservative. Wall Street profits are running $7 billion below what was assumed when the budget was adopted; this has already resulted in a downward revision in personal income and business tax receipts, and presents a risk to revenues for the remainder of the year.

Without the extra tax revenues, the City is already requiring agencies to make another round of cuts and find additional savings for this year and next. It is drawing down on its current year reserves, and relying on one-shot resources -- $1 billion in revenues from the sale of taxi medallions, as part of the

outer borough taxi plan, and $1 billion from the retiree health insurance trust fund -- to balance the fiscal year 2013 budget.

These non-recurring resources may get the City over the short-term hump, but they are temporary solutions. If large unanticipated tax revenues are no longer a recurring part of the annual budget process, then the Mayor and the City Council will be obliged to consider more fundamental changes in the City's budget.

They can raise taxes again or impose additional cuts on services and personnel; or, they can tackle spending arrangements that drive budget growth and out-year deficits. Tackling those spending arrangements, especially the City's generous health insurance policies for municipal employees and retirees, may be unavoidable, if revenue surpluses disappear.