

Overall Grade
F

State Budget Report Card

Fiscal Year 2002

Promoting Trust

F Not only did State leaders fail to improve the flawed State budget process this year, they never even commenced serious negotiations. Instead, the Legislature passed a stripped-down budget as a political strategy.

- * The bare-bones budget was 124 days late. Even worse, major issues are yet to be resolved.
- * The tentative nature of the budget creates hardship and severe uncertainty for the many people and entities that depend on the State.
- * Important budget reforms remain undone, such as managing the financial plan on a GAAP rather than cash basis, showing the enacted budget's impact on future years in the budget presentation, and making the budget presentation clearer.

Budgeting Responsibly

F The budget's final impact on future years will depend on actions that may be taken in supplemental appropriation bills yet to be introduced, debated, and enacted. If these appropriation bills are never enacted, the by-product of all of the maneuvering by the parties will be very low growth in spending this year. While in many respects that outcome is desirable, given

recent high spending growth and the cooling economy, it is not responsible to do so solely as a political strategy and without any rationale that considers the effect on government services.

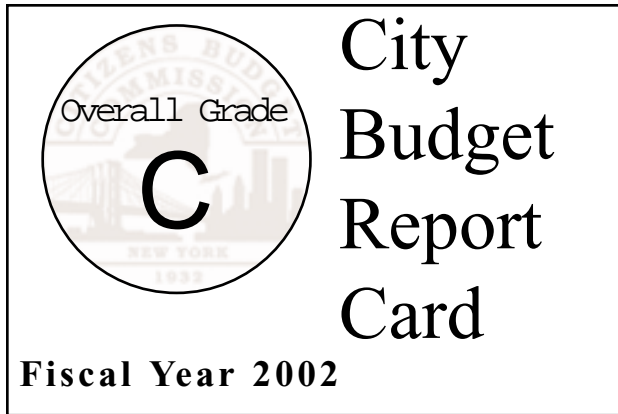
Budgeting Effectively

F All major decisions about service delivery, infrastructure and productivity improvements have been postponed. These questions may or may not be answered in subsequent legislation. As it stands, however, the bare-bones budget is unlikely to make government more efficient and will harm government services and critical capital projects.

Tax Policy

C The State has made considerable progress in recent years reducing taxes to competitive levels. However, new tax cuts proposed during this year's budget process were generally low-priority or counterproductive from a competitiveness perspective. Fortunately, there was no action on these proposals.

State leaders should address the State's high local taxes, but they should do so with better programs than STAR, which is poorly designed because it does not target reductions in local tax burdens where they are most needed. The proposed Co-STAR program suffers from similar flaws.



Promoting Trust

B The City consistently maintains high standards in its budget presentations and passes an on-time budget. However:

- * The repeated failure to show certain revenues and debt service obfuscates budget trends.
- * The legal deadline for passing the budget was extended by two days.

Budgeting Responsibly

D The City has done a poor job of addressing its long term structural fiscal imbalance, resulting in large gaps between planned spending and expected revenues in future years. For example:

- * City headcount has increased to its highest levels in 25 years, and City spending continues to grow faster than inflation.
- * The projected out-year gaps are likely to grow larger given budget risks that include unsettled collective bargaining agreements and waste export contracts. In contrast to the recent past, the chances that the economy will produce revenue surpluses sufficient to close the gaps are slim.
- * Despite debt service payments growing by 8 percent per year over the next four years, the City resists the prudent practice of using its budget surplus to finance capital spending on a pay-as-you-go basis or pay down debt. Instead, it will spend most of the surplus in FY 2002 simply to balance the budget.
- * A comprehensive reform of the City's debt practices, which would limit debt service growth, has not been pursued.

Budgeting Effectively

D In order to deliver more competitive services, the City should enact significant productivity improvements and invest wisely in its infrastructure. Yet:

- * The City has failed to make progress on incorporating productivity improvements into its recent labor agreements except for some initiatives contained in the relatively minor librarians' contract.
- * In an agreement with the Municipal Labor Committee, the City dropped a major productivity initiative in exchange for short term budget relief.
- * The five-year \$36 billion capital plan would go much farther toward meeting the City's considerable capital needs if the City used existing facilities, such as schools, more intensively, better maintained its assets, worked to repeal the burdensome Wicks Law, and set effective limits on borrowing.

Tax Policy

B The City has continued to reduce the high local tax burden that undermines the city's competitiveness.

- * In FY 2002, the City took additional steps to reduce taxes, including further reducing the surcharge on the personal income tax and cutting the commercial rent tax.
- * Several of the tax reduction initiatives, however, are low priority (such as the elimination of the hotel tax surcharge) or perpetuate inequitable tax policy (such as the extension of the coop and condo tax abatement).