



City of New York  
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# **The Impact of the Governor's Executive Budget on New York City**

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## The Impact of the Governor's Executive Budget on New York City

The City is likely to end Fiscal Year 2003 with its budget in balance. In fact, it will enjoy a small surplus. This is the result of an 18.49 percent property tax increase and over \$2 billion in gap-closing actions enacted by the City since last year. These steps have also gone a long way toward reducing the projected budget gap for FY 2004. What was a \$6.5 billion projected budget deficit for FY 2004, which begins July 1, 2003, has been substantially reduced. The Mayor's Preliminary Budget now puts the deficit for next year at \$3.4 billion dollars. My office, however, has concluded the actual deficit may be \$3.9 billion -- a half-billion dollars higher than the Mayor's estimate. This analysis accounts for the risks and the offsets provided by the Mayor's recent agency gap-closing initiatives. More significantly, it also measures the impact on the City of the Governor's Executive Budget.

It is crucial to understand that the City has done its share to address the impact of the current recession. If there were only the recession to deal with, the actions taken thus far would have been sufficient to balance the budget. The \$3.9 billion budget deficit we now project is a direct result of the September 11, 2001, terrorist attacks, and the Governor's Executive Budget. In the City's FY 2004 gap-

<b>Potential Costs to the City from the Governor's Proposed Budget</b> (\$ in millions)	
Education Aid	\$478
Extended School Days	275
Medicaid	255
Welfare	61
Sales Tax and Fee Incr.	(225)
<b>Total</b>	<b>\$844</b>

closing plan, the Mayor requested \$1.7 billion of aid from the State. Instead, the Governor proposed a budget that, if adopted, would *widen* the City's FY 2004 budget gap by \$844 million (as shown in the chart above), a swing of more than \$2.5 billion. Though the State seeks to balance these reductions through several revenue and mandate relief actions, some of these proposals appear uncertain and therefore may not achieve their expected values.

At a time when the City urgently needs Albany to stand by its side, the Governor has turned his back. The State's legislative leaders must undo the damage that his budget would inflict on the City. New York City represents the engine of New York State's economy, and our futures are inextricably linked. A failure to aid the City now could have serious repercussions for both the City and the State as we go forward.

Highlights of the Governor's proposed Executive Budget include:

Education: School aid appropriations to the City will fall by \$478 million under the State's proposals, representing about 37 percent of the statewide cut of \$1.3 billion in school aid. These reductions include \$152 million in computerized aid (including operating aid and special education excess costs aid), and \$310 million in discretionary grants (including full elimination of funding for Universal Pre-Kindergarten, early grade class size reduction, minor maintenance aid, and a 67 percent cut in Teacher Support Aid). In addition, the State Executive Budget has not provided funding to support teacher

salaries for extended school days in FY 2004, which could cost the City \$275 million. Funding for this initiative in FY 2003 was established mainly through the Municipal Bond Bank. However, the State has not identified recurring funding beyond the current school year. The combination of cuts in school aid and the lack of additional funding represent a \$753 million loss in State aid to education.

Medicaid: The centerpiece of the Governor's Medicaid proposals involves a swap in which the State would fully assume the City's pharmaceutical costs, and in exchange, the City would assume an additional 12 percent in local share for hospital and clinic fee-for-service payments. The swap would cost the City an estimated \$255 million in FY 2004. To offset this expense, the State has proposed a host of cost containment actions targeting greater Federal reimbursement, eliminating trend factors, and restricting costs in the Family Health Plus program. Many of these savings, however, will take effect only if the State Legislature decides to enact cuts in Medicaid. In the past, the Legislature has been reluctant to do so. Therefore, the benefit to the City from these cost containment actions could be significantly lower than projected by the State. Also, the State's estimate does not account for potential revenue loss at the Health and Hospitals Corporation that would result from some of the savings proposals.

Welfare: The City's preliminary analysis indicates that the Governor's proposals in the area of welfare could represent additional costs up to \$61 million in FY 2004, a conclusion we have confirmed. These costs are expected to result from a cap on the use of Federal TANF funds in order to offset certain State and local welfare costs and reduced State reimbursement for local welfare administration costs.<sup>1</sup>

Proposed Offsets: The State has proposed a revenue increase of \$225 million derived from fee increases and a restoration of the sales tax on clothing. The reinstatement of the sales tax on clothing is expected to increase the City's sales tax receipts by \$184 million in FY 2004. The remaining \$41 million in revenue is expected from a higher parking ticket surcharge and additional local auto insurance policy surcharges. Although the proposed restoration of the sales tax on clothing will exclude four one week "sales tax holidays," the tax on clothing purchases under \$110 clearly falls on working families. And since the state portion of the sales tax would also be reinstated, it raises the tax burden on City consumers by \$368 million -- of which the state would receive half.

In addition, the Governor proposes the transfer of Pier A to the Battery Park City Authority. This action is anticipated to yield \$150 million in budget relief for the City in FY 2004. The State Executive Budget also proposes mandate relief initiatives to save the City \$120 million in FY 2004 through repeal of the Wicks Law and tort reform. Previous attempts to advance these reforms through the Legislature have failed. Given this history, these proposals appear unlikely to become law.

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<sup>1</sup> See "Public Assistance" in the "*Comptroller's Comments on the Proposed Fiscal Years 2003 to 2006 Financial Plan*," June 2002 for a more detailed discussion of TANF funding.

New York City is confronting a fiscal crisis of historic proportions. If we do not get the help from Albany that we require, the City will be forced to adopt draconian budgetary measures that could imperil the vitality and the future of the City. It must be stressed that the current crisis impacts us all. Only by working together can we implement sound and effective policies and ensure the future economic prosperity of our City and State.