

**Remarks by
NYC Comptroller William C. Thompson, Jr.
Crain's Breakfast
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Good morning and thank you for that introduction....

Everyone in this room is keenly aware of the unprecedented economic challenges confronting our city, state and nation....But we are not only facing a daunting economic crisis, we are also confronting a crisis of confidence.

The American people have lost faith in our financial institutions. They have no trust that our regulatory agencies will protect the fundamentals of the economy... and they certainly seem to have lost faith that our government is up to the task of meeting this challenge.

Only after bickering and stumbling for days in partisan one-up-manship as the Dow Jones experienced an historic one-day drop of close to 800 points...did Congress pass a \$700 billion dollar bail out in hopes of stabilizing and restoring faith in our markets.

Is it so hard to understand why the American people also have a crisis of confidence in Government? And that's government at every level.

Here in New York City we have spent two precious days of public hearings and countless hours of TV, radio and news print discussing term limits.

While we are coping with a downturn in our local and national economy that some say will rival the Great Depression, the mayor has chosen to talk about keeping his job.

What about all the regular New Yorkers who are in danger of losing their jobs?

City leaders should be discussing how we confront the challenges to our economy, and how best to protect our jobs, our businesses and our ability to compete...So today I welcome this opportunity to address these important issues.

Over the last decade we've ridden the highs of two booms in our financial sector....the first, driven by the explosion of the dot com industry in the late 1990s and the second, driven of course, by the real estate market...only to suffer the lows when the source of those booms....ultimately proved artificial.

The real estate bubble filled city coffers with unprecedented tax revenues... Wall Street bonuses jumped from close to 11 billion dollars to over 33 billion dollars....Record surpluses enabled the city to prepay future expenses and save funds for a future downturn that would inevitably arrive.

Well, the downturn arrived.

It's here, it's real, and we're already feeling the effects....Last week my office forecast that as many as 165,000 private-sector jobs will be lost throughout the city's economy over the next 24 months, almost doubling our July forecast of 85,000.

Some 35,000 of those jobs will come from the city's finance sector....But while the talking heads have highlighted the impact of the crisis on investment bankers and traders, away from the cameras, thousands of average New Yorkers are suffering.

For every stock broker who gets less of a bonus, there are numerous back office workers worrying about their jobs, worrying about being able to put food on their tables and pay their rent....Middle class New Yorkers know that their jobs will be gone long before their bosses'.

And for every executive concerned that the declining value of their stock options may delay their retirement, there are thousands of New Yorkers and other Americans worrying that they'll never be able to retire at all – watching the only savings they have disappear in what seemed like the blink of an eye.

So with all this talk about numbers, let us never forget the human toll that this incredible collapse has caused....And as we look soberly at the new downturn, we must avoid the temptation to look for the mirage of a new bubble that will somehow save us.

It is my belief that while the financial industry will always be a critical part of our city's growth and prosperity, we are experiencing a seismic shift in our local economy. In that shift, new sources of stability, growth and jobs are emerging that will transform our economic landscape permanently.

If the bursting of the dot-com and credit bubbles has taught us anything, it is that New York City's growth and economic prosperity must be tied not to short term booms in isolated industries, but to a commitment to fundamental priorities that can withstand the highs and lows of financial markets.

What do I mean by fundamental priorities?

First, basic fiscal discipline, including opportunities for belt-tightening and greater efficiency....*Second*, a commitment to economic development to prime

the local economy...And *third*, diversification of the economy and improving the climate for small businesses and entrepreneurship.

Let's take these one by one.

First, fiscal discipline....Much has been made of the fact that in recent years, when the surging real estate market generated historic surpluses, the city took the responsible step of dedicating a good deal of those surplus funds for the future.

How did we do that?...We instituted a pay-as-you-go approach to our capital spending.....We prepaid city expenses as much as two years ahead of time....We also wisely instituted a retiree health trust fund that put money aside.

At the same time we worked to ensure that General Obligation bonds are issued in a prudent, cost-effective way....Our GO bonds are now rated in the AA category by all three ratings agencies, our highest ratings since the 1930s.

While the downturn will make pay-as-you-go spending for capital projects more difficult, this instinct toward greater fiscal discipline in recent years is one that has served us well and should not be abandoned.

When we talk about looking for efficiencies, on a basic level we are talking about doing things better and, where possible, doing them better for less....We must continually seek out ways to make our precious tax dollars go farther and do more for average New Yorkers.

The administration is already seeking across-the-board cuts in city agencies....in the area of 1.5 billion dollars over two years....Given the budget shortfalls we predict, those stop-gap measures are entirely warranted.

But there are other ways to find savings....One idea that deserves a careful look is to rein in city spending by using the gross city product, or GCP, as a guide.

Budget growth has lately been out of balance with the growth of our local economy....Had we started to tie city spending to GCP growth ten years ago, my office estimates that the city would have spent roughly 8.5 billion dollars less last year.

Looking at the city workforce, we must continue to work in collaboration with our partners in the labor movement to achieve greater productivity gains.

We can go even further to embrace new practices that we believe will generate the solid, professional workforce that taxpayers expect and deserve.

....For instance we should seek more flexible work rules that inspire innovation in government service.

Looking broadly at the issue of excess spending, for Fiscal Year 2008 alone, we saw expenditures of 31 million dollars on IT consultants; one billion dollars for hourly workers; and a billion dollars for overtime.

The savings we can realize by cutting back on outside contracting and other excess spending could be dedicated in part to providing additional training for existing city workers – helping us advance our workforce development goals while reaping millions of dollars in savings for New York.

And we can reap even more savings through the audit process....As Comptroller I have conducted close to 650 audits that have identified over a quarter of a billion dollars in potential and actual savings for New York City and revealed countless instances of wasteful spending.

In one egregious example, we determined that the City overpaid nearly 6 million dollars, and lost more than 3 million dollars in fees, due to its lack of oversight at Ferry Point Golf Course....After seven years and six million dollars what did we get?....A big pile of dirt.

In yet another example, the Department of Sanitation claimed to have removed tons of garbage from vacant City-owned lots that were already clean....As I said at the time of our audit, it is absolutely shameful that the Department of Sanitation spent taxpayer dollars to remove 'waste' that wasn't even there.

While these are glaring instances of waste, my office doesn't have the resources or the personnel to comb through every line of spending at every agency. That is why I am proposing that, going forward, each agency commissioner should be required to produce an annual efficiency report.

Unlike the Mayor's Management Report, these reports would examine agency budgets and programs from top to bottom, identifying savings and enabling us to hold commissioners accountable.

It is notable that, beginning last year, the Mayor removed detailed agency statistics from the City's web site....Among other things, this prevents independent analysts from evaluating performance, and limits the ability of the public to assess the impact of budget cuts on City services.

Our second fundamental is economic development....We know that prudent investment, based on a rigorous assessment of priorities for infrastructure and commercial development projects, can be a tool to prime the local economy in a downturn.

Given the conditions of the credit market and the city budget, can all the mega-projects that have been on the drawing board move forward at the same pace?...Of course not....But we can't take an approach that embraces, then shies away from, important investments in our city's future.

Some projects like Moynihan Station, downtown Brooklyn, and Willets Point in Queens can be altered, but should not be abandoned....These are bold plans that will generate future growth in our business sector, re-imagine our skyline, and fundamentally shape the perception of New York for generations to come.

While it is not the biggest or most important development project on the table, Willets Point serves as a metaphor for New York's time-honored tradition of rebirth and renewal.

Half a century ago, controversial planning czar Robert Moses transformed a portion of this bleak industrial zone – then the dumping site for the city's spent ash in the years before oil and gas heat – into the beautiful Flushing Meadows Park.

Today, its proximity to La Guardia Airport and public transportation makes Willets Point a prime location for a larger convention center, a successful model that other cities have developed....Over time, this convention center could replace the Javits Convention Center entirely, freeing up valuable land.

Such an investment would not only create good jobs and give northern Queens a shot in the arm, but it would take advantage of the enduring strength of our tourism industry.

In good times, and especially in bad, this industry remains a key component of our local economy, attracting men and women from across the globe to the unique mix of business, culture and entertainment that we offer.

But development of Willets Point must place a priority on the proper relocation of the valuable enterprises now operating on the site....Their owners have built solid businesses in a previously neglected area, providing jobs and important services....At a time when we want to keep and grow our small businesses, they must not be cast aside.

We must also endeavor to create low, moderate and middle-income housing there.

No less today than in the era of Robert Moses, projects like Willets Point challenge us to remember that that while we may press up against the limits of our budget, we must never put a limit on our confidence to transform our city with vision and imagination.

Another new initiative my office is exploring is the use of the city's pension funds to invest in infrastructure.

Such an investment could help to further diversify our portfolio and fulfill our fiduciary goals in terms of return on investment, while addressing the urgent need to repair and expand our roads, bridges, power plants, and schools.

We have begun discussing this idea with the trustees of our pension systems.

Given the large number of economic development agencies impacting our city – from the IDA to the EDC to Small Business Services and others – I believe we must also begin a thorough examination of the effectiveness of these entities, looking for opportunities for efficiencies and consolidation.

Such scrutiny would suggest ways in which these entities can streamline their operations, create consolidations, and move projects more swiftly through the pipeline.

In this period of new austerity, I also believe we should consider exploring the wider use of public-private partnerships in meeting our infrastructure goals....When handled with proper oversight and transparency, such partnerships could lead to more efficient construction and cost savings over strictly public projects.....

These partnerships spread risk, pool expertise, increase innovation through competition and tap entrepreneurial drive....Tapping entrepreneurial drive brings me to my third and final fundamental: diversifying our local economy and creating a better climate for small businesses.

Over 98 percent of New York City firms have fewer than 100 employees....These firms employ almost half, or 48.5 percent, of all New York City private sector employees.

As we look to the future we must do all we can to bolster the income- and thus job-generating capacity of our small businesses and support the growth of entrepreneurs across the five boroughs.

One way to help small businesses and entrepreneurs is to remove the burden of taxes that hamper the growth of their companies, such as the unincorporated business tax, or UBT, and the double taxation on sub-chapter S corporations.

As many of you know, the UBT is a tax that has created unnecessary hardship among small firms in the city by siphoning off investment capital at a critical stage of their incubation.

While I supported the Mayor's decision to expand the credit against personal income tax for City residents with UBT liability, that change did not go far enough....The income level at which the UBT kicks in is still too low and the range over which the UBT tax credit declines isn't indexed for inflation.

In the case of sub-chapter S, the cost of implementing a resident PIT credit to owners of S Corporations has been estimated by the mayor's office at 35 million dollars in FY 2009....

Similarly, we should exclude all proprietorships and partnerships with annual UBT liability of 1,000 dollars or less – that's roughly 6,000 payers – for a cost of around 3.5 million dollars annually....This threshold could be increased as the economy improves.

These combined costs – some 39 million dollars – are a relatively small price to pay to stoke the city's prime engine of job creation.

Especially in the current tight credit market, we must do everything we can to help small businesses expand and grow, ensure that they remain in our city...and even stay in business.

This is also significant as we look to a future economy that will include increasing numbers of self-employed who must cover their own benefits....My office estimates that over the past ten years, these freelancers have accounted for approximately one-half of the City's job growth, or roughly 260,000 jobs.

This is a diverse, broad-based trend that appears to be happening across all sectors of New York City business, from low-wage to high.Total receipts for non-employer businesses in 2004 was an incredible 28.5 billion dollars and that figure is sure to grow in the years to come.

A century ago, the garment industry was ideal for New York, a city where land was expensive....Key to the growth of that industry was the ability of workers, then primarily women, to work from home....Similarly, today's increasing number of freelancers may be harbingers of the growth industries of tomorrow.

Again and again, in the most trying of times, New York and New Yorkers have shown themselves capable of adapting, of re-imagining themselves and their city, and emerging stronger and *more brilliant* than ever before.

That power of transformation is the essence of New York and its people....We carry that capacity with us – it's what draws us and keeps us here...And it lives in the very fabric of the city itself.

Wherever we travel, in our nation or abroad – simply being a New Yorker inspires wonder – for our grit, our fortitude and our flair for living in a city that is both more fractious and forgiving than any on earth.

I call on all of you here today – our innovators, our business people, our civic leaders – to come together once again...to apply our unique abilities in constructive and collaborative action...to navigate our city towards a new and brighter star.

With careful nurturing and attention to the fundamentals of our economy, New York will continue to represent to new generations that place where dreams are forged and government faces down its challenges with a commitment to innovation, diversity, and progress.

Those are the values our great City was founded upon....

Those are the values that will see us through our current economic troubles....

And those are the values that will keep us strong long into the future.

Thank you very much.