

**Testimony of
Comptroller William C. Thompson, Jr.
before the
New York City Council Finance Committee
on the
Mayor's Preliminary Budget, the Four-year Financial Plan
and the Preliminary Mayor's Management Report
Tuesday, March 6, 2007
2:15 PM**

Good afternoon. I would like to thank Committee Chair David Weprin and all of the members of the City Council Finance Committee for the opportunity to comment on the Mayor's Preliminary Budget and Financial Plan for Fiscal Years 2007 to 2011 and his modification to the FY 2007 budget. I will also be addressing the preliminary Mayor's Management Report.

The Mayor's budget and financial plan released in January shows that the City expects to end FY 2007 in a very strong fiscal position. The Mayor anticipates enough resources to prepay FY 2008 and FY 2009 expenses totaling 3.94 billion dollars. This figure reflects a string of operating surpluses that the City has accumulated over the years.

Since the budget for Fiscal Year 2007 was adopted, New York City's economic growth as measured in tax revenues has been better than expected. Wall Street profits and bonuses, tourism, and other sectors turned in a solid performance in 2006, and New York City has so far escaped the housing market correction experienced elsewhere in the nation.

In the January plan, the City raised its tax revenue forecast by 1.2 billion dollars for FY 2007 and by almost another 2 billion dollars for the next three years combined. After adding nearly two billion dollars to prepayments of FY 2008 expenses since November, the Mayor proposes to use incremental resources in FY 2008 to make a deposit into the Retiree Health Benefit Trust Fund, reduce taxes, and prepay certain FY 2009 expenses. The health benefit fund was created last year to offset liabilities associated with post-retirement health and related benefits earned by City employees.

If the City's current revenue and expenditures assumptions are borne out, the City will then have 1.38 billion dollars to prepay FY 2009 expenses and will have reduced the FY 2009 gap from 4.07 billion dollars projected in November to 2.6 billion dollars. This opportunity to roll over surplus funds two years out is actually quite remarkable and I applaud the Mayor for doing so.

In fact, estimates by my office suggest that the City's revenue projections are conservative. We project the City will collect an additional \$100 million in

taxes in the current fiscal year. And even factoring in the Mayor's new five percent overall property tax rate reduction, the elimination of sales tax on all clothing and footwear, and reductions in certain business taxes, taxes in subsequent years of the plan are likely to be higher by \$380 million in FY 2008, \$930 million in FY 2009, and \$490 million in FY 2010.

Our analysis suggests that these additional revenues will be more than enough to offset the risks we identified. These risks include the City's overtime projections, which my office projects will exceed the City's estimates by \$147 million in FY 2008, and \$100 million in subsequent years of the Plan period.

While certain so-called "uncontrollable" expenditures such as employee health insurance costs, debt service, and judgments and claims, continue to exert pressure on the budget, others are expected to grow more slowly than in the past. For instance, starting next year pension contributions are expected to grow at an average rate of 3.7 percent through FY 2011. And City Medicaid spending growth has been capped through State actions at about 3 percent annually.

After adjustment for prepayments, total-fund spending will grow 4.5 percent from FY 2007 to FY 2008. After that, the Financial Plan projects annual average spending growth of 3.5 percent from FY 2008 through FY 2011. Debt service is projected to grow substantially over the Plan period, increasing nearly 1.6 billion dollars by FY 2011. The City has included in its baseline 200 million dollars for "pay-as-you-go" capital financing. While this is a small amount compared to the City's average annual borrowing of about 5 billion dollars, it will help reduce debt service over time.

The largest contributor to projected spending growth is in education. As a result of the January Plan changes, the Department of Education budget should grow about 1 billion dollars per year from FY 2007 to FY 2010. By 2011, Department spending will have increased 24 percent. This reflects a substantial increase in both City funds and expected contributions from the State related to the CFE ruling, which required additional spending of at least 1.93 billion dollars to ensure a sound, basic education for New York City's children.

While I laud the State's new commitment, the Governor's budget proposes to eliminate revenue sharing completely for New York City. This change impacts the current fiscal year since the next payment of 328 million dollars from the State was earmarked as FY 2007 revenue. Revenue sharing has been an important component of the City's ability to weather the volatility of the tax revenues it uses to fund basic municipal services and elimination of this revenue source could be problematic as the City confronts future economic downturns.

While the City's current financial condition is a remarkable change from the situation just a few years ago, it is important to keep in mind the rapidity and

extent to which the City's budget situation can take a turn for the worse. The City has used part of its surpluses over the past several years to improve its long-term financial strength, particularly by setting up the Retiree Health Benefits Trust Fund.

The City should seriously consider additional steps to ensure that resources accumulated during good years are available to sustain services when economic events reduce revenues. A true Rainy Day Fund, to be used only when the City is facing such stresses, should be established while the City has funds to place in it. Furthermore, increasing the amount devoted to pay-as-you-go capital financing would save costs in the future and provide a cushion during downturns when the City could legitimately convert budgeted capital spending to debt.

In good times or bad, many senior homeowners must make ends meet on a fixed income. They are especially hard hit by the combination of rising property values and higher tax rates in recent years. I have proposed the creation of "City Aid to Senior Homeowners" or CASH, a program similar to the current property tax rebate program that would target tax rebates to low-and middle income seniors. The program would cost \$50 million and provide up to \$600 in tax rebates to qualifying senior households.

Finally, I want to comment on the Mayor and the City Council's decision last year to provide more meaningful budget categories (units of appropriation, or "U of A's") to give New Yorkers a better idea of how their tax dollars are being spent. The pilot program for this initiative involved two relatively small agencies – Small Business Services and ACS. I hope that in the new fiscal year this program is expanded to more agencies in the City, in particular at the Department of Education, where one U of A is 5.1 billion dollars – larger than most agency budgets.

Turning to the Mayor's Management Report, which looks at how the City performed in the first four months of the current fiscal year, there are several areas in which my staff has identified trends that suggest a need for greater scrutiny and transparency.

For instance, the Department of Citywide Administrative Services (DCAS) is in charge of energy conservation for the City. Although a 2005 audit by my office found that the City lacked "effective overall strategies for managing energy conservation," DCAS disagreed with our assessment. It subsequently refused to implement our recommendations to help the agency comply with Mayoral Directive 89-1, which requires DCAS to establish and promulgate energy reduction goals for City agencies.

Perhaps this is why the MMR includes no documentation of efforts by the City to address the problem, and why no such information is to be found in the MMR's supplemental tables or on the City's website. Our audit suggested that

every one-percentage-point drop in energy consumption at City facilities could save the City \$5.2 million a year.

There are several ways that the Office of Energy Conservation at DCAS can save the City money: by making energy-efficient heating, lighting, and air conditioning devices a part of our capital expense planning; by minimizing energy purchase price; and by helping City agencies to reduce their energy consumption.

Full transparency requires that those efforts be summarized in the MMR so that we can hold the City accountable for its success or failure in encouraging and nurturing appropriate energy conservation measures.

Another area where the MMR could provide more transparency relates to the reporting of emergency care data. For instance, the current turnaround time for ambulances once they arrive at an emergency room is 29 minutes – four minutes over the Fire Department's goal. Turnaround time is an indicator of emergency room overcrowding, a key issue affecting the health of New Yorkers.

In the wake of the recent decision to close five City hospitals, I wrote to Commissioner Scoppetta to ask that data on ambulance turn-around times be published in the MMR. This is particularly important when one considers that with the new hospital closures a total of 14 hospital emergency rooms will have been lost in New York City since 2002, a 21 percent reduction.

One trend MMR data clearly shows is the increase in adult and pediatric asthma during the first four months of FY 2007 compared to the same period in FY 2006. The pediatric increase was 3.3 percent to 4.1 percent while the adult revisits grew from 6.9 percent to 7.3 percent. I support efforts by groups such as the Commission on the Public Health System to add new funding in the budget for community-based efforts to identify and work to eliminate known asthma triggers in our City's neighborhoods.

This MMR data reminds us that while we take pride and security in the sound financial footing in which our City now finds itself, we must strive constantly to ensure that the funds in our annual budget are used effectively, efficiently and – perhaps most importantly – transparently.

I appreciate this opportunity to provide testimony today and now I would be happy to answer any questions.

Thank you very much.