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Speaker Miller, Committee Chair Weprin, honorable members of the Finance Committee, good afternoon. I am happy to testify on the Executive Budget and to discuss important economic and financial concerns.

The City is facing challenging financial times in Fiscal Year 2003. While the current fiscal year is virtually certain to end with the budget in balance, no such assurance exists for Fiscal Year 2003.

The problems we face did not occur overnight. When economic times were good in the latter half of the 1990's, the City missed numerous opportunities to change the way it did business. We missed repeated chances to pay down long-term debt and instead enlarged our debt burden.

We increased spending, cut taxes, and used budget surpluses from one fiscal year to pay off the next year's bills. We postponed making tough decisions and instead chose political expediency over sound fiscal planning. These decisions, coupled with a recession and terrorist attacks, have left the City facing serious financial difficulty.

Even before the terrorist attacks on the World Trade Center the City's economy was in recession. Gross City Product began to decline in the first quarter of 2001 and has yet to recover. This weakness is reflected in virtually all sectors of the local economy.

A few examples drawn from the Economic Notes I released this month starkly underscore the problem. Manhattan's commercial vacancy rate is over 10 percent – more than twice as high as it was a year ago. Hotel Occupancy is down. The daily occupancy rate, in the first quarter of this year, was the lowest since 1995.

The climbing unemployment rate reached 7.7 percent in April, the highest it has been since December 1998.

While we welcome the news that the City gained 7,300 jobs in April, we must not forget that the City has lost a tremendous number of jobs in recent months -- over 91,000 since last September and nearly 140,000 jobs since December 2000.

These difficult economic conditions are reflected in the Executive Budget. The Mayor has presented a proposal that identifies and addresses a nearly 5 billion dollar deficit.

Earlier this month, I reported that because of revenue shortfalls, over-estimations and higher-than-projected expenditures, the true gap was more than 6 billion dollars. This is over 1.1 billion dollars higher than the Mayor's projections.

In addition, the report highlighted that there were over 600 million dollars in risky assumptions in the Mayor's gap-closing strategy. These risks, combined with the increased gap, create a 1.7

billion dollar problem. However, if we work together we can address these extraordinary challenges and attain fiscal balance.

Our efforts have already resulted in the State's willingness to decouple the changes in Federal tax law from the City's revenue base. This action will allow the City to avoid a 112 million dollar loss in Fiscal Year 2003.

As we recover from September 11, the ongoing recession has complicated the City's revenue problems. Last year, at this time, it was estimated that tax revenues would be 1.1 billion dollars higher than the level projected in the Executive Budget. Unfortunately, recent collections indicate that tax revenues will be 300 million dollars lower than the amount the Mayor has now projected.

In addition, it appears the City will not receive the full amount of the unrestricted gap-closing aid it has requested from the State and Federal governments, falling 344 million dollars short of the 800 million dollars assumed in the Executive Budget.

The City has also included a number of risky assumptions in the Executive Budget projections. It is unlikely that the Port Authority will agree, this year, to the 185 million dollars in airport rental payments assumed in the budget. Ten million dollars appears to be a more reasonable number. Similarly, it is unlikely that the City will limit its overtime expenditures to the budgeted amount.

The Executive Budget projects the City will spend 523 million dollars on overtime in Fiscal Year 2003. In contrast, at least 145 million dollars in additional overtime expenditures should be expected and accounted for. This is not an unusual situation.

The City has underbudgeted overtime by more than 150 million dollars, annually, in six of the past seven years. In fact, the City will spend nearly 800 million dollars on overtime this year, exclusive of World Trade Center costs. While we encourage overtime control initiatives, we must be realistic when examining the projections.

The City will also have to fund a higher level of pension expenditures than is currently anticipated. The lackluster performance of the stock market, combined with the possibility of an adverse court decision in the Teachers' per session lawsuit, may lead to an 89 million dollar increase in pension costs in the next year.

There are also a number of relatively smaller items which taken together will increase City costs by more than 100 million dollars in Fiscal Year 2003. If the City and the Teacher's Union agree with the terms of the non-binding mediation – and that was just announced a few weeks ago –, funding of the proposed Teachers' contract will add 40 million dollars to the Fiscal Year 2003 budget.

In spite of a decline in overall caseload, the increase in the number of Safety Net Assistance recipients will add 28 million dollars to public assistance costs. In addition, there is a possibility of up to 67 million dollars in miscellaneous revenue shortfalls from the City's proposals to renegotiate the Metrotech leases and to transfer surplus cash and receive other savings from the United Nations Development Corporation.

It is clear we must find ways to address these looming problems. First, I strongly support the reinstatement of the Commuter Tax.

In this time of rebuilding, the many people who benefit from employment in our city, but choose to live elsewhere, should invest in our city. Preliminary reviews of the impact and the true cost of the tax indicate that it would generate approximately 400 million dollars in Fiscal Year 2003.

I also favor the increase in the Cigarette Tax. Increasing the Cigarette Tax would serve the dual purpose of generating revenue for the City and encouraging New Yorkers, especially young people -- to quit smoking. However, it is unconscionable that the State will be diverting almost half of these tax receipts to its own coffers.

It is imperative that we identify sources of non-tax revenues. The Executive Budget projects that the City's agencies can obtain over 339 million dollars in additional collections from fees, fines, permits and rents. We can also attain increased revenues and lower costs by cutting waste through aggressive audits.

Last year the City generated over 4 million dollars in actual revenue, and would have avoided spending an additional 12 million dollars if all audit recommendations were followed. This year we plan to do even better. Since January my office has uncovered 35 million dollars in potential revenue and has already identified 15 million dollars in cost savings.

We must also look to the State and Federal governments for a significant level of support. We have suffered revenue losses of over 2.2 billion dollars and have expended an additional 500 million dollars in unreimbursed costs ranging from uniformed service overtime to the rescheduling of last fall's elections.

It is appropriate that the Federal Government offer the City direct assistance and ensure that FEMA promptly reimburses us for approved expenditures.

We should also be concerned over the large debt burden that threatens the City's fiscal health. Today, New York City's debt burden is the highest in the nation. In the next fiscal year we will pay 3.8 billion dollars in debt service out of a projected 23.6 billion dollars in City tax levy revenue. That means our debt service currently eats away nearly 17 cents out of every City tax levy dollar. That amount will increase to more than 20 cents by Fiscal Year 2006.

The Mayor has proposed borrowing about 2 billion dollars through the Transitional Finance Authority to help balance Fiscal Year 2003.

While this type of transaction raises serious concerns, I recognize that these are extraordinary times. As we rebuild in the wake of September 11 and make up for lost revenues, this action will give the City much needed financial support.

In order to mitigate the impact of the cost of borrowing, my staff has identified hundreds of millions of dollars in unspent encumbrances within the City's capital plan. I have shared this information with the Council Speaker and the Mayor. Future savings generated by eliminating some of these projects from the City's plan can be used to support immediate budget relief without mortgaging our future.

Another way to make funds available for budget balance is to refinance debt. Current low interest rates, combined with a favorable change in Federal tax policy, will create additional refunding opportunities.

After all of the options are examined, the sad reality is that the scope of City services must be reduced. Over the years we have added and expanded vital services as funds became available. Our needs are many. Now we must take a step back and take a serious look at where we stand. The Mayor's proposed 1.3 billion dollars in agency cuts have a severe impact on important programs throughout our city.

Each and every cutback inflicts hardship on our citizens and we must examine them critically, but ultimately we must live within our means.

As part of the service cuts, the Mayor's Executive Budget assumes a reduction in the number of City employees. An early retirement and severance program combined with strict headcount control can generate significant savings. In pursuing this option, however, we must make sure that the City does not lose the vital skills that experienced employees possess. Any attrition, early retirement, or severance program must clearly identify which jobs are to be shed and which are to be kept.

As we address today's issues, we must not ignore the problems still to come. The Financial Plan accompanying the Executive Budget projects that the outyear baseline deficit will rise from 5.2 billion dollars in Fiscal Year 2004 to over 6 billion dollars by Fiscal Year 2006.

While the Mayor's proposed budget cuts and revenue assumptions may help close the Fiscal Year 2003 gap, ongoing revenues are insufficient to support recurring expenditures.

Even if we assume full implementation of the Fiscal Year 2003 gap-closing program, the City will still face huge outyear gaps, growing from more than 2.6 billion dollars in Fiscal Year 2004 to over 3.5 billion dollars by Fiscal Year 2006.

Unfortunately the problem is worse than that. In the next week I will be releasing a report that will demonstrate these future deficits are even larger than the City estimates.

Why is the projected gap so large? Because the City's revenue base is inadequate to support its ongoing level of expenditures.

The problem was masked in the late 1990's due to the extraordinary budget surpluses that accompanied an unprecedented economic boom. Now with the City in recession, the structural imbalance of the City's finances is more obvious.

Today's fiscal challenges present us with an opportunity to bring our levels of revenue and expenditure into alignment. While I recognize the challenge it may impose on the City in the short run, the long-term benefits of fiscal stability are real, and will outweigh the hardship.

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