WILLIAM C. THOMPSON, JR.
NEW YORK CITY COMPTROLLER

TESTIMONY BEFORE THE FINANCE COMMITTEE
NEW YORK CITY COUNCIL
CITY HALL
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Speaker Quinn, Committee Chair Weprin, and honorable members of the Finance Committee, good afternoon.

When I came before you a year ago to report on a budget in balance, none of us could have predicted we would end the year with a record $3.4 billion surplus. In fact, once one accounts for different forms of prepayments the surplus expands by another two billion dollars.

A vigorous real estate market has presented the City with an important opportunity to begin setting aside revenue for the future.

While the City's modified FY 2006 budget shows that the City is using $3.4 billion to prepay FY 2007 debt service and Transit Authority subsidies, the City is in essence rolling close to $5.4 billion out of FY 2006.

In addition to the $3.4 million in prepayments, a contribution of $575 million of City-funds to draw down Federal Medicaid revenue for the Health and Hospitals Corporation (HHC) will be offset by savings of similar magnitude in in the future.

The City will also make a deposit of 1 billion dollars into the Retiree Health Benefits Trust Fund in FY 2006 and another billion dollars in FY 2007. The City will divert to the Trust the current year's retiree health expenses, which the benefits trust fund will be responsible for paying.

The assets accumulated in the benefits trust fund will partially offset the liabilities related to post-employment benefits, such as retiree health insurance coverage, which governments will be required to compute and disclose on their entity-wide financial statements beginning in FY 2008.

While the use of these surplus monies reduces FY 07 spending to $53.392 billion and enables budget balance, there are spending pressures looming in the future.

In the next four years, debt service growth will outstrip tax revenue growth by 37 percentage points. Pension contributions will increase from $4.0 billion in

FY 2006 to $5.7 billion in FY 2010. Employee health care costs are projected to grow an average of 8.9 percent per year.

These expenses are difficult to control. In the case of debt service, incorporating more pay-as-you-go financing into the capital plan and using it to maximize future savings would help trim debt service expenses over the long run. In the past few budgets, pay-go funds have been used for short-term budget relief rather than the capital projects for which they were intended.

My office estimates that if a $200 million pay-as-you-go program had been put in place in FY 2004 and maintained until 2010, we could realize full annual debt service savings of $100 million. Over the life of such a program -- until the last bond was due in 2040 -- total savings would be about $3 billion.

The City has also submitted legislation to the State Legislature to raise the cap on New York City Transitional Finance Authority borrowing, which I support.

The State has yet to present a plan to fully address the Court decision in the CFE lawsuit, but State lawmakers recently agreed to provide additional funding for school building projects. The deal includes $1.8 billion in school construction financing from proceeds of bonds issued by a State authority, and creates a mechanism for assigning State building aid to pay debt service on $4.87 billion in New York City TFA bonds. The details on the latter portion of the deal must be finalized and adequate State building aid allocations would have to be appropriated annually by the State Legislature.

Growth in the City's Medicaid costs has been contained through a State takeover of the Family Health Plus program and a cap on local spending growth, providing welcome relief. However, there remain potential risks to the City's budget from the indirect effects of State efforts to control Medicaid costs because of the negative impact of these actions on the Health and Hospitals Corporation. The City may need to increase future subsidy levels if these impacts are significant.

Despite the prudent use of this year's surplus, the out years continue to show large gaps of $3.579 billion in FY 2008, $4.202 billion in FY 2009, and $3.588 billion in FY 2010. The large FY 2006 surplus was created by non-recurring events, including extraordinary activity in housing and commercial real estate markets, strong performance on Wall Street, and one-time savings in pension contributions. In coming years, the local and national economies are expected to slow, affecting revenue collections.

My office expects that these forces will have a less damaging impact on the City's economy and revenue collections in the near term than the Mayor projects. We project that the City will end FY 2007 with a small surplus and that budget gaps in FY 2008 and FY 2009 will be reduced $305 million and $45 million, respectively.

And while the real estate boom has benefited the City, it has created additional hardship for older New Yorkers struggling to keep up with rising property taxes. An initiative by my office, City Aid for Senior Homeowners, or CASH, would provide rebates up to $600 to approximately 81,000 qualifying senior households.

It is clear that the rapidly escalating cost of home ownership, including higher assessed values, higher property tax rates, and increasing energy and insurance expenses have placed significant burdens on New York City seniors living on fixed incomes.

With 75 percent of the households eligible for my program reporting incomes of $36,000 or less, there is no question in my mind that this initiative is both necessary and appropriate.

The structure of my program has been incorporated into a budget initiative sponsored by Council Members Leroy Comrie and Lew Fidler. While action in the State legislature in now needed, I urge the Council to support this important proposal to provide needed relief to New York City seniors.

Finally, I applaud the Mayor and Speaker Quinn's efforts to improve transparency in budgeting. The Mayor has agreed to begin to provide more meaningful budget categories (units of appropriation, or "U of A's") so that New Yorkers can better understand how their tax dollars are being spent.

In the Department of Education budget, for instance, one U of A is $2.7 billion -- larger than most agency budgets. It is my hope that the pilot program for this project, which involves two relatively small agencies – Small Business Services and ACS – will be quickly expanded.

As we all know, this has been an extraordinary budget year. In that context, I want to commend the Mayor for his foresight in putting aside resources today for a leaner period ahead of us. For while we may enjoy the current prosperity, we must never lose sight of the future.

Thank you very much.