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Speaker Miller, Committee Chair Weprin, honorable members of the Finance Committee, good afternoon.

Two years ago, the City faced a 6.7 billion-dollar deficit. The City balanced a budget battered by recession and the destruction of the World Trade Center by borrowing two billion dollars, reducing services and increasing taxes. The City Council and the Mayor deserve credit for helping to lead the City through a difficult fiscal period. Yet, it is the people of the City of New York who merit the greatest recognition for the sacrifices they made to return the City to fiscal balance.

While the City's finances appear to have weathered the storm, our recovery is fragile. Economic indicators demonstrate that many New Yorkers are struggling. Prosperity may be returning to some sectors of the economy, most notably Wall Street and tourism; however, other sectors, such as manufacturing and information, have not recovered. As such, many New Yorkers have not benefited from this upturn.

In fact, in 2003, the City's rate of unemployment was the highest of the 20 largest metropolitan areas in the nation. At 8.3 percent, the City's 2003 unemployment rate was 2.3 percentage points higher than the nation's. Of particular note, the rate of unemployment in the Bronx exceeds ten percent.

In the last three years, the City lost almost a quarter of a million jobs. When we see the numbers – 230,000 jobs -- it is sometimes easy to forget what they represent. A lost job affects not just the individual worker, but has a ripple effect, with a direct impact on that person's family, and extended family, and his or her community.

A lost job can mean school supplies that don't get purchased, a meal missed, a local small business losing a customer. The effects of these job losses on the City's economy are enormous.

While my office projects job gains both this year and next, this growth will not nearly replace the job losses of the last three years. We project that the City will produce 35,000 new jobs this year and 58,000 in 2005. My office also estimates that the City economy

will post modest growth in each of the next two years but that it will continue to lag behind that of the nation.

Even many New Yorkers who *are* employed are still finding it hard to make ends meet. A tight job market makes salary increases harder to come by while the cost of living is accelerating rapidly. The New York City metropolitan area's inflation rate rose 24 percent in the last year, from 2.5 percent in 2002 to 3.1 percent in 2003. This rate is significantly higher than the U.S. inflation rate of 2.3 percent. New York City's inflation has been further exacerbated by landmark property tax increases necessary to meet the City's financial needs. In addition, the City's rising property values translate into higher assessments, which have also increased the cost of housing.

It is in this context that we must view the 46.6 billion-dollar Fiscal Year 2005 Preliminary Budget. My office has identified 939 million dollars in risky assumptions in that proposal. Included in that amount is the City's assumption that it will be relieved of 490 million dollars in Municipal Assistance Corporation debt service. An appellate court ruled in favor of the City on this issue this morning. While some risk remains, this decision does make it more likely that the State will in fact provide the City with MAC debt relief.

The bulk of the remaining risk lies in the City's expectations of State assistance. The City has assumed 400 million dollars in additional aid from the state in its gap-closing program. My office projects 200 million dollars of that amount is at risk, mainly because of shortfalls in Medicaid savings and education aid under the Governor's assumption of fiscal relief to the City.

In fact, what the Governor calls "relief" for New Yorkers in his proposed budget is no relief at all. For example, even as he decried what he called "job-killing taxes" in last year's budget negotiations, the Governor pushed for reinstatement of the levy on clothing and shoe purchases under 110 dollars. The City insisted that the reinstatement of the tax should be temporary, and it is scheduled to expire May 31.

The Governor's proposal would hurt many New Yorkers who have yet to reap the benefits of a recovering economy. It could also threaten the City's tenuous recovery by discouraging consumption.

Additionally, the City's assumption that the Metropolitan Transportation Authority will take over private bus operations, relieving the City of 145 million dollars in subsidies, also remains in question.

My office also projects that the City underestimates by 217 million dollars the amount it will likely spend on overtime. In fact, the City has acknowledged that overtime costs for Fiscal Year 2005 may be at least 150 million dollars more than budgeted. At the same time, the City has also adopted an aggressive effort in recent years to reduce the size of the City's workforce. Historically, overtime spending increases in periods of headcount reduction. The City therefore must be careful that the savings it gains from headcount

reductions are not lost to overtime spending. Sound management dictates that any headcount initiative must take into account the implications for overtime expenditures. Furthermore, in addition to the 939 million dollars in risk already identified, the Preliminary Budget does not provide for wage increases for City employees in Fiscal Years 2005 through 2008. In its collective bargaining negotiations with labor representatives, the City has maintained its position that any wage increases for employees be funded through productivity initiatives. As it will cost the City approximately 212 million dollars annually for every one-percentage point wage increase granted to employees, this omission represents a significant exposure.

In the last several years, New Yorkers endured fiscal challenges and a lengthy recession. While some economic statistics indicate the City is in the early stages of a recovery, the reality for far too many New Yorkers is much less promising. While crafting a budget that is prudent and responsible, the challenge is to ensure that all New Yorkers share in a resurgence that is sweeping and sustained.