

**Remarks by  
NYC Comptroller William C. Thompson, Jr.  
to the Citizens Union  
Wednesday, September 17, 2008  
8:00am – 9:30 am**

Good morning and thank you Dick, for that kind introduction. I am very pleased to join you today. Through its commitment to good government and reform, the Citizens Union has been a critical force for change in our city since its founding in 1897 and it is truly an honor to be here.

As we gather today, New York faces greater challenges than perhaps at any time since 9/11 and the recession that gripped our city then. The sub-prime mortgage crisis has impacted every demographic of our city, from financial giants Bear Stearns, AIG, and Lehman Brothers to working men and women struggling to hold onto their homes.

It will take months if not years to understand the full impact of the current crisis in international financial markets, but one thing is certain. The crises roiling the economy are already having a disproportionate impact on families here in the nation's financial capital.

While the New York City metro area accounts for roughly 6 percent of our nation's population it is responsible for an estimated 1.25 trillion dollars, or 9 percent, of the 13.8 trillion dollar total gross domestic product for the United States. That statistic has much to do with the importance of our city's finance industry to our local and national economy.

Thousands are now expected to lose their jobs. Many are unsure about their future.

As many of you know, while the securities industry accounts for some 5 percent of jobs in New York City, it accounts for at least 20 percent of wages. The industry employs investment bankers, traders and brokers, but it also includes clerks, support staff and back office workers.

In fact the impact of the current financial crisis goes beyond the finance industry. We often mention that every job created there results in the creation of an additional one and a half jobs. When securities jobs are lost these satellite businesses and their employees are hit, resulting in a ripple effect throughout our communities.

The current turmoil on Wall Street will obviously have major adverse impacts on New York City's economy. Before the startling events of the past week, we had forecast a loss of 25,000 jobs in the city's securities sector out of a total of close to 200,000. That figure encompassed the losses stemming from JP Morgan Chase's absorption of Bear Stearns in the spring.

Based on the multiplier effect, a loss of only 25,000 jobs in the securities industry could cause a loss of another 37,500 spread throughout the city's economy.

Considering that Lehman Brothers had over 12,000 employees in the city and the immediate vicinity, and AIG has almost 7,500 in New York City alone, the job losses may be even deeper than what we originally forecast.

Even more troubling, because the very future of the firms I've been discussing is in question, many of those job losses may be permanent, as opposed to cyclical layoffs that may be reversed in the not-too-distant future.

The dislocations on Wall Street, and the general financial stresses the financial industry is under, will also take an unfortunate toll on NYC's tax revenue....We estimate that the financial industry has accounted for over 45% of the city's business income taxes collections in recent years—that includes the General Corporation Tax, Bank Corporation Tax, and Unincorporated Business Tax.

Together, those taxes totaled \$5.5 billion in FY 2008 and already, they were forecast to decline 10% in the current fiscal year. The mounting losses by banks and other financial institutions may require us reduce those estimates further as we prepare our modified budget analysis during the next several weeks.

In addition, it is impossible to tell precisely how much of the City's Personal Income Tax revenue is paid by employees in the financial industry, but it may be as high as 40%. That is out of total PIT collections of nearly \$8.8 billion in FY 2008.

My office's forecast, published back in July, anticipated a drop of 12.5% in PIT collections during this fiscal year. Again, we will be reviewing that forecast as we go into the budget modification process in coming weeks. A general rule of thumb, however, is that the City's PIT collections fall by \$50 million for every \$1 billion decrease in financial industry wages.

As Comptroller, I am the chief advisor to the city's five pension funds....It is important for me to reassure the approximately 640,000 retirees, beneficiaries, and City employees who are invested in the system that their money is safe and secure.

As of last week, prior to the market turbulence over the weekend, The Funds owned more than 2 million shares of Common Stock in Lehman Brothers, valued at more than 15 million dollars.

We owned over 8 million shares of AIG Common Stock valued at over 97 million dollars, and 5.3 million shares of Merrill Lynch Common Stock, valued at close to 91 million dollars.

Without minimizing my concern regarding these exposures, I want to *emphasize* that those investments are a small percentage – roughly two-tenths of a percent – of The Funds, which currently total more than \$100 billion dollars.

Ever since I took office in 2002, we have been reducing our exposure to risk by diversifying our portfolio beyond the traditional asset classes. In light of recent events in the economy and financial markets, this approach is helping us weather these tough times.

By dramatically increasing the amount we invest in private equity, real estate and other asset classes, we have ensured the long-term health of our portfolio. And we have taken steps to minimize the impact that the problem of Bear Stearns, Lehman and other financial institutions have on our portfolio.

In the long-term, we as a city are well-positioned to survive the current crisis. New York City has weathered other troubles on Wall Street before, such as the financial crisis of the 1970's, the stock market crash in 1987 and the burst of the dot-com bubble only a few years ago.

Since that time, I have worked with the mayor to institute a number of budgetary measures that protect us from any one downturn spinning into a crisis of the kind we faced in the 1970s. What did we do?

First, when the city benefited from record surpluses, I advocated a pay as you go approach to our capital spending, which the mayor had begun to implement before the economy began to turn down. 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 in flush times.

Second, I have worked with the mayor to ensure that General Obligation bonds are issued in a prudent, cost-effective way. Our GO bonds are rated in the AA category by all three ratings agencies, our highest ratings since at least the 1930s.

The city has kept spending down where possible, although the Mayor has said, and I agree, that we must not aggressively cut services that support our quality of life in order to save money during a downturn. A city that is safe, good for business and rich in tourism offerings is a city that will continue to thrive.

Indeed New York City has acquired its reputation as a premiere place to live and do business by keeping crime down, by pursuing exciting new economic development initiatives, by luring new industries like motion pictures and high tech, and by expanding a thriving entertainment and hospitality industry.

We must continue to do all we can to maintain that reputation. That means maintaining a first rate police force. That means lowering business taxes where possible and maintaining our support for major development projects. And that means continuing to diversify our economy.

As the mayor said earlier this week, the fundamentals of our local economy are strong. Are we in New York City more prone to the vagaries in the financial markets?

Yes, we are, just as Detroit is impacted by the rise and fall of the auto industry and Los Angeles by the movie and television business.

But can we face the future with confidence that we will maintain our competitive position as both a financial center and an incubator of new enterprise in the entertainment, health care, technology and hospitality sectors, to name just a few? You bet.

But our success will depend not only by our determination and resolve. It will also require a greater alertness to signals of trouble in the financial markets at all levels of government. The sub-prime shell game required enablers at every level of the financial system, from banks to regulators to the congress.

The lesson is neither that all regulation is good nor that financial markets are naturally self-correcting. But there is clearly a role for the SEC, the congress, the Treasury and the Fed to play in ensuring that the public is protected from market gimmicks that show contempt for the public interest.

As one of the nation's largest institutional investors, my office joined State Comptroller DiNapoli last year in bringing a class action lawsuit against Countrywide for its role in the sub-prime mortgage crisis in the belief that those who defrauded investors must be held accountable for their actions.

There is no question in my mind that a combination of better transparency and support for New York City economic development – including the creation of new small businesses and a commitment to help our workforce gain new skills to compete in the new economy – can help us weather this and future downturns.

The New York City Funds are healthy and we are ready for the trying times that no doubt are ahead. With every downturn New Yorkers have encountered our city has rebounded stronger than before. That is the spirit of New York City. We are fighters. We are resilient. We are innovators.

With strength and confidence in our common purpose, we will join with the private sector as well as civic-minded organizations that hold a stake in our city's success – organizations like the Citizens Union. ....You have fought with passion over the decades to help our city through its toughest times....We needed you then and we need you now.

I thank you for this opportunity to appear here today and now I'd be happy to take some questions.