

Crain's Breakfast Speech on April 29, 2002

(As Prepared for Delivery)

Good morning.

In my inaugural address, I quoted the noted economist John Maynard Keynes. As many of you remember, it was not the quote that received the most attention that day -- my father provided the one that holds that distinction -- but I'd like to return to it here.

Keynes said: "The difficulty lies not in the new ideas, but in escaping from the old ones."

These words were a guiding principle for me when I assumed office in January.

Four months later, we have made strides in reorganizing the activities of the Comptroller's Office -- we are developing smarter systems for the flow of information and funds, finding new ways to invest on behalf of, and in, our communities, and improving the way the City's business is conducted.

As we continue these endeavors, and as we confront the many challenges, fiscal and otherwise, facing our city, we are working to "escape from old ideas" and pursue new ideas that make sense in the short and the long term.

What are the origins of our current challenges? There are, of course, many factors, some of which could have been anticipated, and some of which could not. It is clear, however, that our fiscal challenges did not appear overnight.

When economic times were good in the latter part of the 1990s, the city missed numerous opportunities to change the way it did business. We missed repeated chances to pay down long-term debt; Quite the contrary, we increased our long-term debt. We increased spending, cut taxes and used budget surpluses from one fiscal year to pay off bills in the next one.

What we did was to postpone making tough decisions and instead chose political expediency over sound fiscal planning. Two years ago in July 2000, the City's financial plan contained outyear gaps of 2.6 billion dollars for Fiscal Year 2002 and 2.7 billion dollars for Fiscal Year 2003. Analysis by the Financial Control Board and the State Comptroller found the true gaps to be at least one billion dollars higher than the city's estimates. Add to this equation a slowing economy, and risky one-shot budget bottom-line revenue fillers, and we realize that the budget gap we face today is a product of fiscal decisions made and actions not taken in recent years.

It was clear that those would be fiscal problems, but the leadership in City Hall and the City Council ignored the signals knowing that in the end these deficits would not appear on their watch. Now with more than 1.3 billion dollars in revenue losses and the recognition of other short comings in the financial plan, including higher than projected collective bargaining, health insurance and judgements and claims costs, the City's Fiscal Year 2003 budget gap stands at nearly 5 billion dollars.

What is the best way to close the budget gap projected for the next year?

We have a limited number of tools at our disposal: cutting city services, borrowing funds, raising taxes, refinancing debt, reducing the number of city employees and finding other revenue. Each approach has its advantages, and presents its own risks.

I believe the Mayor's budget to be a prudent balance between these strategies. However, I think that certain assumptions regarding assistance from the federal and state governments may be

too optimistic and I have previously stated my concern about the city receiving the full 800 million dollars the Mayor has budgeted.

Second, the Mayor has proposed a plan to use the 470 million dollars in Fiscal Year 2002 and more than 1.5 billion dollars in Fiscal Year 2003 raised through the Transitional Finance Authority (TFA).

I have voiced concerns over the last two years about the large debt burden that threatens the city's fiscal health in the future. Today, New York City's debt burden is the highest in the nation. In Fiscal Year 2003, we will pay 3.8 billion dollars in debt service out of a proposed 23.9 billion dollars in city tax levy revenue. In Fiscal Year 2006, we will pay more than 5.4 billion dollars out of 26.5 billion dollars.

That means our debt service currently eats away 17 cents out of every city tax levy dollar, an amount that will increase to more than 20 cents of every dollar by Fiscal Year 2006.

While this type of transaction raises serious concerns, I recognize that these are not ordinary times. As we rebuild in the wake of September 11th and make up for lost revenues, this action will give the city much needed financial support. However, I would oppose any additional TFA borrowing beyond the current authorization in the future.

After all, borrowing to meet current operating expenses is what created the fiscal crisis of the 1970s, and that is certainly one "old idea" we would do well to escape from.

We must also be careful about how we incorporate taxes into our budget-closing strategy.

Tax policy must be guided by, among other factors, a sound sense of timing -- when is the right time to raise taxes, when is the right time to lower them, when is the right time to keep a steady course and leave them unchanged?

It is clear that right now, as we look to attract and retain businesses and residents, tax increases are not the preferred course. Furthermore, with a major deficit to address, and the need for state approval for most tax increases, I believe we should pursue those solutions that have the best chance of being realized in an election year -- and tax increases are not one of them.

However, I do 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's future alongside those of us who live and work here.

Preliminary reviews of the impact and true cost of the tax indicate that it would generate approximately 400 million dollars in FY 2003, rising to more than 500 million dollars by FY 2006.

The cost to commuters would be minimal: in 1998, the last year the tax was collected, the true cost to the average commuter living in New York State was 263 dollars per year. For less than a dollar a day, commuters can contribute to vital city services -- from transportation to sanitation to law enforcement -- that benefit them and that help keep this city strong. I say to them: stand with New York City in its time of need.

I believe that, if reinstated with a reasonable sunset provision, the Commuter Tax could serve as an equitable and greatly beneficial source of revenue for the city. City Council Speaker Gifford Miller agrees.

Another exception is the Tobacco Tax. I agree with the Mayor that increasing the cigarette tax would serve the dual purpose of generating revenue - for the City and encouraging New Yorkers, particularly young people -- to quit smoking. That could generate about 250 million dollars.

Our responsibility today is to choose the right combination of gap-closing measures from all the alternatives. We must weigh borrowing strategies with caution, alter taxes only when the benefits will outweigh the losses, and identify fiscal measures that will increase the efficiency of city services.

As we work to shape the budget, it is important to ensure that the Mayor's assumptions about funding from outside sources are sound, and that outyear projections are accurately presented.

And it is incumbent on us all to identify savings mechanisms that the city can use to reduce debt service costs in the outyears. I have identified one measure that will aid in that effort.

Right now, we have more than 269 million dollars encumbered in capital contracts that have had no activity in over two years.

I am urging the Mayor and the City Council to reduce the 2003 capital budget by this amount, an action that will save the city 579 million dollars in debt service costs over the next 35 years.

The immediate debt service savings will be 30 million dollars over the next four years. While this initial gain is relatively small, by FY 2009, the annual savings will reach 23.1 million dollars in that fiscal year alone, and remain between 22 and 23 million dollars per annum through FY 2020.

This measure will help demonstrate our resolve to reduce the City's debt burden. In these exceptional times, the City must refrain from using this unexpended bonding authority as a way to fund new projects, and focus instead on reducing our debt service.

I look forward to working with the Mayor and the City Council on this and other budget measures that represent sound choices for the present and the future.

Beyond our ongoing budget work, I have been pleased, since assuming office in January, to initiate a number of management improvements and cost-saving measures.

My Claims and Adjudication Division saved the city 5.3 million dollars in settlement costs through our Pre-Litigation Initiative, and recovered 1.4 million dollars in HRA liens by automating the recovery system.

My office has issued 22 audits of city agencies recommending cost-saving measures and revenue enhancements. We have improved the information system for vendors doing business with the City, and are working to ensure a level playing field for builders through strong enforcement of prevailing wage laws.

We are also investing in the future of our neighborhoods. While it is important that we rebuild the infrastructure of Lower Manhattan, we must not forget the many communities that make our city great. We must work together to ensure the long-term viability of all New York's neighborhoods.

Toward that end, my Bureau of Asset Management has committed 39.7 million dollars since January to finance the rehabilitation and construction of affordable housing in New York City neighborhoods, through the Economically Targeted Investment Program.

I intend to expand this program, which offers a win-win situation in which investments produce a market rate of return for our retirees, while fostering local economic development.

I have been pleased to pursue corporate governance and corporate social responsibility reform through a variety of initiatives. My office submitted a set of reform proposals to 72 portfolio companies for consideration by shareholders at the companies' 2002 annual meetings.

Among other measures, the proposals call for membership of the nominating and audit committees of corporate boards to be comprised solely of independent directors, the linking of executive compensation in stock options to performance criteria, the promotion of renewable energy sources, and the adoption of global labor, purchasing, and human rights standards.

I am also hiring an outside firm to conduct a comprehensive study of my own Bureau of Asset Management. The objective will be to determine the Bureau's ability to effectively steward and oversee more than 80 billion dollars in pension fund investments and to identify ways that we can provide additional support to the Trustees of all five pension systems.

In the current fiscal climate, and with wholesale changes in citywide government leadership, it is an opportune time to conduct a top-to-bottom review of how pension funds are managed and invested. I will work with the Trustees and the financial community on this review in order to maximize long-term investment returns and minimize risk for our more than 200-thousand retirees.

In the area of Public Finance, the Request for Proposals my office is pursuing for underwriters has yielded many new and innovative savings ideas. I will work with the Mayor's office to select a new underwriting team and take advantage of some of these new ideas.

As Comptroller, I have a responsibility to ensure that the picture we see of our fiscal challenges is an accurate one. I am committed to ensuring the City's fiscal integrity, safeguarding its investments, and protecting its long-term financial health.

I am also committed to using the power of my office to develop innovative and sound solutions to our challenges – new ways to manage our resources, build partnerships, and invest in our communities.

As we chart our course for the next fiscal year and beyond, we certainly face more challenges. Outyear budgets show enormous gaps, but we will have more flexibility if we do not limit ourselves by making short-sighted decisions now.

I know we can do it. After all, New York, and its people, are resilient. If we make the right decisions today, New York will emerge better than ever tomorrow.

Thank you.

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