

**Testimony of
Comptroller William C. Thompson, Jr.
before the
New York City Council Finance Committee
on the
Mayor's Preliminary Budget, the Four-year Financial Plan
Tuesday, March 4, 2008**

Good afternoon. I would like thank Committee Chair David Weprin and all of the members of the City Council Finance Committee for the opportunity to comment on the Mayor's Preliminary Budget and Financial Plan for Fiscal Years 2008 to 2012 and his modification to the FY 2008 budget.

With me today is Deputy Comptroller for Budget Marcia Van Wagner.

The Mayor's budget and financial plan released in January closes a 2.73 billion dollar gap in FY 2009 while prudently preparing for the impact of an anticipated economic slowdown through a mix of actions designed to raise revenues and lower city-funded expenditures.

The City is responding quickly to changing economic conditions, but managing the budget will be extremely challenging. Budget pressures on the state will likely result in a reduction of aid to the City and risks to the budget could easily mount given the potential for further weakening of the economy and resulting shortfalls in tax collections.

To keep FY 2008 in balance, the City is drawing on resources accumulated in prior years. In FY 2007, the City transferred 4.6 billion dollars in accumulated surpluses into FY 2008 by prepaying FY 2008 expenses. This year, the City plans to prepay 4.12 billion dollars of FY 2009 expenses, resulting in a reduction of 481 million dollars in the City's accumulated surplus.

The City will be able to achieve these prepayments only because of additional resources this year that will net our budget stabilization account, or BSA, some 1.86 billion dollars over projections in the October budget modification. Those resources include unanticipated revenues, routine reserve adjustments, and a 543 million-dollar mid-year agency gap elimination program, or PEG. To put this in perspective, the last time the City reduced its accumulated surplus from one year to the next was in FY 2002, when the local economy was mired in recession.

The City still plans to retain 350 million dollars in the FY 2009 BSA for FY 2010 prepayments. In that year, the budget gap is projected to be 4.2 billion dollars – the second highest for that point in the budget cycle since 1986. Gaps are expected to reach 5.6 billion dollars in FY 2011 and 5.3 billion dollars in FY 2012.

My office has identified net risks to the budget of 82 million dollars in FY 2008 and 569 million dollars in FY 2009. These risks derive primarily from assumptions underlying gap-closing initiatives and the fact that the Financial Plan does not reflect the negative impacts of proposed State budget actions.

The State Executive Budget proposal would have a negative impact of at least 500 million dollars on the combined FY 2008 and FY 2009 budgets. While my office assumes that the Executive Budget proposals will be modified during the State budget adoption process, we are nonetheless forecasting a risk of 164 million dollars in State aid in FY 2008 and 200 million dollars per year thereafter.

Overtime expenditures in the plan are optimistic and my office expects these expenses to exceed the Mayor's forecast by 117 million dollars in FY 2009, and by 100 million dollars per year thereafter. These expenses should be partly offset by savings in judgments and claims. We expect judgments and claims to be less than the Mayor's projection by 35 million dollars in FY 2008, and that by 2012 that difference will grow to 256 million dollars. Cost containment achieved in this area – a major focus of my office in recent years -- has not been reflected in the City's financial plan forecasts.

The Preliminary Budget also assumes 200 million dollars in annual savings from an unspecified restructuring of employee health costs and 100 million dollars in unspecified additional Federal aid in each year of the financial plan that may not be realistic.

As you know, the City's economy has thus far outperformed the nation's. However, it will not be able to resist the downward pull of a national slump and continuing turmoil on Wall Street. Included in my risk assessment is the expectation that while tax collections will exceed the Mayor's forecast in FY 2008 by 115 million dollars, tax revenues will fall short of projections by 40 million dollars in FY 2009 and by more than 100 million dollars in each of FY 2010 and FY 2011.

The Mayor has indicated that the discretionary homeowner's property tax rebate and last year's 7 percent reduction in the property tax may be reconsidered if conditions warrant. If the Governor's proposed cuts are implemented, the city could be forced to seriously consider this option.

The city does have some other resources at its disposal. For example, in mid-FY 2009, the City will likely reduce prior year payables and the general reserve, actions that freed up 700 million dollars in FY 2008.

The City could also pursue a more aggressive program to eliminate the gap through management initiatives and productivity increases, although this

category of initiatives often requires negotiations with the municipal unions and takes time to implement.

Even without the complicating matter of a slowing economy, the expense budget includes problematic elements. Employee health insurance costs, excluding impacts of the proposed restructuring, are slated to grow nearly 9 percent annually. The Mayor has expressed concern that this pace could accelerate if the proposed for-profit conversion of a merged GHI-HIP health insurance company is approved by the State Legislature. Ninety-three percent of City employees are covered by one of these two insurers.

Debt service is projected to grow 8 percent per year over the Plan period. While debt service has been characterized as an “uncontrollable” expense, its growth is linked to a rapidly expanding capital budget.

Authorized city-funded capital commitments for FY 2008 to FY 2011 total more than 31 billion dollars when environmental protection projects that are funded through water rates are excluded. This figure implies capital commitments nearing 8 billion dollars annually and so among the difficult tasks the City must face in the coming period is how to better balance our urgent infrastructure needs with their cost.

The Mayor is to be commended for his prudent management of the budget. Since the local economy began to recover in FY 2003, unanticipated resources have been diligently applied to future years, often in creative ways. Faced with the current shortfalls, the proposed gap-elimination initiatives generally avoid large “one-shot” actions in favor of recurring actions, which make up 89 percent of the total gap-closing program in FY 2009.

Nevertheless, we must look carefully at the high degree of risk in the plan and address this in the coming months as we work to close a worrisome FY 2010 gap.

I appreciate this opportunity to provide testimony today and now I would be happy to answer any questions.

Thank you very much.