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TESTIMONY BEFORE THE FINANCE COMMITTEE  
ON THE MAYOR'S EXECUTIVE BUDGET FOR FY 2010

NEW YORK CITY COUNCIL  
CITY HALL  
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12:30 PM

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

With me today is Deputy Comptroller Marcia Van Wagner.

As we come together this year, the worst economic downturn since the end of World War II is taking a heavy toll on the city's economy.

Although the city's labor and housing markets have been less severely affected by the recession than those in many other areas of the country, the overall state of the local economy remains grim. My office expects a decrease of 250,000 jobs from the cyclical peak in August 2008 through the expected trough in late 2010.

The deteriorating labor market will push the number of unemployed residents to nearly 400,000 by mid-2010. Furthermore, the city's economy is projected to under-perform the nation's until 2013, primarily because of the challenges facing our financial sector.

Two statistics tell the story: while the finance and insurance sector and the professional and business services industries accounted for 25 percent of the city's employment in August 2008, they have absorbed 48 percent of the job reductions since that time.

Because the City relies heavily on income-sensitive taxes, the recession's impacts on revenues have therefore been especially pronounced. The Executive Budget projects a total tax revenue decline of 11.3 percent – or 4.4 billion dollars – between Fiscal Year 2008 and Fiscal Year 2010.

Non-property tax revenues are not expected to recover their pre-recession levels during the Plan period. As a result, the City's fiscal outlook is sobering to say the least.

The FY 2010 Executive Budget and Four-Year Financial Plan depicts a risk-laden gap-closing program to balance the FY 2010 budget, followed by

projected budget gaps of 4.58 billion dollars in FY 2011, 5.16 billion dollars in FY 2012 and 5.42 billion dollars in FY 2013.

Even more troubling, analysis by my staff reveals that net risks to the budget would widen those gaps further to 734 million dollars in FY 2010, 6.65 billion dollars in FY 2011, 7.54 billion dollars in FY 2012 and 8.3 billion dollars in FY 2013.

Such large projected gaps are truly unprecedented. As the City has been making efforts to contain expenditures and raise revenues since the economy began to falter, additional gap-closing measures will become harder and harder to achieve.

One gap closing idea the city is pursuing would increase the sales tax burden in order to bring in an average of 1 billion dollars annually in fiscal years 2010 through 2013.

Because that tax is regressive and disproportionately impacts the very New Yorkers struggling to make ends meet in the current downturn, I have proposed an alternative tax on individuals making 500,000 dollars and above.

Specifically, I am recommending a 4.3 percent tax rate on taxpayers with taxable income of 500,000 dollars and a 4.8 percent tax on taxpayers with taxable income of a million dollars or more, compared to the current rate of roughly 3.65 percent.

As with the State income tax, these rates would be flat rates rather than applying only to the margin of income. Based on estimates by my office, this would yield nearly 1 billion dollars in calendar year 2009 and a similar amount in the City Fiscal Year 2010.

Even with the proposed sales tax, because of uncertainty surrounding State legislative approval and differences in economic outlook, my office identifies tax revenue risks of 60 million dollars in FY 2010, 575 million dollars in FY 2011, 928 million dollars in FY 2012 and 1.41 billion dollars in FY 2013.

Additionally, neither the Council nor legislators in Albany have embraced a fee on plastic bags, creating an additional risk of 100 million dollars in FY 2010. That risk would grow to 160 million dollars in FY 2011.

The majority of the 574 million dollar expenditure risk my office has identified for FY 2010 stems from the uncertainty regarding the Mayor's projected savings associated with changes to employee benefits.

As you know, the Mayor's proposal to "restructure" employee health insurance benefits requires approval by our municipal unions. And his plan to

create a new, less costly pension tier requires the approval of both the unions and the state legislature. Those initiatives have been projected to yield 200 million dollars apiece in annual savings.

These risks will be augmented by others in the out years of the Plan. For instance, while the Mayor's health insurance cost containment initiative, requiring employees to contribute 10 percent towards health insurance premiums, would reap savings beginning in FY 2011, there is at present no agreement on this matter with the unions.

The other elements of spending risk for FY 2010 include 70 million dollars in payroll taxes the city will have to pay to conform with legislation enacted by the State Legislature in support of the Metropolitan Transportation Authority (MTA), as well as 137 million dollars in overtime pay.

The federal American Recovery and Reinvestment Act will provide education funding that will offset cuts made in the State Enacted Budget and stave off the need to lay off some 14,000 teachers. Therefore, the headcount projections in the Executive Budget do not reflect as draconian a reduction for FY 2010 as anticipated previously.

However, full-time City-funded headcount is expected to contract by about 8,000 in FY 2010, to be achieved through a mix of attrition and layoffs. Since most municipal employee unions have contracts in place through FY 2011, there is little opportunity other than lay-offs to save on direct labor costs.

At the time of the January Plan, the Mayor announced his intention to implement a 30 percent reduction to major components of the capital commitment plan. The purpose of the reduction was to bring growth in debt service costs in line with the average growth in tax revenues by reducing the size of the capital commitment program. The FY 2010 Executive Capital Commitment Plan would achieve a 17 percent reduction in the City-funded portion of the plan, after the reserve for unattained commitments.

Yet debt service is actually expected to continue to grow 8 percent per year through FY 2013 because the impact of incremental changes to the size of the capital commitment plan is felt over a long period. While debt service is projected to slow to a 2.3 percent pace after 2013, it could be even greater in the out years owing to a tendency by the city to underestimate commitments.

An analysis by my office of seven Executive Budget Commitment Plans from FY 2002 to FY 2008 showed that the third and fourth years of a given plan understated actual results, on average, by 35 and 51 percent, respectively.

Moreover, the State revenues are much more cyclically sensitive than the City's. Since the State Enacted Budget was approved by the legislature, the

Governor has warned that, based on current tax collections, the state could be facing a gap of at least 3 billion dollars in the current fiscal year. Since about 70 percent of the State budget consists of aid to localities, additional gap-closing actions in Albany are certain to result in more stress on the City budget.

The hurdles the City is facing during this Financial Plan period are daunting. The recession in all likelihood will be followed by several years of lackluster growth.

As a result, even if the City achieves its ambitious gap-closing plan, and despite the presence of substantial federal stimulus dollars, additional gap-closing initiatives will be necessary, and they will likely require sacrifice and patience on the part of New York City residents.

One thing I know is that such sacrifice will be rewarded. Again and again, in the most trying of times, New York and New Yorkers have shown themselves capable of adapting and emerging stronger and more resilient than before.

While we may press up against the limits of our budget, we must never put a limit on our confidence to nurture our city with vision and imagination.

Those are the values New York City was founded upon....Those are the values that will see us through our current economic troubles....And those are the values that will keep us strong long into the future.

Thank you very much.