

COMPTROLLER WILLIAM C. THOMPSON, JR.

**Remarks
Financial Control Board Meeting
Thursday, July 15, 2004
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633 Third Avenue
New York, New York**

Governor Pataki, Mayor Bloomberg, Comptroller Hevesi, Mr. Sommer, private members and observers, good afternoon. I am pleased to have this opportunity to comment on New York City's finances.

Two years ago, the City faced a \$6.7 billion budget deficit. The task of balancing the budget has been a daunting one, and the Mayor, the City Council and most of all, the people of the City of New York, deserve credit for adopting a wise course that helped the City weather the storm.

For Fiscal Year 2005, I can report to you that the City has adopted a budget that is likely to end the year in balance. The revenue and expenditure projections are reasonable estimates and the level of reserves available to the City appear to be sufficient to offset the risks previously identified by the Comptroller's Office. However, the out-years of the Financial Plan continue to contain multi-billion dollar deficits because the City's expenses continue to outpace the growth of its revenues.

In late June, the Mayor and the City Council adopted a \$47.8 billion budget for Fiscal Year 2005. To achieve budget balance, the City is utilizing \$3 billion in non-recurring resources. These items include \$1.9 billion in rolled-over budget surplus from Fiscal Year 2004, an expected lump-sum payment of \$690 million from the Port Authority of New York and New Jersey as a result of a new lease agreement for City airports, a \$502 million reimbursement to the City for Municipal Assistance Corporation debt service, and \$150 million from the Battery Park City Authority for the sale of City-owned properties. The use of these non-recurring resources does not address the underlying imbalance between revenues and expenditures in Fiscal Year 2005.

The reliance on non-recurring resources to balance the budget creates greater challenges for the City for Fiscal Year 2006 through 2008. The Comptroller's Office projects a stronger economy with tax revenue forecasts projected to grow by 12.1 percent over the financial plan period. This growth is significantly higher than the 7.6 percent growth in expenditures. However, tax revenues account for only about sixty percent of the funds necessary to support

City spending. Since non-tax revenues, such as federal and state aid, will likely remain unchanged over the term of the Financial Plan, the City will be confronted with persistent budget gaps despite a stabilized economic outlook.

The City Administration projects deficits of \$3.7 billion in Fiscal Year 2006, \$4.5 billion in Fiscal Year 2007, and \$3.7 billion in Fiscal Year 2008. To overcome these challenges, the City must devise a long-term financial plan that includes recurring savings and stable growth in revenues. The City has taken an important step in this regard by re-establishing a Budget Stabilization Account (BSA) for Fiscal Year 2006. However, the BSA contains just \$220 million, which will do little to mitigate the projected Fiscal Year 2006 budget deficit. For the BSA to serve as an effective means of balancing the Fiscal Year 2006 budget, the City should increase the funds in the BSA throughout Fiscal Year 2005.

It is essential that we address fluctuations in the City's pension fund contributions. The value of assets invested in the City's pension funds tracks yearly changes in the financial markets. As a result, the high level of market volatility over the past decade has resulted in significant fluctuations in the level of annual pension contributions. Adjusting the method by which the City recognizes gains and losses in its pension investments may reduce its exposure to this market volatility. This adjustment is especially important because pension expenses tend to increase when City revenues decline.

Another challenge concerns the City's management of its capital plan. In Fiscal Year 2005 alone, the City will make \$4.46 billion in debt service payments, consuming 16 percent of local tax revenues. We must recognize that today's capital commitments are financial liabilities for the future. Although the City must make necessary infrastructure improvements and other capital investments, it cannot borrow more than it can afford to pay. Striking a balance between these two needs is absolutely crucial for the City's future.

The City's budget situation is not as dire as it was two years ago. Nevertheless, the City must take immediate action to chart a prudent and responsible course to avert significant fiscal challenges in Fiscal Year 2006.