

**Testimony of
Comptroller William C. Thompson, Jr.
before the
City Council Finance Committee on the
Mayor's Preliminary Budget
Monday, March 6, 2006**

(As Prepared for Delivery)

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 2006 to 2010 and his modification to the FY 2006 budget.

As noted in the report my office has just issued, the FY 2006 fiscal situation has improved steadily since budget adoption, primarily because the financial and housing markets performed better than originally expected.

The November modification forecast \$2 billion more revenues for FY 2006 than anticipated at the time of the Adopted Budget, and this modification projects receipt of another \$798 million.

Furthermore, savings on the expense side amount to \$1.713 billion, the majority of which stem from the benefit to this year's budget of the adoption of actuarial changes pertaining to the calculation of pension costs.

The Mayor proposes using a significant portion -- \$3.3 billion -- of these surplus resources to shore up the City's finances, by making a deposit to the Budget Stabilization Account, which will be used to balance the FY 2007 budget.

The Mayor also proposes depositing \$1 billion into a new special-purpose fund, the Retiree Health Benefits Trust Fund. An additional \$1 billion would be deposited in FY 2007.

Historically, health benefits for retirees have been treated entirely on a “pay-as-you-go” basis in the City’s budget and financial statements.

The Governmental Accounting Standards Board has ruled that, by 2008, municipalities must begin to show on their books the value of outstanding and committed obligations related to retiree benefits other than pensions.

While this ruling does not require localities to fund those liabilities as they must pension liabilities, such a requirement could be a logical next step.

The amount of the dollar liability is still being determined, but is likely to reach well into the tens of billions. While I applaud the Mayor’s decision to address this proactively through the Health Benefits Fund, I am awaiting more details about the plan.

The Preliminary Budget and Financial Plan includes other proposals to devote funds made available this year to offset expenses in the future.

Restructuring of outstanding TSASC debt has freed up funds that were held in a “trapping account.” The Mayor has chosen to recognize these funds, as well as FY 2006 and FY 2007 residual tobacco settlement revenues, in the projected budget for FY 2008, which would otherwise have a large budget gap.

In addition, the Financial Plan continues to include \$200 million per year in “pay-as-you-go” capital financing, which will help reduce the growth of debt service in the long term.

These are the types of actions that the Comptroller's Office has long urged the City to pursue. However, while the Mayor's measures serve to benefit the budget after FY 2007, they are small relative to the large budget gaps of \$3.447 billion, \$3.5 billion, and \$2.711 billion which emerge in FYs 2008-2010.

The gaps open because the City relies on large non-recurring actions to balance FY 2007, chief among which is the Budget Stabilization Account.

Our review shows that these gaps may be somewhat reduced because revenue is likely to be higher than the City projects, offsetting risks and lowering the gaps by \$335 million in FY 2008, \$60 million in FY 2009, and \$120 million in FY 2010.

Although recent experience might lead one to assume that FY 2007 will follow recent trends of substantial surpluses, our review suggests that much of the good fortune experienced by the City in recent years is unlikely to continue.

The housing market is in fact slowing, as is the overall economy; financial markets are facing uncertainty due to rising interest rates and high debt levels; higher energy prices are expected to continue placing pressure on the economy; and additional extraordinary expense savings of the magnitude of this year's lower pension costs and the benefits from the State Medicaid cap are unlikely.

Indeed, despite this year's revenue increases and expense savings, the City is adding only about \$700 million to its rolling surplus, after accounting for the \$3.5 billion brought forward from FY 2005 and the \$1 billion deposit to the Retiree Health Benefits Trust Fund.

Our review considers a number of other issues as well. Of the set of budgetary items that have been termed “uncontrollable,” debt service is expected to continue to grow strongly over the Plan period at a 9.8 percent rate, well in excess of its average growth of 6.2 percent annually over the past 10 years.

This growth is fueled in part by the largest four-year New York City capital commitment plan ever at 28.6 billion dollars, an increase of 5.6 billion dollars over the previous four-year period.

Additionally, as I have stated in previous testimony and reports, while growth in local Medicaid costs has been capped by the State, efforts by the State and Federal governments to contain Medicaid costs are expected to have a negative impact on the already weakening financial condition of the Health and Hospitals Corporation.

The City may find that its subsidy to HHC, which is in the \$150 million range through the Plan period, will need to increase to strengthen the Corporation.

On the other hand, pension costs appear to be near the end of a cyclical increase, as losses from the severe Wall Street downturn in 2001 and 2002 are phased in.

Pension cost increases are expected to abate over the Plan period and remain at a level slightly exceeding that reached in the early-1980s, when considered as a percentage of general fund revenues.

For instance pension costs were roughly 10 percent of revenues in 1982-83. At the peak of the Mayor's Plan in 2009 they are expected to be nearly 11 percent.

Another agency whose budgetary needs include some significant unknowns is the Department of Education.

The agency's budget is slated to grow from \$14.73 billion in FY 2006 to \$15.12 billion in FY 2010, fueled mainly by rising special education expenses and fringe benefit costs.

At a time when other states are stepping up to provide municipalities with the greater assistance they need to strengthen their education systems, New York State is cutting corners and leaving the City to bridge the gap.

Against a backdrop of the CFE case, it is astounding to note that the portion of City education funding provided by the State has declined from about 48 percent in FY 1995 to 45 percent in 'FYs 2005 and 2006.

State leaders need to give New York City its fair share of education funding.

I want to close with a proposal I have developed to give much needed aid to our City's oldest residents.

This initiative, City Aid for Senior Homeowners, or CASH, emerged as a result of countless conversations I have had with seniors across the City.

Wherever I have gone, I have heard stories of their difficulties of keeping up with rising costs.

Between 2002 and 2005, electricity costs in New York rose 37 percent and gas and heating oil rose a combined 58 percent, while Social Security payments increased by a mere six percent. Meanwhile, the average property tax bill increased this year from \$2,615 to \$2,860, a jump of over 9 percent.

It is clear that the rapidly escalating cost of home ownership, including higher assessed values, higher property tax rates, and increasing energy and insurance expenses have placed significant burdens on New York City seniors living on fixed incomes.

Many senior homeowners are forced to make extraordinarily difficult choices about prioritizing their daily living expenses; some seniors may even face the risk of losing their homes.

My proposal, which would require approval by the New York City Council and the State legislature, would provide up to an additional \$600 to approximately 81,000 qualifying senior households. Added to the City's current \$400 property tax rebate program, seniors would now be eligible for up to \$1000 from the City.

The total cost of the program is estimated at fifty million dollars annually. Like the current rebate, this outlay would be discretionary on a year-to-year basis, with the Mayor making the decision.

It would apply to owners of one-, two-, and three-family houses, condos and co-ops who sign up for the New York State Enhanced STAR partial property tax exemption program. To be eligible, homeowners must be 65 and make \$66,050 or less.

My staff determined that among households eligible for my proposed program, 75 percent reported incomes of \$36,000 or less.

The average annual Social Security retirement benefit in New York is only \$12,791. As double digit increases in Medicare Part B premiums eat up much of the Social Security cost-of-living adjustments, there can be no doubt that a very large number of home-owning seniors need this helping hand.

Overall, the Mayor's Preliminary Budget contains some significant departures from past approaches to preparing for out year budget gaps

By taking extra resources today and committing them to our future, the City is acting prudently. Some of the proposals, if implemented properly, could represent truly positive developments.

I look forward to working with the Mayor and the City Council to address these and others issues as we move forward in the budget process.

Thank you for the opportunity to testify today.

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