

WILLIAM C. THOMPSON, JR.
NEW YORK CITY COMPTROLLER

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

Before we begin discussing the Executive Budget for Fiscal Year 2005, I would like to acknowledge your efforts in addressing the City's budgetary challenges over the past two years. The task of balancing the budget has been a daunting one, and the Mayor and the entire City Council deserve credit for adopting a wise course that helped the city weather the storm.

And, of course, the people of New York City are the ones who deserve most of the credit for the sacrifices they have made to help the city during the difficult times of the past few years.

I would now like to turn to the proposed budget for the next fiscal year. One year ago at this time, the City confronted a multi-billion dollar budget deficit for Fiscal Year 2005.

Today, I can report to you that the 47.9-billion-dollar Executive Budget for Fiscal Year 2005 appears on course towards balance.

However, it is important to note that to achieve balance, the City will be using nearly 3 billion dollars in non-recurring resources. These include:

- the use of a 1.3-billion-dollar rolled-over budget surplus from Fiscal Year 2004,
- the expected receipt of a lump sum payment of 690 million dollars from the Port Authority of New York and New Jersey as a result of a new lease agreement for City airports,
- the expected receipt of 150 million dollars from the Battery Park City Authority for the sale of City owned properties adjacent to the Battery Park City complex, and;
- the reimbursement to the City of the 502 million dollars it paid in FY 2004 for Municipal Assistance Corporation debt service.

While there may be justification in using non-recurring resources in times of fiscal stress as a bridge to fiscal stability, the over-reliance on non-recurring resources to achieve fiscal balance in the near-term creates greater challenges for the City's fiscal condition in Fiscal Years 2006 and 2007. Indeed, the City's decision to defer the long-term consequences of its spending commitments will put enormous strain on the City's budget in the coming years. The City projects a budget deficit of 3.76 billion dollars in FY 2006 and 4.2 billion dollars in FY 2007. The out-year deficits have been exacerbated by the City's decision to use the 695-million-dollar Budget Stabilization Account – which had been earmarked to balance the FY 2006 budget -- to close the FY 2005 gap.

In addition, the City's use of non-recurring revenues does not address the central budgetary challenge: the fact that year after year, the growth of the City's expenses outpaces the growth of its revenues. Until the causes of this structural imbalance are addressed, the City will continue to face budget deficits on an annual basis.

This approach also leaves the City little margin for error in the event of another economic downturn. My office's forecast for the New York City economy in the near future is slow, continued growth. In 2004, we project Gross City Product to grow 3.2 percent, and in 2005, 2.7 percent. The City's economy has trailed the national economy since 9/11, and we project that the gap will persist.

While my office is not currently projecting a downturn, the City's fragile economic recovery is subject to substantial risks, including higher interest rates and the cloud of uncertainty created by the prolonged war in Iraq.

The budget contains cause for concern in other areas as well. The Executive Budget has provided a subsidy increase and assumed certain debt service costs totaling 200 million dollars for the Health and Hospitals Corporation. HHC, however, still faces projected operating deficits of 273 million dollars in Fiscal Year 2005 and over 500 million dollars in each of the out-years. These operating deficits are mainly a function of its stagnant revenues and rising cost structure and warrant careful monitoring.

In addition, the Capital Commitment Plan for FY 2005 is substantially higher than the City announced it would be one year ago. This new spending plan leaves the City in a vulnerable position. Last year, the City projected a Capital Commitment Plan in Fiscal Year 2005 of 5.69 billion dollars. The City's Capital Commitment Plan for FY 2005 is now 9.4 billion dollars. This represents an increase of 3.75 billion dollars in all funds, or 66 percent.

By historical standards, this is an extraordinary increase. In the year leading up to the adoption of the Fiscal Year 2004 budget, for example, the amount of planned capital commitments decreased 11 percent. In the year before Fiscal Year 2003, planned capital spending fell by 6 percent. In addition, the current uncertain interest rate environment could affect the costs of issuing debt to fund these capital commitments.

The debt issued to support the City's Capital Commitment Plan will have a substantial impact on the operating budget in coming years. Debt service payments come directly out of the City's operating budget. In FY 2005 alone, the City will make 4.46 billion dollars in debt service payments, consuming 16 percent of local tax revenues.

I would like to note that these concerns are not related to the fundamental question of the importance of capital investment. I have consistently recommended against the City abandoning its commitment to investing in its infrastructure in fiscally difficult times, and my views on this issue have not changed. In crafting a capital plan, however, we must act prudently to ensure that the proposed capital plan is based on realistic projections.

Certainly, we must continue to invest in our school facilities. When I was serving as President of the Board of Education, I saw first-hand the need to develop additional facilities, and I gained a great understanding of how important proper facilities are to the educational process. I also gained experience of the challenges of meeting the tremendous needs of the school system with limited public funds.

So I am pleased that in the proposed budget, much of the increase in the Capital Commitment Plan is for the Department of Education, which will receive an additional 2.02 billion dollars.

However, in order to meet this commitment, the City is assuming that 1.3 billion dollars of that amount will come in the form of new funding from the State, beginning in Fiscal Year 2005. This would match the City capital contribution to the Department of Education. It is unclear if the State of New York will have the resources to support this proposed level of capital support. The State budget process is not yet resolved and thus it is difficult to estimate what New York State's capital support for education projects will be for New York City.

Providing high-quality educational services in clean, safe facilities is of critical importance. We must all work together to ensure that our schools receive adequate funding. This is a challenge that can be met only through a collaborative process, and with the cooperation of all levels of government.

Indeed, the spirit of cooperation should guide all of our efforts as we chart a course for the future of the city. I thank you for the opportunity to testify today, and I look forward to working with you as we move forward in the budget process.

Thank you.