



New York City Comptroller
John C. Liu

STATEMENT

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**TESTIMONY BY NEW YORK CITY
COMPTROLLER JOHN C. LIU ON THE MAYOR'S
FISCAL YEAR 2012 EXECUTIVE BUDGET**

NEW YORK, NY – New York City Comptroller John C. Liu today presented testimony before the New York City Council Finance Committee regarding Mayor Bloomberg’s Fiscal Year 2012 Executive Budget.

Comptroller Liu’s testimony as prepared for delivery is below:

Good afternoon Chairman Recchia and members of the Finance Committee, and thank you for allowing me the opportunity to present testimony on the Mayor’s Fiscal Year 2012 Executive Budget.

The Mayor’s FY 2012 Executive Budget totals \$65.7 billion after various prepayments. The FY 2012 budget is the product of a series of actions which closed a \$3.26 billion gap in the July 2010 Financial Plan stemming from a structural imbalance where expenditures exceeded revenues. The gap was further exacerbated by State actions that took place during the year.

While it is estimated that FY 2011 will end with a \$3.217 billion surplus, when compared with the \$3.646 billion surplus similarly transferred from FY 2010 to FY 2011, it becomes clear that in the current year, the City is drawing on more resources than it is generating. However, if past history is any indication we can anticipate that the year may end with a budgetary surplus.

Overall spending in the FY 2012 budget has decreased by 0.4 percent when compared to the FY 2011 budget. But these numbers mask the fact that while overall expenditures have been held flat, the City-funded portion of the budget has increased from 67.1 percent of the FY 2011 budget to 70.7 percent of the FY 2012 budget. The City-funded portion of the budget is \$2.2 billion greater than the FY 2011 budget and \$2.1 billion more than was planned a year ago. The Financial Plan assumes that by FY 2015 the City-funded portion of the budget will exceed 74.5 percent. This trend is a direct result of a reduction in State and Federal aid to New York City.

As we hear talk of layoffs and cutbacks it is critically important for the City to identify as many areas of savings as possible.

You are well aware of the outcome of my office’s work on the CityTime issue. As a result of our steadfast oversight, the project is now nearing completion without any additional cost to the

taxpayers. While that may be good news, it does not make up for the fact that the costs ballooned from \$68 million to more than \$700 million. My office will continue to work closely with the investigative authorities on this issue in hopes of possibly recouping some of the money that has been allegedly funneled to subcontractors on the project.

In addition, it was a welcome sign that the Department of Education has decided to cancel a \$43 million contract with another high priced consultant, Future Technology Associates, who have been suspected of utilizing subcontractors to overbill the City. My office has been conducting an audit into the vendor for quite some time and will continue to do so in order fully disclose what really went on.

While we are discussing the DOE, I would like to point out that a review of OMB documents within the past week has found that after years of looking the other direction, the Department of Education has decided to finally seek additional Medicaid reimbursement funding from the State for occupational and physical therapy and speech and language services. The Executive Budget assumes an additional \$100 million in revenue as a result of increased Medicaid reimbursements on top of the previous estimate of \$17 million presented in the Preliminary Budget.

My office has been working with the City's Office of Management and Budget and the UFT to identify the actual value of funds eligible for the City. While the current estimate of \$117 million is enough to significantly impact the cuts proposed to the classroom, we believe this to be a cautious estimate. The City may be eligible for greater reimbursements, which would free up funds for use elsewhere.

The \$100 million in additional reserves have been allocated to cover various other expenses in the DOE budget, such as \$48 million for general education non-personal service and \$26 million for charter schools. These dollars and any additional Medicaid funds realized during Fiscal Year 2012 should be used to help offset the proposed teacher layoffs, which have a more direct negative effect on classroom services.

In the Executive Budget, the Mayor has allocated nearly \$1 billion towards funding anticipated changes in the actuarial assumptions and methods used in computing pension contributions. The City actuary is currently reviewing an independent audit of the rate change and will offer his recommendations to the pension boards. While it is expected that the actuary will recommend a change in the assumed rate of return of the City's pension funds, there is more uncertainty about what other modifications would be proposed. As such, the eventual cost of the any recommendations is unknown at this point. It is also uncertain as to when the recommendations and the eventual changes would take effect.

Another potential area of savings is through the City's settlement of claims. My office is responsible for authorizing monetary amounts of settlement where we feel the City may have been at fault for personal injury or property damage. The City has indicated that they expect a rise in the cost of settlements to occur. However, my office anticipates that based upon historical data, the City is overestimating this total by at least \$50 million.

As always, my office will seek the most fair and equitable results in our claims settlement process and continue to act in the best interest of the taxpayer when doing so.

We have also identified some risks to the Mayor's plan. Most significant is the assumption that contract discussions with the UFT and CSA will not result in any additional cost to the City. These are placed as risk because the Mayor has not budgeted for raises consistent with those of other municipal unions, and has instead relied on a labor strategy that uses productivity initiatives to offset cost.

Another risk to the Mayor's plan is his underestimation of overtime. In fact, my office has estimated that the overtime costs will be upwards of \$195 million more than the Mayor anticipates.

As we gradually move out of this recession, it is important to note that the City is continuing on a steady but slow path to recovery. Despite mostly positive indicators for the City's short-term economic condition there exist the possibility of negative externalities that could hinder the current expansion. Factors outside of the City's control such as rising energy prices, the continued depression of the construction industry specifically within the residential construction sector, and the potential European debt crisis can be expected to produce additional drag on the US and local economies.

One area that has shown strength is our City's pension systems. After posting returns of 14 percent last Fiscal Year, the most recent data show that the funds are up more than 20 percent in the current year. These gains will help offset future payment towards the pension systems.

My office released a study last week, the first of its kind, which revealed the past decade of fluctuation in the markets will cause pension costs to rise in the short term. However, due largely to already enacted benefit reforms that took place between 1995 and 2009 the long term costs to the City will steadily decline. These projections are sound and have been verified by independent professional actuaries.

The study shows that over the next 30 years City pension costs as a percentage of the City's budget will decline from 11.4 percent in FY 2016 to 5.1 percent FY 2040.

I hope I was able to be helpful today in presenting an accurate look at the City budget, as well as provide some areas worth exploring during phase of the budget process. As always my office is available to assist you in any way necessary.

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