THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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TESTIMONY OF NYC COMPTROLLER SCOTT M. STRINGER
BEFORE THE CITY COUNCIL FINANCE COMMITTEE
OVERSIGHT HEARING ON
THE MAYOR'S FY 2015 PRELIMINARY BUDGET

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Thank you Chairperson Ferreras and members of the Finance Committee, I welcome the chance to address all of you today about the preliminary budget. Joining me here are my Deputy Comptroller for Budget Tim Mulligan, and my Director for City Legislative Affairs Nivardo Lopez. I am here to present my analysis of the Preliminary FY 2015 Budget and the Financial Plan for FY 2015-2018. My comments will focus on new revenue and expense projections from my office, as well as ongoing challenges to our budget. Before I discuss the City's finances I want to take a few moments to talk about the City's economy.

Nearly five years since the end of the recession, our economy continues its recovery, although more slowly than we would like. In 2013, the City added over 96,000 private sector jobs, the most in any calendar year since 1999. We have gained back the number of jobs lost in the recession and then some, adding nearly 5 percent more. Private sector jobs have grown fastest, by over 6 percent from the pre-recession peak. And the city has seen job creation across many sectors of the economy, including: professional and business services, up nearly 5%, leisure and hospitality, up over 20%, and Education and Health Services, up over 16%.

As a result of this growth, the city's unemployment rate recently began to improve, ending 2013 one percent lower than at the same point the year before. But this news has been tempered by the fact that not all aspects of the economy have reclaimed their pre-recession momentum. For the fifth straight year, the wages of New York City workers have not kept pace with the cost of living that is one of the highest in the country. In fact, working families in the city have seen their incomes grow more slowly than the rest of the nation. Wages in the City were growing as fast as 8 percent in 2008, but since the recession that pace has slowed to 2 percent every year.

This divergence between stagnant wages and rising costs of living is one reason why I have proposed allowing the city to set its own minimum wage. No one who works a full week should have to live in poverty or live precariously paycheck to paycheck, but that's the reality for too many New Yorkers. Many other cities have a higher minimum wage than New York City and several have enacted their own municipal minimum wages, helping millions of working families in the process. While many in our City continue to suffer from the long tail of the Great Recession, our economic recovery has strengthened the City's budgetary outlook.

The Financial Plan released in November 2013 was the first time in memory in which the next

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year's budget was balanced prior to the Preliminary Budget. Over $400 million of the cuts that usually make up the springtime budget dance were restored in advance. The February Financial Plan increases the FY 2014 budget to $73.82 billion, and the FY 2015 budget to 73.71 billion. The plan recognized an additional $1.5 billion in tax revenue, the result of the modest economic recovery I spoke of earlier.

These additional resources coupled with savings, particularly $364 million in reduced debt service costs, enabled the City to launch some important new policy initiatives like: Municipal ID, relieving NYCHA of the burden of paying for its own police protection and the cap on rental costs for people living with HIV/AIDS. In addition, this new revenue allowed the City to add $300 million to its General Reserve, and $1 billion to the Retiree Health Benefit Trust – moves that I believe were prudent.

Looking at the entire Financial Plan period from FY 2014 to FY 2018, annual budgetary growth is only 2.1 percent. The FY 2015 Budget has grown by $970 million since the November Plan. $530 million of the increase in the FY 2015 Budget is supported by Mayor de Blasio's plan to implement a Personal Income Tax (PIT) surcharge on high-income earners to pay for expansions of the City's pre-Kindergarten and after-school programs for middle schoolers. I support the PIT surcharge. Let's be clear: It is Albany's responsibility to ensure a stable, consistent revenue stream for pre-K. And if the State is unwilling to allow the City to implement a PIT surcharge, Albany must identify an alternative source of funding that is reliable.

Certain other areas of the budget are driving this growth -- for instance, costs related to debt service and health insurance are both growing by 8 percent or more. Yet the single largest portion of the budget – salaries and wages – is planned to grow at only 1 percent per year for the Financial Plan period. The reason for this is lack of funding for collective bargaining.

All told, the February Financial Plan presents a City Budget that has relatively small out-year gaps. I expect tax revenues to be slightly higher than City Hall's forecast in each of the fiscal years of the financial plan, driven primarily by additional strength in the property tax. We project primarily additional tax revenues of $860 million in FY 2014 and FY 2015.

At the same time, I foresee some additional risks as well. We estimate that uniformed overtime spending in the NYPD and Department of Corrections will exceed the budgeted amount by $128 million in FY 2014 and $122 million in FY 2015. Also, lower than estimated Medicaid reimbursements in the DOE could increase the risks to the Financial Plan by $30 million in FY 2014 and $110 million in FY 2015. While my projections of greater available revenues are undoubtedly good news, it is tempered by the ongoing uncertainty in the City's budget – the unsettled municipal union contracts.

As I said when the Preliminary Budget was first released, the Achilles heel of our City's budget is the insufficient funds to support the necessary collective bargaining agreements for all of the City's municipal labor unions. Currently all of the City's bargaining units are working under expired contracts. The cost of settling these contracts is a significant outstanding risk to the City's budget.

As I have said, the administration should be commended for adding $300 million to the General Reserve, and $1 billion to the Retiree Health Benefit Trust. The only monies currently reserved explicitly for outstanding labor contracts are the few hundred million that were allocated by the prior administration to support a 1.25 percent increase.

For the city to maintain its strong fiscal tradition, it is critical that there be resolution of the contracts, or a template for resolution, that includes clarity as to the extent of the retroactive pay obligations by June 30th. Without some framework for contract settlements in place prior to the end of the current fiscal year, the City will be forced to adopt an FY 2015 budget without knowing the full extent of its expenses. Our solid reputation of 35 years of on-time balanced budgets demands more of us.

While there is no single solution to our budget challenges, there are many potential sources of revenue and savings that should be considered. The State needs to restore revenue sharing. New York City is the only city in the State that does not receive this funding and we have lost nearly $1 billion over the last three years. The City needs to collect the school aid due to it under the Campaign for Fiscal Equity decision. The Department of Education (DOE) needs to do a better job of securing federal Medicaid funds for special education services. Every year, the DOE leaves hundreds of millions of dollars on the table. The state and Federal Government need to ensure that New York City receives its fair share of the $8 billion federal Medicaid waiver.

Revenue from Albany and Washington is critical, but City itself has to be willing to identify agency efficiencies that don't reduce service or hurt vulnerable populations as well. This could include: creating saving through productivity and benefit reforms, including health care costs; reforming tax incentive programs to focus only on those programs that are successful rather than needlessly subsidizing activities at the taxpayer expense; and realizing savings from ending the budget dance and member item reform.

I look forward to working collaboratively with the City Council to address these and other fiscal challenges. Our office will do its part to generate additional savings in FY 2015 debt service through aggressive refinancing, and to help the administration identify resources from prior year payable that are no longer needed.

Thank you very much for the opportunity to testify. I am happy to answer any questions you may have.