THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

TESTIMONY OF NEW YORK CITY COMPTROLLER
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COMMENTS ON NEW YORK CITY'S FY 2017
PRELIMINARY BUDGET BEFORE MEMBERS OF THE
NEW YORK CITY COUNCIL FINANCE COMMITTEE

March 1, 2016

Thank you, Chair Ferreras and members of the Finance Committee. I welcome the opportunity to address you today with the Comptroller's analysis of the City's FY 17 Preliminary Budget.

Joining me is my Deputy Comptroller for Budget, Tim Mulligan.

My testimony today will focus on:

-- The state of the City's economy
-- The Preliminary Budget
-- Homeless services spending
-- Risks and offsets to the City budget
-- The City's fiscal cushion

First, let's discuss the state of our economy.

New York City has benefited from six straight years of slow but steady economic recovery, finishing 2015 with 3.4 percent growth. Our economy is growing at a slower rate than in previous expansion periods, but we have added more than 525,000 private-sector jobs since 2009. Those payrolls now exceed the City's previous peak by more than 13 percent. Across the five boroughs, unemployment rates are the lowest they've been since before the recession.

More New Yorkers are employed today than ever before, but not everyone is feeling our economic growth in their wallets. During the current expansion, only 23 percent of new jobs have been in high-wage industries, while 57 percent have been in low-wage industries.

And wage rates have not kept pace with inflation for our lowest-paid workers. From 2009 to 2014, real wages in lower-paying industries, which average $41,000 per year, fell 3.2 percent. For these New Yorkers, the city is becoming less and less affordable.

This is why we need to increase the minimum wage to $15/hour. So we can ensure every New Yorker has a fair chance to make it in this City.

On a broader scale, risks to the U.S. economy have grown in recent months, due primarily to the economic turmoil in China and the strong dollar. Yet my office still anticipates that 2016 will mark the seventh year of the current expansion. As always, we will closely monitor factors impacting the City's economic outlook.

A significant change in our economic trajectory would have an impact on City tax collections, because the City's financial plan assumes continued, modest economic growth. Over the financial plan period, the City projects that total tax revenues will grow by 3.9 percent per year to $62.1 billion in FY 2020.

So far in this fiscal year, the City has recognized $1.1 billion in additional tax revenue since the budget was adopted last June, largely from the personal income tax and real-estate-related taxes.

These additional revenues helped fund a large increase in expenditures from new needs and the welcome cost of our retirees living longer. I commend the City for supporting the Actuary's improved mortality assumptions, and the need for greater transparency.

Turning to the expenditure side of the FY 2017 budget, I want to first commend the Mayor for proposing new funding for several key initiatives, including a $15/hour wage for all city employees and social service contract workers, better preparing our students for college, expanding access to mental health services, and funding 15,000 units of supportive housing. These are all critical priorities.

Now let me give you an overview of expenditure trends in the Financial Plan.

After adjusting for reserves, prepayments, and other prior-year actions, expenditures are projected to grow steadily from $83.1 billion in FY 2016 to $91.5 billion in FY 2020, averaging growth of 2.4 percent per year.

Debt service and health insurance are projected to grow the fastest, at 8 percent and 7 percent per year, respectively. However, actual growth may be lower if interest rates and health care insurance premiums are lower than projected.

Slower growing expenditures include Medicaid, Public Assistance and, to a lesser extent, pensions. Strong market returns in the past few years have helped reduce projected growth in pensions to 2 percent annually.

But if the current turmoil in the financial markets continues, this pattern could change. The City's projections assume the markets will return the assumed actuarial interest rate of 7 percent, meaning weaker returns would require higher contributions. Our investment returns have only exceeded 7 percent twice in the last four years.

Now I want to turn to a recent analysis from my office on homeless services spending. The budget of the Department of Homeless Services indicates that the City is projected to spend $1.3 billion this fiscal year. But that's not the whole story. Two other agencies, the Human Resources Administration and the Department of Youth and Community Development, also play key roles in serving our homeless population.

Adding up homeless services spending at all three agencies, the City will spend $1.7 billion on shelter operations and homelessness programs this year. Remarkably, this figure has grown 46 percent in the past two years. Much of that increase comes from 216 percent growth in spending on prevention, diversion, anti-eviction, and aftercare payments.

We need to cover the necessary costs to address our homelessness crisis, but we have to track the results of that spending. For $1.7 billion each year, our shelter system should not be rife with violations and substandard living conditions. We need to ensure that every dollar is used efficiently and effectively, to serve the 58,000 men, women, and children who sleep in our shelters every night, because every New Yorker deserves a safe and clean place to call home.

Now, I'd like to discuss our assessment of the City's revenue and spending assumptions.

For the first time, my office is showing out-year budget gaps that are larger than the Administration projects. While we see additional tax revenues throughout the plan, they are most substantial in the first few years.

In FY 2016, my office projects $456 million in additional tax revenues from higher growth in the personal income tax, business taxes, real-estate-related taxes, and sales tax revenues. In FY 2017, our higher forecast is driven by projected 1.5 percent growth in the personal income tax, compared to the City's assumption of flat growth. Throughout the financial plan, we believe property taxes and sales taxes will be moderately higher than the City forecasts but business taxes and real-estate-related taxes in FY 2018 through FY 2020 will be less than the City's expects.

We believe the City is unlikely to realize the taxi medallion sales assumed in the financial plan. Given the disruption in the yellow taxi industry from for-hire car services companies, these sales – worth a total of $731 million – are unlikely to occur over the period of the plan.

Our largest identified risk is NYC Health + Hospitals. The City's public hospital system is required to reimburse the City for debt service, medical malpractice claims, and fringe benefits costs incurred on the system's behalf. But NYC Health + Hospitals has only made the full payment once in the last four years.

My office has also identified risks from overtime, Federal Medicaid reimbursement for special education services, Universal Pre-Kindergarten, Public Assistance, and adult homeless shelters.

Together, our revenue and expense re-estimates result in nearly $600 million in additional resources for FY 2016. But we are projecting larger gaps than the Administration in the remaining years of the plan, starting with a gap of $200 million in FY 2017, $2.7 billion in FY 2018, and $3.8 billion in both FY 2019 and FY 2020.

And these gaps could grow, depending on what happens in Albany. When I presented my testimony on the State budget, it was clear that many upstate legislators just don't get it. They think New York City is a piggy bank. But let me set the record straight – the City is facing real budgetary challenges and, as we know from recent history, our economic path can turn quickly. Right now, we simply cannot afford major cost shifts from the State to the City.

Our growing out-year budget gaps reinforce the need for prudent fiscal management. I want to discuss two important strategies that can readily prepare us for a potential downturn.

First, I am pleased the Mayor included a plan to make our City agencies more efficient. The total savings from the Citywide Savings Program in the January Financial Plan is $1.85 billion over five years, and relies heavily on debt service savings. Agency efficiencies make up only 30 percent of total savings in the first two years of the plan.

Every agency should strive to identify savings, but those savings can be tailored to each agency's unique circumstances, so they do not affect vital services or vulnerable populations.

We know that an economic downturn can quickly eliminate billions of dollars in anticipated tax revenues, and simultaneously increase demand for city services. A more robust savings program is one way to build up our reserves, and reduce the likelihood of cuts to city services when people need them most.

In August, my office developed a new measure to quantify the City's fiscal cushion, and our ability to weather an economic downturn. Based on historical experience and guidance from the rating agencies, we determined that the optimal range for our budgetary cushion is 12 to 18 percent of adjusted expenditures. At the start of FY 2016, our cushion was 10.6 percent of expenditures, putting us over $1 billion below the minimum and over $6 billion below the top of the optimal range. I hope and anticipate that by the end of the year, the City will be able to increase the cushion.

In conclusion, our economy continues to grow, but persistent wage stagnation has limited the benefits for our lowest-paid workers. While wages grow slowly, rents continue to skyrocket, making it harder and harder for working families to stay afloat. And given the uncertainty of the economy, large out-year budget gaps are now a greater cause for concern.

But we cannot stop investing in our City. We have to meet the needs of New Yorkers while also ensuring we are ready for a rainy day. By taking actions now to identify efficiencies, budget savings will compound over time, and we can prevent cuts to vital services if another crisis hits.

I'm happy to answer your questions.

Thank you very much.