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

May 24, 2016

Thank you, Chair Ferreras and members of the Finance Committee. Joining me is my Deputy Comptroller for Budget, Tim Mulligan.

Today my office is releasing an analysis of the City's FY 17 Executive Budget. I welcome the opportunity to share our findings.

The Mayor has proposed an $82.2 billion budget for FY 2017. Adjusting for the roll of prior-year resources and reserves, the FY 2017 budget totals $84.1 billion, or 2 percent larger than FY 2016. The city-funded portion of the budget would grow 3.6 percent.

Clearly the continued economic recovery has greatly benefited New York City, but we all know our ability to expand the budget and improve vital services depends on continued growth. While there is no indication of a near-term recession, there are some signs of a potential slowdown. Profits on Wall Street are down, and both venture capital investment and commercial real estate leasing activity showed weakness in the first quarter.

Strong job growth continues to be a defining characteristic of the city's recovery. However, while the city saw record job creation in the first quarter of this year, nearly half of those new jobs were in low-wage sectors, such as retail and food service. These jobs do not pay enough for most New Yorkers to move up to the middle class.

For too many people living or working here, a recovering economy has not provided a larger paycheck or tangible improvements to daily life. Average weekly earnings of private-sector employees have increased at an unacceptably low 1.0 percent annual rate since the recession, failing to keep pace with the cost of living. The impact has been most severe for young people who were just beginning their working lives when the recession hit. My office recently found the city's millennials, age 19 to 31, are earning about 20 percent less in real terms than the prior generation.

The City's tax revenue growth is also slowing. At this point last year, estimated tax revenues were $2.4 billion ahead of adopted budget projections; now we're up only $1.5 billion.

As long as wage stagnation and the dominance of low-wage jobs continues, economic expansion is likely to be muted, making the city economy more vulnerable to external shocks.

Both the Administration and my office similarly assume continued moderate growth in the economy. Overall, my office sees modestly higher revenue collections. We project higher collections for property taxes, personal income taxes, and sales taxes but lower business and real-estate-related tax collections than forecasted in the Executive Budget.

Turning to the spending side of the budget, I am pleased to see a number of targeted new initiatives. Particularly, funds were included to expand physical education in elementary schools that lack legally mandated programs, a problem highlighted by my office last year. Additional new spending would boost career and technical education programs, implement a promising new summer school curriculum, and improve NYCHA senior centers.

To offset new costs and build reserves for the future, my office, the City Council, and other monitors have encouraged the Administration to identify efficiencies in city agencies. The Preliminary Budget included a Citywide Savings Plan, and now the Executive Budget proposes additional measures. However, the current plan is too dependent on savings that would have occurred regardless. These items include re-estimates, debt service savings from low interest rates, and spending and hiring delays. Over the next two years, only 25 percent of the savings in the plan would come from agency actions, and even less from true efficiencies and productivity.

I am pleased to report the Administration partially addressed some risks identified by my office in March, including adult homeless shelter operating costs and support for Health + Hospitals. Nonetheless, my office found remaining risks, plus new risks, would result in city spending that exceeds current assumptions by about $900 million in FY 2020.

My office has also identified a revenue risk from the future sale of taxi medallions. Until there is further clarity on the taxi medallion market, all of these prospective revenues remain uncertain. In total, my office projects budget gaps would grow to $3.8 billion in FY 2019.

In February I reported that combined citywide spending on homelessness among three city agencies was projected to be $1.7 billion this year. Since then, the Administration has proposed additional city support for shelters, including much needed security. By FY 2017, the cost of homeless services is now projected to reach $1.9 billion, an increase of 61 percent in three years. Because a significant portion of the new funding does not extend to future years, my office estimates that the City will need an additional $130 million annually to maintain shelter operations, even if the census stabilizes.

The City is engaged in a concerted effort to restructure and improve homeless services. I support these efforts, but for $1.9 billion a year we need to start seeing results soon. This past month, an average of 35,000 adults and 23,000 children slept in our shelters each night, despite the deplorable living conditions at many shelters. And just last week, the number of families living in shelters reached a record of nearly 14,700. We have to bring that number down immediately, and ensure that each of those families has a fair shot to get back on their feet.

In March I reported the largest risk to the Preliminary Budget was the financial condition of NYC Health + Hospitals. The Administration has pledged an additional $497 million in cash and other assistance over the course of the current year, plus $735 million in additional assistance over the next four years. Yet, despite the unprecedented level of assistance and the release of a broad turnaround plan, substantial risks remain. The current strategy for restoring H+H to financial health relies heavily on securing additional state and federal revenue, increasing patient market share, and implementing efficiencies, all of which have historically proved challenging. For this reason, my office forecasts additional risks to the City of $365 million in FY 2017, and anticipates needing greater resources in future years to support the essential services of the public hospital system. We must all work together to urge the federal government to rescind scheduled cuts for 2018 that will further undermine the public hospital safety net.

Controlling overtime also continues to be a challenge. In the last decade, overtime has grown at an average rate of 6.5 percent per year, more than revenues and the budget as a whole. In the current year the City is on track to exceed budgeted overtime expenses by at least $96 million, despite significant increases in the uniformed headcount. Last year's adopted budget agreement included a plan to hire 1,300 more police officers but cap overtime to partially offset the new costs. With just over five weeks left in this fiscal year, the most recent data shows the number of uniformed police has increased by more than 1,700 while overtime is on track to exceed the adopted target by $58 million. Based on current trends, annual overtime expenses will be $300 million higher than assumed by the Administration in FY 2017 and $250 million annually in the out-years.

The Executive Budget also includes a large increase in the five-year Capital Commitment Plan, now totaling $67 billion, or 17 percent higher than last year's equivalent.

With revenue collections slowing and signs of a potential economic slowdown, I remain concerned about our budget cushion. Last August, my office determined that the City's budget cushion must be 12 to 18 percent of adjusted expenditures, in order to stave off service cuts and layoffs in the event of a downturn. Because our budget has grown, we need to add more than $300 million to the cushion to simply hold our ground. So far, the Mayor has only committed to adding $250 million. Through the end of the fiscal year, we must do more.

Today I've given you a lot of numbers and data. But the city budget is about so much more. It's about giving every New Yorker a fair chance to make it here – from providing a quality education to all of our children, to ensuring that people in our shelter system have a decent place to sleep at night. This economic recovery has been robust, but it hasn't reached the wallets of every New Yorker. We must continue investing in our city while our tax revenues are growing, but also set aside resources so our most vulnerable residents are not at risk if the good times end.

Thank you for the opportunity to testify and to work together to craft a responsible budget for all New Yorkers. I'm happy to answer your questions.