New York City Comptroller
John C. Liu

NEWS RELEASE

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LIU FINANCIAL CONTROL BOARD TESTIMONY

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NEW YORK, N.Y. — City Comptroller John C. Liu today testified before the Financial Control Board on the FY 2014 Adopted Budget and the City's financial health. Following are his remarks:

Comptroller John C. Liu
Remarks Before the Financial Control Board
Tuesday, July 23, 2013
As prepared for delivery

First, let us extend our thanks to the members of the Financial Control Board, the public, and colleagues in government for the opportunity to report on the City's finances as they relate to our Fiscal Year 2014 budget.

We would also like to commend Governor Cuomo and Mayor Bloomberg for balancing this year's State and City budgets in a timely fashion. The smooth and efficient functioning of government provides certainty to the public and instills confidence in New York.

On a somber note, it is unfortunate that the city of Detroit has reached the complex and difficult point of filing for bankruptcy protection. Municipal bankruptcies are rare and usually reflect circumstances that are specific to the municipality. Economic, demographic, and financial factors over several decades brought Detroit to this point. No commonality exists between the circumstances of Detroit and New York City today.

In fact, New York City's population and economy are growing, we recently accomplished our 34th consecutive year of adopting a balanced budget, and we are in the bond market this week with a General Obligation sale that is going very well. New York City's credit ratings were just affirmed at "AA" and a Stable Outlook by Moody's, Standard and Poor's, and Fitch.

One statutory role of the Comptroller is to certify to this board that the City has market access for its bonds. This is self-evidently the case. And we have used that access to generate more than $885 million in budgetary savings for the City's taxpayers through bond sales in FY '13.

In Fiscal Year '13, we sold more than $12.8 billion in bonds, including $6.8 billion for capital projects and nearly $6 billion to refinance outstanding high-interest debt. Despite recent market volatility, investor demand for New York City paper remains deep, diversified, and strong.

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My office expects the national and local economies will continue to grow at a moderate pace, with major risks stemming mainly from Federal economic policy. However, we see several more downside risks on the horizon that could dampen expected economic growth.

The first of these risks is the recent spiking of long-term interest rates. Since May 22, when Federal Reserve Chairman Ben Bernanke raised the possibility of scaling down the Fed's monetary stimulus policy sooner than many expected and then tried to clarify the situation, the financial markets have been in a state of flux. Our expectation is that interest rates will hover around their current level for the rest of 2013.

In addition, the ongoing stalemate in Congress over the FY 2014 Federal Budget raises the possibility that this fall we will experience another disruptive showdown over the debt limit. While neither of these risks is concrete enough to warrant an immediate revision of our economic forecasts, they underscore the economy's vulnerability to further policy shocks.

The Comptroller's office does not think that the recent interest rate hikes are large enough to reverse the growth in residential and business investment we have seen over the last eight quarters. That expectation could change, however. The recent sensitivity of interest rates to real or perceived changes in monetary policy could make the unwinding of the Fed's stimulus programs less orderly.

An acrimonious standoff over the budget and debt ceiling risks a further tightening of fiscal policy, a drop in consumer and business confidence, a rise in market volatility, and real disruptions in federal operations or debt payments. Any of those outcomes could damage the economy's return to health.

The U.S. economy is expected to grow by only 1.9 percent in 2013, with growth constrained by the fiscal austerity measures Washington adopted. We expect that growth will pick up in 2014, led by a reviving housing sector, with the economy growing faster than at any time since 2007. We see no reason why the City's economy should not keep pace with the gradually improving national picture.

The City's Fiscal '14 Budget, adopted by the City Council on June 28, totals $69.92 billion, $2.61 billion less than the modified Fiscal '13 Budget. After netting out prepayments, planned Fiscal '14 expenditures total $73.6 billion, an increase of $1.4 billion from the adjusted FY '13 spending estimate.

The adjustment in spending comes from the prepayment of some FY '14 expenses with FY '13 revenue. The FY '14 expenditures were decreased primarily through the prepayment of $2.79 billion of debt service and library subsidies, along with the use of $1 billion of Retiree Health Benefits Trust funds to pay for a portion of FY '14 retiree health benefits.

The $1 billion funding for retiree health benefits represents the remainder of the funds set aside several years ago in the Retiree Health Benefit Trust Fund, the amount of which has now been used to plug the FY '14 deficit.

While the Fiscal '14 budget is balanced, potential risks remain. My office considers the absence of funding for the 2008-2010 round of collective bargaining for the United Federation of

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Teachers and the Council of School Supervisors and Administrators a nearly $3.5 billion risk to the Fiscal ’14 Budget.

Further, we believe that the administration has underestimated overtime expenses for the City by $161 million and overestimated Medicaid reimbursements to the Department of Education by $80 million in FY ’12 and $130 million in FY ’13.

In total, we believe that the Fiscal ’14 budget holds $3.7 billion in risks, which are partly offset by our tax-revenue forecast, which is $797 million higher than City Hall’s.

While we acknowledge the possibility of growing downside risk, current economic indicators lead us to believe that there will be more robust local economic growth, and thus higher revenues from real-estate, sales, and personal income taxes, than City Hall anticipates.

In closing, we would like to thank those in attendance for participating in this process. As ever, we will use the audit, contract-review, and bond-refinancing powers of the Comptroller’s office to protect the taxpayers of our great City. In times of economic stress, it is more important than ever to ensure that every penny of the taxpayers’ money is spent wisely.

Our comments on New York City’s Fiscal 2014 Adopted Budget are available here and on our website for review.

Background:

Report: Comptroller John C. Liu’s Comments on New York City’s Adopted Budget for FY 2014 and Financial Plan for FYs 2014-2017, July 23, 2013:
http://comptroller.nyc.gov/press/pdfs/July2013_FY2014Adopted.pdf

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