OFFICE OF THE NEW YORK CITY COMPTROLLER

TESTIMONY BY
JOHN C. LIU
NEW YORK CITY COMPTROLLER

REGARDING THE MAYOR'S PRELIMINARY BUDGET FOR FY 2012 AND THE FINANCIAL PLAN FOR FY 2011 – FY 2015

Before Members of the New York City Council Finance Committee

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Thank you Chairman Recchia and members of the City Council Finance Committee for providing me with the opportunity to present testimony on the Mayor's Preliminary Budget and Financial Plan for Fiscal Years 2011 to 2015.

Since the last time we spoke, the city has experienced stronger than expected job growth across a number of sectors and gradual expansion in what was just recently a moribund real estate market, both of which have strengthened the city's economic outlook. I expect that the steady growth of the local economy experienced in 2010 will continue well into 2011 and beyond.

Mayor Bloomberg has presented you with a $65.6 billion Preliminary Budget for FY 2012. The FY 2012 Preliminary Budget and the accompanying Five-Year Financial Plan for FYs 2011 to 2015 presents his strategy for closing a $3.74 billion budget gap in the coming fiscal year. The FY 2012 gap, which stood at $3.26 billion at adoption last July and $2.36 billion in the November 2010 Plan, has increased primarily due to State actions which reduced anticipated revenue by approximately $1.4 billion.

Unlike in previous years, the City did not have to resort to further reductions in agency funding and service provisions to eliminate the $3.74 billion budget gap. The current financial plan relies

primarily on increased tax revenue estimates and surplus rollovers that for the most part do not affect the level of service the City provides.
The current Financial Plan assumes a total of $560 million in debt service savings in FYs 2011 and 2012. This is in addition to the $364 million debt service savings for those two fiscal years realized in the November Modification. Our staff at the Bureau of Public Finance was instrumental in formulating the structure of new bond issuances that would enable the City to realize much of this savings. In FY 2010 alone, bond refunding issuance has provided over $300 million of debt service savings in the current fiscal year, while in FY 2011 that savings is close to $130 million.

While the Mayor's FY 2012 Preliminary Budget as presented is balanced, my office has identified risks that would create additional budget gaps in each year of the plan period. In the current fiscal year, risks to the plan after accounting for offsets, total nearly $1.2 billion. In FY 2012 these risks increase to $1.5 billion and I estimate the risks to the last three years of the financial plan range from $743 million to $1.0 billion.

While the Mayor's increased revenue forecasts for FYs 2011 and 2012 play a large role in the balancing of the FY 2012 budget, my review of the forecasts suggest that tax collections in FY 2011 could be lower than the Mayor is expecting, nearly $250 million less than the Mayor assumes. In addition, the exclusion of funding for wage increases for the current round of collective bargaining for the United Federation of Teachers and the Council of School Supervisors and Administrators coupled with underestimates of overtime costs pose risks of $978 million. In total I estimate the current risk to the FY 2011 budget stands at $1.2 billion. This risk would not put the FY 2011 budget in jeopardy of being unbalanced due to the estimated $3.15 billion year end surplus. However, it would decrease the funds which were to be rolled into FY 2012 and used to close that year's budget gap.

In FY 2012 I again see a potential risk of not including funding for a collective bargaining agreement with teachers and administrators in the Department of Education. In addition I project a net risk of $116 million from underestimates of overtime expenditures and decreases in judgments and claims against the city. The Mayor's FY 2012 budget proposal assumes $600 million in additional revenue resulting from state actions. I believe that it is prudent to assume that in light of the State's own fiscal crisis, these funds will not materialize in the current or future fiscal years. The City has already begun developing a contingency plan to prepare for any shortfall in the assumed State funding. Just last week all agencies were instructed to provide additional cuts or increased revenues in order to offset the loss of this $600 million. After accounting for a small increase in revenues over the Mayor's estimate, I determine that the FY 2012 budget includes nearly $1.5 billion in risks.

The City's accumulation of a financial reserve, built up during the period of unprecedented revenue growth in FYs 2005 through 2008, created a fiscal cushion for the inevitable economic downturn. While these funds have assisted in the balancing of the City's budgets through the recessionary period, they have masked the budget's structural imbalance. While FY 2011 is estimated to end with a $3.151 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. The City currently estimates that in the out-years of the Financial Plan expenditures will exceed revenues by approximately 7 percent annually. The City will not be able to assume that these large gaps can be plugged with surplus funds rolled from prior years. Without any unforeseen increase in revenues or reductions in expenditure growth, the City will likely need to make further cuts to services.

While the Mayor's Preliminary Budget does not include any new savings as a result of program to eliminate the gap (PEG) actions I would be remiss to not discuss some aspects of the PEG program put forth by the Mayor in November. In order to balance the FY 2012 budget, the City relies heavily on the accrued benefits of previous PEG programs totaling $585.4 million in FY 2011 and $1.01 billion in FY 2012. The FY 2012 Preliminary Budget does not include any new reductions to headcount but still incorporates the 8,264 headcount reduction included in the November Plan, including a headcount reduction of 5,398 pedagogical employees at the Department of Education (DOE). While the City has provided $853 million in additional funding to the DOE to mitigate the impact from the expiration of Federal ARRA funds at the end of FY 2011, these funds will not be adequate to prevent additional layoffs. As a result, the pedagogical headcount in FY 2012 will decrease by over 6,000 heads.

At a time when we are faced with the possibility of slashing essential City services to close budgetary gaps, agencies need to take a close look at their spending practices and tighten their belts. It seems that some agencies have yet to grasp this concept. However, you will be glad to hear, my office has proactively done so on their behalf.

Tne practice that has proven costly for the City is the way in which agencies structure their contracts. Each year hundreds of millions of dollars of taxpayer money are needlessly wasted as a consequence of how contracts are configured.

As you may have read, my office recently registered a $95 million contract to upgrade the City’s 911 system. The new contract represents a restructuring to the City’s original submission of $286 million that put in place new, more stringent, controls to monitor spending. The contract as it was originally submitted left the door open to possible runaway spending, but due to our insistence and in cooperation with City Hall, we were able to restructure the contract in a way that establishes milestones and provides closer oversight.

This is not the only example of my office working to enhance oversight of City spending on contracts. In fact over the past 14 months, we have returned or worked proactively with the City to restructure at least 16 contracts, lowering initial estimates by a total of $295 million. In addition, we have seen the City alter plans to save money, such as the proposed $100 million in savings associated with the scaling back of the Bronx 911 center. That is nearly $400 million in real dollars saved as a result of better fiscal planning.

We can use our purchasing power to better our City’s bottom line by doing more to open up the billions of contractual dollars we spend annually to Minority and Women Owned Businesses. My office held its first ever M/WBE conference in December to provide MWBEs the opportunity to meet with my senior staff, ask questions, and identify potential contractual opportunities within the Comptroller’s Office. As part of our ongoing MWBE dialogue, last week we held small informal meetings with MWBEs as a way to hear their feedback on the process of bidding, potential roadblocks, and how we as a city can better structure legislation to ensure all is being done to expand opportunities.

I look forward to presenting the Council with our findings and recommendations as they are compiled.

As you enter budget negotiations, it is important that the issue of public pensions be properly addressed. We can’t allow scapegoating of firefighters, police officers, and school teachers to serve as a substitute for the real facts.

Over the past decade, the City’s contribution to the New York City Pension Systems has significantly increased. Some argue that benefit enhancements are to blame for these increases. While those enhancements were certainly a factor they are only part of the story. In fact, low market returns over the past decade played a major role in these increases.

On a brighter note, I would like to point out that the Pension Funds are nearing their pre-2008 market crash high. The Funds generated returns of 14 percent last fiscal year and have posted preliminary returns of 16 percent for Fiscal Year 2011. We will continue to work with our Boards of Trustees to ensure the long-term health of the Pension Funds in order to protect our retirees and taxpayers.

I want to thank you for the opportunity to submit testimony today and encourage you to reach out to me and my staff to discuss these matters in greater detail at any time.