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

**TESTIMONY OF NYC COMPTROLLER SCOTT M. STRINGER
BEFORE THE CITY COUNCIL FINANCE COMMITTEE
OVERSIGHT HEARING ON
THE MAYOR'S MODIFIED FY 2015 EXECUTIVE BUDGET**

**JUNE 6, 2014**

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Thank you Chairperson Ferreras and members of the Finance Committee, I welcome the opportunity to address all of you today about the City's Modified FY15 Executive Budget. Joining me here are my Deputy Comptroller for Budget, Tim Mulligan, and my Director for City Legislative Affairs, Nivardo Lopez. My testimony will focus on the state of the local and national economies, highlights of the expense budget, including the labor agreements, my office's projections of revenues and expenses and the resulting out-year budget gaps.

First, let's talk about the City's economy and specifically job creation. New York's strong job recovery continues to be the best economic news for the City. Since the Great Recession, New York City's job creation has been much stronger than the nation's. New York City has more jobs than ever before—5.5 percent more than its previous high in August 2008. But while New York City's job numbers are the best news we have, it is not all blue skies and sunshine.

There are signs that the rate of New York City's job creation has leveled off and appears to be losing momentum. While in 2014 the number of new private sector jobs is on pace to increase by 65,000, this is a decrease from what was gained in each of the previous three years.

Another warning sign for our economy is the change in the composition of the jobs being created. We have seen both a decline in new jobs in high wage industries and an increase in the share of jobs in low wage industries. Although New York City added over 71,000 jobs in 2013, those jobs were disproportionately in low-wage industries such as Retail Trade, Accommodations and Food Service, and Health Care and Social Assistance. The proportion of new jobs added in low-wage industries rose from 51 percent in 2011 to 69 percent in 2013. During that same period, the proportion of high-wage jobs have declined by half.

This is a trend we need to reverse. That's why I think it is so important to continue talking about growing our emerging tech economy, which holds the promise of higher wage jobs, and to continue the discussion about how to raise the 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 and several have enacted their own municipal minimum wages, helping millions of working families in the process. By raising the minimum wage we can boost take-home pay

MUNICIPAL BUILDING • 1 CENTRE STREET, 5TH Floor • NEW YORK, NY 10007
PHONE: (212) 669-3500 • @SCOTTMSTRINGER
WWW.COMPTROLLER.NYC.GOV

for thousands of New Yorkers and give a lift to our economy.

Another potential boost to stagnating incomes would come if Albany finally passed and the Governor signed into law the New York DREAM Act. Current law bars undocumented youths from securing federal or state financial aid for college, yet the need for a college-educated workforce has never been greater. The U.S. Department of Labor estimates that 90 percent of the fastest-growing jobs in today's economy will require some post-secondary education. These jobs promise to provide true, middle-class wages. We should be embracing the entrepreneurial spirit of our young people by allowing them to secure financial aid to support higher education.

Turning our attention back to the national economy, over the past 15 years we have seen a prolonged period of slow economic growth, which economists describe as "Secular Stagnation." This slowdown raises a serious question as to whether the potential of the US economy has fundamentally changed. As a result, our forecasts recognize that the growth rates achieved in the past may no longer be attainable. While my tax revenue projections are higher than the Mayor's projections for 2015 and beyond, those projections recognize that we still expect tax revenues to grow more slowly than they have historically.

These are some of the factors that we consider as we monitor the city's budget and seek support for necessary initiatives. Let's talk about some of those initiatives for a few minutes.

The Budget contains several important programs to help improve the lives of the neediest in our City. In April, my office released a report on arts education in city schools, detailing how many students lack certified arts teachers and cultural partnerships, particularly those who attend school in our poorest neighborhoods. A zip code should not determine whether a child can access an art, music, dance or theater class in school, but this is exactly what is happening to students in lower-income neighborhoods, the cultural capital of the world. Indeed, 42 percent of the schools that have no certified arts teachers, 47 percent of the schools that have neither a certified arts teacher nor a partnership with an art or cultural organization, and 34 percent of the schools with no dedicated arts rooms are located in the South Bronx and Central Brooklyn.

I commend the Mayor for committing $23 million for arts education in his Executive budget to ensure compliance with state mandates regarding arts education. I believe this funding must be used to ensure every city public school student has access to meaningful arts instruction during the school day while also supporting schools' ability to build rich, sustainable arts education programming. This begins with putting a certified arts teacher in every school that currently lacks one, starting with schools that are not currently meeting the New York State Education Law requirement that students in grades 7-12 receive instruction in core arts subjects (art, music, dance and theater) from a certified arts teacher.

In addition to boosting support for arts education, the budget spends $48 million to modernize the way New York City interacts with its residents by bringing processes such as benefit applications online. There are few challenges more daunting than the City's crisis in affordable housing. To that end the Financial Plan also budgets $80 million over the next four years for a working families' rental assistance program designed to help prevent people from going into shelters and to get them out of shelters more quickly.

Now, if you'll remember from our discussion in February, I said we would not know the full picture of the City's budget until an assumed pattern was established for all of the expired labor contracts. The Mayor deserves credit for reaching an agreement with the United Federation of Teachers. This week, UFT members ratified that agreement by an overwhelming majority, so today we will explain how much this assumed pattern for the municipal workforce will cost the City. Let me just say up front--the Administration has made the assumption that all of the contracts with the City's 152 municipal labor unions, including those in the covered agencies like NYCHA and HHC, will follow the economic pattern of the UFT settlement. Our budget analysis is predicated on a similar assumption.

Our estimate places the gross cost of the contract pattern at $19.6 billion. Our number includes wages and salaries for unions whose seven-year contract extends beyond FY18. Additionally, we are including some pension costs for the final two years of the new pattern. Back in February, I said that health care savings would be critical to keeping these contracts affordable and the agreement includes aggressive goals for healthcare savings. The Administration has structured these targets as contractually-enforceable and is confident they will be met or exceeded. With the health care savings and the money that was already put aside in the budget in the labor reserve, the actual budget impact of the labor agreements is $7.3 billion through FY21. I said after the Preliminary Budget that the contract resolution needed to be both fair to workers and affordable to taxpayers. If the projected savings are achieved, it will meet that standard.

The Modified FY15 Executive Budget contains no gaps in the current fiscal year or the upcoming fiscal year. The budget is balanced, as mandated by the City Charter. The gaps begin in FY16. The budget projects gaps of $2.6 billion in FY16, $1.9 billion in FY17 and $3.1 billion in FY18. Our restated revenues show a stronger tax revenue forecast based on our more optimistic outlook for the City's economy.

Now, let's take a look at our analysis of the Modified FY15 Executive Budget expenses. Our projections take into account additional costs of uniform overtime, $109 million above the amount in the FY 2015 budget. We also expensed the failure of Department of Education to collect their federal Medicaid target, which may cost $40 million in FY15. We expensed an additional $10 million that the State will now charge the City for administering its public assistance fair hearings, a change in the State budget. Lastly, OMB's assumed interest rate is much higher than our estimates. $70 million of realized debt service savings have not yet been reflected in the budget. In addition, we anticipate that the City will not need seasonal borrowing in FY15 which will save an additional $75 million.

When we adjust for the expense risks and revenue offsets identified in the Comptroller's budget report, our budget gaps are smaller than that of the Financial Plan. While FY 2016 remains a challenge with a $1.7 billion gap, the gaps are reduced to less than a billion dollars in Fiscal Years 2017 and 2018 - certainly historically manageable numbers.

As I mentioned earlier, the passage of the DREAM Act and raising the minimum wage are important for the well being of the City's workforce and its overall economic future. However, with only two weeks left in the current session in Albany, there are other items that demand immediate action from lawmakers. I urge the City to claim its share of the $8 billion federal

Medicaid waiver. The state got the waiver but the City has not been assured a specific share.

In sum, I cannot stress enough that maintaining our fiscal strength depends on sound fiscal management, including achieving those healthcare savings targets. I think our out-year gaps are manageable. The City must use the flexibility that the structure of the labor agreement provides in the short term to build back up a cushion--in case the economy stalls or falls back into recession down the line. But I have no doubt that we are up to the task, and that working with the Mayor and the City Council, we will once again pass a balanced budget before June 30th.