Testimony

New York City Comptroller
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TESTIMONY OF NEW YORK CITY COMPTROLLER SCOTT M. STRINGER COMMENTS ON NEW YORK CITY'S FY 2016 PRELIMINARY BUDGET BEFORE MEMBERS OF THE NEW YORK CITY COUNCIL FINANCE COMMITTEE

Good afternoon, Chairperson Ferreras and members of the Committee. It's a pleasure to be here and discuss our analysis of New York City's FY 2016 Preliminary Budget.

Joining me here today is Tim Mulligan, Deputy Comptroller for Budget.

We're meeting at a time of relative prosperity in New York City. Our recovery from the Great Recession continues. Revenue collections have been outpacing projections — and our budget growth is appropriately moderate and controlled.

But we cannot waste this moment of opportunity with complacency. We've got to double down and manage our finances effectively – so we can maximize our resources to solve problems and invest in the future.

I'll begin by talking about the City's Capital Budget and the new 10-year Capital Strategy. The Mayor's new Strategy projects that we'll spend $67.7 billion on capital initiatives through FY25. That's a 26% increase since the last ten-year strategy two years ago. And I applaud the Administration's commitment to investing in infrastructure. But it's important to look at the reality of what actually happens with capital spending and our planned capital commitments.

This is an analysis that has been all but impossible in the past, due to limitations in the data. This year, we decided it was a problem that had to be faced.

Last week, my office released a report comparing the capital commitments that were scheduled to happen with the contracts that actually got executed.

We did this at a level of detail that's never been available before. The report analyzes more than $14 billion in planned commitments—some 1,600 budget lines across 25 agencies.

Our findings were very revealing:

Since FY05, the city has achieved an average of 60% of its planned commitments. But in FY14, only 52 percent of capital commitments were achieved – or actually contracted by the city. That was the second lowest rate in the last ten years.

Bottom line is that capital commitments are only as good as your ability to complete them.
Now let's look at the FY 16 Preliminary Budget. I want to commend the mayor for funding several important programs that include:

• $16 million for rental assistance for the homeless
• $11 million to FDNY to cut EMS response times
• $10 million to NYPD to increase police cadet headcount, and
• $4.2 million to the Department for updated bulletproof vests – to name a few.

Let me give you an overview of the proposed Budget and Financial Plan:

The fastest and largest growing budget categories – like salaries, debt service and employee health insurance – are projected to grow by an average 4.7% a year. The large budget categories that are growing at a slower rate include Medicaid, public assistance and non-personal service costs of city agencies.

What's surprising is that pensions are also in this category. As of now, the current stability in our pension contributions has helped us afford our increased salary costs.

That's because the average yearly salary growth from FY15 to FY19 is 3.6% – while the growth in pension contributions has flattened out to almost zero.

That's a big change. From FY09 to FY13, average yearly pension growth was 6.5%. The change to that trajectory is effectively paying for more than half of the increased salary costs.

This is good news. But there's no guarantee it will continue. A lot depends on the market, and if pension contributions rise more dramatically, there will be pressure on the budget.

So we must be prepared. At the very least, we've got to create a citywide efficiency savings program.

In the aftermath of the 1970's fiscal crisis, the City regularly implemented efficiencies from agencies through PEG programs. These efficiencies add up. The City saved more than $6.5 billion in FY14 alone from PEGs implemented between 2008 and 2013.

In November, City agencies were asked for savings proposals. They are now expected in the Executive Budget this spring.

If an agency efficiency program equivalent to those in the past is implemented, the City would save $1 billion in FY16 alone. And if that program were continued together with new savings initiatives each year, by the end of this plan – FY19 – the cumulative impact would be $10 billion!

Now I want to talk about another area where we're leaving money on the table.

There's no question that, on average, the growth in our state and federal revenue has not kept pace with the growth in our expenditures.

Our state and federal revenue growth rate is 2.5% — but our expenditures have grown at nearly double that rate. The upshot is that city taxpayers are footing more of the cost of running city government.

For decades, New York City has been an economic engine for the state and the nation. But we aren't getting our fair share of federal and state funding.

If we were still receiving our long term average of federal revenue, New York City would have had an additional $2 billion from FY09 through FY14.

If we were still getting our long term average of revenue from the state, we would have had an additional $7.7 billion.

That includes the billions we are owed from the Campaign for Fiscal Equity. And don't forget the billions we've lost in revenue sharing, which was our only source of unrestricted state aid. This is the sixth year in a row that New York City has been excluded from the program.

When you add it all up, the total again comes to almost $10 billion over the past five years.

That's why I was in Albany last week, calling on New York City legislators to fight hard for the city to reclaim its fair share of funding.

How much is $10 billion worth to us? Think of the possibilities:

We could double what's in the City budget for child care and Head Start – and still only tap into a quarter of that money.

We could triple what's spent on prison health at Rikers – and use only 5% of that fair share figure.

We could quadruple the budget for family shelters, and it would still be less than a quarter of almost $10 billion.

But we can't just blame the state and federal governments for our funding shortfall. The City has missed opportunities to collect reimbursements to which we're entitled. For example:

NYCHA failed to take advantage of $692 million in federal funding going back to FY06.
From FY12 through FY14, DOE lost out on $779 million in revenues. They failed to successfully claim funds ranging from Medicaid reimbursements for special education, to funding for broadband connectivity in our schools.

So what can be done?

As an oversight entity, the Council has the authority to hold hearings on E-Rate reimbursements, on Medicaid funding, and on NYCHA's pending opportunities for new funding.

We must work together to hold agencies' feet to the fire – so not a single dollar is left on the table.

Finally, let me talk about our analysis of the Preliminary Budget.

We've done an independent projection, and anticipate added tax revenue of $1 billion in FY15 and FY16, and nearly $3.5 billion in the out years. These higher numbers stem from projected Income Tax payments on capital gains and Real Estate Transaction taxes.

The net impact is significantly lower budget gaps. We project that NYC will have nearly enough funds to close all of our out year gaps – all the way through 2019.

Now, why has this happened?

In four out of the last five years, the Gross City Product has grown faster than the nation's Gross Domestic Product. In FY14, our economy grew at 3.1 percent – compared to the national rate of 2.4 percent.
But make no mistake – this is the not the roaring 90's – when the city's growth rate was 5.2% and the nation's growth rate was 4.1%.

The recovery is not being felt by every day New Yorkers and the reason is virtually non-existent growth in wages. If you adjust for inflation, average workers here are making less than before the Recession. One remedy is to raise the minimum wage for city workers—and for the City to obtain the statutory authority to set its own rate.

That won't end flat wage growth. But it will help workers at the bottom of the pay scale—and pressure firms to raise wages for workers earning just above the minimum.

To conclude, our economy continues to recover – but we've always got to be prepared for an unexpected downturn. Being disciplined, however, doesn't mean we shouldn't be ambitious.

We've got to:

Rebuild NYCHA, turn Rikers around, combat homelessness, build more affordable housing, and give our children state-of-the-art broadband.

As economic growth slows, we've also got to manage our finances with discipline. Which is why we are working with OMB to maximize our debt service savings from re-financings.

We're doing this not just for immediate budgetary relief, but for long-term recurring savings that address rising future costs.

These two goals – investing in the future and maintaining fiscal discipline — are not incompatible.

Where they converge, our city thrives. I'm happy to answer your questions.

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