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

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COMMENTS ON NEW YORK CITY'S FY 2016
EXECUTIVE BUDGET BEFORE MEMBERS OF THE
NEW YORK CITY COUNCIL FINANCE COMMITTEE

June 9, 2015

Thank you, Chair Ferreras and members of the Finance Committee. I welcome the chance to address all of you today about the Executive Budget.

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

Today I will be presenting the Comptroller's analysis of the City's FY 16 Executive Budget.

Officially, the FY 16 budget totals $78.3 billion. But because we are pre-paying some of next year's expenses with resources from this year, total expenditures for FY 16 are actually $81.5 billion.

My testimony today will focus on:

-- The state of the City's economy
-- The Executive Budget
-- The need to build a financial cushion, and
-- The Capital Budget

Let me begin by putting this budget into the context of our City's current economy.

New York's job growth continues to be strong. We've exceeded the nation's job growth rate, and created over 120,000 jobs in 2014. So far in 2015, we've created 25,500 jobs.

As you know, in the past, I've been worried about the type of jobs created. The proportion of new jobs in high income sectors is up, but we haven't seen a reduction in the proportion of jobs created in the low-income sectors. And, the improvement at the high-end means that there is a declining proportion of jobs in middle income sectors.

Now, I want to remind everyone that economic recoveries are not just about job creation. They're also about wage growth. Even though we are in the sixth year of the recovery, most New Yorkers aren't seeing bigger paychecks. In fact, only 1 out of 10 economic sectors – the information sector-- experienced real wage growth from 2008 through 2014.

Because wages have not grown with inflation, New Yorkers working in all other sectors - including finance, professional services, manufacturing, advertising and government - have seen their real take-home pay shrink.

That's got to change before we're truly on the road to a better economic future. Too many people's wages are declining relative to the cost of living. And it's a key reason we need to raise the minimum wage to $15/hour.

That being said, it's obvious that a $15 an hour wage won't completely solve this problem. But it's a crucial first step toward helping people make ends meet.

Now let me turn to some forward-looking indicators in the City's real estate market.

For commercial rents, demand remains high and vacancy rates continue to decline. This is good news and further evidence that businesses want to pay a premium to do business in our city.

Residential building permits have largely recovered from the massive decline caused by the great recession, and prices continue to increase.

Our economy has rebounded. The City's economy is about 13 percent larger than it was prior to the recession. Unlike the aftermath of previous recessions, the current expansion has not been driven by Wall Street. While the financial industry has provided a stable base for the city's growth, it has not been the source of it.

Rather, the drivers of growth have been traditional business services industries like accounting, architecture and engineering, advertising and computer systems design, and related services.

Now let's turn to the 2016 budget.

I'm happy to note that this is the second year in which the budget is not only balanced, as required by law, but also combines targeted new investments with increasing reserves for the future.

In all, it presents a sound, prudent, fiscal plan for the City.

I was glad to see that the Executive Budget now includes an agency efficiency program. As you know, I have repeatedly asked that city agencies find savings and efficiencies that don't affect the delivery of vital services.

In February, I said such a program could yield a billion dollars in savings. And so it's great to see that the Executive Budget includes a voluntary agency savings program that meets this target -- with a combined fiscal year 2015 and 2016 total of $1.06 billion.

38% of the program or $400 million comes from debt service savings - and from refinancings that my office achieves jointly with the Mayor's Office of Management and Budget.

I have previously called for and identified lowering the assumed debt service interest rates, and this budget does just that.

Last February, in fact, my office identified $150 million in interest rate savings and the budget now reflects $159 million in those interest rate savings. 12 percent of the savings program comes from realizing additional revenues.

In February, we identified $25 million in likely additional revenue from speed camera violations, and this budget reflects that as $26 million.

The largest remaining savings is $409 million in agency spending reductions.

This is a small portion of the total budget for the year – just 0.58 of a percent of agency City-Funds spending, and is well below the 2.6% prior peg program average.

It's still a step in the right direction. But I urge the Administration to continue to identify savings –whether through voluntary savings or specific agency targets. This would help us increase the amount of savings and compound the effect for future years.

Now, let me focus on the major changes in the Executive Budget, since the Preliminary Budget in February.

The Executive Budget benefits from $2.1 billion in additional resources in FY 15 and FY 16. And it comes from higher than expected revenues, debt service savings and from lower than estimated citywide expenditures.

Looking at the other side of the ledger, the money is used to build up reserves, to fund additional agency and citywide spending, including new initiatives, and to compensate for postponing the sale of additional yellow taxi medallions, among other items.

As for the money going toward new initiatives, I commend the Mayor for adding funding in a number of important areas, with five-year adds like:

- Adding over $200 million to address homelessness.
- $87.6 million for Rikers education, mental health and weapons reduction programs.
- $138 million for NYCHA community and senior centers, and:
- About $50 million a year to fund Renewal Schools.

I also want to commend many of the Council's contributions to the budget process.

I applaud council members Ferreras, Garodnick and others for calling on the Administration to restore $28 million for 34,000 seats in summer youth programs.

I support Council Member Chin's call for $3 million to address the 2,000 person waiting list for programs like emergency meals and home care. I support Chairperson Ferreras' call to press the state for more support for HPD. And I back Council Member Menchaca's call today - to restore funding to adult literacy programs for our immigrant population.

Now, I'd like to briefly take you through my office's projections of additional revenues and how they in turn reduce the projected out-year budget gaps.

My office forecasts tax revenues to be higher than those projected in the Executive Budget by nearly $600 million in FY 16, and a cumulative $3.9 billion from FY 17 through FY 19.
After netting out anticipated budget risks and offsets, our projected revenue increases reduce the outyear budget gaps to a cumulative $2.6 billion.

Finally, I'd like to take a moment to discuss the Capital Plan.

The Ten-Year Capital Strategy, which comes out every two years, has planned commitments of almost $84 billion. As I pointed out in my capital report in February, from FY 05 through FY 13, the City's achievement rate averaged 60%. So, it's important for the City to increase that percentage, so that critical projects in all five boroughs can become a reality for taxpayers.

Although the overall increase in planned commitments for the next ten years is up 56%, there is a vast range of growth by area:

- Housing is a large part of the investment. HPD and NYCHA are up 186% and rehabilitation of DCAS-managed waterfront properties increased by 272%.

- Economic Development Corporation (EDC) capital increased nearly sevenfold, not including the neighborhood development fund.

- Funding for courts more than tripled, to over $1.5 billion.

- Transportation just about matches the average overall capital increase. A total of $13.4 billion is planned for the next ten years - a 55% increase since the 2013 Strategy.

In terms of the affordability of borrowing for capital projects, the Administration projects debt service to remain below 15% of local tax revenues.

All of these initiatives focus on our city's current needs. But a prudent and responsible budget must also consider our long term interests.

So, I want to revisit a topic I raised with you in February – and that's the continuing need for the City to build up its budgetary cushion. This will protect us when hard times hit, and preserve vital services during the next economic downturn, natural disaster or other unforeseen event.

We know from past experience that, when the economy is hit with a downturn, our revenues drop by billions. And it goes without saying that, when the floor is about to fall out from under our feet, we must have the resources to keep the foundation intact.

Now, we are fortunate that the number of jobs in the City is up nearly 10% since the pre-recession peak. And City revenues are up 25% from their pre- recession peak.

But despite this good news, our current cushion of $7.2 billion is still billions short of what we had on hand prior to the recession.

Clearly, we can -- and must -- do more.

By working together with the Mayor and City Council, I know we will pass a prudent, balanced budget before June 30th.

Thank you very much.