

Testimony Of New York City Comptroller Scott M. Stringer Comments On New York City's FY 2021 Executive Budget Before The New York City Council Finance Committee

Good afternoon, Chair Dromm and members of the Finance Committee. Thank you for the opportunity today to discuss the City's Fiscal Year 2021 Executive Budget. Joining me is our Deputy Comptroller for Budget, Preston Niblack.

As you all know, so much has changed since I appeared before you in March to discuss the Mayor's Preliminary Budget. The world in which we find ourselves today looks completely different.

We've all seen the headlines: our economy is suffering. States and cities across the U.S. have closed nonessential businesses to protect public health and flatten the curve. While that was the right decision, it has provoked the steepest, deepest recession in modern times. This year's economic downturn is likely to be twice as deep as the Great Recession a decade ago.

Here in New York City, Mayor de Blasio ordered nonessential businesses to close more than eight weeks ago. Since then, unemployment claims have skyrocketed – as of last Thursday, more than 930,000 New York City residents had filed for unemployment. That's almost one out of every four working New Yorkers.

The job losses are steepest in those sectors where interaction with the public is greatest – hotels and restaurants, stores and theaters, health care and social assistance. The workers in these sectors are already among the most vulnerable and economically insecure in our society – in low-wage jobs, living paycheck to paycheck, and facing systemic barriers to housing, healthcare, and other basic needs. The drop in economic activity is deeper than any we've ever seen in such a short period - and the pace of recovery will depend above all on solving the health crisis.

We can only open our economy safely after there's widespread testing data; that data will determine when and how quickly we can begin to safely and responsibly relax social distancing. Some parts of the economy will recover more quickly than others, and that will depend on many factors. For example, how quickly will people decide to travel to New York again? Will theaters, museums, or sports, be able to reopen if social distancing lowers the number of people who can congregate? Can restaurants survive if they can only have half as many customers as before? All of this will determine how fast our economy recovers, and how complete that recovery will be.

Let me turn now to how all this impacts our City finances - and how the Mayor's Executive Budget proposed to address these challenges. Let's step back for a moment, to the Mayor's Preliminary Budget back in January, before the COVID-19 pandemic struck our city with a

vengeance. The budget for Fiscal Year 2021 that the Mayor presented then was \$95.3 billion dollars. The outlook for gaps in later years was around two-and-a-half billion dollars. But between the January Preliminary Budget and the April Executive Budget, the shutdown of our City's economy resulted in budget gaps totaling \$8.7 billion combined over the rest of this year and FY 21.

The loss of \$7.4 billion in tax revenues was the main factor - but the shutdown also means lost revenues from building permits, parking tickets, and other fees and fines. And the State balanced its own budget by cutting or shifting nearly \$800 million onto the City's books.

The Mayor relied on three main strategies to address the gap for 2020 and 2021. First, we received roughly \$2 billion in federal stimulus aid. Second, the Mayor ordered a savings, or "PEG", program of \$2.7 billion. Third, the Mayor drew down reserves for nearly half the total – over \$4 billion dollars.

Let's start with federal aid. The enhanced federal share of Medicaid spending will cover about \$500 million this year and \$444 million next year. The Coronavirus Relief Fund for state and local governments is providing \$800 million dollars to cover COVID-related spending needs. And FEMA will cover about \$250 million in uniformed overtime for COVID response. But obviously what we've received so far comes nowhere near to covering the huge loss in tax revenues we've suffered because of the shutdowns.

Now, let's look at the PEG program that the Mayor included in the Executive Budget. Unfortunately, much of the savings for FY 2021 are achieved by suspending or delaying programs for only one year because the Mayor assumed that a continued need for social distancing would prevent them from operating. That includes, among other things, programs that last year benefitted some 175,000 City youth, including the Summer Youth Employment Program and several after-school programs.

Let me be clear: Not only do these one-time cuts leave our City's youth high and dry this summer – they also don't translate into longer-term savings. In fact, recurring savings are only a small fraction of agency budgets -- because the Mayor simply didn't ask most agencies for recurring savings at all. Too much agency spending is simply on auto-pilot. But it's no longer possible to do business as usual.

Through our audits, we identify wasteful practices, uncollected revenues, and simple sloppiness that costs the City millions every year. And for the past three years, I've been highlighting spending that simply doesn't seem to achieve results through our Agency watch list, including billions spent on homelessness without reducing the number of homeless, hundreds of millions spent on bloated overhead and unnecessary contracts at the Department of Education, and millions spent on mental health programs without demonstrating results.

In March, I urged the Mayor to task all agencies with identifying 4% of their budgets for recurring savings. If agencies had met that challenge and achieved that 4% target, that would

be worth another nearly \$1 billion dollars a year. My office has instituted a 4% PEG, and I am calling on all City agencies and elected offices to do the same. We need to do this now to protect our social safety net and programs that serve the most vulnerable New Yorkers.

The City should have started saving a long time ago. Expertise and experience teach us that a responsible budget cushion equals at least 12 percent of spending. Despite ten straight years of economic expansion, the City is \$1.2 billion dollars below that mark; this is money that would have been enormously helpful during the City's current financial strain.

What concerns me the most is how deeply we've dug into our reserves – which, as I've noted for years, weren't nearly big enough to begin with. At the beginning of this fiscal year, we had \$6.1 billion in reserves. However, between this year and next, we're using up \$2.6 billion in surpluses from the Retiree Health Benefit Trust -- and leaving just \$100 million in the contingency reserves for next year. We are not leaving ourselves with much margin for error, and that's all the more reason why it's imperative to start saving more - now.

Where does this leave us? As I said in the beginning of my testimony, a great deal has changed since January. The Mayor's Executive Budget for Fiscal Year 21 is \$89.3 billion dollars - \$6 billion dollars less than the Preliminary budget, and the gaps in the outyears have nearly doubled compared to the preliminary budget. With reserves this low, and a PEG program that relies heavily on one-time actions – we should be extremely concerned about how we'll be able to address those outyear deficits.

If the situation wasn't troubling enough, the State's budget update has made it crystal clear. The State's Enacted Budget was based on pre-COVID revenue estimates and hoped-for federal aid. The budget update burst that bubble – revealing a \$13.3 billion dollar budget gap in the State's current fiscal year. To close that gap, the State is proposing to cut \$8.2 billion in local aid. Assuming New York City's share of the cuts is proportionate to its share of State aid, we're looking at an additional \$3 billion dollar cut that will fall most heavily on our students, because two thirds of local aid is for education.

To be clear, nothing I've said here today accounts for these potential cuts because we simply don't know what and how much they will be, but we do know that they would be devastating. The solution to the State's budget problems cannot just be cuts to our schools. We must look at all options – including revenues – to avoid an outcome that would harm an entire generation of children.

At the outset of this crisis, Trump and the federal government utterly abdicated their responsibility to prepare and protect this country. We're now racing against time and paying a heavy price for their negligence. There is no silver bullet to economic recovery – but federal relief money is the closest we can get – and we need that money now.

State and local governments across the country are spending tens of billions of dollars fighting this pandemic. Most of them acted to protect their citizens by shutting down nonessential

businesses, and it's costing them hundreds of billions of dollars in lost revenue. There's no way for us to make that up by ourselves. Congress must step up, and I want to thank our New York Congressional Delegation for fighting tirelessly in Washington for the relief we need.

Relief funds must prioritize need – not politics. New York City, with more than 190,000 cases, gets the equivalent of \$7,500 per COVID case - while Montana, with 470 cases, got \$2.7 million per case. This is an outrage. Our communities are suffering, and we need help.

The next stimulus bill must use a much fairer formula that recognizes that caseloads and economic impacts are much more severe in some places than in others and distributes funding based on those needs. New York is the nation's economic engine. Our residents and businesses contribute more to the federal budget and get less back than any other state - \$22 billion dollars more in 2019, in fact. Other states contribute less, and get more back. In other words, our taxpayer dollars are funding relief efforts across the country while we're left to fend for ourselves.

There's no denying it - we are facing one of the most trying times in our city's history. This pandemic has laid bare the deep, systemic inequalities that run through our society. We are seeing up close how the right to basic health, safety, and economic security are too often denied along the lines of race and class.

Any strategic approach to recovery must center these communities, address these disparities and lift up those who are isolated, overwhelmed, and in dire need. That means investing in historically disinvested neighborhoods - where residents are more susceptible to illness because of overcrowded housing and poor air quality. It means strong lines of communication with our workforce, industry and health experts to bring back our economy sector by sector - safely, fairly, thoughtfully, and sustainably. It means widespread testing and tracing capabilities at the scale needed to reopen our economy.

When we look back at this time, I want to be able to say that our government stood up for our city, marshaled all our resources, and did everything we could to save lives and get our economy back on track.

Thank you, and I'm happy to take your questions.