NEW YORK CITY COMPTROLLER
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TESTIMONY OF NEW YORK CITY COMPTROLLER BRAD LANDER

COMMENTS ON NEW YORK CITY'S
FY 2023 EXECUTIVE BUDGET
AND FY 2022-2026 FINANCIAL PLAN
BEFORE THE
NEW YORK CITY COUNCIL FINANCE COMMITTEE

May 24, 2022

Good afternoon, Speaker Adams, Chair Brannan, members of the Finance Committee and the City Council. Thank you for the opportunity to comment on the FY 2023 Executive Budget. Joining me today is Francesco Brindisi, Executive Deputy Comptroller for Budget and Finance, and Krista Olson, Deputy Comptroller for Budget.

Today we are in a unique moment. Tax revenues have exceeded projections; billions of dollars in federal stimulus are flowing through the budget; and most economic indicators in the city have improved steadily from a year ago. Yet, geopolitical risks to the economy are growing by the day; U.S. inflation is the highest since 1981; and the Federal Reserve has begun tightening monetary policy, which will put a damper on growth. While tax revenues are coming in well above projections in the current year, neither the Mayor's Office nor the Comptroller's Office expect this trend to continue.

It is critical at this juncture that we invest smartly in our infrastructure and our people and set the City on a path for a long-term, inclusive recovery. In particular, with one-time surpluses and long-term uncertainty, it is imperative that we shore up our reserves – we recommend an additional $1.8 billion contribution, as I'll discuss shortly – into the City's Rainy Day Fund.

Review of the City's Economic Forecast and Financial Plan

I will begin with my office's newly released review of the City's financial plan.

As of April, the city has regained 79% of private-sector jobs lost during the depths of the pandemic. Over the last year, private employment in the city has grown 8%, and tax collections have increased beyond expectations.

Since the beginning of the fiscal year, OMB has increased the tax forecast for FY 2022 by $3.3 billion. My office forecasts an *additional* $3.3 billion in tax revenues by the end of the year, primarily on the strength of tax collections in April.

The City's near-term fiscal position is bright, but clouds are on the horizon. The Federal Reserve has begun to raise interest rates and faces the formidable task of controlling inflation without causing a recession. Recent turmoil in the stock market, Russia's continued invasion of Ukraine, and related supply chain interruptions make this even more challenging.

We believe that economic growth will moderate and tax revenues will drop next year, but our revenue forecast remains above OMB's in each year of the plan. However, these additional resources will be offset by additional spending not yet reflected in OMB's forecast and the fiscal risk would be compounded should the economy slide into recession.

Some of these expenditures are perennially under-budgeted, including overtime, Carter cases, and homeless shelters. But others relate to the City's use of stimulus funds for ongoing programs, such as 3k, placing many critical programs at risk.

By FY 2026, the City faces a fiscal cliff of $1.3 billion that will need to be addressed.

The current stock market decline poses an additional risk to the budget. Incorporating combined, audited returns of 0.11% through March, far below the actuarial target of 7%, adds pension costs of $335 million in FY 2024, increasing to $1 billion by the end of plan. Unfortunately, the markets have continued to fall since then and final returns through June may be worse.

Combining our assessment of revenues and spending, we forecast a surplus of $3.1 billion at the end of this year, a small surplus next year, and gaps of $5.0 billion in FY 2024, growing to $6.5 billion in FY 2026.

However, these estimates exclude another large risk.

Most labor contracts will soon be expired, and the current plan funds only 0.5% raises in the first two years and 1% thereafter. Given inflationary pressures, the actual pattern may be far higher. Each additional 1% wage increase would cost $450 million in the first full year. The City will also need to cover commensurate cost-of-living adjustments to human service contracts.

Fiscal Resiliency

The combination of baseline gaps, economic risks, and the unknown costs of labor contracts and pension contributions make it imperative that the City shore up its reserves this year.

Yesterday, my office released a recommended framework for the City's Rainy Day Fund, which would take saving for economic downturns out of the vicissitudes of the annual budget process.

The City needs 16% of taxes in the Rainy Day Fund to stabilize revenues for the whole length of a recession. We estimate that the Rainy Day Fund and the Retiree Health Benefit Trust, which has been used as a rainy day fund until now, will together achieve a balance of $5.1 billion at the end of FY 2022 or 7.3% of tax revenues, enough only to provide budget relief for less than half the length of an average recession.

I am proposing a formula based on a best practice in Virginia that would require a minimum deposit of 50% of the increase in the City's non-property taxes above their historical rate of growth. Given current revenue trends, these guidelines would require the City to deposit an estimated $2.5 billion this year, or $1.8 billion more than planned deposits of $700 million. While that's a big number, it is still only 55% of our forecast for surplus revenues beyond what was recognized in the Executive Budget. This would achieve a balance of 10%, enough to provide cushion for the first two years of a recession. We believe this is not only prudent but also reasonable and achievable. Going forward, the establishment of a formal policy, including the formulation of targets, and rules for deposits and withdrawals should be required by law.

Preparing for the future also means that we must use every dollar of federal stimulus and infrastructure funding wisely. I released a report last month that found through the first eight months of FY 2022, DOE had spent less than 25% of planned recovery funds in the critical areas of academic and instructional support and social and emotional wellbeing.

I understand that schools face many barriers to implementing programs, but we cannot afford to squander this opportunity and our students cannot wait for services that they need today.

I am pleased that DOE says they have spent another $500 million since our report came out, but I continue to urge DOE to be more transparent and provide clear outcome metrics. I also support the Council's call for 100 additional shelter-based community coordinators to better serve the 101,000 students who lack permanent housing.

A sustainable future also requires addressing the City's broken property tax system. I ask you to join my call to Albany to let the $1.8 billion boondoggle known as 421a expire in June. If we work together to build a broad coalition of homeowners who would benefit, from Southeast Queens to Bay Ridge to Staten Island to the Northeast Bronx, the expiration could provide the momentum to develop a more equitable, more transparent, and more sustainable framework to levy taxes and produce affordable housing.

Equitable Recovery

As the Council negotiates a final budget, you have the opportunity to ensure that we are adequately funding and delivering services to all New Yorkers, from sanitation to public higher education.

I've heard loud and clear from New Yorkers, in sanitation town halls from Staten Island to the Bronx, that people think their neighborhoods are dirty and that they are overpaying for substandard service. From 2020 to 2021, complaints to 311 for dirty conditions grew 73%.

I was happy to see additions to Sanitation's budget, but the $48 million cut to the FY 2023 budget from the Preliminary Budget remains. As Sanitation Chair Nurse has urged, strengthening curbside composting and adding options, not curtailing them, is critical to meeting our climate goals.

But cleaning our neighborhoods should not mean harassing New Yorkers living on the streets or subways. Throwing away someone's belongings does not address their lack of a place to live or make anyone safer.

We will not solve the homelessness crisis nor reduce crime by deploying our City's resources to criminalize poverty, to incarcerate more Black and Brown New Yorkers, or to pay more correction officers to not show up to work.

People need resources, peer-led outreach, and an appealing alternative. I support new funding in the Executive Budget for Safe Haven and stabilization beds. These new facilities should provide private rooms that offer true dignity.

These temporary solutions must also connect New Yorkers to services and to truly affordable housing. The need is immense and the additions for affordable housing in the Executive Budget

Capital Plan will quickly be absorbed by construction cost inflation. It is critical that the City commit $4 billion in each year of the Capital Plan, as Speaker Adams has continued to champion, and restore planned headcount cuts to the Department of Housing Preservation and Development (HPD), as well as the Department of Buildings (DOB), and ensure that vacant positions are filled.

We also need to support communities by adequately funding initiatives like the Right to Counsel, source of income discrimination investigations, justice-involved supportive housing, and community-based solutions to gun violence. These investments are not only the right thing to do but will also reduce the use of high-cost homeless shelters and jails.

Since I took office, my administration has worked hard to do what is in our power to speed up the contract process for nonprofits and other critical vendors that serve the city. We are moving forward with clearing out the backlog of unregistered contracts, and I remain hopeful and committed to working with all the key players involved in the procurement process, including the City Council, to make real, quantifiable progress.

But our nonprofits and the New Yorkers that rely on them need more than just timely procurement. In particular, child care providers have struggled amid reduced enrollment and increased costs during the pandemic. Using new funds allocated in the State Budget, the City has the opportunity to improve access for families while also addressing funding deficiencies for providers and workers.

Above all, we should ensure that every child, regardless of immigration status, has access to quality early childhood education and care. I am proud to join Council Members Tiffany Cabán and Shahana Hanif in calling for the city to fund care for undocumented children, who are currently ineligible for state and federal funding.

Lastly, at this important moment, the City Council's continued support for safe and affordable abortion care is critical. But the City should also fund practical support, including transportation and child care, to fully ensure access to services.

Finally, if there is one thing you take away from my testimony today, it is that, in this moment of economic uncertainty, making a significant contribution to the Rainy Day Fund this year is essential to prevent future cuts to services.

Thank you for the opportunity to testify today. I am happy to answer questions.