Mayor's Office of Management and Budget

TESTIMONY OF NEW YORK CITY
BUDGET DIRECTOR JACQUES JIHA, Ph.D.

Fiscal Year 2023 Executive Budget Hearing

May 24, 2022

Good morning, Speaker Adams, Chair Brannan, and members of the Finance Committee and City Council.

My name is Jacques Jiha, and I am the Director of the New York City Mayor's Office of Management and Budget. I am joined by First Deputy Director Kenneth Godiner.

The Fiscal Year 2023 Executive Budget reflects the continuation of the disciplined fiscal management strategy that the Mayor first implemented in the Preliminary Budget to promote efficiency and make New York City a safer and better place to live, work, raise a family.

When this Administration took office the national economy was strong, though New York City's recovery was uneven. Our jobs recovery was lagging, private employees were returning to their offices at a slow pace, the commercial office vacancy rate was at a record high and, on top of these issues, we faced a $2.9 billion budget gap.

Against this backdrop, the Mayor took a cautious and pragmatic approach to the Preliminary Budget. The goal was to close the gap, generate recurring savings, encourage agency efficiency, reduce budgeted headcount, and make a prudent level of new, important investments.

Hence, within two weeks of taking office the Mayor implemented a Program to Eliminate the Gap, or PEG, that ultimately achieved nearly $2.0 billion in savings over Fiscal Years 2022 and 2023. We also reduced budgeted headcount by 7,000 in Fiscal Year 2023, alone.

Preliminary Budget investments focused on elevating everyday New Yorkers, youth, and working families. We added historic levels of funding for the Summer Youth Employment Program and Fair Futures, and baselined Fair Fares for the first time.

We also increased resources for mothers and young families. New Family Home Visits, which supports regular healthcare visits for first time mothers in the 33 neighborhoods hardest hit by COVID, and Maternal Medical Home and Obstetric Simulation Training, which will reduce maternal death and childbirth complications, are now funded annually.

To support public safety, the Administration made efficient use of existing NYPD resources by redeploying officers to the subway and Neighborhood Safety Teams.

Having met the strategic goals of the Preliminary Budget, the table was set for the next step in our disciplined approach, which would be achieved in the Executive Budget. This includes maintaining a focus on savings, building reserves, and promoting transparent budget practices to better reflect our true financial condition.

The Fiscal Year 2023 Executive Budget is $99.7 billion, and it is balanced. The out-year gaps of the financial plan are manageable at $3.9 billion in Fiscal Year 2024, $3.4 billion in Fiscal Year 2025, and $3.7 billion in Fiscal Year 2026. These gaps are within historic norms, averaging 4.9 percent of city revenues, which is below the 20-year average of 6.5 percent.

We achieved $411 million in savings over Fiscal Years 2022 and 2023, which brings total savings in those years under this Administration to more than $2.4 billion. Further, we have generated nearly $4.0 billion in gap-shrinking outyear savings.

Building reserves is a cornerstone of this Administration's fiscal strategy. In the Executive Budget we added $200 million to the Rainy-Day Fund, bringing total reserves to $6.3 billion, a historic level. This includes just over $1.0 billion in the general reserve, $1.2B in the Rainy-Day Fund, $3.8 billion in the Retiree Health Benefits Trust, and $250 million in the Capital Stabilization Reserve.

We appreciate the council's ongoing commitment to building budget reserves and look forward to working with you to add more at Adoption.

As you know, most of the city's labor contracts will expire by the end of the next fiscal year. In anticipation of reaching agreements with our employees, we have begun to replenish the Labor Reserve. In this plan we added nearly $1.7 billion across Fiscal Years 2022 through 2026, representing 0.50 percent wage increases for each of the first two years.

We also updated the tax revenue forecast to reflect improved economic conditions.

The national economy remains strong despite the first-quarter decline of 1.4 percent but faces substantial headwinds. Inflation is forecast to peak higher and last longer than previously expected. In response, the Federal Reserve has adopted a tighter monetary stance, including raising interest rates to cool demand, which is expected to lower GDP growth from last year's impressive 5.7 percent.

Also, the Russian invasion of Ukraine has caused increases in food, gas, and oil prices, and volatile financial markets. The resurgence of COVID in China will continue to add pressure on the supply chain.

At the local level, the city's economic momentum has picked up and we are now poised for an earlier recovery than previously expected, though we face serious challenges ahead.

We are now adding jobs at a faster pace than the national average. First-quarter job growth for NYC was 7.0 percent compared with 4.7 percent for the nation and have now regained 77 percent of jobs lost due to the pandemic.

We now anticipate making a complete jobs recovery by 2024 – two quarters earlier than previously expected.

Wall Street had a record year in 2021, earning $58 billion in profit. Tourism is also on the rise. Since February weekly demand for hotel rooms has increased by 200,000, and we are now at 85 percent of the pre-pandemic occupancy level.

While these indicators collectively suggest a gradual improvement, we have taken a cautious approach to the economic and revenue forecast in the Executive Budget because the outlook is cloudy.

We are already seeing the impact on investment banks of choppy financial markets, reduced underwriting activities and rising interest rates. The five largest banks posted a collective profit decline of about 36 percent in the first quarter of 2022, which means it's unlikely that Wall Street will earn the record profits of the last two years.

Stock market under-performance also has a major impact on the city's pension costs. As of yesterday, the funds lost 8.0 percent, which is 15.0 percentage points below the expected asset return rate of 7.0 percent. This is significant, because each 1 percentage point below the expected return rate increases our pension obligation by $45 million in Fiscal Year 2024, $90 million in Fiscal Year 2025, $135 million in Fiscal Year 2026.This means that, if by June 30, the returns remain at those levels, pension contributions would have to be increased by $675 million in Fiscal Year 2024, $1.3 billion in Fiscal Year 20 25 and $2.0 billion in Fiscal Year 2026.

Another concern has been private employees' slow return to office, but we're heading in the right direction. Since February, the percentage of employees that have returned to their offices rose by 10 percentage points. This means more employees are eating at neighborhood lunch spots and shopping at local stores.

However, we remain cautious as the commercial office vacancy rate still hovers around a record high of 20 percent and is not expected to peak until 2023.

These factors are accounted for in our tax revenue forecast, with record Wall Street performance driving a $1.6 billion upward revision in the current year over our February estimate. By contrast, we added only $400 million in Fiscal Year 2023 related to a revision of the property tax. Outyear forecasts have been increased modestly by an average of about $175 million.

These additional revenues, along with the savings I described earlier, allowed us to increase reserves and fund new needs that advance the Mayor's goal of making New York City a better and safer place to live, work, do business, and raise a family. This includes boosting public health and safety, increasing educational opportunity, providing cleaner and more livable public spaces, fighting food insecurity, and supporting immigrant communities.

As Mayor Adams has said, "public safety is a prerequisite to prosperity." In the Executive Budget we added $226 million for the Subway Safety Plan. This includes funds to expand the Behavioral Health Emergency Assistance Response Division initiative, known as B-HEARD, to Central Brooklyn, Eastern Queens, and uncovered areas in the South Bronx. We also added 1,400 new Safe Haven and stabilization beds that are projected to be online by mid-2023.

To speed up DNA analysis that our law enforcement teams need to solve gun crimes more quickly, we added $1.7 million to create a dedicated gun crime unit in the Office of the Medical Examiner.

Because young New Yorkers thrive when given the opportunity to learn, we invested $100 million to add 10,000 more slots to Summer Rising. Now, a total of 210,000 K-12 students will enjoy enriching summer activities.

We also invested $15 million to expand career pathways for CUNY students, including resources designated for Medgar Evers College. This funding will increase scholarships and expand career pathways in technology, healthcare, and green energy.

Our recovery depends on guaranteeing that New York City has clean, safe, and livable public spaces. In the Executive Budget we added more than $43 million to support more than 700 positions at the Parks Department to keep our open spaces in the best possible shape. A new investment of $488 million in capital funding will support park improvement projects, including planting 20,000 trees per year to reduce citywide heat vulnerability, enhancing and adding new greenways in Brooklyn and Queens, and rehabilitating infrastructure, including neglected swimming pools.

We added nearly $18 million to the Department of Sanitation's budget to expand the organics program to include collection and drop-off sites at schools.

To boost cleanliness on streets and sidewalks, we included almost $2.0 million to restore twice-per-week alternate side street parking to make room for more frequent street sweeping and launched a public waste container pilot initiative.

On top of being clean, streets must be safe.

Therefore, we made an investment to advance the NYC Streets Plan, which tackles the traffic violence crisis and promotes a healthier, greener city. Funding for the Streets Plan is now baselined in the financial plan, growing to $70 million annually in Fiscal Year 2026 on top of a capital investment of nearly $580 million.

The pandemic highlighted inequity in our city and shined a light on food insecurity. In this budget we increased funding for Emergency Food Assistance, or EFAP, by $30 million next fiscal year and provided $1.5 million to support home delivery of nutritionally balanced meals for seniors. We also expanded support for NYCHA farm programs, which provide fresh and nutritious food to residents, and added $4.0 million to increase plant-based lifestyle medicine research in our H + H system.

We also deepened funding for the city's immigrant communities with $1.6 million for Ukrainian New Yorkers impacted by the Russian invasion, and another $1.6 million to increase funding for language access and translation services within city agencies.

To help parents with limited English proficiency, we added over $7.0 million in programming to help them communicate with teachers and administrators about their children's education.

Now, I would like to discuss the Capital Plan, which is $94.9 billion over Fiscal Years 2022 through 2026.

As part of our ongoing commitment to crafting a capital plan that reflects realistic benchmarks and timelines, we moved over $5.0 billion in projects to outyears. This is a shift in timing only, not a cut, and if projects are ready to come online, we will accelerate their funding.

Debt-service payments in each year of the financial plan are below 15 percent of tax revenue, the benchmark for responsible and affordable debt financing.

In addition to funding for the Streets Plan and parks that I mentioned earlier, the Administration made capital investments in this plan that will benefit New Yorkers for generations to come.

We added $5.0 billion to the capital plan to support affordable housing, which is now funded at $22 billion, a record level. This investment dramatically increased resources for housing subsidies for HPD and NYCHA.

As part of our commitment to support economic development, we invested $140 million to redevelop the Hunts Point Produce Market, which supplies 25 percent of the city's fresh produce, and improve surrounding infrastructure and neighborhood parks.

Before I conclude, I want to thank the council for your partnership this year in securing important legislative wins in Albany.

With help from the Governor's office and our friends in the legislature we led the fight to put more money in the pockets of vulnerable New Yorkers by increasing the Earned Income Tax Credit for the first time in 20 years.

The Mayor and council also prioritized expansion of childcare options across the city. In this session we secured tax credits that will encourage development of childcare facilities by property owners and employers.

Together we secured an extension of the design-build program for an additional five years and expanded state funding for NYCHA by over $1.0 billion. Members of this council testified against the proposed diversion of $200 million in city tax dollars annually to the Distressed Hospitals Fund that exclusively supports upstate hospitals. Through our combined advocacy, the legislature agreed to reduce the diversion by $50 million annually. This will save $150 million over three years that can now be used to support the critical needs of everyday New Yorkers.

We look forward to working with the council through the end of session to achieve common legislative goals, including mayoral accountability for schools and the restoration of the Transitional Finance Authority's borrowing capacity to pre-pandemic levels.

To conclude, in the face of growing uncertainties, our budget strategy gets the basics right. We have remained focused on achieving savings, promoting efficiency, building reserves, and making cautious revenue estimates to ensure we live within our means. The Mayor prioritized investments that will restore equity, make the city safer, and foster a community where we can all thrive and prosper.

Our strategy was validated recently by Fitch Ratings, which revised New York City's credit outlook upward to positive from stable for the first time in more than a decade.

Thank you for inviting me to speak today, and for your continued service to the City of New York. I look forward to working with you to support our mutual priorities as we march towards Adoption.

I now look forward to your questions.