



The City of New York  
**Mayor's Office of Management and Budget**  
255 Greenwich Street • New York, New York 10007-2146

**Melanie Hartzog**  
*Director*

**TESTIMONY OF MELANIE HARTZOG, DIRECTOR, MAYOR'S OFFICE OF  
MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK TO THE CITY  
COUNCIL ON THE EXECUTIVE BUDGET FISCAL YEAR 2020**

**May 6, 2019**

Thank you Speaker Johnson, Chair Dromm, Subcommittee Chair Gibson and Council Members, for the opportunity to testify today about the Fiscal Year 2020 Executive Budget. I also want to thank Latonia McKinney and the Council Finance staff for their positive and collaborative approach to the budget.

I am joined at the table today by OMB First Deputy Director Kenneth Godiner. And our dedicated and hard-working OMB staff is here to assist me in answering questions.

The Fiscal Year 2020 Executive Budget is \$92.5 billion. It remains balanced, and out-year gaps are manageable. This budget was crafted in light of threats to our fiscal stability.

We continue to face uncertainty related to economic conditions at home and abroad. Despite job growth nationally, there are reasons to be cautious. The housing sector continues to be weak, and aggregate consumption, the main engine of economic growth, slowed in the first quarter of this year. Also, the yield curve, a reliable indicator of recessions, is still flat, with spreads close to zero.

We also face pressure from Albany. The State Enacted Budget imposed \$300 million in cuts, shifts and unfunded mandates on the City. The impact could have been much worse. During the state budget process, we worked with our partners in the legislature to push back on more aggressive cuts. We are grateful for their help. State hits include:

- \$125 million in TANF costs;
- \$96 million to support election reform mandates;
- \$59 million designated for healthcare services, and;
- A \$25 million shortfall in education funding.

Ultimately more than one-quarter of our Fiscal Year 2020 agency spending went towards filling these gaps.

In addition to covering hits from Albany, the Executive Budget accounts for other pressing funding needs. This budget adds \$100 million in Fiscal Year 2020 to meet existing Carter case needs. We also deepened our investment in special education by adding \$33 million to increase DOE's capacity, and reduce reliance on non-district schools.

State-mandated charter school payments have also increased. The State did not cover this liability in its Budget. In early April charter school enrollment numbers became more concrete, and OMB was able to determine the extent of next fiscal year's liability. This budget adds \$88 million to meet this mandated need, bringing total spending on charter schools next fiscal year to \$2.3 billion.

Finally, the State informed us earlier in the year that it would no longer split the cost of criminal pre-trial mental health evaluations. As a result, we had to add \$65 million over this fiscal year and the next. Despite economic uncertainty and increased costs due to state budget actions, we must continue to fund critical government operations; this includes paying fair wages and benefits to employees, educating our children, and maintaining and improving our infrastructure.

At the Preliminary Budget presentation, the Mayor announced a mandatory Executive Budget savings target of \$750 million. It would include the Administration's first Program to Eliminate the Gap (PEG) and an expansion of the hiring freeze. The target was on top of the \$1.6 billion in savings we achieved over Fiscal Years 2019 and 2020 since the November Plan.

In the Executive Budget we surpassed the original \$750 million target, achieving \$916 million in savings over the two fiscal years. This includes \$629 million in agency PEG savings; \$84 million above the \$545 million target.

The PEG differs from previous savings efforts in both process and outcome. Agencies were given mandatory targets based on specific characteristics. OMB had discretion to impose savings if an agency was noncompliant. And unlike in prior savings plans, we did not rule out service reductions. Due to the hard work of OMB and the Agencies we exceeded our PEG target, which allowed us to balance the Fiscal Year 2020 budget.

The PEG contains nearly 200 individual agency savings initiatives, the most this administration has ever included in a single savings plan. Also, the mix of savings categories in the PEG varies substantially from prior plans. For the first time in this administration service reductions were enacted as part of a savings plan, including:

- Eliminating Extended Time Learning at Renewal and RISE schools;
- Reducing operating grant subsidies for members of the Cultural Institutions Group;
- Eliminating DVD purchases for the New York Public Library and;
- Cutting vacant lot cleaning operations by nearly one-third

Agencies also achieved high levels of efficiency savings. In Fiscal Year 2020, the first full year impacted by the PEG, efficiencies account for two-thirds of the savings. To achieve these savings agencies streamlined and improved practices, yet maintained service levels. This includes DOE procurement reforms that will save \$27 million per year. DOE has now achieved \$50 million in annual procurement savings since the Preliminary Budget. And by lowering central administrative spending, ACS will save \$2.0 million every year.

Finally, we expanded the hiring freeze. By permanently reducing 1,600 positions across agencies we saved \$116 million over Fiscal Years 2019 and 2020. The hiring freeze expansion builds on the \$50 million in savings we baselined in November by reducing 1,000 vacancies. And, for the first time in this administration, we reduced the Citywide net annual headcount.

In addition to our aggressive savings plan, we maintain \$5.72 billion of budget reserves in Fiscal Year 2020. This record level includes \$1.0 billion in General Reserve, \$250 million in the Capital Stabilization Reserve, and \$4.47 billion in the Retiree Health Benefits Trust. Last June we worked with you to add \$125 million in General Reserves, and \$100 million to the Retiree Health Benefits Trust, in the current fiscal year. We look forward to discussing next year's reserve levels with the Council as we head towards Adoption.

Now, I would like to discuss investments. Most agency spending in the Executive Budget is related to funding ongoing needs. These investments are necessary to maintain basic City operations. Over these two years we will spend:

- \$57 million to fund Board of Elections needs for upcoming elections;
- \$56 million to maintain water and sewer systems
- \$38 million to fund DOE's rent and operating costs, and;
- \$23 million to address NYPD's critical IT infrastructure needs.

Because of our aggressive savings plan, we were also able to fund a number of Council priorities. To increase energy efficiency with green technology, we invested \$60 million to support retrofits for public buildings. We added funding to support outreach and public awareness campaigns for the City's 2020 Census efforts. This brings the total Census investment to \$26 million. The Bridge the Gap program for students in shelters is now baselined at \$12 million. Finally, we invested \$6 million to refurbish NYCHA Senior and Community Centers.

In addition, the Administration and Council have agreed to fund \$77 million in Council priorities next fiscal year. This will support a range of initiatives, from adding 5,000 Summer Youth Employment slots to expanding adult literacy programming.

Along with the Executive Budget, we released the Ten Year Capital Strategy. The \$116.9 billion plan supports the City's infrastructure needs. The plan funds critical projects like adding school seats, expanding Housing New York 2.0, and improving our roadways and sewer systems. Further, the Capital Strategy now reflects \$8.7 billion in funding for borough based jails. In this capital strategy, we continue to prioritize state of good repair. Three-quarters of capital funds are invested in maintaining or improving the City's capital asset base.

As part of our ongoing efforts to reflect more realistic capital project timelines, we redistributed \$3.9 billion from Fiscal Years 2019-2021 into the out-years. We also proposed \$2.3 billion of rescindments from prior Capital Budgets.

Finally, we continue to work with the Council to improve transparency in the capital program. As requested by Subcommittee Chair Gibson at the last hearing we added the "Capital Detail Data Reports" to our website. Also, OMB recently met with Subcommittee Chair Gibson and Council Member Lander to discuss the path towards developing a capital project tracking system.

In conclusion, I look forward to meeting with you over the next few weeks to discuss our mutual priorities, and work towards adopting the Fiscal Year 2020 Budget.

Thank you again for the opportunity to testify today.

And now, I look forward to taking your questions.

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Name: David Tuvalis

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Name: Charles Brisley

Address: \_\_\_\_\_

I represent: OMB

Address: 255 Greenwich Street, New York, NY

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Name: COMMISSIONER MELANIE HARTZOG

Address: \_\_\_\_\_

I represent: OMB.

Address: \_\_\_\_\_

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Name: KEN GODINER

Address: \_\_\_\_\_

I represent: FIRST DEPUTY DIRECTOR OMB

Address: \_\_\_\_\_

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