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COMMENTS ON NEW YORK CITY'S
FY 2022 EXECUTIVE BUDGET
AND FY 2021-2025 FINANCIAL PLAN
BEFORE THE
NEW YORK CITY COUNCIL FINANCE COMMITTEE

May 24, 2021

Good afternoon, Chair Dromm, Chair Rosenthal, and members of the Finance Committee. Thank you for the opportunity to discuss the City's Fiscal Year 2022 Executive Budget. Joining me is Preston Niblack, Deputy Comptroller for Budget. This year's budget can lay the foundation for our immediate and longer-term recovery—if we get it right.

Let's start by looking at our economy. As we head toward Memorial Day and the beginning of summer, it finally feels like we've turned the corner on COVID. Two hundred seventy-five million Americans have received at least one vaccine dose. We're poised for a full re-opening. But we aren't out of the woods yet--the job numbers for April for the U.S. were disappointing. We are still 8.5 million jobs below the pre-pandemic level. The official U.S. unemployment rate actually inched up from 6 percent to 6.1 percent.

Here in New York, we are also still struggling with a slow recovery. Although we continue to gain jobs, the unemployment rate remains high – especially for people of color. The number of SNAP and cash assistance recipients is on the rise again, indicating that families continue to face economic insecurity, and small business revenues remain depressed.

The slow recovery continues to affect our revenues. But thankfully, President Biden's American Rescue Plan provides a much-needed shot in the arm, for our economy and for our budget.

Let's turn to the Mayor's Executive Budget for fiscal year 2022. The budget has gone up significantly since the Preliminary Budget in January. The modified budget for this fiscal year – 2021 – is $100.7 billion dollars – $5.6 billion more than in January. The budget the mayor has proposed for next year is $98.6 billion dollars, up $6.2 billion. After that, spending is projected to start rising again.

My office believes we will see additional tax revenues this year and next, above what the Mayor's office projects. But that will still leave budget gaps that remain close to $4 billion dollars a year through the end of the financial plan in fiscal year 2025.

The spending increases this year and next are fueled by an additional $15.7 billion dollars in federal COVID-related aid in the budget. That includes $1.4 billion dollars in increased reimbursements from FEMA for COVID disaster-related expenses, and additional funds from the CARES Act.

We're receiving nearly $7 billion dollars in federal funds to be used for education purposes, passed through to us in the State budget. The City stands to receive $5.9 billion dollars from the President's stimulus bill that it will be able to use for a wide range of purposes. Just this last week, we received the first installment of $2 billion dollars in direct American Rescue Plan aid to the City.

The most important question we can ask about this budget is this: How are we using these federal funds? This is an unprecedented amount of money, to address an unprecedented crisis. The budget as it was presented was far from transparent, but we've gone through and analyzed all $15.7 billion dollars. We've identified five broad purposes.

The first, and largest, is responding to and recovering from the pandemic, and beginning to re-open our economy. Over half of the total funds will go to these initiatives. This category includes two-and-a-quarter billion dollars for the public health response to the pandemic: vaccination and immunization, testing and tracing, safely reopening schools, and more.

The administration has also proposed $2.8 billion for initiatives to help with re-opening our economy and assisting those in need. The biggest single piece of this category is $3.6 billion dollars in DOE programs. Some of the purposes of this spending are clearer than others. There is $850 million dollars for academic recovery and student support services over the next 3 years – to address our children's learning loss, and their social and emotional needs after a year out of school. But there's $1.4 billion dollars for "operational support" and $840 million for "programmatic and instructional support." The administration will need to fill in much more detail on how funds will be used for these broad categories in DOE.

The mayor has also proposed using $866 million dollars in stimulus funds to restore previously proposed budget cuts – primarily in the Department of Education, but also to restore the street basket collections that were cut last year by the Department of Sanitation. The mayor is also using stimulus funds to defer the savings he had sought from the City's labor unions this year and next, and to replace City funds for general budget purposes.

One of the major uses of stimulus funds in the financial plan, however, is for new programs or the expansion of existing programs. The biggest initiative here is the expansion of universal 3-K – a goal I wholeheartedly support. There are other new or expanded programs the budget would fund using stimulus dollars, such as expanding and improving services for seniors, providing adequate overhead reimbursement for our non-profit social service contractors, and providing access to counsel in housing court. These are all important initiatives that I fully support, and I believe we must make sure that we have a plan for how we're going to pay for them permanently. That is the problem with using stimulus funds for new programs – how to pay for them when the stimulus funds run out.

So how should we be using our stimulus funds? In the short term, the priority must be the businesses across the city that have been hit the hardest by the shutdown. My office released our second survey of the experiences of minority and women-owned businesses during the pandemic. We found that half of M/WBEs had to lay off or furlough employees during the pandemic, and that nearly a third expect they won't be able to pay rent in the next 3 months. Businesses need our help.

Despite all the stimulus funds available to provide budget relief and to make up for the revenues we've lost as a result of the economic shutdown, the Mayor's plan does little to reduce the gaps we're facing in the future. We still are not asking our agencies to look closely at their budgets for savings – to see how they could provide their services as efficiently as possible. If every agency worked as hard to find operational savings as our Public Finance team does to find savings from refinancing our City bonds – those outyear gaps would likely be much lower than they are. We could be using those savings to re-build our reserves and create a budget cushion for the future.

As things stand, we've done very little in this financial plan to bring our reserves back up to the level I've long recommended of at least 12 percent of City funds spending. In fact, our budget cushion has fallen to under 8 percent – with no plan for increasing it. We must have an ongoing savings plan to match our spending plan, so that we can sustain the services New Yorkers want in the future.

One thing we should not do is rush through unnecessary budget actions that will save us money now, but cost us money in the future. The City's actuary, working with the Mayor, has proposed changes in the way we calculate how much we contribute each year to the City's pension systems for city worker retirement benefits. It's a complicated calculation, but let me explain how it works. The pension funds have a target rate of return on their investments – set in law, and currently 7 percent. If returns fall short of that target, then we have to increase contributions to make up the difference. The Actuary is seeking to lower that target rate of return. That may sound good – but actually, if we assume we're going to make less on our investments, we have to pay more, to make up the difference. This would cost taxpayers over $400 million dollars a year when it's fully phased in. In the eight years I've been comptroller, our investments have exceeded that target return – earning 8.65 percent on average. Now generally, any difference between the target return and actual returns is phased in over time. But in return for lowering the target rate of return – which, as I said, will increase pension contributions in future years – the Actuary and the Mayor are proposing that we speed up the phase-in the recent market returns. That would lower how much we have to pay in to the pension funds – with most of the savings coming this year and next. In effect, a deal has been made – to provide the mayor with additional cash now, and to push the costs off to later. Now as I said, changing the assumed rate of return requires legislation in Albany and cannot be done unilaterally by the Actuary. The City doesn't need those savings now. In fact, personal income tax revenues this year are likely to exceed the Mayor's Executive Plan projection by over a billion dollars.

We've been here before. Twenty years ago the City under Mayor Giuliani agreed to a market restart that recognized the growth of earnings in the pension funds and lowered the city's contributions in the short term. That left the funds in dire straits when the tech bubble burst the next year and the stock market tumbled. Once you recognize all the gains, you have no cushion left to absorb losses. These are serious steps that deserve to be done by consensus between all the parties – including the pension boards of trustees. Let us slow down and give these major steps the thoughtful consideration they're due, rather than trying to jam them through.

Finally, we need to make investments to build a strong foundation for the new economy. We've seen how slowly jobs are returning. The bad news is some of those old jobs are never coming back. But other sectors – like tech and healthcare – can't find enough workers to fill the jobs. We need to train our workers now for the jobs of the future. We should be using stimulus funds to make capital investments for the future.

Capital investments are a smart use of one-time stimulus funds. We can use that stimulus cash to make investments that will pay dividends down the road – and save money in the future through lower borrowing costs. The American Rescue Plan explicitly mentions two areas of capital spending that funds can be used for – broadband access, and water and sewer systems. We know we have urgent needs in both of those areas, but the City has not proposed using the ARP funds for any investments in them. Let's make sure every New Yorker has high-speed broadband access, and that our aging water and sewer system is ready for the challenges of climate change. Building for climate resiliency is imperative for the future of our sea-level City.

What we are facing today is a defining moment for our city. We need to use this moment to build for our future, to get our own house in order, to invest for the new economy, to correct the inequities exposed by the pandemic and lift up New Yorkers who were underserved and overexposed. This should be our North Star.

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