CITIZENS BUDGET COMMISSION

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Testimony on the NYC FY2018 Executive Budget Oversight Submitted to the NYC Council Finance Committee

May 25, 2017

Thank you for the opportunity to submit testimony. The mission of the Citizens Budget Commission (CBC) is to achieve constructive change in the finances and services of the New York State and New York City government.

Positive aspects of the Fiscal Year 2018 Executive Financial Plan presented by the de Blasio Administration last month include a balanced budget under generally accepted accounting principles (GAAP), cautious tax revenue projections, and the third installment of the Citywide Savings Program (CSP).

However, the Fiscal Year 2018 Budget is being developed during a time of uncertainty—the city economy is showing signs of a slowdown, with employment growth projected at less than 1 percent per year on average during the plan, and the future of federal funding and tax policy is up in the air. The time calls for fiscal prudence. As the City Council and Mayor de Blasio move toward budget adoption, CBC makes the following recommendations:

- Increase efficiency savings as part of the CSP;
- Restrain spending growth;
- Direct savings to bolster reserves; and
- Improve the capital planning process.

The City should find additional efficiency savings and make agency participation in the CSP mandatory. CSP projected annual savings are $1.5 billion in fiscal year 2017 but are not comprised predominantly of measures generating recurring savings; total savings decrease to $1.1 billion in fiscal year 2021. While efficiency savings grow over time, from $24 million in fiscal year 2017 to $239 million in fiscal year 2021, the CSP is heavily reliant on re-estimates and one-time actions, most of which are front-loaded. Efficiency savings remain meager, representing less than 0.5 percent of city-funded expenditures each year.

Each agency Commissioner should be expected to improve efficiency, and the Mayor and City Council should monitor progress. This is not about making government smaller, but rather, using resources as cost-effectively as possible and taking advantage of technological advancements that can increase productivity. Efficiency savings of just 1 percent of city-funded agency budgets would equal $400 million each year.

Beyond a comprehensive Citywide Savings Program, there are other ways the Administration should restrain spending growth.

First, labor cost growth, stemming from higher spending per position and increasing headcount, must be slowed. Average spending on salaries and wages, pensions, and fringe benefits is projected to grow from $140,000 per position in fiscal year 2018 to nearly $160,000 per position in fiscal year 2021. Headcount is projected to reach a new high of 331,605 by fiscal year 2021. With a new round of labor negotiations looming and several large contracts expiring in July 2017 (District Council 37, the Patrolmen's Benevolent Association, and the Uniformed Firefighters Association), there is an urgent need for a comprehensive collective bargaining agenda.

- The Labor Reserve includes funding for 1 percent raises. We urge the city to require productivity gains in exchange for raises. In order to secure productivity gains, which cannot be retroactive, the city should settle contracts in advance of their expiration dates.
- Health insurance costs for city employees grew slowly from fiscal years 2014 to 2016, in part due to the health care savings initiative, which is expected to generate $1.3 billion of recurring annual savings. With this initiative ending, the Financial Plan projects health insurance costs will grow at an unsustainable rate of 8.1 percent per year, on average, from fiscal years 2018 through 2021. The City and municipal labor unions should continue the effort to find more health insurance savings during the next contract period, with an expanded focus on programmatic changes to reduce health insurance costs.
- Overtime costs are budgeted to exceed $1.3 billion in fiscal year 2018, with more than $1.0 billion for uniformed overtime. Actual annual overtime spending was $1.7 billion in fiscal years 2015 and 2016, and actual spending has exceeded budgeted amounts in recent years. While the city is attempting to control overtime, there are many contractual work rules that govern overtime, and the city should pursue strategies that reduce overtime costs as a part of the labor negotiations.

Second, the City should restrain spending on new initiatives. City-funded new needs in fiscal year 2018 (from the Adopted Fiscal Year 2017 Budget through the Executive 2018 Budget) total $1.1 billion dollars. While there are many worthwhile programs and initiatives, given the uncertain climate, these should be postponed, curbed, or offset by agency savings. Budgets reflect policy priorities; the Administration and City Council must weigh competing initiatives and fund only those which are essential and/or can be funded by offsetting savings.

Moreover, there should be a better balance between funding new needs and bolstering reserves. The Administration has increased the City's reserves to the current levels of $1.25 billion each year. At 2 percent of city-funded expenditures, this level is too low; the City should move toward cumulative reserves sufficient to weather a recession. In addition, the Administration and Council should redirect some of the savings from the CSP to tax reductions. CBC supports the Council's proposal to reform the Commercial Rent Tax (cost of roughly $52 million per year in revenue), which would end this tax for nearly 4,000 businesses in Manhattan.

And while the Retiree Health Benefit Trust has $4.0 billion in assets, these funds should only be used for retiree health care costs and not considered a rainy day fund. In the past CBC has recommended establishing guidelines to require annual deposits and limit withdrawals to special circumstances. We reiterate that call today.

Lastly, the city capital planning process needs to be improved, as discussed in our report issued earlier this week, *What New Yorkers Can and Cannot Learn from the Ten-Year Capital Strategy*. The Council has rightly called on the Administration to more realistically schedule planned capital commitments and has been assured that the Adopted Capital Commitment Plan, expected in September, will be responsive. This is a step in the right direction, but there is room for further improvement. Realistic timing refers not only to the early years of the capital plan, but also to the latter years of the Capital Strategy which appear underfunded. Funding trails off or is zeroed out for important infrastructure types; for example, the share of planned ten-year capital spending in the first four years of the plan is 80 percent for street reconstruction; 86 percent for parks, playground, and recreational facilities; 92 percent for police facilities; and 92 percent for sanitation garages and facilities.

Furthermore, the capital planning process should include a better assessment of capital needs—including the resources needed to bring city infrastructure to a state of good repair—and metrics to assess performance. The Asset Information Management System (AIMS), which reports on the condition of the city's assets and needed investment to attain a state of good repair, is not sufficiently comprehensive to evaluate the city's funding progress. The Capital Strategy also lacks programmatic indicators to measure progress.

Thank you; the staff welcomes the opportunity to answer any questions.