CITIZENS BUDGET COMMISSION

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**Testimony Submitted to the New York City Council Finance Committee on the New York City Executive Budget for Fiscal Year 2011**
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**Submitted by Maria Doulis**
**Citizens Budget Commission**

The Citizens Budget Commission welcomes the opportunity to provide input on the Executive Budget for Fiscal Year 2011. As the City begins a fragile economic recovery, this financial plan presents a crucial opportunity to take actions that will place the City on a firmer fiscal footing and ensure its competitiveness for the long-term.

The plan makes three difficult – but necessary – choices. First, it includes no new taxes. Increasing taxes on already burdened New Yorkers will put the City at a competitive disadvantage as it begins its recovery. Second, the program to eliminate the gap sensibly deals with financial realities with $1.3 billion in recurring expenditure savings, including some long overdue reforms such as civilianization in the police department. Third, two percent raises that had been budgeted for teachers have now been eliminated, preventing the system wide disruption that the layoffs of 4,400 junior teachers would have caused.

In addition to supporting these aspects of the budget, CBC urges the Council to take three actions: (1) support proposed reforms to public employee fringe benefits; (2) reject depletion of the retiree health insurance trust fund; and (3) downsize the capital program to lower debt service costs.

**Reform Public Employee Fringe Benefits**

Reform of public employee fringe benefits is important for producing long-run savings, but is also important in the short-term: these reforms would produce substantial and immediate savings that can be used to avert layoffs and prevent any further service reductions. *The Council should support the Mayor's efforts to bargain with municipal labor unions for contributions to health insurance premiums and to lobby the State Legislature for pension reform.*

*Contribution to Health Insurance Premiums.* Public employees in New York City receive health insurance under generous terms: they do not pay any share of the cost of their premiums for the comprehensive health care coverage offered by Group Health Incorporated (GHI) or Health Insurance Plan of New York (HIP). The Mayor has proposed a modest co-payment of 10 percent for current and retired employees for annual savings of $350 million. This is a start, but the City should require contributions that are comparable to other public and private sector employers. CBC estimates that by requiring employee contributions of 10 percent for individual coverage, 25 percent for dependents and 50 percent for retirees, the City could achieve savings of over $1 billion annually – enough to prevent all the layoffs in the plan for fiscal year 2011, and to cut the $3.8 billion deficit in fiscal year 2012 by over 30 percent.

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*Pension Reform for Future Employees.* Pension costs grew 815 percent – that is, more than nine times over – between fiscal years 2000 and 2009. What was once a small piece of the budget now takes up 15 percent of all City revenues. Pension costs are projected to continue growing, from $6.8 billion to $8.1 billion, or 21 percent, by fiscal year 2014. *We can no longer afford the legacy of inaction*. The Council should support reforming the pension package for new employees – commonly referred to as a new tier – to require greater employee contributions and a longer vesting period. Such reform would bring the pension system more in line with the realities of longer living retirees and with the retirement benefits in the private sector.

**Reject the Drawdown from the Retiree Health Benefits Trust**

Since its creation in 2006, the Mayor and the Council have placed $2.5 billion in a trust fund created to begin funding the costs associated with future health benefits for retirees. Unlike pension benefits, retiree health benefits are paid on an "as-you-go" basis; however, the accrued future liability associated with these benefits now totals over $65 billion. The current plan calls for over $1 billion in draw downs from the trust over the life of the financial plan to fund increases in pension contributions. *This trust fund should not be used as a rainy day fund*; with over $3.3 billion in surplus revenues in the current year, there is no excuse for drawing $82 million from the fund in the current fiscal year and more in future years. The funds in the trust should be reserved for their original purpose – to pay for retiree health benefits – not for general budget balancing.

**Downsize the Capital Program to Reduce Debt Service Costs**

While agency expenditures have been cut repeatedly over the last year, debt service has continued to grow – and to grow at a faster pace than predicted in the January Plan. The most recent plan shows debt service increasing from $6.2 billion to $8.7 billion – a rate of 9 percent a year on average, much faster than most other items in the budget.[1]

While debt service is sometimes called "uncontrollable," it results directly from the Mayor's choice to have a large capital program. Commitments will reach a record high $13.4 billion this year, and will total more than $10 billion in fiscal year 2011. The capital commitment plan now totals $43.5 billion for fiscal years 2010-2014 – an increase of $700 million from the plan released in January. The size of the plan is on par with that of the previous five years, when the City enjoyed the benefits of an economic expansion.

Now that this expansion is over, it is imperative that the ambition of the capital agenda be scaled back. *The same belt-tightening that has occurred in the operating budget should apply to the capital budget*. Cuts should be made starting in fiscal year 2011; however, rather than an across-the-board approach, the plan should preserve key priorities – such as repair of roads, bridges, water mains and sewer pipes – and limit non-essential items. As a rule, neighborhood revitalization and development

[1] Includes debt service of the New York City Water Finance Authority.

projects should only be pursued if there is credible economic analysis showing that the City will receive a return on its investment or improved service delivery by undertaking the project. Smarter, more targeted investment will produce real savings in debt service by the end of the financial plan.

While the worst of this recession is behind us, it is also seems that the economic recovery will be a slow process. To ensure budgetary balance and City's continued competitiveness in the next few years, the City Council should take these steps. They will ensure that the City is in a better position to weather the next economic downturn.

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