Statement of
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Citizens Budget Commission

New York City Council
Fiscal Year 2002 Executive Budget Hearings

Thursday, May 24, 2001
1:30 p.m.

Good afternoon. I am Diana Fortuna, President of the Citizens Budget Commission. The Commission is a private, nonprofit civic organization whose mission is to promote better financial management and service delivery by the City of New York and the State of New York.

Thank you for giving me the opportunity to offer testimony on the Mayor's Executive Budget for fiscal year 2002.

The Commission believes that the Executive Budget is not prudent in light of the weakening national and local economy. By increasing recurring costs while reducing recurring revenues, the Mayor's Budget worsens the City's financial condition. If this Budget is adopted by the City Council in its current form, then the new Mayor and City Council assuming office in January 2002 may have to make abrupt budgetary changes that disrupt services.

The basic, recurring costs of government are increased significantly under the Mayor's budget. The number of municipal workers grows to a 25-year high, and it appears that the current round of collective bargaining agreements will give municipal workers costly salary and fringe benefit enhancements, without slimming government with needed productivity initiatives. At the same time, an aggressive capital plan will grow the City's already high debt service expenses even more, to $5.1 billion by 2005.

The Mayor's Budget combines these higher recurring expenses with lower recurring revenues, balancing the budget only with the help of one-shot revenues. Most of the budget surplus of $2.8 billion is used to cover recurring expenses next year. Another $900 million in one-shot revenues—such as the sale of City-owned buildings—help cover recurring expenses.

Recurring revenues would shrink further through a backloaded, $1.3 billion tax cut plan that is not matched with expenditure cuts. While tax cuts are important for improving New York City's competitiveness, the Budget does not indicate how to make them affordable.

The Mayor's projected budget gaps of $2.7 to $2.9 billion don't take into consideration labor expenses beyond 2002, which would cost $1.1 billion more, nor do they prepare for the possibility that the economic slowdown may be worse than expected, which could cut revenues by $700 million.

The Council can pursue more far-sighted strategies that leave a legacy of soundly balanced budgets for the new Mayor and Council:

First, use the surplus prudently. Rather than fund ongoing expenses, the surplus should be used to improve the City's long-term financial condition by:

- Paying off some of the City's outstanding debt
- Lowering future debt by financing some capital projects on a pay-as-you-go basis, or
- Establishing a true rainy day fund.

Second, enact only those tax cuts that improve the City's competitiveness. Lowering New York City's tax burden is critical to retaining jobs, businesses and residents. Cuts that make our tax burden equitable and bring our taxes in line with those of competing areas deserve top priority; the Executive Budget proposals that fit these standards include:

- Reducing the personal income tax surcharge
- Eliminating the commercial rent tax
- Providing a personal income tax credit for "S" corporations
- Lowering other business taxes, and
- Instituting an earned income tax credit.

The rest of the Mayor's tax cut proposals should be abandoned, including the hotel tax repeal, which is unnecessary in helping our thriving tourist trade, and extending the coop and condo abatement, which perpetuates the inequitable taxation of real property.

Thank you very much, and I would be happy to take any questions.

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