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Hon. Michael Bloomberg
Mayor
Office of the Mayor
City Hall
New York, NY 10007

Hon. Christine Quinn
Speaker
New York City Council
224 W30th St., Suite 1206
New York, NY 10001

Hon. David I. Weprin
Council Member
New York City Council
205-07 Hillside Ave., Suite 16
Hollis, NY 11423

Dear Mayor Bloomberg, Speaker Quinn and Chairman Weprin:

New York City is in the midst of a severe recession. Wall Street, which propelled the boom in the City's finances, has crashed. For the first time in recent history, the City will collect less in taxes this year than last year, and next year it is projected to collect almost $5 billion less than in fiscal year 2008. Combined with growing expenditure commitments, the downturn has caused budget gaps that are unprecedented in absolute terms – $6.6 billion in fiscal year 2010 growing to $9.6 billion by fiscal year 2013.

With the fate of the financial services sector still unclear and a restructuring of the city's economy underway, the City's fiscal future is deeply troubling. Prudent planning over the past four years and the availability of federal stimulus funds have enabled the City to survive the current fiscal year without dramatic actions, but the structural imbalance in the City's budget must be addressed for fiscal year 2010. Aggressive, strategic action is required now.

The key elements of a new fiscal strategy should be:

- No new or higher taxes that harm prospects for economic recovery and growth;
- Reduce operating expenditures in ways that lower the cost of producing services rather than cut the availability of services;
- Target capital investments to support existing facilities and lower future debt service burdens; and
- Do not rely on inappropriate non-recurring revenues.

No More Tax Increases

This year has been an extraordinary one in terms of tax increases for New Yorkers. The State budget adopted this spring increased income taxes $4 billion and included another $4 billion in taxes and revenue actions. Shortly after that, the State imposed a new, regional payroll tax for the Metropolitan Transportation Authority that will cost taxpayers another $1.5 billion. The City raised property taxes mid-year by 7 percent and eliminated the homeowner rebates for a combined new burden of $1.5 billion. The City's taxpayers have already made a substantial contribution to balancing the budgets of the State, the MTA, and the City.

Unfortunately, your recently announced revenue agreement includes another $887 million in new taxes, stemming mostly from a 0.5 percent increase in the sales tax, repeal of the sales tax exemption for clothing priced above $110, and extension of the sales tax to energy purchased from non-utilities. Other measures include reduction of the unincorporated business tax, at a cost of $25 million annually, and a long-run change in the way corporate income tax liability is calculated.

The two latter measures are positive steps, but the sales tax increases should be avoided. New Yorkers now pay taxes more than double the national average; further increasing the tax burden will discourage economic recovery. Cutting costs, not additional tax hikes, should be the focus of your attention.

Cut Expenditures by Lowering Costs, Not by Reducing Services

Since January 2008, City agencies have trimmed their budgets by $2.9 billion in recurring expenditure savings with an eye toward preserving the quality of services; yet this represents only about 5 percent of total City operating expenses. More should be done.

Since payroll expenses comprise about 55 percent of the total City budget, efforts to cut costs inevitably involve changes in the way municipal employees do their jobs and are compensated. Across the country, public employers have implemented unpaid furloughs for their workers and/or frozen their wages. Similarly, private firms are cutting salaries, reducing or eliminating employer contributions to retirement funds, and requiring greater cost-sharing from workers for their health insurance premiums. In contrast, the City's employees enjoy protections for many of these benefits that are backed by taxpayer dollars – even as taxpayers have seen their own compensation slashed and the value of their retirement investments fall.

In these unusually tough times, municipal employees should share responsibility for the City's fiscal recovery. The Mayor's proposal for a fifth tier in the pension system is urgently needed. The recent agreement among Governor Paterson and union leaders representing the State's civilian employees adds momentum to movement in this direction for City employees. As we have for several years, the CBC strongly supports pension reforms to achieve long-run savings.

The following are other examples of ways in which the cost of municipal services could be reduced by changing the work rules and compensation of employees, which now averages over $106,000 annually. These changes could produce savings of $3 billion annually starting in fiscal year 2010.

- Premium sharing for employee and retiree health insurance – Unlike federal or State employees, City employees and retirees (and retirees' spouses) enjoy free health insurance coverage; they pay no part of their basic health insurance premiums. In addition, the City fully reimburses the cost of Medicare Part B premiums for retirees. These are exceptionally generous arrangements. The recent agreement with the Municipal Labor Committee to lower future health insurance costs by $200 million annually is a good first step, but more should be done. CBC proposes a 25 percent contribution by current employees and a 50 percent contribution by retirees toward their health insurance premiums to bring the City more in line with other public and private sector employers. Such premium sharing would make City employees and retirees stakeholders in restraining growth in health costs and would generate savings of more than $1 billion annually.

- A One-year Wage Freeze – The City employs more than 308,000 full-time equivalent employees. In the last round of negotiations with public employee unions, the Mayor agreed to 4 percent wage increases in each of two years for civilian and uniformed employees. These increases were negotiated when the City was in a substantially stronger position economically, and are no longer viable given the City's current fiscal situation. With inflation projected at zero in calendar year 2009, it is reasonable for workers to forgo one 4 percent increase. This would produce $1.2 billion in recurring savings and would be less painful a concession than that typical for many New Yorkers in the private sector who have contended with pay cuts and layoffs.

- Other Productivity Savings – The CBC and others have identified numerous measures that would lower costs while maintaining services. Now is the time to pursue these actions aggressively; they include moving to a 40-hour work week, limiting use of overtime, greater civilianization at the police and fire departments, the elimination of 5-man engine companies at the fire department, eliminating "wash time" for police officers, and reducing sabbaticals and preparation periods for teachers. Establishing a savings target of 2 percent a year from such productivity measures would yield savings of $730 million in fiscal year 2010, $1.5 billion in fiscal year 2011, and $2.3 billion in fiscal year 2012.

Better Targeting of Capital Investments

The City finances most of its capital investments with long-term borrowing. The repayment of this debt impacts the annual operating budget in the form of debt service payments. In the recent years of economic boom, the scale of the City's capital budget grew substantially. In fiscal year 2003, capital commitments were $5.8 billion; this year, they reached a record level of $13 billion. As a result, debt service is projected to grow 42 percent – from $5.9 billion to $8.6 billion – over the next four years.

Reversing this trend will take time, but new priorities are essential. The capital budget should be better targeted to keeping existing assets in a state of good repair. New initiatives in non-essential areas, such as those for economic development, neighborhood revitalization and even some new school construction, should be postponed or curbed. Initial cuts to the capital budget reduced planned commitments by over 10 percent by January 2009; however, while the economic fall-out has intensified since that time, the four-year commitment plan beginning in fiscal year 2010 has been reduced only 2 percent from the January plan. As CBC recommended in our 2007 report *Capital Budgeting for 2030,* the City should re-examine and eliminate expansion projects that do not have clearly demonstrated economic benefits. The minimum goal should be $100 million in annual debt service savings starting in fiscal year 2011.

Use of Some Non-Recurring Revenues Is Inappropriate

In past years, you have exercised good fiscal management by dedicating billions of the City's yearly operating surpluses toward prudent purposes, such as retiring debt and pay-as-you-go capital expenditures. You also pioneered the creation of the Retiree Health Insurance Trust Fund (RHITF), which holds more than $2.5 billion. The current financial plan, however, calls for a $1.1 billion drawdown from the RHITF over three years to cover the cost of additional pension fund contributions stemming from investment losses in those funds. CBC strongly cautions against using RHITF funds in this way. Instead of using this money as a de facto rainy day fund, you should adopt

a policy for its future use that links withdrawals to growth in the current year liability for retiree health insurance premiums.

The resilience of New York City has been tested and proven time and again; we urge you to take the steps recommend here to place the City on the proper footing for economic recovery and fiscal stability. We would be pleased to discuss our recommendations with you and your staffs.

Sincerely,

Carol B. Kellermann
President

cc: Mark Page
Preston Niblack