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Testimony of Ronnie Lowenstein
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Before the New York City Council Finance Committee
On the Mayor's Executive Budget for 2011

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Good afternoon Chairman Recchia and members of the Finance Committee. I am Ronnie Lowenstein, Director of the New York City Independent Budget Office. Thank you for the opportunity to testify today about the Mayor's Executive Budget.

Since the release of the Executive Budget last month, the Mayor has announced that he will not lay off 4,400 teachers by using money that would have gone for teacher raises. Despite this significant change, the City Council still must come to an agreement with the Mayor over a budget plan that includes a broad array of service cuts, ranging from the elimination of 1,100 child care slots to closing 50 senior centers.

While our latest revenue forecast is somewhat higher than the Mayor's, I cannot tell you the city's near-term fiscal outlook is appreciably better and will ease the challenges currently facing the city. Based on our latest economic and revenue forecast and projections of city spending, IBO estimates that under the Mayor's Executive Budget the city will end the current fiscal year with a $3.4 billion surplus, $101 million more than anticipated by the Bloomberg Administration. The entire surplus will be used to close what would otherwise be a budget shortfall in 2011. With the use of the surplus to prepay some expenses, we expect 2011 will end with a modest surplus of $356 million.

Although many of the cuts proposed in the Mayor's Executive Budget would provide recurring savings, IBO projects a $3.3 billion shortfall for 2012, 7.2 percent of city-funded revenue. Although our projection is $479 million less than the Mayor's estimate, neither of these budget gap estimates reflects the scheduled elimination of $853 million in federal stimulus funds for schools in 2012. The Mayor has said the loss of these funds could force the city to cut about 14,000 teachers. In addition, the even deeper state budget shortfalls projected for 2012 could mean further cuts in state aid to the city.

Although we undoubtedly face a tough budget climate in the next few years, it is important to recognize that after more than a year of daunting job losses and declining tax revenues, the city's economic and fiscal condition is gradually beginning to improve.

While job growth has resumed, the pace is currently slow. IBO expects modest job growth this calendar year and next, with employment rising 29,200 from the fourth quarter of 2009 to the fourth quarter of 2010 and then by another 30,800 by the fourth quarter of 2011. The pace is expected to pick up in 2012 through 2014, averaging 65,000 a year. At this rate, the city would not regain its previous total peak employment of 3.8 million until the third quarter of 2013.

Our revenue forecast has risen a bit between March and May, largely because local economic growth and tax collections in 2010 have been somewhat stronger than previously expected. We now forecast taxes will total $38.3 billion in 2011, $1.9 billion more than we project will be collected in 2010. We anticipate tax revenues will reach $40.4 billion in 2012.

While city revenues are growing, expenses are rising as well. As for much of the past decade, growth in city spending is being driven by a few key areas: debt service and pension and fringe benefits for city employees. Medicaid is also expected to grow at a faster pace now than in the recent past, in part because of the Mayor's plan to aid the fiscally ailing Health and Hospitals Corporation.

Increases in city Medicaid spending could be even greater than the Mayor expects. The Executive Budget assumed that Congress would pass a jobs bill that included a six-month extension of higher federal Medicaid funding that was part of last year's stimulus act. But in an effort to hold down federal spending, the extension has been stripped from the jobs bill. Unless the extension is enacted, city Medicaid spending will rise by an additional $279 million in 2011.

There are a number of other factors that could significantly affect the Mayor's budget plan. One factor, of course, is the state budget, which is now more than two months late. It is very unclear what level of state aid to expect for the city's coming fiscal year. And with Albany facing an estimated shortfall of $15 billion next year, further cuts in state aid for 2012 are likely.

While the Mayor has said that in the next round of labor settlements any salary increases for the first two years must be paid for with concessions, it is far from assured that any raises would be fully funded by givebacks. Each 1 percent wage increase for all municipal employees costs about $300 million in city funds.

There are also considerable economic uncertainties. With 8.4 million jobs lost during the downturn, U.S. employment is unlikely to regain its prerecession peak until the first quarter of 2013. High levels of unemployment put downward pressure on wages, but weak wage growth may not be sufficient to fuel the consumption needed for economic recovery. The debt crisis overseas could destabilize U.S. financial markets and institutions. And new regulatory standards and taxes could make the securities industry less profitable, which would negatively affect local wages and city tax revenues.

Even absent these uncertainties, the near-term fiscal outlook presents many challenges for the City Council, the Mayor, and all New Yorkers.

Thank you for the opportunity to testify today. I am glad to answer any questions you may have.