

How Should the City Close It's \$5 Billion Budget Deficit?

by Mayor Michael Bloomberg

Saturday, December 07, 2002 12:00 AM - Last Updated Thursday, March 14, 2013 03:21 PM

Remarks given at a conference hosted by the Citizen's Budget Commission, December 7, 2002.

The Bucks Start Where?

Who is going to solve New York's fiscal crisis - Washington, Albany, or the city itself?

[Transcript](#) of President George W. Bush's Economic Proposal

[Governor George Pataki's State of the State Address](#)

[Mayor Michael Bloomberg's Remarks](#) at the Citizens Budget Commission

[City Council Speaker Clifford Miller's Reaction](#) to the Bush Proposal

The mayor's job is not just to balance the books. The mayor must ensure that New York City not only survives, but that it thrives. And if we don't do that, we don't have a future.

That's what I had in mind last January when I presented the budget for the current fiscal year. No one thought then, or last June when the budget was adopted by the City Council, that it was the right moment to raise taxes, even if we knew back then that we would need the revenue down the road. In the aftermath of 9/11, New York City needed stability. Time to settle. We had to guard against the possibility of companies and residents deciding to leave the city.

It had nothing to, as the press keeps saying, with the electoral schedule, trying to protect anybody or get anybody elected. If you think back then, everybody was worried about people heading for the exits. Losing them would have meant losing our tax base and, as a result, our ability to provide the quality of life that the citizens of New York want and deserve.

Today, the story is vastly different.

Lower Manhattan has recovered more rapidly than anyone would have thought possible a year ago. Rather than fleeing, more than 60 large companies, along with thousands of small business, have made long-term commitments to Lower Manhattan in recent months. Just this week, Deutsche Bank announced that their North American headquarters would be relocating from Midtown to 60 Wall Street. And I was there for the announcement and I pointed out to them that I came to New York in 1966 to take a job at 60 Wall Street on that very site that worked out for me and I told them it was going to work out for them.

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The rebuilding is underway, I'm presenting our [vision](#) for a downtown neighborhood, one that imagines Lower Manhattan as a vibrant, 24-by-7 commercial and residential community. But not just Lower Manhattan is doing well. Almost all our city's hotels are full. Real estate prices are up. Four major media companies are building corporate headquarters skyscrapers in Midtown: Bloomberg, Time Warner, New York Times and Hearst. If that isn't commitment to this city, I don't know what is.

The [2012 Summer Olympics](#) for all five boroughs are a real possibility. Even Tom Glavine has chosen New York City as his home and he's chosen to work in Queens, I might point out. Helen Marshall will be thrilled.

But there's no escaping the fact that major problems still confront this city.

The national economy's sluggish performance has cut into wages, profits, and, as a result, our tax revenues. This is particularly true with Wall Street which accounts for about one-third of New York City's total payroll. That tax revenue decline opened up a huge gap, \$1.1 billion in the current fiscal year, over last June's forecast. And, a total budget gap for fiscal 2004 of roughly \$6.4 billion. Now I don't know any more than anybody else what the tax revenues will actually be, but I think we have used in our projections a realistic, somewhat pessimistic assumption: things can be worse, things can be better.

But you have to pick somebody realistic when you plan and I think we have done that. And I think the public understands that the law requires us to close the gap and balance the budget, and I will do that. It's the law; there is no gray area. Unlike at the federal or state level, or in other municipalities around the country, there are simply no alternatives. Our expenses and revenues have to be the same and, regardless of the pain, we will make them so.

Simultaneously, however, it is also my responsibility to main New York City's quality-of-life, the very reason that we live here. We've got to keep crime going down and we have. Diana Fortuna (of the Citizens Budget Commission) talked about the high cost of police in this city. Sure, it costs us \$3 billion a year. Would you really rather live in any other major city in the United States where crime is going up while ours continues to go down? Crime is down nearly an additional 6 percent this year; that is critical to our continued economic recovery. We've got to pick up the garbage and keep the streets clean; we're doing that. We've got to put out the fires, incarcerate our criminals, and protect the environment. Every single day, we do a better job at these things than we did the day before. We're housing thousands more people in our shelter

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system. Even the judge overseeing our efforts admits that Commissioner Linda Gibbs and the city is doing a spectacular job. We didn't cause the national economic recession, but this is a compassionate city and we are not going to let people sleep on the streets, no matter how much of a sacrifice we have to make.

One of the most impressive things is that the care at our public hospitals has soared to the extent that the Health and Hospitals Corporation's hospitals, at least the five that were ranked this year, are ranked as the best in the city, even better, on average, than our world-renowned private and voluntary ones. If you get sick and you want to recover, go to an Health and Hospitals Corporation hospital.

Further, and perhaps most importantly, my administration is committed to doing whatever it takes to dramatically change the public school system, because improving our kids' education is fundamental to New York's long-term prosperity.

All these things cost money, but they are all well worth the investment. During the boom years of the 1990's, that investment came at a much more appealing price than available today. Revenues went up every single year. So the city was able to maintain an increase in spending right through the end of the decade. Essentially, city and state government could cut taxes and improve services during these growth years, both desirable goals and both things that the public demanded and remember we have a democracy.

Unfortunately, when the boom ended and the economic cycle turned south, we were left with a tax structure that provided \$3 billion less in revenue every fiscal year than it did at the beginning of the '90s, but with an expense burden almost 70 percent greater than existed back then. Let me repeat those numbers. Our annual tax revenues are \$3 billion less per year, our expense our 70 percent more over the decade. And the attacks of 9/11 just exacerbated that problem.

Who's at fault for our current economic woes? No one's at fault or maybe, in a different sense, we all are. We just have to adjust to a different world. If we had to do it all over again, I think we all realize we probably would have done exactly the same thing. Let's today not look to the past and say what might've been if we knew what was going to happen; let's focus on what we have to do with today's reality.

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As of today, I believe the city has done its part to close this gap.

My predecessor appropriately started to cut expenses in fiscal year 2001 when tax revenues began declining. Since January, separately, our administration has reduced city expenses by more than \$2.3 billion for fiscal year 2003 and \$2.8 billion for fiscal year 2004. For the most part, New Yorkers have taken these cuts in stride, realizing that when everybody shares the weight, the burden is lighter. The new reality is some things we can continue to do with efficiencies, some we can continue to do on a reduced schedule and some, unfortunately, we just can't continue to do in this day and age.

But from this level of expenditures, and I'm not talking about those things mandated by Albany, there's no question that the city is committed to trying to work with Albany and with the unions to achieve efficiencies. But short-term, when we have to balance the budget now, the fact of the matter is, we have cut as much as I believe we can.

I can only tell you that my company, which I no longer run, but I know what they're doing, they are committing more to this city than ever before. As I said before, we are building a new building, we are moving people from around the world to New York City because this is the place that will allow our company to grow and I believe that most business people understand that. We cannot cut so much so that our quality-of-life starts to decline. We made that mistake in the 1970's, and I think we've learned our lesson. If you remember, crime soared, fires weren't put out, the garbage wasn't picked up and the school system kept falling apart more and more. In the end, while nobody likes a high-tax location, the thing that is clear is that people will not stay in a place that they are not safe, healthy and can get an education for their kids along with a job so that they can feed their families.

And I think together with the City Council, we've made the first hard choices necessary to balance the budget dramatically and, particularly for the City Council and the speaker, courageously, cutting spending and concurrently raising the [property tax](#) rate by 18.49%.

No one likes higher taxes. No elected official wants to vote for them. But with the legal requirement to balance the budget, after cutting as much as we can, after starting the long-term efforts to make city government more efficient, and after categorically refusing to leave our problems to our children, that's what we must do. Not a ways to win a popularity contest, but that's not why we were elected. We have a city to run and we're going to do it.

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Now, it's time, since we've done what we can, for others to step up to the plate: Albany, Washington and the unions.

The next step is for the Albany legislature to conform the city's personal income tax to the ways taxes are already imposed by New York State, the State of New Jersey and the State of Connecticut. What is appropriate for these three states is also appropriate for New York City - that is, to tax equally all who work in a political jurisdiction regardless of where they live. This reform makes all people pay for the services they take advantage of - police, fire, sanitation, water - and by spreading the burden, everyone's rates are kept low.

Let me remind you, for those that come into the city that say, "I don't use all of the services the city provides," that nobody uses all the services that any government provides. Last time I checked, when the firefighters went into the World Trade Center, they didn't ask anybody where the hell they lived. We should never forget that. This reform makes all people pay equally.

Contrary to press reports, this tax reform is not a reform that favors the rich. The 800,000 commuters who would be included make an average salary of more than \$115,000 per year. That's almost double the average salary of the 2.4 million New Yorkers who live and work in the five boroughs. This is a reform that, by broadening the tax base, decreases the burden on those who currently pay the city's personal income tax by over 25 percent, at the beginning, scaling to 37 percent. Last time I checked, everybody thinks that reducing taxes is a good idea and I think that's exactly what is needed here.

More importantly, the combination of property tax increases and personal income tax reform will bring in \$2.7 billion in new revenue for fiscal 2004 helping us to balance our budget. Contrary to some columnists' inaccurate reports, that's roughly the same amount as the \$2.8 billion in expense cuts that are in this plan, some in the form, incidentally, of 6,000 staff reductions already implemented since January and the 8,000 more planned in the next fiscal year. Think about that: pop tax increases, pop expenditure cuts, and still we will be able to maintain the reason why everybody wants to live in New York City.

But we also need more. We're also asking the state and federal governments for aid totaling \$400 million to balance the budget. It's the right thing for them to do in spite of the fact that they will have some severe economic problems themselves. The bottom line is, it's a good

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investment for them. We are the economic engine for this state and the financial capital of the United States. And for those that live in other states, let me just remind you that when your elected officials need to raise money to get their message out, they come and do their fundraisers here, folks.

And finally, our budget balancing plan calls for \$600 million in the form of increased productivity from the city's workforce. That is over and above the \$2.8 billion that we already cut out of our expense budget.

I was elected largely on the basis of my business background, and I think New Yorkers expect me to run city government in much the same ways I ran my company. Fair enough. I'm doing exactly that. Those who think businessmen, smart businessmen and women, would indiscriminately slash a workforce, particularly one where seniority dictates who goes and who stays, just don't understand what makes an organization succeed.

I didn't build the world's most successful media company in the world with layoffs. I did it by making my employees part of the team with the incentives and desire to do more, do it better and do it with less. And as long as we get labor's help, and that's a caveat that everybody should listen to very carefully, we will do exactly that. We need cooperation from, not warfare with, our employees. Fortunately, as least I hope, the Citizens Budget Commission understands that.

You change by evolution, not revolution, if your objective is to create an organization that works going forward as opposed to just having a great photo-op and please a handful of editorial boards. I'm sure that today's sophisticated, practical, municipal union leaders understand exactly that. I was pleased to see in papers that the Citizens Budget Commission and I are on the same page in that department in many ways. Your report on special education ([in pdf format](#)) presents stark evidence of the need for change. At a time of fiscal urgency, for a system to both fail students and be excessive in costs, is intolerable.

Schools Chancellor Joel Klein is [working](#) on exactly this. Addressing special education and other problems in the public school system is an important part of Chancellor Klein's Children's First strategy, a plan to foster systemic reforms in our school systems. He is doing exactly what is necessary, step-by-step, methodically and in the appropriate order.

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Some of your other suggestions work as well. Some would work in a perfect, or at least a different world, where the mayor wouldn't have to participate in the democratic process of getting legislative approval or negotiating collective bargaining. But the fact remains, we do have a democracy and the mayor just can't walk in and say, "Do this," nor should the mayor be allowed to do that. And some of your ideas, I just don't think work at all. Some that make cuts in one place, but increase total expenditures even greater elsewhere.

Remember government differs from business in that most of the services government provides are mandated by court order, the law or political reality. You can reduce the workforce dramatically and instantaneously, just by fear, but someone's still got to do the job, and overtime's expensive. Policies that replace workers with overtime eventually bankrupt you and denigrate the quality of the services provided. The most important thing we can do, at this point in time, is get productivity gains through new work-rule changes and gradual reassignments and adjustments to the workforce. For that, we need our great municipal workforce's cooperation.

Unfortunately, in the real world, that has not already, always been there. For example, the city has already proposed, as you recommend we do, amended the work schedules of police officers. Keeping our police officers on duty for 10 additional days, which would require no extra work on their part, all you have to do is take 20 minutes out of their 8-hour and 35-minute-a-day shifts, which saves this city approximately \$60 million and give us the ability to provide the spectacular police services that we have been providing, just doing it with less people.

But the recently completed binding arbitration for a Police Benevolence Association contract. In that process, the PBA and the independent arbitrator were unwilling to change the work rules one iota. It is not in anybody's interest to have binding arbitration. It takes the city's ability to negotiate with its workforce out of its hands. And I think, in the end, it takes away the power of the unions to get the best deal for their members. But the Albany legislature has seen fit to give some of our unions binding arbitration and that's exactly the result. In fact, this arbitrator gave a raise greater than the City had budgeted without work-rule changes.

Still, I do think there is hope going forward.

We have opened up negotiations with District Council 37, one of our other municipal unions, and I think that they understand we are serious about trying to find negotiated productivity gains

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in everything they do so that we can keep them working and eventually, after we balance our budget, to pay them more. I hope and expect these contract talks to better reflect today's economic realities.

Our message to the labor force is the following. Any collective bargaining increases in the future must come from productivity savings and that, above and beyond the \$600 million in productivity savings already scheduled, but not yet identified, that we need to balance the budget in 2004 and to avoid layoffs. And let me also give you one other fact. The days of retroactive savings are gone; you can't get it.

So we can no longer have retroactive salary increases. The practice of stalling for years and negotiating compensation for past periods just no longer works. There isn't any choice. This is not a negotiating position. It's just a statement of today's reality. There just isn't the money for raises there or in New York City for productivity, for salary increases without productivity enhancements. And all the threats of an illegal and, I believe to both the city and the union, devastating strike, won't change that fact.

As to our budget plan, I think it's fair, I think it's obtainable and, given the world today, I think it's essential. The fact is we have a revenue shortfall. Every year, we spend billions imposed on us by other levels of government that they want and we pay for, and we spend billions a year on services that we want and we will have to pay for.

Someone once said that the holidays are when kids get what they want and adults pay for it. A budget shortfall is when adults get what they want and their kids pay for it. It's true. Think about the effect of our last fiscal crisis.

Every year still, the first \$500 million of New York City's sales tax revenue goes to paying interest and retiring bonds from the 1970's, and that will stay going on through fiscal 2008--\$500 million, every year, for 1970s problems. We're not going to do that again.

We're not going to barter our fiscal well being for future generations to secure our own. We will get through this, but we've learned from the past. We'll be responsible and take care of our own problems, now, not later. And with the help of groups like the Citizens Budget Commission, we will create a legacy of responsibility, fortitude and security for future generations. For nearly 70

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years, the Citizens Budget Commission has provided useful analysis of city services and operations. Keep up the good work. I will make a commitment to you today, in spite of what happens and in spite of what the papers write, if you invite me back next year, I will come.

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