

FISCAL POLICY INSTITUTE

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Deputy Mayor Stephen Goldsmith
City Hall
New York City, New York 10007

Dear Deputy Mayor Goldsmith:

We join all New Yorkers in welcoming your appointment by Mayor Bloomberg as the City's new deputy mayor for operations. New York City government could use a fresh perspective on how to tackle long-standing challenges. An outsider might be just what it takes to get beyond some of the ingrained habits that unnecessarily cost the City money.

Here are several areas that we think you should examine as you search for ways to increase efficiencies and save money for average taxpayers.

- The City annually contracts out billions of dollars in services to for-profit vendors for projects that either could be done in-house more economically or where greater oversight would avoid costly overruns and relatively uncompetitive bidding. When the City's IT office reduced its use of costly outside computer consultants a few years ago it realized substantial savings. On the other hand, the CityTime payroll timekeeping project has ballooned from \$68 million to more than \$738 million in costs and is still not widely operational.
- The City should improve the methods used to determine property tax valuations and assessments. In recent years, it has resorted to many shortcuts and "pennywise-pound foolish" economies such as a less careful review of applications for tax exemptions. Also, five years ago, the City ill-advisedly abandoned a widely accepted industry standard method for assessing hotel properties in favor of one that leaves out consideration of catering and other non-lodging hotel income that is a significant factor for many large hotels. A return to normally accepted appraisal techniques and practices, as outlined by the Institute of Assessing Officers of New York State, would enable the City to better capture real property values, improving the equity of assessments and leading to either higher collections or an overall lower tax rate for property owners.

- It's long overdue for the City to rigorously re-examine the \$2.3 billion in corporate tax breaks that pad the bottom lines of the biggest businesses but make little difference in terms of creating good jobs for local residents. Not too many years ago, the city did carefully review one of its biggest subsidy programs, but since then it has failed to apply the same sort of critical assessment to the entire package of corporate subsidies.

These three are low-hanging fruit, but there are plenty of other areas for saving taxpayer dollars or generating better value for taxpayers.

For example, City pension funds suffered hundreds of millions of dollars in losses as a result of legally-questionable investment advice from financial firms during the bubble years. While amending the state's Martin Act is necessary to permit civil suits by institutional investors, you could champion the legislation proposed by Assemblyman Brodsky and Senator Schneiderman so that the New York City funds could begin to re-coup some of their losses as have public pension funds in Ohio and California.

One great advantage of pragmatic thinkers is that they are not hamstrung by conventional prejudices. We hope this means that you will not subscribe to the sanctity of so-called "free-market" outcomes. For example, city officials often argue that attaching wage requirements to city economic development subsidies is somehow anathema to the private marketplace without examining the broader context in which the absence of any wage requirements encourages poverty-wage employment practices and invariably necessitates the provision of other taxpayer-funded subsidies such as Medicaid or food stamps for such poorly compensated workers.

New York City needs innovative thinking and a willingness to go beyond conventional measures and ways of thinking as it grapples with enormous budget challenges and, just as daunting, the need to make the City's tremendous investments in economic development begin to pay real dividends for the average New Yorker.

We look forward to assisting your efforts in any way we may be of service to you and the people of New York City.

Sincerely,

James A. Parrott
Chief Economist and Deputy Director

cc: Mayor Michael Bloomberg
Comptroller John Liu
Public Advocate William DeBlasio
Speaker Christine Quinn