

Testimony of Jeffrey A. Kay, Director,
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Before a joint hearing of
the Committee on Economic Development and the Committee on Finance
of the Council of the City of New York
concerning the impact of the federal economic stimulus package
on New York City

March 5, 2009

Good afternoon, Chairman White, Chairman Weprin and Committee Members.

My name is Jeff Kay, and I am the Director of the Mayor's Office of Operations. I'm joined today by Larian Angelo, Deputy Director of the Office of Management and Budget; Felix Ciampa, Chief of Staff to Deputy Mayor Bob Lieber; Kristin Misner, Chief of Staff to Deputy Mayor Linda Gibbs; Jahmeliah Nathan, Chief of Staff to Marla Simpson, Director of the Mayor's Office of Contract Services; and Scott Sigal, Senior Advisor to Deputy Mayor Edward Skyler. I'm grateful for the opportunity to speak to you today about the federal economic stimulus package and its potential impact on New York City.

Since I last testified before the Council, Congress passed the American Recovery and Reinvestment Act (ARRA) and President Obama signed the legislation into law on February 17. The final bill contains \$787 billion in stimulus funding through a number of new and existing programs, including infrastructure spending, tax cuts, expansion of unemployment benefits, health care, safety net programs, and education assistance. Today I want to give you an overview of the funding we believe that the City will be eligible to receive through ARRA and outline the process through which this funding will be allocated and tracked.

While the details of many of the programs included in the federal stimulus package are still being determined by the federal agencies that will administer them, we believe that the City is likely to be eligible to receive funding through more than 60 programs in the stimulus package.

For the formula-based programs, some of the initial allotments have been made by Washington; however, most are expected in the coming weeks. For the grant programs, many of the rules and regulations, including eligibility requirements for grants, have not yet been written or released. This makes a thorough analysis of the bill difficult and has prevented us from determining how the funding can be allocated for several key programs, as I will describe later. However, our current estimate is that the City could receive approximately \$4 to \$4.5 billion in expense funding and \$500 million in direct capital funding over the next several years. While this funding alone cannot prevent or postpone the difficult decisions required to balance our budget and close the significant gaps projected for fiscal years 2010 and 2011, it will be able to help us support critical services, allow us to proceed with projects that we may not otherwise have been able to fund due to budget cuts, and provide vulnerable New Yorkers with much-needed assistance.

Each of the programs in the stimulus package has requirements about how money can be spent and how quickly it must be allocated and committed. For capital projects, this means that projects funded with stimulus money must be “shovel ready” and already received all of the relevant permits and environmental reviews required to commence construction. In many cases, the City has no discretion over this process. In the case of food stamps, for example, the monies will flow directly to current food stamp

recipients in the form of increased benefits. Few programs in the stimulus package provide the City with much flexibility.

Where we do have some flexibility and discretion, such as transportation spending, we are committed to a transparent and open process that enables the City to commit and complete projects within the timeframes required by Congress and the public to easily track stimulus funding. Toward the end of my testimony, I will detail our plans to provide the highest level of transparency and accountability of any city or state in the nation.

As I outlined in my testimony last month, the stimulus funding can be divided into five categories: Infrastructure & Energy Efficiency, Economic & Workforce Development, Social Safety Net, Public Safety & Criminal Justice, and Fiscal Assistance. Today, I would like to provide an overview of these funding categories as well as our vision for how these funds should be used.

Infrastructure & Energy Efficiency

The stimulus bill presents an opportunity to restore many “shovel-ready” projects to the FY 2009 and FY 2010 capital program that had been cut or pushed to out-years as a response to the economic crisis and credit crunch. Federal funding to support these projects will help the City meet its critical needs while creating thousands of construction jobs.

In identifying the set of projects that will be funded with ARRA monies, the City will emphasize “fix it first” projects – repairing and maintaining our existing infrastructure assets – with a secondary focus on “shovel-ready” projects that fund new construction. Second, we will target stimulus funding in areas of the city that have already been

designated for economic development efforts and where Federal stimulus dollars can support the City's efforts in economic revitalization. Third, the City will follow ARRA guidelines to ensure that Federal funding does not displace existing City investments.

The final stimulus bill will support the City's infrastructure efforts through a number of new and existing funding programs. Following is a list of the Federal programs from which we believe the City will be eligible for and the amount of funding the bill provides nationally:

Program	National Allocation/Share	Distribution Method
Transportation		
Highway Infrastructure Investment	\$27,500	Formula
Suppl. Grants for a National Surface Transportation System	\$1,500	Competitive Grant
Transit Capital Assistance	\$8,400	Formula
Energy Efficiency		
Energy Efficiency and Conservation Block Grants (Formula)	\$2,800	Formula
Energy Efficiency and Conservation Block Grants (Grant)	\$400	Competitive Grant
Transportation Electrification	\$400	Competitive Grant
Alternative Fueled Vehicles Pilot Grant Program	\$300	Competitive Grant
Qualified Energy Conservation Bond	\$2,400	N/A
Diesel Emissions Reduction Act (DERA) Grants and Loans	\$300	Competitive Grant
Water		
Clean Water State Revolving Fund	\$4,000	Formula/State Discretion
Drinking Water State Revolving Fund	\$2,000	Formula/State Discretion
Rural Water and Waste Disposal Account	\$1,380	Competitive Grant
Watershed Dam and Structural Rehabilitation Program	\$50	Formula
Public Housing		
Public Housing Capital Fund (Formula)	\$2,985	Formula
Public Housing Capital Fund (Grant)	\$1,000	Competitive Grant
Other		
Watershed/Flood Prevention Operations	\$290	Formula
Brownfields	\$100	Competitive Grant
Broadband Technology Opportunities Program	\$4,700	Competitive Grant
Distance Learning, Telemedicine, and Broadband Program	\$2,500	Competitive Grant
DHS - Firefighter Assistance Grants	\$210	Competitive Grant
Bureau of Reclamation	\$1,000	Formula
US Geological Survey	\$140	Formula

Economic & Workforce Development

Within this category, ARRA funding is directed to a variety of goals, including workforce development, attracting private investment, and housing, so that the City can improve its competitive position to attract further private investment. Workforce development funding will build on successful existing City programs to help New Yorkers identify, train for, and access new jobs. We plan to focus on making long-term investments in workforce training that prepares New Yorkers for high-growth potential sectors and helps develop the skills needed for future job opportunities. Training and support will also be targeted at new and small businesses. Housing assistance funding will be used to quickly rehabilitate and purchase foreclosed and abandoned homes, to stabilize neighborhoods and encourage affordable housing development.

Following is a list of the Federal programs from which we believe the City will be eligible for and the amount of funding the bill provides nationally:

Program	National Allocation/Share	Distribution Method
Job Training		
Workforce Investment Act Training and Employment Services	\$3,950	Formula/Competitive Grant
Community Service Employment for Older Americans	\$120	Formula
State Employment Service and Reemployment Grants	\$400	Formula
Wildland Fire Management	\$500	Competitive Grant
Economic Development/Housing		
Neighborhood Stabilization Program	\$2,000	Competitive Grant
HOME Investment Partnership Program	\$2,250	Formula
Economic Development Assistance Programs	\$150	Competitive Grant
Recovery Zone Economic Development Bonds	N/A	Formula/State Discretion
Recovery Zone Facility Bonds	N/A	N/A

Social Safety Net

The stimulus bill includes investments that will allow the City to meet emerging social needs and mitigate the impact of the fiscal crisis. In some cases the funding can

offset all or part of a recent or proposed budget reduction. In other cases, it represents an opportunity for new investment. The funding categories for social services can be divided into four sections: seniors, children and youth services, social services and health services. The disbursement process for the funding includes both formula-driven grants as well as competitive grants. We are still waiting for guidelines to be issued from the Federal and State oversight agencies that administer most of these programs and therefore are unable to directly comment on how the money can be used. We do know that some of the money will come through a formula, in some instances directly to the state and in other instances directly to the City or to recipients. For example, as I mentioned previously, starting in April food stamp recipients will receive a 13% increase in their food stamp benefit. This money will directly assist over 1.3 million food stamp recipients in NYC. In other cases, health services for example, the funding will most likely be awarded through competitive grants.

It is important to remember that the stimulus funding is temporary. Therefore, with respect to the City budget, we need to ensure we have a long-term sound fiscal plan. Agencies will consider restoring PEGs where funds require targeted spending and the need is growing. We also want to satisfy current unfunded costs in the agency budget baseline while at the same time invest in innovative new approaches that address increased need in the short term. It is important to note that for all of the stimulus initiatives, it is essential that New York State, at minimum, maintain existing formulas for allocating funds to localities. It is also critical that the State does not reduce its Block Grant funding and in fact passes the funds made available through the ARRA

on to New York City in order to make sure the most vulnerable families can receive the support they need in these difficult times.

Following is a list of the Federal programs from which we believe the City will be eligible for and the amount of funding the bill provides nationally:

Program	National Allocation/Share	Distribution Method
Seniors		
Senior Nutrition Programs (III-C1 & C2)	\$100	Formula
Children and Youth Services		
Child Care Development Block Grant	\$2,000	Formula
Head Start/Early Head Start	\$2,100	Competitive Grant
Title IV-E Foster Care Reimbursement	TBD	Formula
Adoption IV-E Reimbursement	TBD	Formula
Community Services Block Grant	\$1,000	Formula
Health Services		
Prevention and Wellness Fund	\$1,000	Competitive Grant/Formula
Clinical Effectiveness Research	\$1,100	Discretionary/ Competitive Grant
Health Workforce Training	\$200	TBD
Rehabilitation Services & Disability Research	\$680	TBD
Health IT	\$19,000	Incentive Payments / Discretionary Funds TBD
Social Services		
Supplemental Nutrition Assistance Program Administration (Food Stamps)	\$291	Formula/State Discretion
Child Support Incentive Fund	\$1,000	Formula
Homeless Prevention Fund/Homeless Assistance (ESG)	\$1,492	Formula
Education for Homeless Children (McKenny-Vento)	\$70	Formula/State Discretion

Public Safety & Criminal Justice

The stimulus bill creates a number of different funding streams, most of which add money to pre-existing public safety grants. These grants fund a range of public safety programs from hiring police to assisting victims of domestic violence to protecting ports against terrorism. New York City will receive \$29 million in Justice Assistance Grants. We also expect to receive funding to hire some new police officers through the Community Oriented Policing Services Program.

Unlike formula grants, COPS Hiring funds are distributed based on a nationwide competitive process. Based on past allocations we estimate that we might receive roughly \$70 million or enough to hire approximately 260 new officers. However, we expect that we will be competing against more localities than usual this year, because the stimulus bill waives a local match requirement that is normally part of the program so we are hopeful that we receive our historical share but there is the possibility that we receive less.

New York City can also compete at the state and federal level for roughly \$535 million. We've identified two of these competitive programs with the greatest potential for funding: the Byrne Competitive Grant and Justice Assistance Grants allocated by the state. The stimulus bill allots \$225 million for Byrne Competitive Grants nationwide. In addition, the Department of Justice just announced it is allocating \$67.3 million to New York State in Justice Assistance Grants, which the state can offer to local governments through its Division of Criminal Justice Services.

The Justice Department has not yet announced the detailed criteria or deadlines for applying for these stimulus funds. However, in the meantime, we are reviewing the historic requirements for each grant, evaluating potential grant proposals, and working with the Justice Department and the state to ensure our applications will be fully and fairly considered.

Following is a list of the Federal programs from which we believe the City will be eligible for and the amount of funding the bill provides nationally:

Program	National Allocation/Share	Distribution Method
Justice Assistance Grants - direct to NYC	\$2,000	Formula
Justice Assistance Grants - direct to NYS		Competitive Grant/State Discretion
Byrne Competitive Grants	\$225	Competitive Grant
COPS Hiring Program	\$1,000	Competitive Grant
DHS/FEMA - Public Transportation and Railroad Security	\$150	Competitive Grant
DHS/FEMA - Port Security Grants	\$150	Competitive Grant
Southwest Border/Project Gunrunner	\$30	Competitive Grant
Victims Compensation	\$52	Competitive Grant/State Discretion
Internet Crimes Against Children	\$50	Competitive Grant
Office on Violence Against Women	\$183	Competitive Grant/State Discretion

Community Development Block Grant

In addition, the stimulus bill included an allocation of approximately \$50 to the City of New York through the Community Development Block Grant (CDBG) program. While the CD Block grant provides us with probably the most flexibility, it still does have certain restrictions on how it can be used. CD money can only be used in CD eligible locations throughout the City, and only 15% of the money can be used for certain public services, unless a waiver is granted. Currently, the City of New York uses the CD program to support programs such as graffiti removal and emergency repairs at HPD. Unfortunately, the City's allocation of the CDBG grant has steadily declined over the last several years and funding gaps have occurred in many of these programs. In order to determine how we will use this new allocation, we will examine our current uses and determine if there are funding shortfalls, and we will also look to see how we can leverage this and other federal stimulus dollars to provide the maximum benefit to our communities experiencing the highest rate of foreclosure or are at risk of high foreclosure rates and urban blight.

Fiscal Assistance

As mentioned in my previous testimony, the City expects to receive a significant amount of fiscal relief from the stimulus proposal, both in the form of education dollars and new FMAP funding. While the City's Budget Director, Mark Page, will be able to discuss these issues in more detail next week when he testifies in front of the Finance committee on the City's Preliminary Financial Plan, I would like to explain some of the facts behind these programs and some challenges. First, as many of you know, the City's financial plan assumed that we would be receiving \$2 billion from the federal stimulus bill in FMAP dollars over the next two years, a program that provides an increased share of federal aid for Medicaid expenditures. In fact, based on the final language, we expected at least \$2.1 billion and possibly more. Our assumption was based on language that we worked on with the entire New York Congressional Delegation that would ensure that the State would share the FMAP dollars with localities based on expenditures. However, just yesterday it was announced that Albany would only be providing the City with \$1.9 billion for Medicaid over 27 months – which would mean at least \$200 million less than Congress intended. Effectively, the State has interpreted the language that was inserted into the stimulus bill to protect localities in a way that allows them to disregard actual Medicaid expenditures and take more money for the State directly from the City's share. It is also possible that depending on the final state budget and potential growth in Medicaid expenditures that this amount will actually decline, creating a larger budget gap for the City of New York. As a result, the State has effectively walked away from its commitment to cap Medicaid expenditures for local governments. Second, the stimulus bill allocates a significant amount of money directly to Title 1 schools and a sizeable amount of money to the state in the form of a

state fiscal stabilization grant to be used to prevent education cuts to localities. However, it is now up to the Governor and the Legislature to actually use this fiscal stabilization grant to restore education to the State’s CFE commitment. In addition, we have asked that in order to provide an equitable distribution of education dollars that the State provide us with necessary flexibility – particularly in regard to the requirements under the Contract for Excellence.

Following is a list of the Federal programs from which we believe the City will be eligible for and the amount of funding the bill provides nationally:

Program	National Allocation/Share	Distribution Method
Title 1 Grants	\$10,000	Formula
IDEA	\$12,200	Formula
State Fiscal Stabilization Fund	\$3,600	Formula
Enhancing Education Through Technology Program	\$650	Competitive Grant
Qualified Zone Academy Bonds	\$1,400	Formula
Qualified School Construction Bonds	\$22,000	Formula
Teacher Incentive Fund	\$200	N/A
Medicaid Aid to States (FMAP)	\$87,000	Formula

Transparency and Accountability

Transparency and accountability are vital to the stimulus package’s success, and New York City is committed to providing the highest levels of accountability and detail of any State or local government in the nation. As I announced at the last hearing several weeks ago, we will track stimulus funds all the way from the initial allocation to the City; to their distribution to City programs or capital projects; through the steps of contracting, financial processing, and payments for project work; to the ultimate impact of each funded project on the lives of New Yorkers. And we will post all of this information on an

interactive website, similar to our City wide Performance Reporting dashboard. Through this resource, citizens will be able to:

- See how funding sources are distributed to capital projects and other City programs.
- Track key performance measures – such as jobs created – showing how these projects and programs benefit the City.
- Drill down to see details of the process – such as the start and end dates of construction projects, and the status of contracting steps for outsourced projects, as well as payments to vendors.
- Help hold City government accountable by easily identifying progress toward program goals.

Thank you for the opportunity to testify about this issue and to share the Administration's thoughts. I would be happy to answer any questions.