Review of the Financial Plan of the City of New York

Report 1-2017

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Kenneth B. Bleiwas, Deputy Comptroller

May 2016

Message from the Comptroller

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As the State's chief financial officer, I have a constitutional and statutory responsibility to oversee the finances of the City of New York.

This report discusses the economic, fiscal and social challenges facing New York City in an effort to promote an informed discussion. I encourage every citizen to learn more about these issues and to participate fully in the public debate.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

On April 26, 2016, the Mayor of the City of New York released his executive budget for FY 2017 and a financial plan ("the April Plan") for fiscal years 2016 through 2020 (see Figure 1).

The April Plan projects a surplus of $3.4 billion for FY 2016, which will be used to balance the FY 2017 budget. The surplus largely results from unanticipated growth in tax revenues, debt service and agency savings, and a drawdown of reserves not needed in the current year.

The projected budget gap for FY 2018 has grown by $828 million since the beginning of the fiscal year to $2.7 billion, with the FY 2019 budget gap increasing only slightly to $3.0 billion. The City projects a budget gap of $2.3 billion for FY 2020, $472 million less than projected in January.

The out-year budget gaps are relatively small as a share of City fund revenues (averaging 4.1 percent). The budgets for those years also include a general reserve of $1 billion, which, if unneeded for other purposes, could be used to narrow the gaps.

Although the City's economy is strong today, there are reasons to be concerned. Economic growth in China has slowed, and the U.S. economy grew by only 1.4 percent in the fourth quarter of 2015 and by 0.5 percent in the first quarter of 2016. The Federal Reserve Bank of New York forecasts an increase of 1.7 percent in the second quarter.

While the nation continues to add jobs, the rate of growth has slowed. Employment rose by 160,000 jobs in April 2016 (the 67th month of continuous job growth), but that was the smallest gain since September 2015. Job growth during the first four months of 2016 was the slowest start of any year since the recovery began.

Balancing New York City's budget in recent years has been aided by strong economic growth. Job growth set a two-year record in 2014 and 2015 with the addition of 249,000 jobs. Employment data for the first four months of 2016, however, suggest that job growth is slowing.

Strong job growth, combined with spending by a record numbers of tourists and a robust real estate market, have pushed tax collections to record levels and beyond the City's expectations. Collections exceeded the City's initial forecast by $3 billion in each of fiscal years 2014 and 2015, and by $1.6 billion in FY 2016.

After growing at an average rate of 6.9 percent during the past five fiscal years, tax collections slowed to 3.5 percent in FY 2016. The April Plan assumes that tax collections will slow to 1.7 percent in FY 2017.

The City's cautious approach to FY 2017 is warranted given the elevated economic risks. However, the April Plan also assumes that tax collections will accelerate in subsequent years when the risk of an economic setback is greater.

City-funded spending is projected to grow by an average of about 4 percent during the financial plan period. Spending is driven by the cost of recent labor agreements, agency needs, and higher debt service and health insurance costs.

Debt service is projected to increase by 35 percent by FY 2020, and health insurance costs are projected to rise by 33 percent. The City has also made targeted investments in education, health and homeless services that have contributed to the growth in spending.

While the potential exists for debt service savings and unanticipated revenues in FY 2017 (see Figure 2), other areas pose budgetary risks that require close monitoring.

Overtime costs in the uniformed agencies are likely to be higher than budgeted. The April Plan assumes such costs will decline by $183 million in FY 2017, but that estimate may be optimistic.

The Health and Hospitals Corporation faces serious financial problems. While the City has increased its support to $2 billion (more than one-quarter of total receipts), the Corporation still projects budget gaps that reach $1.8 billion by FY 2020. The Corporation has proposed an ambitious gap-closing program, but it relies heavily on actions that have fallen short of target in the past. If unsuccessful, the City could be called upon to further increase its support.

The April Plan does not reflect the full impact of the State budget. The State intends to recoup, over 36 months, $600 million in savings that accrued to the City when it refinanced bonds of the Sales Tax Asset Receivable Corporation at lower interest rates. The April Plan reflects the impact for only the first 12 months. Thus, sales tax collections are likely to be lower by $400 million during the financial plan period.

The homeless shelter population increased by 57 percent in the five years since the State and the prior mayoral administration cut funding for rental assistance. More recently, the City has allocated funds to improve shelter conditions and increase homeless services. Nonetheless, the shelter population may not decline as rapidly as anticipated in the April Plan.

The City anticipates $731 million from the sale of taxi medallions during fiscal years 2018 through 2020, but the sale has been repeatedly delayed and market conditions remain unsettled.

Pension fund investment earnings are running short of expectations in FY 2016 because of the decline in the equity markets. Unless earnings rebound in the next month, future contributions beginning in FY 2018 could increase faster than planned to make up for the shortfall.

The City has now reached new labor agreements with 95 percent of its work force, but most of those agreements expire in FY 2018. The City has set aside resources to fund annual wage increases of 1 percent after the agreements expire, but the actual cost could be greater.

To its credit, the City continues to add to its reserves. In FY 2015 it raised the general reserve to $1 billion, and this year it created a $500 million Capital Stabilization Reserve.

The City has also replenished the Retiree Health Benefits Trust, which was drawn down by the prior administration to help the City navigate through the Great Recession. In FY 2016, the City intends to deposit an additional $250 million, raising the balance to $3.7 billion.

In FY 2017, the City could draw on a record $5.2 billion in reserves if needed, and the April Plan includes a $5.4 billion citywide savings program, which the Mayor intends to expand in November 2016.

In conclusion, the City’s economy is strong today, but it appears to be slowing and the risk of an economic setback is elevated. While a number of budget risks have been identified that require close monitoring, the out-year budget gaps are relatively small and the City has increased its reserves to historic levels.

FIGURE 1

New York City Financial Plan

(in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues					
Taxes					
General Property Tax	$ 22,815	$ 23,981	$ 25,397	$ 26,900	$ 28,165
Other Taxes	29,873	29,948	31,105	32,101	33,208
Tax Audit Revenue	1,060	714	714	714	714
Subtotal: Taxes	$ 53,748	$ 54,643	$ 57,216	$ 59,715	$ 62,087
Miscellaneous Revenues	7,070	6,500	6,432	6,577	6,777
Unrestricted Intergovernmental Aid	6	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,983)	(1,763)	(1,764)	(1,758)	(1,765)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 58,826	$ 59,365	$ 61,869	$ 64,519	$ 67,084
Other Categorical Grants	705	851	834	832	828
Inter-Fund Revenues	583	645	643	582	581
Federal Categorical Grants	8,467	7,677	6,811	6,680	6,618
State Categorical Grants	13,485	13,682	14,291	14,761	15,247
Total Revenues	**$ 82,066**	**$ 82,220**	**$ 84,448**	**$ 87,374**	**$ 90,358**
Expenditures					
Personal Service					
Salaries and Wages	$ 25,364	$ 26,153	$ 27,555	$ 29,086	$ 29,590
Pensions	9,288	9,422	9,710	9,853	9,785
Fringe Benefits	9,250	9,862	10,411	11,088	11,874
Retiree Health Benefits Trust	250	- - -	- - -	- - -	- - -
Subtotal: Personal Service	$ 44,152	$ 45,437	$ 47,676	$ 50,027	$ 51,249
Other Than Personal Service					
Medical Assistance	5,817	5,915	5,915	5,915	5,915
Public Assistance	1,481	1,584	1,602	1,613	1,624
All Other	26,811	26,275	25,758	26,050	26,440
Subtotal: Other Than Personal Service	$ 34,109	$ 33,774	$ 33,275	$ 33,578	$ 33,979
Debt Service[1,2,3]	6,009	6,628	6,996	7,504	8,164
Debt Defeasances[1]	(103)	- - -	- - -	- - -	- - -
FY 2015 Budget Stabilization[2]	(3,524)	- - -	- - -	- - -	- - -
FY 2016 Budget Stabilization[3]	3,356	(3,356)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	500	- - -	- - -	- - -
General Reserve	50	1,000	1,000	1,000	1,000
Subtotal	$ 84,049	$ 83,983	$ 88,947	$ 92,109	$ 94,392
Less: Intra-City Expenses	(1,983)	(1,763)	(1,764)	(1,758)	(1,765)
Total Expenditures	**$ 82,066**	**$ 82,220**	**$ 87,183**	**$ 90,351**	**$ 92,627**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (2,735)**	**$ (2,977)**	**$ (2,269)**

Source: NYC Office of Management and Budget

1 Includes Debt Defeasances of TFA in FY 2013 of $196 million impacting fiscal years 2014 through 2016.

2 The FY 2015 Budget Stabilization totaled $3.601 billion, including GO of $1.976 billion, TFA-PIT of $1.501 billion, TFA-BARBs of $77 million, and net equity contribution in bond refunding of $47 million.

3 The FY 2016 Budget Stabilization totals $3.356 billion, including GO of $1.660 billion and TFA-PIT of $1.696 billion.

FIGURE 2
OSC Risk Assessment of the New York City Financial Plan
(in millions)

	Better/(Worse)				
	FY 2016	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Surplus/(Gaps) Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (2,735)**	**$ (2,977)**	**$ (2,269)**
Debt Service	- - -	200	- - -	- - -	- - -
Tax Revenues	- - -	150	- - -	- - -	- - -
Miscellaneous Revenues	- - -	75	75	75	75
Uniformed Agency Overtime	(75)	(150)	(150)	(150)	(150)
Sales Tax Asset Receivable Corporation	- - -	(50)	(200)	(150)	- - -
Special Education Medicaid Reimbursement	- - -	(22)	(79)	(79)	(79)
Homeless Shelters	- - -	- - -	(125)	(125)	(125)
Sale of Taxi Medallions	- - -	- - -	(107)	(257)	(367)
Revenue from Development Opportunities	- - -	- - -	- - -	- - -	(100)
OSC Risk Assessment	**(75)**	**203**	**(586)**	**(686)**	**(746)**
Potential Surplus/(Gaps) Per OSC[4]	**$ (75)**	**$ 203**	**$ (3,321)**	**$ (3,663)**	**$ (3,015)**

[4] The April Plan includes a general reserve of $50 million in FY 2016 and $1 billion in each of fiscal years 2017 through 2020, which, if not needed, could be used to help close the projected budget gaps. In addition, the Capital Stabilization Reserve has a balance of $500 million in FY 2017, and the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a projected balance of $3.7 billion.

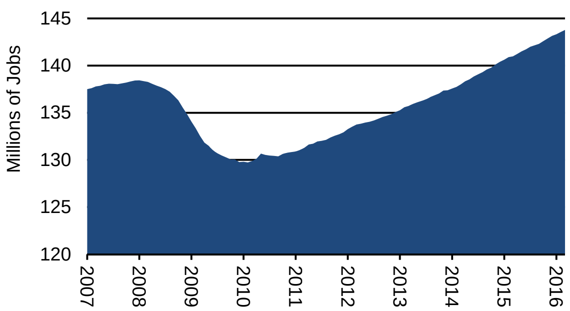
II. Economic Trends

The U.S. economy continues to add jobs, but economic growth has slowed and the global economy presents risks. Although conditions in China have stabilized since the beginning of the year and the financial markets have mostly recovered, the level of economic uncertainty remains elevated.

The National Economy

The United States added 2.9 million jobs in 2015, the most since 1999, and strong job growth continued in the first quarter of 2016. However, job growth slowed in April 2016 to 160,000 jobs (the 67th month of continuous job growth). Nonetheless, employment set a new record of 143.9 million jobs (see Figure 3).

FIGURE 3
U.S. Employment



Note: Data are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

The national economy grew by 2.4 percent in 2015, the same moderate pace as in 2014. However, economic growth slowed to just 0.5 percent in the first quarter of 2016, and the Federal Reserve Bank of New York forecasts an increase of 1.7 percent in the second quarter.

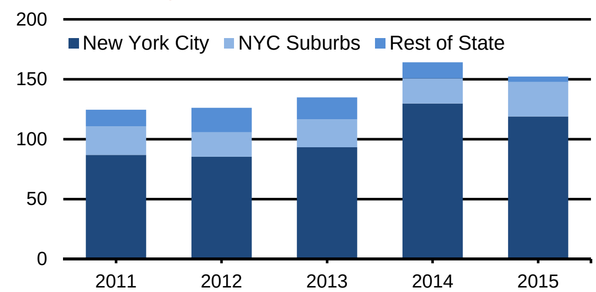
In December 2015, the Federal Reserve raised interest rates for the first time in nearly a decade. The Fed had planned to raise interest rates by a full percentage point during 2016, but it has indicated that rates are likely to rise by one half of a percentage point in light of persistent weakness in the global economy. While inflation has picked up (averaging 1.1 percent during the first four months, compared to 0.1 percent for 2015), it is still below the Fed's target rate. The next meeting of the Fed is scheduled in June.

New York Employment Trends

New York State added 706,500 jobs since the end of the recession in 2009, 469,200 more than were lost during the recession. However, the rate of job growth has begun to slow, increasing by 1.8 percent during 2014, 1.7 percent in 2015 and 1.4 percent during the first four months of 2016.

In addition, job creation has not been uniform across the state. New York City and its suburbs (Long Island, and Westchester, Rockland and Orange counties) accounted for 92 percent of the job gains between 2009 and 2015 (see Figure 4). While job growth remained strong in the downstate region during the first four months of 2016 (growing by 2.3 percent), upstate lost jobs.

FIGURE 4
Annual Job Growth Concentrated in New York City and Its Suburbs



Sources: NYS Department of Labor; OSC analysis

New York City accounted for three-fourths of the jobs added in New York State since the end of the recession. Since 2009 the City has added more than 530,000 jobs, and the City added a record 249,000 jobs during 2014 and 2015 (an average growth rate of 3.1 percent). During the first four months of 2016, job growth slowed, but the City was still on pace to add 100,000 jobs. In April 2016, employment set a new record of more than 4.3 million jobs.

Recent developments, such as weakness in the global economy and dampened visitor spending, could cause the pace of job growth to slow further as the year progresses. The April Plan assumes that growth will slow from 119,000 jobs in 2015 to 53,000 in 2016. While job growth will likely slow, the Office of the State Comptroller (OSC) expects it to slow more gradually, with the City adding 80,000 jobs in 2016.

During the first four months of 2016, job growth slowed in the financial and tourism-related industries (i.e., restaurants and hotels), and the retail sector lost jobs. However, the business and health care sectors continued to exhibit strong job growth. In addition, the construction industry was on pace to add more than 9,000 jobs in 2016, the highest level since 1999, and the manufacturing sector was on pace to double last year's job gains.

Unemployment

The national unemployment rate fell from its recessionary peak (10 percent) to 4.9 percent by January 2016, but since then it has risen to 5 percent as more people have entered the labor market. New claims for unemployment benefits have declined from the recessionary peak of 665,000 to less than 300,000 for 63 consecutive weeks.

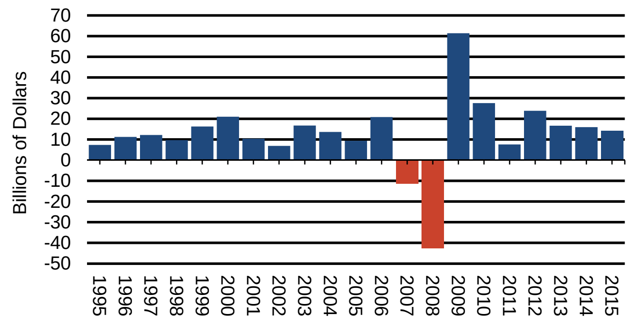
New York State's unemployment rate fell from its recessionary peak (8.9 percent) to 4.9 percent in April 2016, which was only slightly higher than the prerecession level.

The City's unemployment rate fell from its recessionary high (10.2 percent) to 5.1 percent in October 2015. Since then the unemployment rate has inched up, to 5.4 percent in April 2016, as more people have entered the labor market.

Securities Industry

The securities industry reported that pre-tax profits for the broker/dealer operations of New York Stock Exchange (NYSE) member firms (the traditional measure of industry profitability) declined by nearly $1.7 billion to $14.3 billion in 2015 (see Figure 5). After a strong first half and a solid third quarter, the industry reported a small loss of $177 million in the fourth quarter, the first quarterly loss since 2011.

Figure 5
Securities Industry Profits



Note: Results are for broker/dealer operations of the NYSE member firms.
Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange

Although the securities industry has yet to report its first-quarter results, profits for the nation's six largest financial firms (JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Wells Fargo & Co., Goldman Sachs Group Inc., and Morgan Stanley) fell by nearly 20 percent during the first quarter of 2016, and compensation declined by nearly 9 percent.

While legal costs have begun to ease, firms are increasing their reserves to cover potential loan losses, especially from energy firms. While it is still early in the year, current conditions do not bode well for the industry. The April Plan forecasts that securities industry profits will decline by 26 percent to $10.6 billion in 2016.

In March 2016, OSC estimated that the 2015 bonus pool for securities industry employees who work in New York City declined by 6 percent to $25 billion during the traditional December-March bonus season, reflecting a challenging year in the financial markets. Ongoing weaknesses in the global economy and market volatility may dampen bonuses in 2016. The April Plan assumes that bonuses in the securities industry will decline by 3.2 percent in 2016.

Federal regulators recently proposed rules to restrict excessive risk-taking by regulating bonus payments at financial institutions. The rules would require the biggest firms to defer at least half of the bonus payments for top executives and significant risk-takers for a minimum of four years (one year longer than industry practice). In addition, firms could “claw back” bonuses for a period of seven years or longer if a particular action was found to hurt the institution or to be fraudulent. This regulation would likely impact the bonus pool in New York City.

Employment in the securities industry in New York City grew by 2.7 percent in 2015, averaging 172,400 jobs for the year. The industry added 4,500 jobs, after adding 2,400 jobs in 2014. This marks the first time since the financial crisis that the industry in New York City has added jobs for two consecutive years. Despite the job gains, the industry remains 8 percent smaller than it was before the 2008 financial crisis.

A number of large financial firms have announced plans to reduce costs to improve profitability, which could lead to fewer employees in New York City. Although the rate of job growth in New York City is slowing, the industry is still adding jobs. Nonetheless, the industry may shed jobs as the year progresses.

Tourism

NYC & Company, the official tourism and marketing organization of New York City, estimates that a record 58.3 million visitors came to the City in 2015, an increase of 33 percent since 2006. As the number of visitors has increased over the past decade, the hotel industry has added more than 34,000 new hotel rooms and more than 11,000 jobs. In 2015, occupancy and room rates eased as the supply of rooms increased and tourist spending slowed.

Real Estate

New York City’s commercial and residential real estate markets have grown significantly over the past six years, with rising property values and larger transaction volumes boosting tax collections. The average price of transactions has grown by 14.2 percent since 2009, with commercial prices (23.4 percent) growing at a significantly higher rate than residential prices (10.4 percent), according to data from the City’s Department of Finance.

In 2015, sales of large Manhattan commercial buildings (priced at $50 million or more) totaled $24.5 billion, the highest level since 2007. Similar large commercial sales volume in Brooklyn reached a record $907 million (the previous high was $718 million in 2012).

Residential sales volume reached an all-time high of $72.3 billion in 2015. Sales of luxury apartments (those valued at $5 million or more) in Manhattan peaked in 2014 at a total of $2.9 billion, and declined to $2.2 billion in 2015.

Preliminary data suggests that transaction growth has begun to slow, particularly commercial sales. While both the commercial and residential markets have benefited from foreign investments and a stronger dollar, weakening economic factors could further dampen price increases and sales activity.

Wages

Although job growth in the City has been strong, wage growth has lagged. Much of the job growth has been in lower-wage sectors, for jobs such as restaurant workers, retail store workers and home health aides. Since 2010, wages have grown at an average annual rate of only 2.2 percent.

New York State plans to raise the statewide minimum wage from the current statewide minimum of $9 per hour. For workers in New York City employed by large businesses (those with at least 11 employees), the minimum hourly wage would rise to $11 at the end of 2016, then by another $2 each year until reaching $15 on December 31, 2018. For small businesses in New York City (those with 10 employees or less), the minimum wage would rise to $15 an hour by December 31, 2019.[5]

The wage increase is expected to impact more than 900,000 New York City residents who currently earn less than $15 per hour, according to the State Department of Labor. Workers in the retail trade and leisure and hospitality sectors will receive the largest benefit. U.S. Census Bureau data show that more than half of these workers earned less than $15 per hour in 2014.

Conclusion

China's slowdown and weak commodity prices are taking a deep toll on emerging markets, and growth in other advanced nations has been sluggish since the financial crisis.

In June, voters in the United Kingdom will decide whether their country will remain in the European Union. The impending vote could increase volatility and lower confidence in global markets.

In addition, job growth in the nation has begun to slow. Job growth during the first four months of 2016 was the slowest start of any year since the recovery began. The national recovery has lasted 82 months, much longer than the average (58 months) of post–World War II recoveries. Though the length of the recovery itself will not precipitate a recession, a change in economic conditions could.

Within this environment of uncertainty, New York City's economy remains strong. Nonetheless, weakness in the global economy and a strong dollar have already begun to dampen visitor spending and tourism. Although the City's economy has become more diversified and less reliant on Wall Street since the financial crisis, the securities industry is still a bedrock of the City's economy, and could be impacted by recent developments.

[5] Wages in Long Island will reach $15 an hour by 2021, and the timeline for the rest of the State will be determined based on an annual analysis of the regional economies.

III. Changes Since the Beginning of the Fiscal Year

In June 2015, the City projected a balanced budget for FY 2016 and budget gaps of $1.5 billion in FY 2017, $1.9 billion in FY 2018 and $2.9 billion in FY 2019 (see Figure 6), a three-year total of more than $6.2 billion.

Since then, the City has increased its tax revenue forecast by $4.9 billion through FY 2019, including $1.6 billion in FY 2016. Most of the additional revenue is expected to come from real estate and personal income taxes, partly offset by lower business tax collections.

The City also expects to realize $4.4 billion ($5.4 billion through FY 2020) from a citywide savings program (three times larger than the program announced in January 2016). It also freed up nearly $1.9 billion in unneeded reserves in the current fiscal year. The City plans to deposit $250 million of the unneeded reserves into the Retiree Health Benefits Trust, increasing the year-end balance to a record $3.7 billion. It also plans to maintain the $500 million Capital Stabilization Reserve in FY 2017.

Although the City projects a $3.4 billion surplus for FY 2016 and higher tax collections in subsequent years (along with significant resources from the citywide savings program), it projects budget gaps of $2.7 billion in FY 2018, nearly $3 billion in FY 2019 and $2.3 billion in FY 2020. These gaps total $8 billion, nearly $1.6 billion more than projected one year ago.

The out-year gaps are relatively small as a share of City fund revenues (averaging 4.1 percent). The budgets for those years also include a historic general reserve of $1 billion, which, if unneeded, could be used to narrow the gaps.[6]

Since the beginning of the fiscal year, the City has identified cumulative resources of nearly $11 billion through FY 2019. Most of the resources were used to fund increased spending ($9.9 billion), and the balance was used to offset the impact of the State budget and to provide home owners with a one-time credit on their water and sewer bills.

Much of the additional spending ($3.1 billion) stems from an increase in planned pension contributions, mostly to make up for an investment shortfall in FY 2015 and the use of updated mortality tables. The City also funded a number of new agency needs, which increased costs by a cumulative total of $7.3 billion over the course of fiscal years 2016 through 2019 (about $1.8 billion annually).

The City increased its subsidy to the Health and Hospitals Corporation by more than $1 billion during fiscal years 2016 through 2019 ($497 million in FY 2016 alone), and increased funding to the uniformed agencies by $953 million, largely to improve security at the Department of Correction and to staff additional ambulance tours at the Fire Department.

The City increased funding for homeless services by nearly $1.3 billion, and City funding to the Department of Education increased by more than $1.2 billion. The City also directed additional funds to a number of public health programs, including mental health services, drug abuse treatment and prevention (e.g., opioid addiction), and disease prevention and preparedness (e.g., for the Zika virus).

Collective bargaining costs were lower by $105 million in FY 2016, largely because attrition was greater than anticipated in the Department of Education. Such costs will be slightly higher in subsequent years as the City increases the hourly minimum wage to $15 for its employees and those under contract to the City.

[6] In FY 2016, the City began budgeting for an annual general reserve of $1 billion. At this level, it is the largest ever, both in absolute dollars and as a share of City-funded expenditures.

FIGURE 6
Financial Plan Reconciliation—City Funds
April 2016 Plan vs. June 2015 Plan
(in millions)

	Better/(Worse)			
	FY 2016	FY 2017	FY 2018	FY 2019
Projected Gaps Per June 2015 Plan	**$ - - -**	**$ (1,465)**	**$ (1,907)**	**$ (2,853)**
Revenue Reestimate				
Real Estate Transaction Taxes	575	104	25	36
General Property Tax	431	494	907	1,351
Personal Income Tax	347	374	447	524
Business Taxes	(203)	(360)	(216)	(349)
Sales Tax	(8)	(54)	(60)	(6)
Other Taxes	88	28	36	57
Tax Audits	349	3	3	3
Subtotal: Taxes	**1,579**	**589**	**1,142**	**1,616**
Taxi Medallion Sales	- - -	(107)	(150)	(110)
All Other	488	209	83	116
Total	**2,067**	**691**	**1,075**	**1,622**
Citywide Savings Program				
Agency Actions	878	900	816	859
Debt Service	448	97	200	201
Total	**1,326**	**997**	**1,016**	**1,060**
Reserves				
General Reserve	950	- - -	- - -	- - -
Capital Stabilization Reserve	500	(500)	- - -	- - -
Prior-Year Payable	400	- - -	- - -	- - -
Retiree Health Benefits Trust	(250)	- - -	- - -	- - -
Total	**1,600**	**(500)**	**- - -**	**- - -**
Expenditure Reestimates				
Pension Contributions	(533)	(703)	(933)	(975)
Energy	- - -	49	42	26
Debt Service	32	86	(26)	(1)
All Other	263	(49)	(11)	162
Total	**(238)**	**(617)**	**(928)**	**(788)**
Agency New Needs				
Health and Hospitals Corporation	(497)	(180)	(173)	(179)
Uniformed Agencies	(241)	(286)	(214)	(212)
Services for the Homeless	(204)	(392)	(305)	(353)
Department of Education	(162)	(339)	(354)	(362)
Other Health and Social Services	(17)	(194)	(235)	(252)
Collective Bargaining Costs	105	(45)	(27)	(25)
All Other	(313)	(742)	(567)	(539)
Total	**(1,329)**	**(2,178)**	**(1,875)**	**(1,922)**
Other				
State Budget Impact	(50)	(150)	- - -	- - -
Water Board Rental Payment	(20)	(134)	(116)	(96)
Net Change During FY 2016	**3,356**	**(1,891)**	**(828)**	**(124)**
Surplus/(Gap)	**$ 3,356**	**$ (3,356)**	**$ (2,735)**	**$ (2,977)**
Surplus Transfer	(3,356)	3,356	- - -	- - -
Projected Gaps Per April 2016 Plan	**$ - - -**	**$ - - -**	**$ (2,735)**	**$ (2,977)**

Sources: NYC Office of Management and Budget; OSC analysis

IV. Impact of the State Budget

The State budget increases education aid to New York City by $525 million in FY 2017, which has been reflected in the April Plan. However, the City has not reflected the full impact of an initiative that was advanced by the Governor and approved by the State Legislature that will cost the City $600 million over three years.

In October 2014, the Sales Tax Asset Receivable Corporation refinanced bonds at lower interest rates, realizing significant savings that benefited the City. The Governor and the State Legislature believe that the State should have benefited from the refinancing since the debt service on the bonds is paid by the State.

To provide the State with the benefit of the refinancing, the State Comptroller is required to intercept $16.7 million a month in sales tax receipts intended for the City for a period of 36 months (a total of $600 million). The City's financial plan, however, only reflects the cost for the first 12 months ($50 million in FY 2016 and $150 million in FY 2017). Under current law, the City will lose an additional $400 million during fiscal years 2017 through 2019.

The State budget excludes two proposals made by the Governor that would have shifted a larger share of the cost of Medicaid and the senior colleges of the City University of New York (CUNY) to the City's budget. These proposals would have cost the City $785 million in FY 2017 and much larger amounts in subsequent years.

The State budget also does not impose new approvals on the use of private activity bonds as proposed by the Governor. These bonds are an important part of the City's affordable housing program, and the City opposed the changes. While the State has not yet acted on proposals to extend mayoral control of the City's public schools, the issue is expected to be taken up before the end of the legislative session.

The State froze tuition at CUNY for one year, and the budget provides an additional $4.7 million for the Search for Education, Elevation and Knowledge (SEEK) program.

The State budget, however, excludes $240 million for retroactive wage increases for employees at CUNY senior colleges, which the Governor had conditioned on New York City assuming greater financial responsibility for the senior colleges. The City's financial plan does include funding to provide retroactive wage increases for employees at CUNY's community colleges. Negotiations continue on new contracts for these employees, who have been working without a contract for more than five years.

The State approved a plan to raise the minimum wage for private sector workers over the next few years. For workers in New York City employed by large businesses (those with at least 11 employees), the minimum hourly wage would rise from $9 to $15 by December 31, 2018. For small businesses, the minimum wage would reach $15 per hour by December 31, 2019.

In addition, the State approved a personal income tax cut for most New Yorkers, to be phased in beginning in 2018, with full implementation planned by 2025. The State Division of the Budget estimates that the cut will save New York City residents $1.3 billion annually beginning in 2025 (saving taxpayers an average of $653).

The State appropriated $1 billion to help cover the cost of expanding the Jacob K. Javits Convention Center on the far West Side of Manhattan, which will benefit the City's economy. Although the State approved a $2 billion multiyear statewide housing program, the details of the plan must still be negotiated by the State budget director and legislative leaders.

V. The Citywide Savings Program

In January 2016, the Mayor announced a citywide savings program that was expected to generate $1.8 billion during fiscal years 2016 through 2020. At that time, the Mayor stated that additional cost-reduction actions would be included in his executive budget. As anticipated, the April Plan includes additional actions that raise the five-year value of the program to $5.4 billion (see Figure 7), the largest program in five years.

Of this amount, more than three-quarters (nearly $4.4 billion) will come from agency actions, with the balance ($1 billion) coming from lower debt service. As discussed below and shown in Figure 7, the agency actions include funding shifts, reestimates, administrative efficiencies and revenue initiatives.

The largest initiative involves Medicaid savings of more than $1.5 billion through FY 2020. Beginning in 2014, the Affordable Care Act (ACA) offered states the option of expanding Medicaid eligibility to low-income individuals, with the federal government funding the entire cost for the first three years. For states that had expanded coverage prior to the law, such as New York, the reimbursement rate will increase to 90 percent by 2020. Since the City's financial plan had not previously anticipated the impact of the ACA, the April Plan reflects savings of $305 million annually beginning in FY 2016. The City will likely realize additional savings as the reimbursement rate increases to 90 percent.

The City also expects savings of $1.3 billion from cost reestimates. More than 40 percent of the savings ($565 million through FY 2020) would come from lower fringe benefit costs because staffing and the cost of supplemental welfare fund benefits grew more slowly than had been anticipated. Additional savings ($287 million) would come from an expected decline in the cost of judgments and claims.

Administrative efficiencies are expected to save $1 billion through FY 2020. One-fifth of the savings will come from eliminating the reserve that provides agencies with funds to offset the impact of inflation on procurement. Inflation is expected to remain low, and agencies will be expected to offset the loss of funding through efficiencies to maintain service levels.

A new legal case management system is expected to reduce the cost of judgments and claims by $143 million through FY 2020. A Law Department pilot program in the Bronx assigned cases to one attorney (instead of a team of attorneys) who was responsible for all legal preparation, court proceedings, and appeals. The program is now being expanded to all cases in the Bronx and Brooklyn.

FIGURE 7
Citywide Savings Program
(in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total
Agency Actions						
Medicaid Reestimate	$ 305	$ 305	$ 305	$ 305	$ 305	$ 1,526
Cost Reestimates	232	302	227	243	275	1,281
Funding Shifts	283	44	34	34	34	429
Administrative Efficiencies	31	221	236	264	273	1,024
Revenue	27	27	13	12	12	91
Subtotal	**878**	**900**	**816**	**859**	**899**	**4,351**
Debt Service	**448**	**97**	**200**	**201**	**84**	**1,031**
Total	**$ 1,326**	**$ 997**	**$ 1,016**	**$ 1,060**	**$ 983**	**$ 5,382**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSC analysis

Consolidating administrative functions and implementing programmatic changes at the Human Resources Administration (HRA) is expected to generate $321 million in administrative efficiencies. For example, the management of the Department of Homeless Services will be folded into the HRA (for savings of $165 million). In addition, the HRA intends to increase homeless prevention services and supportive housing placements, which is expected to reduce the demand for shelters (saving $156 million).

Shifting financial responsibility from the City to the federal and State governments is expected to save $429 million, with more than half of the savings occurring in FY 2016 ($283 million). Most of the savings in FY 2016 would come from an increase in federal and State reimbursements for fringe benefits associated with social services programs. Most of the savings in subsequent years will come from higher State reimbursements for child welfare services.

Revenue initiatives are expected to generate $91 million through FY 2020. Nearly all of the resources would come from fees and fines (e.g., franchise fees on cable subscriptions, fines for unsafe sidewalk conditions, and fees for the use of public street space by utilities).

The City realized debt service savings of $448 million in FY 2016, mostly from lower-cost variable rate debt (from both lower interest rates and fees). The City will realize additional savings in subsequent years from delays in capital commitments in FY 2016 and from debt refinancing.

The citywide savings program includes some initiatives that may fall short of target. In the event that this occurs, the State Comptroller recommends that the City be prepared with alternative initiatives.

The Mayor plans to announce a new round of cost-saving actions in November 2016 with the release of the first quarter financial plan modification. These initiatives could reduce the budget gaps projected for fiscal years 2018 through 2020.

VI. Revenue Trends

After increasing at an average annual rate of 6.7 percent during the past five fiscal years, the April Plan assumes a sharp slowdown in the growth of City fund revenues during fiscal years 2016 and 2017 (to 1.5 percent and 0.8 percent, respectively; see Figure 8).

While property tax collections continue to show strong gains, nonproperty tax collections are expected to slow to 1 percent in FY 2016 in response to weaker business profits, declines in the financial markets and lower tourism spending. Overall, the City's forecast for FY 2016 is reasonable.

The City is taking a cautious approach to FY 2017 in light of the economic risks. The April Plan assumes that nonproperty tax collections will decline by 0.9 percent, the first reduction since FY 2010. Although there is the potential for higher tax receipts in FY 2017, the City's cautious approach is warranted given the elevated economic risks.

However, the April Plan assumes that growth in nonproperty tax collections will rebound during fiscal years 2018 through 2020 (averaging 3.4 percent annually) at a time when the risk of an economic slowdown is greater.

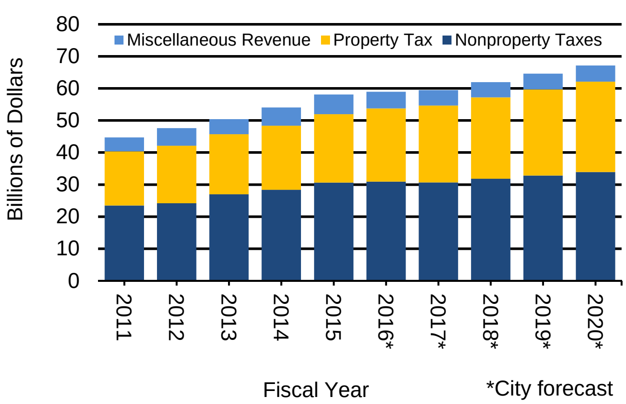
The City has not fully reflected the impact of the State budget. The State intends to recoup, over 36 months, $600 million in savings that accrued to the City when it refinanced bonds of the Sales Tax Asset Receivable Corporation at lower interest rates. The April Plan reflects the impact for only the first 12 months. Under current law, sales tax collections are likely to be lower by $400 million during the financial plan period.

The April Plan also anticipates revenue from the sale of taxi medallions ($107 million in FY 2018, $257 million in FY 2019 and $367 million in FY 2020), but the sale has been repeatedly delayed and market conditions remain unsettled.

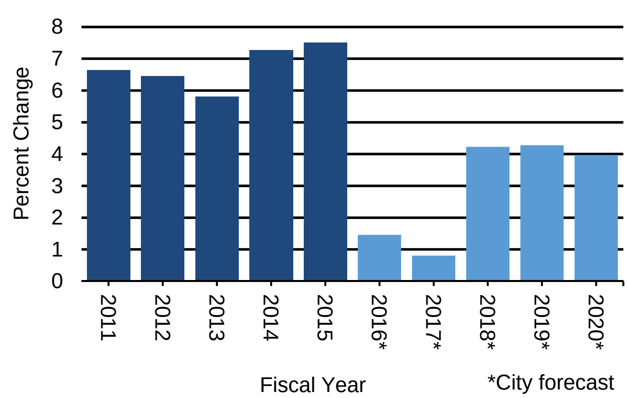
The City expects $100 million in FY 2020 from development opportunities at properties leased to the Health and Hospitals Corporation. The City intends to transfer the proceeds to the Corporation to help balance its budget. In the event of a shortfall, the City may be called upon to make up the difference or the Corporation may be required to implement deeper cuts than already planned.

FIGURE 8
Growth in City Fund Revenues

Level



Annual Percent Change



Note: Adjusted for debt service on TFA Bonds and tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 9
City Fund Revenues
(in millions)

	FY 2016	FY 2017	Annual Growth	FY 2018	FY 2019	FY 2020	Average Three-Year Growth Rate
General Property Tax	$ 22,815	$23,981	5.1%	$25,397	$26,900	$28,165	5.5%
Personal Income Tax	10,894	10,990	0.9%	11,301	11,720	12,185	3.5%
Sales Tax	6,968	7,116	2.1%	7,557	7,880	8,216	4.9%
Business Taxes	5,931	6,009	1.3%	6,344	6,442	6,596	3.2%
Real Estate Trans. Taxes	2,908	2,681	-7.8%	2,678	2,760	2,836	1.9%
Other Taxes	3,172	3,152	-0.6%	3,225	3,299	3,375	2.3%
Tax Audits	1,060	714	-32.6%	714	714	714	0.0%
Subtotal: Taxes	**53,748**	**54,643**	**1.7%**	**57,216**	**59,715**	**62,087**	**4.3%**
Miscellaneous Revenues	5,232	4,811	-8.0%	4,750	4,901	5,094	1.9%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**58,965**	**59,439**	**0.8%**	**61,951**	**64,601**	**67,166**	**4.2%**

Note: Miscellaneous revenues include tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Office of Management and Budget; OSC analysis

The April Plan is based on the trends shown in Figure 9 and discussed below.

1. General Property Tax

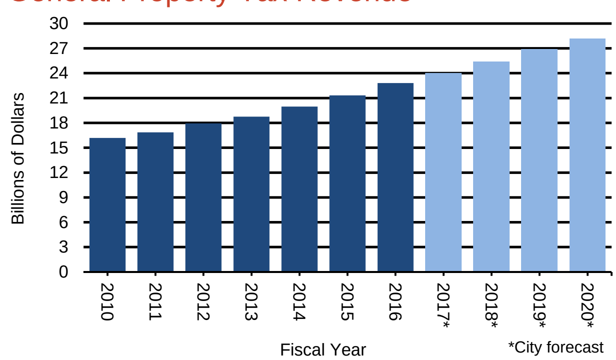
Property taxes are the City's largest revenue source, accounting for 42 percent of tax revenues in FY 2016. Strong growth in property values enabled collections to increase by $6.6 billion between fiscal years 2010 and 2016, an average annual increase of 5.9 percent.

Property tax collections are projected to grow by 5.1 percent in FY 2017 to a record $24 billion (see Figure 10), and then grow at an average annual rate of 5.5 percent through FY 2020. This is significantly faster than the City had projected at the start of the fiscal year. As a result, the City expects to realize an additional $4.4 billion during fiscal years 2017 through 2020.

Even though overall tax rates have been unchanged since FY 2010, growing property values have resulted in higher tax bills. For example, since FY 2010, average tax bills have increased by $27,000 for commercial property owners and by $1,500 for residential home owners.

State law requires changes in assessed values for commercial and large residential properties to be phased in over five years. The amount of revenue from the pipeline will remain relatively constant during the financial plan period (averaging $900 million annually), creating a cushion against an economic slowdown that might impact property values. During the Great Recession, the five-year phase-in of assessed values prevented a decline in property tax collections.

FIGURE 10
General Property Tax Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

2. Personal Income Tax

Personal income tax collections, which account for one-fifth of total tax collections, are projected to total $11 billion in FY 2017. Between fiscal years 2009 and 2015, collections increased by $4 billion (average annual gains of 8.3 percent) as the economy expanded, employment increased at record rates and the stock market rebounded after the financial crisis.

Despite record job gains, the growth in personal income tax collections is forecast by the City to slow to 2.5 percent in FY 2016 as Wall Street bonuses decline and volatility in the financial markets leads to lower capital gains.

The April Plan projects growth will ease even further in FY 2017, to 0.9 percent. The slowdown reflects expectations that continued weakness in the equity markets will lead to lower Wall Street bonuses and capital gains realizations, as well as a sharp reduction in job gains. OSC believes tax collections are likely to exceed the City's estimate for FY 2017 by $150 million based on our expectations of stronger job growth and a smaller decline in capital gains.

Given the elevated economic risks, OSC remains concerned that collections may not accelerate as assumed in the April Plan. The City projects that collections will average 3.5 percent during fiscal years 2018 through 2020.

3. Sales Tax

Sales tax collections have risen steadily in recent years, boosted by spending from a robust local economy and a record number of tourists visiting New York City. Since 2009, sales tax revenue grew by an average of 6.6 percent annually, but growth began to slow in FY 2015.

Weakness in the global economy and a strong dollar have dampened visitor spending. The April Plan expects the growth in sales tax collections (excluding the intercept discussed above) to ease to 4.1 percent in FY 2016, which is consistent with recent trends. The City expects growth to slow further in FY 2017, to 3.5 percent, as a result of continued weakness in the global economy.

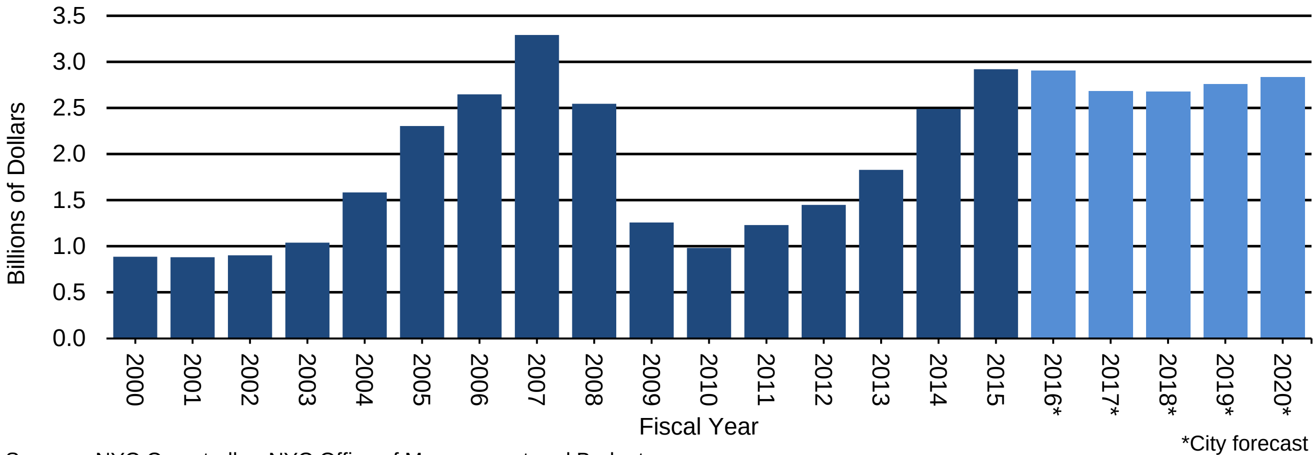
Despite expectations of continued modest job growth and weakness in international tourism, the April Plan assumes that the growth in sales tax collections will pick up during the remainder of the financial plan period, averaging 4.2 percent annually.

4. Real Estate Transaction Taxes

Revenues from the real estate transaction taxes have grown rapidly during the recovery, rising from less than $1 billion in FY 2010 to $2.9 billion by FY 2015 (see Figure 11). Despite the extraordinary growth, revenues have not yet reached the prerecession peak.

For the past two years, the City has projected a decline in transaction tax collections, which did not materialize. In FY 2016, however, collections have begun to slow and are unlikely to exceed last year's level. The City expects that higher interest rates and a weaker economy will cause collections to decline by $227 million in FY 2017 and then grow slowly in subsequent years.

Figure 11
Real Estate Transaction Taxes Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

5. Business Taxes

In April 2015, the State combined the City's banking and general corporation taxes. The change is expected to be revenue-neutral, but the short-term impact is unclear. The City has reported that many businesses have filed extensions on their 2015 tax returns to accurately reflect the impact of the change.

The April Plan assumes that business tax collections will decline by 2 percent in FY 2016, ending five years of growth. Since June 2015, the City has lowered its forecast by an average of more than $250 million during fiscal years 2016 through 2020. As a result, collections are projected to grow by only 1.3 percent in FY 2017.

The slowdown reflects the City's expectation of lower Wall Street profits and only moderate growth in nonfinancial sectors. Growth is expected to pick up in subsequent years, averaging 3.2 percent annually. However, the pace of collections from the finance sector is expected to be weak.

6. Miscellaneous Revenues

Miscellaneous revenues include recurring resources, such as fines and fees, and nonrecurring resources, such as proceeds from the sale of taxi medallions or City property. OSC estimates that recurring revenues could be higher, by $75 million annually, beginning in FY 2017.

VII. Expenditure Trends

The Mayor's executive budget for FY 2017 totals $82.2 billion, including spending funded by federal and State grants. The portion of the budget funded with locally generated revenue (i.e., City funds) is projected to total $59.4 billion. After adjusting for surplus transfers and debt defeasances, which can mask expenditure trends, City-funded spending is projected to reach $62.8 billion in FY 2017 (see Figure 12), an increase of 6 percent (3.6 percent excluding reserves).

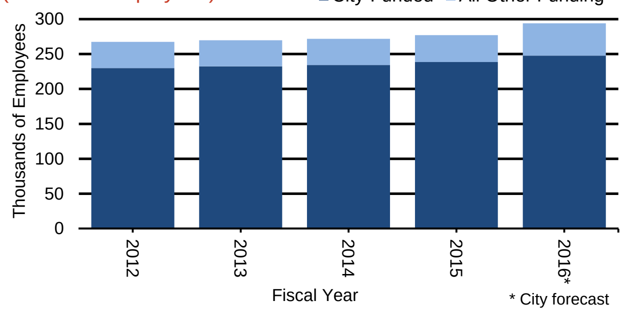
City-funded spending is projected to grow at an average annual rate of 4.1 percent during the financial plan period to reach $69.4 billion by FY 2020. This represents an increase of $12.7 billion (22 percent) since FY 2015. Growth is driven by the cost of recent labor agreements; higher costs for employee fringe benefits and debt service; and new programmatic initiatives.

The City's full-time work force (including jobs fully funded by the federal and State governments) grew by 9,750 employees between fiscal years 2012 and 2015. The April Plan anticipates the addition of another 16,836 employees in FY 2016 (see Figure 13), but many of these positions are likely to remain vacant.

FIGURE 13

Staffing

(Full-Time Employees)



Note: Staffing levels are as of June 30 of each fiscal year.

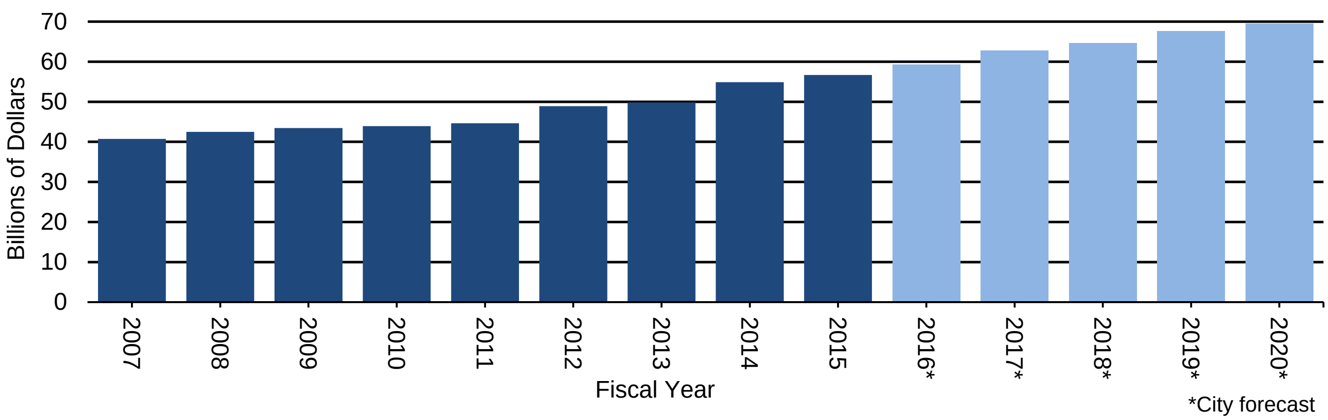
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The City added 7,820 full-time employees during the first nine months of the fiscal year, with teachers, police officers and correction officers accounting for 70 percent of the new hires. Although the April Plan assumes that the City will add another 9,016 employees before the end of FY 2016, most of the planned additions are in agencies that have fallen far short of their hiring targets in recent years.

If the City adds all of the hires as anticipated, FY 2016 would be the largest one-year increase in 12 years, and the municipal work force would reach 294,009 employees, higher than the prerecession level. The April Plan assumes the addition of 2,080 employees in FY 2017.

FIGURE 12

Growth in City-Funded Expenditures



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

FIGURE 14
City-Funded Expenditures
(in millions)

	FY 2016	FY 2017	Annual Growth	FY 2018	FY 2019	FY 2020	Average Three-Year Growth Rate
Salaries and Wages	$ 16,992	$ 17,868	5.2%	$ 19,147	$ 20,537	$ 20,924	5.4%
Pension Contributions	9,144	9,278	1.5%	9,566	9,709	9,641	1.3%
Medicaid	5,715	5,813	1.7%	5,813	5,813	5,813	0.0%
Debt Service	5,924	6,433	8.6%	6,814	7,328	7,994	7.5%
Health Insurance	4,508	4,867	8.0%	5,136	5,544	5,976	7.1%
Other Fringe Benefits	2,828	2,910	2.9%	2,960	3,176	3,352	4.8%
Energy	689	738	7.1%	791	842	873	5.8%
Judgments and Claims	525	536	2.1%	552	567	585	3.0%
Public Assistance	650	703	8.2%	713	718	724	1.0%
Other	12,361	12,149	-1.7%	12,194	12,344	12,553	1.1%
Subtotal	**59,336**	**61,295**	**3.3%**	**63,686**	**66,578**	**68,435**	**3.7%**
Retiree Health Benefits Trust	250	- - -	NA	- - -	- - -	- - -	NA
General Reserve	50	1,000	NA	1,000	1,000	1,000	NA
Prior Year's Expenses	(400)	- - -	NA	- - -	- - -	- - -	NA
Capital Stabilization Reserve	- - -	500	NA	- - -	- - -	- - -	NA
Total	**$ 59,236**	**$ 62,795**	**6.0%**	**$ 64,686**	**$ 67,578**	**$ 69,435**	**3.4%**

Notes: Debt service has been adjusted for surplus transfers, TSASC and redemptions. Judgments and claims excludes the cost of medical malpractice claims filed against the Health and Hospitals Corporation.
Sources: NYC Office of Management and Budget; OSC analysis

The April Plan is based on the trends shown in Figure 14 and discussed below.

1. Collective Bargaining

As of May 2016, the City had reached new labor agreements with 95 percent of its unionized work force. The agreements call for wage increases of 10 percent over seven years for civilian employees and 11 percent over seven years for uniformed employees. The City expects the remaining unions with expired contracts to reach conforming agreements.

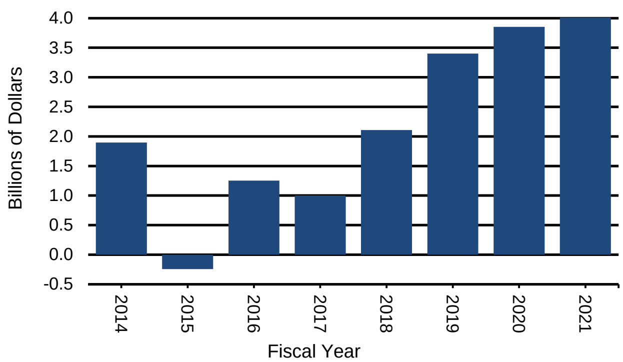
The agreements also compensate members of the United Federation of Teachers (UFT) and other employees for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to these employees.

In November 2015, the City and the Patrolmen's Benevolent Association (PBA) concluded binding arbitration. A three-member panel awarded police officers two annual wage increases of 1 percent, which was consistent with the City's financial plan. The City and the PBA have resumed contract negotiations, but no progress has been reported.

The City estimates that recently negotiated and anticipated agreements will cost $13.9 billion during fiscal years 2014 through 2018, but that the cost will be partially offset by resources that had been set aside by the City in its labor reserve prior to reaching new wage agreements ($3.5 billion), and from health insurance savings ($4.4 billion) that are expected to result from a separate agreement between the City and its unions. The net budgetary impact during fiscal years 2014 through 2018 will total $6 billion.

The budgetary impact will be greatest during fiscal years 2018 through 2021, and will peak at $4 billion in FY 2021 (see Figure 15). The cost continues to rise after the expiration of the contracts beginning in 2018 because of lump-sum payments to compensate members of the UFT and other employees for the time they went without wage increases, as well as the full impact of wage increases granted in prior years.

FIGURE 15
Net Budgetary Impact of Labor Settlements



Sources: NYC Office of Management and Budget; OSC analysis

The April Plan includes resources to fund annual wage increases of 1 percent after the expiration of the current round of collective bargaining, which for most employees would be during FY 2018. Wage increases at the projected inflation rate would increase costs by an additional $166 million in FY 2018, $507 million in FY 2019 and $1.1 billion in FY 2020.

The City recently reached agreements with the unions that represent school custodial workers. As part of the agreement, a not-for-profit entity will be created to oversee custodial services. The agreements are expected to increase labor costs by $62 million during fiscal years 2017 and 2018, but the arrangement is expected to be cost-neutral in subsequent years as efficiencies are identified.

2. Health Insurance

As part of the current round of collective bargaining, the City and the Municipal Labor Committee reached agreement in May 2014 to identify savings that could be used to help fund wage increases for municipal employees.

The agreement calls for savings of $400 million in FY 2015, $700 million in FY 2016, $1 billion in FY 2017 and $1.3 billion in FY 2018, with recurring savings of $1.3 billion in subsequent years. The agreement includes provisions that provide incentives to both the City and the unions to exceed the planned targets.

In February 2016, the Commissioner of Labor Relations reported that the City will reach its $700 million savings target for FY 2016 and that it is on track to meet or even exceed the $1 billion savings target for FY 2017. (The City previously reported that it met the FY 2015 target.) The commissioner expressed confidence that the City will reach or even exceed the four-year savings target of $3.4 billion.

Thus far, more than three-quarters of the $3.4 billion in savings ($2.7 billion over four years) has come from administrative actions and lower-than-planned increases in health insurance premiums. Cost-containment initiatives are expected to save $454 million, 13 percent of the total. The City has yet to identify the sources of the remaining $232 million in savings.

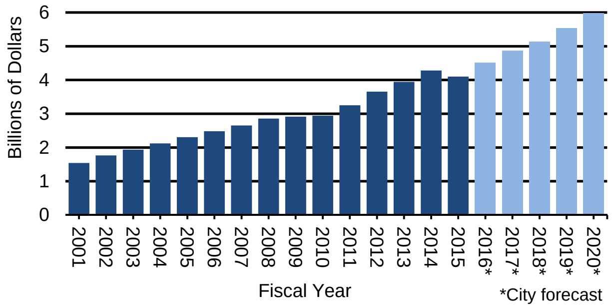
The City and unions are working together to expand the number of cost-containment initiatives. Discouraging the use of higher-cost health services by increasing co-pays for emergency room, urgent care and specialty care is expected to save $170 million. Imposing a $10 co-pay for the use of “nonpreferred” health providers is expected to save $128 million.

Despite the anticipated savings from the agreement with the Municipal Labor Committee, City-funded health insurance costs are projected to reach $6 billion by FY 2020 (see Figure 16), $1.9 billion (46 percent) more than in FY 2015.

FIGURE 16

Health Insurance Costs

City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

3. Pension Contributions

After rising rapidly between fiscal years 2003 and 2012, the growth in City-funded pension contributions slowed over the next three years. The slower rate of growth reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,[7] better-than-expected investment returns,[8] and savings from lower-cost pension plans for City employees hired after March 31, 2012.

Pursuant to a biennial review mandated by the City Charter, an independent actuarial consultant recommended (in October 2015) a number of changes in the actuarial assumptions used to calculate contributions to the five pension funds.

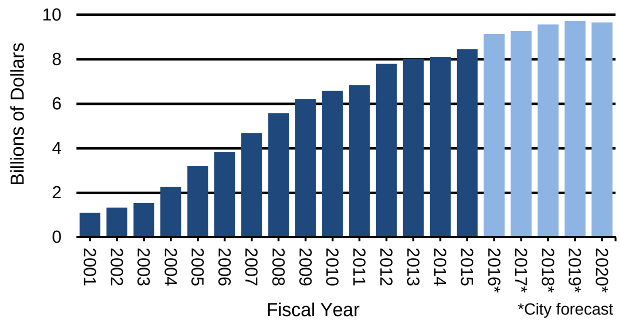
Upon the recommendation of the City Actuary, the boards of trustees of the five pension systems implemented the consultant's recommendation to utilize updated mortality tables. As a result, pension contributions increased by about $600 million annually beginning in FY 2016. The consultant offered other recommendations, but these are still under review by the City Actuary.[9]

The April Plan shows that pension contributions will reach $9.6 billion by FY 2020 (see Figure 17), accounting for 14.4 percent of City fund revenues. These estimates assume that the pension funds earn, on average, 7 percent on their investments each year.

FIGURE 17

Pension Contributions

City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Last year, the pension funds earned less than half of the expected gain. Consequently, the unfunded net pension liability rose to $52 billion, and future contributions to the pension funds will increase faster than previously planned to make up for the shortfall.[10]

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7 These include a longer amortization period for unfunded liabilities, which held down contributions during the financial plan period but will result in higher costs over the longer term.

8 The pension funds earned, on average, 13.4 percent annually on their investments during fiscal years 2010 through 2014, compared to the expected annual return of 7 percent.

9 If the independent actuarial consultant's other recommendations are adopted as proposed, pension contributions would increase by an additional $300 million annually. Most of the increase would come from higher overtime costs.

10 The pension systems had sufficient assets to fund, on a market value basis, 70.5 percent of their accrued pension liabilities as of June 30, 2015, two percentage points less than in the prior year.

Pension fund investment earnings are falling short of expectations in the current year as well, even though the stock market has rebounded from heavy losses earlier in the year. OSC estimates that the City's pension funds have not made any gains on their investments through May 20, 2016 (seven percentage points less than the gain anticipated for the full year).

OSC estimates that each percentage point shortfall from the 7 percent earnings target in FY 2016 could increase pension contributions by $20 million in FY 2018 and by $132 million annually when fully phased in by FY 2023. Unless earnings rebound, contributions would increase faster than assumed in the April Plan.

4. Debt Service

Since July 1, 2015, the City's financial plan has benefited by more than $1 billion in debt service savings, with most of the benefit accruing to fiscal years 2016 and 2017. Much of the savings resulted from favorable short-term interest rates ($316 million) and refinancing long-term bonds at lower interest rates ($260 million). The City also did not need to borrow to meet its cash flow needs given its large cash reserves, saving $64 million in FY 2016.

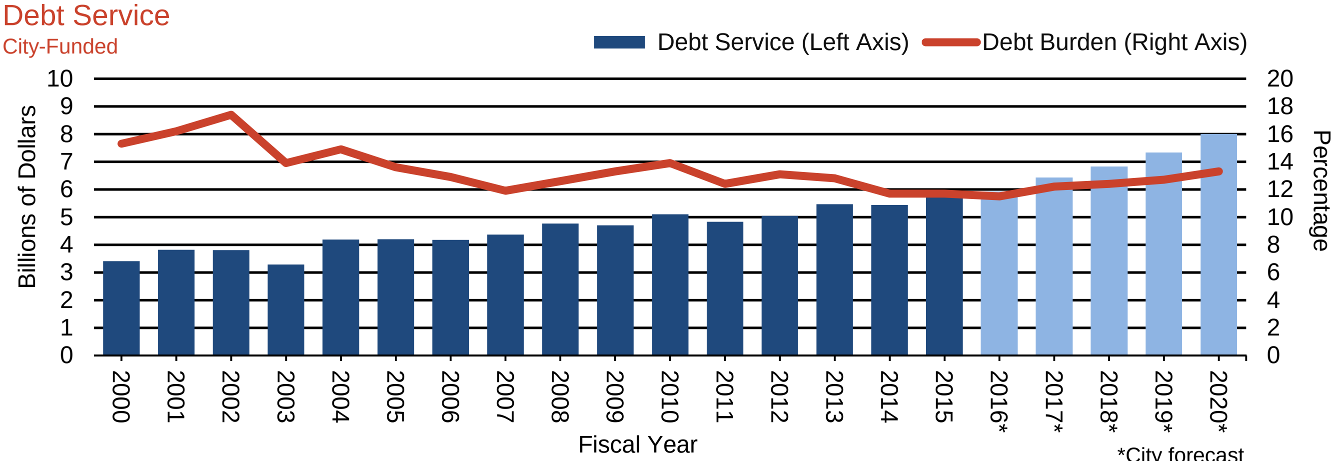
Since the start of FY 2016, the City has increased the capital program by $7.6 billion, mostly for investments in environmental protection, road and bridge repairs (including the Ed Koch Queensboro Bridge), and public schools. The City also added funding to complete construction of the third water tunnel in Brooklyn and Queens by 2025.

In total, the City now plans to commit $67 billion during fiscal years 2016 through 2020 ($29 billion more than in the prior five-year period). Of this amount, $14.2 billion (21 percent) would be devoted to public schools, $12.3 billion (18 percent) to environmental protection, $10.7 billion (16 percent) to transportation and $7 billion (10 percent) to affordable housing.

The April Plan assumes that City-funded debt service will rise by $2.1 billion (37 percent) to $8 billion between fiscal years 2015 and 2020 (see Figure 18). Borrowing is expected to more than double during that period as the City expands its capital program. By FY 2020, debt outstanding is projected to reach $85 billion, $15.7 billion more than in FY 2015.

Figure 18 also shows that debt service as a share of tax revenue (i.e., the debt burden) would rise from 11.7 percent in FY 2015 to

FIGURE 18
Debt Service
City-Funded



Note: Debt service amounts are adjusted for prepayments and defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

13.3 percent in FY 2020. While debt service would account for a larger share of tax revenue by FY 2020, the share would remain below 15 percent, a level that is considered high.

The April Plan is based on a number of assumptions, which may increase or decrease the debt burden. For example, it assumes that the City will meet its annual capital commitment target, which has been a problem in the past.

The City assumes that capital commitments will average more than $12.7 billion during fiscal years 2017 through 2020, even though actual commitments in the past five years averaged $7.7 billion. In the current fiscal year, the City has fallen behind the year-end target.

Debt service is also dependent on interest rates. The April Plan assumes that interest rates on variable rate debt will be considerably higher than current market rates. Given these conservative assumptions and the unlikelihood that the City will need to borrow to meet its cash flow needs, OSC estimates that the City could realize savings of $200 million in FY 2017.

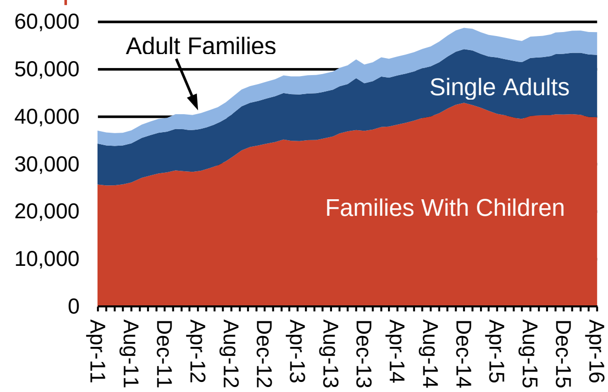
The debt burden is also dependent on tax collections. While the City's forecast for FY 2017 is appropriately conservative, it projects modest increases in tax collections during fiscal years 2019 and 2020 at a time when an economic setback may be more likely.

To prevent debt service from rising too quickly as a share of tax revenues in the event of an economic slowdown or rapid rise in interest rates, the City has established a $500 million Capital Stabilization Reserve. The reserve could be used to defease debt to hold down the rise in debt service.

5. Homeless Services

The number of homeless people residing in shelters operated by the Department of Homeless Services reached a record level of 58,745 in December 2014 (see Figure 19), an increase of 57 percent in five years. The City attributes the increase to several factors, including the elimination of State and City funding for the Advantage rental assistance program and a lack of affordable housing.

FIGURE 19
People in Homeless Shelters



Source: NYC Department of Homeless Services

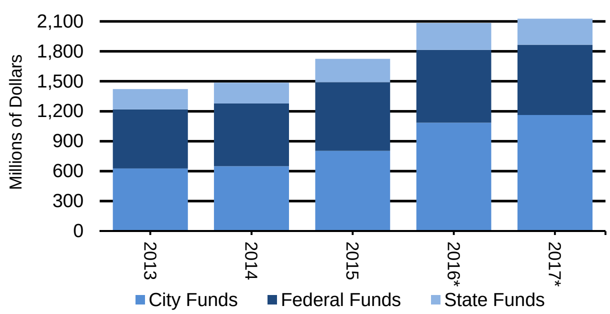
The City's homeless shelter population is comprised of three groups: families with children, adult families and single adults. People enrolled in the families with children program account for almost three-quarters of the shelter population, and single adults account for one-fifth.

In April 2016, the shelter population totaled 57,827 individuals, only slightly less than the December 2014 record. Even though more families are entering shelters, the shelter population is lower than the December 2014 peak because the City is moving more families into permanent housing. The numbers of individuals in the adult family and single adult programs, however, continue to set new records.

The City recently completed a review of its homeless programs, and is planning a number of changes, including improvements in security and shelter conditions. The April Plan dedicates $66 million in FY 2017 for improvements, which will be partly offset by $38 million in savings anticipated from integrating the management of the Department of Homeless Services with the Human Resources Administration.

OSC estimates that the cost of homeless services increased by $662 million (47 percent) between fiscal years 2013 and 2016 to nearly $2.1 billion.[11] The City funded more than two-thirds of the increased costs, while the federal government funded nearly one-quarter and the State funded one-tenth. The April Plan assumes that these costs will exceed $2.1 billion in FY 2017 (see Figure 20).

FIGURE 20
Citywide Homeless Spending



*City forecast
Sources: NYC Office of Management and Budget; OSC analysis

The City expects the shelter population to remain at about the April 2016 level for the remainder of FY 2016 and through FY 2017, but then assumes that the family shelter population will decline in FY 2018 as more families are moved into permanent housing. The April Plan assumes that the cost of family shelters will decline by 5 percent in FY 2018.

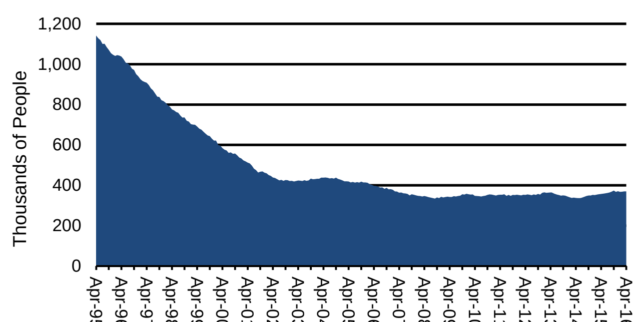
The April Plan expects the cost of sheltering single adults to decline by 24 percent in FY 2018 as hundreds of adults are moved into supportive housing. However, the adult shelter population continues to grow, despite the City's increased efforts. OSC estimates that even without further growth in the adult shelter population, the cost of providing shelter could exceed the City's estimates by $125 million annually beginning in FY 2018.

6. Public Assistance

The public assistance caseload fell from more than 1 million in 1995 to 330,000 in 2008 in response to welfare reforms that were implemented in the 1990s that established work requirements. In New York City, about half of the caseload is exempt because of medical or mental health disabilities, or age.

The City's public assistance caseload has remained relatively stable since 2008 (see Figure 21), but recently it has increased by 9.7 percent over a two-year period, reaching 370,000 individuals in April 2016. The City attributes most of the increase to changes in policies rather than economic conditions.

FIGURE 21
Public Assistance Caseload



Source: New York City Human Resources Administration

[11] The estimate includes the Department of Homeless Services, homeless prevention and rental assistance programs at the Human Resources Administration, and homeless youth, emergency shelter, and supportive housing programs at other City agencies.

For example, the City has granted recipients greater flexibility in scheduling appointments, which has reduced the number of people who lose their benefits for not meeting administrative requirements. The City also increased the amount of education and training hours that can be applied to a recipient's work requirements, which has allowed more low-income students to receive benefits.

The City plans to provide rental assistance payments to additional low-income families to prevent evictions and homelessness. In addition, the State has adopted new policies that will prevent public assistance recipients from being removed from the caseload for administrative reasons. As a result, the April Plan assumes that the caseload will increase by 5 percent to 388,600 by the end of FY 2017. City-funded public assistance expenditures are projected to grow by 8 percent to $703 million in FY 2017.

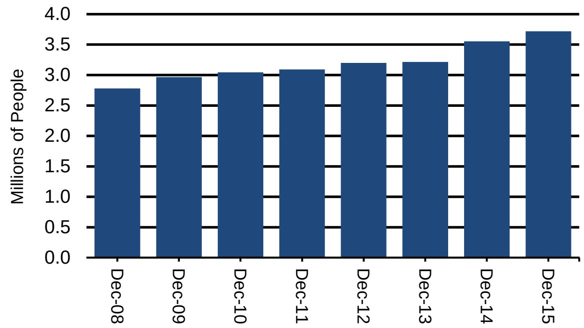
7. Medicaid

Enrollment in the federal Medicaid program in New York City grew slowly in the years following the recession, but then accelerated with the implementation of the federal Affordable Care Act (ACA) in January 2014. The ACA expands Medicaid eligibility to millions of Americans who were previously ineligible for this program.

In New York City, Medicaid enrollment exceeded 3.7 million people in December 2015 (see Figure 22), an increase of 16 percent since December 2013. In December 2015, 44 percent of the City's population was enrolled in Medicaid.

The City anticipates savings of $305 million annually from a provision in the ACA that increases the federal reimbursement rate to states that expand Medicaid eligibility. For states that had expanded coverage prior to the ACA, such as New York, the reimbursement rate will increase to 90 percent by 2020. The City's financial plan had not previously anticipated the impact of the law, but the City will likely realize additional savings as the reimbursement rate increases from 85 percent to 90 percent.

FIGURE 22
Medicaid Enrollment



Sources: NYS Department of Health; OSC analysis

The April Plan assumes that the City's share of the cost of Medicaid will level off at $5.8 billion in FY 2017 (10 percent of City-funded revenue) because the State has completed a three-year phased takeover in the growth in the local share of Medicaid.

In January 2016, the Governor proposed that the City fund a larger share of the local cost of Medicaid, which would have increased the City's costs by $300 million in FY 2017 and by much larger amounts in subsequent years. The Governor's proposal was rejected by the State Legislature.

In its place, the enacted State budget authorizes the Commissioner of Health to establish a statewide Medicaid integrity and efficiency initiative to achieve Medicaid savings. The City is working with the State to identify potential areas for Medicaid savings.

8. Uniformed Agencies

Overtime costs in the uniformed agencies (both for uniformed and civilian employees) are projected to reach $1.3 billion in FY 2016, only $109 million less than the record set in FY 2015 (see Figure 23). The Police Department accounts for about half of the total cost.

The amount of overtime in FY 2015 was the highest level on record and nearly 52 percent higher than five years earlier. The Police, Correction and Sanitation departments each set new records in FY 2015, and overtime costs in the Fire Department were only slightly below the record set in FY 2014.

Each of the uniformed agencies has been dealing with issues that have increased overtime in recent years, such as antiterrorism efforts in the Police Department and staff shortages in the Fire and Correction departments. The City allocated additional resources to the agencies at the start of the fiscal year so they could better manage their overtime budgets.

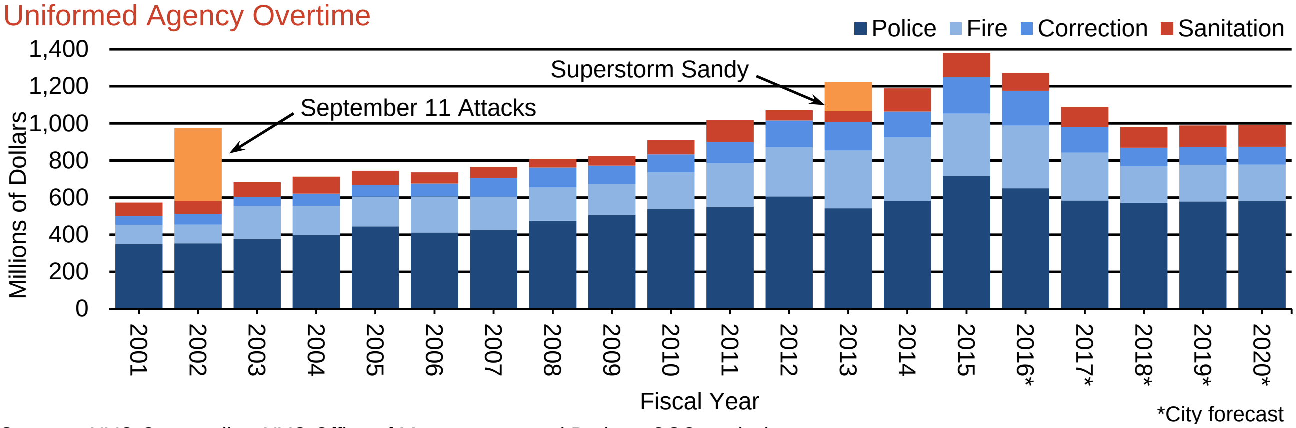
The City increased the size of the police force by 1,297 officers in FY 2016. Most of these officers were dedicated to community policing, but about 350 were assigned to antiterrorism efforts. The Police Department had planned to hire 415 civilians to perform desk work to free up police officers for patrol, but it filled only 60 of these positions as of March 2016.

In light of the additional resources allocated to the Police Department, the Mayor placed a cap on the City-funded share of overtime for uniformed employees, which may be exceeded only in the event of an emergency (such as Superstorm Sandy). The April Plan assumes that the Police Department will adhere to the mayoral cap. In addition, the Department of Sanitation stayed within its budget allocation.

The Fire and Correction departments, however, have exceeded their initial overtime allocations by a total of $190 million in FY 2016. OSC projects that the Department of Correction will exceed its overtime budget by an additional $75 million in FY 2016.

The April Plan assumes that overtime at the uniformed agencies will decline by $183 million in FY 2017, and then by another $107 million in FY 2018. Based on current trends, overtime could exceed the City's estimates by $150 million during fiscal years 2017 through 2020. Some of these costs could be offset by federal grants and savings from other personal services.

FIGURE 23
Uniformed Agency Overtime

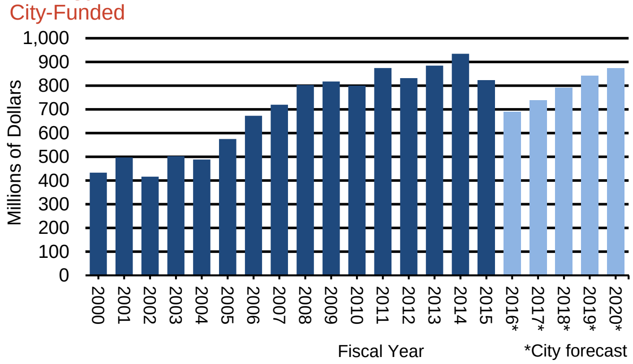


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

9. Energy

Energy costs reached a record high of $935 million in FY 2014 (see Figure 24), mainly because of a harsh winter. In FY 2015, energy costs declined by 12 percent to $822 million (despite another harsh winter), mostly as a result of lower prices for electricity, fuel and heat.

Figure 24
Energy Costs
City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

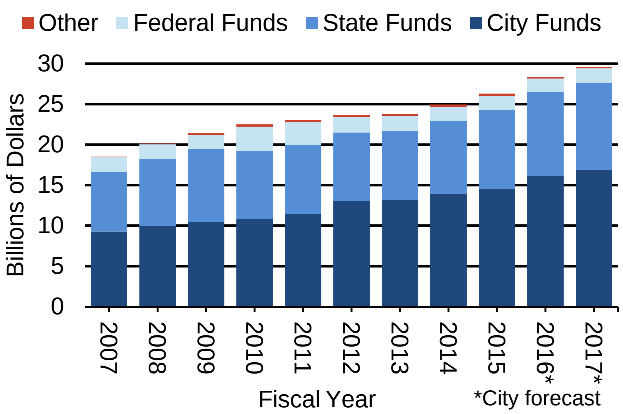
This past winter was relatively mild compared to the two prior years (with the exception of one large snowstorm), and fuel costs have remained low. As a result, energy costs are projected to decline to $689 million in FY 2016, 16 percent less than last year and $100 million less than forecast at the beginning of the fiscal year. The April Plan assumes that energy costs will increase by 7 percent to $738 million in FY 2017, and will continue to increase to $873 million by FY 2020.

VIII. Department of Education

New York City has the largest public school system in the nation, operating more than 1,800 schools and serving more than 1.1 million students. The April Plan allocates $29.6 billion to the Department of Education for FY 2017, $1.2 billion more than forecast for FY 2016. Of this amount, $16.8 billion (57 percent) would come from the City and $10.8 billion (37 percent) would come from the State, with $2 billion (6 percent) coming from the federal government.

Following the Campaign for Fiscal Equity lawsuit, funding for the City's public schools has grown by $11 billion (59 percent) since FY 2007 (see Figure 25). City funding has increased by $7.5 billion, while State funding increased by $3.5 billion (since FY 2013, State funding has increased by $2.3 billion as the State recovered from the Great Recession). Federal funding to City schools has declined by 17 percent since FY 2007 after accounting for inflation.

FIGURE 25
Education Funding by Source



Sources: NYC Office of Management and Budget; OSC analysis

The State budget increased education aid to the City by $525 million in FY 2017. The City intends to use $161 million of this amount to help bridge the equity gap among schools. In addition, the State continues to allocate $300 million to New York City to provide prekindergarten services to all four-year-old children.

The City plans to increase funding for education by $698 million in FY 2017, mostly to cover higher debt service and pension contributions, but also to fund programmatic initiatives, such as the Equity and Excellence program, and to expand physical education and universal prekindergarten programs.

The City's capital plan allocates $14.2 billion to the Department between fiscal years 2016 and 2020, or 23 percent more than was committed during the previous five years. The City will now fund a much higher share of the Department's capital commitments (89 percent) than in the previous five years (53 percent) because the Transitional Finance Authority (a City-created entity that issues debt to fund portions of the City's capital plan) is approaching the State cap on bonds backed by State building aid.

Most of the increase in the capital program is devoted to addressing mandates (such as asbestos removal) and school overcrowding. The Department estimates that an additional 83,000 seats are needed to bring the system into compliance with its standards. The capital program would add 44,300 seats, or about half of the estimated need.

Each year, the Department submits claims to the federal government for Medicaid reimbursement for services provided to students with special needs. The Department, however, has a long history of being unable to properly document such claims. An outside consultant with experience in this area has been hired to help the Department better document claims.

The April Plan assumes Medicaid payments of $18 million in FY 2016, $40 million in FY 2017 and $97 million beginning in FY 2018. Until the Department demonstrates that it can adequately document such claims, OSC considers the receipt of $22 million in FY 2017 and $79 million annually thereafter to be uncertain.

IX. Health and Hospitals Corporation

The Health and Hospitals Corporation ("the Corporation"), which is the largest municipal hospital system in the country and serves 1.2 million patients, faces serious financial challenges. Factors contributing to the crisis include large numbers of uninsured patients, competition for Medicaid patients, reduced federal funding and high overhead costs.

The Corporation provides services to everyone who needs care, regardless of their ability to pay. Hospitals are reimbursed for emergency care to uninsured undocumented immigrants, but not for primary care and ambulatory care services.

Medicaid and uninsured patients represent nearly 70 percent of hospital stays, compared to 40 percent for other City hospitals. Although the Affordable Care Act has reduced the number of uninsured, the Corporation served 421,650 uninsured patients last year.

The Corporation depends heavily on supplemental Medicaid payments for services to the uninsured and Medicaid patients. However, these payments will decline beginning in federal fiscal year 2018 under the assumption that most people will have health insurance. The statewide shift to Medicaid managed care will further reduce supplemental Medicaid payments. Together, federal and State Medicaid funding is expected to decline by $800 million by FY 2020.

The Corporation is losing the competition for paying patients. Medicaid managed care hospital stays declined by 3 percent, while other major hospital systems gained 5 percent. In 2014, 5 of the Corporation's 11 hospitals had more than a third of their beds empty.

MetroPlus, a health insurance plan owned by the Corporation, has also lost market share. MetroPlus Medicaid enrollment grew by 17 percent between 2009 and 2015, while the overall market grew by 27 percent. Most of the Corporation's own employees choose health insurance plans other than MetroPlus.

According to the City, it has increased its financial support to the Corporation from an average of $1.3 billion during fiscal years 2012 through 2015 to $2 billion (more than one-quarter of total receipts). Nonetheless, the Corporation projects a year-end cash balance of $119 million in FY 2016, which is enough to pay its bills for just seven days.

In FY 2017, disbursements are projected to exceed receipts by $785 million. By FY 2020, the difference is projected to widen to nearly $1.8 billion (or 28 percent of total revenue).

To balance the budget, the Corporation is developing initiatives that would reduce costs and increase revenues. Cost-reduction initiatives are expected to generate cumulative savings of $1.8 billion through FY 2020. Most would come from personnel actions ($1.3 billion), but such savings have been difficult to achieve in the past.

Revenue-generating initiatives are expected to total $3.9 billion. Nearly three-quarters ($2.9 billion) would come from increases in federal and State aid, which may be difficult to achieve given fiscal constraints. (Some of these initiatives require a contribution from the City, but the cost is expected to be offset by savings from increases in the federal reimbursement rate to states that have expanded Medicaid eligibility). Another $1 billion is expected from health insurance initiatives, including $373 million from a 37 percent increase in MetroPlus enrollment.

Despite the challenges, the City deserves credit for making the Corporation's financial plan and gap-closing program more transparent. Nonetheless, improving the Corporation's finances will be challenging and will require the cooperation of all stakeholders.

Moreover, the gap-closing program is ambitious. The Corporation expects the program to generate $779 million in FY 2017. If it falls short, the Corporation could be required to impose deeper cuts or the City could be called upon to further increase its support.

X. Metropolitan Transportation Authority

The Metropolitan Transportation Authority (MTA) projects small cash balances during calendar years 2016 through 2018, and a $257 million budget gap in 2019. These estimates assume continued growth in the regional economy and in the use of MTA services, as well as fare and toll increases of 4 percent in 2017 and 2019.

The current economic expansion has greatly benefited the MTA's budget, but the expansion is showing signs of slowing. Since the MTA's finances are dependent on economically sensitive revenue sources, an economic setback could have a negative impact on the MTA's budget forecasts, including the size of future fare and toll hikes.

The recently approved State budget provides the MTA with an estimated $4.5 billion in dedicated tax revenues and State subsidies in 2016, which is consistent with the amount anticipated in the MTA's operating budget.

The State budget also commits the State and the City to provide a total of $10.8 billion to the MTA's $29.5 billion capital program for 2015 through 2019 ($26.6 billion excluding bridges and tunnels), which is consistent with the agreement reached between the Governor and the Mayor in October 2015.

Last year, the State appropriated $1 billion for the MTA's capital program and the City included $657 million in its five-year capital program. The State and City have not yet identified the sources of their remaining contributions ($7.3 billion in State funding and $1.8 billion in City funding).

The State and the City will provide the MTA with the remaining $9.2 billion after the MTA has effectively exhausted all other existing MTA-supported sources of capital funding, but no later than State fiscal year 2025-26 or by the completion of the 2015-2019 capital program.

While the State could provide direct capital grants to the MTA (the State budget appropriates $2.9 billion if the State elects to do so, although the sources of funding have not been identified), the MTA could issue its own bonds backed by an existing or new State revenue source.

The State increased the MTA's bond cap by $13.6 billion, which will permit it to move forward with the capital program until State and City funds become available, and to cover, if needed, a portion of the State's remaining share of $7.3 billion. The State also authorized the MTA to issue, with approval from the Director of the Budget, anticipation notes or other obligations secured solely by the State's commitment to provide additional funding if the MTA requires funds and other resources have been exhausted.

At the State's request, the MTA has agreed to commit an additional $500 million to the next phase of the Second Avenue Subway, which the MTA expects to be funded by the federal government. Although the State has indicated an interest to fund at least $1.4 billion in projects (including another $443 million for the Second Avenue Subway) in the first year of the MTA's 2020-2024 program, the sources of this funding have not yet been identified.

The MTA has agreed to accelerate replacement of the MetroCard system with a contactless payment system beginning in 2018; increase the number of projects that enhance subway station conditions; and to move forward with environmental work and preliminary design of a controversial third mainline railroad track between Floral Park and Hicksville.

The MTA Board has approved the revised 2015-2019 program and has submitted the portion subject to State approval to the State Capital Program Review Board.

XI. New York City Housing Authority

The New York City Housing Authority is an important component of the City's supply of affordable housing. The Authority manages approximately 180,000 apartments that house more than 400,000 residents, representing 8 percent of the City's rental apartments and almost 5 percent of the population. However, it has a long history of fiscal and management challenges that have allowed the City's public housing properties to fall into disrepair.

In May 2015, the Authority presented a 10-year plan to close projected budget deficits and to improve the condition of its facilities. The plan was based on a number of assumptions and relied on the cooperation of the federal, State and City governments; the unions; and private developers.

The Authority had originally expected to generate $277 million during fiscal years 2016 and 2017 from cost-reduction and revenue-enhancement initiatives. However, it now expects $217 million during this period. The revised estimate reflects delays in leasing property to private developers and in reducing central-office costs.

Despite increased financial support from the City, the Authority's adopted financial plan projected budget deficits of $60 million in the current calendar year and $197 million in 2017. More recently, the Authority has indicated that it expects to end the current year in balance.

While the Authority projects smaller deficits in subsequent years, these estimates assume successful implementation of $1 billion in cost-reduction and revenue-enhancement initiatives. If these initiatives are unsuccessful, the City could be called upon to provide additional financial assistance.

The Authority prepares a five-year financial plan each December, but it does not revise the plan during the year, making it difficult to determine whether the Authority presents a financial risk to the City. (In contrast, New York City revises its financial plan at least quarterly.) The lack of transparency in the Authority's financial planning process does not instill confidence that it will achieve its financial objectives.

The Authority also has been unable to adequately fund its capital program, in part because it has used federal capital grants to help balance its operating budget. While it has identified $17 billion in capital needs, the five-year capital plan totals $5.6 billion. In the absence of adequate funding, the condition of public housing in New York City will continue to deteriorate.

The federal government is the largest contributor to the capital program. It is expected to contribute $4.6 billion, including $2.9 billion in one-time disaster recovery funds associated with Superstorm Sandy. The City plans to contribute $718 million and the State allocated $100 million in capital funds last year.

The Authority is counting on $3.1 billion in private capital by participating in the federal Rental Assistance Demonstration (RAD) program. The RAD program, which was established in 2011, allows public housing authorities to use private capital to rehabilitate facilities through partnerships with private developers.

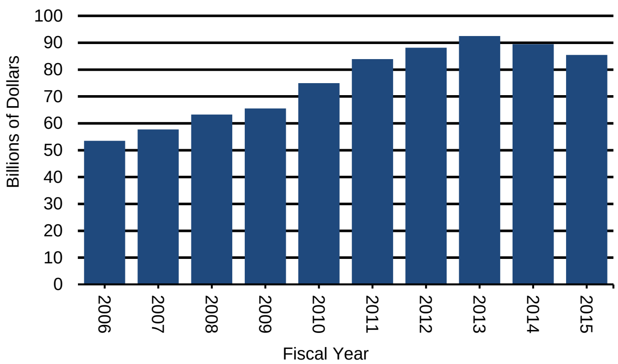
The Authority has received approval from the federal government for 1,400 RAD units, which is expected to generate $150 million in capital improvements. Although the Authority plans to apply for an additional 15,000 units, all of the RAD slots currently available nationwide have been allocated. As a result, the receipt of the remaining $2.9 billion in private capital funds is at risk.

XII. Other Issues

1. Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs) declined by $4 billion to $85.5 billion in FY 2015, the second consecutive decline since the City began reporting its liability in 2006 (see Figure 26). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City's contribution to the OPEB trust in FY 2015.

FIGURE 26
Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

However, the Governmental Accounting Standards Board has approved two rules (which take effect in FY 2018) that could increase the City's OPEB liability. The changes will conform the standards for measuring OPEB liabilities with those for pension liabilities. In addition, entities that do not fund their OPEB liabilities on an actuarial basis will be required to discount future costs using an interest rate that is lower than the entity's assumed rate of return on investments.

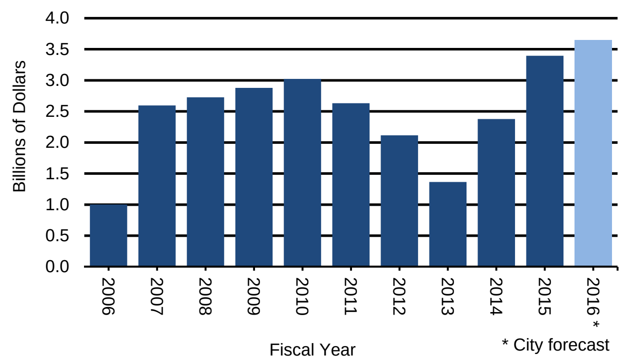
The City, like many employers, does not fund its OPEB liabilities on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2 billion in FY 2015 to nearly $2.9 billion in FY 2020, an increase of 44 percent in five years.

2. Retiree Health Benefits Trust

In FY 2006, to help fund the future cost of OPEBs, the City established the Retiree Health Benefits Trust (RHBT) and deposited $2.5 billion of surplus resources into the trust in fiscal years 2006 and 2007. These resources were invested and earned interest, with the balance peaking at more than $3 billion in FY 2010.

While the City's RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund. The City drew down much of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession (see Figure 27).

FIGURE 27
RHBT Year-End Balance



Note: Adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

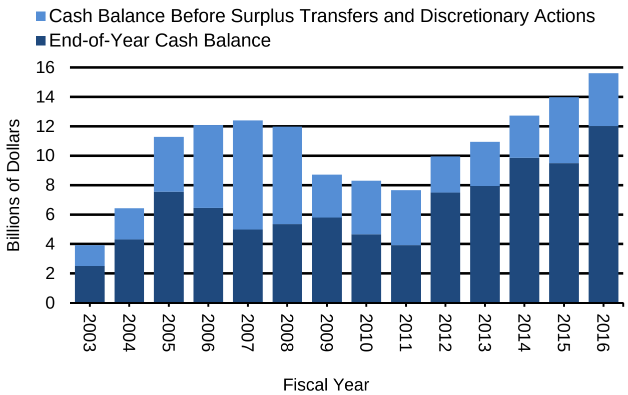
The City had planned to use $1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew faster than anticipated, permitting the City to rescind the planned transfer and to contribute $864 million to the RHBT.

In FY 2015, revenues also grew much faster than expected, allowing the City to contribute another $955 million to the RHBT. In FY 2016, the City plans to use unneeded resources from the general reserve to contribute an additional $250 million to the RHBT, which would increase the year-end balance to nearly $3.7 billion, the highest amount ever.

3. Cash Flow

The City's year-end cash balance rose sharply between fiscal years 2003 and 2007, reflecting the strength of the economy, and remained at about $12 billion (before surplus transfers and other discretionary actions) through the end of FY 2008 (see Figure 28). Even though the year-end cash balance declined during the recession, the City has not needed to borrow to meet its short-term cash needs since FY 2004.

FIGURE 28
Year-End Cash Balance



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The City's cash position has been improving since FY 2011, and in FY 2014 it exceeded the prerecession level. The New York City Office of Management and Budget estimates that the City will end FY 2016 with a record cash balance of $12 billion ($15.6 billion before discretionary transfers).[12] Given the amount of cash on hand, it is unlikely that the City will need to borrow to meet its cash flow needs in FY 2017, resulting in debt service savings of $75 million.

4. Constitutional Tax Limit

The amount New York City can raise from the property tax for purposes other than certain debt service and capital appropriations is subject to a constitutional tax limit.[13] Based on information submitted by the City to OSC, the portion of the tax limit that the City has used rose by eight and a half percentage points between fiscal years 2015 and 2016 to 97.8 percent.

The increase is not the result of higher property tax rates (as the citywide tax rate has remained unchanged). Rather, the City has indicated that the increase resulted primarily from a large prepayment in FY 2015 of debt service due in FY 2016, which resulted in a decrease in the debt service levy and an increase in the portion of the tax levy subject to the tax limit. Nevertheless, whenever a local government nears its constitutional tax limit, close attention is warranted during the annual budget process.

5. Prior-Year Payables

At the end of each fiscal year, the City estimates the amount of expenses that have been incurred but not yet paid, and the amount of revenues earned but not yet received. The City generally makes conservative estimates because an unfunded liability has a budgetary impact in the current fiscal year.

Over the past 10 years, the City has realized net resources averaging $472 million annually from overestimating prior years' expenses and from underestimating prior years' receivables. The April Plan anticipates resources of $400 million in FY 2016, but none in subsequent years.

[12] Discretionary transfers include the FY 2016 surplus and deposits into the Retiree Health Benefits Trust.

[13] Article VIII, Section 10 of the State Constitution generally limits the amount that counties, cities and villages may raise from real property taxes in any fiscal year to a percentage of the "average full valuation" of the taxable real property of the jurisdiction. In the case of the City of New York and the counties therein, the limit is a combined total of 2.5 percent of the average full valuation.

6. Water and Sewer

Revenue from water and sewer charges cover the operating cost of the water and sewer system, debt service on water and sewer capital projects, and an optional rental payment to the City for the use of the system. The City has collected the rental payment since FY 1986, and the payment totaled $214 million in FY 2014.

In FY 2015, the City implemented a plan to phase out the rental payment by FY 2023. The April Plan accelerates the phase-out, eliminating the payment by FY 2017. This summer, 664,000 owners of one-, two- and three-family homes will receive credits of $183, and certain multifamily properties will be eligible for credits of $250 per unit. The elimination of the rental payment reduced City revenues by a total of $1.1 billion during fiscal years 2017 through 2020, but the City is not precluded from reimposing the rental payment in the future.

Contact

Office of the New York State Comptroller
110 State Street, 15th Floor
Albany, New York 12236

(518) 474-4015

www.osc.state.ny.us

Prepared by the Office of the State Deputy
Comptroller for the City of New York

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