Review of the Financial Plan of the City of New York

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I. Executive Summary

On June 26, 2015, the City of New York submitted to the New York State Financial Control Board a four-year financial plan (the "June Plan") covering fiscal years 2016 through 2019 (see Figure 1). The June Plan projects a balanced budget for FY 2016 and manageable out-year budget gaps. In addition, the City has been increasing its reserves, which could cushion the impact of an adverse budgetary development.

The City's economy is currently very strong, helping to drive tax collections to record levels. The City added a record 120,000 jobs during calendar year 2014 and is on track to add more than 100,000 jobs during 2015. Since the end of 2009, the City has added more than half a million jobs, four times as many as were lost during the recession. Many of these jobs are concentrated in lower-paying employment sectors, but higher-paying sectors such as businesses services, finance and technology are also adding jobs.

Tax collections in FY 2015 are expected to reach a record $51.7 billion, 33 percent more than the prerecession peak. Collections were $3.1 billion higher than the City's forecast at the beginning of the year, contributing to a $4.5 billion windfall. The windfall allowed the City to add $955 million to the Retiree Health Benefits Trust, leaving a $3.6 billion surplus that was used to increase reserves and to balance the FY 2016 budget.

While tax collections are likely to exceed the City's conservative forecasts under current economic conditions, the Office of the State Comptroller (OSC) remains guarded in its revenue forecasts (see Figure 2) given the possibility of an economic setback during the financial plan period. The City has experienced five years of job growth, and the June Plan assumes uninterrupted job growth for another five years, which, if realized, would be the longest expansion in 60 years. While the economy shows no signs of weakening, external events (such as recent developments in Greece and China, and changes in federal monetary policy) could impact the City's economy.

The City also recognizes the potential for an economic setback and has taken steps to increase its reserves. It increased the annual general reserve to $1 billion, the largest amount ever, and has set aside $500 million to create a Capital Stabilization Reserve, which could be used to insulate the capital program from budget cuts or to help balance the operating budget.

The City also added $1.8 billion to the Retiree Health Benefits Trust during fiscal years 2014 and 2015, raising the balance in the trust to a record $3.3 billion. The trust was established to help fund post-employment benefits other than pensions, but the City has used the trust in the past as a rainy-day fund. While the record-high balance is a positive development, the City's unfunded OPEB liability totals $89.5 billion.

Over the past year, the City has made targeted investments in education, public safety and other programs, which have increased agency spending by nearly $1.6 billion annually. The June Plan also includes a number of City Council initiatives, which were added during the adopted budget process but funded for only one year.

In May 2015, the City released an ambitious 10-year capital strategy, totaling $83.8 billion through 2025. The capital strategy is $30 billion (56 percent) larger than the prior 10-year strategy released two years earlier. Debt service would reach $7.5 billion by FY 2019 and would account for 13.4 percent of tax revenue in that year. The City is committed to keeping the debt service burden below 15 percent of tax revenue, a level that is considered high.

The City continues to make progress in its labor negotiations. Over the past year, it has reached new labor agreements with 80 percent of its workforce. Most of the agreements extend through 2018, creating a period of financial certainty, although the cost of the agreements extends through 2021. The City has yet to reach new agreements with the unions that represent the City's police officers, firefighters and correction officers.

The City is also working with its unions to hold down the growth in health insurance costs. The City reports that it has achieved health insurance savings of $400 million in FY 2015 and has nearly achieved the FY 2016 savings target of $700 million. Meeting the higher targets for fiscal years 2017 and 2018 will be a greater challenge, but substantial progress has already been made.

The June Plan shows budget gaps of $1.5 billion in FY 2017 and $1.9 billion in FY 2018, which are smaller than projected one year ago. The City projects a gap of $2.9 billion for FY 2019. The budgets for these years include a general reserve of $1 billion, which, if unneeded, could be used to help close the projected budget gaps. These gaps are relatively small, ranging from 2.5 percent to 4.5 percent of City fund revenue, but the City should continue its efforts to narrow them.

Although the City has resumed (after a two-year hiatus) the process of scrutinizing agency operations for savings, the results so far have been modest. In a separate effort, the City has outlined a plan to reduce overtime costs in the uniformed agencies, which reached a record of nearly $1.4 billion in FY 2015.

Although the City's fiscal outlook continues to improve, the Health and Hospitals Corporation and the New York City Housing Authority face significant fiscal challenges, which have required greater financial assistance from the City.

In conclusion, the FY 2016 budget is balanced and the out-year budget gaps are manageable despite new labor agreements and higher agency and capital spending. While the City's economy is strong today and shows no signs of slowing, the City has prudently increased its reserves to hedge against an economic setback during the financial plan period.

Figure 1
New York City Financial Plan
(in millions)

REVENUES	FY 2016	FY 2017	FY 2018	FY 2019
Taxes				
General Property Tax	$ 22,384	$ 23,487	$ 24,490	$ 25,549
Other Taxes	29,124	30,006	30,873	31,840
Tax Audit Revenue	711	711	711	711
Subtotal: Taxes	$ 52,219	$ 54,204	$ 56,074	$ 58,100
Miscellaneous Revenues	6,539	6,684	6,785	6,844
Less: Intra-City Revenue	(1,769)	(1,763)	(1,774)	(1,769)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 56,974	$ 59,110	$ 61,070	$ 63,160
Other Categorical Grants	856	846	851	848
Inter-Fund Revenues	575	546	548	549
Federal Categorical Grants	7,146	6,878	6,475	6,375
State Categorical Grants	12,977	13,349	13,755	14,083
Total Revenues	**$ 78,528**	**$ 80,729**	**$ 82,699**	**$ 85,015**
EXPENDITURES				
Personal Service				
Salaries and Wages	$ 25,391	$ 25,443	$ 26,791	$ 28,307
Pensions	8,755	8,719	8,770	8,868
Fringe Benefits	9,278	9,758	10,327	11,122
Subtotal: Personal Service	$ 43,424	$ 43,920	$ 45,888	$ 48,297
Other Than Personal Service				
Medical Assistance	$ 6,326	$ 6,424	$ 6,424	$ 6,424
Public Assistance	1,481	1,464	1,464	1,464
All Other	24,632	24,316	24,413	24,727
Subtotal: Other Than Personal Service	$ 32,439	$ 32,204	$ 32,301	$ 32,615
Debt Service[1,2]	$ 6,591	$ 6,833	$ 7,191	$ 7,725
Debt Defeasances[1]	(103)	- - -	- - -	- - -
FY 2015 Budget Stabilization[2]	(3,554)	- - -	- - -	- - -
Capital Stabilization Reserve	500	- - -	- - -	- - -
General Reserve	1,000	1,000	1,000	1,000
Subtotal	$ 80,297	$ 83,957	$ 86,380	$ 89,637
Less: Intra-City Expenses	(1,769)	(1,763)	(1,774)	(1,769)
Total Expenditures	**$ 78,528**	**$ 82,194**	**$ 84,606**	**$ 87,868**
Gap to Be Closed	**- - -**	**$ (1,465)**	**$ (1,907)**	**$ (2,853)**

Source: NYC Office of Management and Budget

1 Includes Debt Defeasances of TFA in Fiscal Year 2013 of $196 million impacting Fiscal Year 2014 through Fiscal Year 2016.

2 Fiscal Year 2015 Budget Stabilization totals $3.554 billion, including GO of $1.976 billion and TFA of $1.578 billion.

Figure 2
OSC Risk Assessment of the City Financial Plan
(in millions)

	Better/(Worse)			
	FY 2016	**FY 2017**	**FY 2018**	**FY 2019**
Surplus/(Gaps) Per June Plan	**$ - - -**	**$ (1,465)**	**$ (1,907)**	**$ (2,853)**
Tax Revenue	450	250	250	250
Debt Service	200	- - -	- - -	- - -
Medicaid Reimbursement	(80)	(80)	(80)	(80)
Uniformed Agency Overtime[3]	(150)	(150)	(150)	(150)
Pension Contributions	- - -	(65)	(135)	(200)
OSC Baseline Risk Assessment	**420**	**(45)**	**(115)**	**(180)**
Surplus/(Gaps) Per OSC[4]	**$ 420**	**$ (1,510)**	**$ (2,022)**	**$ (3,033)**

3 This estimate excludes the New York City Police Department because the City has capped City-funded overtime at the budgeted level. It remains to be seen whether the department, which has a history of exceeding its overtime allocation, will stay below the cap.

4 The June Plan includes a general reserve of $1 billion in each of fiscal years 2016 through 2019, which, if not needed, could be used to help close the projected budget gaps. In addition, the newly created Capital Stabilization Reserve has a balance of $500 million and the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of $3.3 billion.

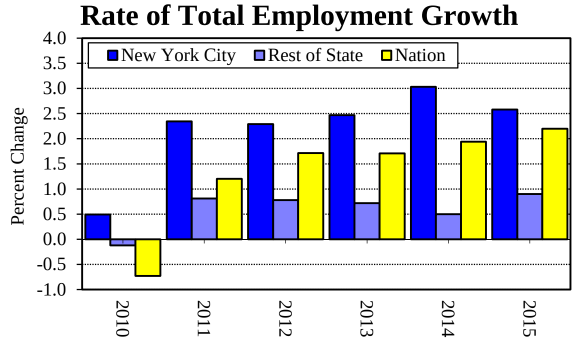
II. Economic Trends

The national economic recovery has strengthened in recent years. While Gross Domestic Product (GDP) grew by only 0.6 percent during the first quarter of 2015 (due to extreme weather and a now-resolved labor dispute at the nation's West Coast ports), it is expected to grow by 2.4 percent for the entire year, a rate similar to last year's. Job growth has been strong (growing at an annualized rate of 2.2 percent), and the nation is now on track to add more than 3 million jobs in 2015. Consumer sentiment has reached prerecession levels and personal spending has picked up.

Wage growth has been a cause of concern during the recovery, particularly for low-wage earners. However, in a positive development, a growing number of large retailers and food chains, which provide mostly lower-paying jobs, have recently indicated that they will increase the minimum hourly wage for their workers. (Some of these have a significant presence in New York City, including Starbucks, Target and Whole Foods.)

The Federal Reserve has kept short-term interest rates near zero for more than six years to support the recovery, but has indicated that it will likely raise rates by the end of the year. It is expected that the first interest rate increase will occur in September 2015 and that subsequent rate increases will be gradual to avoid upsetting the recovery.

Figure 3
Rate of Total Employment Growth



Note: Data for 2015 is for the first half of the year.
Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor

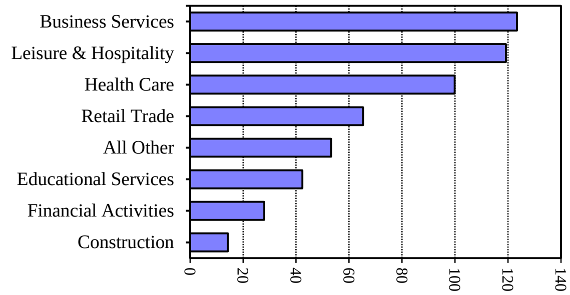
In recent years, New York City's economic recovery has been strong, outpacing the nation's recovery. The City's economy expanded by 4.2 percent in 2014 (as estimated by the City), compared to 2.4 percent for the nation. As shown in Figure 3, total employment in the City grew by 3 percent in 2014 (the strongest year on record), which was stronger than both the rest of the State (0.5 percent) and the nation (1.9 percent). The June Plan assumes that job growth will slow to 1.6 percent in calendar year 2015, but job growth has remained strong so far. Halfway through the year, the City is on pace to add more than 100,000 jobs (an annualized growth rate of 2.6 percent), which would be one of the best years on record.

As of June 2015, the City had added more than 500,000 private sector jobs over the past six years, four times as many as were lost during the recession.[5] Figure 4 shows that a broad range of industries has contributed to the employment recovery. The

[5] The public sector contracted by a net of 15,800 jobs, although it began to add jobs in 2014.

business services, leisure and hospitality, and health care sectors have each added at least 100,000 jobs. Business services (which accounts for one-sixth of the City workforce) has added more jobs than any other sector. Within business services, the areas of technology, management and consulting, and architectural and engineering companies account for a large share of the jobs gained.

Figure 4
Private Sector Jobs Added in New York City
June 2009 to June 2015



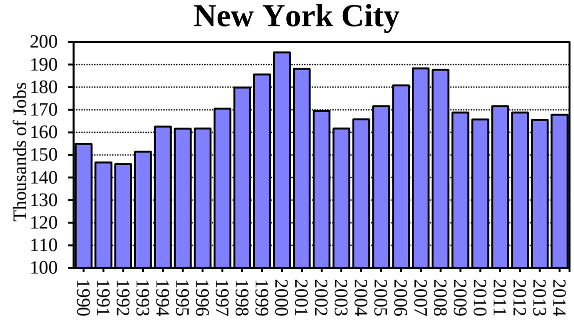
Sources: NYS Department of Labor; OSC analysis

Tourism has helped drive large job gains in leisure and hospitality, primarily in hotels and restaurants. Although the leisure and hospitality sector makes up only one-tenth of the workforce, it accounted for more than one-fifth of the City's job gains during the recovery. Health care, the second-largest sector in the City, contributed nearly one out of every five new jobs in the City since the end of the recession. A large share of the job gains in this sector were in home health care.

Retail trade, another sector that benefited from record numbers of tourists visiting the City in recent years, has also experienced strong job growth during the recovery. Although the retail sector accounts for less than one-tenth of the jobs in the City, it added more than 65,000 jobs, though many of the jobs in this sector are part-time. The educational services sector (which excludes the City's public schools and colleges) added more than 40,000 jobs.

Over the past six years, the City's financial sector added nearly 30,000 jobs. Even though this sector accounts for a relatively small share of jobs in the City (only 10.9 percent in 2014), it is very important to the City's economy because it accounts for a large share of all wages paid in the City (30 percent in 2014). The financial sector includes the banking, real estate and insurance industries as well as the securities industry, one of the City's most powerful economic engines and a major source of tax revenue.

Figure 5
Securities Industry Employment in New York City



Source: NYS Department of Labor

While the securities industry is still 11 percent smaller than before the financial crisis, it added 2,300 jobs in 2014, the first job gains since 2011 (see Figure 5). The June Plan assumes that the securities industry will add 3,000 jobs in

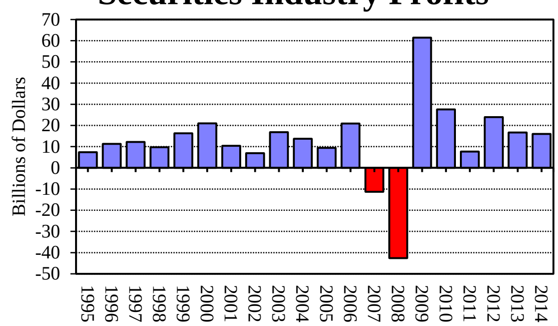
2015 (the industry is on pace to add 4,200 jobs) and will continue to grow slowly throughout the financial plan period. Unlike prior economic recoveries, the securities industry has not been much of a factor in the current recovery, so the recent job growth is good news for the City's economy. OSC estimates that each new job in the securities industry results in the creation of two additional jobs in other industries in the City because of the securities industry's high average salaries (which averaged $404,800 in 2014, including bonuses).

Although the securities industry has been profitable in each of the past six years, higher capital reserve requirements and the continued cost of legal settlements have constrained profitability in recent years. The broker/dealer profits of the member firms of the New York Stock Exchange, which is the traditional measure of Wall Street profitability, fell by 5 percent in 2014 to $16 billion, after dropping by 30 percent in 2013 (see Figure 6).

The June Plan assumes that securities industry profits will decline for the third consecutive year to $14.5 billion in 2015, and then remain at that level in 2016. However, profits for the first quarter of 2015 were strong at $6.5 billion, 22 percent higher than one year earlier. Profits were driven by a reduction in non-compensation expenses, which include the cost of legal settlements.

Figure 6

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

The construction industry has been adding jobs, and employment is near the prerecession level. Despite job losses during the early part of the recovery, the industry had a net gain of 14,300 jobs over the past six years. The New York Building Congress projected that construction spending in the City totaled $36 billion in 2014, an increase of 26 percent from 2013. In addition, new residential building permits increased by 14 percent in 2014, and the number of residential permits continued to grow during the first five months of 2015, according to the U.S. Census Bureau. For the third consecutive year, Brooklyn ranked highest among the five boroughs (followed by Manhattan) for the largest share of new residential permits in the City.

The unemployment rate in New York City fell by 1.6 percentage points in 2014, the largest annual decline in two decades, and it has continued to decline in 2015. The unemployment rate was 6.1 percent in June 2015, the lowest level in seven years and far less than the recessionary peak (10.2 percent). Even though the City has added nearly four times as many jobs as were lost during the recession, the unemployment rate remains higher than the prerecession level (by 1 percentage point) because the number of people looking for jobs has grown faster than the number of jobs. Despite broad improvements in the local labor market, certain segments of the population and some parts of the City continue to have higher unemployment rates.

The City's commercial and residential property markets have improved significantly in recent years, with rising property values and a rebound in transaction activity helping to boost tax collections. Both markets have benefited from foreign investors, who have been attracted to the security and rising values of property in New York City. The strong dollar, however, could affect the level of foreign investment.

Data from the New York City Department of Finance show that sales of large Manhattan commercial buildings (those valued at $50 million or more) totaled $19.2 billion in 2014, the highest level since 2007. Residential sales throughout the City increased in 2014, also to the highest level since 2007, driven by the demand for luxury apartments (those valued at $5 million or more). Much of the residential growth since the recession has occurred outside of Manhattan. Total residential sales in the boroughs outside of Manhattan grew at an average annual rate of 8 percent between 2010 and 2014, with median sales prices rising by over 9 percent. The real estate markets have remained strong through the first half of 2015.

Although the City's economy remains strong and shows no signs of slowing, it does face risks. The Federal Reserve faces the extraordinary challenge of increasing interest rates and reducing the unprecedented size of its balance sheet without disrupting the financial markets and harming the recovery. Other risks include the strong dollar, which could dampen tourism, and weak growth in the global economy.

The current national economic recovery has already exceeded the average length for recoveries during the post–World War II era. The City has added jobs for five consecutive years, and the June Plan assumes uninterrupted job growth for another five years through 2019, which would be the longest job expansion on record.[6]

[6] The longest postwar job expansion in the City to date lasted eight consecutive years.

III. Changes Since the June 2014 Plan

In FY 2015, the City realized unanticipated resources of $4.5 billion, which permitted the City to contribute $955 million to the Retiree Health Benefits Trust, leaving a surplus of $3.6 billion in FY 2015. The City used the surplus to increase its FY 2016 reserves by $750 million and to balance the FY 2016 budget.

Tax collections were higher by $3.1 billion in FY 2015 because of strong job and wage growth, lower-than-anticipated property tax refunds, higher-than-anticipated real property transactions and a number of large tax audits (see Figure 8, next page). These resources allowed the City to delay the sale of additional taxi medallions and the receipt of associated sale proceeds to future years. Tax collections are now expected to be higher by an average of $1.4 billion during fiscal years 2016 through 2018.

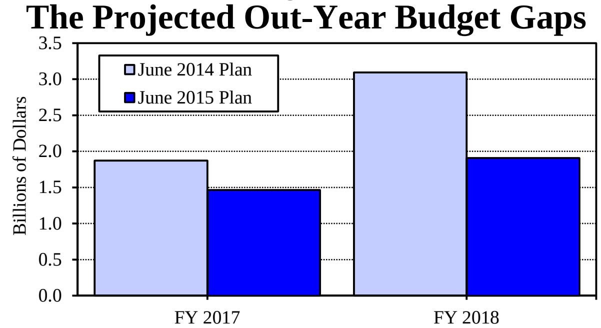
The City also benefited in FY 2015 from lower-than-planned debt service ($643 million), an agency cost-savings program ($348 million), and by drawing down unneeded reserves ($830 million). In total, the City realized debt service savings of $2.8 billion through 2018, mostly from refinancing outstanding debt and lower interest rates. Pension contributions were lower by $1.1 billion through FY 2018, reflecting better-than-expected investment earnings in FY 2014.

The City used some of these resources to increase the general reserve during the financial plan period by $250 million to $1 billion, the largest amount ever and 10 times more than the statutory minimum. The City also created a $500 million Capital Stabilization Reserve in FY 2016.

Over the past year, the City has made a number of targeted investments in public safety, education (public schools and the City University of New York), housing and social service programs (e.g., homeless services). These investments totaled $549 million in FY 2015 and an average of $1.6 billion annually thereafter. After a two-year hiatus, the City resumed the process of identifying agency savings in FY 2015. While this is a positive development, the savings will offset only a small portion of the higher agency spending. The net cost (averaging nearly $1.3 billion annually) was funded with other resources. The June Plan also reflects costs associated with a number of City Council initiatives, which are funded for one year ($335 million in FY 2016).

The June Plan projects budget gaps of $1.5 billion in FY 2017 and $1.9 billion in FY 2018. Despite a significant increase in agency spending, the gaps are smaller than projected one year ago (see Figure 7). For FY 2019, the City projects

Figure 7
The Projected Out-Year Budget Gaps



Sources: NYC Office of Management and Budget; OSC analysis

a gap of less than $2.9 billion. The projected gaps are relatively small, ranging from 2.5 percent to 4.5 percent of City fund revenue. In addition, the budgets for these years include a general reserve of $1 billion. If the reserve is unneeded, these resources could be used to help close the projected budget gaps.

Figure 8
Financial Plan Reconciliation—City Funds
June 2015 Plan vs. June 2014 Plan
(in millions)

	Better/(Worse)			
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**
Surplus/(Gaps) Per June 2014	**$ - - -**	**$ (2,625)**	**$ (1,871)**	**$ (3,093)**
Revenue Reestimates				
Taxes				
Personal Income	1,297	892	610	574
Real Estate Transactions	690	(134)	16	15
Real Property	490	503	662	735
Business Taxes	124	(15)	57	30
Other Taxes	163	79	58	55
Audits	365	2	2	2
Subtotal	3,129	1,327	1,405	1,411
Taxi Medallions	(532)	(360)	(293)	257
All Other	547	(100)	24	(87)
Total	**3,144**	**867**	**1,136**	**1,581**
Reserves				
General Reserve	730	(250)	(250)	(250)
Prior-Year Payable	100	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	(500)	- - -	- - -
Total	**830**	**(750)**	**(250)**	**(250)**
Expenditure Reestimates				
Debt Service	643	753	749	648
Agency Actions[7]	348	306	248	262
Technical Adjustments	269	(30)	(54)	(35)
Pension Contributions	44	117	228	737
Agency New Needs	(549)	(1,661)	(1,538)	(1,547)
City Council Initiatives	- - -	(335)	- - -	- - -
Collective Bargaining	(220)	(196)	(113)	(210)
Total	**535**	**(1,046)**	**(480)**	**(145)**
Net Change During FY 2015	**4,509**	**(929)**	**406**	**1,186**
Retiree Health Benefits Trust	(955)			
Surplus/(Gap)	**$ 3,554**	**$ (3,554)**	**$ (1,465)**	**$ (1,907)**
Surplus Transfer	(3,554)	3,554	- - -	- - -
Gaps Per June 2015 Plan	**$ - - -**	**$ - - -**	**$ (1,465)**	**$ (1,907)**

Sources: NYC Office of Management and Budget; OSC analysis

[7] Includes revenue initiatives, such as fines from traffic-enforcement cameras.

IV. The Citywide Savings Program

In FY 2015, after a two-year hiatus, the City resumed the process of identifying agency savings. The Citywide Savings Program generated an estimated $589 million in FY 2015 and is expected to generate $2.3 billion during fiscal years 2016 through 2019 (see Figure 9). In total, the program is expected to generate $2.9 billion cumulatively over five years. Of this amount, more than half ($1.5 billion) is expected to come from debt service from lower interest rates and other factors. Agency actions, such as administrative efficiencies, are expected to generate $1.4 billion through FY 2019 and eliminate the need for 528 positions.

Figure 9
Citywide Savings Program
(in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Agency Actions	$ 348	$ 306	$ 248	$ 262	$ 239
Debt Service	241	159	393	365	345
Total	**$ 589**	**$ 465**	**$ 641**	**$ 627**	**$ 584**

Sources: NYC Office of Management and Budget; OSC analysis

Agency actions generated an estimated $348 million in FY 2015, and are expected to generate another $306 million in 2016 and an average of $250 million in each of fiscal years 2017 through 2019. As discussed below and shown in Figure 10, the resources will come from funding shifts, reestimates, revenue initiatives and administrative efficiencies.

- Shifting some funding responsibility from the City to the federal and State governments were expected to save $163 million in FY 2015, but much less is expected in subsequent years. Most of the savings in FY 2015 ($153 million) will come from an increase in the federal reimbursement rate for fringe benefits for certain social services programs. The June Plan does not assume these savings will recur, though the City has realized similar savings in previous years.
- Cost reestimates saved $77 million in FY 2015, and are expected to save $84 million in FY 2016 and $40 million annually thereafter. The Department of Sanitation realized savings from a delay in implementing long-term contracts to transport waste out of the City, and will generate additional savings from continued delays in the operation of marine transfer stations. The Administration for Children’s Services reported savings of $25 million in FY 2015 and is expected to realize another $33 million through FY 2019. The City also realized $30 million in savings in FY 2015 from fringe benefit reestimates, and expects another $163 million through FY 2019.

- Revenue initiatives generated an estimated $68 million in FY 2015 and are expected to generate another $152 million through FY 2019. For example, the Department of Transportation expects to realize an average of $17 million annually for each of fiscal years 2016 through 2019 from the use of traffic-enforcement cameras.
- Administrative efficiencies are expected to generate more than $160 million annually beginning in FY 2016. For example, the Department of Education intends to reduce travel and contract costs (for savings of $42 million annually), and the Human Resources Administration plans to reduce unnecessary administrative processes (for savings of $13 million annually beginning in FY 2017). In addition, the City has eliminated the inflation adjustment for procurement, which will save $56 million annually beginning in FY 2016.

Figure 10
Agency Savings Program
(in millions)

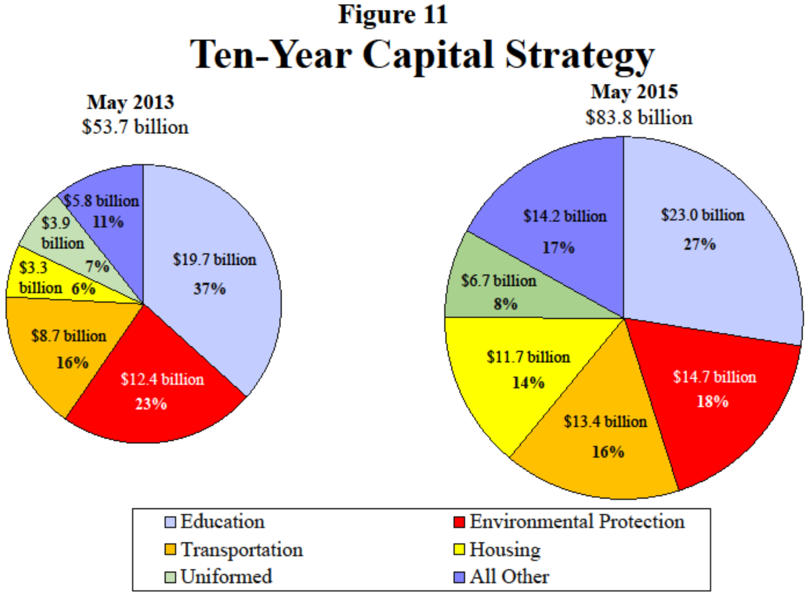
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Funding Shifts	$ 163	$ 5	$ 5	$ 5	$ 5
Cost Reestimates	77	84	41	42	43
Revenue Initiatives	68	56	27	46	23
Administrative Efficiencies	40	161	175	169	168
Total	**$ 348**	**$ 306**	**$ 248**	**$ 262**	**$ 239**

Sources: NYC Office of Management and Budget; OSC analysis

V. Ten-Year Capital Strategy

In May 2015, the City released its biennial 10-year capital strategy.[8] The capital strategy, which totals $83.8 billion through 2025, is $30 billion (56 percent) larger than the 10-year strategy that was released in May 2013 (see Figure 11).[9] More than half of the increase is concentrated in housing, transportation and education. The portion of the capital strategy funded with City funds is expected to total $76 billion, almost twice as much as the previous strategy and the largest amount ever.

Figure 11



Sources: NYC Office of Management and Budget; OSC analysis

As shown in Figure 11 and discussed below, three-fourths of the capital resources in the City's latest 10-year capital strategy would be invested in education, environmental protection, transportation and housing.

- More than one-quarter of the capital investments would be devoted to educational facilities ($23 billion). Most of these resources would support the rehabilitation of school buildings ($10.6 billion), system expansion ($5.4 billion) and educational enhancements ($2.7 billion). The City had previously assumed the State would finance about half of the education capital program through an increase in the authorization of bonds backed by State building aid, but, since that has not happened, the City now intends to increase its funding for these projects by $10.5 billion instead.

8 The first four years of the 10-year capital strategy serves as the City's capital commitment plan. The City Council increased planned commitments for FY 2016 by a net of $470 million during the budget adoption process. Most of the increase was concentrated in education, parks and cultural institutions. These projects will be reflected in the adopted capital commitment plan in October 2015.

9 The 10-year strategy is $16 billion (24 percent) larger than the preliminary strategy released in February 2015.

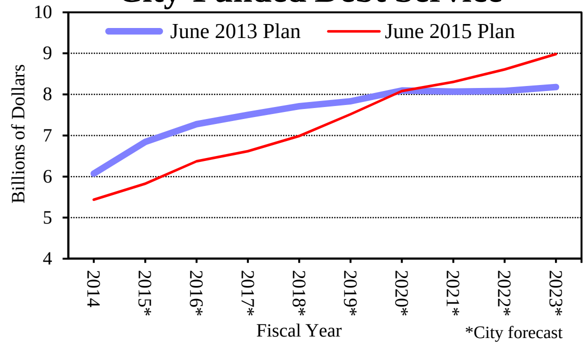
- The City would allocate $14.7 billion to environmental protection, 19 percent more than planned in the previous capital strategy. These projects would include water pollution control upgrades ($5.6 billion); sewers ($4.1 billion), including construction of a comprehensive sewer system in southeast Queens to solve longstanding flooding; and improvements to water mains and treatment ($3.3 billion).
- Transportation projects would be allocated $13.4 billion (54 percent more than previously planned), with half ($7.8 billion) allocated to the reconstruction and rehabilitation of bridges (including $1.7 billion for the Brooklyn-Queens Expressway). In addition, the City would provide the MTA with $837 million over the next 10 years, including $657 million for the MTA's 2015-2019 capital program.
- Housing projects would be allocated $11.7 billion, a fourfold increase from the previous capital strategy. Of this amount, $7.5 billion would be allocated to projects that would help the City reach its goal of building and preserving 200,000 affordable housing units over the next 10 years. The City would also allocate $899 million to the New York City Housing Authority, far more than the $64 million allocated in the previous capital strategy.
- The uniformed agencies would receive $6.7 billion, an increase of 72 percent. The Department of Sanitation would receive $2.3 billion, mostly for new vehicles and garages throughout the City. The other uniformed agencies would receive $4.4 billion, mostly for renovations to existing facilities.
- The City would allocate $14.2 billion to other City agencies, with more than one-quarter of the investment ($3.7 billion) devoted to energy-efficiency projects, a threefold increase from two years ago. Parks would receive $2.5 billion, an increase of 66 percent, and court buildings would receive $1.5 billion for needed renovations. Libraries would be allocated $623 million over the next 10 years, triple the level of funding in the previous capital strategy.

The City intends to finance these capital commitments exclusively through debt. New debt issuances would peak in FY 2019 at $7 billion, more than 75 percent higher than the amount planned for FY 2015. As a result, debt service is projected to increase sharply over the next 10 years. While the City expects debt service through FY 2019 to be lower than projected two years ago (see Figure 12), beginning in FY 2021 debt service would exceed the levels projected in June 2013 as capital spending ramps up.

City-funded debt service would reach $9 billion by FY 2023, $802 million more than projected in June 2013 and 54 percent higher than currently projected for FY 2015. Even so, the City forecasts that the debt service burden (i.e., debt service as a share of tax revenue) would remain below 14 percent. (A debt service burden above 15 percent is considered high.)

These estimates assume the City will meet its annual capital commitment targets, although the City has had difficulties doing so in the past. For example, the City expects capital commitments to average more than $7 billion during fiscal years 2016 through 2019, whereas actual commitments averaged $4.3 billion during fiscal years 2011 through 2014. As of May 2015, the City had committed a total of $6.8 billion (including $3.6 billion in City funds) for FY 2015, reflecting a pace that is unlikely to meet the City's $11.2 billion commitment goal for the year.

Figure 12
City-Funded Debt Service



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

The last time the City proposed a capital strategy of this magnitude was in FY 2008, but that program was sharply curtailed (by 35 percent) in response to the Great Recession. The City recognizes the inherent risk of a capital program of this size and has set aside operating resources to fund a $500 million Capital Stabilization Reserve. While some of the resources could be used to fund the early stages of capital planning, the reserve would be used to defease debt coming due in the near term in order to prevent the debt service burden from rising too quickly in the event of a significant revenue shortfall or an unexpected increase in interest rates.

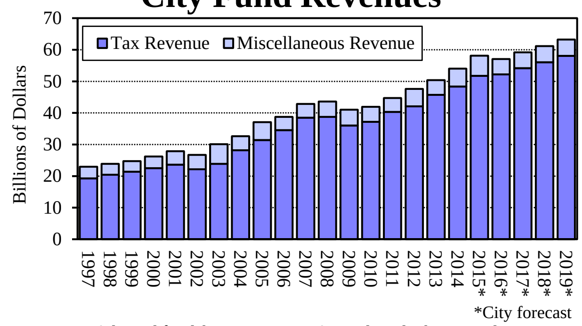
VI. Revenue Trends

The June Plan assumes that City fund revenues will decline by 1.8 percent to $57 billion in FY 2016 (see Figure 13) because the prior year benefited from a one-time transfer of $1 billion from the Health Stabilization Fund and because the City has historically begun the fiscal year with a conservative forecast for tax collections, which account for 90 percent of City fund revenue.

At the beginning of FY 2015, the City had assumed that the economy would slow and that tax collections would increase by only 0.7 percent. Instead, tax collections are now expected to increase by 7 percent and exceed the City's forecast at the beginning of the fiscal year by $3.1 billion. Tax collections are forecast to reach a record $51.7 billion in FY 2015, 33 percent higher than the prerecession peak (26 percent higher after adjusting for tax increases).

Figure 13

City Fund Revenues



Note: Adjusted for debt service on TFA Bonds and tobacco settlement revenues used to pay TSASC debt service.

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

The City is again assuming that the growth in tax revenues will ease, but the economy shows no signs of slowing halfway through 2015. In fact, the June Plan assumes that nonproperty tax collections will decline by 2.1 percent in FY 2016, whereas collections have grown at an average annual rate of 7.7 percent between fiscal years 2010 and 2015. If nonproperty tax collections were to grow at a similar rate in FY 2016 as in recent years, the City could realize additional revenues of nearly $2.6 billion.

The City's conservative approach to projecting tax collections has benefited the City by generating surpluses that have helped balance the following year's budget and by cushioning the impact of adverse economic developments. Nevertheless, the Great Recession caused a tax revenue loss of $3.1 billion over a two-year period compared to projections made in June 2008 (after adjusting for tax law and rate changes). The City also experienced a significant tax revenue loss from the 2000-2003 recession and the terrorist attacks on the World Trade Center. In recent years, the City has been building up its reserves so that it is better prepared to deal with any adverse development.

Details of the City's revenue forecast are shown in Figure 14 and discussed below.

Figure 14
City Fund Revenues
(in millions)

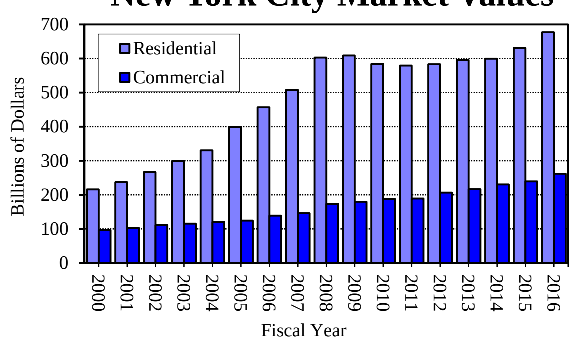
	FY 2015	FY 2016	Annual Growth	FY 2017	FY 2018	FY 2019	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 21,270	$ 22,384	5.2%	$ 23,487	$ 24,490	$ 25,549	4.5%
Personal Income Tax	10,489	10,594	1.0%	10,616	10,854	11,196	1.9%
Sales Tax	6,756	7,026	4.0%	7,320	7,617	7,886	3.9%
Business Taxes	6,083	6,134	0.8%	6,369	6,560	6,791	3.4%
Real Estate Transaction Taxes	2,916	2,333	-20.0%	2,577	2,653	2,724	5.3%
Other Taxes	3,159	3,037	-3.9%	3,124	3,189	3,243	2.2%
Audits	1,074	711	-33.8%	711	711	711	0.0%
Subtotal	**51,747**	**52,219**	**0.9%**	**54,204**	**56,074**	**58,100**	**3.6%**
Miscellaneous Revenues	6,380	4,844	-24.1%	4,995	5,093	5,157	2.1%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**$ 58,112**	**$ 57,048**	**-1.8%**	**$ 59,184**	**$ 61,152**	**$ 63,242**	**3.5%**

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

1. Real Property Tax

Property taxes account for nearly 40 percent of City fund revenues (43 percent of tax revenues). In recent years, property tax collections have grown because of the rebound in the City's residential and commercial real estate markets, which have pushed market values to record levels (see Figure 15). Commercial property values continued to grow even during the recent recession, while residential market values declined and then grew slowly until accelerating during fiscal years 2015 and 2016. Although tax rates have not changed since FY 2010, rising market values have caused average annual tax bills to increase by $27,000 for commercial property owners and by $1,200 for residential home owners.

Figure 15
New York City Market Values

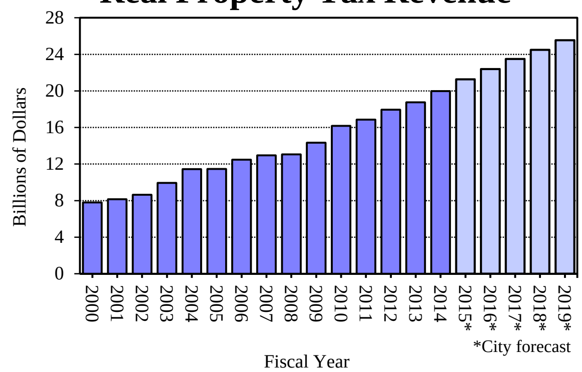


Sources: NYC Department of Finance; NYC Office of Management and Budget; OSC analysis

Property tax collections have increased at an average annual rate of more than 5 percent since FY 2010, driven by increases in market values for commercial and large residential properties. The June Plan assumes that property tax collections will reach $22.4 billion in FY 2016 (see Figure 16), more than one-third higher than in FY 2010. Even though the June Plan assumes that market values will grow more slowly as long-term interest rates rise, property tax collections are still projected to grow at an average annual rate of 4.5 percent during fiscal years 2017 through 2019.[10] If long-term interest rates rise more slowly than projected in the June Plan, property values could grow faster than anticipated by the City, potentially yielding additional revenues.

Figure 16

Real Property Tax Revenue



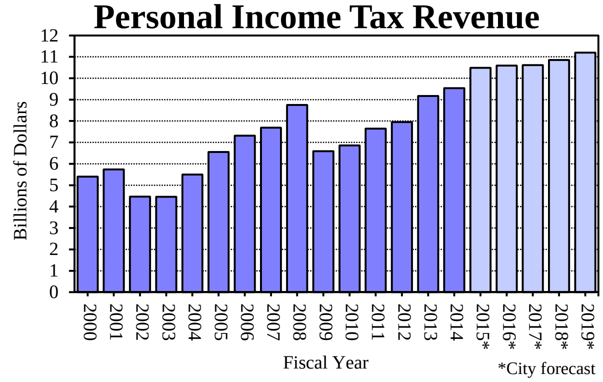
Sources: NYC Office of Management and Budget; OSC analysis

2. Personal Income Tax

The City expects personal income tax collections to reach a record $10.5 billion in FY 2015, which is 20 percent higher than the prerecession peak in FY 2008. Collections were driven by record employment growth and higher capital gains, reflecting strong real estate and equity markets. The June Plan assumes that collections will grow only slightly in FY 2016 to $10.6 billion (see Figure 17). After growing at an annual average rate of 8.1 percent for the past six years, the City is projecting only a 1 percent increase for FY 2016. This estimate is based on the City's assumption that wage and job growth will slow in 2015 and that bonuses will increase only slightly. The City assumes that personal income tax collections will ease further in FY 2017 (growing by 0.2 percent) and then will pick up during the remainder of the financial plan period.

Figure 17

Personal Income Tax Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

After adding a record 120,000 jobs during 2014, the June Plan assumes that job growth will slow to 67,000 in 2015. However, the City is on pace to add more than 100,000 jobs in 2015, which would be one of the best years on record. For this reason, OSC expects personal income tax collections to exceed the City's estimates by $250 million annually.

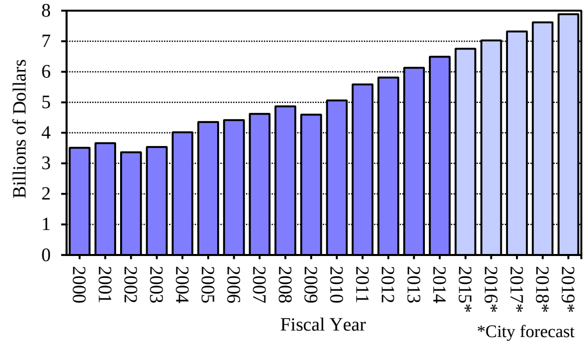
10 State law requires changes in assessed values for commercial and large residential properties to be phased in over five years. Thus, recent increases in assessed values will continue to boost tax revenues during the financial plan period.

3. Sales Tax

After declining in FY 2009, sales tax collections have been strong as a result of a robust local economy and increased spending by the record number of tourists. The June Plan forecasts that collections will reach a record $7 billion in FY 2016 and grow at an average annual rate of 3.9 percent during the rest of the financial plan period (see Figure 18). The impact of strong domestic and international tourism is also evident in the City's hotel tax collections, which are expected to reach a record $567 million in FY 2015.

Figure 18

Sales Tax Revenue



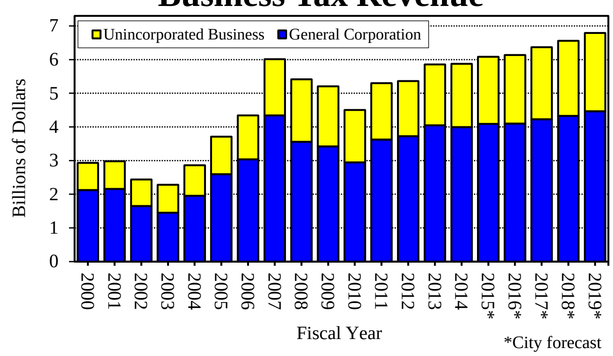
Sources: NYC Comptroller; NYC Office of Management and Budget

4. Business Taxes

While business taxes collections are projected to reach a record level of $6.1 billion in FY 2016 (see Figure 19), the June Plan assumes that collections will slow from 3.5 percent growth in FY 2015 to 0.8 percent in FY 2016. The City expects collections to be impacted by weaker Wall Street profitability. The City expects growth to average 3.4 percent during the remainder of the financial plan period. The State modified the City's business taxes by merging the banking corporation tax into the general corporation tax, effective retroactively to January 1, 2015. The City expects these reforms to be revenue-neutral.

Figure 19

Business Tax Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

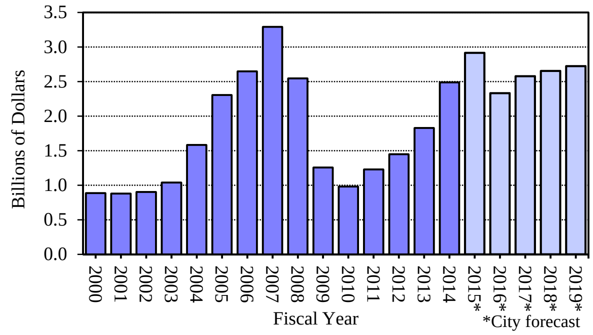
5. Real Estate Transaction Taxes

Collections from the mortgage recording tax and real property transfer tax are volatile and have been difficult to forecast. Collections rose by 17 percent to reach an estimated $2.9 billion in FY 2015 (see Figure 20), reflecting strong residential and commercial sales.[11] According to the City, transactions were accelerated by the expectation that

11 The mortgage recording tax is imposed on all mortgages of real property recorded in the City, including mortgages issued for refinancing. The real property transfer tax is collected on all real estate transactions.

interest rates will rise by the end of 2015.[12] As a result, the June Plan assumes that collections will fall by 20 percent, or $583 million, in FY 2016. This would be the first decline since FY 2010 and the largest decline since the height of the financial crisis in 2008.

Figure 20
Real Estate Transaction Taxes Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

While the real estate markets show no signs of weakening, the City has reason to be cautious. Interest rates have never remained this low for such a long period, and the Federal Reserve faces the unprecedented challenge of raising rates without harming the recovery. Nonetheless, past increases in interest rates have not translated into a sharp decline in collections. Although OSC acknowledges the possibility that collections could decline in FY 2016, the decline is not likely to be as sharp as the City predicts. Therefore, OSC expects collections from real estate transaction taxes to exceed the City's forecast by $200 million in FY 2016 (which would still represent a decline of 13 percent from the FY 2015 level).

6. Miscellaneous Revenues

Miscellaneous revenues are projected to total $4.8 billion in FY 2016, $536 million less than expected for FY 2015 (excluding the one-time transfer from the health stabilization fund in FY 2015). Last year benefited from $225 million in asset sales, such as the sale of City-owned property to Memorial Sloan Kettering Cancer Center; a legal settlement payment of nearly $82 million from Commerzbank AG; and $21 million from an earlier sale of taxi medallions.

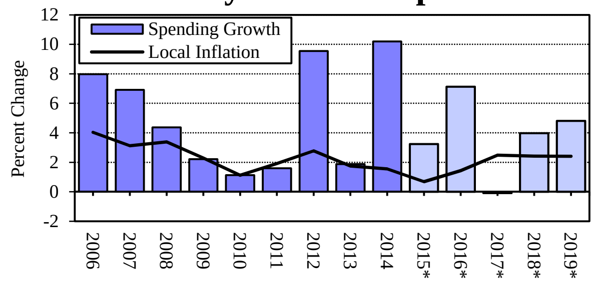
[12] The Federal Reserve is expected to begin increasing short-term interest rates in September 2015.

VII. Expenditure Trends

Expenditures are projected to total $78.5 billion in FY 2016. The City-funded portion (adjusted for surplus transfers and debt defeasances) is projected to total $60.7 billion in FY 2016, an increase of 7.1 percent (see Figure 21). The City's decision to increase its reserves accounts for nearly $1.5 billion of the increase. City-funded spending would increase by a total of $9.4 billion during the financial plan period, an annual growth rate of 3.9 percent, which is faster than the projected inflation rate for this period (2.2 percent). Spending is driven by the cost of recent labor agreements, and higher costs for health insurance and debt service.

Figure 21

Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers, TFA and TSASC. City-funded expenditures grew by 10.2 percent in FY 2014 largely because of the cost of new labor agreements, which increased costs by $2 billion in that year.

Sources: NYC Office of Management and Budget; OSC analysis

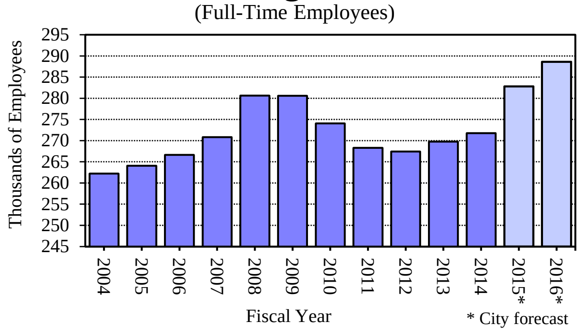
Costs for salaries and wages are projected to rise by $1.4 billion (8.9 percent) in FY 2016 as a result of new agency initiatives and higher collective bargaining costs. Debt service costs would increase by $545 million (9.4 percent) and health insurance costs would increase by $478 million (11.6 percent). City-funded spending is projected to decline slightly in FY 2017, largely because of nonrecurring costs in FY 2016 (e.g., Capital Stabalization Reserve) and the lower cost in FY 2017 of recent collective bargaining agreements. Spending is projected to grow at an average annual rate of 4.4 percent over the next two fiscal years.

The June Plan assumes that the City's full-time workforce (including positions funded by the federal and State governments) will have increased by 11,018 employees during FY 2015 (see Figure 22). This would have been the largest increase since FY 2008, but as of May 2015 the City had added only half of the planned hires, with most of the vacancies in the health and welfare agencies. The June Plan assumes that the vacancies will be filled by the beginning of FY 2016, which appears unlikely, and that the City also plans to hire another 5,825 employees during FY 2016 (for details, see Appendix). The full-time workforce is projected to reach 288,610 employees by the end of FY 2016.

Figure 22

Staffing Levels

(Full-Time Employees)



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

Sources: NYC Office of Management and Budget; OSC analysis

The June Plan is based on the trends shown in Figure 23 and discussed below.

Figure 23
Estimated City-Funded Expenditures
(in millions)

	FY 2015	FY 2016	Annual Growth	FY 2017	FY 2018	FY 2019	Average Three-Year Growth Rate
Salaries and Wages	$ 15,916	$ 17,335	8.9%	$ 17,419	$ 18,732	$ 20,200	5.2%
Pension Contributions	8,463	8,611	1.7%	8,574	8,625	8,724	0.4%
Medicaid	6,173	6,224	0.8%	6,322	6,322	6,322	0.5%
Debt Service	5,826	6,371	9.4%	6,616	6,988	7,528	5.7%
Health Insurance	4,127	4,605	11.6%	4,839	5,068	5,585	6.6%
Other Fringe Benefits	2,636	2,843	7.9%	2,940	3,026	3,252	4.6%
Energy	846	836	-1.2%	880	927	963	4.8%
Judgments and Claims	540	570	5.6%	606	642	677	5.9%
Public Assistance	627	653	4.1%	647	647	647	-0.3%
General Reserve	20	1,000	NA	1,000	1,000	1,000	NA
Retiree Health Benefits Trust	955	- - -	NA	- - -	- - -	- - -	NA
Prior Year's Expenses	(100)	- - -	NA	- - -	- - -	- - -	NA
Capital Stabilization Reserve	- - -	500	NA	- - -	- - -	- - -	NA
Other	10,634	11,157	4.9%	10,806	11,082	11,197	0.1%
Total	**$ 56,663**	**$ 60,705**	**7.1%**	**$ 60,649**	**$ 63,059**	**$ 66,095**	**2.9%**

Note: Debt service has been adjusted for surplus transfers, TSASC and redemptions.
Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

In May 2014, the City and the United Federation of Teachers (UFT), which represents the City's teachers and paraprofessionals (33 percent of the workforce), reached a nine-year labor agreement. The UFT agreement compensates teachers and other UFT members for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to members of the UFT.[13,14] The agreement also increases wages by 10 percent over a seven-year period.

In late 2014, the City reached agreement with a coalition of eight unions that represent uniformed superior officers, and it subsequently reached agreement with the union that represents police sergeants. The agreements will increase wages by 11 percent over seven years, one percentage point more than the UFT pattern for this period. The City recently announced a conforming agreement with uniformed sanitation workers.

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[13] The City had set aside resources to increase the wages for members of the UFT by 4 percent in each of calendar years 2009 and 2010, but the City redirected those resources in 2010 to offset a sharp reduction in State education aid, which resulted from the State's efforts to balance its budget during the recession.

[14] The cost of compensating UFT members who retired between November 1, 2009, and June 30, 2014, for the time they worked without pay raises is expected to exceed the $180 million set aside in the Structured Retiree Claims Settlement Fund. An independent arbitrator has modified the terms of the UFT wage agreement to generate offsetting savings, which will cover the difference at no additional cost to the City.

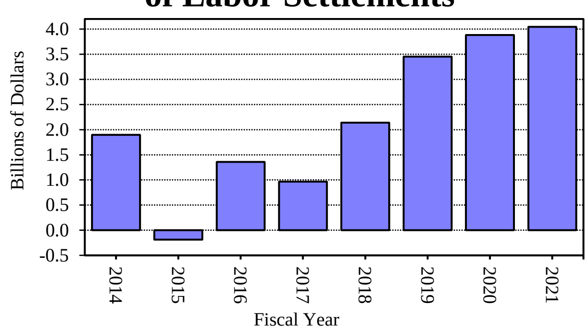
The June Plan assumes that the agreements with the UFT and the superior officers will set wage increase patterns (10 percent over seven years for civilian employees and 11 percent over seven years for uniformed employees) for all of the unions with expired labor agreements.

As of July 2015, the City had reached new labor agreements with 80 percent of its unionized workforce.[15] The City, however, has yet to reach new agreements with the unions that represent the City's police officers, firefighters and correction officers. The Patrolmen's Benevolent Association (which represents police officers) and the City are currently engaged in binding arbitration. While the fact-finding phase of the arbitration process has recently concluded, a decision from the three-member panel is not expected until sometime in the fall. Arbitration awards are limited to two years, but the parties could reach a longer agreement before an award is finalized.

The City estimates that recently negotiated and anticipated agreements will cost $14.1 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 the UFT agreement ($3.5 billion), and by new resources ($4.4 billion) that are expected to result from a separate agreement between the City and its unions (see "Health Insurance" later in this section). The net budgetary impact during fiscal years 2014 through 2018 is expected to total $6.2 billion.

The budgetary impact will be greatest during fiscal years 2018 through 2021, and will peak at more than $4 billion in FY 2021 (see Figure 24). 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.[16]

Figure 24
Net Budgetary Impact of Labor Settlements



Sources: NYC Office of Management and Budget; OSC analysis

The June Plan includes resources to fund annual wage increases of 1 percent after the expiration of the current round of collective bargaining, which would begin in FY 2018 for most employees. The City estimates that each additional percentage point increase in wages would cost $365 million annually.

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15 In May 2015, the City announced that it would increase the wages of 35,000 employees of nonprofit entities under contract to the City by 2.5 percent, and that it would ensure that these employees earn at least $11.50 per hour, consistent with the City's living wage law.

16 The City estimates that lump-sum payments will total $7.2 billion during fiscal years 2014 through 2021, of which $4.2 billion will be included in the budgets for fiscal years 2019 through 2021 after most contracts expire in 2018.

2. Pension Contributions

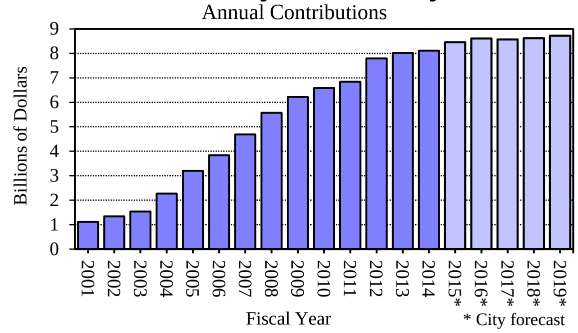
After rising rapidly over the past decade, the growth in City-funded pension contributions has slowed significantly in recent years. The slowdown reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,[17] better-than-expected investment returns over the past five years,[18] and savings from lower-cost pension plans for City employees hired after March 31, 2012.

Though pension contributions have not declined, they are projected to remain relatively constant during the financial plan period (averaging $8.6 billion), which is a sharp contrast to the rapid growth during the past decade (see Figure 25). However, the pension funds earned (on a preliminary basis) an estimated 3 percent on their investments during FY 2015 (compared to the expected annual return of 7 percent), which could increase planned pension contributions by $65 million in FY 2017, $135 million in FY 2018, and $200 million in FY 2019.

Figure 25

New York City Pension Systems

Annual Contributions



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

The City's five pension systems had sufficient assets to fund, on average, 72.5 percent of their accrued pension liabilities as of June 30, 2014, leaving an unfunded liability of $46.6 billion. An independent actuarial consultant recently completed a biennial audit of the pension systems as required by the City Charter, but has deferred making any recommendations until a final review is completed sometime later in 2015.

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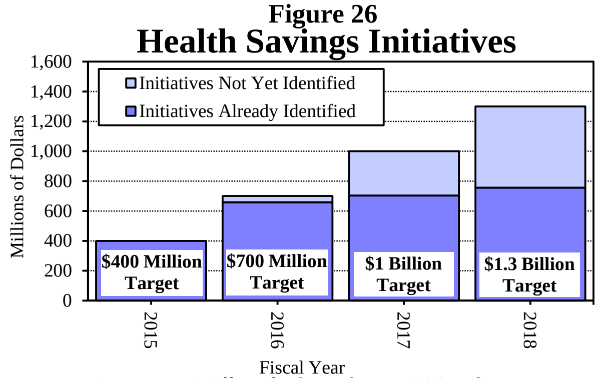
17 These include a longer amortization period for unfunded liabilities, which held down contributions during the financial plan period but will result in higher costs over the longer term.

18 Strong investment earnings during fiscal years 2013 and 2014 generated cumulative budgetary savings of nearly $3.4 billion during fiscal years 2015 through 2019, helping to balance the budget and to fund new labor agreements.

3. Health Insurance

City-funded health insurance costs for municipal employees are projected to decline by 3.6 percent in FY 2015 to $4.1 billion, mainly as a result of an agreement between the City and the Municipal Labor Committee (MLC), for the first reduction in 20 years. The agreement is expected to generate 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 savings will be used to help fund wage increases for municipal employees.

Figure 26



Sources: NYC Office of Labor Relations; OSC analysis

The Commissioner of Labor Relations has reported that the City reached the $400 million savings target for FY 2015 and has nearly achieved the $700 million savings target for FY 2016 (see Figure 26). The commissioner acknowledged that meeting the savings targets for fiscal years 2017 and 2018 will be a greater challenge, but that substantial progress has already been made. The City reports that it has identified initiatives that will generate savings of $704 million in FY 2017 and $756 million in FY 2018.

Nearly all of the savings in FY 2015 came from administrative actions. For example, the MLC agreed to fund the cost of certain mental health benefits from the Health Stabilization Reserve ($153 million), relieving the City of the financial obligation.[19] Similarly, an audit that identified ineligible dependents resulted in the conversion of 14,000 health insurance plans from family coverage to individual coverage ($108 million).

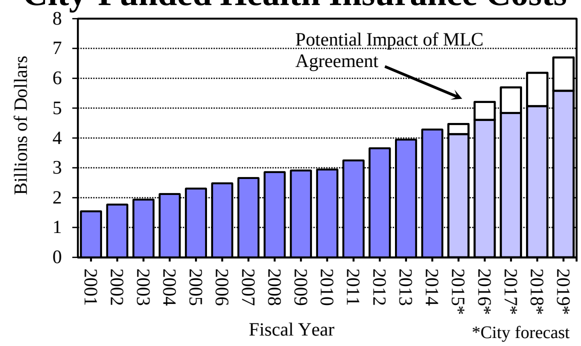
Similarly, savings from lower-than-planned increases in health insurance premiums account for an increasing share of the anticipated savings ($55 million in FY 2015, $412 million in FY 2016, $453 million in FY 2017, $498 million in FY 2018 and $532 million in 2019). For example, the City had assumed that health insurance premiums for active employees would grow at an annual rate of 9 percent, which was consistent with historical trends. In the fall of 2014, the State approved an increase in health insurance premiums in FY 2016 of less than 2.9 percent for the Health Insurance Plan of Greater New York (the City's principal insurer).

[19] In late 2014, an arbitration panel ruled that the City is obligated to reimburse the Health Stabilization Fund (HSF), which was established in 1986 pursuant to collective bargaining, for the cost of certain mental health benefits. The MLC agreed to allow this cost to be funded by the HSF, as the City had originally proposed, and to credit these savings toward the target for FY 2015.

Additional savings resulted from changing the funding structure of the City's GHI Plan ($58 million), renegotiating provisions of the City's specialty drug prescription program ($7 million), and negotiating a reduction in the administrative fees for Empire Blue Cross ($4 million). The City also implemented cost-containment initiatives, such as those aimed at preventing or delaying the onset of new cases of diabetes. These initiatives are expected to play a greater role in subsequent years.

If the savings are realized as planned, the growth in health insurance costs between fiscal years 2014 and 2019 would slow from a projected average annual rate of 9.4 percent to 5.5 percent. Nevertheless, health insurance costs would still reach $5.6 billion by FY 2019 (see Figure 27), 30 percent more than the cost in FY 2014.

Figure 27
City-Funded Health Insurance Costs



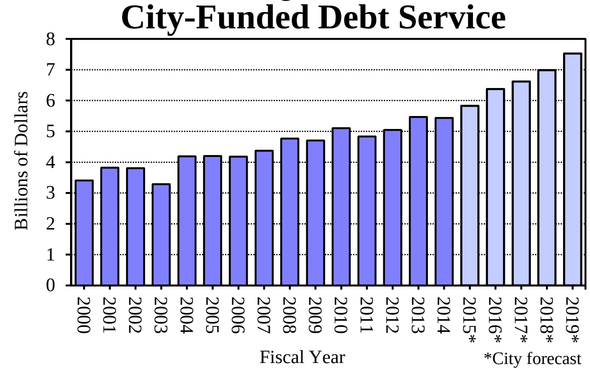
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

If health care savings exceed $3.4 billion during the FY 2015-2018 period, up to $365 million (the equivalent of a 1 percent wage increase) would be used to provide lump-sum payments to employees. Any additional savings during this period would be shared equally between the City and the municipal unions, and after FY 2018 the use of any additional recurring savings above $1.3 billion would be subject to negotiation.

4. Debt Service

Despite a 28 percent increase in the size of the four-year capital program since the February Plan, debt service is projected to be lower by $205 million in FY 2016 and by an average of $351 million annually thereafter. The reduction results largely from a downward revision in the City's interest rate assumption for fixed-rate bonds and from excess State building aid that will be used to pay debt service on Transitional Finance Authority (TFA) debt. Nonetheless, City-funded debt service (adjusted for surplus transfers) is still projected to grow from $5.4 billion in FY 2014 to $7.5 billion in FY 2019 (see Figure 28), an increase of $2.1 billion.

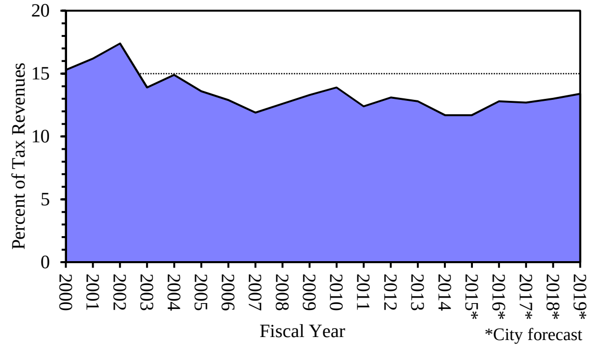
Figure 28
City-Funded Debt Service



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

While debt outstanding as a share of total New York City personal income is projected to remain level at about 13.3 percent during fiscal years 2015 through 2019, debt service as a share of tax revenue is projected to grow from 11.7 percent in 2014 to 13.4 percent in FY 2019 (see Figure 29). These estimates assume that the City's agencies will meet their annual capital commitment targets, which has been a problem in the past; that interest rates will not grow faster than the City anticipates; and that tax revenues will grow at the rate projected by the City.

Figure 29
Debt Service Burden



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

The City's tax revenue forecasts are conservative, but an unanticipated event or economic setback could cause a large revenue shortfall, which could cause debt service to consume a significantly larger share of tax revenues. In recognition of this possibility, the City has allocated $500 million in operating funds to create a Capital Stabilization Reserve (CSR). The City has indicated that it could use the CSR to defease debt coming due in the near term to prevent debt service from rising too quickly as a share of tax revenues.

Debt service forecasts are also sensitive to changes in interest rates. The June Plan assumes that interest rates on fixed-rate issuances will average 5.4 percent in FY 2016 and 5.9 percent in subsequent years. While this is lower than assumed last year, it is still higher than current market conditions. About 15 percent of the City's debt portfolio is comprised of variable-rate debt, which is vulnerable to interest rate volatility.

The Federal Reserve has indicated that it will begin to raise short-term interest rates as it begins to unwind the accommodative monetary policies that helped support the national economic recovery. While it is expected that the Federal Reserve will gradually increase short-term rates, the impact on long-term interest rates remains to be seen, which could impact the cost of City borrowing.

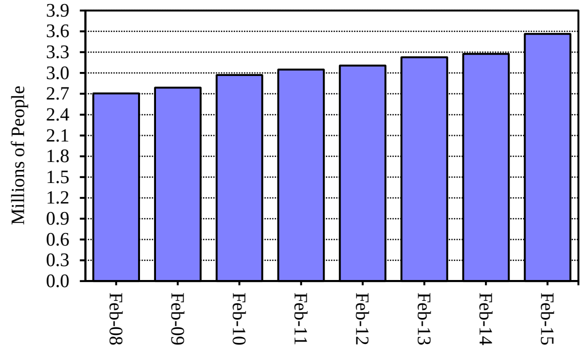
The City has greatly benefited from the current low-interest-rate environment, permitting it to refinance outstanding debt and to issue new debt at lower cost. Over the past five years, the City has realized savings of more than $2.8 billion. By lowering the interest rate assumption for fixed-rate debt, the City has recognized savings now that would have probably materialized later. The interest rate assumption for variable-rate debt is still much higher than market conditions, creating the potential for savings. The City is also unlikely to need to borrow to meet short-term cash flow needs in FY 2016 because of its large cash balance. In our estimation, the City could realize debt service savings of about $200 million in FY 2016.

5. Medicaid

Enrollment in the federal Medicaid program in New York City has grown steadily since the recession, and the most recent data indicate that enrollment reached almost 3.6 million people in February 2015 (see Figure 30). This represents slightly more than 40 percent of the entire New York City population. Growth accelerated after January 1, 2014, when provisions of the federal Affordable Care Act (ACA) that require health insurance coverage for most individuals became effective. The June Plan assumes that the City's share of the cost of Medicaid will reach $6.2 billion in FY 2016 (11 percent of City-funded revenue) and then remain at about that level as the State completes a three-year takeover in the growth of the local share of Medicaid.

Figure 30

Medicaid Enrollment



Sources: NYS Department of Health; OSC analysis

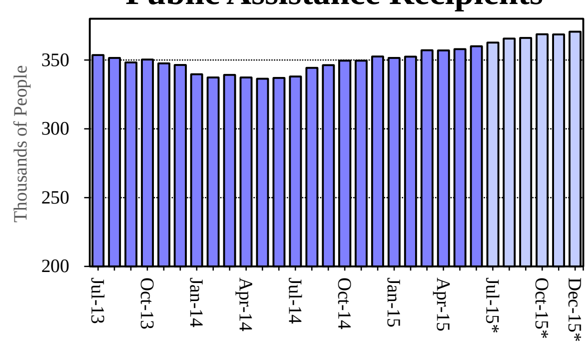
The June Plan assumes the receipt of $97 million annually in Medicaid reimbursements through FY 2019 for services provided by the Department of Education (DOE) to students with special needs. However, the DOE has had problems documenting such claims, and until it can demonstrate that it has overcome these problems OSC considers the receipt of $80 million annually to be uncertain.

6. Public Assistance

New York City's public assistance caseload declined by more than two-thirds since the late 1990s due to national welfare reforms, which included imposing a work requirement on many recipients. Over the past 12 months, however, the caseload has increased by 23,000 (6.8 percent) to 360,000 recipients as of June 2015 (see Figure 31).

Figure 31

Public Assistance Recipients



Source: NYC Office of Managment and Budget; NYC Human Resources Administration

The City attributes the increase to changes in the program that were recently implemented, such as granting recipients greater flexibility in scheduling appointments, which has reduced the number of recipients who lose their benefits for noncompliance with program rules. The City also received State approval to increase the amount of education and training hours that can be applied to a recipient's work requirements. The number of recipients enrolled in education and training has more than doubled over the past year. In addition, the number of people receiving emergency cash grants has also increased over the past year.

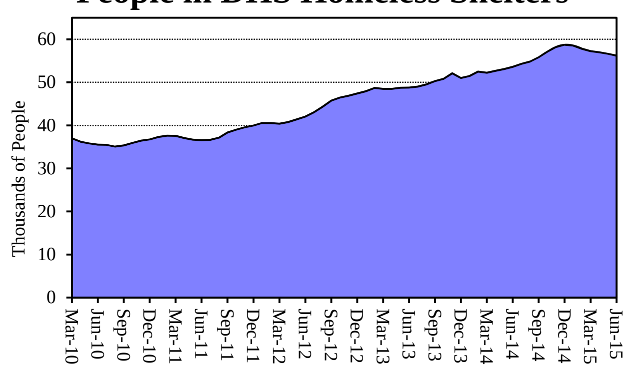
The June Plan assumes that the caseload will reach 370,700 by the end of December 2015, and then remain at that level for the remainder of the financial plan period. While the City estimates that the City-funded cost of public assistance will total $653 million in FY 2016, this estimate assumes no growth in the caseload during the second half of the fiscal year. Based on recent trends, it appears likely that the caseload will continue to increase slowly until the benefit of increased education and training allows recipients to become more employable.

7. Homeless Services

As shown in Figure 32, the City's shelter population has grown by more than 20,000 people over the past five years, an increase of 58 percent. In June 2015, an average of nearly 56,100 people (including almost 23,100 children) resided in shelters operated by the Department of Homeless Services (DHS). Although the City's shelter population remains at historically high levels, the population has begun to decline, reflecting the success of a number of City and State initiatives.

Figure 32

People in DHS Homeless Shelters



Source: NYC Department of Homeless Services

Since September 2014, the City and the State have developed six Living in Communities (LINC) programs that provide temporary rental assistance for people in homeless shelters. The City reports that almost 5,000 people (as of April 2015) have been moved out of shelters into subsidized housing through these programs. The City has also nearly doubled the enrollment in a case management program, which is designed to help individuals maintain permanent housing and to slow the growth of people entering the shelter system. The City expects these initiatives to accelerate the reduction in the homeless shelter population during FY 2016 as these programs are expanded.

Rental assistance programs in New York City could benefit by as much as $522 million in additional State and City funding during fiscal years 2015 through 2018. Funding could come from a State-imposed cap on local contributions for the cost of State-run juvenile justice facilities (as much as $220 million over four years), which would be contingent upon the City's investment of an equal amount of funding. The State will also provide an additional $82 million for rental assistance programs. The State Division of the Budget is reviewing the City's funding proposal, which requires State approval.

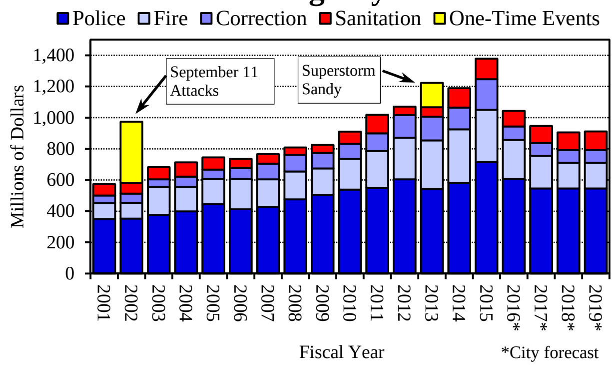
As a result of growth in the shelter population over the past few years, funding for the DHS has grown to nearly $1.2 billion in FY 2015. The portion funded by the City has grown by nearly half during this period to $572 million. The June Plan assumes that the shelter population will continue to decline and that the City's costs will decline slightly to $556 million in FY 2016 and remain relatively stable through FY 2019.

8. Uniformed Agencies

Overtime costs in the uniformed agencies (both for uniformed and civilian employees) reached nearly $1.4 billion in FY 2015, the highest level on record (see Figure 33) and 51 percent higher than five years earlier.[20] The Police, Correction and Sanitation departments each set new records in FY 2015, and overtime costs in the Fire Department were only slightly less than the record set in FY 2014.

Figure 33

Uniformed Agency Overtime



Note: FY 2015 costs are preliminary.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Each of the uniformed agencies have 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 June Plan allocates resources to help these agencies better manage their overtime budgets, including funding to increase staffing. In total, the June Plan assumes that overtime will total $1 billion in FY 2016, $335 million less than the FY 2015 level and the lowest level in four years. The June Plan assumes that overtime will decline by another $97 million in FY 2017 and then remain level at about $910 million.

As part of an effort to increase community policing, the City intends to hire 1,297 additional police officers in FY 2016. Most of these additional officers will be dedicated to community policing, but more than 300 will be assigned to an existing antiterrorism taskforce, which is expected to reduce the need for overtime. The Police Department also intends to hire 415 civilians to perform desk work, freeing up an equal number of

[20] Overtime costs in FY 2015 exceeded the forecast in the June Plan by nearly $125 million. Most of the unplanned costs ($100 million) were concentrated in the Police Department.

police officers for patrol. June 2015 had the fewest number of reported crimes of any June since at least 1993, but there has been an increase in some categories, particularly gang-related violence. The Police Department has recently begun its Summer All Out program, which places additional officers in high-crime areas.

The June Plan allocates $608 million to the Police Department for overtime in FY 2016 ($99 million more than allocated in the May Plan but $106 million less than the FY 2015 level), and $546 million in subsequent years. Of this amount, the June Plan allocates $515 million in City funds for uniformed employee overtime in FY 2016 and $453 million in subsequent years.[21]

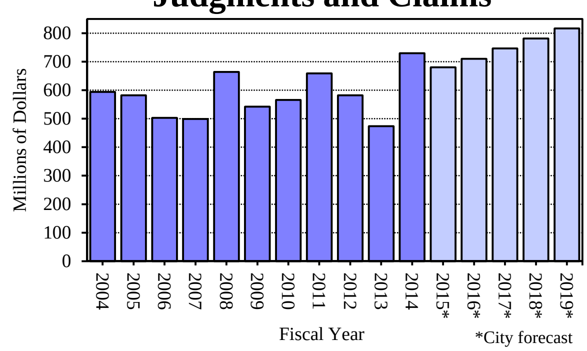
In light of the additional resources allocated to the Police Department, the Mayor has placed a cap on the City-funded share of overtime for uniformed employees, which may be exceeded only in the event of an emergency, such as Superstorm Sandy. Since the Police Department has a long history of exceeding its initial overtime allocations, the department will have to manage its resources effectively to stay below the cap. OSC will closely monitor overtime trends during FY 2016 to identify budgetary risks.

Reductions in overtime costs in the Fire and Correction departments are contingent upon hiring additional uniformed officers, but these agencies have fallen significantly short of their hiring goals. Until these agencies meet their hiring targets and reduce overtime, overtime costs are likely to exceed planned levels by $150 million annually. Overtime costs in the Department of Sanitation will depend largely on the number and severity of winter snowstorms.

9. Judgments and Claims

The City projects that its costs to settle judgments and claims against the City will total $710 million in FY 2016 ($570 million excluding costs associated with the Health and Hospitals Corporation), which is less than the record set in 2014 but more than the cost projected for FY 2015 (see Figure 34). Costs are projected to rise at an average annual rate of 4.8 percent in subsequent years, reaching $817 million in FY 2019.

Figure 34
Judgments and Claims



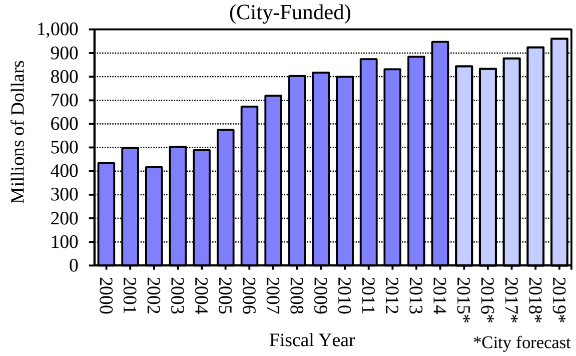
Source: NYC Comptroller; NYC Office of Management and Budget

21 The June Plan allocates another $8 million annually in non-City funds for uniformed employee overtime.

10. Energy

Energy costs (i.e., electricity, fuel and heat) rose sharply between fiscal years 2004 and 2008, mostly as a result of higher prices for oil and natural gas (see Figure 35). Costs remained relatively stable during the next two years, then rose by 9 percent in FY 2011, reflecting a harsh winter. Another cold winter during FY 2014 contributed to record-high costs of $935 million. The June Plan assumes that energy costs declined in FY 2015 (to $846 million), despite the harsh winter, mostly as a result of lower prices for electricity, fuel and heat. Costs are expected to increase by 14 percent to reach $963 million by FY 2019.

Figure 35
Energy Costs
(City-Funded)



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

VIII. Semi-Autonomous Entities

The following semi-autonomous entities have a financial relationship with the City.

1. Department of Education

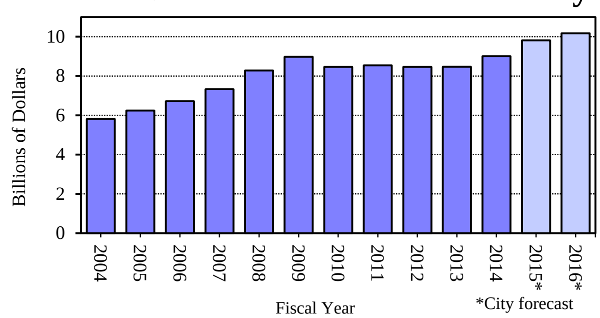
The June Plan allocates $27.8 billion to the Department of Education (DOE) for FY 2016, $1.4 billion more than forecast for FY 2015. Of the total, 56 percent ($15.5 billion) will come from the City, 37 percent ($10.3 billion) will come from the State, and the remainder will come from the federal government (6.3 percent) and other sources. Nearly half (45 percent) of the allocation will go to fringe benefits including pensions, debt service and pass-throughs (e.g., charter schools). The remainder ($15 billion) will help fund educational and support programs (e.g., transportation).

The State budget for State fiscal year 2015-16 increases education aid to New York City by $505 million for the school year beginning in September 2015, which is $228 million more than the City had anticipated. Although increases in education aid are contingent upon school districts implementing a new teacher evaluation system, which was recently approved by the New York State Board of Regents, the statute prevents any conflicting provisions of existing collective bargaining agreements from being nullified by the new requirement. Since the labor agreement between the City and the United Federation of Teachers does not expire until November 30, 2018, the City does not expect the new teacher evaluation system to impact the City before then. The State also extended mayoral control over the public school system for another year.

The State had been making progress toward the funding target pursuant to the 2007 settlement agreement to the Campaign for Fiscal Equity litigation (CFE), but then the recession began in 2009. In FY 2010, State education aid to the City declined as the State cut spending in response to the recession. Over the past three years, the State has increased education aid to the City by $1.9 billion (see Figure 36), but the level of aid is still below the CFE funding target.

Figure 36

State Education Aid to New York City



Sources: NYC Office of Management and Budget; OSC analysis

In FY 2016, the City will continue to expand full-day prekindergarten and after-school programs for middle-school students. The City expects to enroll 70,000 full-time prekindergarten students in the fall, nearly 51,000 more than two years ago. The City will also increase instruction time by one hour at struggling and underperforming schools; phase in breakfast in the classroom at 530 elementary schools, serving 339,000 students by FY 2018; and hire additional physical education teachers.

2. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC), the largest municipal hospital system in the country, faces serious financial challenges. According to the HHC, there has been a significant reduction in the utilization of HHC facilities over the past two years, including declines in clinic visits (7 percent), primary care visits (7.7 percent) and inpatient occupancy (3.6 percent). The HHC has also been losing Medicaid patients to other health care providers.

In addition, although implementation has been repeatedly delayed, certain provisions of the federal Affordable Care Act are expected to reduce federal reimbursement for medical services provided to the uninsured by about $300 million annually beginning in FY 2018. The HHC provides uncompensated care to more than 469,000 uninsured patients each year, which represents more than one-third of the HHC's total patients.

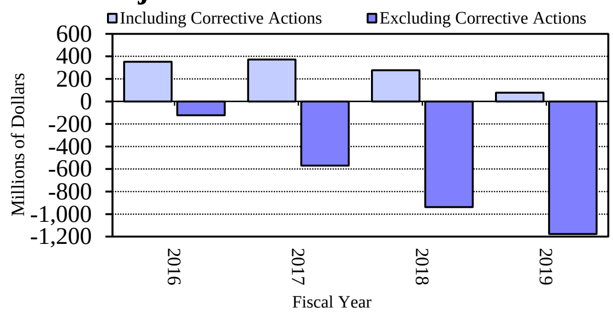
The HHC has faced a significant structural imbalance in its finances for years. Despite efforts to solve the underlying imbalance, the situation is expected to worsen in the years ahead. Operating expenses (on an accrual basis of accounting) are projected to grow by 25 percent between fiscal years 2014 and 2019, while revenues are expected to grow by only 4 percent during this period. In the absence of corrective measures, the HHC projects that its budget gaps will double from $866 million in FY 2016 to $1.7 billion in FY 2019.

The HHC has also experienced significant cash flow problems at certain points during the past three fiscal years. In an effort to help the HHC, the City allowed the HHC to delay reimbursement for $300 million in expenses funded by the City in FY 2013, and eventually allowed the HHC to forgo repayment entirely. The City has also delayed, until FY 2016, reimbursement for $740 million in expenses related to fiscal years 2014 and 2015 that were funded by the City. The HHC will also be expected to make a payment to the City of $450 million for FY 2016, bringing the total amount owed to the City to $1.2 billion in the current fiscal year. The City also has set aside $1.4 billion to fund new labor agreements at the HHC for fiscal years 2014 through 2018 (to date, it has transferred $604 million).

As recently as June 5, 2015, the HHC only had enough cash on hand to meet its obligations for another seven days, but then it received a long-overdue payment of $590 million from the federal government for supplemental Medicaid claims originating as far back as FY 2012. Even though the HHC expects another $700 million in supplemental Medicaid payments in FY 2016, it projects a cash shortfall of $123 million in FY 2016 without corrective actions.

The HHC has outlined a gap-closing program that, if successful, would generate almost $4 billion in resources through FY 2019 (including $479 million in FY 2016). Even if the program succeeds, the HHC would have a cash balance of only $78 million at the end of FY 2019. If the program is unsuccessful, the HHC could run out of cash during FY 2016 (see Figure 37).

Figure 37
Health and Hospitals Corporation Projected Year-End Cash Balance



Sources: NYC Health and Hospitals Corporation; OSC analysis

For its part, the HHC would improve billing and collections, centralize procurement, reduce staffing and implement other restructuring initiatives to generate $1.5 billion during the financial plan period (including $351 million in FY 2016). The HHC is also counting on $539 million in additional revenue through FY 2019 by more than doubling enrollment in MetroPlus (the HHC's own managed care provider), which appears to be a very ambitious goal given recent enrollment trends.

The HHC is also relying heavily on federal and State assistance to balance the budget (a total of $1.9 billion through FY 2019). The HHC expects to receive $1.5 billion in federal funds though FY 2020 to help reinvent the hospital system as part of New York State's $8 billion federal Medicaid waiver. The HHC plans to invest $250 million of this amount to reduce the use of costly inpatient services by increasing access to primary care and improving management of chronic health conditions. The remaining $1.3 billion (nearly $900 million through FY 2019) would be used to balance the budget. The availability of these funds, however, is contingent upon the HHC and other participating hospitals successfully meeting certain milestones. The HHC also assumes the receipt of more than $1 billion in additional federal and State aid ($300 million in FY 2017 and higher amounts in subsequent years), but the sources of those funds have not been specified.

3. Metropolitan Transportation Authority

The operating budget outlook for the Metropolitan Transportation Authority (MTA) continues to improve as subway ridership rises to the highest levels in decades and commercial real estate transaction tax collections rebound from the recession. The MTA's July 2015 financial plan projects a balanced budget for calendar years 2015 through 2017, and budget gaps of $175 million in 2018 and $224 million in 2019. This forecast assumes continued growth in the utilization of MTA services and higher tax collections, and fare and toll increases of 4 percent in 2017 and 2019.

The MTA also faces the challenge of funding the 2015-2019 capital program without placing the financial burden on its riders. The proposed capital program (valued at $32 billion) currently has a funding gap of $14.2 billion. The MTA Chairman has recently suggested closing the gap through additional contributions from New York State, New York City and the MTA itself, and by reducing the cost of the program.

The Chairman stated that the MTA's July 2015 financial plan sets aside additional operating budget resources to fund the capital program ($2.4 billion) and that the MTA will make greater use of alternative delivery methods, such as design-build and public-private partnerships, with the expectation of reducing the cost of the capital program ($2 billion). The Chairman suggested that the City increase its contribution by $1 billion (the City has already agreed to contribute $657 million) and fund the nonfederal share of the next phase of the Second Avenue Subway (estimated at $1.5 billion). New York State would be expected to contribute an additional $7.3 billion (the State has already agreed to contribute $1 billion). The sources of funding for the additional City and State contributions have not been identified, and neither party has yet agreed to the MTA Chairman's suggestion. The Governor has endorsed the Chairman's suggestion.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is a critical component of the City's supply of affordable housing. As the City's largest landlord, the NYCHA manages approximately 180,000 apartments with more than 400,000 residents. The NYCHA also manages the nation's largest Section 8 housing program, which provides rent subsidies for about 89,000 private apartments that house more than 210,000 residents. The NYCHA, however, has a long history of fiscal and management challenges that have allowed the City's public housing properties to fall into disrepair.

In an effort to address these deficiencies, the NYCHA has proposed a 10-year plan to improve its fiscal outlook and the condition of its properties. The plan relies on the cooperation of the federal, State and City governments; the union that represents most NYCHA employees; and private developers. The plan is based on a number of ambitious assumptions, and significant benefits will not be realized for several years.

Over the past year, the City has increased its financial support for the NYCHA. The City no longer requires a reimbursement for the cost of policing public housing developments ($70 million annually) and has waived a required payment in lieu of taxes ($33 million annually). The City has also assumed financial responsibility for almost two-thirds of the NYCHA's community and senior centers ($34 million annually), and will subsidize the NYCHA for housing additional homeless families, peaking at 3,750 families by 2020 (reaching nearly $38 million).[22] In addition, the City has set aside funds to cover the cost of new labor agreements with the NYCHA's employees, and the City's financial plan reflects the planned transfer of $113 million for this purpose.

For its part, the NYCHA intends to take actions that will generate additional resources, growing from $7 million in 2015 to $154 million by 2019. Most of the resources would come from shrinking the central office workforce by nearly 1,000 employees during calendar years 2016 and 2017 ($90 million annually beginning in 2018). The NYCHA also anticipates additional revenue by leasing property to public-private partnerships, which will create up to 17,500 new housing units (including at least 13,000 affordable units). In addition, the NYCHA plans to improve rent collection rates and increase parking fees.

The NYCHA currently projects operating budget gaps that grow from $98 million in calendar year 2015 to $163 million by 2019. If successful, the NYCHA's efforts will reduce the gaps to approximately $21 million in 2015 and less than $25 million in 2016. The remaining gaps will be closed by drawing down general operating reserves. Over the next few years, the NYCHA expects its efforts to generate larger amounts of resources, helping to generate an operating budget surplus of more than $60 million in each of calendar years 2017 and 2018, and $50 million in 2019.

The NYCHA is also taking steps to narrow its unfunded capital needs, which total $16.9 billion. The NYCHA anticipates the receipt of nearly $3.2 billion in federal, State and City capital grants over the next four years. In addition, public-private partnerships are expected to assume responsibility for some of the NYCHA's properties, reducing its capital needs by $3.1 billion. Even if these efforts are successful, the NYCHA would still face an unfunded capital need of $10.6 billion.

[22] The NYCHA had previously committed to set aside 3,750 units to house the homeless, bringing the total number of units dedicated to housing the homeless to 7,500.

IX. Other Issues

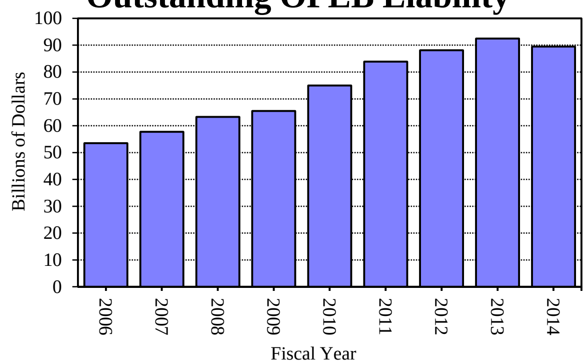
As discussed below, a number of other issues could affect the June Plan.

1. Other Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs) declined by $3 billion to $89.5 billion in FY 2014, the first decline since the City began reporting its liability in 2006 (see Figure 38). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City's contribution to the OPEB trust during FY 2014.

Figure 38

Outstanding OPEB Liability



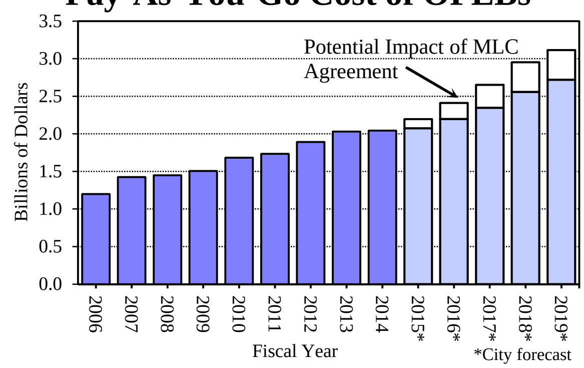
Sources: NYC Actuary; OSC analysis

However, the Governmental Accounting Standards Board (GASB) has approved two statements 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 new statements will take effect for financial statements issued by the City beginning in FY 2018 (one year earlier for OPEB plan statements), but an earlier implementation will be encouraged.

The City, like many employers, pays the annual cost of benefits provided 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 2014 to $2.7 billion in FY 2019 (see Figure 39), an increase of 33 percent in five years. These estimates reflect the City's expectation that an agreement between the City and the municipal unions to reduce the cost of municipal health insurance will also reduce the rate of growth in the cost of OPEBs.

Figure 39

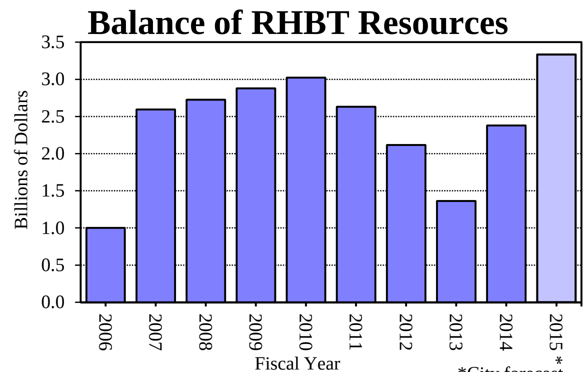
Pay-As-You-Go Cost of OPEBs



Sources: NYC Office of Management and Budget; OSC analysis

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 40).

Figure 40



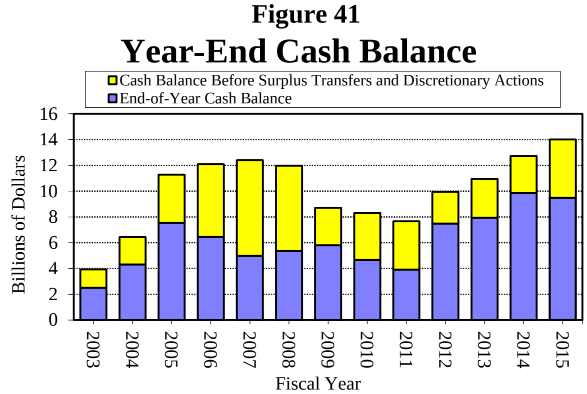
Note: Adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The City had planned to use $1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew much faster than anticipated at the beginning of the fiscal year, 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. As a result, the RHBT had a balance of $3.3 billion at the end of FY 2015, the highest amount ever.

2. 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 41). 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 41



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

Since FY 2011, the City's cash position has been improving. The New York City Office of Management and Budget estimates that the City ended FY 2015 with a balance of $9.5 billion ($14 billion before discretionary transfers).[23] Given the amount of cash on hand, the City will not need to borrow to meet its cash flow needs in FY 2016, resulting in debt service savings of $64 million.

[23] Discretionary transfers include $3.6 billion in surplus transfers in FY 2015 to FY 2016, and $955 million in transfers to the Retiree Health Benefits Trust.

3. Credit Rating

The City-funded portion of the City's capital program is expected to be financed through GO bonds secured by the City's full faith and credit, and TFA bonds secured by personal income tax and (if needed) sales tax revenues. The City's GO ratings were last upgraded in the summer of 2007, and the City has been able to maintain its ratings through the recession.[24] According to the City Comptroller, GO bonds are at their highest rating in more than 70 years. The City's strong credit ratings contribute to its ability to access the capital markets to meet its financing needs, and help keep its borrowing costs at reasonable rates. The City's GO credit is rated AA by Standard & Poor's, AA by Fitch Ratings and Aa2 by Moody's Investors Service, while the TFA credit is rated higher (AAA by S&P, AAA by Fitch and Aaa by Moody's).[25] Both credits have a stable outlook from the three rating agencies.

The TFA's credit rating benefits from the strong statutory revenue streams used to secure its bonds, while GO ratings reflect the City's broad economic base, sound financial planning practices and demonstrated ability to close anticipated budget gaps. However, the rating agencies have expressed concern over the City's continued reliance on the financial services sector (although it is not as pronounced as in the past); a high debt burden; and pressure from rising nondiscretionary costs.

Moody's has noted that "the city's institutionalized budgetary controls and early recognition of future budget pressure help it maintain a balanced financial position and weather economic downturns." Fitch has commented that the City has high long-term liabilities, such as "a continued high debt burden given the city's significant capital commitments and expected future tax-supported issuance," and that it expects the burden on the budget to remain "elevated but stable." S&P noted that the City's projected budget gaps in fiscal years 2017-2019 are manageable, but that given its fixed cost structure it may face problems if economic conditions deteriorate significantly.

4. State Budget

The State budget for State fiscal year 2015-16 increases education aid to New York City by $505 million for the school year beginning in September 2015, which is $228 million more than the City had been anticipating. Although increases in education aid are contingent upon school districts implementing a new teacher evaluation system, which was recently approved by the New York State Board of Regents, the statute provides that any conflicting provisions of existing collective bargaining agreements will not be nullified by the new requirement. Since the labor agreement between the

[24] Fitch and Moody's recalibrated their ratings in April 2010 so that municipal ratings are comparable with ratings in other sectors. As a result, GO and TFA ratings were adjusted upward by one notch, though the adjustment does not reflect a change in credit quality.

[25] Fitch and S&P do not make a rating distinction between TFA senior and subordinate bonds. Moody's rates TFA subordinate bonds one notch lower (Aa1) than it rates senior bonds.

City and the United Federation of Teachers does not expire until November 30, 2018, the City does not expect the new teacher evaluation system to impact the City before then. The City may also benefit from initiatives that increase education aid to "persistently failing" schools and that expand prekindergarten services for three- and four-year-old children, but those resources have not yet been allocated.

According to the State Division of the Budget, the State took other actions that could benefit the City by a net of $11 million in FY 2016.[26] For example, the State provided funding for a homeless prevention pilot program ($15 million) and increased funding for transportation ($12 million), including the Staten Island Ferry. These benefits were partly offset by requiring New York City to fund 10 percent of the cost of emergency assistance to needy families.[27]

The enacted budget also includes changes to State and City tax policies that affect both residents and businesses. The new State budget eliminates the STAR personal income tax rate reduction for New York City taxpayers with incomes above $500,000, which will save the State an estimated $41 million. The State also merged New York City's banking corporation tax into the general corporation tax, and cut tax rates for small businesses and manufacturers in the City. These initiatives are effective retroactively to January 1, 2015, and are expected to be revenue-neutral.

In addition, the State allocated $700 million in capital funds to help fiscally distressed health care providers in Brooklyn, and $100 million in capital funds for the NYCHA. The appropriation for the NYCHA is contingent upon the approval of a capital revitalization plan by the State Legislature, the Commissioner of the Department of Housing and Community Renewal, and the Division of the Budget. While the NYCHA has submitted a capital revitalization plan, it has not yet been approved by the State.

The State budget increased funding to the MTA by $141 million, including $104 million dedicated for capital purposes, and allocated $1 billion for capital projects. The State will contribute $750 million to the MTA's 2015-2019 capital plan, and will allocate $250 million in financial settlement funds toward the $1 billion estimated cost of linking the Metro-North Railroad to Pennsylvania Station and building four new stations in the Bronx. While these initiatives narrow the funding gap in the MTA's proposed capital program for 2015-2019, a $14.2 billion funding gap remains. As previously discussed, the MTA Chairman has recently outlined a strategy to close the remaining gap, which would require additional contributions from the State and City.

[26] This does not reflect the $220 million in savings that the City is expected to realize over four years from capping City contributions to State-run juvenile justice facilities.

[27] The City estimates that this action will cost $22 million in FY 2016, rather than $15 million as estimated by the State.

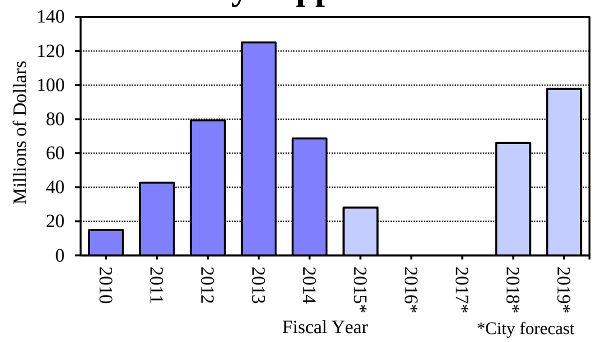
5. Hudson Yards Infrastructure Corporation

The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation created in 2005 to facilitate economic development on the west side of Midtown Manhattan. Bonds issued by the HYIC provide financing for infrastructure improvements, including the extension of the No. 7 subway line to Eleventh Avenue and West 34th Street.

When the HYIC bonds were issued, the expectation was that the debt service would be funded from revenues generated by real estate development in the Hudson Yards District. To the extent that development revenues were insufficient, the City agreed to fund the interest payments on these bonds, but not the principal payments.

Figure 42

New York City Support for the HYIC



Note: Interest support payments are adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Between fiscal years 2010 and 2014, the City paid $331 million in interest payments on behalf of the HYIC as development revenues were insufficient to cover these costs. The City expects to pay another $28 million in FY 2015, but it believes the HYIC will have sufficient resources to fully cover interest payments during fiscal years 2016 and 2017 (see Figure 42). However, the City predicts that it will have to resume funding a portion of the HYIC's interest payments beginning in FY 2018.

6. Affordable Housing

In June, the State Legislature reauthorized the City's rent-stabilization laws for four years, which cover more than 1 million apartments in the City. The State also raised the rent threshold for deregulation from $2,500 to $2,700 (deregulation occurs when the rent threshold is met and the apartment becomes vacant or the tenants' income exceeds $200,000), and indexed annual increases based on rent increases approved by the Rent Guidelines Board. Following passage of the legislation, the City's Rent Guidelines Board froze rents for tenants signing one-year leases on rent-stabilized units. The Legislature also extended the 421-a property tax exemption program for four years, with modifications similar to those proposed by the Mayor. The extension, however, is contingent upon labor unions and real estate groups reaching an agreement within six months on wages for construction workers involved in 421-a projects.

Appendix: Staffing Levels

The June Plan assumes that the City's full-time workforce (including positions funded by the federal and State governments) increased by 11,018 employees during FY 2015. However, as of May 2015, 5,619 positions remained vacant, and the City plans to hire another 5,825 employees during FY 2016. Thus, in total, the City plans to hire 11,444 employees between June 1, 2015, and June 30, 2016, to reach 288,610 (see Figure 43).[28]

The following agencies account for most of the planned hires over the next 13 months.

- The health and welfare agencies plan to add 3,450 employees, including 1,253 at the Administration for Children's Services, 992 at the Department of Social Services, and 772 at the Department of Health and Mental Hygiene. These additions would staff a number of mayoral initiatives, including child protective, homeless and school health services.
- The Department of Education plans to add 2,008 pedagogues, mainly to staff a further expansion of the full-day prekindergarten program. (The department added more than 900 employees in FY 2015 to staff the first phase of the expansion.)
- The Police Department plans to add 1,648 employees (925 uniformed and 723 civilians), mainly to staff additional patrols for a new neighborhood policing strategy, counterterror activities, and enforcement of the Mayor's Vision Zero initiative. The police force would increase to 35,780 officers, the highest level since June 30, 2006, but this level would be lower than the historical year-end peak of nearly 40,300 officers on June 30, 2000.
- The Department of Correction plans to add 1,325 employees (822 uniformed and 503 civilians), mainly to improve security and reduce overtime.
- The Fire Department plans to add 288 firefighters to increase uniformed staffing to 10,790 positions (the highest level since March 2011), which will help reduce overtime. In addition, the department plans to add 139 civilian employees, including first-responders and call-takers.

[28] The City also intends to hire 2,139 full-time-equivalents (including part-time and seasonal employees) for a total of 26,589 by the end of FY 2016. When added to the full-time workforce, the City expects staffing levels to reach 315,199 by June 30, 2016.

Figure 43
Staffing Levels
(Full-Time, Total Funds)

Additions (Reductions)

		Actual		*Forecast*		*Variance*	
		June 2014	May 2015	June 2015	June 2016	June 2014 to May 2015	May 2015 to June 2016
Public Safety		**79,696**	**80,736**	**81,581**	**83,464**	**1,040**	**2,728**
Police	Uniformed	34,440	34,855	34,483	35,780	415	925
	Civilian	14,512	14,596	15,177	15,319	84	723
Fire	Uniformed	10,318	10,502	10,789	10,790	184	288
	Civilian	5,152	5,477	5,393	5,616	325	139
Correction	Uniformed	8,922	8,831	9,537	9,653	(91)	822
	Civilian	1,353	1,386	1,747	1,889	33	503
District Attorneys & Prosecutors		4,025	4,128	3,356	3,357	103	(771)
Probation		958	944	1,078	1,030	(14)	86
Board of Correction		16	17	21	30	1	13
Health and Welfare		**26,130**	**26,470**	**29,424**	**29,920**	**340**	**3,450**
Social Services		13,483	13,462	14,535	14,454	(21)	992
Children's Services		5,857	5,973	6,648	7,226	116	1,253
Health & Mental Hygiene		4,280	4,332	5,191	5,104	52	772
Homeless Services		1,856	1,981	2,267	2,316	125	335
Other		654	722	783	820	68	98
Environmental & Infrastructure		**23,864**	**24,490**	**26,023**	**26,082**	**626**	**1,592**
Sanitation	Uniformed	7,185	7,412	7,414	7,427	227	15
	Civilian	1,890	2,005	2,178	2,247	115	242
Transportation		4,408	4,461	4,918	4,854	53	393
Parks & Recreation		3,642	3,851	3,993	4,005	209	154
Other		6,739	6,761	7,520	7,549	22	788
General Government		**9,893**	**10,260**	**11,623**	**11,687**	**367**	**1,427**
Finance		1,799	1,859	2,037	2,044	60	185
Law		1,354	1,369	1,405	1,481	15	112
Citywide Administrative Services		1,887	1,908	2,005	2,038	21	130
Taxi & Limousine Commission		524	542	668	701	18	159
Investigations		210	247	316	306	37	59
Board of Elections		367	368	355	360	1	(8)
IT & Telecommunications		1,136	1,230	1,505	1,664	94	434
Other		2,616	2,737	3,332	3,093	121	356
Housing		**3,001**	**3,185**	**3,540**	**3,773**	**184**	**588**
Buildings		1,037	1,099	1,199	1,438	62	339
Housing Preservation		1,964	2,086	2,341	2,335	122	249
Department of Education		**121,312**	**123,872**	**122,102**	**124,981**	**2,560**	**1,109**
	Pedagogues	109,901	112,203	111,581	114,211	2,302	2,008
	Non-Pedagogues	11,411	11,669	10,521	10,770	258	(899)
City University of New York		**5,754**	**5,945**	**6,067**	**6,212**	**191**	**267**
	Pedagogues	3,849	4,030	4,162	4,357	181	327
	Non-Pedagogues	1,905	1,915	1,905	1,855	10	(60)
Elected Officials		**2,117**	**2,208**	**2,425**	**2,491**	**91**	**283**
Total		**271,767**	**277,166**	**282,785**	**288,610**	**5,399**	**11,444**

Sources: NYC Office of Management and Budget; OSC analysis