Review of the Financial Plan of the City of New York

Report 12-2020

OFFICE OF THE NEW YORK STATE COMPTROLLER
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February 2020

Message from the Comptroller

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

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

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

On January 16, 2020, the City of New York released a four-year financial plan for fiscal years 2020 through 2024 (the "January Plan"). The January Plan reflects the strength in the local economy, which has helped fuel personal and business tax collections; new agency needs; and an expansion in the citywide savings program.

The City now projects a surplus of more than $2.7 billion for FY 2020, up from $550 million in November 2019. The City intends to transfer the surplus to FY 2021 by prepaying certain expenses, which would help balance that year's budget (see Figure 1).

The surplus results mostly from an increase in the City's revenue forecast since the start of the fiscal year ($1.2 billion) and a reduction in reserves ($1.1 billion) that are no longer needed in the current fiscal year given the strength of tax collections. The City also anticipates savings of $400 million from prior years' expenses.

The citywide savings program is now expected to generate $1.2 billion during fiscal years 2020 and 2021, but the agency savings have been more than offset by new agency needs. Most of these are associated with State-mandated criminal justice reforms and educational services.

The City has now reached new labor agreements with 81 percent of the municipal work force for the 2017-2021 round of bargaining. In December 2019, the City reached agreement with a coalition of eight unions that represent one-quarter of all uniformed employees. The agreement is more costly than the ones provided to civilian employees because wages would increase over 36 months rather than 43 months. The January Plan assumes all uniformed employees will reach similar agreements.

In total, the changes since the beginning of the fiscal year have reduced the out-year budget gaps to $2.4 billion in FY 2022 and $2.7 billion in each of fiscal years 2023 and 2024. The gaps average 3.5 percent of City fund revenues, a share that is among the smallest in the past 20 years.

The budgets for these years include a general reserve and capital stabilization reserve totaling $1.25 billion, which represents about half of the projected budget gaps. If not needed for other purposes, the reserves could be used to reduce the projected gaps.

The Office of the State Comptroller (OSC) notes that the City's revenue forecasts are relatively conservative (particularly the forecast for property tax collections), reflecting the City's concern of an economic slowdown during the financial plan period. While the risk of a recession in 2020 has eased since the summer, the risk remains elevated during the financial plan period.

OSC believes revenues could be marginally higher than the City's forecast based on trends in the current fiscal year, but the benefit would be offset by the potential for unplanned spending (see Figure 2). If the economy outperforms the City's expectations in subsequent years, there is potential for higher revenues.

While the out-year budget gaps are manageable under current conditions, the January Plan does not reflect the impact of the Governor's proposed executive budget for State fiscal year 2021, which begins April 1, 2020. The executive budget includes a number of proposals that, if enacted, would adversely impact the City's budget.

The most significant proposals would require the City to fund a larger share of the costs of Medicaid. The City estimates that it would have incurred additional costs of up to $1.1 billion if these proposals had been in effect last year.

In recent years, the City's economy has been strong, generating resources to provide additional municipal services and to close projected budget gaps. While the out-year budget gaps are relatively small, the risk of a recession remains elevated. In addition, the Governor's proposed budget could increase the City's Medicaid costs. For these reasons, the City should continue to increase its reserves and scrutinize the budget for opportunities for savings.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues					
Taxes					
General Property Tax	$ 29,672	$ 31,015	$ 32,271	$ 33,251	$ 33,958
Other Taxes	33,681	33,678	34,623	35,638	36,636
Tax Audit Revenue	999	921	721	721	721
Subtotal: Taxes	$ 64,352	$ 65,614	$ 67,615	$ 69,610	$ 71,315
Miscellaneous Revenues	7,547	7,086	7,079	7,096	7,097
Unrestricted Intergovernmental Aid	111	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,126)	(1,852)	(1,844)	(1,842)	(1,842)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 69,869	$ 70,833	$ 72,835	$ 74,849	$ 76,555
Other Categorical Grants	1,006	874	864	863	861
Inter-Fund Revenues	719	676	676	676	676
Federal Categorical Grants	8,158	7,113	7,010	6,976	6,971
State Categorical Grants	15,674	15,803	16,263	16,720	16,769
Total Revenues	**$ 95,426**	**$ 95,299**	**$ 97,648**	**$ 100,084**	**$ 101,832**
Expenditures					
Personal Service					
Salaries and Wages	$ 30,112	$ 30,943	$ 30,821	$ 31,728	$ 32,291
Pensions	9,832	9,939	10,422	10,458	10,112
Fringe Benefits	11,362	11,802	12,607	13,416	14,227
Subtotal: Personal Service	$ 51,306	$ 52,684	$ 53,850	$ 55,602	$ 56,630
Other Than Personal Service					
Medical Assistance	5,915	5,915	5,915	5,915	5,915
Public Assistance	1,641	1,651	1,651	1,650	1,650
All Other	32,904	30,874	31,101	31,289	31,522
Subtotal: Other Than Personal Service	$ 40,460	$ 38,440	$ 38,667	$ 38,854	$ 39,087
Debt Service	6,984	7,500	8,158	8,906	9,366
FY 2019 Budget Stabilization & Discretionary Transfers	(4,221)	- - -	- - -	- - -	- - -
FY 2020 Budget Stabilization	2,723	(2,723)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250	250
General Reserve	300	1,000	1,000	1,000	1,000
Less: Intra-City Expenses	(2,126)	(1,852)	(1,844)	(1,842)	(1,842)
Total Expenditures	**$ 95,426**	**$ 95,299**	**$ 100,081**	**$ 102,770**	**$ 104,491**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (2,433)**	**$ (2,686)**	**$ (2,659)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (2,433)**	**$ (2,686)**	**$ (2,659)**
Tax Revenues	100	200	200	200	200
Miscellaneous Revenues	75	125	125	125	125
Debt Service	75	100	- - -	- - -	- - -
MTA Paratransit Funding	- - -	(100)	(100)	(100)	(100)
Uniformed Agency Overtime	(100)	(100)	(100)	(100)	(100)
Special Education	- - -	(150)	(150)	(150)	(150)
Student Transportation	- - -	(64)	(64)	(64)	(64)
Fair Fares NYC Program	- - -	- - -	(106)	(106)	(106)
OSC Risk Assessment	**150**	**11**	**(195)**	**(195)**	**(195)**
Potential Gaps Per OSC[1,2]	**$ 150**	**$ 11**	**$ (2,628)**	**$ (2,881)**	**$ (2,854)**

[1] The January Plan includes a general reserve of $300 million in FY 2020 and $1 billion in each of fiscal years 2021 through 2024. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2021 through 2024. If not needed, these resources could be used to help close the projected budget gaps. The January Plan also includes reserves of $200 million in FY 2022 and $275 million in FY 2023 to fund potential changes in the actuarial assumptions and methodologies used to calculate employer pension contributions.

[2] The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of $4.7 billion.

II. Changes Since the Beginning of the Fiscal Year

In June 2019, the City projected a balanced budget for FY 2020 and budget gaps of $3.5 billion in FY 2021, $2.9 billion in FY 2022 and $3.1 billion in FY 2023. The January Plan projects a surplus of $2.7 billion in FY 2020 based on the strength of tax collections, a citywide savings program and a reduction in reserves in the current fiscal year.[3] The City intends to use the surplus to balance the FY 2021 budget (see Figure 3).

Since July 1, 2019, the City has raised its revenue forecast by nearly $1.2 billion for FY 2020, driven mostly by strong personal and business income tax collections. While it also raised its revenue forecast for fiscal years 2021 through 2023, it did so by smaller amounts ($728 million, $554 million and $682 million, respectively).

The City reduced its reserves by $1.1 billion in the current fiscal year because they were no longer needed given the continued strength in the local economy. It reduced the general reserve by $850 million and eliminated the $250 million capital stabilization reserve. It also anticipates $400 million from overestimating prior years' expenses.

The citywide savings program is expected to generate $680 million in FY 2020, $508 million in FY 2021 and smaller amounts in subsequent years. One-third of the savings in FY 2020 ($238 million) will come from lower-than-anticipated interest rates for recently issued debt and variable-rate debt.

Agency actions are expected to save $902 million during fiscal years 2020 and 2021, and about $345 million in subsequent years. The savings, however, have been more than offset by $1.1 billion in new agency needs during fiscal years 2020 and 2021, and by about $400 million annually in subsequent years.

Most of the agency needs are associated with State-mandated criminal justice reforms ($464 million), education services ($405 million), and an expansion of speed cameras ($125 million). Eliminating the reimbursement cap on certain administrative expenses for social services providers ($214 million) and the cost of the Fair Fares program in FY 2021 ($106 million) were also factors.

Pension contributions are expected to be lower by a cumulative total of $650 million through FY 2023 compared to the estimates at the beginning of the fiscal year. The savings result mostly from better-than-expected pension fund investment earnings in FY 2019 and an anticipated change in the methodology used to determine contributions to the Teachers' Retirement System of the City of New York and the Board of Education Retirement System.

The benefit from lower pension contributions was mostly offset by increases in the projected cost of wage increases for uniformed employees and the growth in health insurance premiums to reflect recent trends.

In total, the changes since the beginning of the fiscal year reduced the out-year budget gaps to $2.4 billion in FY 2022 and $2.7 billion in each of fiscal years 2023 and 2024. These gaps are relatively small as a share of City fund revenues, averaging 3.5 percent, a share that is among the smallest in the past 20 years.

Moreover, the budgets for these years include a general reserve and capital stabilization reserve totaling $1.25 billion. If not needed for other purposes, these reserves could be used to reduce the projected budget gaps. The January Plan, however, does not include the potential impact of the Governor's proposed budget, which could significantly increase the City's costs.

[3] Since July 1, 2019, the City has reduced the general reserve for FY 2020 by $850 million, leaving $300 million.

FIGURE 3
Financial Plan Reconciliation—City Funds
June 2019 Plan vs. January 2020 Plan
(in millions)

	Better/(Worse)			
	FY 2020	**FY 2021**	**FY 2022**	**FY 2023**
Projected Gaps Per June 2019 Plan	**$ - - -**	**$ (3,521)**	**$ (2,879)**	**$ (3,141)**
Tax Reestimates				
Business Taxes	453	50	41	67
Personal Income	367	383	444	517
Sales Taxes	87	67	72	74
General Property Taxes	57	106	121	141
Real Estate Transactions	(67)	(244)	(314)	(316)
Other Taxes	34	31	23	8
Tax Audits	- - -	200	- - -	- - -
Subtotal	**931**	**593**	**387**	**491**
Non-tax Changes:				
Asset Sale	45	- - -	- - -	- - -
All Other	188	135	167	191
Subtotal	**233**	**135**	**167**	**191**
Total Revenue Changes	**1,164**	**728**	**554**	**682**
Reserves				
General Reserve	850	- - -	- - -	- - -
Capital Stabilization Reserve	250	- - -	- - -	- - -
Subtotal	**1,100**	**- - -**	**- - -**	**- - -**
Citywide Savings Program				
Agency Actions	442	460	344	345
Debt Service	238	48	35	32
Subtotal	**680**	**508**	**380**	**376**
Collective Bargaining	**(38)**	**(85)**	**(94)**	**(120)**
Expense Reestimates				
New Agency Needs	(632)	(475)	(402)	(407)
Pension Contributions	132	191	154	174
Prior Years' Expenses	400	- - -	- - -	- - -
Health Insurance Premiums	- - -	- - -	(82)	(189)
All Other	(83)	(69)	(64)	(61)
Subtotal	**(183)**	**(353)**	**(393)**	**(484)**
Total Expense Changes	**1,560**	**70**	**(108)**	**(227)**
Net Change	**2,723**	**798**	**446**	**454**
Gaps to Be Closed Before Prepayment	**$ 2,723**	**$ (2,723)**	**$ (2,433)**	**$ (2,686)**
FY 2020 Prepayment of FY 2021 Expenses	(2,723)	2,723	- - -	- - -
Gaps to Be Closed Per January 2020 Plan	**$ - - -**	**$ - - -**	**$ (2,433)**	**$ (2,686)**

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

III. Potential Impact of State Actions

On January 21, 2020, the Governor released his executive budget for State fiscal year (SFY) 2021, which begins April 1, 2020. As discussed below, the proposed budget includes a number of actions that could have an adverse impact on the City's financial plan, but the most significant would require the City to shoulder a larger share of the costs of Medicaid.

In November 2019, the New York State Division of the Budget (DOB) reported that the State was on track to exceed its Medicaid spending cap by $4 billion in SFY 2020 and $3.1 billion in SFY 2021. In response, the Governor has proposed deferring some Medicaid payments ($1.7 billion in SFY 2020) and implementing a savings plan ($599 million in SFY 2020 and $851 million in SFY 2021).

In addition, the executive budget would require localities to fund the growth in the local share of Medicaid if property tax revenues exceed the statewide property tax cap. While New York City would remain exempt from the tax cap, the State would calculate the City's Medicaid liability as if the cap applied. The City estimates that it would have incurred additional costs of $518 million if the law had been in effect last year. The actual impact on the City's budget in any given fiscal year would depend on the growth in Medicaid in the prior State fiscal year.

The executive budget also would withhold from localities certain federal Medicaid funds that were increased when the Affordable Care Act was approved. The City estimates that this proposal would result in a loss of $587 million. Together, the two proposals would have increased the City's costs by $1.1 billion.

The Governor has also reconstituted the Medicaid Redesign Team (MRT) to identify additional Medicaid cost-containment measures ($2.5 billion in SFY 2021) and to ensure that spending in future years adheres to the State's Medicaid global cap indexed rate (which is currently 3 percent). The MRT must report its recommendations to generate the $2.5 billion in savings before April 1, 2020. The MRT does not include any representatives from the City or the Health and Hospitals Corporation.

The Governor has directed the MRT to not recommend any changes that rely on local governments as a funding source or adversely impact beneficiaries. The MRT may recommend changes that increase efficiencies or rely on new resources provided by the health industry.

Implementation of the MRT's recommendations will require the approval of the State Legislature. The Governor has proposed that the budget director be authorized to impose across-the-board cuts in certain State Medicaid appropriations to achieve the savings if the Legislature fails to do so by April 1, 2020.

The executive budget would also increase the City's financial responsibility for a number of other social services and health programs, which the City estimates could increase its costs by a total of $82 million in FY 2021. For example, the Governor's budget would require the City to fund 15 percent of the cost of the family assistance and emergency family assistance programs (an increase of five percentage points from current law). The City believes this initiative could increase its costs by $68 million in FY 2021, while the State believes the impact would total $51 million.

The Governor's executive budget would increase State education aid to New York City by $224 million in FY 2021, an increase of 2 percent. According to the City, the increase is $136 million less than it had anticipated. The City could benefit from a share of $200 million in fiscal stabilization grants and could apply for a share of $50 million in statewide competitive grants.

The proposed budget would require the City to vacate Pier 76 in Manhattan (currently used as a tow pound by the New York City Police Department) and transfer ownership to the Hudson River Park Trust by December 31, 2020. If the City continued to occupy Pier 76 after that date, it would be required to compensate the trust ($12 million) and, beginning February 1, 2021, to pay rent of $3 million per month.

According to the City, the executive budget would also increase the small business tax deduction from 5 percent to 15 percent, which it estimates could result in a revenue loss to the City of $33 million annually starting in FY 2021.

The City also estimates that a proposed cap on school transportation aid could cost at least $30 million beginning in FY 2022. It also estimates that a proposal to increase the number of permitted charter schools (by the number of such schools that were previously closed or were dormant since July 1, 2015) could increase the City's costs by $47 million in FY 2022 and higher amounts in subsequent years.

The executive budget would authorize an additional $3 billion contribution to the Metropolitan Transportation Authority's 2020-2024 capital program. While the State budget director has indicated that the $3 billion contribution would be matched by the City, the City has not yet agreed to make the contribution.

The Governor would also authorize the State budget director to cut certain local assistance payments by an amount equal to as much as 1 percent of State operating funds (approximately $1.1 billion) if the State, in any quarterly update to its financial plan, estimates that SFY 2021 will end with an imbalance of $500 million or more. Another proposal would extend a provision enacted in 2017 that allows the State budget director to impose spending cuts if certain federal assistance is reduced by $850 million or more.

IV: Citywide Savings Program

In November 2019, the Mayor announced a citywide savings program that would generate $1 billion during fiscal years 2020 through 2024. The program, which was expanded in the January Plan, is now expected to generate nearly $2.4 billion and eliminate 731 positions (see Figure 4).

Agency actions will save an average of $450 million during fiscal years 2020 and 2021, and then almost $350 million annually in subsequent years. Efficiencies are responsible for only $67 million of the savings in FY 2020, but the amount would increase to $199 million in FY 2021 and about $189 million annually thereafter. Reestimates, including the receipt of unanticipated federal and State funds, will reduce the City's costs by $375 million in FY 2020, $261 million in FY 2021 and $156 million annually in subsequent years.

More than one-third of the savings from the citywide savings program in FY 2020 will come from debt service ($238 million), although the share is much smaller in subsequent years. Most of the savings result from lower-than-anticipated interest rates for recently issued debt and variable-rate debt.

Together, the departments of Education and Correction are responsible for more than half of the savings from agency actions. The Department of Education has offered severance incentives to employees in the absent teacher pool, will reduce funding for professional development, and plans to achieve savings in procurement and food services.

The Department of Correction will close two jails, thereby reducing staffing by 840 uniformed officers through attrition, and has generated savings from delays in filling vacant positions. The balance of the savings from agency actions is concentrated at the health and welfare agencies.

All of the initiatives in the citywide savings program appear to be within the City's control to implement. Given the potential impact of the Governor's proposed budget on New York City, the State Comptroller urges the City to begin preparations to expand the citywide savings program.

FIGURE 4

Citywide Savings Program

(in millions)

	Positions	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
Agency Actions							
Reestimates	(3)	375	261	156	156	156	1,105
Efficiencies	(728)	67	199	188	189	189	831
Subtotal	**(731)**	**442**	**460**	**344**	**345**	**346**	**1,936**
Debt Service	**- - -**	238	48	35	32	69	423
Total	**(731)**	**680**	**508**	**380**	**376**	**415**	**2,359**

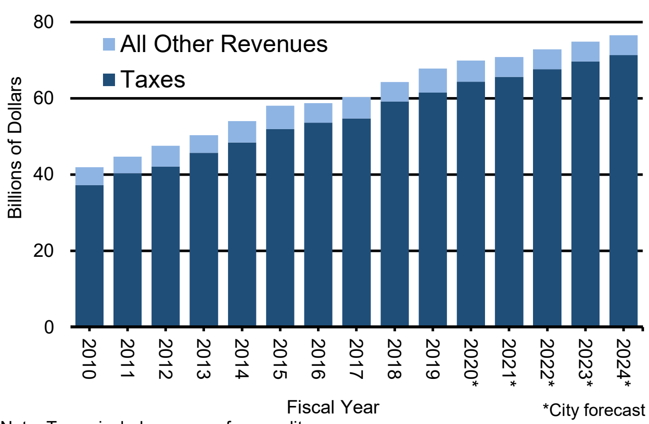
Note: Adjusted for restorations. Totals may not add as a result of rounding.
Sources: NYC Office of Management and Budget; OSC analysis

V. Revenue Trends

The January Plan assumes that revenues, including federal and State categorical aid, will total $95.3 billion in FY 2021. Locally generated revenues (i.e., City funds) are projected to grow by 1.4 percent to $70.8 billion in FY 2021 (see Appendix A). Despite the strong economy, this would be the slowest rate of revenue growth since FY 2016.

As shown in Figure 5, City fund revenues increased by $25.9 billion between fiscal years 2010 and 2019, an increase of 62 percent. Tax collections accounted for 94 percent of the growth, reflecting the strength in the City's economy.

FIGURE 5
City Fund Revenues

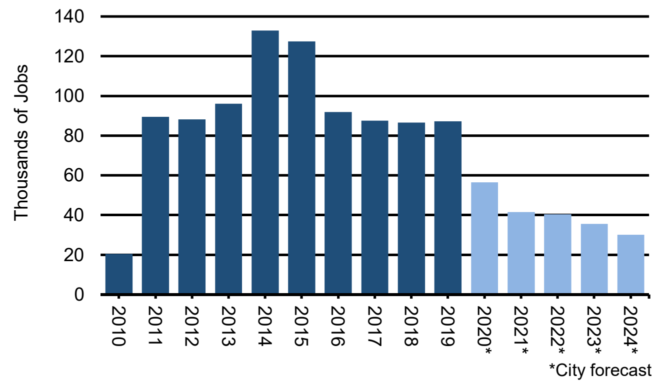


Note: Taxes include revenue from audits.
Sources: NYC Office of Management and Budget; OSC analysis

New York City's economy has grown for a remarkable ten years. Since the end of the recession in 2009, the City has added 907,600 jobs, bringing total employment to a record 4.6 million in 2019. This is the largest and longest job expansion in the post–World War II period. The unemployment rate, at 4.1 percent in 2019, was less than half its recessionary peak and remained at a historic 43-year low.

The January Plan assumes that job growth will continue uninterrupted during the financial plan period, although at a much slower pace (see

FIGURE 6
Annual Job Gains in New York City



Note: City forecasts for 2020 through 2024 are annual averages derived from seasonally adjusted quarterly forecasts.
Sources: NYS Department of Labor; NYC Office of Management and Budget; OSC analysis

Figure 6). The City expects job gains, which averaged 87,100 annually during the past three years, to slow to 56,500 in 2020 and then ease further to 30,200 by 2024. While there is a general consensus that job growth will slow during the financial plan period, job growth has exceeded expectations in recent years.

In FY 2020, tax collections have grown faster than projected by the City at the beginning of the fiscal year. The November Plan reflected this development only in the current fiscal year, and the January Plan now reflects the impact in subsequent years as well. Nonetheless, the January Plan assumes the growth in tax collections will slow to 2 percent in FY 2021 and then average 2.8 percent annually in subsequent years, even though collections increased by 6.7 percent during the first half of FY 2020.

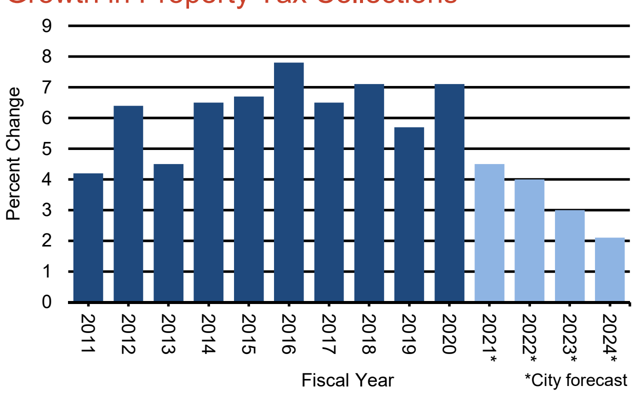
While the risk of a recession in calendar year 2020 has diminished, many economists still forecast slower economic growth in the next few years. While the City's revenue forecasts are prudent given expectations of slower growth, there is the potential for additional revenues if economic growth remains strong.

1. General Property Tax

Strong growth in property tax collections during the current economic expansion has been fueled by rising property values. The tentative property tax roll for FY 2021, released in January, shows that the market value of all properties in the City have continued to rise, reaching a record $1.4 trillion. Values rose by 4.7 percent, slightly below the increase in FY 2020 (5.2 percent) and the slowest rate of growth in seven fiscal years. The pace of growth picked up for commercial properties (i.e., Class 4 properties), but slowed for one- to three-family homes (i.e., Class 1 properties).

Property tax collections have increased at an average annual rate of 6.2 percent since FY 2010. Based on the tentative property tax roll, the January Plan assumes that the growth in tax collections will slow to 4.5 percent in FY 2021 after growing by 7.1 percent in FY 2020 (see Figure 7). Furthermore, the City assumes that the growth will fall off dramatically during the rest of the financial plan period. By FY 2024, the City is forecasting growth of only 2.1 percent, the slowest rate of growth since FY 2008.

FIGURE 7
Growth in Property Tax Collections



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

Given the current strength of the local economy, the low-interest-rate environment, and the pipeline of prior increases in assessed values that are being phased in, property tax collections are unlikely to slow as much as the City assumes in the January Plan.[4] As a result, it is likely that the City will realize additional revenue from this source during the financial plan period, although the amount remains uncertain. If revenues were to continue to grow at the rate projected for FY 2021, the City would realize an additional $150 million in FY 2022, $650 million in FY 2023 and $1.5 billion in FY 2024.

Revenue growth is also affected by the size of the property tax reserve. Each year, the City sets aside a reserve for delinquencies, refunds and tax abatements at the beginning of the fiscal year. In the past, the reserve was larger than needed, and the City gradually reduced the reserve throughout the fiscal year, freeing up resources for other purposes. This pattern was disrupted in FY 2019, as the reserve needed to be increased during the fiscal year to a record $1.9 billion, or 6.3 percent of the tax levy (the highest ratio in six years).

At the beginning of FY 2020, the reserve was set at $2 billion, or 6.4 percent of the levy. Although the January Plan reduced the reserve by $50 million because the City expects fewer refunds, it remains to be seen whether the reserve amount is appropriate.

In response to litigation challenging the fairness and constitutionality of the City's property tax system, the Mayor and the City Council Speaker established an advisory commission to develop recommendations to make the City's property tax system simpler, clearer and fairer, while ensuring that there is no reduction in the revenue used to fund essential City services.

[4] According to State law, assessment increases for commercial properties and large residential properties are phased in over a five-year period.

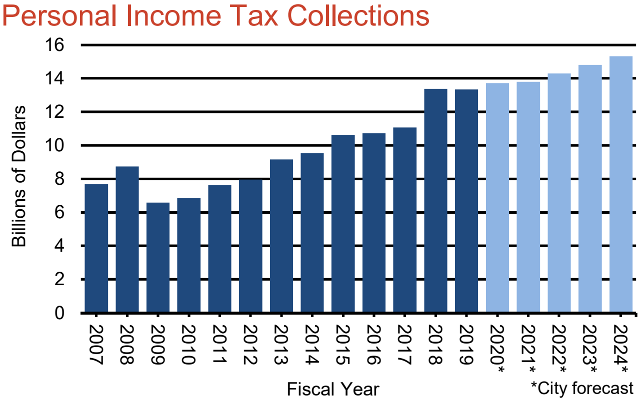
The commission released its preliminary report in January 2020, and plans additional hearings before issuing its final report. The preliminary recommendations include shifting cooperative and condominium apartments and small rental buildings into the same class as one- to three-family homes; using a sales-based methodology to value residential properties; eliminating caps on the growth in taxes for residential properties and instead phasing in this growth over a five-year period; and creating exemptions and credits for low-income home owners. Any changes would require approval by the Mayor, the City Council and the State, and would likely be phased in over several years.

2. Personal Income Tax

Personal income tax collections are projected to increase by just 0.6 percent in FY 2021, reaching $13.8 billion (see Figure 8). This slight increase follows projected growth of 2.9 percent in FY 2020, and reflects the City's assumption of a continuing slowdown in job and wage growth, and a decline in capital gains.

Collections from withholding (i.e., the amount of tax taken from employees' paychecks) were strong during the first half of FY 2020, rising by 6.8 percent. Growth was supported by strong job gains and the increase in the minimum wage.

FIGURE 8
Personal Income Tax Collections



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

The City, however, assumes withholding will fall off during the second half of the fiscal year, holding down growth to 5.7 percent for the full year. This forecast is based largely on the City's expectation that job growth will slow significantly, from 87,200 jobs in 2019 to 56,500 in 2020, and virtually no growth in Wall Street bonuses. Withholding is expected to slow further, to 3.2 percent in FY 2021, and then average 3.6 percent annually in subsequent years.

The January Plan assumes estimated personal income tax payments on nonwage income will fall by 1.9 percent in FY 2020, but collections increased by 4.9 percent during the first seven months of the fiscal year. The January Plan assumes that estimated payments will decline by 4.7 percent in FY 2021.

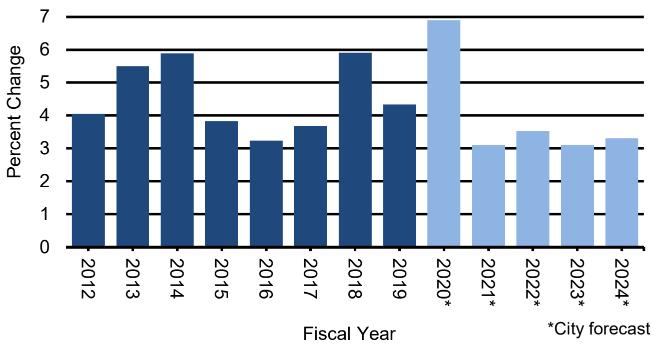
Changes in the federal tax code in 2017 have affected taxpayer behavior. For example, the new code reduced the incentive for taxpayers to make estimated payments in December since they were no longer deductible. As a result, payments have shifted into April, when taxpayers settle their tax liabilities. While the January Plan assumes that April 2020 settlements will be much lower than last year, OSC believes there is some upside potential given the strength in the financial markets and business conditions.

The State administers the personal income tax and remits to the City an estimate of its share each month. As the year progresses, the State makes adjustments based on a review of taxpayer patterns. The City expects distribution payments from the State to decline by 14.3 percent in FY 2021. The State's budget assumes that these payments will continue to grow during the financial plan period. As a result, OSC estimates that these payments could exceed the City's estimates by at least $100 million annually beginning in FY 2021.

3. Sales Tax

Sales tax collections across New York State were strong during the second half of calendar year 2019, reflecting not only high consumer confidence and spending, but the extension of sales taxes to third-party internet marketplaces. In New York City, collections increased by 5.6 percent during the second half of 2019 (i.e., the first half of FY 2020).[5] The January Plan assumes that collections will rise by 6.9 percent for all of FY 2020, the fastest rate of growth since FY 2011 (see Figure 9).

FIGURE 9
Growth In Sales Tax Collections



Note: Adjusted for Sales Tax Asset Receivables Corporation repayments and MTA capital program payments.
Sources: NYC Office of Management and Budget; OSC analysis

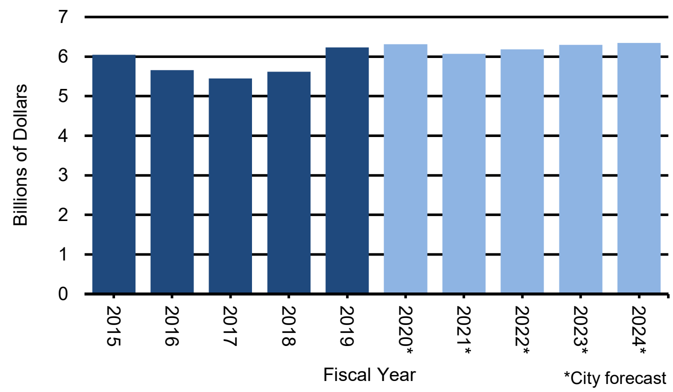
Tourism has helped boost sales tax collections. Attendance at Broadway shows reached a record 14.6 million in 2019, and NYC & Company (the City's official tourism agency) is forecasting a record 68.9 million visitors in 2020.

The January Plan assumes that the growth in sales tax collections will slow to 3.2 percent in FY 2021 based on an expectation of weaker job and wage growth. Collections are projected to increase at about the same pace in subsequent years, averaging 3.4 percent annually.

4. Business Taxes

New York City levies both a business corporation tax and an unincorporated business tax. In April 2015, the State enacted legislation that merged the City's banking tax with the corporation tax. Total business tax collections declined in the two years following the change, but then rose sharply to a record $6.2 billion in FY 2019 (see Figure 10).

FIGURE 10
Total Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Strong growth continued in the first half of FY 2020, during which collections grew by 20 percent, far exceeding the City's expectation. At this time, the City is uncertain about what is driving the strong growth, although it believes taxpayers are overpaying as a result of not fully understanding the impact of federal tax reform.

The City expects collections growth to weaken sharply in the second half of the fiscal year as businesses adjust to the new federal tax law, resulting in full-year growth of 1.4 percent. Nonetheless, collections are expected to be $453 million higher than expected at the start of the fiscal year. Based on year-to-date collection

[5] State law requires the State Comptroller to transfer City sales tax collections of $14.2 million in FY 2019, $170 million in FY 2020 and increasing amounts in subsequent years to help fund the MTA's capital program. In calculating the growth rate, OSC added back these funds to more accurately measure economic activity.

trends and strong Wall Street profitability,[6] OSC expects business tax collections to be higher by $100 million annually during the plan period.

The growth in FY 2020, however, does not carry over into FY 2021, since the City expects business tax collections to decline by 3.9 percent to $6.1 billion. While the City also raised its forecast for the business corporation tax for FY 2021 and beyond, the benefit was mostly offset by a reduction in the unincorporated business tax.

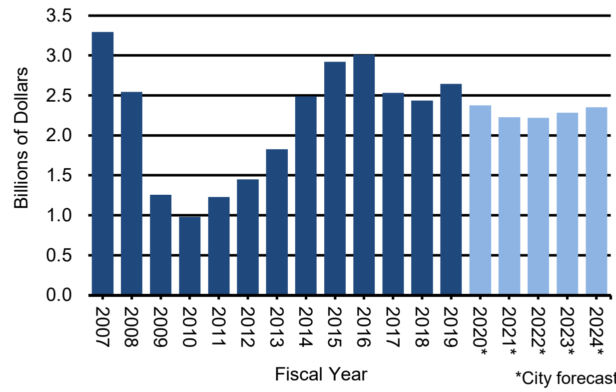
The City believes that many unincorporated businesses are converting to corporations to take advantage of the newly lowered corporation tax rate. In addition, the City believes hedge fund profitability, which is a large contributor to unincorporated business tax revenue, will be negatively affected by capital outflows. Finally, Wall Street profitability is expected to decline by 23 percent in 2020.

5. Real Estate Transaction Taxes

As shown in Figure 11, the City expects collections from real estate transaction taxes to total $2.2 billion in FY 2021, which is 26 percent less than the post-recession peak reached in FY 2016. The January Plan assumes collections will decline by 10 percent in FY 2020 and by another 6 percent in FY 2021.

During the first six months of FY 2020, collections fell by nearly 11 percent compared to the same period in FY 2019, in line with the City's estimates. According to data from the New York City Department of Finance, the number of transactions declined by 8 percent in the first half of FY 2020, driven by a 9 percent decline for residential transactions (with a 13 percent decline for residences costing more than $2 million).

FIGURE 11
Real Estate Transaction Tax Collections

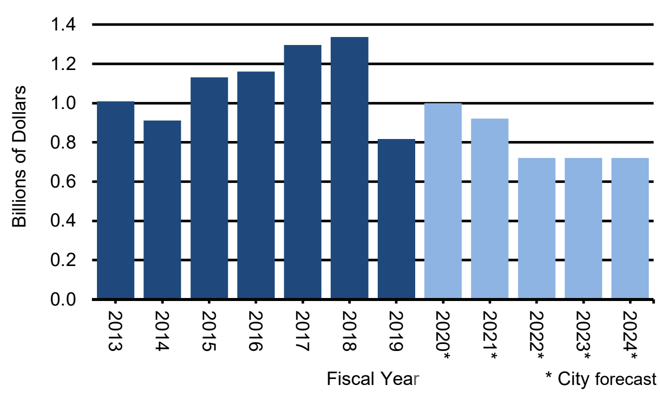


Sources: NYC Comptroller; NYC Office of Management and Budget

6. Audit Revenue

Each year, the Department of Finance conducts audits of individuals and businesses to ensure compliance with the tax code. The City estimates that audit revenue will total $999 million in FY 2020 and $921 million in FY 2021 (see Figure 12). Although the City raised its forecast for audit revenue by $200 million in FY 2021, its forecasts for subsequent years remain unchanged. Consequently, OSC believes there is the potential for additional audit revenue in fiscal years 2022 to 2024.

FIGURE 12
Audit Revenue



Source: NYC Office of Management and Budget

[6] The January Plan assumes Wall Street profits will rise by 2 percent to $27.9 billion. Through the first three quarters of 2019, profits had increased by almost 10 percent.

7. Miscellaneous Revenues

The January Plan assumes that miscellaneous revenues will total $5.2 billion in FY 2021, and then remain at about that level in fiscal years 2022 through 2024.[7] In recent years, miscellaneous revenues (excluding one-time benefits such as asset sales) have exceeded the City's initial forecast at the start of the fiscal year by more than $200 million annually, with fines and licenses accounting for much of the additional revenue.

In FY 2020, collections from licenses and fines (including the expanded use of speed cameras) increased by 6.3 percent during the first six months of the year. The January Plan, however, assumes only a 2 percent increase for the full fiscal year. OSC expects miscellaneous revenues to exceed the City's forecasts by $75 million in FY 2020 and $125 million in fiscal years 2021 through 2024.

[7] Excludes $51 million associated with the citywide savings program.

VI. Expenditure Trends

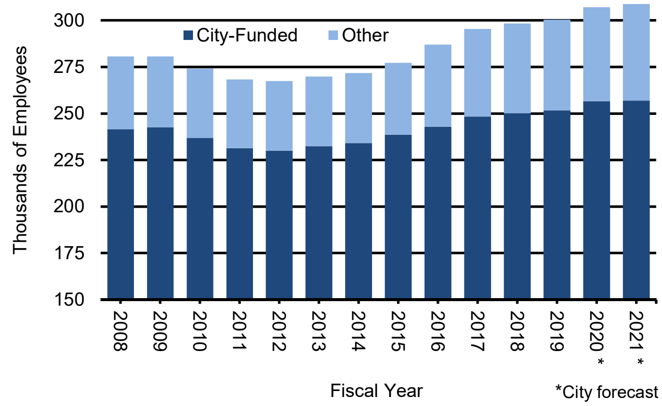
Expenditures are projected to total $95.3 billion in FY 2021, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) is expected to total $70.8 billion.

After increasing by more than 6 percent annually during fiscal years 2018 and 2019 (see Figure 13), the growth in City-funded spending (adjusted for surplus transfers) would slow to 4.8 percent in FY 2020 and then to 3.1 percent in FY 2021 (4.3 percent and 1.7 percent, respectively, excluding reserves). The January Plan, however, does not reflect the potential impact of the Governor's proposed budget for SFY 2021, which could increase the City's costs.

Growth is driven mainly by the cost of collective bargaining and projected increases in health insurance and debt service costs (see Appendix B). Another contributor to the growth is mandated costs, both for education and to comply with new State criminal justice reforms.

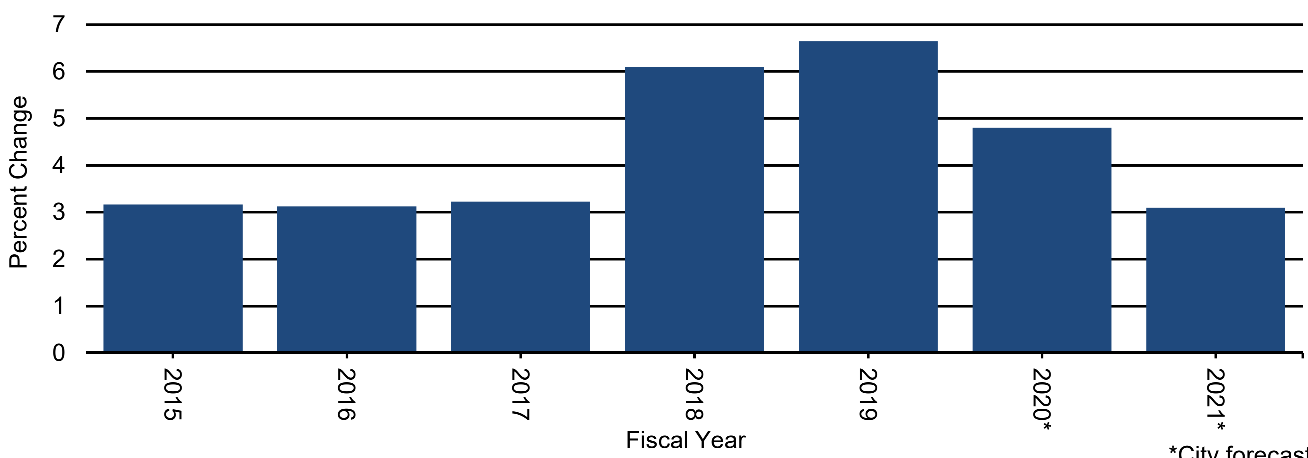
The City's work force grew by 12 percent between fiscal years 2012 and 2019, reaching a record level of 300,442 full-time employees (see Figure 14).[8] Of this amount, 251,628 employees were funded exclusively by the City. The January Plan anticipates the addition of 6,733 employees during FY 2020 and another 1,676 employees during FY 2021, with hiring concentrated in the health and welfare agencies, and in the Department of Education (see Appendix C).

FIGURE 14
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 13
Annual Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

8 The City employed another 26,297 full-time-equivalent employees, including 24,445 that were City-funded.

1. Collective Bargaining

As of February 2020, 81 percent of the municipal work force had reached new labor agreements for the 2017-2021 round of bargaining. For most employees, the agreements call for compounded wage and benefit increases of 7.95 percent over a 43-month period.[9]

The January Plan assumes that all uniformed employees will receive a similar wage increase, but over 36 months. This assumption is based on an agreement reached in December 2019 with a coalition of eight unions that represent one-quarter of all uniformed employees. The City estimates that the cost of these agreements will exceed the civilian pattern by $72 million in FY 2020, rising to $100 million by FY 2024.

The Patrolmen's Benevolent Association, which represents police officers, has filed for binding arbitration. A panel was selected in September 2018, and proceedings are expected to begin in the next few months. According to State law, arbitration awards for disputes between the City and police officers are limited to two years.

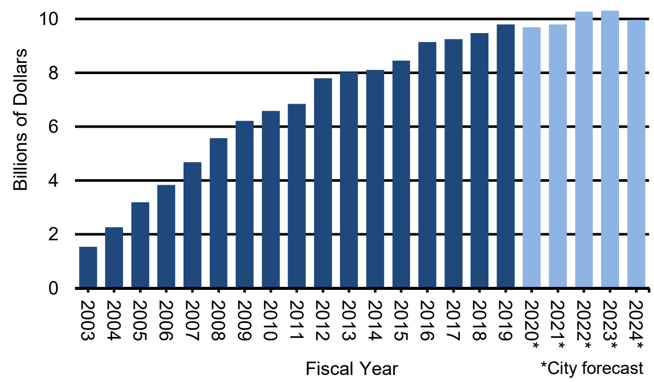
2. Pension Contributions

Pension contributions are projected to remain at about the same level during fiscal years 2020 and 2021 after growing rapidly for many years (see Figure 15). Still, contributions are projected to total $9.8 billion in FY 2021, representing 14 percent of City fund revenues, and then remain at that level, excluding reserves.

The January Plan includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund changes that may result from the next biennial independent review of the City's pension systems as mandated by the City Charter. The independent review is expected to be completed sometime in 2021.

[9] Includes funding equal to two wage increases of 0.25 percent to fund benefit items.

FIGURE 15
Pension Contributions
City-Funded



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

Despite volatility in the financial markets during much of FY 2019, the City's five actuarial pension systems earned 7.2 percent on their investments, slightly more than the actuarial assumption of 7 percent. As of January 31, 2020, the systems had earned about 6 percent.

The financial condition of the five pension systems has improved since FY 2014, when the City adopted new, more transparent financial reporting standards. In the aggregate, the pension systems had enough assets on hand to fund (on a market-value basis) 79 percent of their accrued pension liabilities at the end of FY 2019 (see Figure 16). Since FY 2013, the unfunded net liability for all five systems declined by $16.6 billion to $43.3 billion.

FIGURE 16
Funded Status of the NYC Retirement Systems
(As of June 30, 2019)

Pension System	Funded Status
Board of Education Retirement System	95%
Police Pension Fund	82%
Teachers' Retirement System	79%
New York City Employees' Retirement System	79%
Fire Pension Fund	65%
All Systems	**79%**

Sources: NYC Retirement Systems; NYC Comptroller; OSC analysis

3. Health Insurance

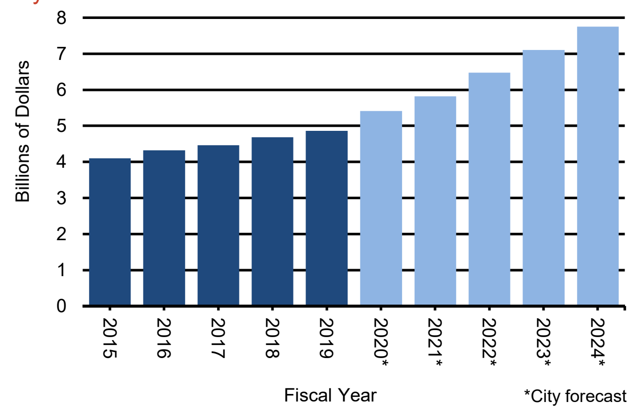
In May 2014, the City and the Municipal Labor Committee (MLC) reached the first of two agreements to generate health insurance savings to help fund wage increases for municipal employees. Under the first agreement, the City and the unions agreed to generate $3.4 billion during fiscal years 2015 through 2018, and $1.3 billion in recurring savings beginning in FY 2019.

Under the second agreement, the City realized budgetary savings of $193 million in FY 2019, and the January Plan assumes savings of $300 million in FY 2020 and $600 million in FY 2021, plus recurring savings of $600 million beginning in FY 2022. According to the agreement, the annual savings targets could be met with nonrecurring savings, which may include drawing down resources from the health stabilization fund. The fund had a balance of $1.4 billion as of January 2020.

Together, the two agreements are expected to produce cumulative savings of $10.3 billion through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. The savings were used to help fund wage increases for the municipal work force.

More than half of the savings from the first agreement came from lower-than-expected growth in health insurance premiums. Similarly, the City has reached agreement with its primary insurer to increase health insurance premiums for active employees by 3.5 percent in FY 2020 and by 3 percent in FY 2021, about half the rate the City had budgeted. The savings will be credited to the second agreement. Despite these efforts, health insurance costs are projected to reach nearly $7.8 billion by FY 2024 (see Figure 17), nearly 60 percent more than in FY 2019.

FIGURE 17
Health Insurance Costs
City-Funded



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

4. Post-Employment Benefits

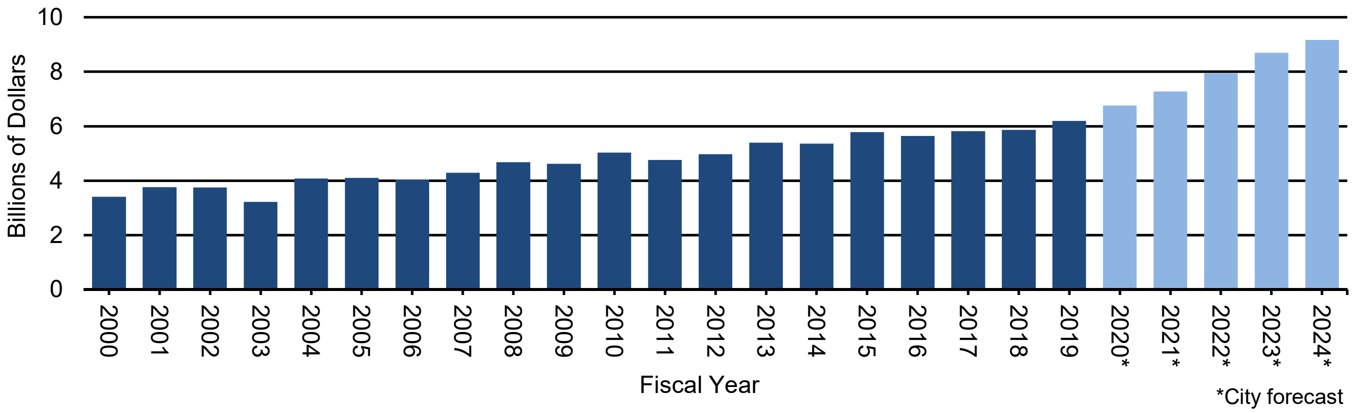
The City's unfunded liability for post-employment benefits other than pensions (OPEBs) reached nearly $108 billion in FY 2019, an increase of $19 billion in two years. The City, like most municipalities, does not fund its OPEB liabilities on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. As a result, future taxpayers will be required to fund the cost of services provided in prior years. OPEB costs, on a PAYGO basis, are projected to rise from $2.5 billion in FY 2019 to $3.2 billion in FY 2024, an increase of 28 percent in five years.

5. Debt Service

The City has updated its ten-year capital strategy, which now totals $125.7 billion, the largest on record. Most of the cost will be funded by the City ($117.4 billion), with the balance funded by the federal and State governments and private sources.

The January Plan reflects the impact of the City's growing capital budget. City-funded debt service is projected to reach $9.2 billion by FY 2024 (see Figure 18, next page), 48 percent higher than in

FIGURE 18
Debt Service
City-Funded



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

FY 2019. However, debt service may grow more slowly because interest rates remain below the City's assumption and capital commitments have historically fallen short of their annual targets. For example, OSC estimates that debt service could be lower by $75 million in FY 2020 and by $100 million in FY 2021 from lower-than-anticipated interest rates for variable-rate debt .

Although the City lowered its capital commitment targets, it still assumes commitments will total $14.7 billion in FY 2021 and similar amounts in subsequent years. The City committed $11.7 billion in FY 2019, and the January Plan assumes City-funded commitments of $12.1 billion in FY 2020.

Debt service as a share of tax revenue (i.e., the debt burden) fell from a post-recession peak of 13.7 percent in FY 2010 to 10.5 percent in FY 2019. The January Plan assumes that the burden will reach 13.1 percent by FY 2024 based on relatively conservative assumptions.

Although debt service is projected to account for a larger share of tax revenue, the share would remain well below the City's ceiling of 15 percent. Although interest rates are low today, the City established a capital stabilization reserve in FY 2016 to prevent the debt burden from rising too quickly in the event of a rapid hike in interest rates or a sharp decline in tax revenue. The reserve is valued at $250 million annually during fiscal years 2021 through 2024.

6. Uniformed Agency Overtime

Overtime at the uniformed agencies (i.e., Police, Fire, Sanitation and Correction) accounts for nearly 80 percent of citywide overtime. After rising by 67 percent between fiscal years 2009 and 2015, overtime at the four agencies has remained elevated at or near historic levels.

The January Plan assumes that overtime will decline by $207 million to less than $1.2 billion in FY 2020, and then remain at that level for the remainder of the financial plan period. However, overtime exceeded the City's forecast by $116 million during the first seven months of FY 2020, and is likely to approach last year's level based on current trends. As in past years, unplanned overtime costs could be partially offset by savings in other areas or by the receipt of federal and State categorical grants, reducing the net liability to $100 million annually.

7. Medical Assistance

In 2015, the State completed a three-year takeover of the growth in the local share of Medicaid. As a result, the January Plan assumes that the City's cost will remain level at $5.8 billion during the financial plan period (see Figure 19).

Medicaid costs, however, have grown faster than the State expected in the past two years. In November 2019, the State reported that it was on track to exceed its Medicaid spending cap by $4 billion in SFY 2020 and $3.1 billion in SFY 2021.

In response, the Governor has proposed deferring some Medicaid payments ($1.7 billion in SFY 2020) and implementing a savings plan ($599 million in SFY 2020 and $851 million in SFY 2021). He would also require certain social services districts to pay a portion of the growth in the local cost of Medicaid.

In addition, the Governor has reconstituted the Medicaid Redesign Team (MRT) to identify additional Medicaid cost-containment measures ($2.5 billion in SFY 2021) and to ensure that spending in future years adheres to the State's Medicaid Global Cap indexed rate (which is currently 3 percent). If the savings are not achieved by April 1, 2020, the budget director would be authorized to impose across-the-board cuts in certain State Medicaid appropriations.

While it is too early to quantify the budgetary impact of these proposals on the budget of the City and the Health and Hospitals Corporation, the impact would likely be significant.

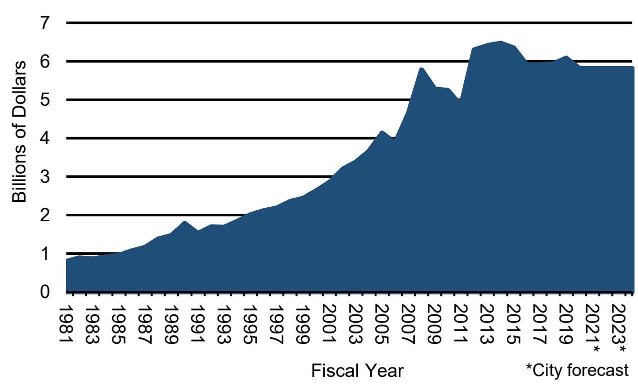
8. Homeless Services

The homeless population in shelters operated by the Department of Homeless Services (DHS) increased by 63 percent between fiscal years 2011 and 2017. While the shelter population has leveled off at about 60,000, it remains at historic levels (see Figure 20). To the City's credit, the number of families with children living in shelters has declined by 6 percent since December 2017, although the number of single adults has grown by 15 percent.

In an effort to eliminate its reliance on cluster sites and hotels for temporary shelter, the City plans to open 90 new homeless shelters by 2022. Over the past three years, 30 shelters have opened and the number of people living in cluster sites has declined by half, although the number in hotels has increased.

FIGURE 19

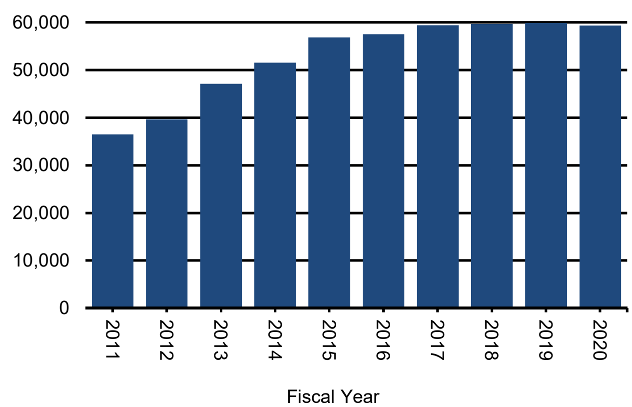
City Share of Medicaid Expenditures



Note: Includes City share of supplemental Medicaid payments made to the Health and Hospitals Corporation.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

FIGURE 20

Homeless Shelter Population



Note: FY 2020 data through December 2019.
Sources: NYC Department of Homeless Services; OSC analysis

Costs at the DHS have almost tripled since 2011, reaching $2.2 billion in FY 2019 ($1.4 billion in City funds). The January Plan assumes that the City-funded cost will decline slightly to $1.3 billion in FY 2020 and then remain at that level during the financial plan period.

9. Fair Fares

On January 4, 2019, the City launched a pilot program known as Fair Fares NYC to provide half-fares to low-income New Yorkers who use the subway or bus systems operated by the Metropolitan Transportation Authority (MTA).

The MTA has created a special Fair Fares MetroCard that allows the purchase of half-price 7-day or 30-day unlimited passes at MTA vending machines and subway station booths. The card also includes a pay-per-ride option. The City is paying for half of the cost of the new MetroCards, with eligible participants required to pay the other half.

The City expanded eligibility to participate in the program in several phases. Initially, working New Yorkers who receive cash assistance benefits and working New Yorkers who receive SNAP benefits became eligible to receive the new MetroCard. Later in 2019, the City expanded the program to include eligible residents at the New York City Housing Authority, students enrolled at the City University of New York, and veterans with incomes at or below the federal poverty line.

In January 2020, the City launched an open enrollment process for eligible New Yorkers at or below the federal poverty line who do not have discounted transportation from the MTA or the City. As of February 4, 2020, more than 120,000 individuals had enrolled in the program.

While the January Plan includes $106 million in fiscal years 2020 and 2021 for Fair Fares, the program is not funded in subsequent years despite the expansion of the program. The City Council had previously estimated that the program could cost $212 million annually when fully implemented.

VII. Semi-Autonomous Entities

1. Department of Education

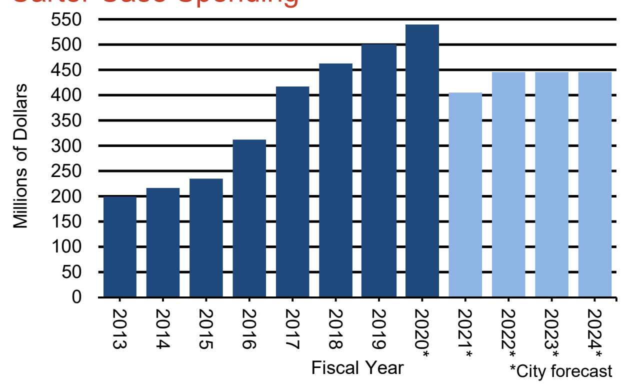
The January Plan allocates $34.8 billion to the Department of Education in FY 2021, representing 37 percent of the City's budget.[10] The City is expected to fund $19.8 billion (57 percent) of the cost, with the remainder funded by the State (36 percent) and the federal government and other sources (7 percent).

The Governor's executive budget would increase State education aid to the City by $224 million (2 percent) in FY 2021. According to the City, the increase is $136 million less than it had anticipated. The Governor has also proposed restructuring several school aid formulas, which could impact the City. The potential shortfall could be mitigated since the adopted State budget historically includes more education aid than proposed by the Governor. The City could also benefit from fiscal stabilization and competitive grants included in the executive budget.

Under federal law, school districts are required to provide appropriate services to students with disabilities. If the district cannot provide such services itself, it must reimburse parents for the cost of private schools and/or outside services. Additionally, if a parent challenges the district's evaluation of their child's needs, the district may be required to fund additional services. These cases are known as "Carter" cases after a 1993 Supreme Court ruling.

The City has made several new investments to improve its capacity to provide services to students with disabilities, but the cost of Carter cases continues to exceed the City's expectations. In fact, the January Plan added $150 million for this purpose in FY 2020. The City now expects spending on Carter cases to reach $540 million in FY 2020, more than double the FY 2015 amount (see Figure 21).

FIGURE 21
Carter Case Spending



Sources: NYC Office of Management and Budget; OSC analysis

The January Plan, however, assumes these costs will decline by $135 million in FY 2021 since the City did not add funding beyond FY 2020. Until the City can demonstrate that the cost of Carter cases has begun to decline, these costs could exceed the estimates in the January Plan by $150 million annually beginning in FY 2021.

Likewise, the cost of student transportation has grown faster than anticipated, requiring the City to add funding in each of the past four fiscal years (averaging $74 million annually). The January Plan added $64 million for this purpose in FY 2020, but did not include any additional funding in later years.

The April 2019 financial plan included $88 million annually beginning in FY 2020 to fund increases in the charter school per-pupil tuition rate that are mandated in State law. However, it did not reflect similar mandated increases in later years, which the City's preliminary estimates show could total $150 million in FY 2021, $334 million in FY 2022, $562 million in FY 2023, and $709 million in FY 2024 if not offset by increases in State aid.

[10] This estimate includes debt service and pension contributions.

2. Metropolitan Transportation Authority

In November 2019, the MTA revised its four-year financial plan. Although the MTA projects balanced budgets for 2019 through 2021, it projects gaps of $212 million in 2022 and $426 million in 2023. These estimates, however, assume biennial fare and toll increases of 4 percent beginning in 2021, and successful implementation of the MTA's budget reduction program and its transformation plan.

The MTA's financial plan also assumes that the City will increase its funding for the paratransit program by $47 million in 2020 and by about $100 million annually beginning in 2021, funding that is not included in the City's January Plan.[11] In addition, the MTA assumes that its fare-evasion efforts will generate $50 million annually and that overtime costs will be reduced by another $44 million annually starting in 2020.

Together, the budget reduction program and the transformation plan are expected to reduce staffing by as many as 3,555 positions and reduce costs by $527 million in 2020, $777 million in 2021 and by about $800 million annually in subsequent years. Failure to achieve these savings or the realization of other MTA budget assumptions, including continued economic growth, could result in higher-than-planned fare and toll increases or service reductions.

In December 2019, the MTA and the Transport Workers Union, the authority's largest union, reached a labor agreement. The agreement, which is retroactive to May 2019, calls for annual wage increases of 2 percent, 2.25 percent, 2.5 percent and 2.75 percent over a four-year period. The agreement is expected to include health insurance savings and initiatives that will increase employee availability. Since the MTA's financial plan had assumed annual wage increases of 2 percent, the net cost of the agreement increases the size of the MTA's out-year budget gaps slightly. According to the MTA, the agreement will set the pattern for negotiations with its other unions.

The MTA assumes that its 2020-2024 capital program will be partially funded with $25 billion in capital contributions from newly enacted State revenues, including fees to enter the City's central business district (i.e., congestion pricing). To implement the congestion pricing program, the MTA is required by State law to establish a six-member traffic mobility review board to make recommendations to the MTA Board on the congestion pricing levels (including a variable pricing structure) and on credits and discounts that could be made available to specific groups of drivers.

The toll structure is required to be approved no sooner than November 15, 2020, and operations and enforcement cannot begin before December 31, 2020. The MTA has awarded a $507 million contract to TransCore to design and install the tolling infrastructure and to operate and maintain the system for the next six years.

The State is required to provide $7.3 billion for the MTA's 2015-2019 capital program when all other MTA sources of funding are exhausted. According to the MTA, it has committed all of its own capital resources and has committed $6 billion against the State's obligation.

The MTA plans to issue bond anticipation notes to cover the State's obligation, which will be paid off with proceeds from long-term MTA bonds. The MTA's budget assumes that the State will provide ongoing annual appropriations equal to the debt service on the long-term bonds.

[11] This translates into a potential liability of about $100 million annually on a City fiscal year basis beginning in FY 2021.

According to the MTA, the debt service on these bonds will total $29 million in 2020, rising to $251 million in 2023. The Governor's executive budget includes $31 million for debt service related to the State's commitment for the 2015-2019 capital program and $3 billion in funding for the 2020-2024 program (the source of this funding has not yet been identified).

State law requires the City to contribute $2.7 billion to the 2015-2019 capital program, and so far it has allocated $2.1 billion. The City has indicated that the remaining $600 million will be funded through as-yet unidentified "alternative non tax levy revenue sources." The MTA has indicated that it expects the City to match the Governor's proposed $3 billion contribution to the MTA's 2020-2024 capital program.

3. Health and Hospitals Corporation

The Health and Hospitals Corporation provides health and mental health services to about 1.1 million City residents. The Corporation faces significant challenges, including the declining use of services, reduced federal funding, and a large share of patients who lack health insurance.

Despite steps by the Corporation to improve its financial position, the City expects to increase its support from $1.1 billion in FY 2014 to $2.1 billion by FY 2023, which includes $100 million to help the Corporation's efforts to register people who are eligible for health insurance and to provide free or low-cost health care to uninsured people.

In February 2020, the Corporation updated its cash-based financial plan for fiscal years 2020 through 2024. In recent years, the Corporation has made progress improving its financial condition. It now projects a closing cash balance of $790 million in FY 2020 and an even larger balance at the end of FY 2021 ($869 million). While the Corporation projects significant annual losses in subsequent years, which would erode most of its cash reserves, its financial plan assumes that Congress will not approve a delay in cuts in federal supplemental Medicaid payments beyond FY 2020. However, if another delay is approved, the Corporation would benefit by $580 million in FY 2021 and $623 million annually thereafter.

The Corporation's financial plan, however, does not reflect the potential impact of the Governor's proposed budget. For example, the State has implemented a Medicaid savings plan that includes a 1 percent across-the-board rate reduction to providers and health insurance plans. The Corporation estimates that the rate reduction could reduce its revenues by $30 million annually and the revenues of its managed care plan (i.e., MetroPlus) by $15 million.

The Governor has also proposed a reduction in discretionary payments, such as payments to safety net hospitals and managed care plans, and a 3 percent surcharge on construction costs for new health care facilities. He has also reconvened the Medicaid Redesign Team, which has been charged with developing a $2.5 billion cost-containment plan for SFY 2021. The Corporation is still assessing the impact of these and other proposals.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is an important component of the City's supply of affordable housing. NYCHA manages approximately 174,000 apartments that house more than 380,000 residents, which amounts to 8 percent of the City's rental apartments.

NYCHA is currently under the purview of a federal monitor pursuant to an agreement between the City, NYCHA, the secretary of the U.S. Department of Housing and Urban Development, and the Southern District of New York. The agreement is designed to remedy lead paint conditions as well as resolve deficiencies related to heat, mold, elevators and pests.

The agreement requires the City to provide $4.2 billion in capital funding to NYCHA during fiscal years 2018 through 2028. The City is also required to provide nearly $1 billion in operating assistance to NYCHA during fiscal years 2018 through 2027. The January Plan includes the agreed-upon funding during the four-year financial plan period.

In 2017, NYCHA estimated that its capital needs totaled $31.8 billion over the next five years and $45.2 billion over the next 20 years. Despite the commitment of additional City and State funding, the amount of capital resources currently available to NYCHA for the 2020 through 2024 period is $7.1 billion, a fraction of the total needed.

To mitigate the shortfall, NYCHA is seeking private developers to invest in certain NYCHA housing developments under the federal Rental Assistance Demonstration (RAD) and other development programs. If fully realized, these initiatives could address an additional $16 billion of NYCHA's capital needs over the next 10 years. Without adequate investment, NYCHA estimates that its capital needs could increase to $47.7 billion by 2022 and $68.6 billion by 2028.

Appendix A: City-Fund Revenue Trends

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	$ 29,672	$ 31,015	$ 32,271	$ 33,251	$ 33,958
Personal Income Tax	13,734	13,812	14,300	14,813	15,327
Sales Tax	8,354	8,620	8,924	9,208	9,521
Business Taxes	6,316	6,071	6,183	6,297	6,343
Real Estate Transaction Taxes	2,377	2,228	2,221	2,284	2,355
Other Taxes	2,900	2,947	2,995	3,036	3,090
Tax Audits	999	921	721	721	721
Subtotal: Taxes	**64,352**	**65,614**	**67,615**	**69,610**	**71,315**
Miscellaneous Revenues	5,421	5,234	5,235	5,254	5,255
Unrestricted Intergovernmental Aid	111	0	0	0	0
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Total	**$ 69,869**	**$ 70,833**	**$ 72,835**	**$ 74,849**	**$ 76,555**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	7.1%	4.5%	4.0%	3.0%	2.1%
Personal Income Tax	2.9%	0.6%	3.5%	3.6%	3.5%
Sales Tax	7.0%	3.2%	3.5%	3.2%	3.4%
Business Taxes	1.4%	-3.9%	1.8%	1.8%	0.7%
Real Estate Transaction Taxes	-10.1%	-6.3%	-0.3%	2.8%	3.1%
Other Taxes	-1.6%	1.6%	1.6%	1.4%	1.8%
Tax Audits	22.1%	-7.8%	-21.7%	0%	0%
Subtotal: Taxes	**4.6%**	**2.0%**	**3.0%**	**3.0%**	**2.4%**
Miscellaneous Revenues	-9.6%	-3.4%	0%	0.4%	0%
Unrestricted Intergovernmental Aid	-26.5%	N/A	N/A	N/A	N/A
Grant Disallowances	N/A	N/A	N/A	N/A	N/A
Total	**3.1%**	**1.4%**	**2.8%**	**2.8%**	**2.3%**

Sources: NYC Office of Management and Budget; OSC analysis

Appendix B: City-Fund Expenditure Trends

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Salaries and Wages	$ 21,172	$ 21,951	$ 21,444	$ 21,999	$ 22,562
Pension Contributions	9,687	9,795	10,278	10,314	9,968
Debt Service	6,761	7,276	7,939	8,692	9,166
Medicaid	5,813	5,813	5,813	5,813	5,813
Health Insurance	5,415	5,824	6,479	7,109	7,753
Other Fringe Benefits	3,288	3,382	3,541	3,698	3,865
Energy	798	819	837	867	901
Judgments and Claims	593	587	602	618	635
Public Assistance	848	855	855	855	855
Other	17,093	16,004	16,229	16,321	16,447
Subtotal	**71,467**	**72,306**	**74,018**	**76,285**	**77,964**
General Reserve	300	1,000	1,000	1,000	1,000
Capital Stabilization Reserve	- - -	250	250	250	250
Prior Years' Expenses	(400)	- - -	- - -	- - -	- - -
Total	**$ 71,367**	**$ 73,556**	**$ 75,268**	**$ 77,535**	**$ 79,214**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Salaries and Wages	4.8%	3.7%	-2.3%	2.6%	2.6%
Pension Contributions	-1.1%	1.1%	4.9%	0.3%	-3.4%
Debt Service	9.0%	7.6%	9.1%	9.5%	5.5%
Medicaid	-4.1%	- - -	- - -	- - -	- - -
Health Insurance	11.4%	7.6%	11.3%	9.7%	9.1%
Other Fringe Benefits	7.5%	2.9%	4.7%	4.4%	4.5%
Energy	1.6%	2.7%	2.2%	3.5%	4.0%
Judgments and Claims	0.9%	-0.9%	2.6%	2.6%	2.7%
Public Assistance	30.0%	0.8%	0.0%	0.0%	0.0%
Other	7.2%	-6.3%	1.4%	0.6%	0.8%
Subtotal	**4.9%**	**1.2%**	**2.4%**	**3.1%**	**2.2%**
General Reserve	N/A	N/A	N/A	N/A	N/A
Capital Stabilization Reserve	N/A	N/A	N/A	N/A	N/A
Prior Years' Expenses	N/A	N/A	N/A	N/A	N/A
Total	**4.8%**	**3.1%**	**2.3%**	**3.0%**	**2.2%**

Note: Debt service and totals have been adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

Appendix C: Full-Time Staffing Levels by Agency

		Actual FY 2009	Actual FY 2012	Actual FY 2019	Forecast FY 2020	Plan FY 2021
Public Safety		**82,382**	**78,944**	**86,882**	**86,368**	**86,316**
Police	Uniformed	35,641	34,510	36,461	36,201	36,201
	Civilian	15,034	14,238	15,306	16,040	15,798
Fire	Uniformed	11,459	10,260	11,244	10,952	10,951
	Civilian	4,690	5,055	6,093	6,394	6,631
Correction	Uniformed	9,068	8,540	10,189	8,949	8,949
	Civilian	1,420	1,413	1,749	2,028	2,027
District Attys. & Prosecutors		3,911	3,941	4,652	4,522	4,507
Probation		1,147	976	1,159	1,244	1,214
Board of Correction		12	11	29	38	38
Health & Welfare		**29,459**	**27,004**	**28,358**	**30,854**	**30,948**
Social Services		14,093	13,918	12,614	14,577	14,591
Children's Services*		7,403	6,152	7,138	7,167	7,424
Health & Mental Hygiene		5,214	4,470	5,509	5,830	5,827
Homeless Services		2,026	1,818	2,318	2,383	2,219
Other		723	646	779	897	887
Environment & Infrastructure		**24,693**	**23,004**	**26,252**	**27,881**	**27,796**
Sanitation	Uniformed	7,612	6,991	7,893	7,842	7,808
	Civilian	2,019	1,854	2,127	2,241	2,237
Transportation		4,423	4,405	4,941	5,560	5,529
Parks & Recreation		3,760	3,095	4,064	4,507	4,421
Other		6,879	6,659	7,227	7,731	7,801
General Government		**9,733**	**9,348**	**12,292**	**13,549**	**13,404**
Finance		1,961	1,750	1,968	2,147	2,147
Law		1,277	1,265	1,714	1,916	1,914
Citywide Admin. Services		2,054	1,919	2,379	2,578	2,566
Taxi & Limo. Commission		378	435	561	597	597
Investigations		233	191	354	408	391
Board of Elections		340	340	544	517	517
Info. Tech. & Telecomm.		1,213	1,041	1,546	1,826	1,891
Other		2,277	2,407	3,226	3,560	3,381
Housing		**3,678**	**3,156**	**3,973**	**4,453**	**4,393**
Buildings		1,183	1,051	1,611	1,877	1,867
Housing Preservation		2,495	2,105	2,362	2,576	2,526
Department of Education		**123,726**	**118,716**	**133,616**	**134,728**	**136,822**
	Pedagogues	112,993	107,625	120,398	122,004	123,968
	Non-Pedagogues	10,733	11,091	13,218	12,724	12,854
City University of New York		**4,669**	**5,085**	**6,433**	**6,387**	**6,387**
	Pedagogues	2,993	3,362	4,599	4,441	4,441
	Non-Pedagogues	1,676	1,723	1,834	1,946	1,946
Elected Officials		**2,274**	**2,166**	**2,636**	**2,955**	**2,785**
Total		**280,614**	**267,423**	**300,442**	**307,175**	**308,851**

* FY 2009 data for the Administration for Children's Services includes the Department of Juvenile Justice for comparability with later years.

Sources: NYC Office of Management and Budget; OSC analysis

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Prepared by the Office of the State Deputy
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