Review of the Financial Plan of the City of New York

Report 10-2016

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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

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

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

On January 21, 2016, the Mayor released his preliminary executive budget for FY 2017 and a financial plan (the "January Plan") for fiscal years 2016 through 2020 (see Figure 1).

The January Plan projects a $2.3 billion surplus for FY 2016, which will be used to balance the FY 2017 budget. The surplus largely results from unanticipated growth in tax revenues, debt service and agency savings, and a drawdown in reserves.

The FY 2018 budget gap has grown by $372 million since the beginning of the fiscal year to $2.3 billion, but the FY 2019 budget gap is unchanged at $2.9 billion. The City projects a budget gap of $2.7 billion for FY 2020. The gaps are relatively small as a share of City fund revenues, and the budgets for those years also include a general reserve of $1 billion, which, if unneeded, could be used to narrow the gaps.

Balancing the City's budget in recent years has been aided by strong economic growth. Job growth set a record in 2014 with the addition of 120,000 jobs. While growth slowed in 2015, the City still added more than 100,000 jobs, the first time the City has gained more than 100,000 jobs for two years in a row.

Although the City's economy is strong today, there are reasons to be concerned. Economic growth in China has slowed, affecting economies around the globe and precipitating a sharp drop in the financial markets. The Shanghai Composite Index has fallen by nearly half since June 2015, which has contributed to increased volatility in other financial markets.

The U.S. economy grew by only 1 percent in the fourth quarter of 2015, and job growth was weaker than expected in January 2016. Oil prices have fallen to the lowest level in more than a decade, providing relief to consumers but causing the oil industry to contract.

The Federal Reserve raised short-term interest rates in December 2015 for the first time in nine years, when other nations were lowering rates. The stronger dollar has dampened exports and is expected to reduce spending by tourists. The Chair of the Federal Reserve recently indicated that economic risks could delay the Fed's plan to raise interest rates in 2016.

The January Plan assumes that job growth will slow considerably in calendar year 2016 to 61,000 jobs, and that capital gains realizations will decline sharply, reflecting losses in the stock market. As a result, the City forecasts virtually no growth in personal income tax collections in FY 2017.

Property taxes, which account for 42 percent of tax collections, are expected to rise by $1.3 billion in FY 2017, accounting for more than three quarters of the growth in the City's tax collections. According to the tentative tax roll, the market value of all taxable properties in New York City exceeds $1 trillion for the first time, reflecting the strength of the real estate market.

Strong job growth, combined with record numbers of tourists and a robust real estate market, has pushed tax collections to record levels and beyond the City's expectations.

In each of the past two years, tax collections exceeded the City's forecast at the beginning of the fiscal year by $3 billion. In the current fiscal year, tax collections are projected to exceed the City's initial forecast by $1.1 billion.

Although the likelihood of a large tax windfall in FY 2017 seems unlikely, the Office of the State Comptroller (OSC) sees the potential for stronger job growth and marginally higher tax collections. Nevertheless, the City's cautious approach is warranted given shifting economic conditions.

Changes in the business cycle are inevitable, but predicting the turning point is always difficult. The national economic recovery has already lasted much longer than the average length for recoveries during the post–World War II era. New York City has experienced six consecutive years of job growth and the January Plan anticipates another five years of growth, which would exceed the current record of eight years.

To its credit, the City has increased its reserves over the past few years to record levels, and it has resumed the process of scrutinizing agency operations for savings. In FY 2017, the City could draw on $4.9 billion in reserves if needed, and the January Plan includes a citywide savings program that will generate $1.1 billion during fiscal years 2016 and 2017. The Mayor has stated that his executive budget will include additional savings actions.

While the City may continue to realize debt service savings in the near term from low interest rates, other areas pose risks that require close monitoring. Pension fund investment earnings are running short of expectations in the current fiscal year because of the decline in the equity markets. Unless earnings rebound, contributions could increase faster than planned to make up for the shortfall.

The City Actuary recently adopted updated mortality tables as recommended by an independent actuarial consultant. Since retirees are living longer, the City will pay benefits for a longer period. As a result, contributions were increased by about $600 million annually beginning in FY 2016 to make up for the higher cost. The consultant offered other recommendations, which are still under review by the City Actuary.

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

The Health and Hospitals Corporation continues to face serious financial problems. The City increased its subsidy by $337 million in FY 2016, but more aid may be needed. The Corporation will release a restructuring plan in the spring.

The largest and most immediate risk facing the City's budget is the Governor's executive budget (see Figure 2), which includes three proposals that would increase the City's costs by almost $1 billion in FY 2017 and by about $1.2 billion in subsequent years (a total of $4.8 billion during the financial plan period). The January Plan does not reflect these proposals, and the Mayor has expressed concern over the potential impact.

The two proposals with the greatest budgetary impact ($785 million in FY 2017 alone) would require New York City to pay a larger share of the local cost of Medicaid and of the costs of the senior colleges of the City University of New York. After the release of the executive budget, the Governor stated that efficiencies would be identified to mitigate the budgetary impact of these proposals, but such efficiencies have not yet been identified.

In conclusion, the City's economy is strong and the out-year budget gaps are relatively small, but the risk of an economic setback is growing. In recent years the City has prudently replenished its reserves, which would cushion the budgetary impact of an adverse development, and it has resumed scrutinizing agency operations for savings.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues					
Taxes					
General Property Tax	$ 22,556	$ 23,873	$ 25,145	$ 26,474	$ 27,722
Other Taxes	29,804	30,465	31,397	32,489	33,667
Tax Audit Revenue	995	714	714	714	714
Subtotal: Taxes	$ 53,355	$ 55,052	$ 57,256	$ 59,677	$ 62,103
Miscellaneous Revenues	6,917	6,621	6,677	6,790	6,892
Unrestricted Intergovernmental Aid	4	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,001)	(1,778)	(1,787)	(1,781)	(1,787)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 58,260	$ 59,880	$ 62,131	$ 64,671	$ 67,193
Other Categorical Grants	763	823	828	825	821
Inter-Fund Revenues	606	632	573	573	572
Federal Categorical Grants	8,664	7,211	6,770	6,566	6,558
State Categorical Grants	13,416	13,566	13,979	14,341	14,624
Total Revenues	**$ 81,709**	**$ 82,112**	**$ 84,281**	**$ 86,976**	**$ 89,768**
Expenditures					
Personal Service					
Salaries and Wages	$ 25,601	$ 25,847	$ 27,159	$ 28,756	$ 29,298
Pensions	9,343	9,399	9,554	9,734	10,107
Fringe Benefits	9,318	9,837	10,398	11,194	11,983
Subtotal: Personal Service	$ 44,262	$ 45,083	$ 47,111	$ 49,684	$ 51,388
Other Than Personal Service					
Medical Assistance	6,078	6,220	6,220	6,220	6,220
Public Assistance	1,481	1,502	1,513	1,524	1,535
All Other	26,811	25,162	25,330	25,588	25,930
Subtotal: Other Than Personal Service	$ 34,370	$ 32,884	$ 33,063	$ 33,332	$ 33,685
Debt Service[1,2,3]	6,110	6,718	7,173	7,678	8,223
Debt Defeasances[1]	(103)	- - -	- - -	- - -	- - -
FY 2015 Budget Stabilization[2]	(3,524)	- - -	- - -	- - -	- - -
FY 2016 Budget Stabilization[3]	2,295	(2,295)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	500	- - -	- - -	- - -
General Reserve	300	1,000	1,000	1,000	1,000
Subtotal	$ 83,710	$ 83,890	$ 88,347	$ 91,694	$ 94,296
Less: Intra-City Expenses	(2,001)	(1,778)	(1,787)	(1,781)	(1,787)
Total Expenditures	**$ 81,709**	**$ 82,112**	**$ 86,560**	**$ 89,913**	**$ 92,509**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (2,279)**	**$ (2,937)**	**$ (2,741)**

Source: NYC Office of Management and Budget

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

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

3 The FY 2016 Budget Stabilization totals $2.295 billion, including GO of $960 million and TFA-PIT of $1.335 billion.

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

	Better/(Worse)				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Surplus/(Gaps) Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (2,279)**	**$ (2,937)**	**$ (2,741)**
Tax Revenues	200	300	- - -	- - -	- - -
Debt Service	- - -	200	- - -	- - -	- - -
Uniformed Agency Overtime	(100)	(150)	(150)	(150)	(150)
Potential Impact of the State Budget	(50)	(985)	(1,204)	(1,283)	(1,267)
Homeless Shelters	- - -	(75)	- - -	- - -	- - -
Medicaid Reimbursement	- - -	(70)	(70)	(70)	(70)
Sale of Taxi Medallions	- - -	- - -	(107)	(257)	(367)
OSC Risk Assessment	**50**	**(780)**	**(1,531)**	**(1,760)**	**(1,854)**
Potential Surplus/(Gaps) Per OSC[4]	**$ 50**	**$ (780)**	**$ (3,810)**	**$ (4,697)**	**$ (4,595)**

[4] The January Plan includes a general reserve of $300 million in FY 2016 and $1 billion in each of fiscal years 2016 through 2020, which, if not needed, could be used to help close the projected budget gaps. In addition, the Capital Stabilization Reserve has a balance of $500 million in FY 2017, and the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of $3.4 billion.

II. Economic Trends

While the national economy continues to expand at a moderate pace, recent developments have increased concerns about the future direction of the economy. In 2015 the gross domestic product increased by 2.4 percent (growing at the same rate as in 2014), although the fourth quarter was weak (1 percent).

The nation added 2.9 million jobs in 2015, the most since 1999, but job growth was weaker than expected in January 2016. The unemployment rate has fallen to 4.9 percent, the lowest level in eight years.

The Federal Reserve raised short-term interest rates by 25 basis points in December 2015, signaling that a seven-year period of near-zero interest rates was ending. The Chair of the Federal Reserve recently suggested that global economic risks could delay the Fed's plan to raise interest rates and that she anticipates only gradual increases in short-term rates. The timing and size of future rate increases will depend on economic conditions, including inflation, which remains well below the Fed's target.

The economic slowdown in China is affecting economies around the globe. Oil prices have fallen to the lowest level in more than a decade and the values of other raw materials have also fallen, putting pressure on emerging economies dependent on commodities.

The financial markets have declined and volatility has increased. The Shanghai Composite Index has fallen by 46 percent since June 2015. The Dow Jones Industrial Average fell sharply during the summer and, while it recovered most of those losses, it declined again in January 2016.

The value of the dollar has strengthened over the past two years relative to other currencies, which has dampened exports and slowed tourism spending. While consumer confidence remains high, factory orders have fallen.

New York Employment Trends

Since 2009, New York State has added 695,200 jobs, including 156,800 in 2015, the fastest rate of growth (1.7 percent) in 15 years. New York City accounted for nearly three-fourths of these jobs.

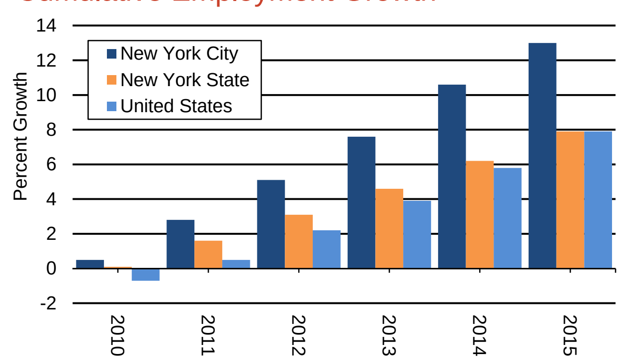
The City has added 510,000 jobs since 2009, raising total employment to a record of 4.2 million jobs. Moreover, the job mix has become more diversified and the City is now less dependent on the volatile financial services sector than it was before the 2008 financial crisis.

Job growth has averaged 2.5 percent during the past five years (more than 98,000 jobs per year), the fastest rate of job growth for any five-year period on record.

Job growth in the City set a record in 2014 with the addition of 120,000 jobs, a growth rate of 3 percent. While job growth was slower in 2015, the City still added more than 100,000 jobs (a growth rate of 2.4 percent), the first time the City has gained more than 100,000 jobs for two consecutive years.

As shown in Figure 3, the number of jobs in the City increased by a total of 13 percent since 2009, much faster than in the State and the nation, which both grew by 7.9 percent.

FIGURE 3
Cumulative Employment Growth



Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor

Unemployment

The unemployment rates in New York City (5 percent as of December 2015) and in the State and the nation are each near their prerecession levels. While the percentage of unemployed people in New York City who have been without a job for more than six months has fallen from its recessionary peak to less than 36 percent, it remains higher than the prerecession level (28 percent).

Economic Outlook

The January Plan assumes that job growth will slow considerably in 2016, with the City adding 61,000 jobs. While job growth will likely slow, OSC forecasts that the City will add 80,000 jobs in 2016, with health care and business services accounting for nearly half of the gains.

The business services sector has been the largest contributor to job growth since 2009 (see Figure 4), adding more than 120,000 jobs. Most of the growth has been concentrated within professional services and driven by the growing high-tech industry. OSC expects the business services sector to add 17,000 jobs in 2016, more than the City's forecast (11,000 jobs).

The health care sector has also added more than 100,000 jobs since 2009 (primarily lower-wage home health care aides), and has been resistant to economic downturns as a result of the demands of an aging population. OSC estimates that the health care sector will add more than 20,000 jobs in 2016, almost twice as many as projected by the City (12,000 jobs).

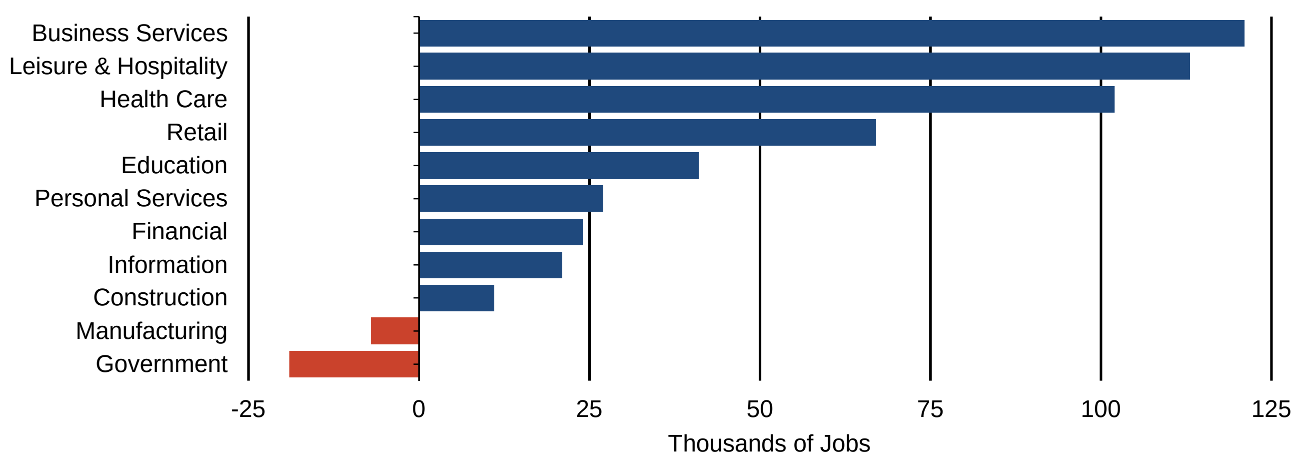
The leisure and hospitality sector has also experienced strong job growth since 2009, but it is showing signs of slowing down. Tourism and retail trade have been affected by a stronger dollar and a weakened global economy, conditions that are likely to continue in 2016.

The number of visitors to the City set a record in 2015 (58.3 million), but NYC & Company reports that growth in direct visitor spending has slowed. Hotel occupancy rates and daily average room rates at Manhattan hotels declined in 2015.

Private sector job growth in the education sector was cut in half in 2015, and the information sector had its weakest year since the recession.

The personal services sector had a record year in 2015, adding more than 7,400 jobs, with most of the hiring concentrated in nail salons, spas and laundry services.

FIGURE 4
Employment Growth by Sector from 2009 to 2015



Sources: NYS Department of Labor; OSC analysis

The construction industry has added nearly 20,000 jobs since 2011 as the demand for residential and commercial buildings has grown. According to the Building Congress, construction spending reached a record $39 billion in 2015, but it expects growth to slow from 10 percent in 2015 to 5 percent in 2016.

Securities Industry

Unlike in past job recoveries, the securities industry has not played a large role, losing nearly 23,000 jobs between 2007 and 2013. The industry added 2,325 jobs in 2014 and another 5,725 jobs in 2015, the first two consecutive years of job growth since the financial crisis. Nevertheless, the industry (with an average of 173,525 jobs in 2015) was still 8 percent smaller than before the financial crisis.

After experiencing historic losses in 2007 and 2008 (see Figure 5), the industry has been profitable for the past seven years. Broker/dealer profits (the traditional measure of industry profitability) declined by 30 percent in 2013. Despite higher capital reserve requirements and the high cost of legal settlements related to the financial crisis, profits were still relatively good in 2013 and 2014, averaging more than $16 billion.

Although the cost of legal settlements eased in 2015, profits fell by 10.5 percent as a result of weaker revenues, particularly from trading and underwriting. (The January Plan had assumed that profits would increase slightly.) Weakness in the global economy and volatility in the financial markets could further dampen profitability in 2016 and lead to job losses.

Conclusion

The economic slowdown in China represents a risk to the global economy and financial markets. While New York City's economy remains strong, the economic expansion may be slowing and the risk of a national recession has grown.

So far, the national economic expansion has lasted 78 months, much longer than the average length (58 months) for recoveries during the post–World War II era. In New York City, the longest postwar job expansion lasted eight consecutive years. The City has already experienced six years of job growth, and the January Plan assumes another five years of growth, which would exceed the current record of eight years.

FIGURE 5
Securities Industry Profits

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

III. Changes Since the Beginning of the Fiscal Year

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

Since then, the City has increased its tax revenue forecast by a total of $4.7 billion through FY 2019, and it expects to realize almost $1.6 billion from a citywide savings program. The City also freed up $1.6 billion in unneeded reserves in the current fiscal year.

These resources helped generate a surplus of nearly $2.3 billion in FY 2016; closed the FY 2017 budget gap; and funded a significant increase in pension contributions and agency needs. While the FY 2018 budget gap grew by $372 million to $2.3 billion since the beginning of the fiscal year, the FY 2019 budget gap is unchanged at $2.9 billion. (The City projects a budget gap of $2.7 billion for FY 2020.)

The cumulative out-year budget gaps are the largest the City has projected in four years, but the gaps are still relatively small as a share of City fund revenues (averaging 4.1 percent). The budgets for those years also include a historic general reserve of $1 billion, which, if unneeded, could be used to narrow the gaps.[5]

The City raised its forecast for tax revenues by an average of $1.2 billion through FY 2019 based on continued job growth and strength in the commercial and residential real estate markets. Business tax collections, however, are projected to be lower based on an assumption of reduced profitability. The City also delayed the sale of 1,650 taxi medallions.

The City has implemented a citywide savings program, which is expected to generate savings of nearly $1.1 billion during fiscal years 2016 and 2017, and more than $200 million in each subsequent year. Half of the savings in FY 2016 ($399 million) will come from lower debt service.

The agencies are expected to produce savings of $667 million during fiscal years 2016 and 2017, and more than $200 million in each subsequent year. Most of the savings will come from shifting costs to the federal or State governments, reestimates and efficiencies.

A significant portion of the new resources identified by the City since the beginning of the year ($7.5 billion) were used to fund a net increase in spending ($6.5 billion).

Much of the additional spending ($2.9 billion) stems from an increase in planned pension contributions to make up for an investment shortfall in FY 2015 and the use of updated mortality tables.

The City also funded a number of new agency needs, which increased costs by $3.9 billion during fiscal years 2016 through 2019 (more than $900 million annually thereafter).

For example, the City increased its subsidy to the Health and Hospitals Corporation by $337 million in FY 2016 to help the Corporation manage its budget. The City also allocated additional resources for social services (e.g., homeless and mental health services) and educational initiatives.

In addition, the City will increase the hourly minimum wage over four years to $15.00 for City employees and workers under contract to the City. City workers currently earn no less than $11.50 per hour.

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

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

	Better/(Worse)			
	FY 2016	FY 2017	FY 2018	FY 2019
Projected Gaps Per June 2015 Plan	**$ - - -**	**$ (1,465)**	**$ (1,907)**	**$ (2,853)**
Revenue Reestimate				
Personal Income Tax	486	457	550	668
Real Estate Transaction Taxes	264	84	37	54
General Property Tax	172	386	655	925
Business Taxes	(156)	(137)	(130)	(190)
Other Taxes	86	55	67	118
Tax Audits	284	3	3	3
Subtotal: Taxes	1,136	848	1,182	1,578
Taxi Medallion Sales	- - -	(107)	(150)	(110)
All Other	322	29	29	42
Total	**1,458**	**770**	**1,061**	**1,510**
Citywide Savings Program				
Agency Actions	405	262	212	234
Debt Service	399	8	23	27
Total	**804**	**270**	**235**	**261**
Reserves				
General Reserve	700	- - -	- - -	- - -
Capital Stabilization Reserve	500	(500)	- - -	- - -
Prior-Year Payable	400	- - -	- - -	- - -
Total	**1,600**	**(500)**	**- - -**	**- - -**
Expenditure Reestimates				
Pension Contributions	(588)	(681)	(777)	(855)
Debt Service	32	86	(26)	(1)
Energy	40	43	46	51
All Other	(2)	26	28	31
Total	**(518)**	**(526)**	**(729)**	**(774)**
Agency New Needs				
Health and Hospitals Corporation	(337)	- - -	- - -	- - -
Services for the Homeless	(191)	(104)	(148)	(195)
Department of Correction	(89)	(107)	(98)	(94)
Department of Education	(68)	(132)	(189)	(221)
Other Social Services	(20)	(132)	(146)	(163)
$15 Per Hour Wage Floor	- - -	(5)	(34)	(85)
All Other	(344)	(364)	(324)	(323)
Total	**(1,049)**	**(844)**	**(939)**	**(1,081)**
Net Change During FY 2016	**2,295**	**(830)**	**(372)**	**(84)**
Surplus/(Gap)	**$ 2,295**	**$ (2,295)**	**$ (2,279)**	**$ (2,937)**
Surplus Transfer	(2,295)	2,295	- - -	- - -
Projected Gaps Per January 2016 Plan	**$ - - -**	**$ - - -**	**$ (2,279)**	**$ (2,937)**

Sources: NYC Office of Management and Budget; OSC analysis

IV. Potential Impact of the State Budget

The Governor's executive budget increases education aid to New York City by $365 million in FY 2017, which is $123 million less than anticipated in the January Plan. In most years, the adopted budget includes a larger amount of education aid for localities than the level proposed in the executive budget. The executive budget also includes an estimated $60 million in capital funding from the Smart Schools Bond Act.

As discussed below, the Governor's budget includes three proposals that would increase the City's costs by $985 million in FY 2017 and by about $1.2 billion in subsequent years. The January Plan does not reflect the impact of these proposals, and the Mayor has expressed concern over the potential impact.

The Governor's executive budget would require the City to fund 30 percent of the cost of the four-year senior colleges of the City University of New York (CUNY), matching its share of board appointees. This proposal would cost the City $485 million in FY 2017 and increasing amounts in subsequent years.

The State took over the cost of the senior colleges during a three-year period beginning in 1979 as part of its efforts to help the City recover from the fiscal crisis of the 1970s. The City points out that the State takeover was intended to provide CUNY senior colleges with the same level of State support as the senior colleges of the State University of New York.

The Governor would also require the City to fund a portion of the growth in the local share of the Medicaid program, reversing a three-year phased State takeover of the growth in the local share. The City would be the only locality in the State to fund a portion of the growth in the local share of Medicaid. If implemented, the initiative would cost the City $299 million in FY 2017, growing to more than $700 million by FY 2020.

After the release of the executive budget, the Governor stated that efficiencies would be identified to mitigate the impact of his CUNY and Medicaid proposals on the City's budget, but such efficiencies have not yet been identified.

The Governor also seeks to recoup most of the $649 million in savings that the City realized when it refinanced bonds issued by the Sales Tax Asset Receivable Corporation (STARC).[6] The Governor believes the savings should have accrued to the State because the debt service on the bonds is paid with funds appropriated by the State. Under the Governor's proposal, the State Comptroller would be required to intercept $16.7 million in sales tax receipts intended for the City for 36 months (a total of $600 million).

The Governor has also proposed that industrial development agencies, local development corporations and the New York City Housing Development Corporation obtain approval from the State Public Authorities Control Board (PACB) for projects that are financed with tax-exempt private activity bonds.[7]

The Governor also would require a locality to obtain approval from the State Department of Economic Development if it wanted to reallocate a portion or all of its private activity bond cap to itself or to another local issuer. Current law only requires that the department be notified of the reallocation. The City is concerned that the Governor's proposals could limit its flexibility in managing its affordable housing program.

[6] To assist the City in 2003, the State authorized $170 million in annual payments. The City assigned that revenue to a local development corporation of its own creation (STARC), which securitized these State funds to refinance debt issued during the 1970s fiscal crisis by the Municipal Assistance Corporation.

[7] The PACB is comprised of five members, including three voting members that represent the Governor and the Assembly and Senate majorities. Projects must receive unanimous approval.

V. The Citywide Savings Program

The January Plan includes a citywide savings program that is expected to generate a total of $1.8 billion during fiscal years 2016 through 2020 (see Figure 7). Of this amount, almost three quarters ($1.4 billion) is expected to come from agency actions, with the balance of $481 million coming from lower debt service costs.

Agency actions are expected to generate a total of $667 million during fiscal years 2016 and 2017, and an average of $233 million in each subsequent year. As discussed below and shown in Figure 7, the resources will come from funding shifts, reestimates and administrative efficiencies.

Shifting financial responsibility from the City to the federal and State governments is expected to save $280 million in FY 2016, but much less in subsequent years. Nearly half of the savings in FY 2016 ($137 million) would come from an increase in federal and State reimbursements for fringe benefits costs associated with social services programs (which is consistent with historical experience).

Cost reestimates will save a total of $184 million during fiscal years 2016 and 2017, and an average of $75 million in each subsequent year. For example, the Department of Sanitation will realize savings from delays in implementing the City's new waste management plan. The City will also realize savings of $320 million through FY 2020 from a reestimate of payroll taxes and supplemental welfare fund payments.

Administrative efficiencies are expected to generate $13 million in FY 2016 and an average of nearly $121 million in each subsequent year. About half of the expected savings ($56 million annually) will come from eliminating the inflation adjustment for procurement in FY 2017.

The Department of Homeless Services intends to increase prevention services and supportive housing placements, which should reduce the demand for shelters. The City expects this initiative to save $24 million in FY 2017 and as much as $55 million by FY 2020.

As previously mentioned, the City has realized debt service savings of $399 million in FY 2016 and lesser amounts in subsequent years. In FY 2016, most of the savings will come from lower-cost variable rate debt (from both lower interest rates and fees). The balance comes from lower funding requirements for education and court projects.

The Mayor plans to announce additional cost-saving actions with the release of his executive budget in late April or early May. These initiatives could reduce the budget gaps projected for fiscal years 2018 through 2020.

FIGURE 7
Citywide Savings Program
(in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Agency Actions					
Funding Shifts	$ 280	$ 80	$ 34	$ 34	$ 34
Cost Reestimates	112	72	65	75	85
Administrative Efficiencies	13	110	114	124	135
Subtotal	**405**	**262**	**213**	**233**	**254**
Debt Service	**399**	**8**	**23**	**27**	**24**
Total	**$ 804**	**$ 270**	**$ 235**	**$ 261**	**$ 279**

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

VI. Revenue Trends

The January Plan assumes that locally generated revenues (i.e., City funds) will total $59.9 billion in FY 2017, an increase of 2.8 percent (see Figure 8). City fund revenues are projected to grow faster in subsequent years (averaging 3.9 percent annually).

As a result, City fund revenues will rise by $8.9 billion during fiscal years 2017 through 2020. More than half of the growth ($5.2 billion) will come from an expected increase in property tax collections. For the first time, the market values of all taxable properties exceed $1 trillion based on the City's preliminary estimates.

Since the beginning of the current fiscal year, the City has raised its forecast for property tax collections during the financial plan period by $3.4 billion ($1.3 billion in FY 2020 alone). Collections are now expected to rise by an average of more than 5 percent annually.

The January Plan assumes virtually no growth in personal income tax collections in FY 2017 based on the City's expectations of much slower job growth and a sharp decline in capital gains realizations. OSC expects collections to be higher by $300 million in FY 2017, reflecting expectations for stronger job growth and a smaller decline in capital gains.

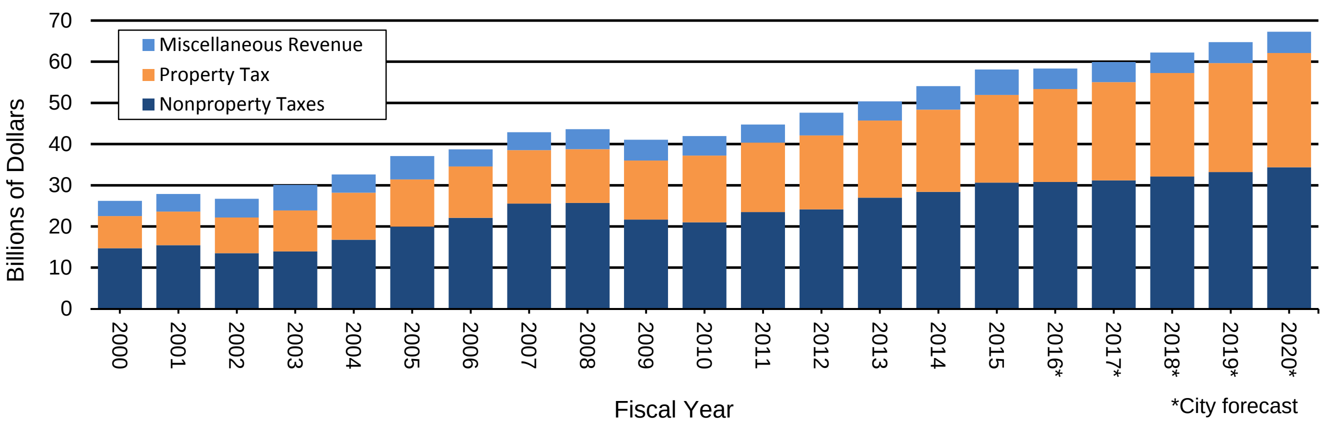
The January Plan assumes that personal income tax collections will grow much faster in subsequent years (averaging 3.8 percent annually), increasing the potential for shortfalls if economic conditions are indeed shifting.

The City expects collections from real estate transaction taxes to decline by more than 11 percent in FY 2016, but collections have grown by 12.6 percent so far this year. OSC estimates that collections could exceed the City's forecast by $250 million in FY 2016. However, business tax collections could be lower by $50 million.

Despite the potential for higher revenues in the near term, OSC continues to be concerned about the possibility of an economic setback during the financial plan period.

The City also anticipates $731 million from the sale of taxi medallions ($107 million in FY 2018, $257 million in FY 2019 and $367 million in FY 2020), but the sale has been repeatedly delayed and market conditions remain unsettled.

FIGURE 8
Growth in 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

FIGURE 9
City Fund Revenues
(in millions)

	FY 2016	FY 2017	Annual Growth	FY 2018	FY 2019	FY 2020	Average Three-Year Growth Rate
General Property Tax	$ 22,556	$ 23,873	5.8%	$ 25,145	$ 26,474	$ 27,722	5.1%
Personal Income Tax	11,033	11,073	0.4%	11,404	11,864	12,383	3.8%
Sales Tax	7,070	7,351	4.0%	7,661	7,982	8,308	4.2%
Business Taxes	5,978	6,232	4.2%	6,430	6,601	6,798	2.9%
Real Estate Transaction Taxes	2,597	2,661	2.5%	2,690	2,778	2,856	2.4%
Other Taxes	3,126	3,148	0.7%	3,212	3,264	3,322	1.8%
Tax Audits	995	714	-28.2%	714	714	714	0.0%
Subtotal: Taxes	**53,355**	**55,052**	**3.2%**	**57,256**	**59,677**	**62,103**	**4.1%**
Miscellaneous Revenues	4,994	4,917	-1.5%	4,972	5,091	5,187	1.8%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**58,334**	**59,954**	**2.8%**	**62,213**	**64,753**	**67,275**	**3.9%**

Note: The City's revenue estimates have been adjusted to include tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Office of Management and Budget; OSC analysis

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

1. General Property Tax

Property taxes are the City's largest revenue source, accounting for 42 percent of tax revenues. Even though overall tax rates are unchanged, higher property values have resulted in higher tax bills.

Collections have grown by $6.4 billion between fiscal years 2010 and 2016 as the commercial and residential real estate markets have recovered from the recession. Collections are projected to grow by another $5.2 billion to $27.7 billion by FY 2020 (see Figure 10).

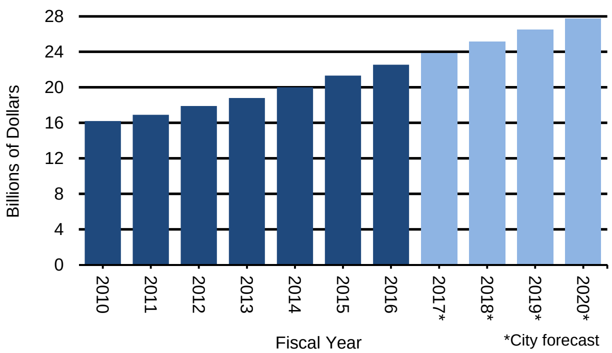
In January 2016, the City released the tentative property tax roll for FY 2017 (the final roll will be released in May 2016). According to the tentative roll, the market values of all taxable properties in New York City grew by 10.6 percent in calendar year 2015.

As a result, the January Plan projects stronger revenue growth during the financial plan period than the forecast made at the beginning of the current fiscal year. The City now expects property tax collections to increase by 5.8 percent in FY 2017 and by an average of 5.1 percent in subsequent years (which is about one percentage point higher each year than the forecast in the June Plan).

State law requires changes in assessed values for commercial and large residential properties to be phased in over five years. OSC estimates that more than half of the projected increase in property tax collections in FY 2017 will come from this pipeline ($800 million), which largely reflects strong growth in commercial property values over the past five years.

The amount of revenue from the pipeline will remain relatively constant during the plan period, creating a cushion against an economic slowdown. During the Great Recession, the five-year phase-in of assessed values prevented a decline in property tax collections.

FIGURE 10
General Property Tax Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

New York City is the only locality in the State that is exempt from a State law that caps the annual growth in the property tax levy at 2 percent or the rate of inflation, whichever is less. Some State legislators have questioned whether the City should continue to be exempt from the cap.

The Mayor has stated his opposition to applying the cap to New York City and has pointed out the City's contributions to the State's economy and State revenues. Under such a cap, the City could lose $1.2 billion in revenues during FY 2017 and more than $3 billion annually by FY 2020 unless overridden by 60 percent of the City Council.

On January 15, 2016, the 421-a tax exemption program expired because the construction unions and the real estate industry were unable to reach agreement on wages for construction workers. The program provided property tax exemptions to newly constructed residential developments for a period of up to 35 years. The Mayor is concerned that the lack of incentives could make it more difficult for the City to achieve its affordable housing goals.

2. Personal Income Tax

The personal income tax has responded quickly to the improvement in the economy and has been a driving force in generating budgetary surpluses. Collections have grown at an average annual rate of 8.3 percent over the past six years, reflecting the City's strong job gains and record growth in the stock market.

The January Plan assumes that growth in personal income tax collections will slow to 3.8 percent in FY 2016. Although collections grew by 4.7 percent during the first seven months of the fiscal year, the rate of growth has slowed in recent months (collections were particularly weak in January 2016).

The January Plan assumes virtually no growth in personal income tax collections in FY 2017 (an increase of just 0.4 percent). The City's forecast assumes significant slowing in job growth and a 22 percent decline in capital gains realizations in 2016, the largest reduction outside of a recession in the past 40 years.

OSC expects personal income tax collections to grow faster in FY 2017 based on stronger job growth and a smaller decline in capital gains. In total, OSC expects collections to exceed the City's forecast by $300 million.

Although the economic uncertainties are greater in subsequent years, the January Plan assumes that personal income tax collections will grow faster (accelerating to 3 percent in FY 2018, 4 percent in FY 2019 and 4.4 percent in FY 2020).

3. Real Estate Transaction Taxes

Revenues from the real estate transaction taxes have been growing steadily since the end of the recession. Collections reached $2.9 billion in FY 2015 (see Figure 11), the second-highest amount on record and only 11 percent less than the record set in FY 2007.

At the beginning of the current fiscal year, the City had assumed that collections would decline by 20 percent in FY 2016, but collections have exceeded the City's expectations.

Collections grew by 12.6 percent during the first half of the fiscal year, and the value of commercial and residential sales kept pace with last year. Although the City has raised its forecast since the start of the fiscal year, the January Plan still assumes that collections will decline by 11.1 percent in FY 2016.

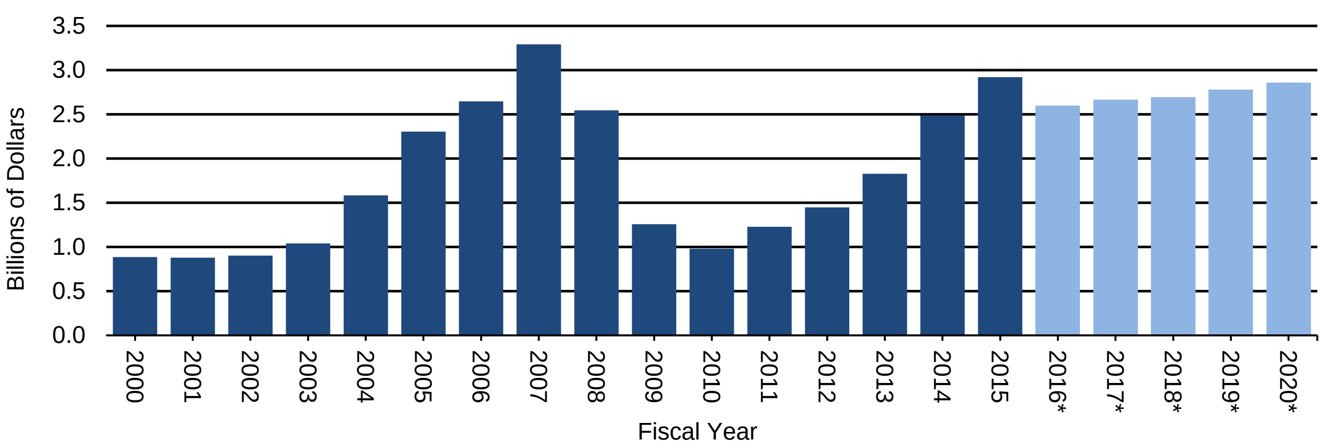
While collections may slow in the second half of the fiscal year, OSC believes that revenues could still exceed the City's forecast by $250 million in FY 2016. The City's forecasts for the remainder of the financial plan period are reasonable given current market and economic conditions.

4. Sales Tax

Sales tax collections have risen steadily in recent years, boosted by spending from a record number of tourists and a robust local economy. Over the past six years, the growth in sales tax collections has averaged 6.6 percent annually. The January Plan assumes that growth will slow to 4.9 percent in FY 2016, which is consistent with collections during the first half of the fiscal year.

The January Plan assumes that growth will slow further to 4 percent in FY 2017, reflecting concerns over the impact that a weaker global economy might have on tourist spending. Despite these concerns, the January Plan assumes that collections will grow slightly faster during the remainder of the financial plan period, averaging 4.2 percent annually.

FIGURE 11
Real Estate Transaction Tax Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

*City forecast

5. Business Taxes

In April 2015, the State enacted legislation that merged the City's banking corporation tax into the general corporation tax, retroactive to January 1, 2015. The City expects the change to be revenue-neutral.

The January Plan assumes that total collections from business taxes will decline by 1.2 percent to $6 billion in FY 2016, ending five years of growth. The slowdown reflects the City's expectation of weaker profits, a stronger dollar and a slowing global economy.

The securities industry recently reported profits of $14.3 billion for 2015, 10.5 percent lower than in the prior year and about $2 billion less than anticipated by the City in the January Plan. As a result, OSC expects business tax collections to be lower by $50 million in FY 2016.

Business tax collections are projected to increase by 4.2 percent in FY 2017 based on the City's expectation of a modest increase in profitability. Growth is expected to average 3 percent annually during the remainder of the financial plan period.

VII. Expenditure Trends

The Mayor's preliminary budget for FY 2017 totals $82.1 billion, including spending funded by federal and State grants. The portion of the budget funded with locally generated revenue (i.e., City funds) is projected to total $59.9 billion. After adjusting for surplus transfers and debt defeasances, which can mask expenditure trends, City-funded spending is projected to reach $62.2 billion in FY 2017 (see Figure 12), an increase of $2.6 billion (4.3 percent).

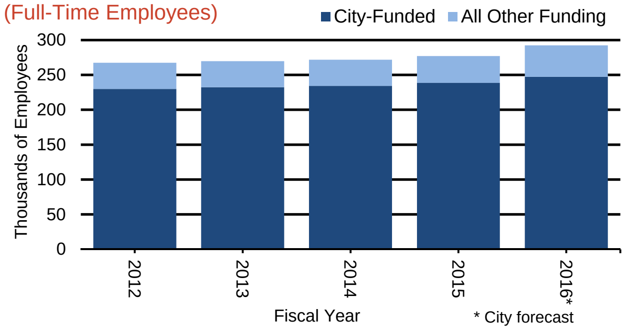
City-funded spending is projected to grow at an average annual rate of 4.4 percent over a five-year period to reach $70 billion by FY 2020. This represents an increase of $13.5 billion (nearly 24 percent) since FY 2015. Growth is driven by the cost of recent labor agreements; higher costs for employee fringe benefits and debt service; and new programmatic initiatives.

The City's full-time work force (including jobs fully funded by the federal and State governments) grew by 9,750 employees between fiscal years 2012 and 2015, and is projected to grow by 15,339 employees in FY 2016 (see Figure 13). However, many of these positions are likely to remain vacant.

FIGURE 13

Staffing

(Full-Time Employees)



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

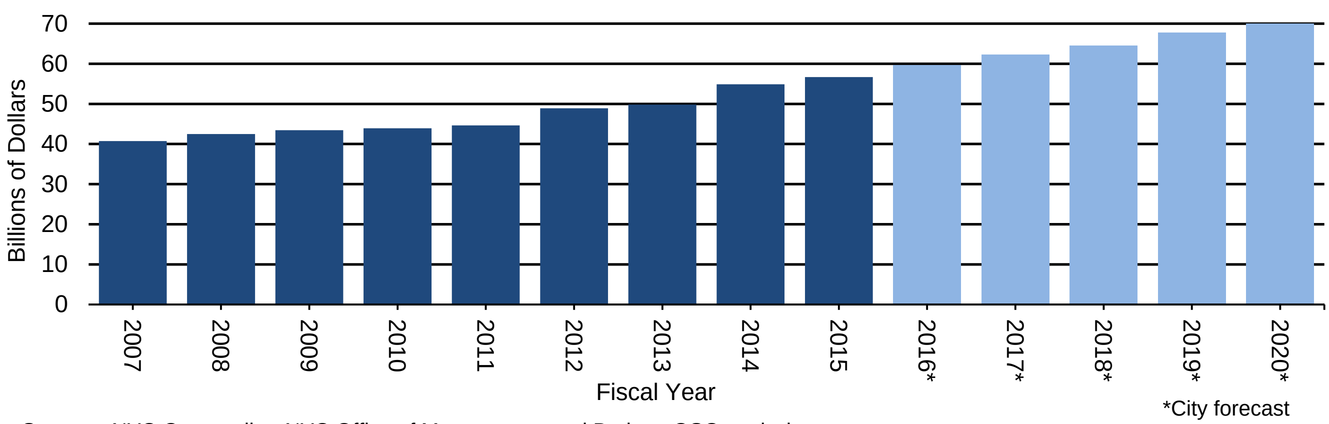
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The City added 5,522 full-time employees during the first half of the fiscal year, with teachers, police officers and correction officers accounting for 70 percent of the new hires. Although the January Plan assumes that the City will add another 9,817 employees in the second half, most of the planned additions are in agencies that have fallen far short of their hiring targets in recent years.

If the City adds all of the hires assumed in the January Plan, FY 2016 would be the largest one-year increase in 12 years, and the municipal work force would reach 292,512 employees, higher than the prerecession level.

FIGURE 12

Growth in City-Funded Expenditures



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

FIGURE 14
City-Funded Expenditures
(in millions)

	FY 2016	FY 2017	Annual Growth	FY 2018	FY 2019	FY 2020	Average Three-Year Growth Rate
Salaries and Wages	$ 17,236	$ 17,601	2.1%	$ 18,912	$ 20,434	$ 20,838	5.8%
Pension Contributions	9,199	9,255	0.6%	9,409	9,590	9,963	2.5%
Medicaid	5,976	6,118	2.4%	6,118	6,118	6,118	0.0%
Debt Service	5,910	6,523	10.4%	6,991	7,502	8,054	7.3%
Health Insurance	4,540	4,901	8.0%	5,142	5,650	6,191	8.1%
Other Fringe Benefits	2,817	2,918	3.6%	3,003	3,234	3,476	6.0%
Energy	788	829	5.2%	872	903	939	4.2%
Judgments and Claims	555	606	9.2%	642	677	715	5.7%
Public Assistance	652	661	1.4%	666	670	675	0.7%
Other	12,093	11,336	-6.3%	11,737	11,912	12,207	2.5%
Subtotal	**59,766**	**60,748**	**1.6%**	**63,492**	**66,690**	**69,176**	**4.4%**
General Reserve	300	1,000	NA	1,000	1,000	1,000	NA
Prior Year's Expenses	(400)	- - -	NA	- - -	- - -	- - -	NA
Capital Stabilization Reserve	- - -	500	NA	- - -	- - -	- - -	NA
Total	**$ 59,666**	**$ 62,248**	**4.3%**	**$ 64,492**	**$ 67,690**	**$ 70,176**	**4.1%**

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

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

1. Collective Bargaining

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

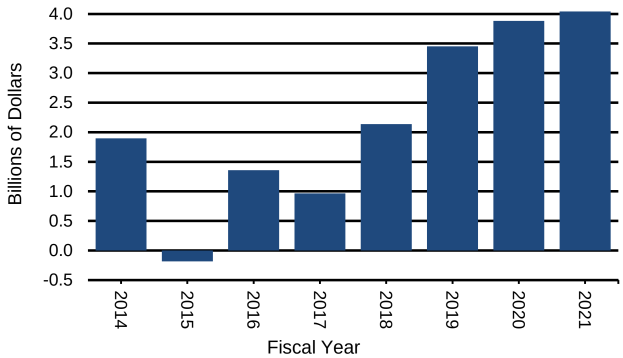
The agreements also compensate members of the United Federation of Teachers (UFT) and other employees for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to these employees.

In November 2015, New York City and the Patrolmen's Benevolent Association (PBA) concluded binding arbitration. A three-member panel awarded police officers two annual wage increases of 1 percent, which was consistent with the City's financial plan. The City and the PBA have resumed contract negotiations for the period beyond the arbitration award.

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 new wage agreements ($3.5 billion), and from health insurance savings ($4.4 billion) that are expected to result from a separate agreement between the City and its unions. The net budgetary impact during fiscal years 2014 through 2018 will total $6.2 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 15). The cost continues to rise after the expiration of the contracts beginning in 2018 because of lump-sum payments to compensate members of the UFT and other employees for the time they went without wage increases, as well as the full impact of wage increases granted in prior years.

FIGURE 15
Net Budgetary Impact of Labor Settlements



Sources: NYC Office of Management and Budget; OSC analysis

The January Plan includes resources to fund annual wage increases of 1 percent after the expiration of the current round of collective bargaining, which for most employees would be during FY 2018. The City estimates that each additional percentage point increase in wages would cost about $400 million annually.

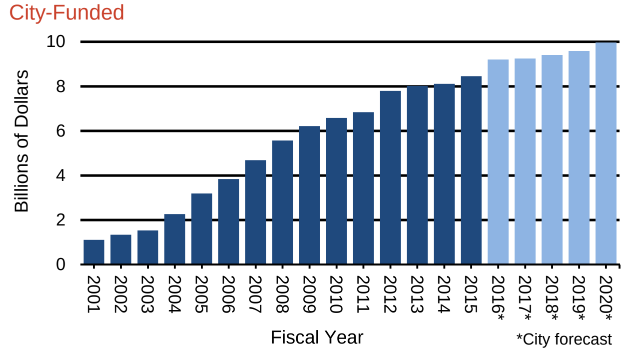
2. Pension Contributions

After rising rapidly between fiscal years 2003 and 2012, the growth in City-funded pension contributions slowed over the next three years. The slower rate of growth reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,[8] better-than-expected investment returns,[9] and savings from lower-cost pension plans for City employees hired after March 31, 2012.

Pursuant to a biennial review mandated by the City Charter, an independent actuarial consultant recommended (in October 2015) a number of changes in the actuarial assumptions used to calculate contributions to the City's five pension funds. The City Actuary recommended that the boards of trustees of the five pension systems implement the consultant's recommendation to utilize updated mortality tables. The consultant offered other recommendations, which are still under review by the City Actuary.[10]

Since retirees are living longer than they were two decades ago, the City will pay benefits for a longer period of time than previously assumed. As a result, pension contributions will increase by about $600 million annually beginning in FY 2016 to make up for the higher cost. While the January Plan assumes that pension contributions will grow slowly in subsequent years, pension contributions will reach $10 billion by FY 2020 (see Figure 16), accounting for 15 percent of City fund revenues.

FIGURE 16
Pension Contributions
City-Funded



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

The January Plan also assumes that the pension funds will earn, on average, 7 percent on their investments annually. Last year the pension funds earned less than half of the expected gain. Consequently, the unfunded net pension liability rose to $52 billion, and future contributions to the

8 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.

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

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

pension funds will increase faster than planned to make up for the shortfall.[11]

Pension fund investment earnings are running short of expectations through the first seven months of the current fiscal year because of the decline in the equity markets (an estimated 12 percentage points less than the 7 percent gain expected for the full year).

Unless earnings rebound, contributions could increase faster than assumed in the January Plan. OSC estimates that each percentage point shortfall from the 7 percent earnings target in FY 2016 could increase pension contributions by $20 million in FY 2018 and by $135 million annually when fully phased in by FY 2023.

In August 2015, the Mayor and the union that represents firefighters reached agreement to jointly support legislation to increase disability pension benefits for uniformed employees hired after June 30, 2009. Current eligible employees receive 50 percent of their highest five-year average salary, offset by 50 percent of the Social Security Disability Insurance benefit. (By contrast, employees hired before that date receive 75 percent of their highest salary with no Social Security offset.)

While the cost of restoring these benefits, when applied to all members of the uniformed forces, would total $250 million over a five-year period, the legislation specifies that half the cost will be funded with additional employee pension contributions (3 percent of salary). The January Plan reflects the cost of the proposed legislation, which has not yet been approved by the State Legislature.

3. Health Insurance

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

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

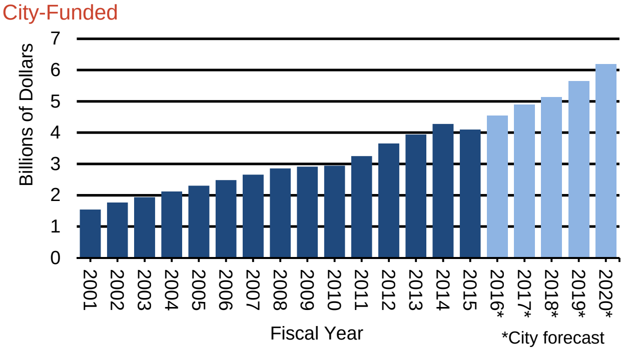
Thus far, most of the savings have come from administrative actions and lower-than-planned increases in health insurance premiums. The City has also implemented a number of cost-containment initiatives, and while these have not yet generated large savings, they are expected to produce substantial savings in future years.

Despite the savings, the January Plan assumes that City-funded health insurance costs will reach $6.2 billion by FY 2020 (see Figure 17), $2.1 billion (51 percent) more than in FY 2015.

FIGURE 17

Health Insurance Costs

City-Funded



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

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

4. Debt Service

Since the beginning of the current fiscal year, the City has realized debt service savings of $547 million during fiscal years 2016 through 2019, with most of the savings concentrated in the first two years. The savings resulted from favorable short-term interest rates ($316 million) and refinancing long-term bonds at lower interest rates ($150 million). The City also did not need to borrow to meet its cash flow needs.

The January Plan assumes that City-funded debt service will rise by $2.2 billion (38 percent) to $8.1 billion between fiscal years 2015 and 2020 (see Figure 18) because borrowing is expected to increase by 87 percent during that period as the City expands its capital program. By FY 2020, debt outstanding is projected to reach $84.5 billion, $15 billion more than in FY 2015.

Figure 18 also shows that debt service as a share of tax revenue (i.e., the debt burden) would grow from 11.7 percent to 13.4 percent. While debt service would account for a larger share of tax revenue by FY 2020, the debt burden would remain below 15 percent, a level that is considered high.

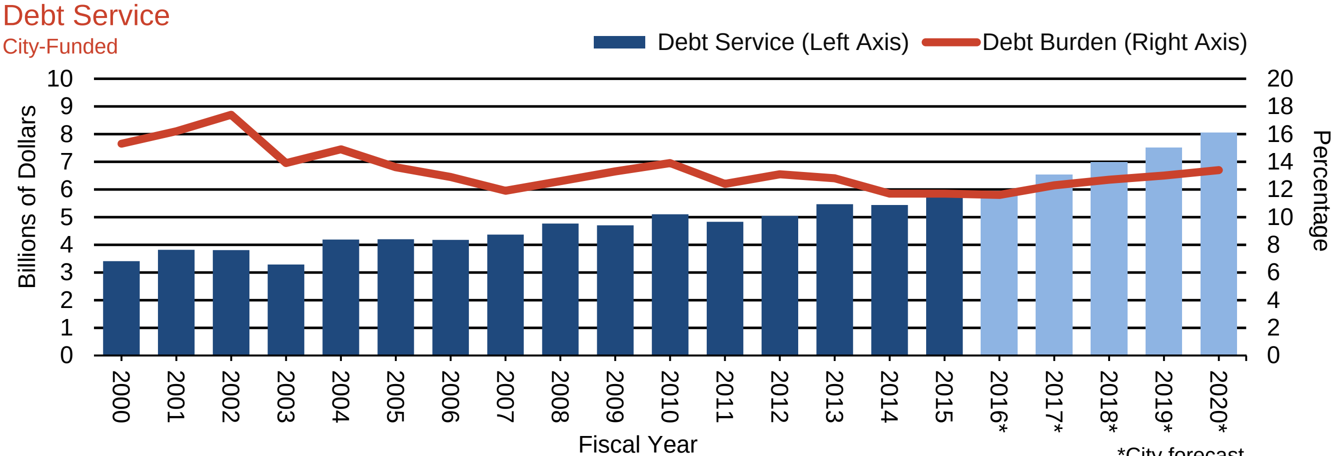
The January Plan is based on a number of assumptions, which may increase or decrease the debt burden. For example, the City assumes that the agencies will meet their annual capital commitment targets, which has been a problem in the past. Last year, the agencies fell short of their annual commitment targets by 33 percent.

The City's debt service forecast is also dependent on the cost of borrowing. The Federal Reserve raised short-term interest rates by 25 basis points in December 2015, ending a historic seven-year period of near-zero interest rates. The Chairwoman of the Federal Reserve recently suggested that interest rates will increase gradually in light of current economic conditions.

The January Plan continues the City's practice of using conservative interest rate assumptions. For FY 2017, the City assumes that fixed long-term interest rates will increase by 200 basis points from current market conditions and that short-term rates will increase by 325 basis points.

Given these conservative assumptions, it is likely that the City will continue to realize debt service savings as it has in recent years. In addition, it is unlikely that the City will need to borrow to meet

FIGURE 18
Debt Service
City-Funded



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

its short-term cash flow needs in FY 2017 because of its large cash balance. In total, OSC estimates that the City could realize debt service savings of about $200 million in FY 2017.

In FY 2016, the City established a $500 million Capital Stabilization Reserve (CSR). The reserve was created to defease debt coming due in the near term so as to prevent debt service from rising too quickly as a share of tax revenues, in the event of an economic slowdown or rapid rise in interest rates. The January Plan transfers the CSR to FY 2017, since these resources will not be needed in the current fiscal year.

5. Homeless Services

The number of homeless people residing in shelters operated by the Department of Homeless Services (DHS) increased by 57 percent over a five-year period to reach a record of 58,745 in December 2014 (see Figure 19). The City attributes most of the increase to the elimination of State and City funding for the Advantage rental assistance program and to a lack of affordable housing.

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

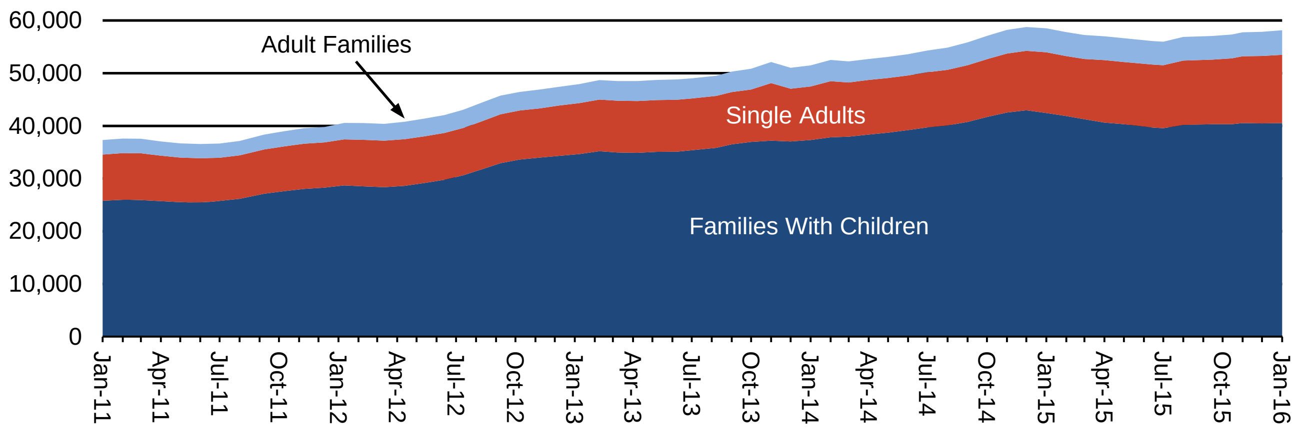
The shelter population declined by 4.7 percent between December 2014 and July 2015 as the number of permanent housing placements increased, but since then the shelter population has been growing despite increased efforts by the State and the City. The shelter population reached 58,140 in January 2016, the highest level in 12 months. The adult family and single adult populations continued to set records.

Both the Mayor and the Governor have announced new initiatives to improve the condition of the shelter system, increase homeless prevention services and create more supportive housing.

The January Plan includes large increases in funding for homeless prevention services and housing initiatives. For example, funding for rental assistance and supportive housing is projected to rise from $16 million in FY 2015 to more than $100 million in FY 2016, reaching $288 million by FY 2020.

With these new investments, the City expects the total shelter population to decline by 15 percent

FIGURE 19
People in Homeless Shelters



Source: NYC Department of Homeless Services by the end of FY 2017, driven by an even larger reduction in the adult shelter population. The January Plan assumes that the City's share of the cost of sheltering the homeless will decline by 18 percent in FY 2017 ($131 million).

Although the State and City are making sizable investments to alleviate homelessness in New York City, the shelter population increased during the first half of the current fiscal year. Given this trend and the City's increased outreach efforts, the shelter population may not decline as quickly as anticipated. As a result, OSC believes the cost of sheltering the homeless could exceed the City's forecast by $75 million in FY 2017.

6. Public Assistance

The public assistance caseload fell by more than two-thirds with the implementation of national welfare reforms during the 1990s, which imposed work requirements on most recipients. Since May 2014, however, the caseload has been growing slowly.

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

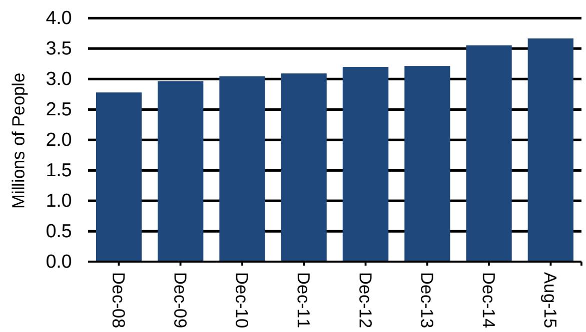
The January Plan assumed the public assistance caseload would reach 371,000 by the end of 2015 and then remain stable for the next four years. The caseload was slightly higher than projected by the City for December 2015, and it continues to grow slowly. As a result, the City could incur some unplanned costs during the financial plan period.

7. Medicaid

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

In New York City, Medicaid enrollment reached almost 3.7 million people by August 2015 (see Figure 20), an increase of 14 percent from December 2013. In August 2015, 43 percent of the City's population was enrolled in Medicaid.

FIGURE 20
Medicaid Enrollment



Sources: NYS Department of Health; OSC analysis

The January Plan assumes that the City's share of the cost of Medicaid will total $6.1 billion in FY 2017 (10 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.

The Governor, however, has proposed that the City fund a larger share of Medicaid, which would cost the City $299 million in FY 2017 and more than $700 million by FY 2020 (see Section IV: Potential Impact of the State Budget). If the Legislature does not approve the proposal, the Governor's budget would shift Medicaid administrative costs to the City ($45 million in FY 2016, $219 million in FY 2017 and $253 million in FY 2018).

8. Uniformed Agencies

Overtime costs in the uniformed agencies (both for uniformed and civilian employees) reached nearly $1.4 billion in FY 2015, with the Police Department accounting for about half of the cost.

The amount of overtime in FY 2015 was the highest level on record (see Figure 21) and nearly 52 percent higher than five years earlier. The Police, Correction and Sanitation departments each set new records in FY 2015, and overtime costs in the Fire Department were only slightly below the record set in FY 2014.

Each of the uniformed agencies has been dealing with issues that have increased overtime in recent years, such as antiterrorism efforts in the Police Department and staff shortages in the Fire and Correction departments. The January Plan allocates resources to help these agencies better manage their overtime budgets, including funding to increase staffing.

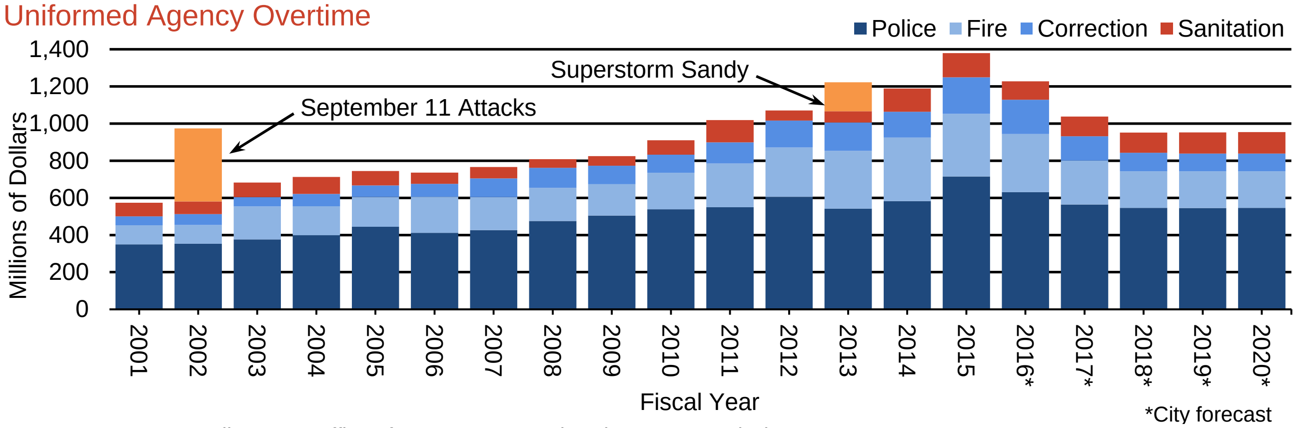
Over the past seven months, the Police Department has added nearly 2,000 police officers. Most of these officers have been dedicated to community policing, but more than 300 have been assigned to antiterrorism efforts. The Police Department has begun hiring 415 civilians to perform desk work, which will free up police officers for patrol.

The January Plan allocates $631 million to the Police Department in FY 2016, $85 million less than the FY 2015 level. While overtime was $62 million higher than anticipated during the first half of the current fiscal year, the City expects overtime to decline during the second half as the number of police officers on patrol increases. Overtime in the Fire and Correction departments exceeded planned levels by $45 million during the first half of the year.

Overall, the January Plan assumes that overtime will decline by $153 million from the record set in FY 2015 to $1.2 billion in FY 2016. The City also assumes that overtime will decline by another $188 million in FY 2017 and then remain at about $950 million.

Based on current trends, overtime could exceed the City's estimates by $100 million in FY 2016 and by $150 million in subsequent years. Some of these costs could be offset by federal grants and savings from other personal services.

FIGURE 21
Uniformed Agency Overtime

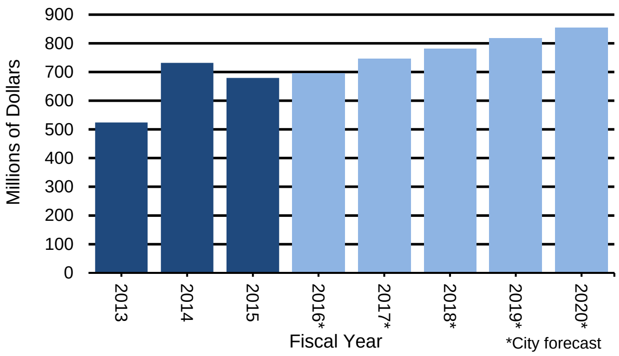


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

9. Judgments and Claims

The cost of judgments and claims against the City for personal injury, property damage and to resolve contracts rose by 40 percent in FY 2014 to a record $732 million (see Figure 22). Although the cost declined in FY 2015 to $680 million, the City expects these costs to resume growing, reaching $855 million by FY 2020.

FIGURE 22
Judgments and Claims



Source: NYC Comptroller; NYC Office of Management and Budget

Claims against the Police Department, the Health and Hospitals Corporation and the Department of Transportation accounted for nearly three quarters of the cost of all personal injury and property damage claims in FY 2014 (detailed data for FY 2015 are not yet available).

The cost of claims against the Police Department has more than doubled from an average of $101 million during fiscal years 2005 through 2008, to $217 million in FY 2014. The cost of medical malpractice claims at the Health and Hospitals Corporation are expected to average $140 million during the financial plan period.

10. Energy

Energy costs declined in FY 2015 to $822 million (despite the harsh winter), mostly as a result of lower prices for electricity, fuel and heat. Costs are expected to decline further in FY 2016 to $788 million as energy prices remain low.

The January Plan assumes that costs will increase by 5 percent in FY 2017 and continue to grow in subsequent years, exceeding the record set in FY 2014 by FY 2020. Although energy prices are volatile, it seems unlikely that costs will increase as much or as quickly as projected by the City, creating the potential for savings.

VIII. Department of Education

The January Plan allocates $29.2 billion to the Department of Education for FY 2017, $1.3 billion more than forecast for FY 2016. As shown in Figure 23, $16.5 billion (56 percent) would come from the City and $10.8 billion (37 percent) would come from the State, with the balance coming mostly from the federal government (6 percent).

In FY 2017, more than $13 billion (46 percent) is dedicated to employee fringe benefits, debt service and pass-throughs (e.g., charter schools). The remainder is allocated for educational and support programs.

Between fiscal years 2007 and 2016, education funding has grown by 50 percent ($9 billion). Concurrently, City funding rose by 67 percent and State funding rose by 41 percent (federal funding declined slightly). Since FY 2013, State funding has grown by 21 percent ($1.8 billion).

In response to the Mayor's proposal to make full-day prekindergarten classes available to all four-year-olds, the State greatly increased funding in FY 2015. In FY 2016, prekindergarten spots were provided to more than 68,000 students. The Governor has proposed shifting responsibility for awarding prekindergarten grants from the State Education Department to a three-member board representing the Governor, Assembly and Senate.

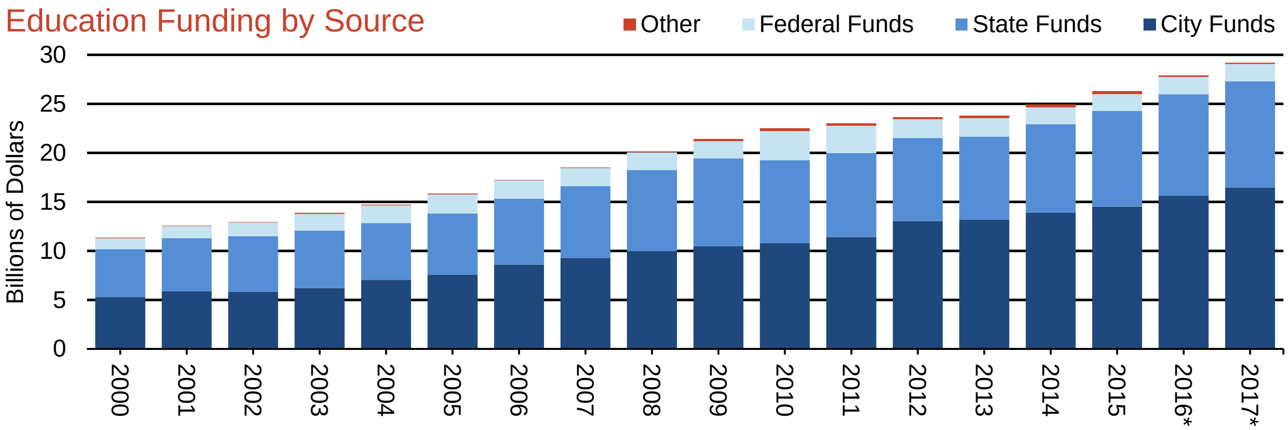
The Governor's budget would increase education aid to New York City by $365 million in FY 2017, $123 million less than assumed in the January Plan. (In most years, the enacted budget includes more education aid than initially proposed.) The Governor has proposed extending mayoral control of the City's schools for three years. While longer than the one-year extension granted last year, it is shorter than the Mayor's request for a seven-year extension.

The Mayor has allocated funds to make targeted investments in education, including algebra, universal literacy, counseling and advanced placement courses. This initiative is expected to cost nearly $77 million in FY 2017, growing to $186 million when fully phased in by 2025.

Each year, the department submits Medicaid reimbursement claims for services provided to special needs students. However, the department has had problems documenting such claims. The January Plan assumes the receipt of $97 million annually during the plan period, but the department has yet to demonstrate that it has overcome this problem, making the receipt of $70 million uncertain.

FIGURE 23

Education Funding by Source



Sources: NYC Office of Management and Budget; OSC analysis

*City forecast

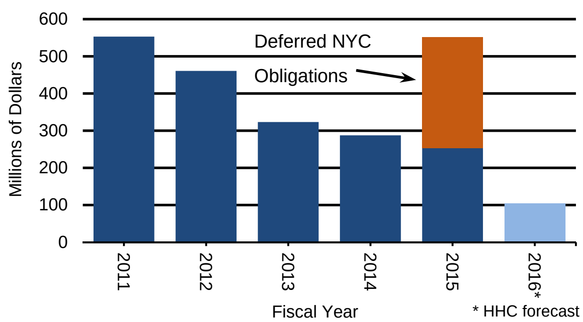
IX. Health and Hospitals Corporation

The Health and Hospitals Corporation ("the Corporation"), the largest municipal hospital system in the country, faces serious financial challenges. A large number of uninsured patients, increased competition for Medicaid patients, reduced federal funding and high overhead costs are all factors contributing to the current crisis.

As part of a coordinated effort to bolster the Corporation's cash position, the City has permitted the Corporation to delay or forgo reimbursing the City for the cost of medical malpractice and debt service. Nevertheless, the Corporation's year-end cash position has eroded, declining from $553 million in FY 2011 to $288 million in FY 2014.

While the Corporation ended FY 2015 with a cash balance of $552 million (see Figure 24), more than half came from not reimbursing the City for medical malpractice and debt service costs. If the Corporation had fulfilled its obligations, it would have ended FY 2015 with a cash balance of $253 million, slightly less than in the prior year.

FIGURE 24
Health and Hospitals Corporation
Year-End Cash Balance



Sources: NYC Health and Hospitals Corporation; OSC analysis

In February 2016, the Corporation projected a closing cash balance of $104 million for FY 2016, enough to meet its cash obligations for only six days and the lowest level in at least 15 years.

This estimate assumed that the Corporation would reimburse the City for FY 2015 expenses.

In June 2015, the Corporation projected losses (on an accrual basis of accounting) that nearly doubled during the financial plan period, growing from nearly $1.1 billion in the current fiscal year to nearly $2 billion in FY 2019.

In an effort to narrow the projected losses, the Corporation assumed that its cost-containment initiatives would generate $309 million annually beginning in FY 2016, but it is clear that those efforts are falling far short of target. Nearly one-third of the resources were expected to come from staff reductions, but staffing has increased instead.

The Corporation was also relying heavily on outside assistance. For example, the Corporation was counting on the receipt of $700 million in unspecified federal and State aid beginning in FY 2017, an unrealistic strategy given federal and State fiscal constraints.

The Corporation has not revised its financial plan since June 2015, but its financial situation has deteriorated. Its cost-containment initiatives have not achieved their goals and supplemental Medicaid payments have fallen short of target. It is imperative that the Corporation prepare a credible and detailed plan to restore financial stability. As a first step, the Corporation recently created a centralized vacancy control board to better manage personnel decisions, which is beginning to show results.

Recognizing the importance of the municipal hospital system, the Mayor announced that the City would increase its financial support by $337 million in FY 2016 and work with the Corporation to develop a restructuring plan. This plan, which is scheduled for release in the spring of 2016, could require a greater financial commitment from the City.

X. Metropolitan Transportation Authority

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

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

The Governor's executive budget allocates $4.5 billion in dedicated tax revenues and State subsidies to the MTA in 2016, which is consistent with the amount anticipated in the MTA's operating budget for that year. In addition, the Governor's budget does not transfer funds intended for the MTA's operating budget to pay debt service on State service contracts, a practice that has been criticized in the past.

The Governor has also proposed legislation that would commit the State and the City to provide $10.8 billion to the MTA's $29 billion capital program, which is consistent with an agreement reached between the Governor and the Mayor in October 2015. The capital program would allocate $24.5 billion to capital maintenance and modernization, and $4.5 billion to expansion projects, such as completion of East Side Access and Metro-North access to Pennsylvania Station.

As approved last year, the State will provide the MTA with $750 million in State bond proceeds and $250 million in financial settlement funds for its capital program. The City will provide $657 million in capital grants in City fiscal years 2016 through 2020. Despite expectations, the Governor has not identified the sources of the remaining $7.3 billion in State funding, and the City has not yet identified the sources of its remaining contribution of $1.8 billion.

Under the Governor's proposal, the State and City would provide the remaining $9.2 billion over four years after the MTA has exhausted other sources of capital funding. The State would fulfill its commitment no later than State FY 2025-26 or by the completion of the capital program.

While the State could provide direct capital grants, the MTA could issue its own bonds backed by an existing or new State revenue source. With the approval of the State budget director, the MTA would be allowed to issue anticipation notes if it requires funding and the State has not made a timely appropriation.

The Governor would also grant the MTA Board authority to enter into public-private partnerships to design, build, finance or operate transportation facilities. The MTA would also be authorized to enter into arrangements with localities to capture the value of MTA improvements through special assessments or tax-increment financing.

If approved by the Capital Program Review Board, the MTA capital program would be $3.1 billion smaller than first proposed in September 2014. Although the MTA hopes to lessen the impact through the greater use of efficiencies, it has cut funding for the second phase of the Second Avenue Subway (by $1 billion) and deferred projects to the future.

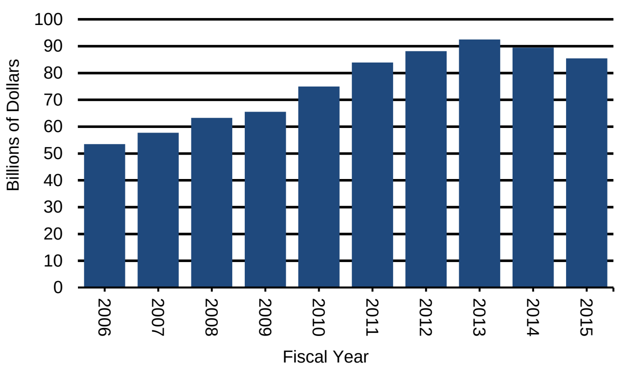
The Governor has urged the MTA to move forward with construction of a controversial third mainline railroad track between Floral Park and Hicksville; accelerate replacement of the MetroCard with a contactless payment system; accelerate installation of Wi-Fi in all underground subway stations by the end of 2016; and expand the number of subway station renewals.

XI. Other Issues

1. Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs) declined by $4 billion to $85.5 billion in FY 2015, the second consecutive decline since the City began reporting its liability in 2006 (see Figure 25). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City's contribution to the OPEB trust in FY 2015.

FIGURE 25
Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

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

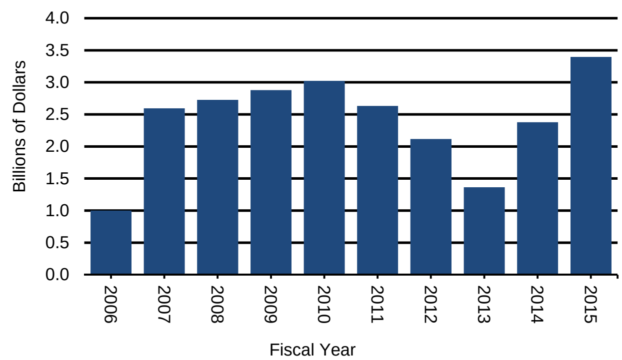
The City, like many employers, does not fund its OPEB liabilities on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2 billion in FY 2015 to nearly $2.9 billion in FY 2020, an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

2. Retiree Health Benefits Trust

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

While the City's RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund. The City drew down much of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession (see Figure 26).

FIGURE 26
RHBT Year-End Balance



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

The City had planned to use $1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew much faster than anticipated, permitting the City to rescind the planned transfer and to contribute $864 million to the RHBT. In FY 2015, revenues also grew much faster than expected, allowing the City to contribute another $955 million to the RHBT. As a result, the RHBT had a balance of $3.4 billion at the end of FY 2015, the highest amount ever.

3. Constitutional Tax Limit

The amount New York City can raise from the property tax for purposes other than certain debt service and capital appropriations is subject to a constitutional tax limit.[12] Based on information submitted by the City to the Office of the State Comptroller, the portion of the tax limit that the City has used rose 8.5 percentage points between fiscal years 2015 and 2016 to 97.8 percent.

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

4. Prior-Year Payables

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

Over the past 10 years, the City has realized net resources averaging $472 million annually from overestimating prior years' expenses and from underestimating prior years' receivables. The January Plan anticipates net resources of $400 million in FY 2016.

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

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