Review of the Financial Plan of the City of New York

Report 4-2020

OFFICE OF THE NEW YORK STATE COMPTROLLER

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August 2019

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

New York City is currently experiencing the largest and longest job expansion in the post–World War II period. Since 2009, the City has added 820,400 jobs, bringing employment to a record level of 4.55 million in 2018 and reducing the annual unemployment rate to 4.1 percent, the lowest on record.

Strong job growth has continued in 2019 and the unemployment rate remains near its record low. The City is on track to add 94,400 jobs in 2019, a faster pace than last year. The business, health care and tourism sectors have been the biggest drivers of job growth in recent years, but the tech sector has grown by 81 percent since 2009.

The strength of the local economy has made balancing the budget easier in recent years. The City ended FY 2019 with a surplus of $4.2 billion, which was used to help balance the FY 2020 budget. The surplus resulted mostly from the citywide savings program, unneeded reserves, and higher-than-expected revenues. Unanticipated revenues accounted for almost half of the surplus.

The citywide savings program generated nearly $1.8 billion in FY 2019 and is expected to produce about $1 billion in each subsequent year. Despite the savings program, staffing levels continue to reach new highs. The portion of the municipal work force funded by the City has grown by about 10 percent since FY 2012.

On June 19, 2019, the City of New York submitted a four-year financial plan to the New York State Financial Control Board (the “June Plan”). The June Plan reflects the adopted budget for FY 2020 and other developments, and covers fiscal years 2020 through 2023.

The FY 2020 budget totals $92.8 billion (see Figure 1), including $68.5 billion funded with locally generated revenues (i.e., City funds). After growing by more than 6 percent in each of fiscal years 2018 and 2019, City-funded spending is projected to grow by 7.2 percent in FY 2020. (Excluding reserves, spending would increase by 5.2 percent.) While planned spending is currently affordable, it may not be sustainable during a prolonged economic downturn.

Spending is driven by projected increases in health insurance costs and debt service, the impact of the State budget and higher agency spending. In the past year, unplanned agency spending and new initiatives increased costs by $2.9 billion during fiscal years 2019 and 2020, more than offsetting the benefit of the agency savings program in those years.

Despite record job growth and a balanced budget in FY 2020, the City projects budget gaps of $3.5 billion in FY 2021, $2.9 billion in FY 2022 and $3.1 billion in FY 2023. The budgets for these years include reserves of $1.25 billion that, if unneeded, could be used to narrow the gaps.

Although the gaps are manageable under existing conditions, the current job expansion is in its tenth year and changes in the business cycle are inevitable. Most economists believe the risk of a national recession has grown as a result of increased trade tensions and slower global economic growth. While the June Plan assumes that the City’s economy will slow during the financial plan period, it does not anticipate a recession.

In the absence of an economic setback, tax collections are likely to exceed the City’s forecasts (see Figure 2). If unplanned spending is held in check, these unanticipated revenues could be available to help narrow the out-year budget gaps.

Other issues include the potential for State or federal budget cuts during the financial plan period. Although the immediate risk of federal budget cuts has been reduced by the recent two-year budget agreement, there still remains the potential for cuts during the latter part of the financial plan period given the large and growing federal budget deficit.

Also, the unfunded liability for other post-employment benefits (OPEBs) continues to grow, exceeding $98 billion at the end of FY 2018, an increase of $10 billion in one year. The annual budgetary cost is projected to reach $3 billion by FY 2023, an increase of 25 percent in five years.

The City's current ten-year capital strategy (the largest on record) is expected to increase City-funded debt service by 49 percent between fiscal years 2018 and 2023. While the debt burden would rise to 12.9 percent of tax revenues, it would remain below the City's target of 15 percent. Debt service could grow more slowly, at least in the near term, given the City's conservative interest rate assumptions and ambitious capital commitment targets.

In addition, the Health and Hospitals Corporation, the New York City Housing Authority and the Metropolitan Transportation Authority each face significant operational and financial challenges, which could require additional support from the City.

Given these risks, the City increased the general reserve for FY 2020 to $1.15 billion, while maintaining the stabilization reserve at $250 million. If unneeded, these resources could contribute to a year-end surplus.

The City also deposited an additional $100 million into the Retiree Health Benefits Trust, which now has a record balance of nearly $4.6 billion. Although intended to fund post-retirement benefits other than pensions, the City drew on the trust during the Great Recession to help balance the budget.

In closing, the City's economy is strong, but the risk of an economic setback during the financial plan period has grown. To its credit, the City continues to increase its reserves, a practice it should continue given the risks on the horizon. The City should also step up its efforts to identify opportunities to reduce costs in order to help close the projected budget gaps.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023
Revenues				
Taxes				
General Property Tax	$ 29,615	$ 30,909	$ 32,150	$ 33,110
Other Taxes	32,807	33,391	34,358	35,289
Tax Audit Revenue	999	721	721	721
Subtotal: Taxes	$ 63,421	$ 65,021	$ 67,229	$ 69,120
Miscellaneous Revenues	6,957	6,909	6,882	6,876
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,820)	(1,817)	(1,815)	(1,814)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 68,543	$ 70,098	$ 72,281	$ 74,167
Other Categorical Grants	928	870	863	863
Inter-Fund Revenues	735	672	672	672
Federal Categorical Grants	7,228	7,071	6,998	6,967
State Categorical Grants	15,338	15,710	16,178	16,683
Total Revenues	**$ 92,772**	**$ 94,421**	**$ 96,992**	**$ 99,352**
Expenditures				
Personal Service				
Salaries and Wages	$ 30,041	$ 30,935	$ 30,787	$ 31,674
Pensions	9,963	10,130	10,576	10,632
Fringe Benefits	11,342	11,854	12,527	13,228
Retiree Health Benefits Trust	- - -	- - -	- - -	- - -
Subtotal: Personal Service	$ 51,346	$ 52,919	$ 53,890	$ 55,534
Other Than Personal Service				
Medical Assistance	5,915	5,915	5,915	5,915
Public Assistance	1,651	1,651	1,651	1,650
All Other	31,272	30,476	30,787	31,020
Subtotal: Other Than Personal Service	$ 38,838	$ 38,042	$ 38,353	$ 38,585
Debt Service	7,229	7,548	8,193	8,938
FY 2018 Budget Stabilization & Discretionary Transfers	- - -	- - -	- - -	- - -
FY 2019 Budget Stabilization	(4,221)	- - -	- - -	- - -
Capital Stabilization Reserve	250	250	250	250
General Reserve	1,150	1,000	1,000	1,000
Less: Intra-City Expenses	(1,820)	(1,817)	(1,815)	(1,814)
Total Expenditures	**$ 92,772**	**$ 97,942**	**$ 99,871**	**$ 102,493**
Gap to be Closed	**$ - - -**	**$ (3,521)**	**$ (2,879)**	**$ (3,141)**

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**
Gaps Per NYC Financial Plan	**$ - - -**	**$ (3,521)**	**$ (2,879)**	**$ (3,141)**
Tax Revenues	300	300	300	300
Miscellaneous Revenues	125	125	125	125
Debt Service	100	- - -	- - -	- - -
Uniformed Agency Overtime	(100)	(100)	(100)	(100)
Fair Fares NYC Program	- - -	(212)	(212)	(212)
OSC Risk Assessment	**425**	**113**	**113**	**113**
Potential Gaps Per OSC[1,2]	**$ 425**	**$ (3,408)**	**$ (2,766)**	**$ (3,028)**

[1] The June Plan includes a general reserve of $1.15 billion in FY 2020 and $1 billion in each of fiscal years 2021 through 2023. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2020 through 2023. If not needed, these resources could be used to help close the projected budget gaps. The June 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 nearly $4.6 billion (net of any prepayments).

II. Economic Trends

New York City's economy remains strong and job growth has picked up since last year. However, the risk of a national recession has grown as a result of trade tensions and a weakening global economy. The June Plan assumes that the City's economy will slow during the financial plan period, but that it will not enter a recession.

National Overview

The gross domestic product (GDP), boosted by federal tax cuts, grew by 2.9 percent in 2018, the fastest growth rate since 2015. Although GDP grew at an annualized rate of 3.1 percent in the first quarter of 2019, growth slowed to 2.1 percent in the second quarter as business investment declined. IHS Markit, a national economic forecasting firm, expects GDP to average 2.6 percent in 2019 and slow to 1.8 percent in 2020.

The nation added nearly 2.7 million jobs in 2018, a monthly average of 223,000. Job growth was inconsistent during the first seven months of 2019, but still averaged 165,100 jobs per month. While slower than last year, job growth remains solid.

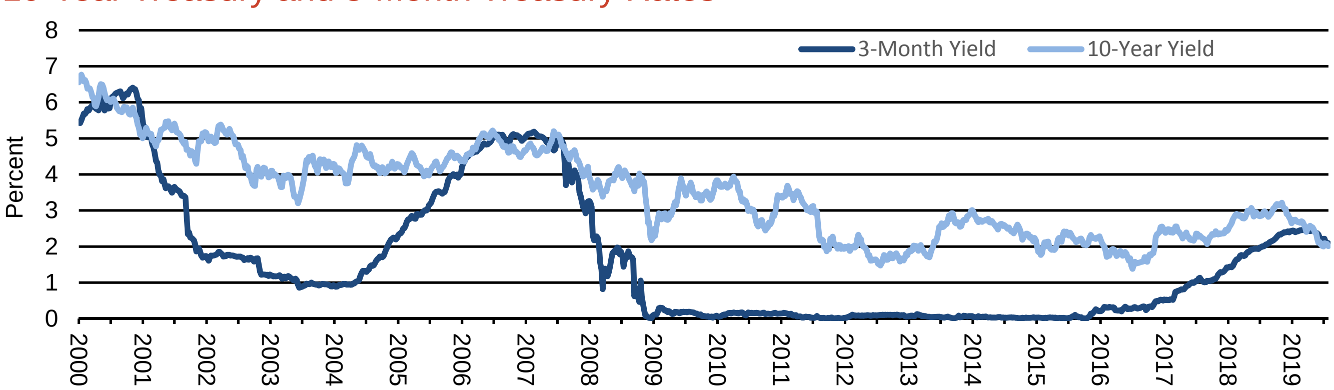
With the labor market tightening and businesses finding it difficult to attract qualified employees, the unemployment rate fell to 3.9 percent in 2018, the lowest annual rate since 1969, and it fell further to 3.7 percent in July 2019.

The current economic expansion has lasted more than 10 years, the longest during the post-World War II period. However, it has also been the weakest. Also, certain economic indicators are raising concerns. For example, business confidence has fallen, and factory orders and the outlook for corporate profits have weakened.

An inversion of the yield curve has preceded every recession since the 1960s. In recent months, the yield on 10-year notes has fallen and is now lower than 3-month rates (see Figure 3). Interest rates on long-term 10-year Treasury notes were lower than short-term 3-month Treasury bills before the 2001-2003 and 2008-2009 recessions.

Most economists believe the risk of a recession has grown. On July 5, 2019, the Federal Reserve Bank of New York estimated the probability of a recession by June 2020 at nearly 33 percent based on the yield curve, a similar level that preceded the 2008-2009 recession. The Federal Reserve reduced short-term interest rates for the first time in more than a decade at the end of July 2019, and has indicated that it will take further action if the economy weakens.

FIGURE 3
10-Year Treasury and 3-Month Treasury Rates



Note: Average weekly rates on a constant maturity basis.
Sources: Federal Reserve Economic Data; OSC analysis

New York City

The June Plan assumes that the City's economy will slow, but not enter a recession. The City expects the growth in the gross city product to slow from 4.8 percent in 2018 to 3 percent in 2019, and then fall below 1 percent by 2022.

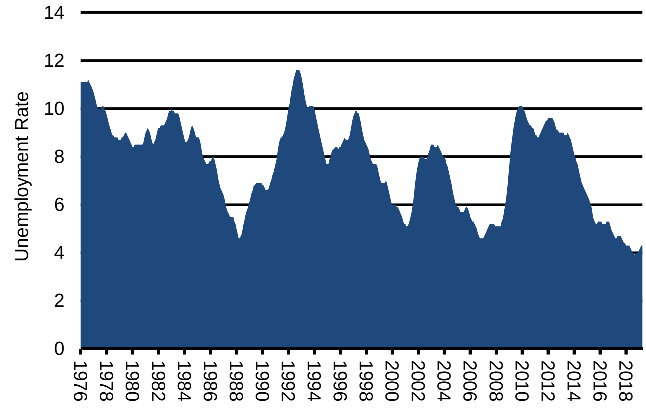
New York City added 820,400 jobs between 2009 and 2018, more than every state in the nation outside of California, Texas, Florida and New York. Employment reached 4.55 million jobs in 2018, the highest level on record and 721,800 higher than the prerecession level in 2008.

The June Plan assumes job growth will slow from 86,700 in 2018 to 68,900 in 2019, and then drop below 50,000 by 2023 (see Figure 4). However, job growth remains strong and the City was on pace during the first half of 2019 to add 94,400 jobs for the full year, a faster pace than last year. Health care, business services and social assistance account for two-thirds of the gains.

A tight labor market pushed the City's unemployment rate down to 4.1 percent in 2018, the lowest since the series began in 1976, and it has remained close to that level in 2019 (see Figure 5). Nonetheless, the unemployment rate remains higher for some segments of the population, such as youths and those without a college degree, and many are underemployed (i.e., working part-time rather than full-time).

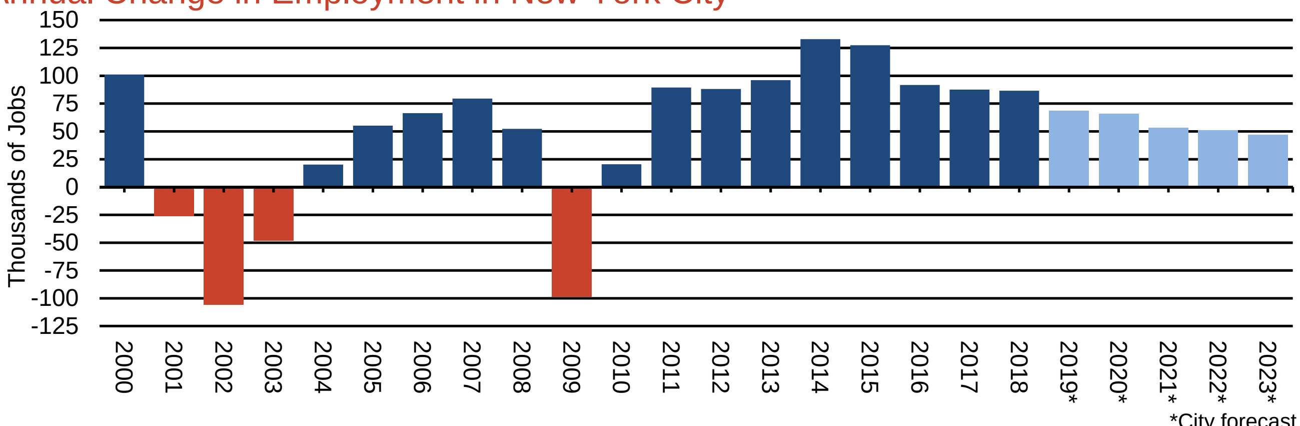
Inflation remains low, rising by 1.9 percent in the New York metropolitan region in 2018, the seventh consecutive year that it has remained below 2 percent. The June Plan assumes inflation will rise above 2 percent in 2020 and in subsequent years, and that the Federal Reserve will raise interest rates in 2019 and 2020. However, inflation remains subdued and the Federal Reserve reduced short-term interest rates in July 2019.

FIGURE 5
Unemployment Rate in New York City



Source: NYS Department of Labor

FIGURE 4
Annual Change in Employment in New York City



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

The average hourly wage has risen at an annual rate of 4.4 percent in the first half of 2019, faster than in 2018 (3.1 percent). This would be the fastest growth rate since 2008, and it has been helped by an increase in the minimum wage. The average wage for all jobs in New York City also increased by 3.1 percent in 2018, reaching $92,600. The June Plan assumes that average wage and personal income growth will slow in 2019 and in subsequent years.

Tourism remains strong, with the number of visitors reaching 65.1 million in 2018, the ninth-consecutive record (see Figure 6). More than one-fifth of visitors came from abroad, with the largest numbers from the United Kingdom (1.3 million), China (1.1 million) and Canada (1 million). Overall, visitors injected $44.2 billion into the City's economy in 2017 for hotels, food, transportation, attractions and shopping.

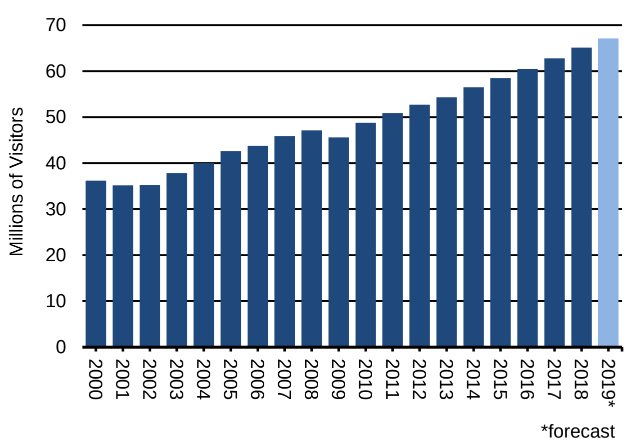
Although the City expects the number of visitors to set a new record of 67.1 million in 2019, there could be fewer international visitors because of slower economic growth overseas, fallout from Brexit, and recent efforts by China to discourage travel to the United States as a result of trade tensions.

The securities industry remains an important part of the City's economy. While the industry accounts for just 5 percent of all private sector jobs, it is responsible for one-fifth of all private sector wages as a result of its high salaries. Although there have been strong job gains in four of the past five years, employment in the securities industry in New York City is still 4 percent lower than before the financial crisis in 2007.

Pretax profits for the broker/dealer operations of New York Stock Exchange member firms (the traditional measure of securities industry profits) increased by 11 percent in 2018 to $27.3 billion (see Figure 7). This was the highest level since 2010 and 80 percent higher than in 2015 after adjusting for inflation. Profitability was driven by higher net revenue, which increased by 6 percent, the fastest rate of growth since 2012.

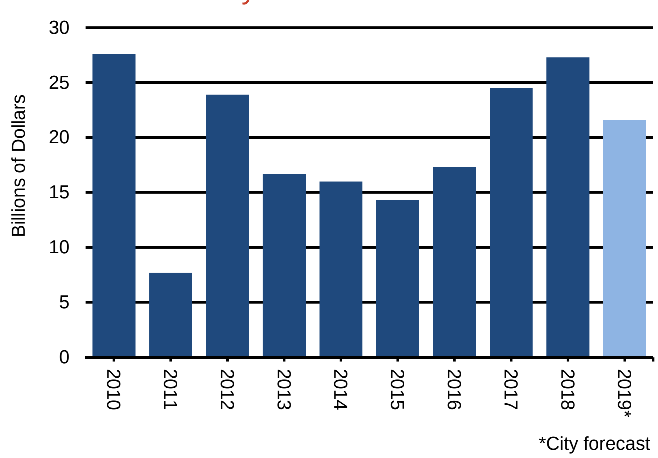
Despite higher profits, the Office of the State Comptroller (OSC) estimated that the 2018 bonus pool for securities industry employees who work in New York City declined by 14 percent during the traditional December-March bonus season, to $27.5 billion. The decline in the average bonus ($153,700) was even greater (17 percent) because the pool was shared among a larger number of employees.

FIGURE 6
Tourism in New York City



Source: NYC & Company

FIGURE 7
Securities Industry Pre-Tax Profits



Source: NYSE/Intercontinental Exchange

The June Plan assumes that securities industry profits will decline by more than 20 percent in 2019 to $21.6 billion. However, pre-tax profits totaled $6.9 billion in the first quarter, 3 percent higher than last year and the six largest bank-holding companies reported modest profits in the second quarter on the strength of consumer banking. The financial markets remain strong, as exemplified by a 14 percent increase in the Dow Jones Industrial Average during the first half of 2019.

The commercial real estate market remains strong. The vacancy rate has fallen and rents have risen even as new properties have become available (see Figure 8). In 2018, a record amount of space was leased and the commercial vacancy rate in Manhattan fell to 7.9 percent, the lowest since 2007. This reflects strong growth in office employment and the expansion of some large companies (e.g., Google and Amazon). Commercial values continue to rise, although foreign investment has slowed.

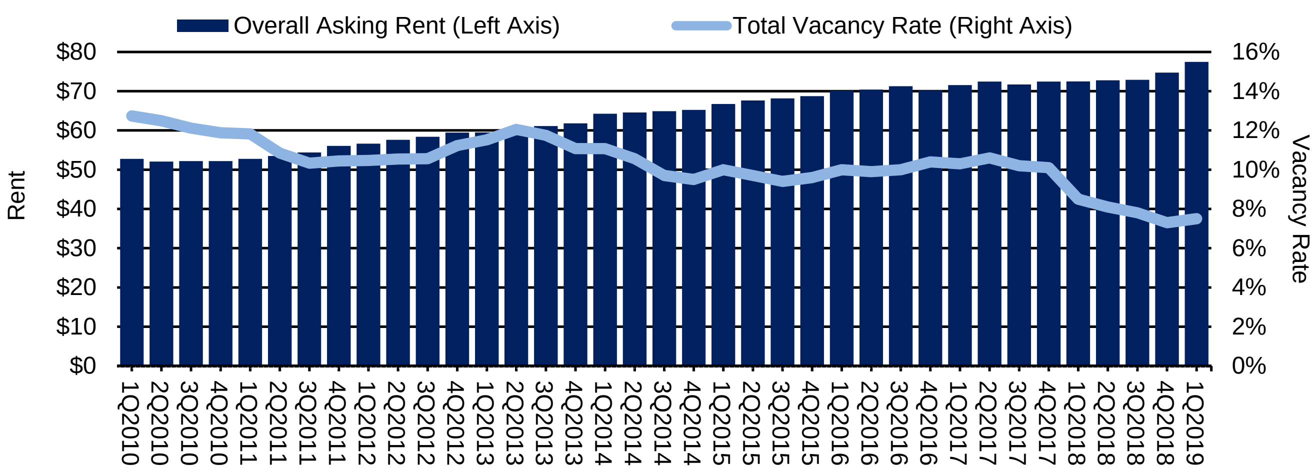
Although residential sales weakened in 2018, values continued to grow. Lower prices for higher-valued properties, coupled with an incentive to complete transactions before new taxes on large residential transactions took effect on July 1, 2019, has lifted sales activity.

The June Plan assumes a gradual weakening in the commercial real estate market, as higher vacancy rates and interest rates limit the growth in commercial values. The City expects home values to continue to rise and sales activity to pick up in FY 2020.

Budgetary Implications

New York City has not revised its economic forecast since April 2019. Since then, the outlook for the national economy has dimmed and the risk of a recession has grown as a result of increased trade tensions and slower global economic growth. The City's conservative economic and revenue assumptions, however, would mitigate the budgetary impact of an economic setback. Meanwhile, the City's economy is strong, increasing the likelihood that tax collections will exceed the City's expectations, at least in the near term.

FIGURE 8
Manhattan Office Rents and Vacancy Rate



Note: Asking rent is per square foot.
Source: Jones Lang LaSalle LP

III. Changes Since the Beginning of the Fiscal Year

New York City has made a number of changes to its four-year revenue and expenditure forecasts since the FY 2019 budget was adopted. The City now expects to end FY 2019 with a surplus of $4.2 billion, or $255 million less than the surplus that was transferred into FY 2019.[3] This means the FY 2019 budget was balanced, in part, with resources generated in prior years.

The FY 2019 surplus resulted mostly from the citywide savings program, unneeded reserves in FY 2019 and an increase in its revenue forecast (see Figure 9).

The citywide savings program is expected to generate nearly $1.8 billion in FY 2019 (including a one-time reimbursement of $371 million from the Health and Hospitals Corporation) and more than $1 billion annually thereafter.

Since July 1, 2018, the City freed up nearly $1.5 billion in reserves that were not needed in FY 2019 and $400 million in savings from overestimating prior years' expenses. The City also raised its FY 2019 revenue forecast by $1.9 billion, mostly because of higher tax collections ($1.2 billion). The City raised its tax forecast for FY 2020 by nearly $1.1 billion.

Personal income tax collections exceeded the City's initial forecast by $854 million in FY 2019 even though estimated payments were down by $1.2 billion in December and January as taxpayers altered their payment patterns in response to the changes in the federal tax code. Much of the decline had been anticipated by the City, but collections still fell short by $433 million. The February Plan had assumed that half of the shortfall would be recovered, but collections were much stronger than expected in April 2019.

The City increased its estimate of pension contributions by $95 million in FY 2019, but it lowered its forecast by $38 million in FY 2020, $380 million in FY 2021 and $439 million in FY 2022. The changes result mostly from an updated actuarial valuation, including savings from better-than-expected pension fund investment earnings in FY 2018, and the release of unneeded reserves.

Unplanned spending at the mayoral agencies and new initiatives increased City-funded spending by $872 million in FY 2019, $2 billion in FY 2020 and more than $1 billion in subsequent years. The City Council and the Mayor added funding for more than $800 million in new initiatives in FY 2020 as part of the budget adoption process, but the June Plan does not include funding to cover most of the recurring cost of these initiatives.

In fiscal years 2019 and 2020, the combination of the citywide savings program, unneeded reserves and higher revenues will be more than enough to offset the impact of wage increases for the municipal work force, the impact of the State budget and higher agency spending. However, the City does not expect this to be the case in subsequent years.

The June Plan shows budget gaps of $3.5 billion in FY 2021 and $2.9 billion in FY 2022. These gaps are about $600 million larger than projected one year ago. While higher agency spending and labor costs are the main factors behind the growth in the budget gaps, the enacted State budget for State fiscal year (SFY) 2019-2020 includes actions that shifted costs from the State to the City and created new unfunded mandates.

Despite the larger gaps, they are still relatively small as a share of City fund revenues (averaging 4.4 percent) and appear manageable under current conditions. The FY 2020 budget includes a general reserve of $1.15 billion and a capital stabilization reserve of $250 million. The budget for subsequent years includes reserves of $1.25 billion. If not needed, the reserves could be used to narrow the projected gaps.

[3] Adjusted to exclude a $100 million discretionary transfer to the Retiree Health Benefits Trust in FY 2019.

FIGURE 9
Financial Plan Reconciliation—City Funds
June 2018 Plan vs. June 2019 Plan
(in millions)

	Better/(Worse)			
	FY 2019	**FY 2020**	**FY 2021**	**FY 2022**
Projected Gaps Per June 2018 Plan	**$ - - -**	**$ (3,260)**	**$ (2,889)**	**$ (2,285)**
Tax Reestimates				
Personal Income	854	398	39	134
Real Estate Transactions	174	85	35	24
Business Taxes	99	(115)	(87)	48
Sales Taxes	75	100	62	73
General Property Taxes	(44)	320	198	448
Tax Audits	- - -	275	- - -	- - -
Other Taxes	89	7	12	7
Subtotal	**1,246**	**1,070**	**259**	**734**
Other Revenue Reestimates				
Bank Settlement	219	- - -	- - -	- - -
Proceeds from Sale of City Property	118	- - -	- - -	- - -
Unrestricted Prior-Year Federal Aid	61	- - -	- - -	- - -
All Other	278	73	89	86
Subtotal	**676**	**73**	**89**	**86**
Total Revenue Reestimates	**1,923**	**1,143**	**348**	**820**
Citywide Savings Program				
Agency Actions	867	931	757	720
Health and Hospitals Corporation Reimbursement	371	- - -	- - -	- - -
Debt Service	520	175	286	346
Total	**1,758**	**1,105**	**1,043**	**1,066**
Reserves				
General Reserve	1,105	(150)	- - -	- - -
Capital Stabilization Reserve	250	- - -	- - -	- - -
Disallowances of Federal and State Aid	106	- - -	- - -	- - -
Total	**1,461**	**(150)**	- - -	- - -
Net Cost of Collective Bargaining (C/B)	**(227)**	**(704)**	**(967)**	**(1,444)**
State Budget Impact	**(63)**	**(306)**	**(259)**	**(259)**
Expenditure Reestimates				
New Agency Needs	(872)	(1,203)	(1,022)	(1,046)
Pension Contributions (excluding C/B)	(95)	38	380	439
Retiree Health Benefits Trust	(100)	- - -	- - -	- - -
City Council Initiatives	- - -	(454)	- - -	- - -
Prior Years' Expenses	400	- - -	- - -	- - -
All Other	37	(429)	(155)	(171)
Net Change During FY 2019	**4,221**	**(961)**	**(632)**	**(594)**
Surplus/(Gap)	**$ 4,221**	**$ (4,221)**	**$ (3,521)**	**$ (2,879)**
Surplus Transfer	(4,221)	4,221	- - -	- - -
Projected Gaps Per June 2019 Plan	**$ - - -**	**$ - - -**	**$ (3,521)**	**$ (2,879)**

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

IV. State and Federal Actions

1. State Budget

The enacted State budget for SFY 2019-2020 includes actions that will increase the City's costs and create new unfunded mandates. In total, the City estimates that these actions will cost $306 million in FY 2020 (see Figure 10), and similar amounts in subsequent years.

FIGURE 10
City Assessment of State Budget Impact
(City funds in millions) Better (Worse)

	FY 2020
School Aid	$ (25)
Cost Shifts	(185)
Election Reforms	(96)
Net Change	**$ (306)**

Source: NYC Office of Management and Budget

The State budget increased education aid to the City by $373 million (3.4 percent) in FY 2020, but the increase was $25 million less than anticipated by the City in its February Plan. The State also extended mayoral control over the City's schools for another three years.

The State budget excludes a proposal made by the Governor that would have required the City to dedicate an amount equal to up to 75 percent of the increase in State foundation aid to underfunded high-need schools. Instead, it requires certain school districts, including New York City, to prioritize funding for underfunded high-need schools beginning with the 2019-2020 school year. It also requires a report to the State Department of Education on how the district effectuated the appropriate level of funding for such schools.

The State budget includes two initiatives proposed by the Governor that shift a greater share of the financial responsibility for two programs to the City. For example, the City is now required to fund 10 percent of the cost of the Family Assistance program at a cost of $63 million in FY 2019 and $125 million annually thereafter. The State also reduced its reimbursement rate for certain public health programs to 20 percent from 36 percent, increasing the City's costs by $59 million annually beginning in FY 2020.

In addition, the State now requires local election districts to allow early voting for nine consecutive days through the Sunday before Election Day, and to consolidate federal, state and local primary elections into a single June election.

The June Plan includes $96 million to permit early voting at a minimum of 100 polling places and to implement other reforms. The New York City Board of Elections initially approved only 38 sites in April 2019, but added another 19 sites a few weeks later for a total of 57 early voting sites. The State also requires public and private sector employees to receive up to three hours of paid leave to vote.

Last year, the State budget required the City to match the State's $50 million capital contribution to the Hudson River Park for SFY 2018-2019. This year's budget requires the City to match the State's capital contribution of $23 million.

The State also raised taxes and fees in New York City to help fund the capital program of the Metropolitan Transportation Authority (MTA). Internet marketplace providers are now required to collect State and local sales taxes from third-party sellers that use their platforms. The State also increased transaction taxes on certain properties in New York City. In addition, the State authorized the MTA and the City's Department of Transportation to impose tolls on vehicles entering the central business district in Manhattan (for more detail, see Section IX, "Semi-Autonomous Entities").

2. Federal Budget

On July 22, 2019, Congressional leaders reached a two-year budget agreement to suspend the debt limit through July 2021, increase the cap on defense and nondefense discretionary spending and rescind the automatic spending cuts required by the Budget Control Act of 2011.

Under the agreement, discretionary spending for federal fiscal years (FFY) 2020 and 2021 would exceed the FFY 2019 level by about $50 billion. However, a portion of the increase is dedicated to the Department of Veterans Affairs and the 2020 Census. As a result, only a relatively small amount will be available to increase funding for other nondefense discretionary programs.

The budget agreement also calls for $77 billion in cost-reduction and revenue actions, which have not yet been fully identified. Congress still needs to pass appropriation bills before the impact on individual programs can be determined. Although the agreement greatly reduces the short-term risk of federal budget cuts to the City, the long-term risk remains.

As a result of the changes in federal tax policy and increased federal spending, the federal budget deficit is approaching $1 trillion. The combination of economic stimulus and growing budget deficits could make it more expensive to service the federal debt, leaving fewer resources for entitlement and other federal programs, especially if interest rates were to rise from their historic lows.

V. Citywide Savings Program

In November 2018, the Mayor announced a citywide savings program that was designed to generate $1.3 billion during fiscal years 2019 through 2023. The program was expanded in February, April and again in June, and is now expected to generate $1.8 billion in FY 2019 and about $1 billion in each subsequent year. It would also reduce planned staffing by 3,400 positions by the end of FY 2020 (see Figure 11).

The mayoral agencies will contribute $867 million in FY 2019, $931 million in FY 2020, and smaller amounts in subsequent years. Efficiencies will generate more than $480 million annually beginning in FY 2020 by eliminating vacant positions, shifting financial responsibility from the City to the State and federal governments, and implementing revenue-generating actions (e.g., higher fines and fees).

Reestimates will produce $736 million in FY 2019, though more than three-quarters of that amount will come from nonrecurring actions. More than one-quarter of the savings in FY 2020 will come from eliminating a reserve to offset the impact of inflation on certain administrative costs. Service reductions (e.g., eliminating extended learning time at Renewal and Rise schools) will generate only a small amount of savings.

The Department of Education has the largest program, valued at $255 million in FY 2020. Almost one-third of these savings will come from consolidating certain administrative functions.

The uniformed agencies will contribute $166 million in FY 2020, with half of that amount coming from the Department of Correction, mostly from unspecified personal service savings and consolidating facilities at Rikers Island.

An improved short-term financial outlook at the Health and Hospitals Corporation will allow the Corporation to reimburse the City for costs it paid on the Corporation's behalf in prior years, mostly debt service and medical malpractice claims.

Debt service is expected to be lower than previously planned by $520 million in FY 2019 and $1 billion through FY 2023. These savings represent one-quarter of the program's five-year value. Most of the savings will come from delays in planned capital expenditures during fiscal years 2019 through 2022, refinancing debt at lower interest rates, and from lower-cost variable-rate debt.

Nearly all of the initiatives in the citywide savings program are within the City's control to implement. However, some require the cooperation of third parties. For example, the Department of Education anticipates that the federal government will approve Medicaid reimbursement for transportation services provided to students with disabilities ($20 million annually beginning in FY 2020). The department will need to obtain State approval before a claim can be made to the federal government.

FIGURE 11
Citywide Savings Program
(in millions)

	Positions	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
Mayoral Agencies							
Efficiencies	(3,385)	131	506	482	480	484	2,083
Reestimates	(15)	736	405	252	218	233	1,844
Service Reductions	- - -	- - -	19	22	22	22	86
Subtotal	**(3,400)**	**867**	**931**	**757**	**720**	**740**	**4,014**
Health and Hospitals Corp.	**- - -**	371	**- - -**	**- - -**	**- - -**	**- - -**	**371**
Debt Service	**- - -**	520	175	286	346	236	**1,562**
Total	**(3,400)**	**1,758**	**1,105**	**1,043**	**1,066**	**976**	**5,948**

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

VI. Revenue Trends

The June Plan assumes that total revenues (including federal and State categorical aid) will decline by 0.7 percent to $92.8 billion in FY 2020. Locally generated revenues (i.e., City funds) are projected to increase by 1.5 percent to $68.5 billion (see Appendix A).

Tax collections were affected during fiscal years 2018 and 2019 as taxpayers adjusted to changes to federal law. Collections increased by 8.1 percent in FY 2018, boosted by a surge in personal income tax collections as taxpayers shifted income into calendar year 2017 in response to limitations on deductions that would take effect in 2018 and a requirement to repatriate overseas income. Large increases in capital gains and higher Wall Street bonuses also contributed to the growth.

With the loss of income that was shifted into 2018, plus lower bonuses and capital gains, tax collections increased by 3.7 percent in FY 2019. Despite the slower growth, tax collections exceeded the City's conservative forecast at the beginning of the fiscal year by $1.2 billion.

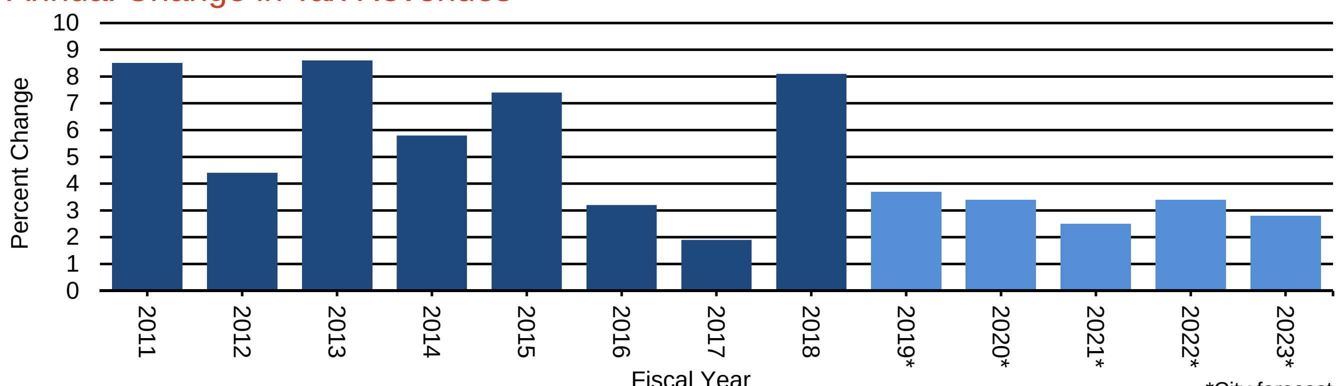
The June Plan assumes that tax collections will continue to grow at about the same pace as in FY 2019 (see Figure 12). This rate of growth (averaging 3.0 percent annually during fiscal years 2020 through 2023) is about half the average rate of growth during fiscal years 2011 through 2017 (5.7 percent).

The slower rate of growth is most noticeable in the nonproperty taxes, particularly the personal income, business and real estate transaction taxes, in fiscal years 2020 and 2021. Overall, average annual growth in the nonproperty taxes (1.8 percent) during fiscal years 2020 through 2023 is less than half the rate for the property tax (4.5 percent). As a result, the property tax will become a more important source of revenue, accounting for two-thirds of the projected growth in tax collections during the financial plan period, compared to nearly half of the increase during fiscal years 2011 through 2019.

The City's revenue forecasts are appropriately conservative given the increased likelihood of an economic setback in the coming years. Currently, however, growth in the City's economy remains strong. OSC therefore expects tax collections to exceed the City's expectations by $300 million in FY 2020 based on current trends. This increase will boost the base for these taxes by similar amounts in subsequent years. In addition, current trends suggest miscellaneous revenues are likely to exceed the City's forecast by $125 million annually beginning in FY 2020.

FIGURE 12

Annual Change in Tax Revenues

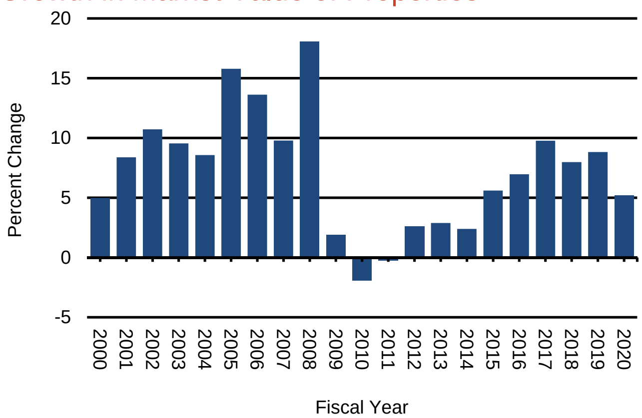


Sources: NYC Department of Finance; OSC analysis

1. General Property Tax

The final property tax roll for FY 2020 shows that the market value of all properties in New York City increased by 5.2 percent, the slowest rate of growth in six years (see Figure 13). Despite the slower growth, market values reached a record of more than $1.3 trillion. Based on these values, the City expects property tax collections to increase by 6.7 percent in FY 2020.

FIGURE 13
Growth in Market Value of Properties



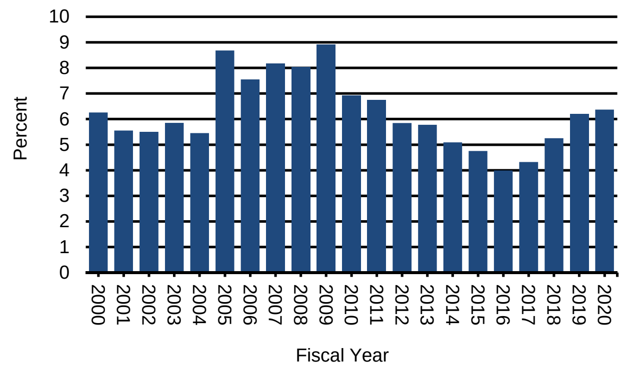
Sources: NYC Department of Finance; OSC analysis

The June Plan assumes that interest rates will increase and hold down the growth in property values in subsequent years, especially for large residential and commercial properties. However, the Federal Reserve has lowered short-term rates and has indicated that it may reduce rates further if the economy weakens.

While lower interest rates could allow property values and tax collections to grow faster than assumed in the June Plan, a weaker economy could reduce investment and demand. However, the pipeline of prior increases in property values that are being phased in will support growth even if the economy weakens.[4] The June Plan assumes the growth in property tax collections will slow to an average of 3.8 percent during fiscal years 2021 through 2023.

The City's reserve for delinquencies, refunds and tax abatements has been growing in recent years and is forecast to total $1.8 billion in FY 2019, the highest level on record. The reserve represents 6.2 percent of the total amount of property tax levied in FY 2019, the highest share since FY 2011 (see Figure 14).

FIGURE 14
Reserve as a Share of Property Tax Levied



Sources: NYC Department of Finance; OSC analysis

FY 2019 was also the first year since FY 2007 that the City added to the reserve ($44 million) as the year progressed in response to weaker collections. In each of the prior five fiscal years, the City reduced the reserve by an average of $455 million, freeing up resources for other purposes. While not yet fully understood, the City speculates that the weakness may have resulted from higher-than-expected abatements, which account for more than half the reserve.

The June Plan includes a reserve for delinquencies of more than $2 billion in FY 2020, representing 6.4 percent of the amount levied. As more information becomes available, the actual amount needed in FY 2020 will become clearer.

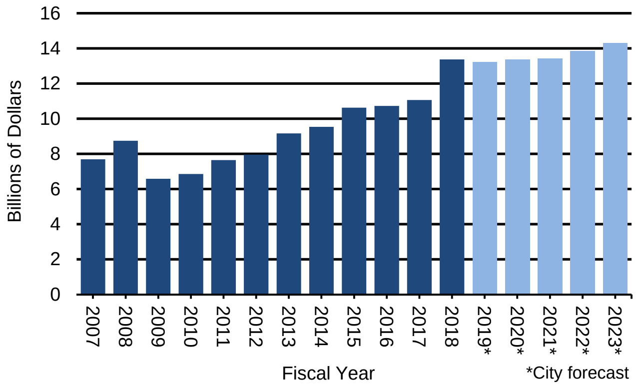
---

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

2. Personal Income Tax

Personal income tax collections surged in FY 2018 (by 15.8 percent) but then declined by $148 million in FY 2019, the first decline in a decade (see Figure 15).[5] Collection trends were disrupted in fiscal years 2018 and 2019 by several factors, including changes in federal tax policies that affected taxpayer behavior, and swings in Wall Street bonuses and capital gains. As a result, the decline in FY 2019 is not a sign of economic weakness or of future trends.

FIGURE 15
Personal Income Tax Collections



Sources: NYC Comptroller; NYC Office of Management and Budget

Although personal income tax collections are projected to resume growing in FY 2020, the June Plan projects an increase of only 1 percent, much less than the average of 7.1 percent during fiscal years 2010 through 2017.

One major unknown that will affect fiscal years 2020 and beyond is whether the new federal tax code has permanently altered payment patterns for estimated payments, the component of the tax that affects nonwage income. During FY 2019, payments that had traditionally been made in December and January appeared to have been shifted to the following April, as the new limits on deductibility for state and local taxes reduced taxpayer incentives to make early payments.

However, it will be some time before it is clear whether other factors also affected estimated payments in FY 2019. The June Plan forecasts no growth in estimated payments in FY 2020 based on an expectation of only a small increase in capital gains during calendar year 2019. The strength in the financial markets during the first half of calendar year 2019, however, could help to boost the growth in capital gains.

Three-quarters of net personal income tax collections come from withholding (i.e., the amount of tax taken from employees' paychecks). The June Plan assumes that job and wage growth will slow slightly in calendar year 2019, yielding withholding growth of 4.5 percent in FY 2020, compared with an average of 5.9 percent during fiscal years 2011 through 2019.

Although the risk of a national recession has grown, job growth in New York City remains strong. Based on current trends, OSC believes withholding could exceed the City's forecasts by $100 million in FY 2020, which will raise the base for collections by a similar amount in subsequent years.

The State administers the City's personal income tax and remits to the City an estimate of its share each month. As the year progresses, the State makes adjustment payments based on a review of taxpayer patterns. The June Plan assumes payments will decline by $197 million in FY 2020. The State budget, however, assumes that these payments will continue to grow during the financial plan period. As a result, OSC expects State distribution payments to be higher by at least $150 million annually beginning in FY 2020.

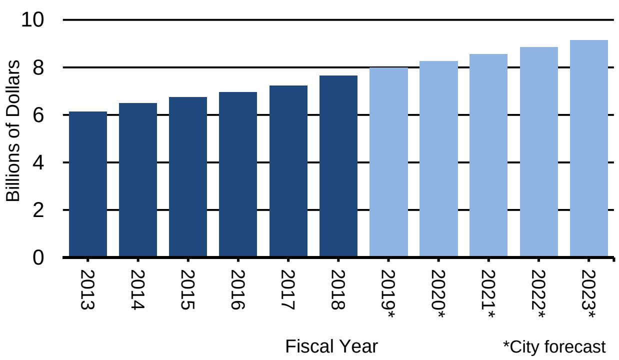
[5] The growth in personal income tax collections has been adjusted for changes in the administration of the New York State School Tax Relief Program.

3. Sales Tax

Strong consumer confidence, a solid job market, wage gains and increasing tourism were responsible for increasing sales tax collections by 5.9 percent in FY 2018, the strongest rate of growth in five years.[6] While these factors continued to contribute to growth in FY 2019, the rate of growth slowed to an estimated 4.5 percent.

The June Plan assumes collections will slow further to 3.5 percent in FY 2020, reaching $8.3 billion (see Figure 16). The number of visitors to the City is expected to set a new record in calendar year 2019 (67.1 million), but the City also expects job and wage growth to ease somewhat that year. Although increased trade tensions and slower global economic growth could hold down international tourism, OSC expects collections to exceed the City's estimates by $50 million annually beginning in FY 2020 based on current trends in job growth.

FIGURE 16
Sales Tax Collections



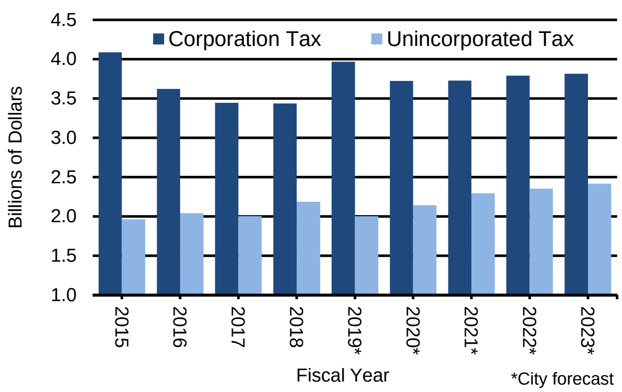
Note: Adjusted for STARC repayments in fiscal years 2016-2019.
Sources: NYC Office of Management and Budget; OSC analysis

A provision in the enacted New York State budget for SFY 2019-2020 requires internet marketplace providers (such as Amazon and eBay) to collect sales taxes from third-party sellers that use their platforms. Although City residents will pay these taxes, the City's budget is not expected to benefit. Pursuant to State law, the State Comptroller will transfer the amounts expected from this initiative to a lockbox dedicated to the MTA's capital program.

4. Business Taxes

The City levies two business taxes: the business corporation tax and the unincorporated business tax. The business corporation tax was created in April 2015 through State legislation that combined the City's banking and general corporation taxes. The change was intended to be revenue-neutral, but collections declined and fell short of expectations. Collections in FY 2019, however, rebounded, increasing by 15.4 percent to reach nearly $4 billion, the highest level in four years (see Figure 17).

FIGURE 17
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The June Plan assumes that collections from the business corporation tax will decline by 6.2 percent in FY 2020 on the assumption that securities industry profits will drop by 21 percent in 2019. For the remainder of the financial plan period, the City expects growth to resume, albeit slowly, as securities industry profits fall somewhat further before stabilizing.

[6] Sales tax growth rates are adjusted to account for the State's recoup of savings to the City from refinancing bonds of the Sales Tax Asset Receivable Corporation.

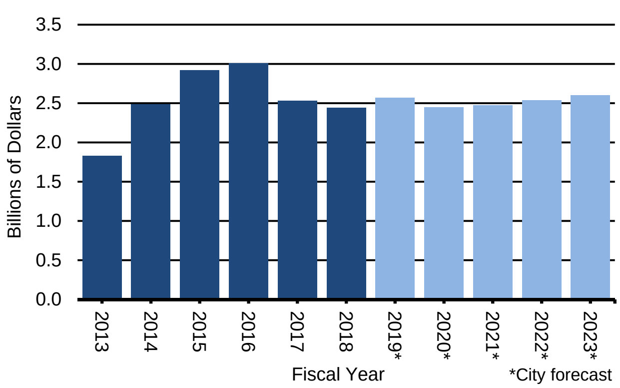
Collections from the unincorporated business tax, which had shown strong growth in FY 2018, declined by 8.5 percent in FY 2019. The City expects collections to rebound in fiscal years 2020 and 2021, growing by more than 7 percent annually, on the assumption that the hedge fund industry will recover in 2019. The June Plan assumes collections will increase at an average annual rate of 2.6 percent during the balance of the financial plan period.

5. Real Estate Transaction Taxes

After declining for two consecutive years, transaction tax collections (from the real property transfer tax and the mortgage recording tax) increased by 5.5 percent in FY 2019.

Data from the NYC Department of Finance indicates that commercial activity was stronger than residential activity in FY 2019. However, residential sales picked up considerably in the final months of the year for high-priced properties in excess of $20 million. Real estate brokers reported heightened activity in advance of tax increases on transactions involving high-value properties to benefit the MTA, which took effect on July 1, 2019 (see Section IX, "Semi-Autonomous Entities").

FIGURE 18
Real Estate Transaction Taxes



Sources: NYC Office of Management and Budget; OSC analysis

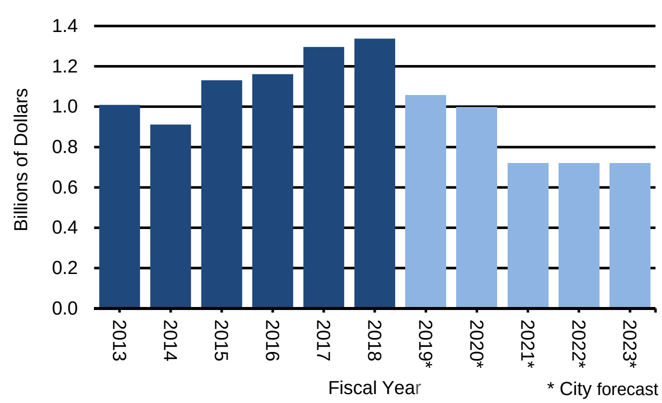
The June Plan assumes that transaction tax collections will decline by 4.9 percent or $127 million in FY 2020, to $2.4 billion (see Figure 18). While the value of residential transactions are projected to increase by more than 9 percent, commercial transactions are expected to decline by 10 percent. Modest growth (averaging 2.1 percent annually) is expected to resume in subsequent years.

Although commercial activity remains strong going into FY 2020, the higher transaction taxes on sales of high-priced residential property is expected to impact transactions in FY 2020 (as many sales were accelerated into FY 2019). New federal tax laws that limit the deductibility of state and local taxes may also slow down residential activity.

6. Audit Revenues

Each year, the Department of Finance conducts audits of individuals and businesses to ensure compliance with the tax code. In FY 2018, audit revenue set a record of more than $1.3 billion (see Figure 19), driven by business tax audits, but then collections declined by $280 million in FY 2019 to $1.1 billion.

FIGURE 19
Audit Revenue



Source: NYC Office of Management and Budget

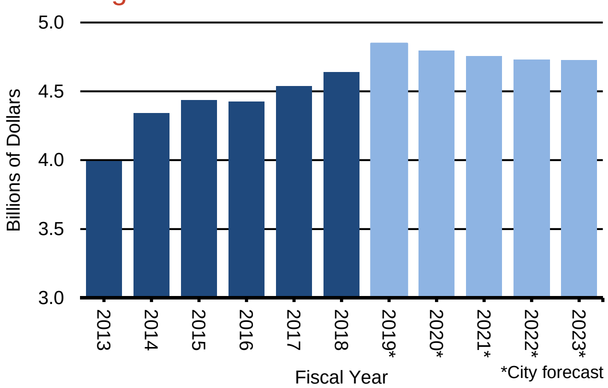
The June Plan assumes collections will decline further in FY 2020, although only slightly. However, it assumes collections will fall sharply in FY 2021, averaging $721 million during fiscal years 2021 through 2023, the lowest level since FY 2005. Thus, it is likely that audit revenue will exceed the City's estimates for these years.

7. Miscellaneous Revenues

The June Plan assumes that miscellaneous revenues, which reached $5.9 billion in FY 2019 on the strength of several one-time items, will decline by 12.9 percent in FY 2020 to $5.1 billion and then remain at about that level during fiscal years 2021 through 2023.

Recurring revenues (i.e., licenses, fines, forfeitures and charges for services) represent the bulk of collections (more than 80 percent), and have increased steadily in recent years. The June Plan assumes that recurring miscellaneous revenues, which grew sharply in FY 2019 to reach more than $4.8 billion, will decline slightly in FY 2020 (by 1 percent) and continue to decline slowly in subsequent years (see Figure 20).

FIGURE 20
Recurring Miscellaneous Revenues



Note: Recurring revenue includes fines, fees, forfeitures and licenses.
Sources: NYC Office of Management and Budget; OSC analysis

Growth in recurring miscellaneous revenues averaged 3.3 percent annually during fiscal years 2014 through 2019, and collections exceeded the City's initial estimates by an average of $275 million annually during these years. Assuming recent growth trends continue into FY 2020, OSC believes miscellaneous revenues could exceed the City's forecast by at least $125 million (with the base for collections raised by a comparable amount in subsequent years).

VII. Expenditure Trends

Expenditures are projected to total $92.8 billion in FY 2020, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) is expected to total $68.5 billion. After adjusting for surplus transfers, City-funded spending is projected to total $72.8 billion.

Over the past 10 years, City-funded spending has increased by 57 percent, more than three times faster than the local inflation rate. This represents an increase of $24.5 billion since FY 2009, with nearly one-third of the increase devoted to the Department of Education.

The balance of the increase was mostly concentrated in the uniformed agencies and social service agencies, such as the Department of Homeless Services. There has also been a large increase in debt service (35 percent) to finance the capital program.

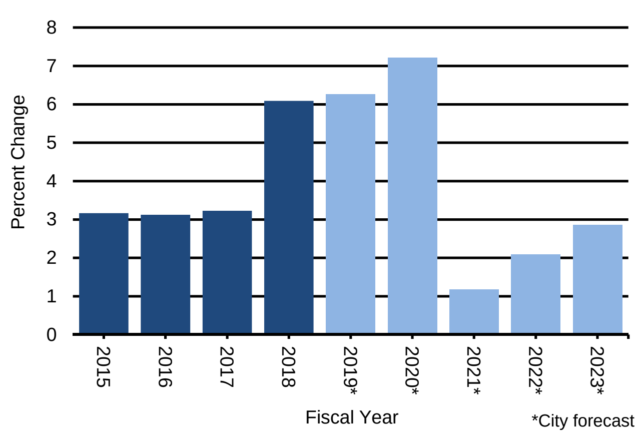
After averaging 3.2 percent during fiscal years 2015 through 2017, City-funded spending increased by 6.1 percent in FY 2018 and is forecast to increase at a similar rate (6.3 percent) in FY 2019 (see Figure 21). The June Plan projects a 7.2 percent increase in City-funded spending in FY 2020, although the growth rate would be reduced to 5.2 percent if $1.4 billion in reserves are not needed to cover unplanned spending.

City-funded spending is driven in FY 2020 by costs associated with the current round of collective bargaining, projected increases in health insurance and debt service costs, and higher personal service costs (see Appendix B).

Since FY 2012, the City's full-time work force has grown by 30,947 employees (see Figure 22), reaching 298,370 in June 2018. This includes a record 250,105 employees funded exclusively by the City. This was the highest annual level since the 1975 fiscal crisis (for more detail, see Appendix C).

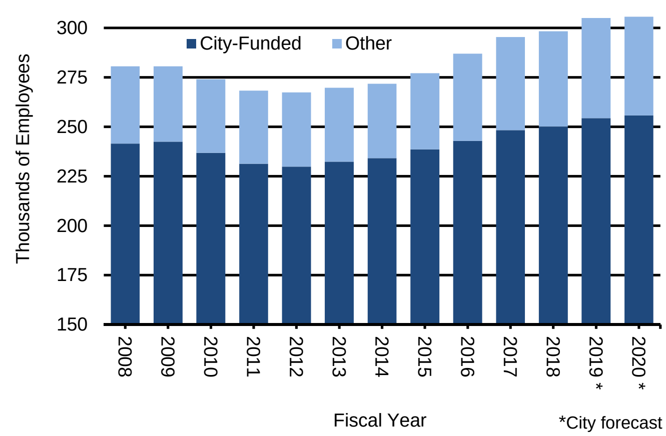
In FY 2019, the City continued to increase the size of its work force. As of April 2019, the City had added 1,985 employees and it planned to add another 4,722 by June 30, 2019. Many of these positions, however, are still vacant and are likely to remain so, as they have in the past. Nonetheless, the June Plan assumes that full-time staffing levels will reach 305,622 by the end of FY 2020, a new record. The portion funded by the City would reach 255,796, also a new record.

FIGURE 21
Growth in City-Funded Expenditures



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

FIGURE 22
Full-Time Staffing Levels



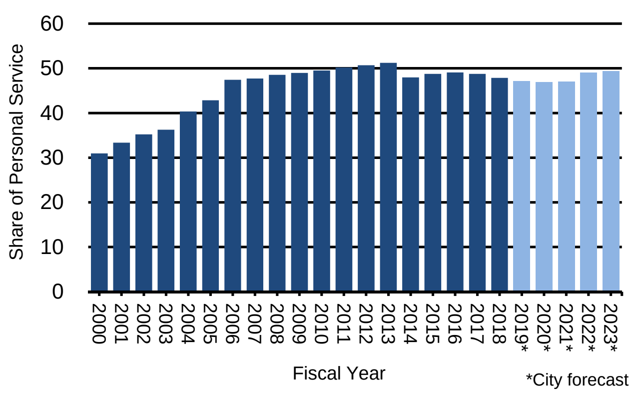
Sources: NYC Office of Management and Budget; OSC analysis

Personal service costs (i.e., costs associated with the municipal work force) represent more than half of City-funded expenditures. Between fiscal years 2000 and 2013, employee fringe benefits accounted for an increasing share of these costs (see Figure 23). By FY 2013, fringe benefits made up 51 percent of personal service costs. The growth was driven by higher pension contributions and health insurance costs.

In recent years, fringe benefits have grown more slowly. The slower growth reflects national trends in health insurance premiums and an agreement between the City and the Municipal Labor Committee to generate health insurance savings to help pay for wage increases. It also reflects the lower cost of pension plans for employees hired after March 31, 2012, and better-than-expected investment earnings.

Fringe benefits are projected to account for 47 percent of personal service costs during fiscal years 2019 through 2021, four percentage points less than in FY 2013. The share is projected to increase to 49 percent beginning in FY 2022, lower than the FY 2013 peak.

FIGURE 23
Fringe Benefits as a Share of Personal Service Costs



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

1. Collective Bargaining

As of July 2019, almost two-thirds of the municipal work force had reached new labor agreements with the City for the 2017-2021 round of bargaining. In August 2018, the rank-and-file members of District Council 37 (DC 37), which represents about one-quarter of the municipal work force, approved an agreement that calls for wages to increase by 7.4 percent (compounded) over a 44-month period.[7]

In October 2018, the rank-and-file members of the United Federation of Teachers (UFT), which represents more than one-third of the municipal work force, approved a similar agreement. The UFT agreement also includes financial incentives ($5,000 to $8,000 annually) for members who transfer to hard-to-staff positions at high-need schools.

The City has a long history of pattern bargaining, and it expects the agreements with DC 37 and the UFT to set the framework for negotiations with the remainder of the municipal work force for the 2017-2021 round of negotiation. According to the City, similar wage agreements with the entire work force would cost $8.8 billion during fiscal years 2018 through 2022.

At the same time the City announced the agreement with DC 37, it announced that it had reached a second agreement with the Municipal Labor Committee (MLC) to generate health insurance savings to fund wage increases. The June Plan assumes that the latest agreement will have generated savings of $200 million in FY 2019, and will generate $300 million in FY 2020 and $600 million in FY 2021, plus recurring savings of $633 million beginning in FY 2022.[8]

7 The first wage increase of 2 percent, retroactive to September 2017, was paid shortly after the agreement was ratified. The second wage increase of 2.25 percent was paid in October 2018. The agreement also calls for a wage increase of 3 percent in October 2019. In addition, the pattern provides funding equal to 0.25 percent of wages to be used to fund benefit items.

8 The MLC agreement calls for recurring savings of $600 million beginning in FY 2022.

FIGURE 24

Budgetary Impact of Pattern Labor Settlements

(in millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Pattern Cost (2017-2021 Contract Period)	**$ (255)**	**$ (781)**	**$ (1,730)**	**$ (2,657)**	**$ (3,390)**
Offsets					
Labor Reserve	113	354	726	1,128	1,413
Anticipated Health Insurance Savings	- - -	200	300	600	633
Total Offsets	**113**	**554**	**1,026**	**1,728**	**2,046**
Net Budgetary Impact	**$ (142)**	**$ (227)**	**$ (704)**	**$ (929)**	**$ (1,344)**

Sources: NYC Office of Management and Budget; OSC analysis

According to the agreement, the savings are guaranteed and are enforceable through arbitration. In addition, the annual savings targets could be met with nonrecurring savings that may include drawing down resources from the health stabilization fund, which currently has a balance of $1.6 billion.

A committee including representatives from the City and the MLC, plus an independent arbitrator, has been established to recommend modifications in the way health care is currently provided or funded.

After taking into account the savings anticipated in the health insurance agreement and funding that was previously set aside in the City's labor reserve, the net cost of the 2017-2021 round of bargaining would grow from $142 million in FY 2018 to $1.3 billion in FY 2022 (see Figure 24). These costs are in addition to those incurred from the 2010-2017 round of bargaining.

None of the unions that represent uniformed employees have reached new agreements with the City. In March 2018, the Patrolmen's Benevolent Association (PBA), which represents police officers, filed a petition with the New York State Public Employment Relations Board requesting the appointment of a three-member arbitration panel. Although the panel has been selected, the proceedings have been delayed pending the outcome of a lawsuit by the PBA objecting to the City's appointment to the panel. According to State law, arbitration awards for disputes between the City and police officers are binding on both parties and limited to two years.

2. Health Insurance

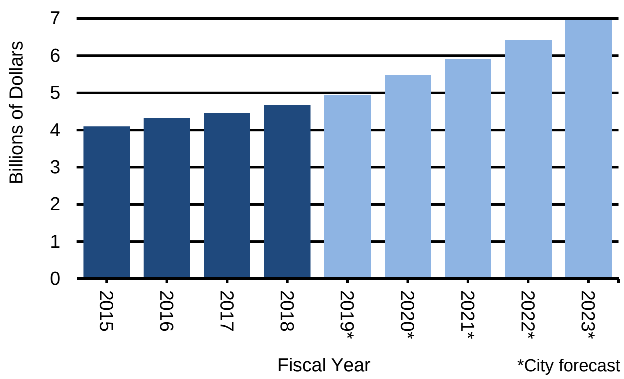
In May 2014, the City and the MLC reached the first of two agreements to generate health insurance savings to help fund wage increases for municipal employees. Under the first agreement, the City and the unions agreed to generate $3.4 billion during fiscal years 2015 through 2018, and $1.3 billion in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

In October 2018, the Commissioner of Labor Relations reported that the City exceeded the cumulative four-year target by $86 million. These savings were credited toward the second health insurance savings agreement that was announced in June 2018.

More than three-quarters of the cumulative savings from the first agreement came from lower-than-planned increases in health insurance premiums and other administrative actions. Cost-containment initiatives accounted for one-fifth of the savings ($723 million), mostly from higher co-payments.

In total, 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. Despite these agreements, health insurance costs are projected to reach $7 billion in FY 2023 (see Figure 25), 49 percent more than in FY 2018.

FIGURE 25
Health Insurance Costs
City-Funded



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

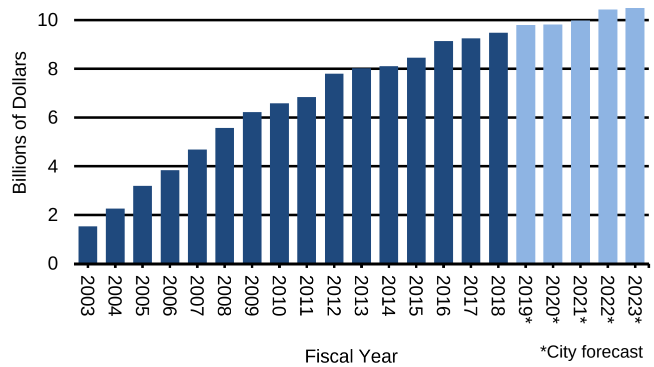
In December 2018, the Commissioner of the Office of Labor Relations announced that the City had reached agreement with its primary insurer to increase health insurance premiums for active employees by 3.5 percent in FY 2020 and by 3 percent in FY 2021. The increases are about half of those the City had anticipated, which will generate significant savings that will be credited against the savings targets in the second agreement.

3. Pension Contributions

After rising rapidly between fiscal years 2003 and 2012, the growth in City-funded pension contributions slowed, averaging 3.3 percent annually through FY 2018. The slower rate of growth reflected the impact of changes in assumptions and methodologies used to calculate City pension contributions, savings from lower-cost pension plans for employees hired after March 31, 2012, and better-than-expected investment earnings.[9]

As shown in Figure 26, the June Plan assumes that pension contributions will continue to grow slowly in fiscal years 2019 through 2021, but

FIGURE 26
Pension Contributions
City-Funded



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

then pick up beginning in FY 2022, reflecting the impact of labor agreements for the 2017-2021 round of bargaining. By FY 2023, pension contributions are projected to total $10.5 billion.

The June Plan includes changes in pension contributions resulting from an updated actuarial valuation, as well as a number of technical adjustments. The valuation update incorporates savings from better-than-expected pension fund investment earnings in FY 2018. It also reflects higher pension contributions from a calculation error, and changes in assumptions and methods recommended by the City Actuary based on the findings of an independent actuarial consultant.

The February Plan included pension reserves of $100 million in each of fiscal years 2019 and 2020, rising to $400 million beginning in FY 2021 for such contingencies. After accounting for the changes discussed above, the City eliminated the reserve in fiscal years 2019 through 2021, and reduced the reserves in the next two fiscal years, leaving a balance of $200 million in FY 2022 and $275 million in FY 2023 to fund future changes that may result from the next biennial independent review of the City's pension systems as mandated by the City Charter.

9 The pension funds have earned, on average, 8 percent on their investments since the earnings assumptions were lowered to 7 percent beginning in FY 2012.

Although the financial markets were volatile during much of FY 2019, the City Comptroller estimates that the pension systems earned 7.25 percent on their investments. As a result, pension contributions could be slightly lower than planned during fiscal years 2021 through 2023.

In the five years since the City adopted new, more transparent financial reporting standards for pension liabilities in FY 2014, the financial condition of the City's five actuarial pension systems has improved. In the aggregate, the pension systems had enough assets on hand to fund (on a market-value basis) 76 percent of their accrued pension liabilities at the end of FY 2018 (see Figure 27). Since FY 2014, the unfunded net liability for all five systems declined by $12.1 billion to $47.8 billion.

FIGURE 27
Funded Status of the NYC Retirement Systems
(As of June 30, 2018)

Pension System	Funded Status
Board of Education Retirement System	90%
Police Pension Fund	79%
New York City Employees' Retirement System	78%
Teachers' Retirement System	74%
Fire Pension Fund	65%
All Systems	**76%**

Sources: NYC Retirement Systems; NYC Comptroller; OSC analysis

4. Debt Service

City-funded debt service increased at an average annual rate of only 0.4 percent during fiscal years 2015 through 2018 because of historically low interest rates that reduced the cost of new issuances and created opportunities to refinance outstanding debt. During the past five fiscal years, debt service was lower than the City's estimates at the beginning of the fiscal year by an average of $534 million annually.

In April 2019, the City released its biennial ten-year capital strategy, which totals $116.9 billion, the largest on record. The strategy is 22 percent larger than the one released two years ago, with most of the increase concentrated in correction, education, the environment and housing. The City will fund $110.7 billion ($21.8 billion more than two years ago), with the balance funded by the federal and State governments.

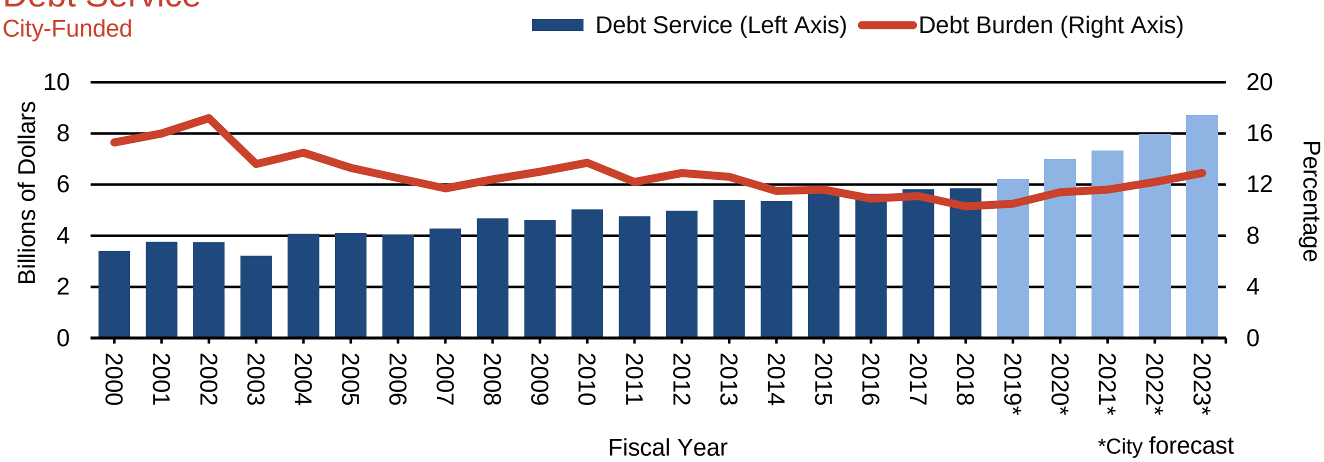
The June Plan assumes debt service will grow by 12.7 percent in FY 2020 and will reach $8.7 billion by FY 2023 (see Figure 28), 49 percent higher than in FY 2018. However, debt service may grow more slowly because interest rates remain low and the agencies have historically fallen short of their annual capital commitment targets. Thus, OSC estimates savings of $100 million in FY 2020.

In FY 2019, City-funded commitments are projected to total $10.4 billion, 19 percent less than expected at the beginning of the fiscal year. So far, through May 2019, the City has committed only $8.7 billion. Still, the City expects commitments to total $14.6 billion by FY 2020, which appears optimistic given current trends.

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 10.3 percent in FY 2018. Although the June Plan assumes that the burden will reach 12.9 percent by FY 2023, this estimate is based on conservative assumptions (e.g., capital expenditures).

Although debt service is projected to account for a larger share of tax revenue, the share would remain well below the City's target of 15 percent. 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 City established a capital stabilization reserve in FY 2016. The reserve is valued at $250 million annually during fiscal years 2020 through 2023.

FIGURE 28
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

5. Medical Assistance

Medicaid provides health insurance to low-income children and adults, and pays more toward long-term-care costs than any other source. Medicaid also provides subsidies to health care providers (such as the Health and Hospitals Corporation) that serve large numbers of low-income patients and uninsured patients.

The City's Medicaid caseload grew steadily after the recession and accelerated after January 1, 2014, when Medicaid eligibility expanded under the federal Affordable Care Act (ACA). Enrollment reached almost 3.7 million people in December 2015, an increase of 510,000 people since December 2013.

In January 2016, the caseload fell by 134,000 as the State transferred certain immigrants who were ineligible for federal Medicaid to the Essential Plan (funded by federal and State resources). Since then the Medicaid caseload has gradually declined, to less than 3.5 million as of October 2018 (the latest data available). Of the people enrolled in Medicaid, 80 percent are in managed care plans.

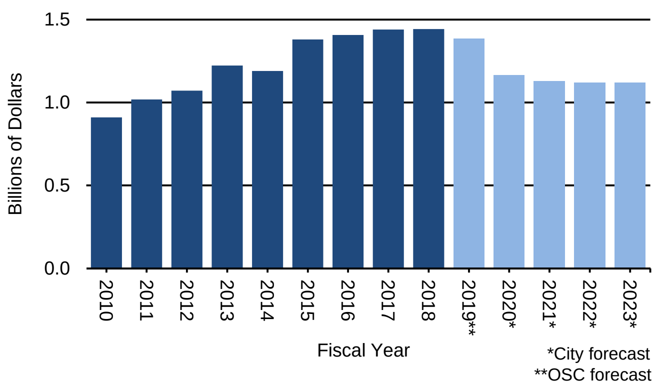
A provision in the ACA increased the federal reimbursement rate to the states that had expanded coverage to certain childless adults prior to the ACA (from 50 percent to 90 percent in 2018). The City's savings have reached $389 million annually, which has been used largely to provide the City with fiscal relief and additional financial support to the Health and Hospitals Corporation. The City will further benefit when the rate increases to 93 percent in 2019. In subsequent years, the rate will return to 90 percent.

The City-funded share of Medicaid will total $5.8 billion in FY 2020 (8 percent of City fund revenues) and remain at that level. In 2015, the State completed a phased takeover of the growth in the local share of Medicaid costs in order to provide budgetary relief to local governments, and this has resulted in estimated savings to the City of $1.7 billion in SFY 2020.

6. Uniformed Agency Overtime

Overtime at the four uniformed agencies accounted for 80 percent of citywide overtime. OSC estimates that overtime at these agencies will total $1.4 billion in FY 2019 (see Figure 29), only slightly less than the record set in FY 2018.

FIGURE 29
Uniformed Agencies Overtime



Sources: NYC Financial Management System; NYC Office of Management and Budget; OSC analysis

The June Plan assumes that overtime will decline to less than $1.2 billion in FY 2020, a drop of more than $200 million, and then remain at that level for the remainder of the financial plan period. However, overtime at the Police and Fire departments appears unlikely to decline as the City anticipates.

The June Plan assumes that the City-funded portion of overtime at the Police Department will total $539 million in FY 2020. OSC estimates that such costs are likely to be higher by $60 million, based on current trends.

The June Plan also assumes that the City-funded portion of overtime at the Fire Department will total $257 million in FY 2020. However, OSC estimates that these costs are likely to be higher by $40 million, based on current trends.

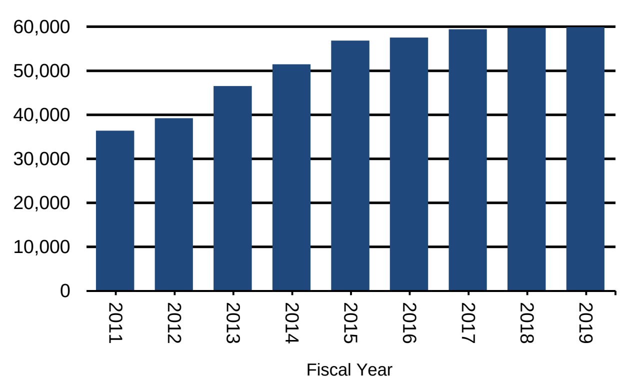
7. Homeless Services

The homeless population in shelters operated by the Department of Homeless Services increased by 64 percent between fiscal years 2011 and 2018, reaching a record of 59,750 (see Figure 30). The caseload is still increasing, although very slowly, and it continues to set new records (averaging 59,900 during FY 2019). The City has had some success reducing enrollment in the family program during FY 2019 (it declined by 2.5 percent), but the single-adult shelter population has continued to increase relatively rapidly (by 8.7 percent).

Costs at the Department of Homeless Services have more than doubled since FY 2011, reaching $2.1 billion in FY 2019. The June Plan assumes that the City-funded cost of homeless services will total almost $1.3 billion in FY 2020, unchanged from FY 2019. However, this assumption may be optimistic given the continued growth in the single-adult shelter population.

In February 2017, the City released a comprehensive plan to end its reliance on costly commercial hotels and cluster sites (i.e., apartments owned by private landlords) by opening 90 new borough-based shelters. Of these new shelters, 23 have been opened, and the City expects to open another 16 in 2019.

FIGURE 30
Homeless Shelter Population



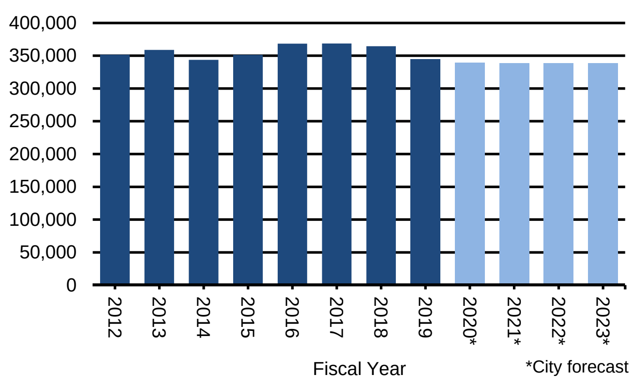
Sources: NYC Department of Homeless Services; OSC analysis

8. Public Assistance

In FY 2019, the public assistance caseload declined by 6 percent to 344,339, the lowest annual level since FY 2014. The June Plan assumes that the caseload will decline slightly in FY 2020 and then average 339,000 in subsequent years (see Figure 31).

The June Plan estimates that public assistance costs will total $1.7 billion in FY 2020 ($855 million in City funds) and will remain relatively constant since the caseload is not expected to change very much. These estimates reflect the higher cost of homeless prevention programs, such as rental subsidies, and a State action that requires the City to fund a larger share of public assistance costs. However, if recent trends hold and the caseload continues to decline, the City could achieve savings.

FIGURE 31
Public Assistance Caseload



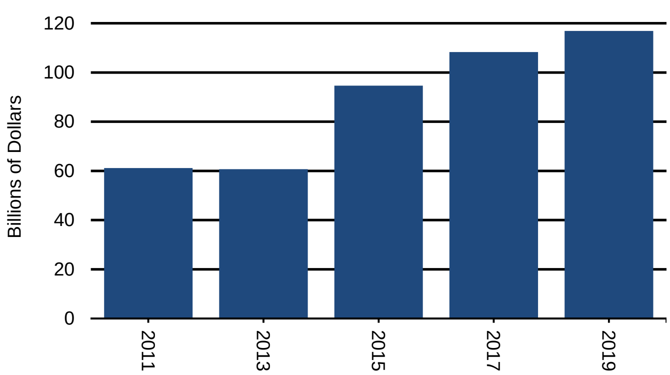
Sources: NYC Human Resources Administration; OSC analysis

VIII. Ten-Year Capital Strategy

In April 2019, the City released its biennial 10-year capital strategy, which totals $116.9 billion. The proposed strategy is 22 percent larger than the strategy released two years ago, with most of the increase concentrated in correction, education, the environment and housing. The City will fund $110.7 billion of the cost ($21.8 billion more than two years ago), with the balance funded by the federal and State governments.

The capital strategy is the largest on record and nearly twice as large (on an inflation-adjusted basis) as the one released in May 2011 (see Figure 32). More than half of the increase has been devoted to housing, correction, transportation and environmental protection

FIGURE 32
Ten-Year Capital Strategies



Note: Totals expressed in 2019 dollars.
Sources: NYC Office of Management and Budget; OSC analysis

More than one-fifth of the capital strategy ($24.1 billion) would be devoted to education, mostly to support the construction of new schools and the rehabilitation and expansion of existing schools ($16.5 billion). The remainder would support emergency repairs, administrative costs, technology upgrades and enhanced security systems ($7.6 billion).

Environmental protection projects ($20.1 billion) focus on maintaining and protecting the City's water supply, including sewers, pollution control, and maintenance and upkeep of the water supply and distribution system. The strategy would allocate nearly $1 billion to complete construction on the City's third water tunnel, which delivers water from upstate reservoirs.

Of the $16.6 billion allocated to transportation, $8.3 billion would support the reconstruction and rehabilitation of bridges, including $2.2 billion for the reconstruction of the triple-cantilevered section of the Brooklyn-Queens Expressway and the East River bridges. Another $6.6 billion would fund street and sidewalk reconstruction, such as resurfacing 6,770 lane miles.

The City has committed to provide the MTA with $2.7 billion for its 2015-2019 capital program, and it has already provided $749 million. The proposed strategy includes an additional $72 million toward the City's commitment. The remainder has not yet been allocated.

Housing projects would receive $12.8 billion, compared with $3.8 billion in the 2011 capital strategy. The largest portion would be used to fund the construction and preservation of affordable and special-needs housing to help reach the City's goal of creating or preserving 300,000 affordable housing units by 2026. The New York City Housing Authority would receive $3 billion for roof replacements, lead abatement, pest mitigation and upgrades to heating components as agreed to by the City under its agreement with the Department of Housing and Urban Development.

The Department of Correction would receive nearly $10 billion, mostly to design and construct new borough-based jail facilities to close the facilities on Rikers Island by 2026. Public safety projects would receive $5.1 billion for the Police and Fire departments and the courts.

IX. Semi-Autonomous Entities

1. Department of Education

New York City has the largest public school system in the nation, serving over 1.1 million students in more than 1,800 schools. The City employs more than 133,000 full-time civilian and pedagogical employees to support these students. Citywide enrollment grew by more than 3 percent between fiscal years 2014 and 2017 before falling by more than 1 percent over the next two years. The City forecasts that both public school enrollment and staffing levels will increase by less than 1 percent in FY 2020.

The June Plan allocates $34 billion to the Department of Education in FY 2020, accounting for 35 percent of the City's budget.[10] This represents a $562 million increase over FY 2019. New York City is expected to fund $19.4 billion (57 percent) of the total cost, with the remainder funded by the State (36 percent) and the federal government and other sources (6 percent).

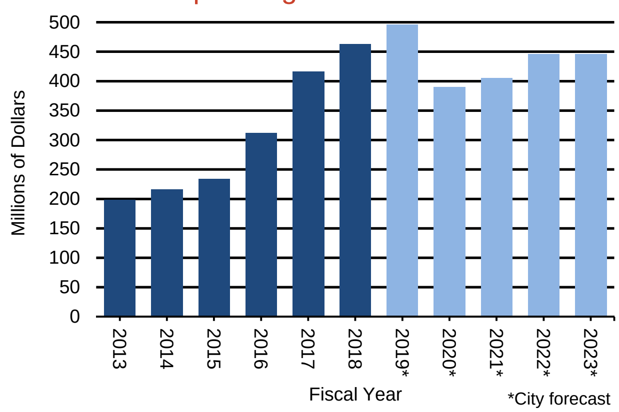
During FY 2019, the City added $320 million in City funds to the department's budget in that year to fund new needs, rising to $399 million in FY 2023. Much of the increase ($203 million in FY 2019 and $102 million annually thereafter) would be used to provide federally mandated services to students with disabilities.

Under federal law, school districts are required to provide appropriate services to students with disabilities through individualized education programs (IEPs). If a district cannot provide the required services itself, it must reimburse parents for private schools and/or outside services that are included in IEPs. Additionally, if a parent challenges a district's evaluation of their child in an IEP, the district may be required by an independent arbiter to fund additional services. These cases are called "Carter" cases after a 1993 U.S. Supreme Court ruling.

The June Plan includes $81 million annually beginning in FY 2020 to allow teams to conduct more timely evaluations of students with special needs and to fund 90 new specialized classes expected to serve approximately 900 students. This investment is intended to improve the City's capacity to provide services that are included in many IEPs, thereby reducing its spending on Carter cases.

The June Plan assumes that the cost of Carter cases will decline by $106 million in FY 2020 to $390 million. However, spending has increased steadily over the past five years (see Figure 33), and the extent to which the new initiative will reduce costs is not yet known. Thus, it is possible that the City could be called upon to increase its funding for Carter cases in FY 2020.

FIGURE 33
Carter Case Spending



Sources: NYC Office of Management and Budget; OSC analysis

The June Plan also includes $88 million annually beginning in FY 2020 to fund an increase in the per-pupil charter-school tuition rate as mandated by State law. However, it does not assume any further increases in subsequent years. The City estimate is that these changes could increase its costs by $150 million in FY 2021, $334 million in FY 2022, and $562 million in FY 2023 if not offset by increases in State education aid. These estimates are preliminary and subject to change.

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

2. Metropolitan Transportation Authority

Two years ago, the Governor declared a transit emergency in response to the sharp deterioration in service on the City's subways, buses and commuter railroads. In response, the MTA implemented a Subway Action Plan (funded equally by the State and the City), which was designed to stop the deterioration and to improve services. The commuter railroads instituted their own corrective action plans.

Since then, service has improved on the subways and the commuter railroads, but problems remain. In addition, the MTA has large funding gaps in both its operating and capital budgets. Subway ridership has fallen for three consecutive years, and the MTA anticipates a further decline in 2019. Fare evasion has increased and is responsible for more than $200 million in lost revenue, according to the MTA.

The State has taken a number of steps in an effort to ensure that the MTA improves its operations. The State directed the MTA to hire an outside firm to review, among other things, fraud, duplication of functions, and options for potential cost efficiencies.

The MTA was also required to develop and complete a reorganization plan by June 30, 2019. On April 17, 2019, the MTA Board approved a contract with Alix Partners (at a cost of $4.1 million) to conduct the review and to develop a reorganization plan.

On July 17, 2019, the MTA released the reorganization plan (called a transformation plan). The transformation plan recommends that the MTA agencies refocus on core safety, operations and maintenance activities, and centralize other functions such as capital program management, engineering, human resources and communications. The transformation plan was approved by the MTA Board on July 24, 2019, and the final plan is expected to be approved by the end of October 2019.

The MTA is also required to appoint a chief transformation officer who will be responsible for implementing the transformation plan. The transformation officer will report directly to the MTA Board. The MTA is not authorized to implement any reforms that would impair the rights of its bondholders or violate any labor agreements.

Also, on July 24, 2019, the MTA released an update to its financial plan (the "July Plan"). The July Plan assumes fares and toll increases of 4 percent in both 2021 and 2023; net transformation plan savings of $230 million in 2020 and $538 million by 2023; and $313 million in 2020 and larger amounts in subsequent years from agency actions. Even if the MTA achieves all of its planned savings and raises fares and tolls as planned, the July Plan shows budget gaps of $26 million in 2021, $281 million in 2022 and $433 million in 2023.

The MTA has warned that if the transformation plan is not fully implemented that it may become necessary to reduce services, institute layoffs, and/or increase fares and tolls more than planned to close the projected budget gaps.

Almost all of the collective bargaining contracts for the MTA's represented employees have expired. (The current contract with the Transport Workers Union, the MTA's largest union, expired on May 15, 2019.) The MTA's financial plan assumes that the next round of collective bargaining agreements will increase wage rates by a net of 2 percent annually. The actual cost of the next term of collective bargaining could be higher (or lower) than assumed by the MTA.

The MTA also has large unfunded capital needs, although the exact magnitude is unknown since the MTA has not yet released its 20-year capital needs assessment for 2020-2039. The president of New York City Transit (which operates the City's subways and buses) had estimated that about $40 billion will be needed over the next 10 years to modernize the subway and bus system.

In recent months, the State has taken a number of actions to generate new sources of capital funding for the MTA. For example, the State authorized the Triborough Bridge and Tunnel Authority (TBTA), an MTA affiliate, to establish a congestion tolling program in Manhattan's Central Business District.[11] Implementation cannot begin before December 31, 2020, and passenger vehicles will not be charged more than once per day.

The TBTA is required to establish a six-member traffic mobility review board to make recommendations to the TBTA Board on the congestion toll amounts (including a variable pricing structure), and credits and discounts that will be available to drivers. The review board will be required to ensure that net revenues will be sufficient to generate $15 billion for the MTA's 2020-2024 capital program, with any remainder available for successor capital programs.

The State also approved an increase in the real estate transfer tax on sales of residential properties in New York City of $3 million or more and sales of other properties in the City of $2 million or more. In addition, the State approved a progressive tax on sales of residential properties in the City totaling $2 million or more (known as the mansion tax). These initiatives, which became effective on July 1, 2019, are expected to generate $374 million in 2020 for the MTA.

In addition, internet marketplace providers are now required to collect State and local sales taxes from third-party sellers that use their platforms. In exchange, the State budget calls for the State and the City to direct a portion of their sales tax collections to the MTA's capital program ($240 million in SFY 2019-20, $320 million in SFY 2020-21 and slightly higher amounts annually thereafter).

The State estimates that these new taxes will support another $10 billion in bonding. Thus, together with congestion pricing, the State has authorized new sources of funding that are expected to generate $25 billion for the 2020-2024 capital program.

The net revenues from congestion pricing, the higher real estate transfer tax, the mansion tax and sales taxes will be deposited in a lockbox dedicated to the MTA's capital program, so the resources cannot be diverted for other purposes.

Under State law, 80 percent of the capital project costs paid from the lockbox will be devoted to projects that benefit New York City Transit, Staten Island Railway and MTA Bus; 10 percent will go to Long Island Rail Road projects; and 10 percent will go to Metro-North Railroad projects.

In addition, the MTA is required by State legislation to contract with a certified public accounting firm, which will conduct an independent comprehensive forensic audit of the MTA capital program, including an examination and accounting of the MTA's capital elements. This review must be completed by January 1, 2020.

The State also mandated that the MTA use the design-build method for construction projects costing more than $25 million, unless it receives a waiver from the State. It must also establish a major construction review unit staffed with in-house and external experts with experience in engineering, design, construction or project management to review all large-scale capital projects before awarding the contracts, including all signal upgrades.

[11] The congestion pricing zone is 60th Street and below, excluding the FDR Drive and State Route 9A, known as the West Side Highway.

The State also lifted the restrictions on where bus lane photo devices can be placed and increased the penalties for bus lane violations. An exception was made on the requirement that board members live within the MTA district so the Governor could appoint the current State budget director to the Board. The MTA will also be required to submit a 20-year capital needs assessment to the Capital Program Review Board (CPRB) every five years starting in 2023.

The MTA is expected to submit a proposed 2020-2024 capital program to the CPRB by the end of September 2019. The combination of new State resources and anticipated federal capital grants is expected to contribute $32 billion to the 2020-2024 capital program. However, until the MTA releases its proposed capital program and a 20-year needs assessment, it remains to be seen how much more funding will be needed.

It also remains unclear how the State will fund its outstanding commitment for the MTA's 2015-2019 capital program. The State budget appropriated the final $1.5 billion installment of the State's $7.3 billion commitment for the MTA's 2015-2019 capital plan, but it has not identified the sources of funding.

The State may elect to meet its commitment through direct payments to the MTA, or it could provide additional recurring revenues to back additional MTA bonding. As a result, it is not possible at this time to assess the impact on taxpayers or the State budget.

State law requires the State to begin making payments only after the MTA has effectively exhausted all other MTA sources of capital funding, or when MTA capital resources planned for the capital program are unavailable, but no later than SFY 2025-26 or the completion of the 2015-2019 capital program.[12]

According to the MTA, it has committed all of its capital resources and has begun to commit up to $3 billion against the State's obligation. Consequently, the MTA will require funding from the State beginning next State fiscal year (2020-2021) to cover the cash cost of these capital commitments.

The City has promised $2.7 billion for the MTA's 2015-2019 capital plan, but has only funded $821 million. The City has indicated that another $600 million will be funded through as-yet unidentified "alternative non tax levy revenue sources." The remaining $1.2 billion will be provided concurrently with additional State funds in accordance with the funding needs of the MTA's capital program.

3. Health and Hospitals Corporation

The Health and Hospitals Corporation provides health and mental health services to more than 1.1 million City residents. The Corporation faces significant challenges, including the declining use of services, a trend that has continued in FY 2019; 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 financial support from $1.1 billion in FY 2014 to $2 billion by FY 2022. Starting in FY 2020, the City will subsidize the Corporation's efforts to register people who are eligible for health insurance and to provide free or low-cost primary care and specialty services to uninsured people.

On May 8, 2019, the Corporation released a revised cash financial plan (the "May Plan"). The Corporation has not released a financial plan on an accrual basis since November 2018, and it has not updated its May Plan.

The May Plan projected a cash balance of $781 million for FY 2019, but the receipt of more than $800 million in supplemental Medicaid

[12] The MTA is authorized to issue bond anticipation notes backed by expected State funding when the MTA has exhausted its own funding sources for the 2015-2019 capital program.

payments was delayed. Despite the delay, the Corporation still ended the year with an estimated cash balance of $775 million. According to Corporation representatives, the delay was mitigated with the help of the City, which prepaid $200 million in expenses and allowed the Corporation to postpone a $300 million payment to the City. In addition, revenues were $300 million higher than expected.

While the Corporation reports progress in improving its billing practices and in reducing staffing, it fell short of its revenue-generating and cost-reduction targets in FY 2019. In addition, the Corporation has begun to hire additional nurses and nursing support staff to address clinical shortages in certain facilities. It also plans to fill additional revenue-generating positions.

The May Plan reflects annual losses that grow from $99 million in FY 2021 to $399 million in FY 2023. As result, the cash balance is projected to decline to $83 million by FY 2023. These estimates assume successful implementation of future gap-closing actions (e.g., $1.6 billion in FY 2021). This presentation obscures the size of the underlying budget gaps and is inconsistent with the presentation of the City's own financial plan. The City changed the presentation of the Corporation's financial plan in October 2016.

The Corporation's estimates also assume that the federal government will move forward with its plan to reduce supplemental Medicaid payments to hospitals on October 1, 2019. These cuts were originally scheduled to take effect on October 1, 2013, but have been repeatedly postponed by Congress. A recent letter from 300 members of the House of Representatives calls for delaying implementation by another two years. If delayed, the Corporation could benefit by $343 million in FY 2020 and $580 million in FY 2021.

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 176,000 apartments that house nearly 400,000 residents, which amounts to 8 percent of the City's rental apartments.

According to NYCHA, federal funds make up 60 percent ($2.1 billion) of NYCHA's operating budget and 86 percent of the portion that is not funded with rent proceeds. As a result of inadequate federal funding coupled with mismanagement, the City's public housing properties have fallen into disrepair.

Currently, NYCHA is not in compliance with a number of federal regulations and is working to assess the extent of noncompliance. On January 31, 2019, NYCHA and the Secretary of the U.S. Department of Housing and Urban Development (HUD) signed an agreement to address a finding by the secretary of a substantial default by NYCHA and to resolve claims brought by the federal government. The agreement established a framework by which NYCHA will continue to evaluate and progress toward compliance with federal requirements.

The agreement requires the City to continue to provide $2 billion in capital funding to NYCHA that the City had planned for fiscal years 2018 through 2027. The City will also be required to supplement these capital funds with an additional $1 billion during fiscal years 2019 through 2022, and then $200 million annually thereafter beginning in FY 2023.

The City is also required to continue to provide nearly $1 billion in operating assistance to NYCHA that the City had budgeted during fiscal years 2018 and 2027, and to not impose any payment requirements on NYCHA. The June Plan includes the agreed-upon capital and operating funding during the financial plan period.

In addition, as part of the agreement, the City, HUD and the Southern District jointly agreed on the selection of a permanent chairman and CEO for NYCHA (who is scheduled to take office in August 2019.) As required by the agreement, HUD and the Southern District have appointed a monitor in consultation with NYCHA and the City. The monitor will approve or reject action plans developed by NYCHA to achieve sustained compliance with milestones, detailed in the agreement, for remedying lead paint conditions as well as resolving deficiencies related to heat, mold, elevators and pests.

The City is required to pay for the costs of the monitor as well as the cost of a consultant to propose organizational reforms at NYCHA. These costs have not yet been determined and are, therefore, not included in the June Plan.

NYCHA estimates that its capital needs will total $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 in the 2019 through 2023 period is only $6.4 billion, a fraction of the total needed. The State has appropriated $650 million for NYCHA's capital program.

On December 12, 2018, the City announced a proposal that, if fully realized, could address an additional $16 billion of NYCHA's capital needs over the next 10 years. The proposal requires the participation of private developers and an expansion of the federal Rental Assistance Demonstration program.

NYCHA is also experiencing difficulty in balancing its operating budget. NYCHA expects to finish 2019 with a surplus of $33 million but forecasts a deficit of $67 million in 2020 and higher deficits thereafter.

X. Other Issues

1. Post-Employment Benefits

One year earlier than required, the City has implemented new financial reporting standards that were promulgated by the Governmental Accounting Standards Board for state and local governments. The changes largely mirror those recently implemented for pension liabilities, impacting how governments measure and report the costs and liabilities of post-employment benefits other than pensions (OPEBs) in their financial statements, but not impacting how governments should fund their OPEB plans.

The City's unfunded liability increased by $10.1 billion to $98.5 billion in FY 2018. The increase was driven mainly by interest expenses on the unfunded liability and the impact of a lower interest rate assumption of 3 percent as of June 30, 2018, compared to 3.2 percent one year earlier. (The City Actuary estimates that a 1 percent increase in the interest rate assumption would reduce the liability by $15 billion and a 1 percent decrease would increase the liability by $19.3 billion).

The City, like many employers, does not fund its OPEB liabilities on an actuarial basis but rather pays the 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 $2.4 billion in FY 2018 to $3 billion in FY 2023, an increase of 25 percent over five years.

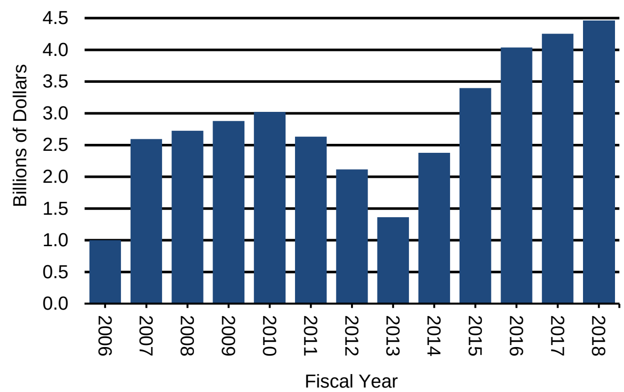
2. Retiree Health Benefits Trust

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

While the RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund in the past. The City drew down more than half of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession (see Figure 34).

FIGURE 34

RHBT Year-End Balance



Note: Adjusted for prepayments in fiscal years 2008, 2009, 2017 and 2018.
Sources: NYC Comptroller; NYC OMB; OSC analysis

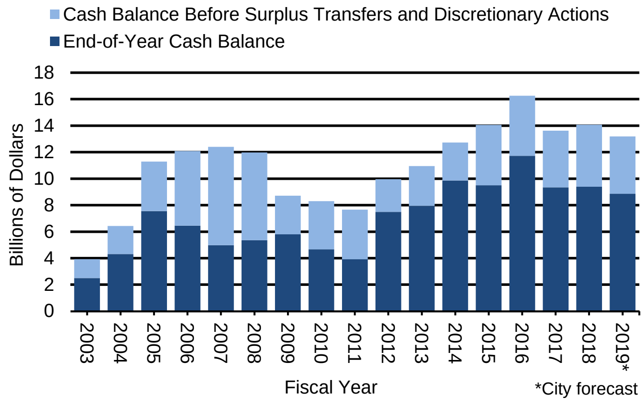
During fiscal years 2014 through 2016, the City rescinded a planned drawdown of $1 billion and contributed $2.3 billion to the RHBT (a total financial benefit of $3.3 billion). In each of fiscal years 2017 through 2019, the City contributed an additional $100 million. The RHBT balance is expected to total nearly $4.6 billion at the end of FY 2019, the highest amount ever.

3. Cash Flow

The City's year-end cash balance rose sharply between fiscal years 2003 and 2007, reflecting the strength of the economy, and remained at about $12 billion (before discretionary actions) through the end of FY 2008 (see Figure 35).[13] Even though the year-end cash balance declined during the recession, the City has not needed to borrow to meet its short-term cash needs since FY 2004.

[13] Discretionary actions include surplus transfers and deposits into the Retiree Health Benefits Trust.

FIGURE 35
Year-End Cash Balance



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

The City's cash position has continuously improved since FY 2011, reaching a record of $16.3 billion in FY 2016 (before discretionary actions). The cash balance has declined since then, but has remained at a relatively high level (nearly $14.1 billion in FY 2018).

The New York City Office of Management and Budget estimates that the year-end cash balance will decline to $13.2 billion in FY 2019 (nearly $8.8 billion after discretionary actions). Given the amount of cash on hand, the City does not anticipate borrowing to meet its cash flow needs during the financial plan period.

4. GASB Legislation

The New York State Financial Emergency Act for the City of New York requires the City to maintain a balanced budget in accordance with generally accepted accounting principles (GAAP), except for the application of Governmental Accounting Standards Board (GASB) Statement No. 49 (regarding pollution remediation).

In January 2017, the GASB implemented new financial reporting requirements for fiduciary fund activities of state and local governments ("GASB 84"). Under GASB 84, State and local governments may report a government activity as a fiduciary activity only if, among other criteria, the government controls the assets of the activity, and the assets of the activity are not derived solely from resources generated by the government itself or from nonexchange transactions (e.g., certain grants and private donations).

The City has identified more than 400 accounts with at least $3.3 billion in assets held outside of the City's General Fund that do not meet the new criteria to be classified as fiduciary activities, including $1.6 billion held in the health stabilization fund. The City believes that reclassification of these accounts to nonfiduciary activities would limit its budgetary flexibility because the City would be effectively required to expend resources credited to these accounts in the fiscal year in which they were received in order to maintain a balanced budget in accordance with GAAP.

In June 2019, the State Legislature approved a bill to amend the general municipal law and the FEA to exempt accounts that do not meet GASB 84 criteria from deficit determinations. The bill would also extend the GASB 49 waiver into the City Charter.

5. Property Tax Litigation

On April 24, 2017, Tax Equity Now New York (a coalition of advocates, property owners and tenants) filed suit against the State and the City claiming that the current real property tax system in New York City violates the State and federal constitutions and the Fair Housing Act.

The lawsuit alleges that the City's property tax system imposes unequal tax burdens on similarly valued properties within the same property class, and imposes disproportionate financial burdens on racial minorities. On September 24, 2018, the State Supreme Court dismissed all but two of the claims against the State, but did not dismiss any of the 16 claims against the City. The City and the State have appealed this decision.

In June 2018, the Mayor and 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. The commission held several public hearings through February 2019, but no further meetings or public hearings have been scheduled.

6. Credit Rating

The City-funded portion of the City's capital program is financed through general obligation (GO) bonds secured by the City's full faith and credit, and bonds issued by the Transitional Finance Authority (TFA) secured by personal income tax and (if needed) sales tax revenues.

The City's strong credit ratings contribute to its ability to access the capital markets to meet its financing needs, and to help keep its borrowing costs at reasonable rates. In March 2019, the City's GO rating was upgraded one notch by Moody's Investor Service from Aa2 to Aa1. Moody's attributed the upgrade to the continued strengthening and diversification of the City's economy, reducing its reliance on volatile financial services.

The City's GO credit continues to be rated AA by Standard & Poor's and AA by Fitch Ratings, while the TFA credit is rated higher (AAA by S&P, AAA by Fitch and Aaa by Moody's).[14] Both credits have a stable outlook from the three rating agencies.

The TFA's credit rating benefits from the strong statutory revenue streams used to secure its bonds, while GO ratings reflect the City's sound financial planning practices and demonstrated ability to close anticipated budget gaps. However, the rating agencies have expressed concern over the City's high debt burden and pressure from rising nondiscretionary costs.

7. Fair Fares NYC Program

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-priced 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, and eligible participants will be required to pay the other half.

An estimated 30,000 working New Yorkers who receive cash assistance benefits and 130,000 working New Yorkers who receive Supplemental Nutritional Assistance Program (SNAP) benefits are eligible to receive the new MetroCard.

The Mayor and the Speaker of the City Council recently announced that eligibility will be expanded later this year to include eligible residents at the New York City Housing Authority, enrolled students at the City University of New York, and veterans with incomes at or below the federal poverty line. In January 2020, the City intends to launch 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.

The June Plan includes $106 million in each of fiscal years 2019 and 2020, but the program is not funded in subsequent years. The City Council had previously estimated the cost of Fair Fares at $212 million annually when fully implemented. As of July 30, 2019, nearly 64,800 individuals had enrolled in the program.

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

8. Reserve for Disallowances

The City maintains a reserve for disallowances of federal and State aid. From fiscal years 1980 through 2005, the reserve averaged $230 million annually, but the City began to increase the reserve in FY 2006 after federal audits found that claims for $800 million in Medicaid reimbursement could not be fully documented. The reserve reached nearly $1.2 billion by the end of FY 2011.

After most of the Medicaid liability had been settled, the City reduced the reserve to $1 billion in FY 2012, based on a change in the methodology used to calculate the risk of future disallowances. Each year, the City Comptroller, in consultation with the City's independent auditor, performs a risk assessment to determine the adequacy of the reserve.

In each of the past two years, the City found in its annual assessment that disallowances in prior years were lower than anticipated. Based on these results, the City released a total of $697 million, leaving $413 million in the reserve at the close of FY 2018. The June Plan assumes the City will release $106 million from the reserve in FY 2019, but will continue to contribute $15 million annually to the reserve in each year of the financial plan period.

9. Prior Years' Expenses

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 an average benefit of $435 million annually from overestimating prior years' expenses and from underestimating prior years' receivables.

The City realized a net benefit of $293 million in FY 2018, mostly from an overestimation of prior-year expenses for contractual services (nearly $226 million). The June Plan anticipates savings of $400 million in FY 2019 but none in subsequent years.

Appendix A: City-Fund Revenue Trends

(in millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Property Tax	$ 27,745	$ 29,615	$ 30,909	$ 32,150	$ 33,110
Personal Income Tax	13,232	13,367	13,429	13,856	14,296
Sales Tax	7,837	8,267	8,553	8,852	9,134
Business Taxes	5,963	5,863	6,021	6,142	6,230
Real Estate Transaction Taxes	2,571	2,444	2,472	2,535	2,600
Other Taxes	2,918	2,866	2,916	2,973	3,029
Tax Audits	1,058	999	721	721	721
Subtotal: Taxes	**61,324**	**63,421**	**65,021**	**67,229**	**69,120**
Miscellaneous Revenues	5,896	5,137	5,092	5,067	5,062
Unrestricted Intergovernmental Aid	201	0	0	0	0
Grant Disallowances	91	(15)	(15)	(15)	(15)
Total	**$ 67,512**	**$ 68,543**	**$ 70,098**	**$ 72,281**	**$ 74,167**

Annual Rate of Growth	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Property Tax	5.8%	6.7%	4.4%	4.0%	3.0%
Personal Income Tax	-1.1%	1.0%	0.5%	3.2%	3.2%
Sales Tax	5.3%	5.5%	3.5%	3.5%	3.2%
Business Taxes	6.1%	-1.7%	2.7%	2.0%	1.4%
Real Estate Transaction Taxes	5.5%	-4.9%	1.1%	2.5%	2.6%
Other Taxes	9.1%	-1.8%	1.7%	2.0%	1.9%
Tax Audits	-20.9%	-5.6%	-27.8%	0%	0%
Subtotal: Taxes	**3.7%**	**3.4%**	**2.5%**	**3.4%**	**2.8%**
Miscellaneous Revenues	17.5%	-12.9%	-0.9%	-0.5%	-0.1%
Unrestricted Intergovernmental Aid	N/A	N/A	N/A	N/A	N/A
Grant Disallowances	-34.5%	N/A	N/A	N/A	N/A
Total	**5.0%**	**1.5%**	**2.3%**	**3.1%**	**2.6%**

Sources: NYC Office of Management and Budget; OSC analysis

Appendix B: City-Fund Expenditure Trends

(in millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Salaries and Wages	$ 20,191	$ 21,316	$ 22,006	$ 21,464	$ 21,976
Pension Contributions	9,801	9,819	9,986	10,432	10,487
Debt Service	6,210	6,999	7,325	7,974	8,724
Medicaid	5,813	5,813	5,813	5,813	5,813
Health Insurance	4,930	5,475	5,901	6,422	6,963
Other Fringe Benefits	3,078	3,239	3,378	3,527	3,687
Energy	792	798	819	837	867
Judgments and Claims	557	572	587	602	618
Public Assistance	678	856	856	855	855
Other	16,097	16,477	15,698	15,984	16,068
Subtotal	**68,147**	**71,364**	**72,369**	**73,910**	**76,058**
Retiree Health Benefits Trust	100	- - -	- - -	- - -	- - -
Prior Years' Expenses	(400)	- - -	- - -	- - -	- - -
General Reserve	20	1,150	1,000	1,000	1,000
Capital Stabilization Reserve	- - -	250	250	250	250
Total	**$ 67,867**	**$ 72,764**	**$ 73,619**	**$ 75,160**	**$ 77,308**

Annual Rate of Growth	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Salaries and Wages	9.2%	5.6%	3.2%	-2.5%	2.4%
Pension Contributions	3.4%	0.2%	1.7%	4.5%	0.5%
Debt Service	6.0%	12.7%	4.7%	8.9%	9.4%
Medicaid	-1.8%	0%	0%	0%	0%
Health Insurance	5.3%	11.1%	7.8%	8.8%	8.4%
Other Fringe Benefits	9.3%	5.2%	4.3%	4.4%	4.5%
Energy	1.9%	0.8%	2.6%	2.2%	3.6%
Judgments and Claims	-10.6%	2.7%	2.6%	2.6%	2.7%
Public Assistance	-7.3%	26.3%	0.0%	-0.1%	0.0%
Other	9.7%	2.4%	-4.7%	1.8%	0.5%
Subtotal	**6.4%**	**4.7%**	**1.4%**	**2.1%**	**2.9%**
Retiree Health Benefits Trust	N/A	N/A	N/A	N/A	N/A
Prior Years' Expenses	N/A	N/A	N/A	N/A	N/A
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
Total	**6.3%**	**7.2%**	**1.2%**	**2.1%**	**2.9%**

Note: Debt service and totals have been adjusted for surplus transfers. Judgments and claims excludes a prior-year reimbursement from the Health and Hospitals Corporation in FY 2019.

Sources: NYC Office of Management and Budget; OSC analysis

Appendix C: Full-Time Staffing Levels by Agency

		Actual	Actual	Actual	Forecast	Plan
		FY 2009	FY 2012	FY 2018	FY 2019	FY 2020
Public Safety		**82,382**	**78,944**	**87,119**	**86,372**	**85,809**
Police	Uniformed	35,641	34,510	36,643	36,113	36,113
	Civilian	15,034	14,238	15,251	15,616	15,529
Fire	Uniformed	11,459	10,260	11,244	10,951	10,952
	Civilian	4,690	5,055	5,905	6,252	6,354
Correction	Uniformed	9,068	8,540	10,653	10,226	9,789
	Civilian	1,420	1,413	1,770	2,151	2,027
District Attys. & Prosecutors		3,911	3,941	4,592	3,783	3,793
Probation		1,147	976	1,033	1,245	1,214
Board of Correction		12	11	28	35	38
Health & Welfare		**29,459**	**27,004**	**28,143**	**30,686**	**30,571**
Social Services		14,093	13,918	12,969	14,305	14,510
Children's Services*		7,403	6,152	6,593	7,168	7,217
Health & Mental Hygiene		5,214	4,470	5,432	5,788	5,568
Homeless Services		2,026	1,818	2,368	2,578	2,385
Other		723	646	781	847	891
Environment & Infrastructure		**24,693**	**23,004**	**25,795**	**27,913**	**27,642**
Sanitation	Uniformed	7,612	6,991	7,558	7,823	7,836
	Civilian	2,019	1,854	2,120	2,270	2,233
Transportation		4,423	4,405	4,842	5,495	5,440
Parks & Recreation		3,760	3,095	4,097	4,399	4,407
Other		6,879	6,659	7,178	7,926	7,726
General Government		**9,733**	**9,348**	**11,815**	**13,377**	**13,376**
Finance		1,961	1,750	1,882	2,155	2,150
Law		1,277	1,265	1,581	1,929	1,906
Citywide Admin. Services		2,054	1,919	2,300	2,493	2,572
Taxi & Limo. Commission		378	435	526	618	613
Investigations		233	191	365	395	391
Board of Elections		340	340	537	517	517
Info. Tech. & Telecomm.		1,213	1,041	1,493	1,785	1,823
Other		2,277	2,407	3,131	3,485	3,404
Housing		**3,678**	**3,156**	**3,838**	**4,384**	**4,425**
Buildings		1,183	1,051	1,565	1,869	1,852
Housing Preservation		2,495	2,105	2,273	2,515	2,573
Department of Education		**123,726**	**118,716**	**132,699**	**133,073**	**134,551**
	Pedagogues	112,993	107,625	119,900	120,697	122,003
	Non-Pedagogues	10,733	11,091	12,799	12,376	12,548
City University of New York		**4,669**	**5,085**	**6,429**	**6,383**	**6,387**
	Pedagogues	2,993	3,362	4,549	4,441	4,441
	Non-Pedagogues	1,676	1,723	1,880	1,942	1,946
Elected Officials		**2,274**	**2,166**	**2,532**	**2,889**	**2,901**
Total		**280,614**	**267,423**	**298,370**	**305,077**	**305,662**

*FY 2009 includes the Department of Juvenile Justice

Sources: NYC Office of Management and Budget; OSC analysis

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

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