



Review of the Financial Plan of the City of New York

June 2015

Report 1-2016

New York State
Office of the State Comptroller
Thomas P. DiNapoli

Office of the State Deputy Comptroller
For the City of New York
Kenneth B. Bleiwas

Additional copies of this report
may be obtained from:

Office of the State Comptroller
New York City Public Information Office
59 Maiden Lane
New York, NY 10038

Telephone: (212) 383-1388

Or through the Comptroller's website at: www.osc.state.ny.us

Please notify the Office of the State Deputy Comptroller at (212) 383-3916 if you wish to have your name removed from our mailing list or if your address has changed.

Contents

I.	Executive Summary	1
II.	Economic Trends	5
III.	Changes Since the June 2014 Plan	9
IV.	The Citywide Savings Program	11
V.	Ten-Year Capital Strategy	13
VI.	Revenue Trends.....	17
	1. Real Property Tax	18
	2. Personal Income Tax	19
	3. Sales Tax	20
	4. Business Taxes	20
	5. Real Estate Transaction Taxes.....	21
	6. Miscellaneous Revenues	21
VII.	Expenditure Trends.....	23
	1. Collective Bargaining	24
	2. Pension Contributions	26
	3. Health Insurance.....	27
	4. Debt Service	28
	5. Medicaid.....	30
	6. Public Assistance.....	30
	7. Homeless Services.....	31
	8. Uniformed Agencies	32
	9. Energy	33
	10. Judgments and Claims	33
VIII.	Semi-Autonomous Entities.....	35
	1. Department of Education	35
	2. Health and Hospitals Corporation	36
	3. Metropolitan Transportation Authority	38
	4. New York City Housing Authority	39
IX.	Other Issues	41
	1. Impact of the State Budget	41
	2. Other Post-Employment Benefits.....	42
	3. Hudson Yards Infrastructure Corporation	43
	4. Affordable Housing.....	44
	Appendix: Staffing Levels	45

I. Executive Summary

On May 7, 2015, the City of New York submitted to the New York State Financial Control Board a revised financial plan (the “May Plan”) covering fiscal years 2015 through 2019 (see Figure 1). Despite the cost of new labor agreements and large increases in agency and capital spending, the May Plan projects a surplus of \$3 billion for FY 2015, a balanced budget for FY 2016 and manageable out-year budget gaps. In an acknowledgement of the possibility of an economic setback during the financial plan period, the City has increased its reserves to an unprecedented level.

In FY 2015, tax collections are now expected to exceed the City’s conservative forecast at the beginning of the fiscal year by \$2.4 billion to reach \$51 billion, 32 percent higher than before the recession. Tax revenues have been driven by strong job growth, a booming tourism industry and strengthening real estate markets. Since the end of 2009, the City has added 503,000 jobs, and employment now totals a record 4.2 million jobs.

The securities industry, which has not been a driving force behind the current economic recovery, added 2,300 jobs in 2014 (the first job gains since 2011) and is on pace to add another 3,950 jobs during 2015. Although the industry is 11 percent smaller than before the recession, it has been profitable for six consecutive years, and remains one of the City’s most powerful economic engines as well as a major source of tax revenue.

Over the past year, the City has identified new agency needs averaging nearly \$1.3 billion annually beginning in FY 2016. To its credit, the City has resumed the process of identifying agency cost-saving initiatives after a two-year hiatus, which has funded a portion of the new needs. The remainder (about \$1 billion annually) was funded with debt service and pension savings.

In conjunction with the May Plan, the City released its biennial 10-year capital strategy. The capital strategy, which totals \$83.8 billion through 2025, is \$30 billion (56 percent) larger than the prior 10-year strategy released in May 2013. Debt service would reach \$7.5 billion by FY 2019, an increase of 38 percent over five years, and would account for 13.5 percent of tax revenue in that year. The City has put forth a plan to keep the debt service burden below 15 percent of tax revenue, a level that is considered high. The last time the City proposed a capital strategy of this size was FY 2008, but that program (which totaled \$83.7 billion unadjusted for inflation) was sharply curtailed in response to the Great Recession.

Over the past year, the City has reached new labor agreements with nearly 80 percent of its workforce. Most of the labor agreements extend through 2018, providing a level of predictability, although the cost of the agreements extend through 2021. The City has yet to reach new agreements with the unions that represent the City’s police officers, firefighters and correction officers.

The City reports that it will achieve planned health insurance savings of \$400 million in FY 2015 pursuant to an agreement with the Municipal Labor Committee, and that it is on track to meet, or even exceed, the \$700 million target for FY 2016. Meeting the higher savings targets for fiscal years 2017 and 2018 will be a greater challenge, but substantial progress has already been made.

While tax revenues are likely to exceed the City's conservative forecast for FY 2016 by a sizeable amount, the Office of the State Comptroller (OSC) remains guarded in its revenue forecasts (see Figure 2) given the increasing possibility of an economic setback during the financial plan period. So far, the City has experienced five years of job growth, and the May Plan assumes that job growth will continue for another five years through 2019, which would be the longest expansion in 60 years.

The City also recognizes the potential for an economic setback and has taken steps to replenish its reserves. It has increased the general reserve to \$1 billion in FY 2016, the largest amount ever, and has set aside \$500 million to fund a Capital Stabilization Reserve, which could be used to insulate the capital program from budget cuts or to help balance the operating budget. It also plans to contribute \$280 million to the Retiree Health Benefits Trust, raising the balance to \$2.6 billion. The City has used the trust as a rainy-day fund in the past, but the balance is now approaching its prerecession peak.

The Federal Reserve faces the extraordinary challenge of raising interest rates and reversing its accommodative monetary policies without disrupting the financial markets and hurting the recovery. While many observers expect the Federal Reserve to begin increasing short-term interest rates in September 2015, the size and timing of future rate increases remain uncertain. Efforts to reduce the federal deficit could also impact the City's budget and the entitlement programs that many residents rely on.

The Metropolitan Transportation Authority faces a \$14 billion funding gap in its proposed five-year capital program and closing the gap could require additional City funding. The City has already taken on greater financial responsibility for the Health and Hospitals Corporation and the New York City Housing Authority.

The May Plan projects budget gaps of \$1.6 billion in FY 2017 and \$2 billion in FY 2018. While these gaps are larger than those projected in February 2015, they are smaller than the gaps projected one year ago despite higher agency and capital spending. For FY 2019, the City projects a larger budget gap of \$2.9 billion. The projected gaps are relatively small (ranging from 2.7 percent to 4.6 percent of City fund revenue), and would be even smaller if not for a budgeted general reserve of \$1 billion.

In conclusion, the FY 2016 budget is balanced and the out-year budget gaps appear manageable even though the City has increased agency and capital spending by substantial amounts. While the City's economy is strong today and shows no signs of slowing, the City has increased its reserves to an unprecedented level to hedge against an economic setback during the financial plan period.

Figure 1
New York City Financial Plan
(in millions)

REVENUES	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Taxes					
General Property Tax	\$ 21,270	\$ 22,240	\$ 23,267	\$ 24,272	\$ 25,336
Other Taxes	28,801	29,077	29,804	30,666	31,628
Tax Audit Revenue	<u>982</u>	<u>711</u>	<u>711</u>	<u>711</u>	<u>711</u>
Subtotal: Taxes	\$ 51,053	\$ 52,028	\$ 53,782	\$ 55,649	\$ 57,675
Miscellaneous Revenues	8,188	6,560	6,715	6,815	6,875
Unrestricted Intergovernmental Aid	---	---	---	---	---
Less: Intra-City Revenue	(2,003)	(1,791)	(1,794)	(1,805)	(1,800)
Disallowances Against Categorical Grants	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Subtotal: City Funds	\$ 57,223	\$ 56,782	\$ 58,688	\$ 60,644	\$ 62,735
Other Categorical Grants	888	831	839	844	841
Inter-Fund Revenues	559	575	546	548	548
Federal Categorical Grants	8,412	7,127	6,832	6,401	6,300
State Categorical Grants	<u>12,569</u>	<u>12,993</u>	<u>13,364</u>	<u>13,771</u>	<u>14,102</u>
Total Revenues	\$ 79,651	\$ 78,308	\$ 80,269	\$ 82,208	\$ 84,526
EXPENDITURES					
Personal Service					
Salaries and Wages	\$ 24,149	\$ 25,152	\$ 25,275	\$ 26,619	\$ 28,129
Pensions	8,621	8,755	8,719	8,725	8,823
Fringe Benefits	8,697	9,250	9,737	10,306	11,097
Retiree Health Benefits Trust	<u>280</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Subtotal: Personal Service	\$ 41,747	\$ 43,157	\$ 43,731	\$ 45,650	\$ 48,049
Other Than Personal Service					
Medical Assistance	\$ 6,455	\$ 6,424	\$ 6,424	\$ 6,424	\$ 6,424
Public Assistance	1,472	1,481	1,464	1,464	1,464
All Other	<u>25,044</u>	<u>24,040</u>	<u>24,196</u>	<u>24,269</u>	<u>24,563</u>
Subtotal: Other Than Personal Service	\$ 32,971	\$ 31,945	\$ 32,084	\$ 32,157	\$ 32,451
Debt Service ^{1,2,3}	\$ 5,954	\$ 6,637	\$ 6,820	\$ 7,173	\$ 7,707
Debt Defeasances ¹	(99)	(103)	---	---	---
FY 2014 Budget Stabilization ²	(2,006)	---	---	---	---
FY 2015 Budget Stabilization ³	3,037	(3,037)	---	---	---
Capital Stabilization Reserve	---	500	---	---	---
General Reserve	<u>50</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Subtotal	\$ 81,654	\$ 80,099	\$ 83,635	\$ 85,980	\$ 89,207
Less: Intra-City Expenses	<u>(2,003)</u>	<u>(1,791)</u>	<u>(1,794)</u>	<u>(1,805)</u>	<u>(1,800)</u>
Total Expenditures	\$ 79,651	\$ 78,308	\$ 81,841	\$ 84,175	\$ 87,407
Gap to Be Closed	---	---	\$ (1,572)	\$ (1,967)	\$ (2,881)

Source: NYC Office of Management and Budget

- ¹ Includes Debt Defeasances of TFA in Fiscal Year 2013 of \$196 million impacting Fiscal Year 2014 through Fiscal Year 2016.
- ² Fiscal Year 2014 Budget Stabilization totals \$2.006 billion, including GO of \$621 million, TFA of \$1.362 billion, and net equity contribution in bond refunding of \$23 million.
- ³ Fiscal Year 2015 Budget Stabilization totals \$3.037 billion, including GO of \$1.459 billion and TFA of \$1.578 billion.

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

	<i>Better/(Worse)</i>				
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Surplus/(Gaps) Per May Plan	\$ - - -	\$ - - -	\$ (1,572)	\$ (1,967)	\$ (2,881)
Tax Revenue	375	550	425	425	425
Debt Service	- - -	200	- - -	- - -	- - -
Medicaid Reimbursement	(50)	(80)	(80)	(80)	(80)
Uniformed Overtime	(50)	(150)	(125)	(125)	(125)
OSC Baseline Risk Assessment	275	520	220	220	220
Surplus/(Gaps) Per OSC⁴	\$ 275	\$ 520	\$ (1,352)	\$ (1,747)	\$ (2,661)

⁴ The May Plan includes a general reserve of \$50 million in fiscal year 2015 and \$1 billion in each of fiscal years 2016 through 2019, which, if not needed, could be used to help close the projected budget gaps. In addition, the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of \$2.6 billion, and the Capital Stabilization Reserve has a balance of \$500 million.

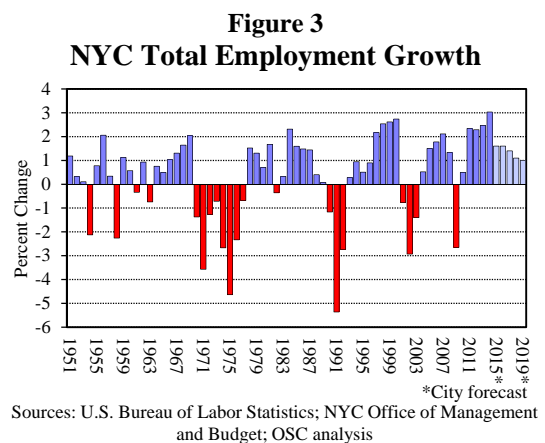
II. Economic Trends

The nation's Gross Domestic Product (GDP) contracted by 0.7 percent during the first quarter of 2015, largely as a result of severe winter weather in the Northeast and a now-resolved labor dispute at the nation's West Coast ports. Most economists expect growth will resume during the second quarter and that the economy will grow by 2.5 percent for all of 2015, a similar rate to last year. Although employment growth was weak in March 2015 (119,000 jobs), the nation added an average of 250,000 jobs in April and May. Growth is expected to continue to be strong in 2015.

Wage growth, which has been a cause of concern during the recovery, has shown some signs of picking up. A growing number of large retailers and food chains, which provide mostly lower-paying jobs, have recently indicated that they will increase the minimum hourly wage for their workers. (Some of these have a significant presence in New York City, including Gap Inc., Starbucks and Whole Foods.) Consumer confidence appears to have reached prerecession levels, and inflation remains low.

The Federal Reserve has kept short-term interest rates near zero for six years to support the recovery, but has indicated that it will likely raise rates by the end of the year. Many observers expect that the first interest rate increase will occur in September 2015, but uncertainties in the labor markets and continued low inflation will weigh heavily on the timing. The Federal Reserve has indicated that when it does act, it will raise interest rates gradually to avoid upsetting the recovery.

Since the end of the recession, New York City has added jobs at a faster pace (2.1 percent) than the nation (1.2 percent) and the rest of the State (0.5 percent). Total employment grew by 3 percent in 2014, which was the strongest year on record. The May Plan assumes that job growth will slow in 2015 (to 1.6 percent), but job growth remains strong four months into the year. The City projects that job growth will increase at a similar rate in 2016 and then average 1.2 percent annually for the rest of the financial plan period (see Figure 3).



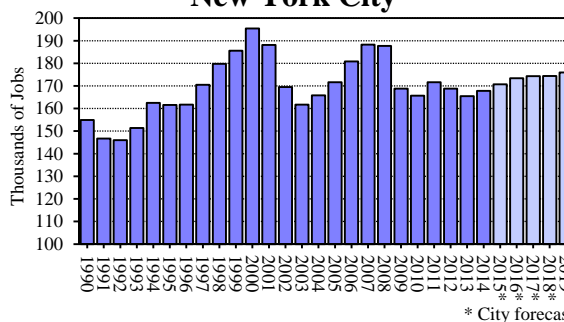
While a broad range of industries has contributed to the current economic recovery, almost two-thirds of the private sector jobs that have been added are in industries that pay less than the citywide private sector average of \$83,900. While many of the new jobs forecast by the City during the financial plan period are expected to be in lower-

paying industries (such as leisure and hospitality), higher-paying industries (such as professional services) are expected to gradually make up a larger share of the new jobs.

As a result of the large number of jobs created in lower-paying industries, the growth in the citywide average salary has been relatively weak during the recovery, averaging 2.1 percent annually. However, data for the first three quarters of 2014 indicates that growth has accelerated, and the May Plan assumes that growth will average 5.2 percent in 2015. Although the acceleration was driven by securities industry bonuses, the average salary in lower-paying industries also increased during the first three quarters of 2014.

The securities industry is one of the City’s most powerful economic engines and a major source of tax revenue. The securities industry, which has not been a driving force behind the current economic recovery, added 2,300 jobs in 2014 (the first job gains since 2011) and is on pace to add another 3,950 jobs in 2015. The May Plan assumes that the securities industry will add 3,000 jobs in 2015 and will continue to grow slowly throughout the financial plan period (see Figure 4).

**Figure 4
Securities Industry Employment in
New York City**



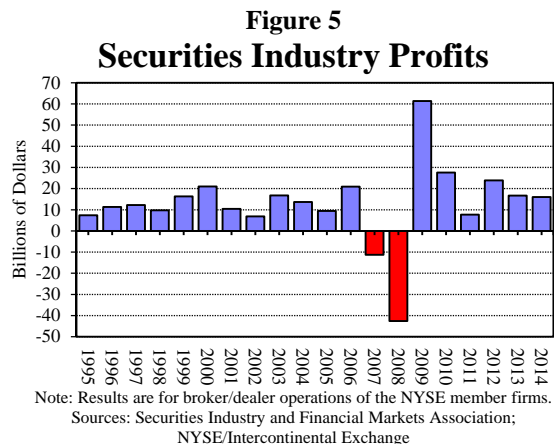
Sources: NYS Department of Labor; NYC Office of Management and Budget

While the securities industry remains 11 percent smaller than before the financial crisis, the recent job growth is good news for the City’s economy. OSC estimates that each new job in the industry results in the creation of two additional jobs in other industries in the City and one more in the surrounding region.

The industry remains well-compensated, with an average salary (including bonuses) that is five times higher than the average salary of all other private sector jobs in the City. In March 2015, OSC estimated that the average securities industry bonus rose by 2 percent in 2014 to almost \$173,000. (Over the previous two years, the total rate of growth exceeded 50 percent.)

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

The May Plan assumes that securities industry profitability will decline for the third consecutive year to \$14.5 billion in 2015 and then remain at that level in 2016. However, profits for the first quarter of 2015 were strong at \$6.5 billion, 22 percent higher than one year earlier. Profits were driven by a 10.8 percent reduction in noncompensation expenses, which include the cost of legal settlements.



Earlier this year, NYC & Company (the City’s official tourism organization) reported that a record 56.4 million tourists came to New York City in 2014. The continued strength in tourism-related industries has helped drive large job gains in the lower-paying leisure and hospitality (i.e., hotels and restaurants) and the retail trade sectors.

The health care industry, which has a relatively low average salary, has created more than 60,000 new jobs since 2010. Most of the job growth in higher-paying industries has been concentrated in the professional services and information industries, especially in technology, advertising and media companies.

The construction industry has been adding jobs during the past few years, and employment is nearing prerecession levels. According to the New York City Department of Buildings, new residential building permits increased by 11 percent in 2014, and the New York Building Congress projects that construction spending in the City totaled \$36 billion in 2014, an increase of 26 percent from 2013. For the third consecutive year, Brooklyn ranked highest among the five boroughs (followed by Manhattan) for the largest share of new residential permits in the City.

The unemployment rate in New York City fell by 1.6 percentage points in 2014, the largest annual decline in nearly two decades, and it has continued to decline in 2015. In April 2015, the unemployment rate was 6.5 percent (far less than the recessionary peak of 10.2 percent), 1.1 percentage points lower than one year earlier. Despite broad improvements in the local labor market, certain segments of the population and some parts of the City continue to have higher unemployment rates, and the share of people who have been out of work for a long period of time remains elevated. More than 40 percent of unemployed workers in the City have been out of work for six months or more. While this is below the postrecession peak (50 percent), it is still significantly higher than it was before the recession (under 30 percent).

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

Data from the New York City Department of Finance show that sales of large Manhattan commercial buildings (those valued at \$50 million or more) totaled \$19.2 billion in 2014, the highest level since 2007. Residential sales throughout the City increased in 2014 to the highest level since 2007, driven by the demand for luxury apartments (those valued at \$5 million or more). Much of the residential growth since the recession has been outside of Manhattan. Total residential sales in the boroughs outside of Manhattan grew at an average annual rate of 14 percent between 2010 and 2014, with median sales prices rising by nearly 16 percent.

Although the City's economy remains strong and shows no signs of slowing, it does face risks. The Federal Reserve faces the extraordinary challenge of increasing interest rates and reducing the unprecedented size of its balance sheet without disrupting the financial markets and hurting the recovery. While many observers expect the Federal Reserve to begin increasing short-term interest rates in September 2015, the size and timing of future rate increases remain uncertain. Other risk factors include the recent strength of the dollar, lower oil prices and a weak global economy.

The current national economic recovery has already exceeded the average length for recoveries during the post-World War II era. The longest postwar job expansion in the City lasted eight consecutive years. The City has already added jobs for five consecutive years, and the May Plan assumes job growth for another five years through 2019, which would be the longest job expansion on record.

III. Changes Since the June 2014 Plan

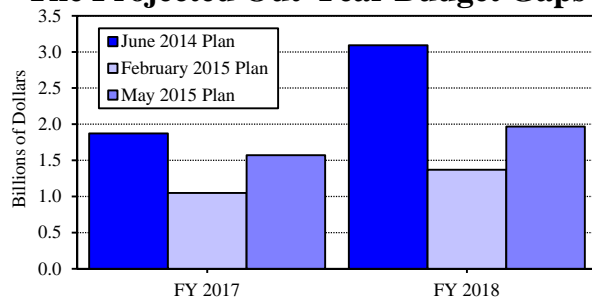
The May Plan projects a surplus of \$3 billion in FY 2015 because tax collections were much higher than anticipated at the beginning of the fiscal year and because the City drew down unneeded reserves. The City intends to use these resources to help balance the FY 2016 budget (see Figure 7, next page).

Tax collections are expected to be higher by \$2.4 billion in FY 2015 because of strong job and wage growth, lower-than-anticipated property tax refunds, higher-than-anticipated real property transactions and a number of large tax audits. Tax collections are now expected to be higher by about \$1 billion in subsequent years. The City also realized debt service savings of \$2.8 billion through 2018, mostly from refinancing outstanding debt at lower interest rates, and pension contributions were lower by \$1.1 billion, reflecting better-than-expected investment earnings in FY 2014.

The City used some of these resources to increase the general reserve by \$250 million to \$1 billion beginning in FY 2016, the largest amount ever and 10 times more than the statutory minimum. The City also created a \$500 million Capital Stabilization Reserve, and it intends to contribute an additional \$280 million to the Retiree Health Benefits Trust. The City also delayed the sale of additional taxi medallions and the receipt of associated sale proceeds to future years.

Since the beginning of the fiscal year, the City has identified new agency needs totaling \$550 million in FY 2015 and averaging nearly \$1.3 billion annually thereafter. Although the City has resumed, after a two-year hiatus, the process of identifying agency actions to reduce costs, such as through efficiencies, the savings will offset only a small portion of the new needs. The net cost (\$1 billion annually) was funded mostly with debt service and pension savings.

Figure 6
The Projected Out-Year Budget Gaps



Sources: NYC Office of Management and Budget; OSC analysis

The May Plan projects budget gaps of \$1.6 billion in FY 2017 and \$2 billion in FY 2018. While these gaps are larger than those projected in the February 2015 financial plan, they are smaller than projected one year ago (see Figure 6). For FY 2019, the City projects a gap of \$2.9 billion. The budget gaps are relatively small (ranging from 2.7 percent to 4.6 percent of City fund revenue), and would be even smaller if not for a budgeted general reserve of \$1 billion.

Figure 7
Financial Plan Reconciliation—City Funds
May 2015 Plan vs. June 2014 Plan
(in millions)

	<i>Better/(Worse)</i>			
	FY 2015	FY 2016	FY 2017	FY 2018
Surplus/(Gaps) Per June 2014	\$ ---	\$ (2,625)	\$ (1,871)	\$ (3,093)
Revenue Reestimates				
Taxes				
Personal Income	875	607	408	367
Real Property	490	359	442	517
Real Estate Transactions	492	30	16	15
Business Taxes	99	47	57	30
Other Taxes	207	91	58	55
Audits	<u>273</u>	<u>2</u>	<u>2</u>	<u>2</u>
Subtotal	2,436	1,136	983	986
Taxi Medallions	(532)	(360)	(293)	257
All Other	<u>426</u>	<u>(101)</u>	<u>24</u>	<u>(87)</u>
Total	2,330	675	714	1,156
Reserves				
General Reserve	700	(250)	(250)	(250)
Prior-Year Payable	100	---	---	---
Retiree Health Benefits Trust	(280)	---	---	---
Capital Stabilization Reserve	<u>---</u>	<u>(500)</u>	<u>---</u>	<u>---</u>
Total	520	(750)	(250)	(250)
Expenditure Reestimates				
Debt Service	665	707	761	667
Pension Contributions	44	117	228	737
Collective Bargaining	(320)	(196)	(113)	(210)
Agency New Needs	(550)	(1,271)	(1,289)	(1,236)
Agency Actions ⁵	<u>348</u>	<u>306</u>	<u>248</u>	<u>262</u>
Total	187	(337)	(165)	220
Net Change During FY 2015	3,037	(412)	299	1,126
Surplus/(Gap)	\$ 3,037	\$ (3,037)	\$ (1,572)	\$ (1,967)
Surplus Transfer	(3,037)	3,037	---	---
Gaps Per May 2015 Plan	\$ ---	\$ ---	\$ (1,572)	\$ (1,967)

Sources: NYC Office of Management and Budget; OSC analysis

⁵ Includes revenue initiatives, such as fines from traffic enforcement cameras.

IV. The Citywide Savings Program

The May Plan includes a Citywide Savings Program, which is expected to generate a cumulative total of \$2.9 billion during fiscal years 2015 through 2019 (see Figure 8). Of this amount, more than half (\$1.5 billion) is expected to come from debt service from lower interest rates and other factors. As discussed below, agency actions, such as administrative efficiencies, are expected to generate \$1.4 billion during this period and eliminate the need for 528 positions.

Figure 8
Citywide Savings Program
(in millions)

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

Sources: NYC Office of Management and Budget; OSC analysis

Agency actions are expected to generate \$654 million over the course of fiscal years 2015 and 2016, and an average of \$250 million in each of fiscal years 2017 through 2019. As discussed below and shown in Figure 9, the resources will come from funding shifts, reestimates, revenue initiatives and administrative efficiencies.

- Shifting some funding responsibility from the City to the federal and State governments is expected to save \$163 million in FY 2015, but much less in subsequent years. Most of the savings in FY 2015 (\$153 million) come from an increase in the federal reimbursement rate for fringe benefits for certain social services programs. The May Plan does not assume these savings will recur, though the City has realized similar savings in previous years.
- Cost reestimates are expected to save a total of \$161 million over the course of fiscal years 2015 and 2016, and about \$40 million annually thereafter. The Department of Sanitation will realize savings from a delay in implementing long-term contracts to transport waste out of the City and from continued delays in the operation of marine transfer stations. The Administration for Children’s Services is expected to generate savings of \$58 million through FY 2019. The City realized \$163 million in savings through FY 2019 from fringe benefit reestimates.
- Revenue initiatives are expected to generate \$220 million during the financial plan period. For example, the Department of Transportation expects to generate \$28 million in FY 2015 and an average of \$17 million annually for each of fiscal

years 2016 through 2019 from the use of traffic-enforcement cameras. The City will also realize \$60 million from one-time actions during the financial plan period, including \$28 million in unused funds for a program to provide services to children with disabilities and \$20 million from a sale of City-owned property.

- Administrative efficiencies are expected to generate \$40 million in FY 2015 and more than \$160 million in subsequent years. For example, the Department of Education intends to reduce travel and contract costs (for savings of \$42 million annually) and the Human Resources Administration plans to reduce unnecessary administrative processes (for savings of \$13 million annually beginning in FY 2017). In addition, the City has eliminated the inflation adjustment for procurement, which will save \$56 million annually beginning in FY 2016.

Figure 9
Agency Savings Program
(in millions)

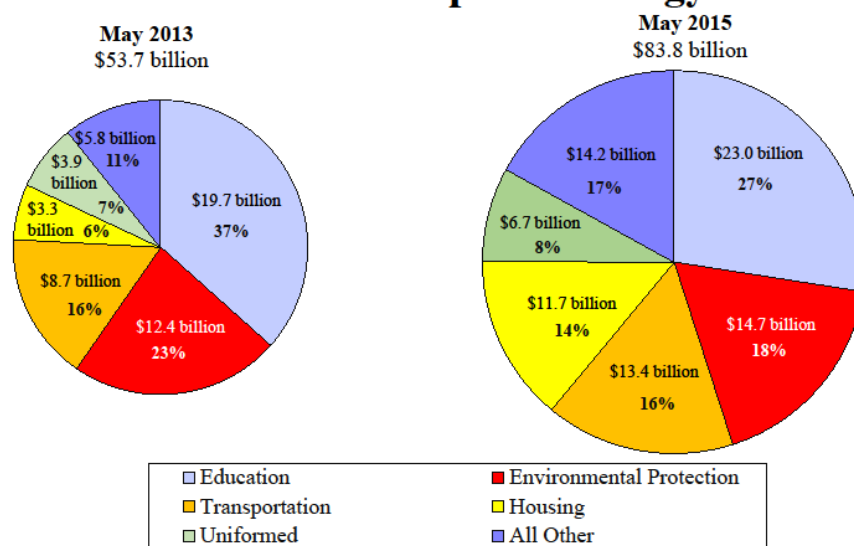
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Funding Shifts	\$ 163	\$ 5	\$ 5	\$ 5	\$ 5
Cost Reestimates	77	84	41	42	43
Revenue Initiatives	68	56	27	46	23
Administrative Efficiencies	40	161	175	169	168
Total	\$ 348	\$ 306	\$ 248	\$ 262	\$ 239

Sources: NYC Office of Management and Budget; OSC analysis

V. Ten-Year Capital Strategy

In conjunction with the May Plan, the City released its biennial 10-year capital strategy. The capital strategy, which totals \$83.8 billion through 2025, is \$30 billion (56 percent) larger than the 10-year strategy that was released in May 2013 (see Figure 10).⁶ More than half of the increase is concentrated in housing, transportation and education. The portion of the capital strategy funded with City funds is expected to total \$76 billion, almost twice as much as the previous strategy and the largest amount ever.

Figure 10
Ten-Year Capital Strategy



Sources: New York City Office of Management and Budget; OSC analysis

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

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

⁶ The 10-year strategy is \$16 billion (24 percent) larger than the preliminary strategy released in February 2015.

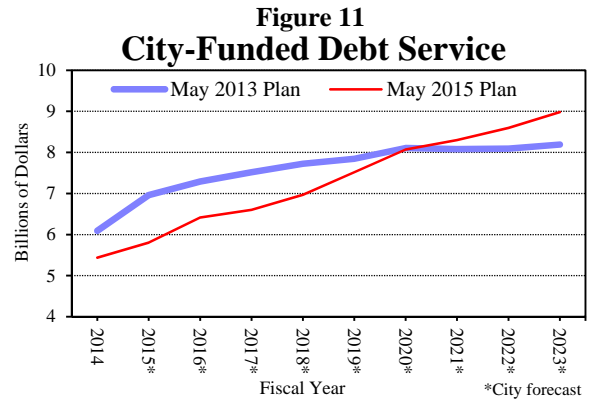
- The City would allocate \$14.7 billion to environmental protection, 19 percent more than planned in the previous capital strategy. These projects would include water pollution control upgrades (\$5.6 billion); sewers (\$4.1 billion), including construction of a comprehensive sewer system in southeast Queens to solve long-standing flooding; and improvements to water mains and treatment (\$3.3 billion).
- Transportation projects would be allocated \$13.4 billion (54 percent more than previously planned), with half (\$7.8 billion) allocated to the reconstruction and rehabilitation of bridges (including \$1.7 billion for the Brooklyn-Queens Expressway). In addition, the City would provide the MTA with \$837 million over the next 10 years, including \$657 million for the MTA's 2015-2019 capital program.
- Housing projects would be allocated \$11.7 billion, a fourfold increase from the previous capital strategy. The City would allocate \$7.5 billion to projects that would help the City reach its goal of building and preserving 200,000 affordable housing units over the next 10 years, although a detailed plan has not yet been released. The City would also allocate \$899 million to the New York City Housing Authority, far more than the \$64 million allocated in the previous capital strategy.
- The uniformed agencies would receive \$6.7 billion, an increase of 72 percent. The Department of Sanitation would receive \$2.3 billion, mostly for new vehicles and garages throughout the City. The other uniformed agencies would receive \$4.4 billion, mostly for renovations to existing facilities.
- The City would allocate \$14.2 billion to other City agencies, with more than one-quarter of the investment (\$3.7 billion) devoted to energy-efficiency projects, a threefold increase from two years ago. Parks would receive \$2.5 billion, an increase of 66 percent, and court buildings would receive \$1.5 billion for needed renovations. Libraries would be allocated \$623 million over the next 10 years, triple the level of funding in the previous capital strategy.

The City intends to finance these capital commitments exclusively through debt. New debt issuances would peak in FY 2019 at \$7 billion, almost twice the amount planned for FY 2015. As a result, debt service is projected to increase sharply over the next 10 years. While the City expects debt service through FY 2019 to be lower than projected two years ago (see Figure 11), beginning in FY 2021 debt service would exceed the levels projected in May 2013 as capital spending ramps up.

Debt service would reach \$9 billion by 2023, \$800 million more than projected in May 2013 and 55 percent higher than currently projected for FY 2015. Even so, the City forecasts that the debt service burden (i.e., debt service as a share of tax revenue) would remain below 14 percent. (A debt service burden above 15 percent is considered high.)

These estimates assume the City will meet its annual capital commitment targets, although the City has had difficulties doing so in the past. The City expects capital commitments to average more than \$9 billion during fiscal years 2016 through 2019, while actual commitments averaged less than \$6 billion during fiscal years 2011 through 2014. It still remains to be seen whether the City will meet its capital commitment target for FY 2015.

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



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

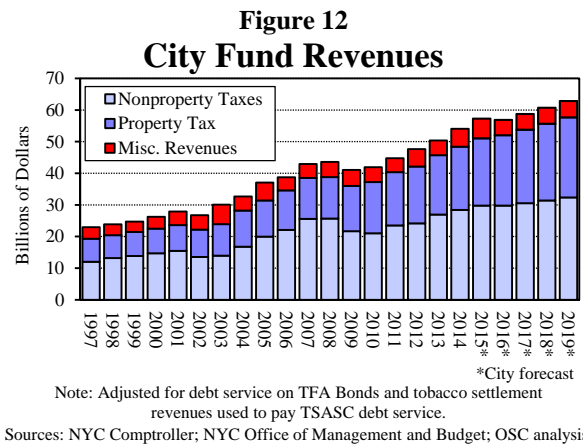
VI. Revenue Trends

The May Plan assumes that City fund revenues will decline by 0.8 percent to \$56.9 billion in FY 2016 (see Figure 12) because the prior year benefited from a one-time transfer of \$1 billion from the Health Stabilization Fund. Tax collections, which account for about 90 percent of City fund revenue, are expected to grow slowly in FY 2016, but then accelerate in subsequent years.

At the beginning of FY 2015, the City predicted that the economy would slow, causing tax collections to stall. However, the economy performed much better than the City had expected, and tax collections are on track to exceed the City's initial forecast by more than \$2.4 billion, an annual growth rate of 5.6 percent.

The City is once again assuming that the economy will slow. Yet four months into 2015, employment continues to be robust, growing at 2.6 percent, and other indicators (such as tourism and real estate) remain strong. The May Plan assumes that tax revenues will grow by 1.9 percent in FY 2016 after growing by more than 5.5 percent annually in the past two years. Each additional 1 percent growth in tax collections would generate \$500 million more for the City. The May Plan assumes that tax collections will grow by an average of 3.5 percent annually during fiscal years 2017 through 2019, which is more in line with recent trends.

The possibility of an economic setback, however, should not be ignored. For example, the Great Recession caused a tax revenue loss of \$3.1 billion over a two-year period compared to projections made in June 2008. The City also experienced a significant tax revenue loss from the 2000-2003 recession and the terrorist attacks on the World Trade Center. The City has been building up its reserves to better prepare for any potential loss of tax revenues.



The May Plan is based on the trends shown in Figure 13 and discussed below.

Figure 13
City Fund Revenues

(in millions)

	FY 2015	FY 2016	Annual Growth	FY 2017	FY 2018	FY 2019	Average Three-Year Growth Rate
Taxes							
Real Property Tax	\$ 21,270	\$ 22,240	4.6%	\$ 23,267	\$ 24,272	\$ 25,336	4.4%
Personal Income Tax	10,067	10,309	2.4%	10,414	10,647	10,984	2.1%
Sales Tax	6,756	7,038	4.2%	7,320	7,617	7,886	3.9%
Business Taxes	6,058	6,196	2.3%	6,369	6,560	6,791	3.1%
Real Estate Transaction Taxes	2,718	2,497	-8.1%	2,577	2,653	2,724	2.9%
Other Taxes	3,202	3,037	-5.2%	3,124	3,189	3,243	2.2%
Audits	982	711	-27.6%	711	711	711	0.0%
Subtotal	51,053	52,028	1.9%	53,782	55,649	57,675	3.5%
Miscellaneous Revenues	6,259	4,843	-22.6%	4,995	5,092	5,157	2.1%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	\$ 57,297	\$ 56,856	-0.8%	\$ 58,762	\$ 60,726	\$ 62,817	3.4%

Note: Miscellaneous revenues include tobacco settlement revenues used to pay TSASC debt service.

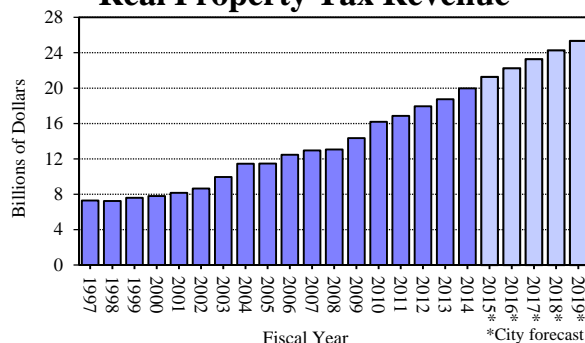
Sources: NYC Office of Management and Budget; OSC analysis

1. Real Property Tax

Since FY 2010 (the last year in which property tax rates were raised), property tax collections have increased at an average annual rate of more than 5 percent. Collections will total \$22.2 billion in FY 2016 (see Figure 14), more than one-third higher than in FY 2010. Although tax rates have not risen during this period, taxes have increased by an average of \$1,200 for residential home owners and by an average of \$27,000 for commercial property owners as property values have risen.

The May Plan assumes that property tax collections will increase by 4.6 percent in FY 2016 after growing by 6.5 percent in FY 2015, based on continued strength in the real estate markets as reflected in the tentative property tax roll. The final tax roll, which was released on May 26, 2015, shows slightly stronger growth in property tax assessments than forecast by the City. As a result, OSC estimates that property tax collections will be higher by \$200 million annually during fiscal years 2016 through 2019.

Figure 14
Real Property Tax Revenue



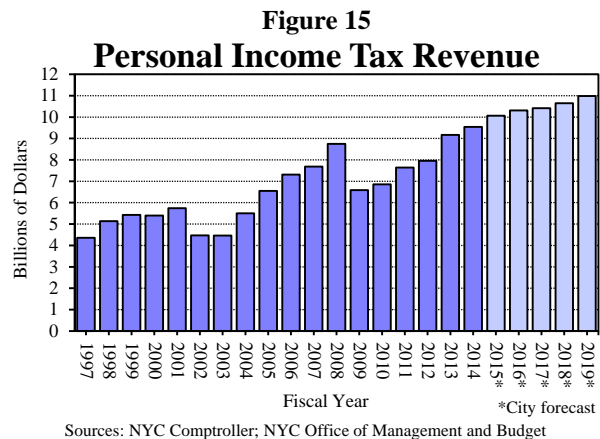
Sources: NYC Comptroller; NYC Office of Management and Budget

The May Plan assumes that after FY 2016 the real estate markets will soften as interest rates rise and demand wanes. Nevertheless, property tax collections are still projected to grow at an average annual rate of 4.4 percent during fiscal years 2017 through 2019 as recent increases in assessed values are phased in. State law requires that increased assessments for commercial and large residential properties be phased in over five years, and thus prior increases in assessed values continue to impact tax revenues in subsequent years. If long-term interest rates rise at a slower rate than projected in the May Plan, growth in property values could exceed the City’s forecast, yielding additional revenues.

2. Personal Income Tax

Personal income tax collections are projected to grow by 2.4 percent in FY 2016 after growing at an annual average rate of 7.3 percent for the past six years (see Figure 15). This slowdown is based on the City’s assumption that wage and job growth will slow in 2015 and that bonuses will increase only slightly for 2015. The City assumes that personal income tax collections will ease further in FY 2017 (growing by 1 percent) and then will pick up slightly during the remainder of the financial plan period.

Growth in withholding collections, the largest component of the tax, is expected to slow to 4.5 percent in FY 2016, after growing by more than 6 percent annually during fiscal years 2013 to 2015. Collections from estimated payments have been strong during the current fiscal year, because rising equity and real estate markets led to an increase in capital gains realizations. The City expects capital gains to decline as a result of weaker real estate and equity markets, resulting in flat growth in estimated payments in FY 2016.

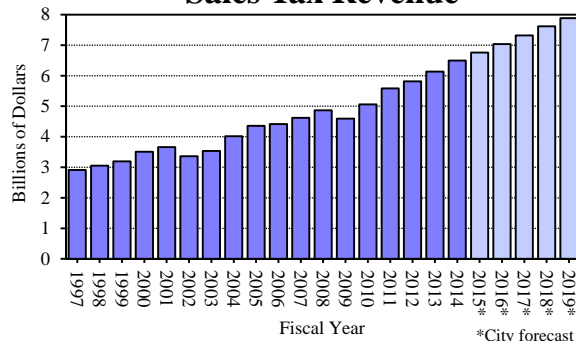


Since the beginning of FY 2015, the City has raised its personal income tax forecast by \$880 million as a result of a stronger-than-expected economic growth. Nearly halfway through the calendar year, economic indicators in the City remain strong. If growth were to continue at the current rate, OSC expects that collections from the personal income tax could exceed the City’s forecast by \$300 million in FY 2015, and by \$225 million annually thereafter.

3. Sales Tax

Sales tax collections have been strong since FY 2009, benefiting from a robust local economy and increased spending by the record number of tourists. After annual growth of 5.7 percent during the past two years, the May Plan assumes that sales tax collections will grow by an average of about 4 percent during fiscal years 2015 through 2019 (see Figure 16). After a strong holiday season, sales tax collections have been weak in recent months, reflecting the impact of the rising value of the U.S. dollar on tourism.

Figure 16
Sales Tax Revenue



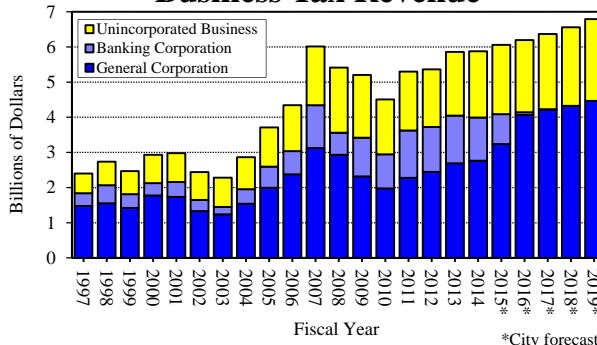
Sources: NYC Comptroller; NYC Office of Management and Budget

4. Business Taxes

Collections from the three business taxes (the general corporation, banking corporation and unincorporated business taxes) are projected to reach a record level of \$6.2 billion in FY 2016, and then continue to grow at a moderate rate (an annual average of 3.1 percent). The recently enacted State budget modified the City’s business taxes by merging the banking corporation tax into the general corporation tax, effective January 1, 2015. The May Plan assumes that these reforms will be revenue-neutral.

As shown in Figure 17, banking corporation tax collections begin to taper off in FY 2015 (since the law took effect halfway through the fiscal year) as the first payment under the new law is due in June 2015 (i.e., the last month of FY 2015). Nevertheless, the law gives some leeway to financial institutions that are affected by the change to defer their June payment to September, without penalty. The City expects revenue from the banking corporation tax to continue through FY 2017.

Figure 17
Business Tax Revenue

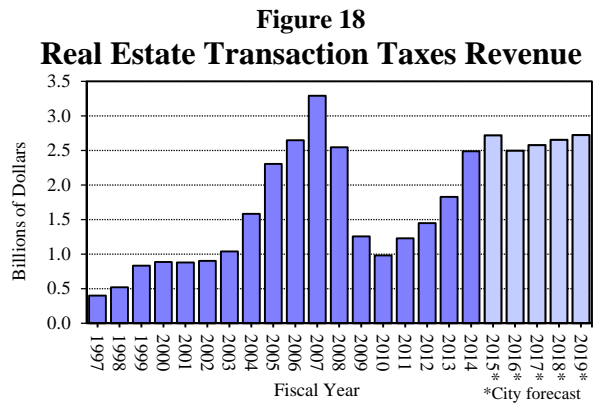


Sources: NYC Comptroller; NYC Office of Management and Budget

5. Real Estate Transaction Taxes

The City's commercial and residential real estate markets remain strong, boosted by historically low interest rates and strong demand from both domestic and international buyers. The value of sales for large Manhattan commercial properties (those valued at \$50 million or more) totaled \$8.2 billion during the first quarter of 2015, compared to \$3.4 billion one year earlier. Growth has been driven by the sale of large office buildings, as well as large stores and hotels (including \$2.2 billion for 1095 Sixth Avenue and \$1.7 billion for the Waldorf Astoria). Based on current trends, collections could be higher by \$75 million in FY 2015.

However, the May Plan assumes that collections will decline by more than 8 percent in FY 2016 to \$2.5 billion, reversing five years of strong growth (see Figure 18). The City expects higher interest rates and lower demand from foreign investors to result in fewer transactions and lower sales in FY 2016. Much will depend on how quickly the Federal Reserve increases short-term interest rates and the impact that may have on long-term rates. While FY 2016 collections may reach, or even exceed, the FY 2015 level under current conditions, OSC is taking a guarded approach (forecasting higher collections of \$125 million) with higher short-term interest rates on the horizon.



6. Miscellaneous Revenues

Miscellaneous revenues are projected to total \$4.8 billion in FY 2016, about \$300 million less than forecast for FY 2015 (excluding a one-time transfer from the Health Stabilization Fund). Collections are expected to decline in FY 2016 because FY 2015 benefited from one-time revenues, such as \$174 million from a sale of City-owned property to Memorial Sloan Kettering Cancer Center and a legal settlement payment of nearly \$82 million from Commerzbank AG. Water and sewer charges will rise by 3 percent in FY 2016, the smallest annual increase since FY 2001, as the City seeks to hold down the growth in utility charges for home owners.

Changing market conditions have affected the City's expectations for proceeds from the future sale of taxi medallions. The City has postponed the next auction until FY 2017 to allow the industry to absorb new entrants, such as Uber, and for medallion values to firm. Since June 2014, the City has cut its revenue forecast for medallion sales during the financial plan period nearly in half, from \$1.3 billion to \$731 million. The City collected \$359 million from the sale of the first 350 medallions, and is authorized to sell another 1,650 medallions.

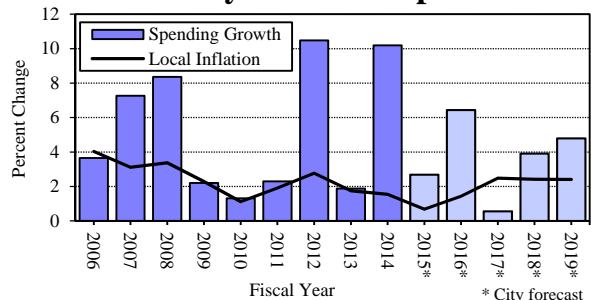
VII. Expenditure Trends

City-funded spending (adjusted for surplus transfers) is projected to rise by \$3.6 billion in FY 2016 to \$60 billion (\$78.3 billion in total funds). This represents an increase of 6.4 percent, much faster than the projected inflation rate (see Figure 19). The City’s decision to increase its reserves accounts for a large portion of the growth in spending (nearly \$1.5 billion).

Excluding reserves, City-funded spending would grow by \$2.2 billion in FY 2016, or 3.9 percent, which is still twice as fast as the projected inflation rate. Salary and wage costs are projected to rise by \$1 billion (6.4 percent) as a result of new agency initiatives and higher collective bargaining costs. Debt service would increase by \$612 million in FY 2016 (10.5 percent) and health insurance costs would increase by \$450 million (10.8 percent). Spending would rise by only 1.4 percent in FY 2017, but then resume growing at an average annual rate of 4.4 percent over the next two fiscal years, reflecting the cost of new collective bargaining agreements.

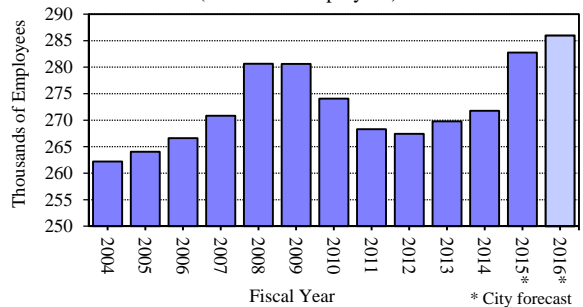
The May Plan assumes that the City’s full-time workforce (including positions funded by the federal and State governments) will increase by 11,006 employees during FY 2015 (see Figure 20). This would be the largest increase since FY 2008, but many of the positions remain vacant. As of March 2015, the City had added fewer than half of the planned hires, with most of the vacancies concentrated in the health and welfare and the uniformed agencies. The May Plan assumes that the vacancies will be filled by the beginning of FY 2016 (for details, see Appendix). The City also plans to hire another 3,197 employees during FY 2016, including teachers to staff an expansion of the full-day prekindergarten program. The full-time workforce is projected to reach 285,970 employees by the end of FY 2016.

Figure 19
Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers, TFA, TSASC and discretionary actions. City-funded expenditures grew by 10.2 percent in FY 2014 largely because of the cost of new labor agreements, which increased costs by \$2 billion in that year.
Sources: NYC Office of Management and Budget; OSC analysis

Figure 20
Staffing Levels
(Full-Time Employees)



Note: Staffing levels are as of June 30 of each fiscal year.
Sources: NYC Office of Management and Budget; OSC analysis

The May Plan is based on the trends shown in Figure 21 and discussed below.

Figure 21
Estimated City-Funded Expenditures
(in millions)

	FY 2015	FY 2016	Annual Growth	FY 2017	FY 2018	FY 2019	Average Three-Year Growth Rate
Salaries and Wages	\$ 16,041	\$ 17,075	6.4%	\$ 17,239	\$ 18,558	\$ 20,018	5.4%
Pension Contributions	8,463	8,599	1.6%	8,562	8,569	8,667	0.3%
Medicaid	6,353	6,322	-0.5%	6,322	6,322	6,322	0.0%
Debt Service	5,805	6,417	10.5%	6,604	6,970	7,510	5.4%
Health Insurance	4,148	4,598	10.8%	4,834	5,060	5,575	6.6%
Other Fringe Benefits	2,682	2,830	5.5%	2,928	3,013	3,238	4.6%
Energy	846	836	-1.2%	880	927	963	4.8%
Judgments and Claims	555	570	2.7%	606	642	677	5.9%
Public Assistance	627	653	4.1%	647	647	647	-0.3%
General Reserve	50	1,000	NA	1,000	1,000	1,000	NA
Retiree Health Benefits Trust	280	---	NA	---	---	---	NA
Prior Year's Expenses	(100)	---	NA	---	---	---	NA
Capital Stabilization Reserve	---	500	NA	---	---	---	NA
Other	10,615	10,596	-0.2%	10,712	10,985	11,081	1.5%
Total	\$ 56,365	\$ 59,996	6.4%	\$ 60,334	\$ 62,693	\$ 65,698	3.1%

Note: Debt service has been adjusted for surplus transfers, TSASC and redemptions.

Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

In May 2014, the City and the United Federation of Teachers (UFT), which represents the City's teachers and paraprofessionals (33 percent of the workforce), reached a nine-year labor agreement. The UFT agreement compensates teachers and other UFT members for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to members of the UFT.^{7,8} The agreement also increases wages by 10 percent over a seven-year period.

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

⁷ The City had set aside resources to increase the wages for members of the UFT by 4 percent in each of calendar years 2009 and 2010, but the City redirected those resources in 2010 to offset a sharp reduction in State education aid, which resulted from the State's efforts to balance its budget during the recession.

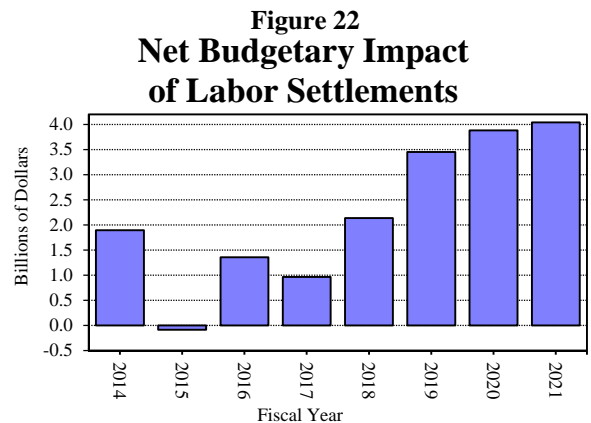
⁸ The cost of compensating UFT members who retired between November 1, 2009, and June 30, 2014, for the time they worked without pay raises is expected to exceed the \$180 million set aside in the Structured Retiree Claims Settlement Fund. An independent arbitrator has modified the terms of the UFT wage agreement to generate offsetting savings, which will cover the difference at no additional cost to the City.

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

As of May 2015, the City had reached new labor agreements with nearly 80 percent of its unionized workforce, including District Council 37, which represents most civilian employees.⁹ The City, however, has yet to reach new agreements with the unions that represent the City’s police officers, firefighters and correction officers. The Patrolmen’s Benevolent Association (which represents police officers) and the City have begun binding arbitration.

The City estimates that recently negotiated and anticipated agreements will cost \$14.2 billion during fiscal years 2014 through 2018, but that the cost will be partially offset by resources that had been set aside by the City in its labor reserve prior to reaching the UFT agreement (\$3.5 billion), and by new resources (\$4.4 billion) that are expected to result from a separate agreement between the City and its unions (see “Health Insurance” later in this section). The net budgetary impact during fiscal years 2014 through 2018 is expected to total \$6.3 billion.

The budgetary impact will be greatest during fiscal years 2018 through 2021, and will peak at more than \$4 billion in FY 2021 (see Figure 22). The cost continues to rise after the expiration of the contracts beginning in 2018 because of lump-sum payments to compensate members of the UFT and other employees for the time they went without wage increases, as well as the full impact of wage increases granted in prior years.¹⁰



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

⁹ Most recently, the City announced that it will increase the wages of 35,000 employees of nonprofit entities under contract to the City by 2.5 percent, and that it will ensure that these employees earn at least \$11.50 per hour, consistent with the City’s living wage law.

¹⁰ The City estimates that lump-sum payments will total \$7.2 billion during fiscal years 2014 through 2021, of which \$4.2 billion will be included in the budgets for fiscal years 2019 through 2021 after most contracts expire in 2018.

2. Pension Contributions

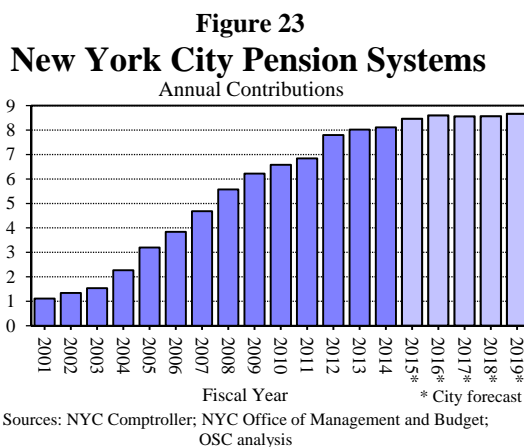
After rising rapidly over the past decade, the growth in City-funded pension contributions has slowed significantly in recent years. The slowdown reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,¹¹ better-than-expected investment returns over the past five years, and savings from lower-cost pension plans for City employees hired after March 31, 2012.

Though pension contributions have not declined, they are projected to remain relatively constant during the financial plan period (averaging \$8.6 billion), which is a sharp contrast to the rapid growth during the past decade (see Figure 23).

Strong investment earnings during fiscal years 2013 and 2014 generated cumulative budgetary savings of nearly \$3.4 billion during fiscal years 2015 through 2019, helping to balance the budget and to fund new labor agreements. In the current fiscal year, the pension funds have earned, as of May 31, 2015, about 2.5 percent on their investments, compared to the expected annual return of 7 percent. If the pension funds earn less than the expected investment return for the full year, the City could be required to make additional contributions beginning in FY 2017.

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

The Mayor has proposed legislation that would marginally increase disability pension benefits for firefighters and police officers hired after June 30, 2009. These employees currently receive 50 percent of their five-year average salary, offset by 50 percent of their Social Security Disability Insurance benefit. By contrast, employees hired before that date receive 75 percent of their highest salary with no Social Security offset. The State Senate has approved legislation that would restore the original benefit, which is supported by the unions representing these employees, as well as by the Governor. Restoring the benefit would cost an estimated \$342 million over five years beginning in FY 2015.

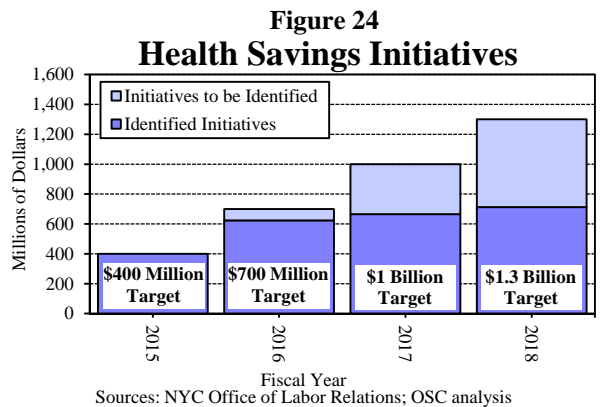


¹¹ These include a longer amortization period for unfunded liabilities, which held down contributions during the financial plan period but will result in higher costs over the longer term.

3. Health Insurance

City-funded health insurance costs for municipal employees are projected to decline by 3 percent in FY 2015 to \$4.1 billion, mainly as a result of an agreement between the City and the Municipal Labor Committee (MLC); this is the first reduction in 20 years. The agreement is expected to generate savings of \$400 million in FY 2015, \$700 million in FY 2016, \$1 billion in FY 2017 and \$1.3 billion in FY 2018, with recurring savings of \$1.3 billion in subsequent years. The savings will be used to help fund wage increases for municipal employees.

On April 1, 2015, the Commissioner of Labor Relations reported that the City will reach the \$400 million savings target for FY 2015 and is on track to meet or even exceed the FY 2016 savings target (see Figure 24). The commissioner acknowledged that meeting the savings targets for fiscal years 2017 and 2018 would be a greater challenge, but that substantial progress has already been made. According to the City, it has identified initiatives that will generate savings of \$665 million in FY 2017 and \$713 million in FY 2018.



Nearly all of the savings in FY 2015 will come from administrative actions. For example, the MLC has agreed to fund the cost of certain mental health benefits from the Health Stabilization Reserve (\$153 million), relieving the City of the financial obligation.¹² Similarly, an audit that identified ineligible dependents resulted in the conversion of 14,000 health insurance plans from family coverage to individual coverage (\$108 million).

Savings from lower-than-planned increases in health insurance premiums account for a large amount of the anticipated savings (\$55 million in FY 2015, \$377 million in FY 2016, \$414 million in FY 2017, \$455 million in FY 2018 and \$489 million in 2019). For example, the City had assumed that health insurance premiums for active employees would grow at an annual rate of 9 percent, which was consistent with historical trends. In the fall of 2014, the State approved an increase in health insurance

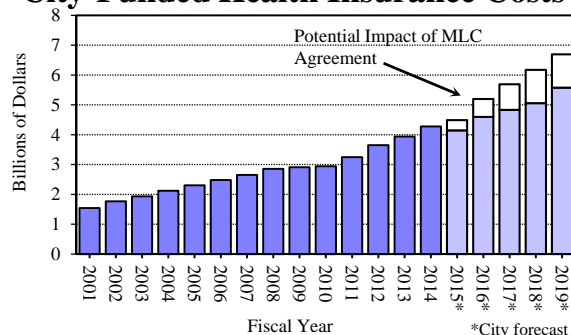
¹² In late 2014, an arbitration panel ruled that the City is obligated to reimburse the Health Stabilization Fund (HSF), which was established in 1986 pursuant to collective bargaining, for the cost of certain mental health benefits. The MLC agreed to allow this cost to be funded by the HSF, as the City had originally proposed, and to credit the savings toward the target for FY 2015.

premiums in FY 2016 of less than 2.9 percent for the Health Insurance Plan of Greater New York (the City’s principal insurer).

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

If the savings are realized as planned, the growth in health insurance costs between fiscal years 2014 and 2019 would slow from a projected average annual rate of 9.3 percent to 5.4 percent. Nevertheless, health insurance costs would still reach \$5.6 billion by FY 2019 (see Figure 25), 30 percent more than the cost in FY 2014.

Figure 25
City-Funded Health Insurance Costs



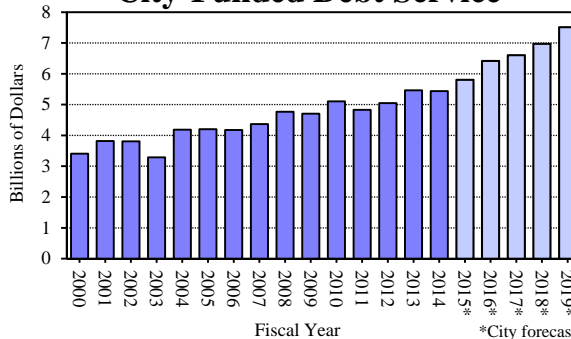
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

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

4. Debt Service

Despite a 28 percent increase in the size of the four-year capital program since the February Plan, debt service is projected to be lower by \$159 million in FY 2016 and by an average of \$368 million annually thereafter. The reduction results largely from a downward revision in the City’s interest rate assumption for fixed-rate bonds and from excess State building aid that will be used to pay debt service on TFA debt. Nonetheless, City-funded debt service (adjusted for surplus transfers) is still projected to grow from \$5.4 billion in FY 2014 to \$7.5 billion in FY 2019 (see Figure 26), an increase of \$2.1 billion, or 38 percent.

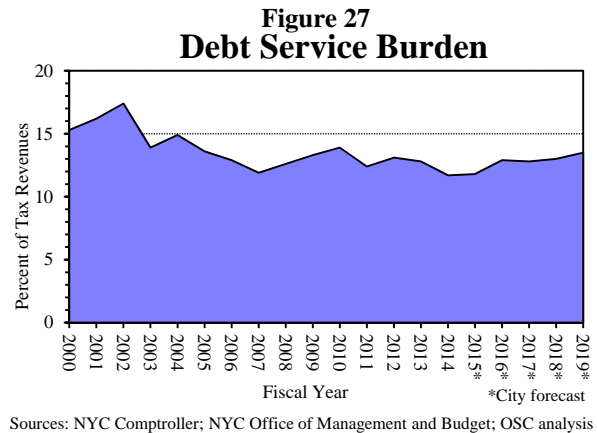
Figure 26
City-Funded Debt Service



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

While debt outstanding as a share of total New York City personal income is projected to remain level at about 13.3 percent during fiscal years 2015 through 2019, debt service as a share of tax revenue is projected to grow from 11.7 percent in 2014 to 13.5 percent in FY 2019 (see Figure 27). These estimates assume that the City’s agencies will meet their annual capital commitment targets, which has been a problem in the past; that interest rates will not grow faster than the City anticipates; and that tax revenues will grow at the rate projected by the City.

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



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

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

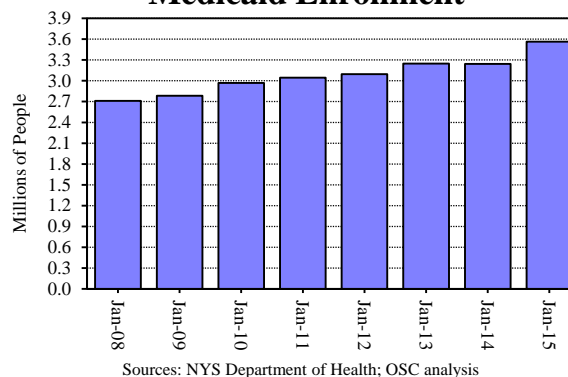
The City has greatly benefited from the current low-interest-rate environment, permitting it to refinance outstanding debt and to issue new debt at lower cost. Over the past five years, the City has realized savings of more than \$2.8 billion. By lowering the interest rate assumption for fixed-rate debt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

5. Medicaid

Enrollment in the federal Medicaid program in New York City has grown steadily since the recession, and the most recent data indicate that enrollment reached almost 3.6 million people in January 2015 (see Figure 28). This represents slightly more than 40 percent of the entire New York City population. Growth accelerated after January 1, 2014, when provisions of the federal Affordable Care Act (ACA) that require health insurance coverage for most individuals became effective. The May Plan assumes that the City's share of the cost of Medicaid will level off at \$6.3 billion in FY 2016 (11 percent of City-funded revenue) as the State completes a three-year takeover in the growth of the local share of Medicaid.

The May Plan assumes the receipt of \$67 million in Medicaid reimbursement in FY 2015 (\$97 million annually thereafter) for services provided by the Department of Education (DOE) to students with special needs. However, the DOE has had problems documenting such claims, and until it can demonstrate that it has overcome these problems OSC considers the receipt of \$50 million in FY 2015 and \$80 million in subsequent years to be uncertain.

Figure 28
Medicaid Enrollment

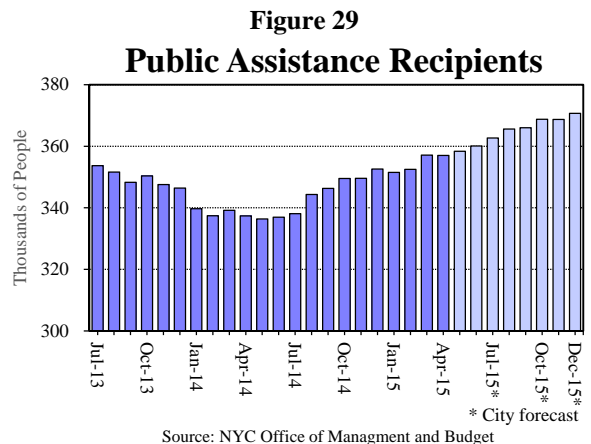


6. Public Assistance

New York City's public assistance caseload declined by more than two-thirds during the late 1990s due to national welfare reforms, which included placing a time limit on benefits and imposing a work requirement on many recipients. Although the number of recipients rose slightly during the last recession, it resumed declining during the economic recovery. By the end of 2013, the number of recipients totaled 346,400.

During calendar year 2014, the City made a number of administrative changes, such as allowing recipients greater flexibility in rescheduling appointments, which has reduced the number of recipients who lose their benefits for noncompliance with program rules. The City also obtained approval from the State and federal governments to increase the amount of education and training that can be applied to a recipient's work requirements.

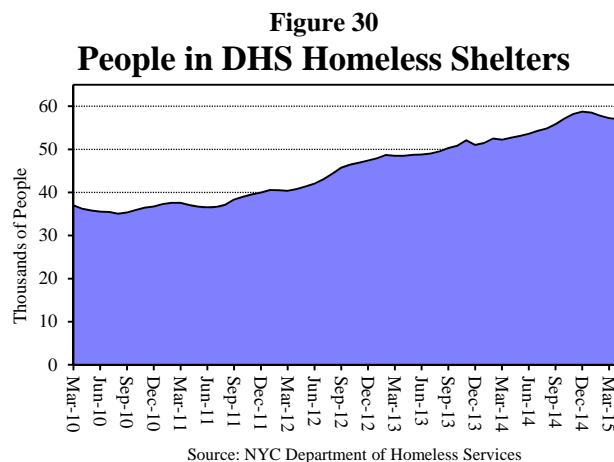
As shown in Figure 29, the number of public assistance recipients has begun to rise in recent months. For the 12-month period ending in April 2015, the caseload increased by 19,641 (6 percent) to 357,000 recipients. The May Plan assumes that the caseload will reach 370,700 by the end of December 2015. While the May Plan assumes no further increase in the caseload beyond that date, this forecast may not be realistic.



Largely as a result of the rising number of recipients, the cost of public assistance increased by 15.5 percent in FY 2015 and is projected to increase by another 4.1 percent in FY 2016 to \$653 million.¹³ The May Plan assumes that the cost of public assistance will remain close to the FY 2016 level throughout the remainder of the financial plan period. These amounts may be insufficient, however, if recent increases in the caseload continue or if the economy experiences a setback.

7. Homeless Services

As shown in Figure 30, an average of nearly 57,000 people (including almost 24,000 children) resided in shelters operated by the Department of Homeless Services (DHS) during April 2015, 8 percent more than one year earlier. Even though the caseload has declined in recent months, the City’s shelter population remains at historically high levels.



The recent decline in the DHS shelter population is due in large part to City efforts to reduce homelessness. Since September 2014, the City and the State have developed six Living in Communities (LINC) programs that provide temporary rental assistance and support services for people in homeless shelters and other types of temporary housing. The City reports that, since the start of the LINC programs, 4,710 people have been moved out of shelters into more permanent subsidized housing. The

¹³ About one-third of the increase in expenditures during FY 2015 (almost \$30 million) is due to an initiative to provide rent relief to public assistance recipients living with HIV/AIDS.

LINC programs will be complemented by a new State-funded pilot rental assistance program, which is expected to benefit 1,000 families at risk of homelessness and those already in the shelter system in 2016.

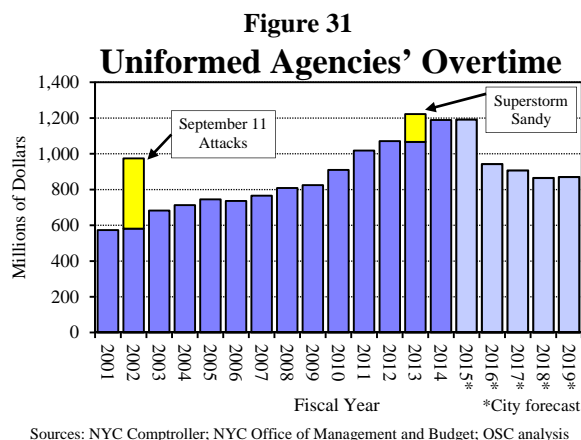
The State’s enacted budget dedicates an additional \$522 million in State and City funding to homeless services in New York City during fiscal years 2015 through 2018. Much of the funding results from a State mandate that the City increase funding for rental assistance programs by \$220 million over four years, and redirect savings expected to result from a State-imposed cap on local contributions for the cost of State-run juvenile justice facilities. For its part, the State will provide \$82 million for rental assistance programs. In addition, the City will also benefit from a \$125 million statewide initiative to provide housing and support services to people susceptible to homelessness, such as seniors and veterans, although the details of the program have not yet been promulgated.

As a result of growth in the number of people housed in DHS facilities over the past year, the City has increased City-funded shelter expenditures for FY 2015 by 23 percent to \$479 million. City funding for DHS shelters will be reduced to \$467 million by FY 2019 in response to an expected reduction in the homeless population. The City has committed \$111 million in FY 2016 for homelessness prevention, anti-eviction legal services, and rental assistance programs to help accelerate the reduction. These funds will be complemented by \$36 million in capital funds in FY 2016.

8. Uniformed Agencies

Overtime costs in the uniformed agencies (i.e., the Police, Fire, Correction and Sanitation departments) are projected to reach \$1.2 billion in FY 2015. This would be the highest level on record, excluding FY 2013, which was impacted by Superstorm Sandy (see Figure 31). Nevertheless, the May Plan assumes that overtime will decline to \$943 million in FY 2016, an unprecedented drop of \$248 million (21 percent), and will continue to decline in subsequent years.

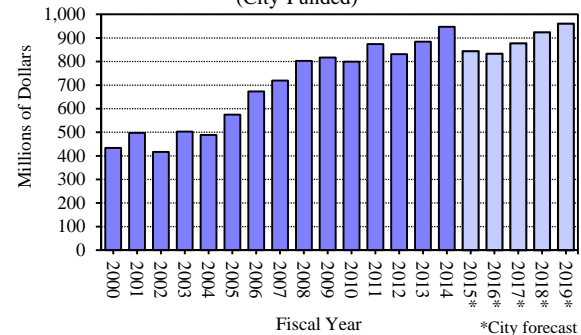
Even after taking into account the likely receipt of federal and State grants that are used to help fund overtime, OSC estimates that overtime could exceed the City’s forecast by \$50 million in FY 2015, \$150 million in FY 2016 and \$125 million in subsequent years. Each of the uniformed agencies have been dealing with issues that have increased overtime in recent years, which they have yet to fully address.



9. Energy

Energy costs (i.e., electricity, fuel and heat) rose sharply between fiscal years 2004 and 2008, mostly as a result of higher prices for oil and natural gas (see Figure 32). Costs remained relatively stable during the next two years, then rose by 9 percent in FY 2011, reflecting a harsh winter. Another cold winter during FY 2014 contributed to record-high costs of \$935 million. The May Plan assumes that energy costs will decline in FY 2015 to \$846 million despite the harsh winter, mostly as a result of lower prices for electricity, fuel and heat. Costs are then expected to increase by 14 percent to \$963 million by FY 2019.

Figure 32
Energy Costs
(City-Funded)

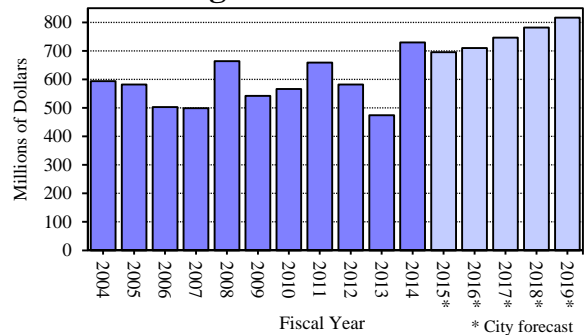


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

10. Judgments and Claims

The cost of judgments and claims is projected by the City to total \$710 million in FY 2016 (\$570 million excluding costs associated with the Health and Hospitals Corporation), which is less than the record set in 2014 but more than the cost projected for FY 2015 (see Figure 33). Costs are projected to rise at an average annual rate of 4.8 percent in subsequent years, reaching \$817 million in FY 2019.

Figure 33
Judgments and Claims



Source: NYC Comptroller; NYC Office of Management and Budget

VIII. Semi-Autonomous Entities

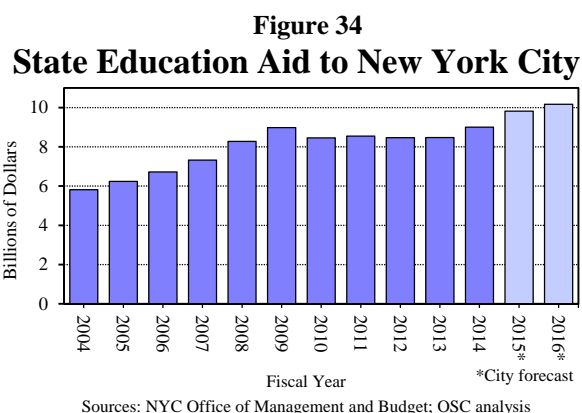
As discussed below, a number of semi-autonomous entities have a financial relationship with the City.

1. Department of Education

The May Plan allocates \$27.6 billion to the Department of Education (DOE) for FY 2016, an increase of \$1.3 billion over FY 2015. Of the total, 56 percent (\$15.4 billion) will come from the City, 37 percent (\$10.3 billion) will come from the State, and the remainder will come from the federal government (6.2 percent) and other sources. Nearly half (45 percent) of the allocation will go to fringe benefits, including pensions; debt service; and pass-throughs (e.g., charter schools). The remainder (\$15 billion) will help fund educational and support programs (e.g., transportation).

The State-enacted budget for State fiscal year 2015-2016 increases education aid to the City by \$505 million, which is \$228 million more than anticipated by the City in the February Plan.¹⁴ The increase in State education aid is contingent upon the implementation of a new teacher evaluation system (to be promulgated by the New York State Education Department by June 30, 2015). The statute provides that any conflicting provisions of existing collective bargaining agreements would not be nullified by the new requirement. The City's collective bargaining agreement with the United Federation of Teachers expires on November 30, 2018.

The State had been making progress toward the funding target pursuant to the 2007 settlement agreement to the Campaign for Fiscal Equity litigation (CFE), but then the recession began in 2009. In FY 2010, State education aid to the City declined as the State cut spending in response to the recession. Over the past three years, the State has increased education aid to the City by \$1.9 billion (see Figure 34), but the level of aid is still below the CFE funding target.



¹⁴ The City may also benefit from initiatives that increase State education aid to “persistently failing” schools, and that expand prekindergarten services for three- and four-year-old children.

In FY 2016, the City intends to further expand full-day prekindergarten and after-school programs for middle-school students. The City expects to enroll 70,000 full-time prekindergarten students in the fall, nearly 51,000 more than two years ago. In addition, the Mayor has proposed allocating additional resources (\$158 million in FY 2016) to struggling and underperforming schools.

2. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC), which is the largest municipal hospital system in the country and the largest provider of health care to uninsured City residents, faces serious financial challenges. The HHC relies heavily on Medicaid (which provides two-thirds of its total revenue), and is significantly affected by State and federal government actions that impact Medicaid.

The HHC has faced a significant structural imbalance in its finances for years. Despite efforts to solve the underlying imbalance, the situation is expected to worsen in the absence of corrective measures. Operating expenses are projected to grow by 25 percent between fiscal years 2014 and 2019, while revenues are expected to grow by only 4 percent during this period.

In an effort to assist the HHC, the City has provided additional financial assistance. During fiscal years 2013 and 2014, for example, the City paid \$750 million of the HHC's financial obligations, including debt service on City bonds issued on the HHC's behalf as well as the cost of medical malpractice. In addition, the City had set aside \$1.4 billion to fund new labor agreements at the HHC during fiscal years 2014 through 2018. To date, it has transferred \$535 million to HHC for this purpose.

Although the City has agreed to forgo repayment of \$300 million for FY 2013, the HHC still owes \$310 million for FY 2014.¹⁵ In addition, the HHC owes the City \$430 million in the current fiscal year, largely for debt service and medical malpractice costs, bringing the total amount owed the City to \$740 million in FY 2015.

The HHC expects to end FY 2015 with a cash balance of \$500 million (after reimbursing the City), assuming the receipt of a \$1 billion supplemental Medicaid payment from the federal government. However, only \$300 million of these claims (originating from as far back as FY 2012) have been approved by the federal government, which raises concerns as to when the remaining funds will be received and what the total amount will be.

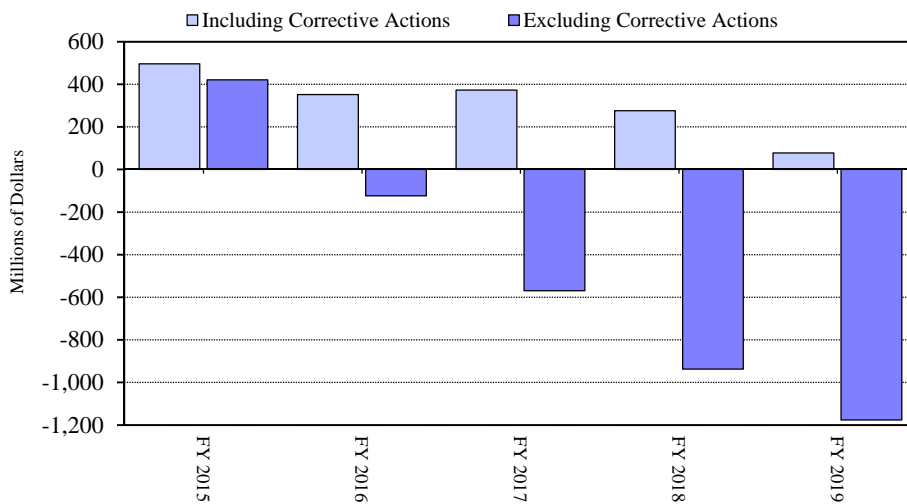
The HHC had expected to receive \$2 billion in federal funds over five years to help reinvent the municipal hospital system as part of the State Medicaid waiver. The HHC had planned to use those resources to reduce utilization of costly inpatient and

¹⁵ In January 2015, the HHC repaid the City \$140 million of the \$450 million it owed from FY 2014.

emergency room services by increasing access to primary care, improving management of chronic health conditions, and integrating mental health and substance abuse treatments. Based on the feedback from the State’s approval and oversight panel, the HHC now expects to receive \$1.3 billion over six years from the waiver (including \$214 million in FY 2015), which is \$700 million less than previously expected.

The HHC maintains that it will improve its finances in the long term by expanding access to care, increasing MetroPlus enrollment, increasing the number of patients it treats annually and obtaining savings through its negotiations with vendors.¹⁶ The HHC is also working with the State and federal governments to maintain its level of supplemental Medicaid funding. As shown in Figure 35, even if successful, the HHC projects that it will end FY 2019 with a cash balance of only \$78 million. If unsuccessful, the HHC would run out of cash during FY 2016.

Figure 35
Health and Hospitals Corporation
Projected Year-End Cash Balance



Sources: NYC Health and Hospitals Corporation; OSC analysis

¹⁶ The MetroPlus Health Plan is a public benefit corporation created by the HHC that contracts primarily with HHC facilities for the purpose of providing managed health care services. Beginning on January 1, 2014, MetroPlus began offering qualified health insurance plans through the State’s health insurance exchange.

3. Metropolitan Transportation Authority

The MTA's February 2015 financial plan shows improvement in the MTA's finances as subway ridership continues to reach record levels and commercial real estate transaction tax collections continue to rebound. The February Plan projects a balanced budget for calendar years 2014 through 2017, and a budget gap of \$305 million in 2018. The forecast includes the recently approved fare and toll increases of 4 percent for 2015, and assumes a similar increase in 2017. The MTA will release an updated financial plan in July 2015.

The MTA still faces the challenge of adequately funding its next capital program without putting the financial burden on riders. The MTA's proposed \$32.1 billion capital program for 2015-2019 had a \$15.2 billion funding gap. The State has since approved \$1 billion for the capital program, reducing the funding gap to \$14 billion.

The MTA's proposed capital program relies heavily on federal funding and assumes that funding will continue at current levels. However, federal authorization for transit spending expired in September 2014 and was extended only through July 31, 2015. The Highway Trust Fund (HTF), which funds both mass transit and highways, is expected to run out of money in July 2015. The House of Representatives has proposed cutting federal funding for mass transit in federal fiscal year 2016, and is opposed to increasing funding for the HTF.

As the MTA had requested, the City's proposed 10-year capital strategy will provide \$657 million for the MTA's 2015-2019 capital program. Only a few days before the release of the City's capital strategy, the MTA asked for an additional allocation of \$1.9 billion, including \$1 billion for the next phase of the Second Avenue Subway.

To address the gap in the MTA's capital program, Move NY, a transportation advocacy group, has proposed charging tolls on the East River bridges and below 60th Street in Manhattan, with the proceeds dedicated to lowering tolls on the outer-borough crossings and to funding transportation capital projects. Move NY estimates that its proposal would raise an estimated \$1.5 billion annually for transportation capital projects, including \$1.1 billion for the MTA's capital program. Assemblyman Brennan has proposed raising \$1 billion annually by increasing the State income tax for taxpayers within the 12-county MTA region who earn between \$500,000 and \$2 million, and requiring the City to increase its capital contribution to the MTA.

In the absence of new sources of capital funding, the MTA could be required to close the capital program funding gap through a combination of program reductions and increased borrowing, which is how it closed most of the funding gap in the current capital program. Each \$1 billion borrowed would increase debt service by an amount comparable to a 1 percent increase in fares and tolls. In the months ahead, the MTA will be working with its partners to fund the capital program at an appropriate level.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is a critical component of the City's supply of affordable housing. As the City's largest landlord, NYCHA manages approximately 180,000 apartments with more than 400,000 residents. NYCHA also manages the nation's largest Section 8 housing program, which provides rent subsidies for about 89,000 private apartments that house more than 210,000 residents.

On May 19, 2015, the City released NextGeneration NYCHA, a 10-year plan to improve NYCHA's budgetary outlook and the condition of its properties. Many of the initiatives require outside approval (e.g., from the federal, State and City governments, and affected employee unions) and will take several years to implement. If successful, NextGeneration NYCHA would reduce the projected budget gaps to \$74 million in 2015 and \$25 million in 2016. The operating budget would not be balanced until 2017.

NextGeneration NYCHA relies on additional financial support from the City. The City has taken over many of NYCHA's community and senior centers (\$34 million annually) and waived NYCHA's payment in lieu of taxes (\$33 million annually).¹⁷ The City has also set aside funding to cover the cost of new labor agreements with NYCHA's workforce.

Over the next several years, NYCHA will shrink its central office workforce by nearly 1,000 through attrition and by transferring staff to fill vacancies in City agencies (\$90 million annually). NYCHA also plans to improve rent collection rates (its current rate of collection is only 74 percent of the rent owed) and to increase parking fees. In addition, NextGeneration NYCHA calls for an increase in federal support and further private sector development on NYCHA properties.

NYCHA has \$16.9 billion in unfunded capital needs. In response, NextGeneration NYCHA has identified potential sources of capital funding, including the City (\$899 million over 10 years), the State, the Federal Emergency Management Agency and private sector development. Even if these resources are realized, NYCHA would still face an unfunded capital need of \$10.6 billion.

¹⁷ The February Plan had already waived NYCHA's required reimbursement for police services (\$70 million annually).

IX. Other Issues

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

1. Impact of the State Budget

The State budget for State fiscal year 2015-16 increases education aid to New York City by \$505 million for the school year beginning in September 2015, which is \$228 million more than anticipated in the City's February 2015 financial plan. The increase is contingent upon the implementation of a new teacher evaluation system (to be promulgated by the New York State Education Department by June 30, 2015). The statute provides that any conflicting provisions of existing collective bargaining agreements would not be nullified by the new requirement. The City may also benefit from initiatives that increase education aid to "persistently failing" schools, expand prekindergarten services for three- and four-year-old children, and increase State funding for homeless services.

According to the State Division of the Budget, the State took other actions that will increase the City's costs by a net of \$26 million in FY 2016. For example, the State has mandated that the City increase funding for homeless services (estimated at \$55 million in FY 2016) and has capped State reimbursement for emergency assistance to needy families (\$15 million).¹⁸ These costs were partly offset by an extension of funding for two rental assistance programs for the homeless (which the City had anticipated) and new funding for a homeless prevention pilot program (\$15 million). The State also increased funding for transportation (\$12 million), including the Staten Island Ferry.

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

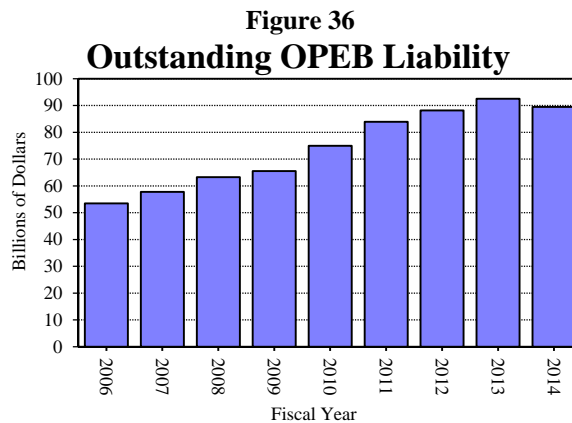
In addition, the State will allocate \$700 million in capital funds to help fiscally distressed health care providers in Brooklyn, and \$100 million in capital funds for NYCHA. The appropriation for NYCHA is contingent upon the approval of a capital revitalization plan by the State Legislature, the Commissioner of the Department of Housing and Community Renewal, and the Division of the Budget.

¹⁸ The City estimates that the cap on State reimbursement for emergency assistance to needy families will cost \$22 million in FY 2016, rather than \$15 million as estimated by the State.

The State budget increases funding to the MTA by \$141 million, including \$104 million dedicated for capital purposes, and allocates \$1 billion for capital projects. The State will contribute \$750 million to the MTA’s 2015-2019 capital plan, and will allocate \$250 million in financial settlement funds toward the \$1 billion estimated cost of linking the Metro-North Railroad to Pennsylvania Station and building four new stations in the Bronx. While these initiatives narrow the \$15.2 billion funding gap in the MTA’s proposed capital program for 2015-2019, a large funding gap remains.

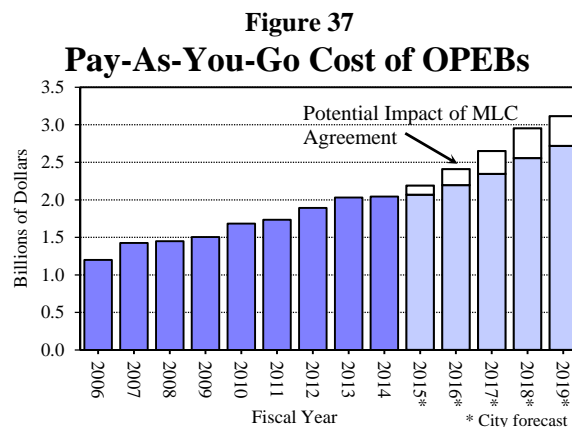
2. Other Post-Employment Benefits

The City’s unfunded liability for post-employment benefits other than pensions (OPEBs) declined by \$3 billion to \$89.5 billion in FY 2014, the first decline since the City began reporting its liability in 2006 (see Figure 36). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City’s contribution to the OPEB trust during FY 2014.



Sources: NYC Actuary; OSC analysis

However, the Governmental Accounting Standards Board (GASB) has approved two statements that could increase the City’s OPEB liability. The changes will conform the standards for measuring OPEB liabilities with those for pension liabilities. In addition, entities that do not fund their OPEB liabilities on an actuarial basis will be required to discount future costs using an interest rate that is lower than the entity’s assumed rate of return on investments. The new statements will take effect for financial statements issued by the City beginning in FY 2018 (one year earlier for OPEB plan statements), but an earlier implementation will be encouraged.

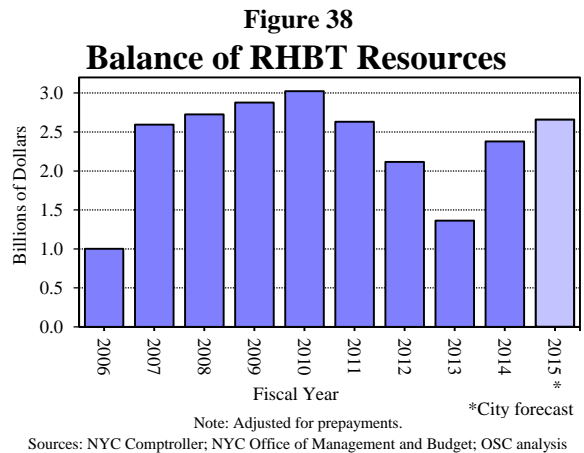


Sources: NYC Office of Management and Budget; OSC analysis

The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from \$2 billion in FY 2014 to \$2.7 billion in FY 2019 (see Figure 37), an increase of 33 percent in five years. These estimates reflect the City’s expectation that an agreement between the City and the municipal unions to reduce the cost of municipal health insurance will also reduce the rate of growth in the cost of OPEBs.

In FY 2006, to help fund the future cost of OPEBs, the City established the Retiree Health Benefits Trust (RHBT) and deposited \$2.5 billion of surplus resources into the trust in fiscal years 2006 and 2007. These resources were invested and earned interest, with the balance peaking at more than \$3 billion in FY 2010. While the City’s RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund. The City drew down much of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession (see Figure 38).

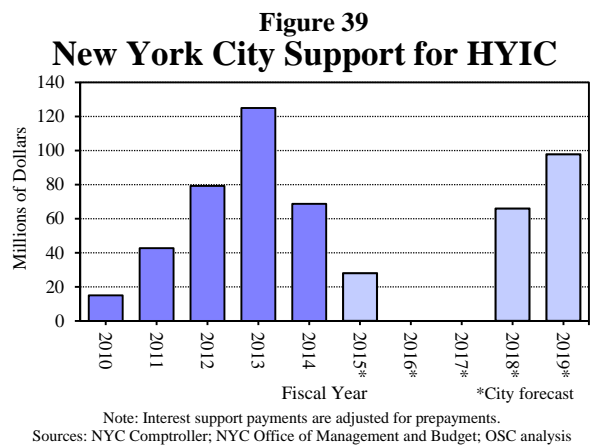
The City had planned to use \$1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew much faster than anticipated, which permitted the City to rescind the planned transfer. The City also contributed \$864 million to the RHBT last year and plans to contribute another \$280 million this year, which would raise the balance to more than \$2.6 billion.



3. Hudson Yards Infrastructure Corporation

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

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



Between fiscal years 2010 and 2014, the City paid \$331 million in interest payments on behalf of the HYIC as development revenues were insufficient to cover these costs. The City expects to pay another \$28 million in FY 2015, but it believes the HYIC will have sufficient resources to fully cover interest payments during fiscal years 2016 and 2017 (see Figure 39). However, the City predicts that it will have to resume funding a portion of the HYIC's interest payments beginning in FY 2018.

4. Affordable Housing

As part of his affordable housing plan, the Mayor is seeking the reauthorization and strengthening of the City's rent-stabilization laws, which are set to expire on June 15, 2015, and cover more than 1 million apartments (nearly half of all rental units in the City). While the rent-stabilization laws have been extended many times, the State Legislature has modified the law (starting in 1993) to allow units to be removed from rent stabilization when a tenant's income or the apartment's rent level exceeds a specified threshold. In 2011, the last time the laws were extended, the State Legislature raised the deregulation income threshold to \$200,000 and the monthly rent threshold to \$2,500.

The Mayor is seeking to eliminate the \$2,500 deregulation threshold (known as high-rent vacancy decontrol) entirely from the law. If eliminated, vacant rent-stabilized apartments would no longer be removed from rent regulation even if their monthly rents exceed \$2,500. According to the New York City Rent Guidelines Board, deregulation has contributed to the loss of 145,000 rent-stabilized units from 1994 to 2014. The Mayor is also seeking to eliminate the 20 percent increase in rent that is allowed when a tenant vacates an apartment, and to place time limits on rent increases associated with building-wide or individual-unit improvements.

The Mayor has also proposed significant changes to the 421-a property tax exemption program, which will also expire on June 15, 2015, unless renewed by the State Legislature. The program accounts for more than \$1 billion annually in tax exemptions (which effectively lower property tax revenue). Introduced in the early 1970s to spur residential construction, the 421-a program has been criticized for providing minimal incentives to build affordable housing while granting tax incentives to build luxury housing.

Appendix: Staffing Levels

The City plans to increase the full-time workforce by a total of 14,203 employees during fiscal years 2015 and 2016 to reach 285,970 employees (including positions funded by the federal and State governments). However, as of March 2015, 5,729 positions remained vacant in FY 2015, and the City plans to hire another 3,197 employees during FY 2016. Thus, in total, the City plans to hire 8,926 employees between April 1, 2015, and June 30, 2016 (see Figure 40).¹⁹

The following agencies account for most of the planned hires over the next 15 months.

- The health and welfare agencies plan to add 3,412 employees, including 1,201 at the Administration for Children’s Services, 945 at the Department of Social Services, and 793 at the Department of Health and Mental Hygiene. These additions would staff a number of mayoral initiatives, including child protective, homeless and school health services.
- The Department of Education plans to add 1,583 pedagogues, mainly to staff a further expansion of the full-day prekindergarten program. (The department added more than 900 employees in FY 2015 to staff the first phase of the expansion.)
- The Department of Correction plans to add 1,236 employees (732 uniformed and 504 civilians), mainly to improve security and inmate discharge planning.
- The Fire Department plans to add 183 firefighters to increase uniformed staffing to 10,790 positions (the highest level since March 2011), and to add 212 civilian employees, including first-responders and call-takers.
- The Police Department plans to add 324 civilians, including administrative aides to allow police officers to be redeployed to patrol functions, and traffic-enforcement agents for the Mayor’s Vision Zero initiative. The police force will average nearly 34,500 officers during the financial plan period, which is nearly 1,300 fewer officers than on June 30, 2006, before force levels began to decline.

¹⁹ The City also intends to hire 1,750 full-time-equivalents (including part-time and seasonal employees) for a total of 25,802 by the end of FY 2016. When added to the full-time workforce, the City expects staffing levels to reach 311,772 by June 30, 2016.

Figure 40
Staffing Levels
(Full-Time, Total Funds)

	<i>Actual</i>		<i>Forecast</i>		<i>Variance</i>	
	June 2014	March 2015	June 2015	June 2016	June 2014 to March 2015	March 2015 to June 2016
Public Safety	79,696	81,120	81,581	81,720	1,424	600
Police						
Uniformed	34,440	35,139	34,483	34,483	699	(656)
Civilian	14,512	14,580	15,177	14,904	68	324
Fire						
Uniformed	10,318	10,607	10,789	10,790	289	183
Civilian	5,152	5,402	5,393	5,614	250	212
Correction						
Uniformed	8,922	8,921	9,537	9,653	(1)	732
Civilian	1,353	1,387	1,747	1,891	34	504
District Attorneys & Prosecutors	4,025	4,121	3,356	3,334	96	(787)
Probation	958	946	1,078	1,030	(12)	84
Board of Correction	16	17	21	21	1	4
Health and Welfare	26,130	26,483	29,413	29,895	353	3,412
Social Services	13,483	13,494	14,535	14,439	11	945
Children's Services	5,857	6,025	6,647	7,226	168	1,201
Health & Mental Hygiene	4,280	4,311	5,181	5,104	31	793
Homeless Services	1,856	1,939	2,267	2,306	83	367
Other	654	714	783	820	60	106
Environmental & Infrastructure	23,864	24,467	26,023	26,082	603	1,615
Sanitation						
Uniformed	7,185	7,464	7,414	7,427	279	(37)
Civilian	1,890	2,013	2,178	2,247	123	234
Transportation	4,408	4,438	4,918	4,854	30	416
Parks & Recreation	3,642	3,789	3,993	4,005	147	216
Other	6,739	6,763	7,520	7,549	24	786
General Government	9,893	10,187	11,623	11,594	294	1,407
Finance	1,799	1,859	2,037	2,044	60	185
Law	1,354	1,371	1,405	1,475	17	104
Citywide Administrative Services	1,887	1,914	2,005	2,036	27	122
Taxi & Limousine Commission	524	543	668	700	19	157
Investigations	210	244	316	306	34	62
Board of Elections	367	369	355	355	2	(14)
IT & Telecommunications	1,136	1,187	1,505	1,613	51	426
Other	2,616	2,700	3,332	3,065	84	365
Housing	3,001	3,119	3,540	3,773	118	654
Buildings	1,037	1,065	1,199	1,438	28	373
Housing Preservation	1,964	2,054	2,341	2,335	90	281
Department of Education	121,312	123,526	122,102	124,204	2,214	678
Pedagogues	109,901	111,929	111,581	113,512	2,028	1,583
Non-Pedagogues	11,411	11,597	10,521	10,692	186	(905)
City University of New York	5,754	5,920	6,067	6,212	166	292
Pedagogues	3,849	4,003	4,162	4,357	154	354
Non-Pedagogues	1,905	1,917	1,905	1,855	12	(62)
Elected Officials	2,117	2,222	2,424	2,490	105	268
Total	271,767	277,044	282,773	285,970	5,277	8,926

Sources: NYC Office of Management and Budget; OSC analysis