



# **Review of the Financial Plan of the City of New York**

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## I. Executive Summary

On November 12, 2015, the City of New York submitted a revised four-year financial plan (the “November Plan”) covering fiscal years 2016 through 2019 to the New York State Financial Control Board (see Figure 1). The November Plan reflects relatively small technical adjustments since the budget was adopted in June 2015.

The City currently projects a surplus of \$135 million for the fiscal year ending June 30, 2016, but the surplus will likely grow as the year progresses since nonproperty tax collections have been stronger than expected by the City. The November Plan also includes \$1.5 billion in reserves in FY 2016, which are unlikely to be needed given the projected surplus and current revenue trends.

The City intends to use the projected surplus to narrow the FY 2017 budget gap to \$1.2 billion; the budget gaps for fiscal years 2018 and 2019 are unchanged at \$1.9 billion and \$2.9 billion, respectively. These gaps are relatively small (ranging from 2.1 percent to 4.6 percent of City fund revenues), and the budgets for these years include a general reserve of \$1 billion.

Job growth has been strong, helping to drive revenues past the City’s initial forecasts. The City added a record 120,000 jobs in 2014, and it is on pace to add 102,000 jobs in 2015. Since the end of the recession in November 2009, the City has added more than half a million jobs, four times as many as were lost during the recession.

Tax collections reached a record of \$51.9 billion in FY 2015, 34 percent higher than the prerecession peak and \$3.3 billion more than the City’s forecast at the beginning of the year. Tax collections in the current fiscal year are also growing faster than the City anticipated. The adopted budget had assumed that nonproperty tax collections (excluding audit revenue) would decline by nearly 1 percent in FY 2016, but collections have grown by 4.5 percent through the first four months of the fiscal year. Although the City raised its revenue forecast in the November Plan, it did so by only a small amount, and it still projects a decline in nonproperty tax collections in FY 2016.

While the Office of the State Comptroller (OSC) expects revenues to exceed the City’s revised forecasts by a substantial amount in FY 2016 (see Figure 2), it remains guarded in its revenue forecasts for subsequent years. Although economic conditions have stabilized since the summer, there still remain risks that could impact revenue growth.

With labor markets strengthening and inflation inching toward the Federal Reserve’s target, the Federal Reserve is expected to begin raising short-term interest rates after keeping them near zero for seven years. While interest rates will likely rise slowly, it remains to be seen whether the economy is resilient enough to withstand higher rates.

The securities industry, which is one of the City's economic engines, is on track for a good year. Profits are likely to exceed last year's level of \$16 billion and the industry is on pace to add 5,000 jobs in New York City, more than twice the number added in 2014. Although revenues were flat through the first three quarters, profits grew by more than 23 percent to \$14.5 billion, driven by lower legal costs.

While the City has now reached new labor agreements with 85 percent of its work force, it was unable to negotiate a long-term agreement with the Patrolmen's Benevolent Association, which represents the City's police officers. An arbitration panel awarded police officers two annual wage increases of 1 percent for 2010 and 2011. While these increases are consistent with those granted to other workers for those years, most of the municipal labor unions negotiated seven-year agreements through 2018.

In May 2014, the City and the Municipal Labor Committee, which represents the City's unions, entered into a partnership to hold down the growth in health insurance costs to help pay for wage increases. The City achieved savings of \$400 million in FY 2015 and expects to achieve savings of \$700 million in FY 2016. While the targets for fiscal years 2017 (\$1 billion) and 2018 (\$1.3 billion) are more challenging, the City has already made substantial progress toward its goals.

For the second consecutive year, the City's unfunded liability for post-employment benefits other than pensions (OPEB) has declined (by \$4 billion in FY 2015 to \$85.5 billion). The decline mainly reflects lower-than-expected growth in health insurance premiums and an increase in the City's contribution to the OPEB trust during FY 2015, which raised the balance to a record \$3.4 billion. While the trust was established to help fund this liability, the City has used it in the past as a rainy-day fund.

The City has had less success bringing overtime costs in the uniformed agencies under control. Last year, overtime exceeded the City's initial forecast by more than \$400 million, reaching a record of nearly \$1.4 billion. Although the City is hiring additional firefighters and police and correction officers, which should provide some relief, overtime is on pace to exceed last year's level. In addition, the Health and Hospitals Corporation continues to face serious fiscal challenges, which may require additional financial assistance from the City.

In conclusion, FY 2016 is shaping up to be another good year for the City. The City's economy remains strong, the surplus will likely grow as the year progresses, and the out-year budget gaps are relatively small. However, the City may experience an economic setback during the financial plan period and the threat of a terrorist attack cannot be ignored. In recent years the City has prudently increased its reserves, which would cushion the budgetary impact of such developments.

**Figure 1**  
**New York City Financial Plan**  
(in millions)

REVENUES	FY 2016	FY 2017	FY 2018	FY 2019
Taxes				
General Property Tax	\$ 22,436	\$ 23,534	\$ 24,532	\$ 25,583
Other Taxes	29,306	30,084	31,039	32,025
Tax Audit Revenue	<u>740</u>	<u>711</u>	<u>711</u>	<u>711</u>
Subtotal: Taxes	\$ 52,482	\$ 54,329	\$ 56,282	\$ 58,319
Miscellaneous Revenues	6,738	6,698	6,797	6,851
Unrestricted Intergovernmental Aid	1	---	---	---
Less: Intra-City Revenue	(1,928)	(1,772)	(1,782)	(1,776)
Disallowances Against Categorical Grants	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Subtotal: City Funds	\$ 57,278	\$ 59,240	\$ 61,282	\$ 63,379
Other Categorical Grants	887	824	829	827
Inter-Fund Revenues	577	548	551	551
Federal Categorical Grants	8,047	6,910	6,501	6,403
State Categorical Grants	<u>13,142</u>	<u>13,367</u>	<u>13,769</u>	<u>14,097</u>
<b>Total Revenues</b>	<b>\$ 79,931</b>	<b>\$ 80,889</b>	<b>\$ 82,932</b>	<b>\$ 85,257</b>
<b>EXPENDITURES</b>				
Personal Service				
Salaries and Wages	\$ 25,448	\$ 25,394	\$ 26,693	\$ 28,191
Pensions	8,774	8,818	8,945	9,120
Fringe Benefits	<u>9,318</u>	<u>9,758</u>	<u>10,328</u>	<u>11,121</u>
Subtotal: Personal Service	\$ 43,540	\$ 43,970	\$ 45,966	\$ 48,432
Other Than Personal Service				
Medical Assistance	\$ 6,282	\$ 6,424	\$ 6,424	\$ 6,424
Public Assistance	1,481	1,464	1,464	1,464
All Other	<u>26,039</u>	<u>24,451</u>	<u>24,587</u>	<u>24,916</u>
Subtotal: Other Than Personal Service	\$ 33,802	\$ 32,339	\$ 32,475	\$ 32,804
Debt Service <sup>1,2,3</sup>	\$ 6,509	\$ 6,726	\$ 7,196	\$ 7,705
Debt Defeasances <sup>1</sup>	(103)	---	---	---
FY 2015 Budget Stabilization <sup>2</sup>	(3,524)	---	---	---
FY 2016 Budget Stabilization <sup>3</sup>	135	(135)	---	---
Capital Stabilization Reserve	500	---	---	---
General Reserve	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Subtotal	\$ 81,859	\$ 83,900	\$ 86,637	\$ 89,941
Less: Intra-City Expenses	<u>(1,928)</u>	<u>(1,772)</u>	<u>(1,782)</u>	<u>(1,776)</u>
<b>Total Expenditures</b>	<b>\$ 79,931</b>	<b>\$ 82,128</b>	<b>\$ 84,855</b>	<b>\$ 88,165</b>
<b>Gap to Be Closed</b>	<b>---</b>	<b>\$ (1,239)</b>	<b>\$ (1,923)</b>	<b>\$ (2,908)</b>

Source: NYC Office of Management and Budget

- <sup>1</sup> Includes Debt Defeasances of TFA in Fiscal Year 2013 of \$196 million impacting Fiscal Year 2014 through Fiscal Year 2016.
- <sup>2</sup> Fiscal Year 2015 Budget Stabilization totals \$3.601 billion, including GO of \$1.976 billion, TFA-PIT of \$1.501 billion, TFA-BARBs of \$77 million, and net equity contribution in bond refunding of \$47 million.
- <sup>3</sup> Fiscal Year 2016 Budget Stabilization totals \$135 million.

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

	<i>Better/(Worse)</i>			
	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Surplus/(Gaps) Per November Plan</b>	<b>\$ - - -</b>	<b>\$ (1,239)</b>	<b>\$ (1,923)</b>	<b>\$ (2,908)</b>
Tax Revenues	620	450	450	450
Debt Service	150	- - -	- - -	- - -
Tobacco Revenues	92	- - -	- - -	- - -
Health and Hospitals Corporation	(312)	- - -	- - -	- - -
Uniformed Agency Overtime	(150)	(150)	(150)	(150)
Medicaid Reimbursement	(70)	(70)	(70)	(70)
<b>OSC Baseline Risk Assessment</b>	<b>330</b>	<b>230</b>	<b>230</b>	<b>230</b>
<b>Surplus/(Gaps) Per OSC<sup>4</sup></b>	<b>\$ 330</b>	<b>\$ (1,009)</b>	<b>\$ (1,693)</b>	<b>\$ (2,678)</b>

<sup>4</sup> The November Plan includes a general reserve of \$1 billion in each of fiscal years 2016 through 2019, which, if not needed, could be used to help close the projected budget gaps. In addition, the Capital Stabilization Reserve has a balance of \$500 million in FY 2016 and the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of \$3.4 billion.



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## II. Economic Trends

The national economy continues to expand at a moderate rate. The Gross Domestic Product grew by 2.4 percent in 2014 and is expected to increase at a similar pace in 2015. Employment growth has accelerated in 2015 and is on pace to rise by 3 million jobs for the year, after growing by 2.6 million jobs in 2014. The unemployment rate has been cut in half from its recessionary peak to 5 percent in October 2015 (a level that economists consider to be full employment), and initial claims for unemployment insurance have declined to the lowest level in more than 40 years.

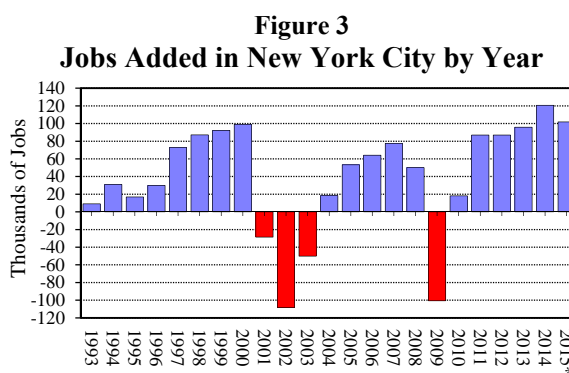
The Federal Reserve has kept short-term interest rates near zero for seven years to support the economic recovery. With inflation inching toward the Federal Reserve's target and labor markets strengthening, the Fed is expected to begin raising short-term interest rates. While rates are likely to rise slowly, the impact on the economy remains to be seen.

Employment growth in New York City has outpaced growth in both the nation and in New York State. Last year the City added a record 120,000 jobs (see Figure 3) and the City is on pace to add nearly 102,000 jobs this year. This would be the second-largest annual job gain on record. The City's unemployment rate (4.8 percent in October 2015) has returned to its prerecession level.

Since 2010 the City has added jobs at an average annual rate of 2.5 percent, the fastest rate of job growth for any five-year period on record, including the boom of the late 1990s. Although the November Plan assumes that the pace of job growth will slow to 1.5 percent in 2016, job growth remains robust.

Since the end of the recession in November 2009, the City has added more than 500,000 jobs, four times more than were lost during the recession. However, about two-thirds of the job gains have been in sectors with average salaries that are lower than the citywide average. Hence, while job growth has been remarkably strong, wage growth has been relatively weak.

Some of the lower-paying sectors with the strongest job gains have included leisure and hospitality, health care and retail trade. Job growth in the leisure and hospitality sector (primarily in restaurants and hotels) has begun to taper off, possibly reflecting a slowdown in international tourism as a result of a weaker global economy. Job growth in the health care sector, which added jobs even during the recession, is accelerating.

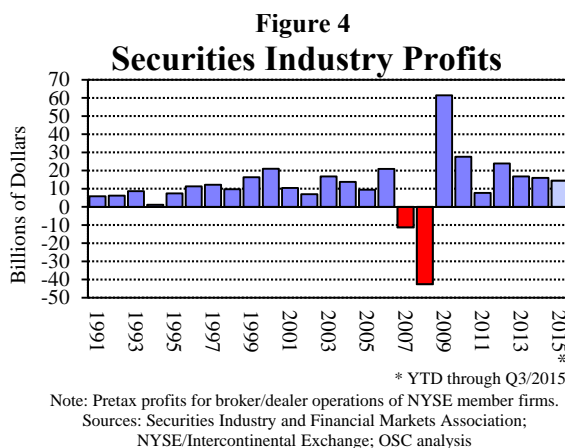


\*YTD average through October

Sources: NYS Department of Labor; OSC analysis

Among the City’s higher-paying sectors, employment in business services has risen by nearly one quarter. Gains have been concentrated in advertising, computer design, management consulting and temporary employment agencies. Employment growth in other well-paid sectors (such as information, construction and finance) has been much weaker.

The securities industry, one of the City’s most important economic engines and a major source of tax revenue, is on track for a good year. Securities industry profits (as measured by the broker/dealer operations of New York Stock Exchange member firms) were strong during the first three quarters of 2015 at \$14.5 billion (see Figure 4), 23.5 percent higher than one year earlier. Profits are likely to exceed last year’s level of \$16 billion, and have already exceeded the November Plan’s forecast of \$11.2 billion by 29 percent. Although securities industry revenues were flat through the first three quarters, a reduction (9 percent) in noncompensation expenses (e.g., the cost of legal settlements related to the financial crisis) helped drive profits higher.



The securities industry in New York City added 2,300 jobs in 2014, the first full year of job gains since 2011. Job growth has accelerated and, as of October 2015, the industry was on pace to add 5,000 jobs in 2015. Despite the recent job gains, the securities industry is still 8 percent smaller than before the 2008 financial crisis. Moreover, the industry may curtail future hiring as it takes steps to support profits given the weak global economy.

As 2015 draws to a close, the City’s economy remains strong. The City has experienced nearly six consecutive years of job growth, and the November Plan assumes that growth will continue for another four years. However, over the past 50 years the longest expansion lasted eight years (during the 1990s). On a national level, the expansion has lasted six years, which already exceeds the average during the post–World War II era.

The Federal Reserve faces the challenge of increasing interest rates and reducing the size of its balance sheet without undermining the economy. Further complicating that challenge is a slowdown in global economic growth, especially in China, Canada and the eurozone. Higher domestic interest rates and a stronger dollar could affect tourism and the real estate markets in New York City.

### III. Changes Since the June 2015 Plan

The November Plan reflects relatively small technical adjustments since the budget was adopted in June 2015. The City has raised its revenue forecasts modestly and has identified some new needs. The City now projects a small surplus in FY 2016 (\$135 million), which will be transferred to FY 2017 to reduce that year's budget gap.

As a result, the FY 2017 budget gap has been narrowed to \$1.2 billion and the budget gaps for fiscal years 2018 and 2019 are unchanged at \$1.9 billion and \$2.9 billion, respectively (see Figure 5). The projected gaps are relatively small (ranging from 2.1 percent to 4.6 percent of City fund revenue), and the City has not reduced the general reserve, which stands at a record \$1 billion annually. If unneeded, the reserves could be used to help close the projected budget gaps.

**Figure 5**  
**Financial Plan Reconciliation—City Funds**  
**November 2015 Plan vs. June 2015 Plan**  
(in millions)

	<i>Better/(Worse)</i>			
	FY 2016	FY 2017	FY 2018	FY 2019
<b>Surplus/(Gaps) Per June 2015</b>	<b>\$ - - -</b>	<b>\$ (1,465)</b>	<b>\$ (1,907)</b>	<b>\$ (2,853)</b>
<b>Revenue Reestimates</b>				
Taxes				
Personal Income	204	171	260	271
Real Estate Transactions	129	91	98	172
Real Property	52	47	42	34
Business Taxes	(156)	(137)	(130)	(190)
Other Taxes	5	(47)	(62)	(68)
Audits	29	---	---	---
Subtotal	263	125	208	219
All Other	41	5	4	---
<b>Total</b>	<b>304</b>	<b>130</b>	<b>212</b>	<b>219</b>
<b>Expenditure Reestimates</b>				
Debt Service	32	86	(26)	(1)
Pension Contributions	(18)	(99)	(175)	(252)
Homeless Services	(90)	(2)	(2)	(2)
Department of Correction	(25)	(1)	(1)	(1)
Other Agency New Needs	(68)	(23)	(24)	(18)
<b>Total</b>	<b>(169)</b>	<b>(39)</b>	<b>(228)</b>	<b>(274)</b>
<b>Net Change During FY 2016</b>	<b>135</b>	<b>91</b>	<b>(16)</b>	<b>(55)</b>
<b>Surplus/(Gap)</b>	<b>\$ 135</b>	<b>\$ (1,374)</b>	<b>\$ (1,923)</b>	<b>\$ (2,908)</b>
Surplus Transfer	(135)	135	---	---
<b>Gaps Per November 2015 Plan</b>	<b>\$ - - -</b>	<b>\$ (1,239)</b>	<b>\$ (1,923)</b>	<b>\$ (2,908)</b>

Sources: NYC Office of Management and Budget; OSC analysis

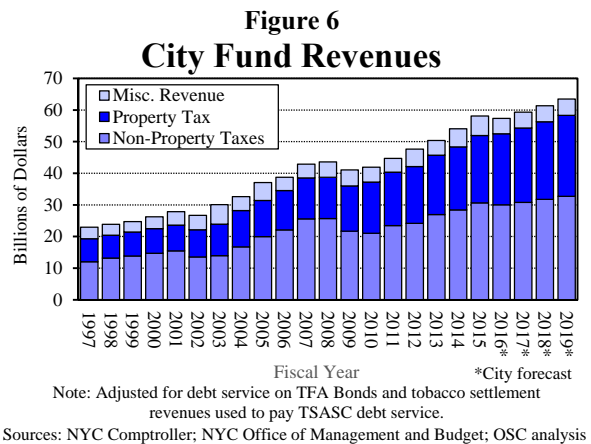
The City raised its tax revenue forecast by \$263 million in FY 2016 and by lesser amounts in subsequent years based on strong job growth (which has increased personal income tax collections) and continued strength in the commercial and residential real estate markets. Business tax collections, however, are expected to be lower than previously forecast (by an average of \$153 million annually) based on the assumption of reduced profitability.

Spending is now projected to be higher by a cumulative total of \$710 million during the financial plan period. Most of the additional cost (\$544 million) stems from increased pension contributions resulting from lower-than-expected pension fund investment earnings in FY 2015, and the potential cost of a City proposal to restore disability pension benefits to uniformed employees hired after June 30, 2009. The City also funded a number of new agency needs, mostly for homeless services and for higher overtime costs at the Department of Correction. These costs were partly offset in fiscal years 2016 and 2017 by lower debt service costs because the City will not need to borrow to meet its cash flow needs (given its large cash balance) and because it realized savings from refinancing outstanding debt.

## IV. Revenue Trends

Tax collections reached a record of \$51.9 billion in FY 2015 (see Figure 6), 34 percent higher than the prerecession peak and \$3.3 billion more than the City’s forecast at the beginning of the year. Tax collections in the current fiscal year are also growing faster than the City anticipated. The adopted budget had assumed that nonproperty tax collections (excluding audit revenue) would decline by 0.9 percent in FY 2016, but collections grew by 4.5 percent during the first four months of the fiscal year. While business tax collections have fallen short of expectations, personal income and real estate transaction tax collections have been much stronger.

While the City raised its tax revenue forecast in the November Plan, it still assumes that nonproperty tax collections will decline in FY 2016 (by 0.6 percent). If collections were to grow at the current rate for the entire fiscal year, the City could realize an additional \$1.5 billion in tax revenues in FY 2016.



Although the City’s economy remains strong and there is no sign of a slowdown, there are risks (such as the slowing in the global economy) that could impact revenue growth beyond FY 2016. While OSC estimates that nonproperty tax revenues could exceed the City’s forecast by \$500 million in FY 2016, the City may benefit by smaller amounts in subsequent years (\$250 million annually). The City’s out-year revenue forecasts may also benefit from higher-than-forecast property tax collections (\$200 million annually beginning in FY 2017) based on current real estate market conditions.

Two other recent developments could also boost revenue collections in FY 2016. The City has received a \$120 million payment related to a sales tax audit. In addition, the City expects to receive \$92 million as its share of a recent settlement between the State Attorney General and the major tobacco companies related to issues outstanding from the 1998 Tobacco Master Settlement.<sup>5</sup> The impact in subsequent years has yet to be determined.

<sup>5</sup> The settlement required major tobacco companies to compensate all U.S. states and territories for the public health cost of smoking-related illnesses. Since 2003, however, the companies had escrowed a portion of the funds, contending that the State did not enforce the law against untaxed cigarettes (mostly on Native American reservations). In October 2015, the Attorney General announced a settlement with the companies that would require them to release the escrowed funds. The agreement resolved all outstanding issues.

Details of the City’s revenue forecast are shown in Figure 7 and discussed below.

**Figure 7**  
**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	\$ 21,317	\$ 22,436	5.2%	\$ 23,534	\$ 24,532	\$ 25,583	4.5%
Nonproperty Taxes							
Personal Income Tax	10,629	10,751	1.1%	10,787	11,114	11,467	2.2%
Sales Tax	6,742	6,994	3.7%	7,273	7,556	7,820	3.8%
Business Taxes	6,049	5,978	-1.2%	6,232	6,430	6,601	3.4%
Real Estate Transaction Taxes	2,920	2,462	-15.7%	2,668	2,751	2,896	5.6%
Other Taxes	3,153	3,121	-1.0%	3,124	3,188	3,241	1.3%
<b>Nonproperty Subtotal</b>	<b>29,493</b>	<b>29,306</b>	<b>-0.6%</b>	<b>30,084</b>	<b>31,039</b>	<b>32,025</b>	<b>3.0%</b>
Audits	1,132	740	-34.6%	711	711	711	-1.3%
<b>Taxes Subtotal</b>	<b>51,942</b>	<b>52,482</b>	<b>1.0%</b>	<b>54,329</b>	<b>56,282</b>	<b>58,319</b>	<b>3.6%</b>
Miscellaneous Revenues	6,284	4,885	-22.3%	4,999	5,097	5,157	1.8%
Grant Disallowances	(110)	(15)	-86.4%	(15)	(15)	(15)	0.0%
<b>Total</b>	<b>\$ 58,116</b>	<b>\$ 57,352</b>	<b>-1.3%</b>	<b>\$ 59,313</b>	<b>\$ 61,364</b>	<b>\$ 63,461</b>	<b>3.4%</b>

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

Strong growth in the City’s residential and commercial real estate markets have fueled the growth in property tax collections as market values have reached record levels. The November Plan assumes that property tax collections will rise by 5.2 percent to reach \$22.4 billion in FY 2016 (see Figure 8).

The November Plan assumes that growth in property tax collections will slow to an average annual increase of 4.5 percent during fiscal years 2017 through 2019 as rising long-term interest rates limit growth in property values.<sup>6</sup> However, the tentative property tax roll for FY 2017 (to be released in January 2016) will be based on recent trends, which remain strong. Consequently, property tax collections could be higher than the City expects by at least \$200 million in FY 2017 and similar amounts in subsequent years.

**Figure 8**  
**Real Property Tax Revenue**



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

<sup>6</sup> State law requires changes in assessed values for commercial and large residential properties to be phased in over five years. Thus, recent increases in assessed values will continue to boost tax revenues during the financial plan period.

## 2. Personal Income Tax

Personal income tax collections have increased sharply since FY 2010 (see Figure 9), driven by large increases in employment, capital gains and bonuses. Collections grew at an average annual rate of 9.2 percent during this period.

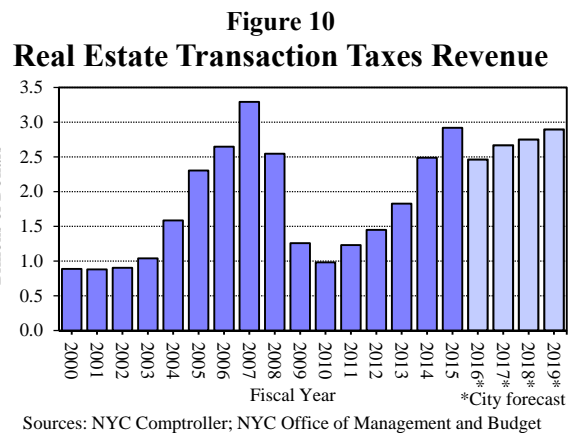
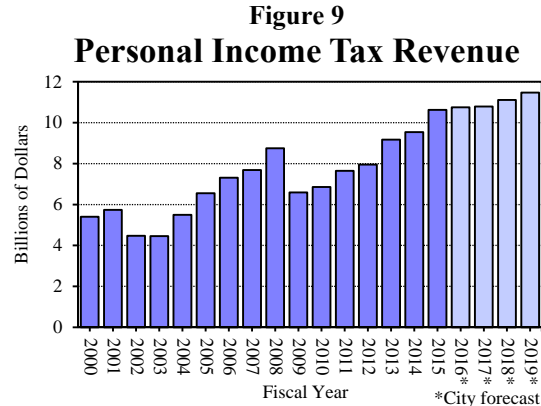
The June Plan had assumed that the growth in personal income tax collections would slow to 1 percent in FY 2016 because of slower job growth and a decline in bonuses. Personal income tax

collections, however, remain strong, with collections rising by 7.3 percent through the first four months of the fiscal year. While the City raised its forecast in the November Plan, it did so by only a small amount.<sup>7</sup> Given the strong start to the year, OSC expects that personal income tax collections could exceed the City's estimates by \$200 million in FY 2016 and by \$250 million in subsequent years.

## 3. Real Estate Transaction Taxes

Strong demand and rising values in the City's real estate markets have caused collections from the mortgage recording and real property transfer taxes to nearly triple between fiscal years 2010 and 2015 (see Figure 10). During the first four months of FY 2016, collections have grown by 15.3 percent.

The November Plan assumes that collections will decline by 15.7 percent in FY 2016 as rising interest rates dampen demand and reduce property values. However, past increases in interest rates have not translated into sharp declines in collections. Although collections may decline in FY 2016, the falloff is unlikely to be as sharp as the City predicts. The OSC expects collections to exceed the City's forecast by at least \$200 million, which would still be 9 percent less than last year.



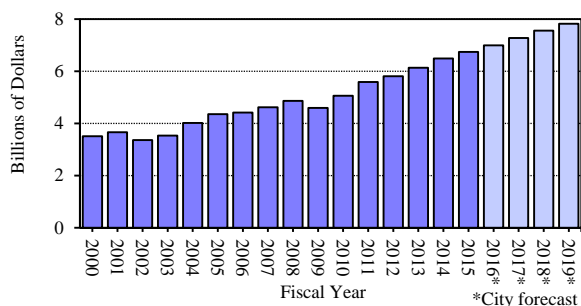
<sup>7</sup> The November Plan assumes that personal income tax collections will rise by 1.1 percent in FY 2016, compared to an increase of 1 percent in the June Plan.

As part of the effort to preserve existing affordable housing, the City recently facilitated an agreement with investors to purchase Stuyvesant Town and Peter Cooper Village, one of the largest moderate-income rental complexes in Manhattan, for \$5.3 billion. Under the agreement, which keeps 5,000 of the 11,241 apartments affordable for 20 years, the City agreed to waive \$77 million in mortgage recording taxes from the sale.

#### 4. Sales Tax

Sales tax collections have risen steadily in recent years (see Figure 11), boosted by spending from record numbers of tourists and a robust local economy. The November Plan assumes that collections will rise by 3.7 percent in FY 2016. Although collections have grown by 5.4 percent so far this year, weaknesses in the global economy and the strong dollar could offset these gains later in the fiscal year.

**Figure 11**  
**Sales Tax Revenue**

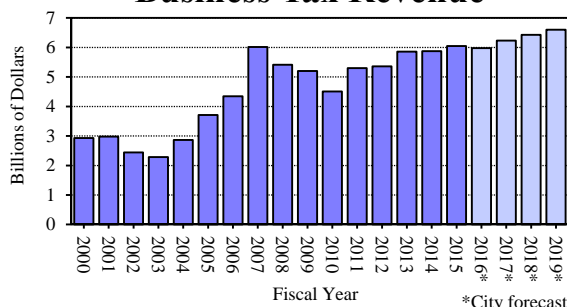


Sources: NYC Comptroller; NYC Office of Management and Budget

#### 5. Business Taxes

In April 2015, the State enacted legislation that merged the City’s banking corporation tax into its general corporation tax, retroactive to January 1, 2015. While the City expects the change to be revenue-neutral, collections have been weaker than expected. City representatives are unable to fully account for the weakness, which may result, in part, from the change in the tax laws and may correct as the year progresses. Although the City lowered its business tax forecast for FY 2016 by \$156 million to \$6 billion (see Figure 12), it did so based on its expectation of lower business profits. The November Plan assumes collections will grow steadily in subsequent years.

**Figure 12**  
**Business Tax Revenue**



Sources: NYC Comptroller; NYC Office of Management and Budget

Subsequent to the issuance of the November Plan, the securities industry reported that profits for the first three quarters of the year totaled \$14.5 billion, 29 percent higher than assumed in the November Plan for the entire year. Industry profits are now on track to exceed last year’s level, which could boost City tax collections by \$100 million in FY 2016.



## V. Expenditure Trends

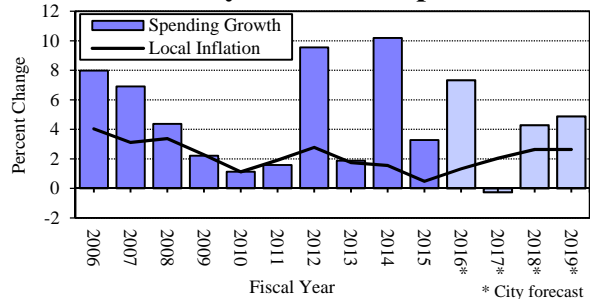
Expenditures are projected to total \$79.9 billion in FY 2016. The City-funded portion (adjusted for surplus transfers and debt defeasances) is projected to total \$60.8 billion, an increase of nearly \$4.2 billion or 7.3 percent from the FY 2015 level (see Figure 13). The City's decision to increase its reserves accounts for nearly \$1.5 billion of the increase, with the balance concentrated in labor costs and debt service.

Costs for salaries and wages are projected to rise by \$1.3 billion (8.2 percent) in FY 2016 as a result of recent collective bargaining agreements and new agency initiatives. Debt service is projected to increase by \$458 million (7.8 percent), and health insurance, pension contributions and other fringe benefit costs are expected to rise by \$949 million (6.3 percent).

City-funded spending is projected to decline slightly in FY 2017, largely because of nonrecurring costs in FY 2016 (e.g., the Capital Stabilization Reserve) and the lower cost in FY 2017 of recent collective bargaining agreements. Spending is projected to grow at an average annual rate of 4.6 percent over the next two fiscal years.

The November Plan assumes that the full-time work force (including positions funded by the federal and State governments) will increase by 12,267 employees in FY 2016 to 289,440 (see Figure 14). If all of these positions are filled as planned, it would be the largest one-year increase since FY 2004 and the work force would be larger than before the recession. (The portion of the work force funded by the City would reach 244,629 by June 30, 2016, which is also higher than the prerecession level.) As of October 2015, the City had filled more than one-third of the planned positions, with teachers, police officers and correction officers accounting for most of the increase. Most of the remaining vacancies are concentrated in the health and welfare agencies.

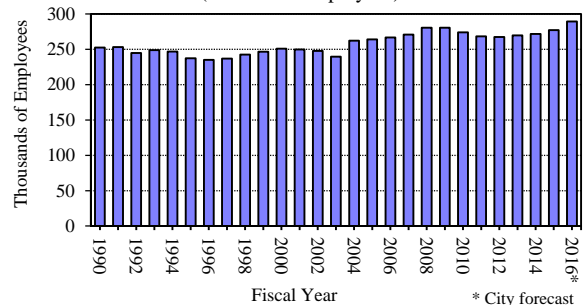
**Figure 13**  
**Growth in City-Funded Expenditures**



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

Sources: NYC Office of Management and Budget; OSC analysis

**Figure 14**  
**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 November Plan is based on the trends shown in Figure 15 and discussed below.

**Figure 15**  
**Estimated City-Funded Expenditures**  
(in millions)

	<b>FY 2015</b>	<b>FY 2016</b>	<b>Annual Growth</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Average Three-Year Growth Rate</b>
Salaries and Wages	\$ 15,934	\$ 17,233	8.2%	\$ 17,361	\$ 18,626	\$ 20,075	5.2%
Pension Contributions	8,458	8,629	2.0%	8,673	8,801	8,976	1.3%
Medicaid	6,173	6,224	0.8%	6,322	6,322	6,322	0.5%
Debt Service	5,851	6,309	7.8%	6,530	7,014	7,529	6.1%
Health Insurance	4,100	4,607	12.4%	4,840	5,068	5,567	6.5%
Other Fringe Benefits	2,601	2,872	10.4%	2,940	3,025	3,264	4.4%
Energy	822	836	1.7%	880	927	963	4.8%
Judgments and Claims	557	555	-0.4%	606	642	677	6.8%
Public Assistance	640	653	2.0%	647	647	647	-0.3%
Other	11,225	11,426	1.8%	10,888	11,215	11,349	-0.2%
General Reserve	---	1,000	NA	1,000	1,000	1,000	NA
Retiree Health Benefits Trust	955	---	NA	---	---	---	NA
Prior Year's Expenses	(624)	---	NA	---	---	---	NA
Capital Stabilization Reserve	---	500	NA	---	---	---	NA
<b>Total</b>	<b>\$ 56,692</b>	<b>\$ 60,844</b>	<b>7.3%</b>	<b>\$ 60,687</b>	<b>\$ 63,287</b>	<b>\$ 66,369</b>	<b>2.9%</b>

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

Sources: NYC Office of Management and Budget; OSC analysis

## 1. Collective Bargaining

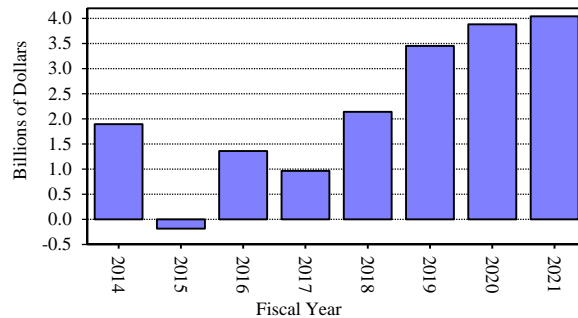
Less than two years ago, the City's entire work force was working with expired labor agreements (most since 2010 but some as long ago as 2008). As of November 2015, the City had reached new agreements with 85 percent of its unionized work force. The agreements call for wage increases of 10 percent over seven years for civilian employees and 11 percent over seven years for uniformed employees. The agreements also compensate members of the United Federation of Teachers (UFT) and other employees for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to these employees. The November Plan assumes that conforming agreements will be reached with the remaining unions that have expired labor agreements.

The City and the Patrolmen's Benevolent Association (PBA), which represents the City's police officers, recently concluded binding arbitration. A three-member panel has awarded police officers two annual wage increases of 1 percent covering the period from August 1, 2010, through July 31, 2012, which is consistent with the City's financial plan expectations for that period. The parties have yet to begin negotiations for a contract covering the period beyond the arbitration award. The firefighters' union has reached a seven-year agreement with the City, subject to approval by the rank and file, which is also consistent with the City's financial plan. The City has not yet reached a new agreement with the union that represents the City's correction officers.

The City estimates that recently negotiated and anticipated agreements will cost \$14.1 billion during fiscal years 2014 through 2018, but that the cost will be partially offset by resources that had been set aside by the City in its labor reserve prior to reaching new wage agreements (\$3.5 billion), and by new resources (\$4.4 billion) that are expected to result from a separate agreement between the City and its unions (see “Health Insurance” later in this section). The net budgetary impact during fiscal years 2014 through 2018 is expected to total \$6.2 billion.

The budgetary impact will be greatest during fiscal years 2018 through 2021, and will peak at more than \$4 billion in FY 2021 (see Figure 16). 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.<sup>8</sup>

**Figure 16  
Net Budgetary Impact  
of Labor Settlements**



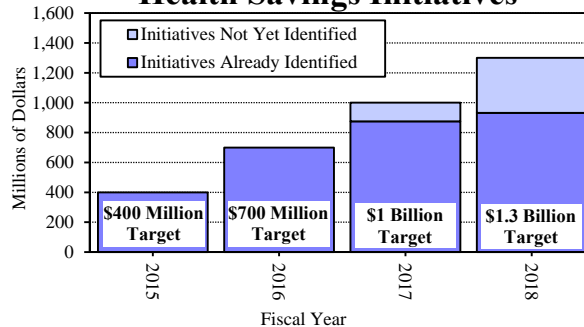
Sources: NYC Office of Management and Budget; OSC analysis

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

## 2. Health Insurance

As part of the current round of collective bargaining, the City and the Municipal Labor Committee (MLC) reached agreement in May 2014 to identify savings that could be used to help fund wage increases for municipal employees. The agreement calls for savings of \$400 million in FY 2015, \$700 million in FY 2016, \$1 billion in FY 2017 and \$1.3 billion in FY 2018, with recurring savings of \$1.3 billion in

**Figure 17  
Health Savings Initiatives**



Sources: NYC Office of Labor Relations; OSC analysis

<sup>8</sup> 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.

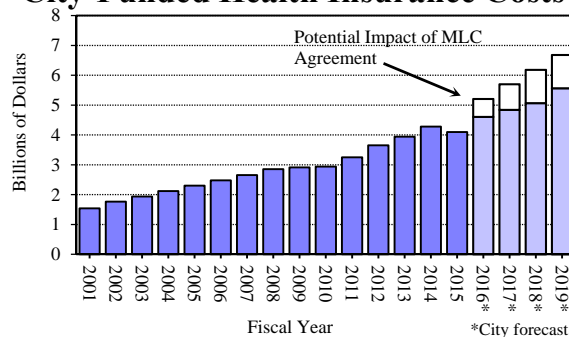
subsequent years. The agreement includes provisions that provide incentives to both the City and the unions to exceed the planned targets.

The City achieved the FY 2015 savings target and is expected to meet the target for FY 2016. The City has also made significant progress toward the targets for fiscal years 2017 and 2018 (see Figure 17). Thus far, most of the savings have come from administrative actions and lower-than-planned increases in health insurance premiums.<sup>9</sup> The City has also implemented a number of cost-containment initiatives, and while these have not yet generated large savings, they are expected to produce substantial savings in future years.

If the City meets the savings targets during the financial plan period, the growth in health insurance costs between fiscal years 2015 and 2019 would slow from a projected average annual rate of 10.7 percent to 8 percent. Nevertheless, health insurance costs would still reach \$5.6 billion by FY 2019 (see Figure 18), 36 percent more than the cost in FY 2015.

Figure 18

**City-Funded Health Insurance Costs**



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

**3. Pension Contributions**

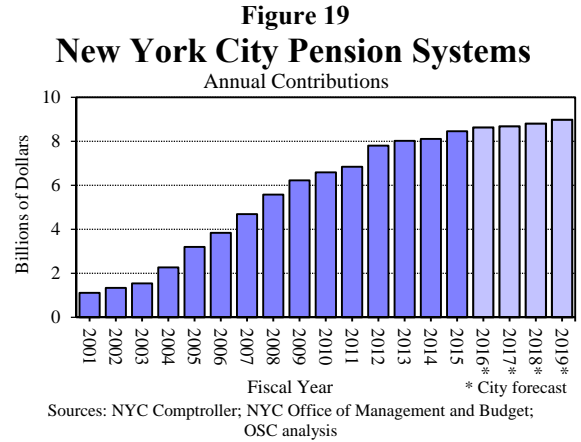
After rising rapidly between fiscal years 2003 and 2012, the growth in City-funded pension contributions slowed over the next three years (see Figure 19). The November Plan assumes that contributions will continue to grow slowly over the next four years, reaching \$9 billion in FY 2019. The slower rate of growth reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,<sup>10</sup> better-than-expected average annual investment returns since the end of the Great Recession,<sup>11</sup> and savings from lower-cost pension plans for City employees hired after March 31, 2012.

<sup>9</sup> For example, the MLC agreed to fund the cost of certain mental health benefits from the Health Stabilization Reserve (\$153 million), relieving the City of the financial obligation. 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).

<sup>10</sup> 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.

<sup>11</sup> The pension funds earned, on average, 11.7 percent annually on their investments during fiscal years 2010 through 2015, compared to the expected annual return of 7 percent.

However, an independent actuarial consultant has recommended a number of changes in the actuarial assumptions used to calculate planned pension contributions. If adopted as proposed, the recommendations could increase the City’s planned pension contributions by about \$1.5 billion annually. More than \$900 million of the increase could come from updating demographic assumptions, such as the trend of longer life expectancies, and from higher overtime costs. The balance could come from reducing the pension fund earnings assumption. The City Actuary has recommended that the pension funds adopt revised mortality assumptions, which could increase City pension contributions by about \$600 million annually beginning in the current fiscal year. It remains to be seen whether other changes will be implemented that could mitigate the financial impact.

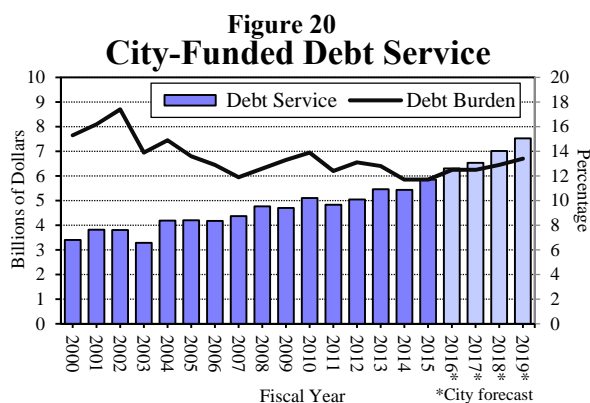


The City’s five pension systems had sufficient assets to fund, on average, 70.5 percent of their accrued pension liabilities as of June 30, 2015, a decline of two percentage points from the prior year. The decline mainly reflects a shortfall in expected pension fund earnings in FY 2015. Last year, the pension funds earned 3.3 percent on their investments, substantially less than the expected gain of 7 percent. As a result, the City’s unfunded pension liability rose to \$52 billion. The pension funds have not realized any significant gains on their investments through the first five months of FY 2016.

In August 2015, the Mayor and the union representing firefighters reached agreement to jointly support legislation to increase disability pension benefits for uniformed employees hired after June 30, 2009. Current eligible employees receive 50 percent of their highest five-year average salary, offset by 50 percent of the Social Security Disability Insurance benefit. (By contrast, employees hired before that date receive 75 percent of their highest salary with no Social Security offset.) While the cost of restoring these benefits, when applied to all members of the uniformed forces, would total \$250 million during fiscal years 2016 through 2020, the legislation specifies that half the cost during this period would be funded with additional employee pension contributions (3 percent of salary).

#### 4. Debt Service

City-funded debt service is projected to grow by 29 percent (\$1.7 billion) to \$7.5 billion between fiscal years 2015 and 2019 (see Figure 20). As a result, debt service as a share of tax revenue (i.e., the debt burden) is projected to grow from 11.7 percent to 13.4 percent. 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 FY 2016 budget includes a \$500 million Capital Stabilization Reserve, which could be used to defease debt coming due in the near term to prevent debt service from rising too quickly as a share of tax revenues.



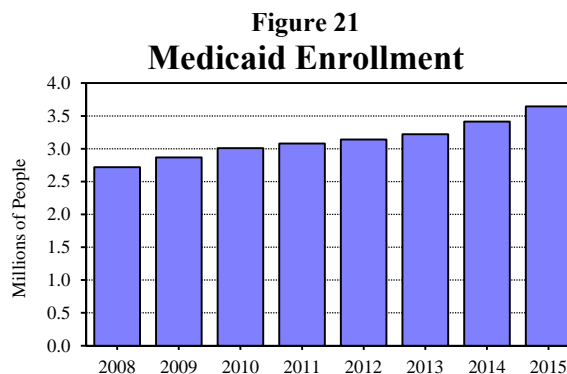
Note: Debt service amounts are adjusted for prepayments and defeasances.  
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The Federal Reserve is expected to begin raising short-term interest rates soon as it unwinds the accommodative monetary policies that helped support the national economic recovery. While short-term interest rates are likely to increase gradually, the impact on long-term interest rates remains to be seen. While the City’s interest rate assumption for fixed-rate debt is reasonable, its assumption for variable-rate debt is overly conservative in our view even if the Federal Reserve raises rates, creating the potential for savings of \$150 million in FY 2016.

#### 5. Medicaid

Enrollment in the federal Medicaid program in New York City grew slowly in the years following the recession, but then accelerated with the implementation of the federal Affordable Care Act in January 2014.

The act expands Medicaid eligibility to millions of Americans who were previously ineligible for this program. In New York City, Medicaid enrollment reached more than 3.6 million people by June 2015 (see Figure 21), an increase of 13 percent from two years earlier. In June 2015, slightly more than 40 percent of the City’s population was enrolled in Medicaid. The November Plan assumes that the City’s share of the cost of



Note: Enrollment data as of June each year.  
Sources: NYS Department of Health; OSC analysis

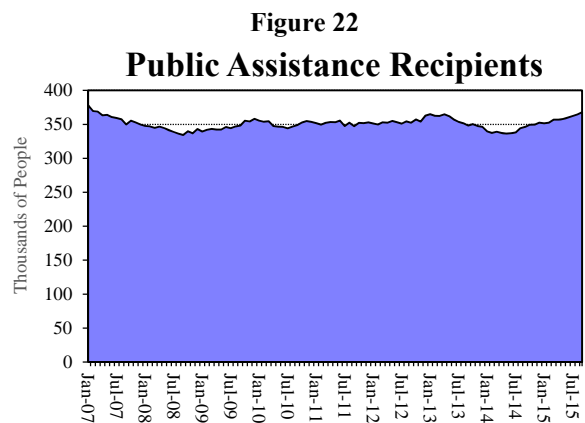
Medicaid will reach \$6.2 billion in FY 2016 (11 percent of City-funded revenue) and then remain at about that level as the State completes a three-year takeover in the growth of the local share of Medicaid.

Each year, the Department of Education (DOE) submits claims for Medicaid reimbursements for services the DOE provides to students with special needs. However, the DOE has had problems documenting such claims, collecting only \$27 million in FY 2015. Although this was almost twice the amount the DOE collected in FY 2014 (\$15 million), it was still well below the FY 2015 target of \$67 million. Nevertheless, the November Plan assumes the receipt of \$97 million annually in Medicaid reimbursements during fiscal years 2016 through 2019. Until the DOE can demonstrate that it has overcome problems documenting these claims, OSC considers the annual receipt of \$70 million to be uncertain.

## 6. Public Assistance

New York City's public assistance caseload declined by more than two-thirds with the implementation of national welfare reforms during the 1990s, which imposed work requirements on most recipients. Since May 2014, however, the caseload has been slowly growing. The City attributes much of the increase to recent programmatic changes that were approved by the State. For example, the City has been granting recipients greater flexibility in scheduling appointments, which has reduced the number of recipients who lose their benefits for not meeting administrative requirements. The City also increased the amount of education and training hours that can be applied to a recipient's work requirements, which has allowed low-income students to receive benefits. In addition, the City has increased the number of clients who receive emergency cash grants as part of its efforts to address rising homelessness.

The November Plan assumes that the caseload will reach 370,666 by December 2015 and then stop growing. However, the caseload reached 373,500 recipients in October 2015, an increase of nearly 24,000 recipients (6.9 percent) over the prior 12 months and the highest level in more than eight years (see Figure 22). While preliminary data for November 2015 indicates that the caseload has declined, recent trends suggest that the caseload could exceed the City's estimate by the end of the fiscal year.



Source: NYC Human Resources Administration

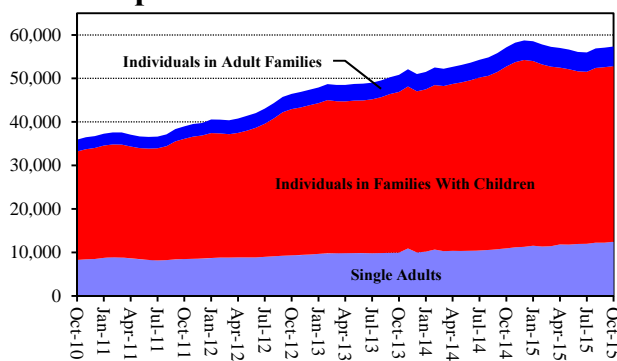
## 7. Homeless Services

The federal government recently released its annual census of homeless people in the nation. The federal government estimates that the number of homeless people living on the streets or in shelters in New York City increased by 11 percent to 75,323 in 2015.

The number of homeless people residing in shelters operated by the Department of Homeless Services (DHS) reached a record of 58,745 in December 2014 (see Figure 23), an increase of 57 percent over a five-year period. The homeless shelter population is comprised of three groups: families with children, adult families and single adults. People enrolled in the families with children program account for almost three-quarters of the shelter population, and single adults account for nearly one-fifth. The City attributes most of the increase in the shelter population in recent years to the elimination of State and City funding for the Advantage program, which provided rental assistance to families with children.

Over the past two years, the State and the City have increased their efforts to address the growth in the homeless population in New York City. For example, funding for homelessness prevention and rental assistance programs at the Human Resources Administration is expected to increase from \$158 million in FY 2015 to \$280 million in FY 2016. Overall funding at the DHS will total \$1.2 billion in FY 2016, 21 percent more than two years ago.

**Figure 23**  
**People in DHS Homeless Shelters**



Source: NYC Department of Homeless Services

These investments are beginning to have an impact, as evidenced by a reduction in the number of people enrolled in the families with children program. Since December 2014, enrollment has declined by 2,614 (6 percent) as the City has increased the number of families placed in subsidized housing. However, the number of single adults in the City's shelters continues to grow, reaching a new record of 12,477 in October 2015.

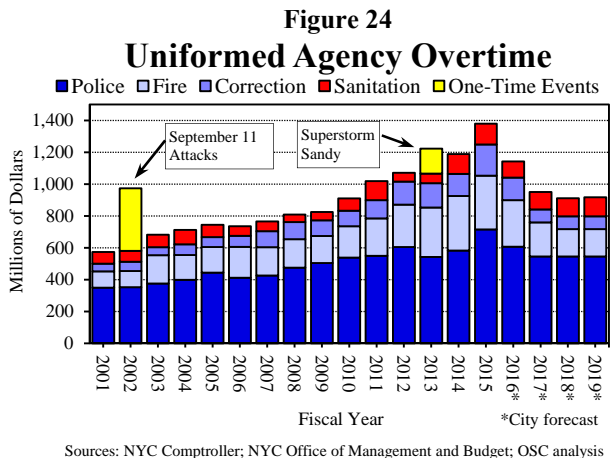
The City recently announced a new housing initiative that could reduce the number of homeless single adults in the City's shelter system. The initiative would create 15,000 units of affordable housing over the next 15 years and would provide residents with supportive services, such as mental health and substance abuse services. The City estimates the capital cost at \$2.6 billion, which would be funded with City funds (\$1 billion), low-income tax credits and other private sources. The operating budget impact is expected to total \$96 million through FY 2019. The City's financial plan has not yet been revised to reflect this new initiative.



## 8. Uniformed Agencies

Overtime costs in the uniformed agencies (both for uniformed and civilian employees) reached nearly \$1.4 billion in FY 2015, the highest level on record (see Figure 24) and nearly 52 percent higher than five years earlier. The Police, Correction and Sanitation departments each set new records in FY 2015, and overtime costs in the Fire Department were only slightly below the record set in FY 2014.

Each of the uniformed agencies has been dealing with issues that have increased overtime in recent years, such as antiterrorism efforts in the Police Department and staff shortages in the Fire and Correction departments. The November Plan allocates resources to help these agencies better manage their overtime budgets, including funding to increase staffing. In total, the November Plan assumes that overtime will total \$1.1 billion in FY 2016, \$237 million less than the FY 2015 level and the lowest level in two years. The November Plan assumes that overtime will decline by another \$192 million in FY 2017 and then remain level at about \$915 million.



The November Plan assumes that the police force will reach 35,780 officers by the end of FY 2016, the highest level since FY 2006 and more than 1,000 officers higher than at the end of FY 2015. Most of these additional officers will be dedicated to community policing, but more than 300 will be assigned to antiterrorism efforts, which is expected to reduce the need for overtime. The Police Department also intends to hire 415 civilians to perform desk work, freeing up an equal number of police officers for patrol.

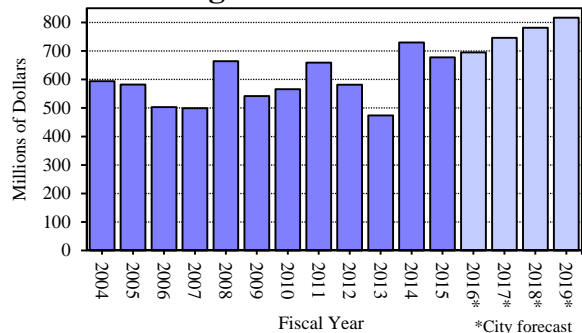
The November Plan allocates \$607 million to the Police Department for overtime in FY 2016, which is \$109 million less than the FY 2015 level. Overtime costs during the first four months of the current fiscal year totaled \$254 million, \$52 million higher than anticipated and \$22 million more than last year. Overtime costs in the Fire and Correction departments have also exceeded planned levels, with the two agencies spending a total of \$200 million through the first four months of the fiscal year, which is \$88 million more than planned and \$32 million more than last year. In recognition of these developments, the November Plan added \$55 million to the Department of Correction for overtime.

In total, OSC estimates that overtime costs in the uniformed agencies could exceed the amounts set aside in the November Plan by \$150 million annually. A portion of these costs could be offset by federal grants and savings from other personal services.

## 9. Judgments and Claims

The City projects that the cost to settle judgments and claims against the City will total \$695 million in FY 2016 (\$555 million excluding costs associated with the Health and Hospitals Corporation), which is lower than the record set in 2014 but higher than the cost in FY 2015 (see Figure 25). Nevertheless, costs are projected to rise at an average annual rate of 5.5 percent in subsequent years, reaching \$817 million in FY 2019.

**Figure 25**  
**Judgments and Claims**

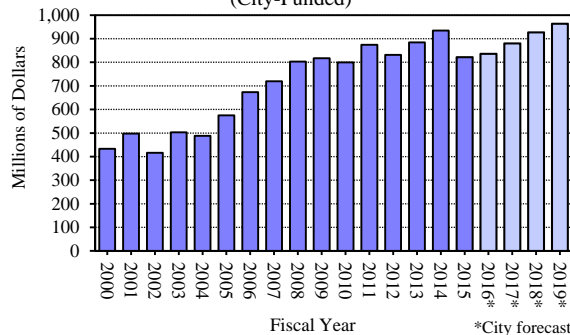


Source: NYC Comptroller; NYC Office of Management and Budget

## 10. Energy

Energy costs (i.e., electricity, fuel and heat) rose sharply between fiscal years 2004 and 2008, mostly as a result of higher prices for oil and natural gas (see Figure 26). 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. Energy costs declined in FY 2015 (to \$822 million) despite the harsh winter, mostly as a result of lower prices for electricity, fuel and heat. Costs are expected to increase slightly in FY 2016 (by less than 2 percent) and then grow faster (to \$963 million) by FY 2019.

**Figure 26**  
**Energy Costs**  
(City-Funded)



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

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## VI. Other Issues

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

### 1. Department of Education

In February 2014, New Yorkers for Students' Educational Rights (an association of education advocates) and others filed a lawsuit in State Supreme Court seeking to compel the State of New York to provide all students in its public schools the opportunity for a sound, basic education. In 1982, the Court of Appeals found that the State Constitution imposed "a duty on the Legislature to ensure the availability of a sound, basic education to all of the children of the state." In the Campaign for Fiscal Equity lawsuit that followed, the courts found that funding to New York City was inadequate to provide a sound, basic education.

Total funding for New York City's public schools (including federal, state and City funds) has increased significantly since FY 2007. The November Plan assumes State education aid to New York City will increase by \$373 million in FY 2017. The Governor is scheduled to release his executive budget in January 2016, which will include his recommendations regarding State education aid to New York City and all other school districts in the state.

### 2. Health and Hospitals Corporation

The Health and Hospitals Corporation (the "Corporation"), the largest municipal hospital system in the country, faces serious financial challenges. The Corporation's financial plan projects budget gaps that nearly double over the next three years to \$2 billion by FY 2019.

The gaps are higher (by a cumulative total of \$413 million) than projected by the City in May 2015, and the Corporation's gap-closing measures are falling short of target (by a cumulative total of \$259 million). The Corporation has also lowered its estimate for its share of the restructuring revenues that will be made available through a federal Medicaid waiver (by \$378 million). To offset these adverse developments, the Corporation has increased its reliance on unspecified federal and State aid by more than \$1 billion to \$2.1 billion, which may be an unrealistic strategy given federal and State fiscal constraints.

As of December 1, 2015, the Corporation had enough cash on hand to meet its obligations for 30 days. Even after assuming the receipt of \$800 million in supplemental Medicaid payments (which have not yet been approved by the federal government) later in FY 2016, the Corporation projects a closing cash balance of \$102 million, which is enough to meet its cash obligations for six days, the lowest level in at least 15 years.

The Corporation's financial outlook has deteriorated even though the City has provided additional financial assistance. For example, the City has agreed to fund the cost of new labor agreements at the Corporation for fiscal years 2014 through 2019 at an estimated cost of \$1.2 billion. In addition, the City has not required the Corporation to reimburse the City for certain expenses it incurred on the Corporation's behalf, such as medical malpractice and debt service. The Corporation did not reimburse the City for these costs in FY 2013 (\$272 million), and the City allowed the Corporation to delay reimbursement for FY 2014 until FY 2016. The Corporation has not reimbursed the City for FY 2015 (\$278 million), and currently has no plans to reimburse the City for these expenses for FY 2016 (\$312 million) before the end of the fiscal year.

### **3. Metropolitan Transportation Authority**

The operating budget outlook for the Metropolitan Transportation Authority (MTA) continues to improve as subway ridership rises to the highest levels in decades and commercial real estate transaction tax collections rebound from the recession. The MTA's November 2015 financial plan projects relatively small positive cash balances during calendar years 2016 through 2018, but a \$182 million budget gap in 2019. These estimates assume continued economic growth, as well as fare and toll increases of 4 percent in 2017 and 2019.

For close to one year, the MTA sought additional financial assistance from the State and the City to close a \$15.2 billion gap in its proposed capital program for 2015-2019. To help close the gap, the MTA reduced the size of the program and agreed to dedicate additional operating budget resources to the capital program. In October 2015, the State agreed to contribute \$8.3 billion to the capital program (\$7.3 billion more than previously agreed upon) and the City agreed to contribute \$2.5 billion (\$1.8 billion more than previously agreed upon). The State and the City have not yet identified the sources of their increased contributions, although the Governor has indicated that his executive budget will identify the sources of the additional State contribution when the budget is released in January 2016.

The revised MTA capital program is \$3.1 billion smaller than first proposed by the MTA, but the MTA hopes to lessen the impact through the greater use of efficiencies, which are expected to generate savings of \$773 million. The MTA also reduced funding for the second phase of the Second Avenue Subway (by \$1 billion) and deferred some projects to future capital programs.

The revised capital program now totals \$29 billion (including bridges and tunnels), with \$24.5 billion devoted to capital maintenance and modernization, and \$4.5 billion devoted to expansion projects such as the completion of East Side Access and providing Metro-North access to Pennsylvania Station. The revised program has been approved

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by the MTA Board, and the program (excluding bridges and tunnels) will be submitted to the State Capital Program Review Board (CPRB) for its review. The CPRB, which includes representatives of the State Legislature, the Governor and the Mayor, has 30 days to disapprove the program until it becomes effective.

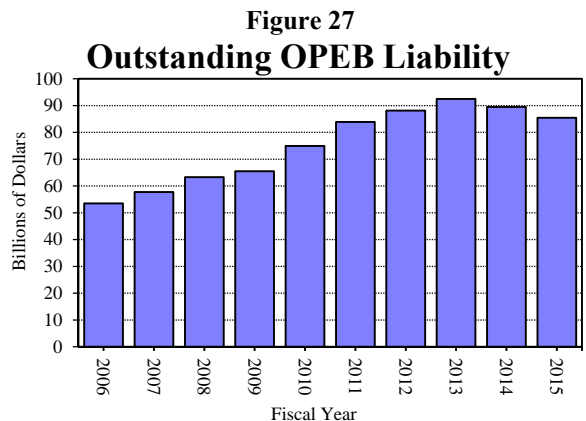
#### 4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is a critical component of the City’s supply of affordable housing. As the City’s largest landlord, the NYCHA manages apartments that house approximately 400,000 residents. It also manages the nation’s largest Section 8 housing program, which provides rent subsidies for private apartments that house more than 235,000 residents. The NYCHA, however, has had difficulties balancing its operating budget and maintaining its facilities.

The NYCHA projects operating budget gaps that grow from \$98 million in calendar year 2015 to \$163 million by 2019. In May 2015, the NYCHA proposed a 10-year plan to help close the projected budget gaps and to improve the condition of its facilities. The plan is based on a number of ambitious assumptions and relies on the cooperation of the federal, State and City governments; the union that represents most NYCHA employees; and private developers. If successful, the budget gaps would be reduced to \$21 million in 2015 and to less than \$25 million in 2016. The remaining gaps would be closed by drawing down general operating reserves.

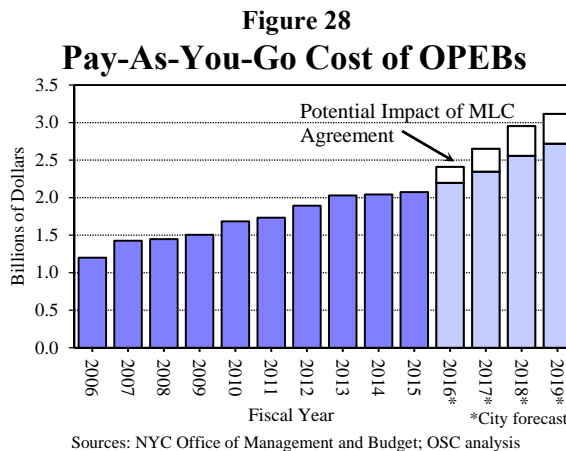
#### 5. Other Post-Employment Benefits

The City’s unfunded liability for post-employment benefits other than pensions (OPEBs) fell by \$4 billion to \$85.5 billion in FY 2015, the second consecutive decline since the City began reporting its liability in 2006 (see Figure 27). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City’s contribution to the OPEB trust in FY 2015.



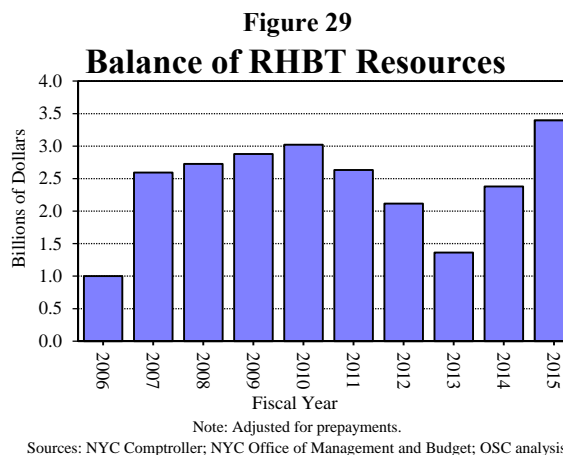
However, the Governmental Accounting Standards Board has approved two rules that could increase the City’s OPEB liability. The changes will conform the standards for measuring OPEB liabilities with those for pension liabilities. In addition, entities that do not fund their OPEB liabilities on an actuarial 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 rules will take effect for financial statements issued by the City beginning in FY 2018.

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 28), 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 29).

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



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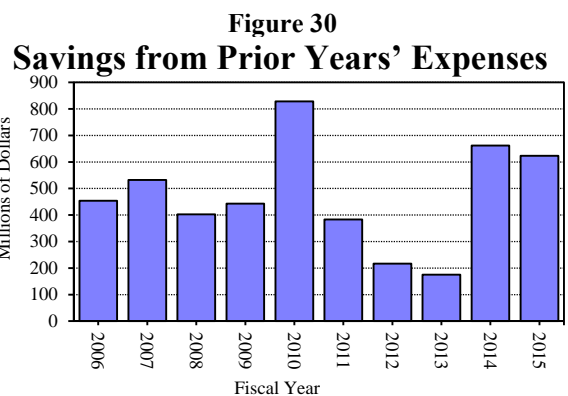
## 6. Constitutional Tax Limit

The amount New York City can raise from the property tax for purposes other than certain debt service and capital appropriations is subject to a constitutional tax limit.<sup>12</sup> Based on information submitted by the City to the Office of the State Comptroller, the portion of the tax limit that the City has used rose 8.5 percentage points between fiscal years 2015 and 2016 to 97.8 percent. The increase is not the result of higher property tax rates as the citywide tax rate has remained unchanged. Rather, the City has indicated that the increase resulted primarily from a large prepayment in FY 2015 of debt service due in FY 2016, which resulted in a decrease in the debt service levy and an increase in the portion of the tax levy subject to the tax limit. Whenever a local government nears its constitutional tax limit, close attention is warranted during the annual budget process.

## 7. Prior Years' Expenses

At the end of each fiscal year, the City estimates the amount of expenses that have been incurred but not yet paid, and the amount of revenues earned but not yet received. The City generally makes conservative estimates because an unfunded liability has a budgetary impact in the current fiscal year. Over the past 10 years, the City has realized net resources averaging \$472 million annually from overestimating prior years' expenses and from underestimating prior years' receivables. The November Plan does not anticipate any resources from this source during the financial plan period.

In FY 2015, the City realized a net benefit of \$623 million (see Figure 30). The benefit resulted largely from an overestimation of prior years' expenses in the Department of Education (\$497 million, mostly for contractual special education services), partly offset by a reduction in associated federal and state categorical education aid (\$94 million). The City also benefited (by \$122 million) from an agreement with the Municipal Labor Committee that relieved the City of an obligation to pay certain mental health services.



Note: Adjusted for annual changes in prior-year receivables.  
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

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