THE COUNCIL OF THE CITY OF NEW YORK

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Speaker of the Council

Hon. Julissa Ferreras-Copeland
Chair, Finance Committee

Report on the Mayor's 2017 Executive Budget

Financial Plan Overview, Economy, Revenue, Pensions, Capital and Debt Service

May 6, 2016

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Budget Overview

Today's hearing is the first of what will be a three and a half weeks series of hearings on the Mayor's Fiscal 2017 Executive Budget. The Committee on Finance will hear from Dean Fuleihan, Director of the Office of Management and Budget (OMB). The hearing is an opportunity to consider the budget and the priorities it represents as a whole. Of particular consideration will be greater clarity on how the Mayor's priorities will be executed, as well as why less than 10 percent of the Council's identified priorities were incorporated into the Executive Budget. Subsequent hearings will offer opportunities to go into greater depth considering the budgets of City agencies.

The New York City Charter calls for a lengthy budget process, starting with the release of the Preliminary Budget in January and ending with an Adopted Budget prior the end of the fiscal year on June 30. This process requires the Mayor to release two sets of proposed budgets: the first being the Preliminary Budget, followed by the Executive Budget. After the release of the Preliminary Budget, the Council is required to hold hearings on the Mayor's Preliminary Budget and then must provide a formal response to the Preliminary Budget. This response is required a full month before the Charter date for the Executive Budget, allowing the Administration to consider Council priorities in preparing the Executive Budget.[1] The Mayor then releases his Executive Budget, followed by another set of Council hearings. This leads to final negotiations and then by the end of June, an adopted budget for the next fiscal year.

The advantage of this long process is to provide a discrete framework for the Mayor and the Council to jointly, and progressively develop a budget. These distinct points allow the Council and Mayor to show points of agreement in budget adjustments, which in turn allow the City to execute those priorities more efficiently and expeditiously. While it may seem that the end result of what final dollar amount is in the adopted budget is what truly matters, the timing of when items are agreed upon can and do have consequences for the ability of the City to execute those budget priorities. A prime example of this is the Council's proposal to expand Summer Youth Employment Program (SYEP). With a start date mere days to the new fiscal year[2], uncertainty around the funding level means the providers are unable to adequately plan for the upcoming year, creating difficulties in identifying placement opportunities and detracting from the overall quality of the program.

Unfortunately, of the $790 million in proposed programmatic changes to the Preliminary Budget, the Mayor's Executive Budget only contains changes totaling $61.9 million; much of the Council's Response has been left on the table. This small amount does not reflect a reluctance to make changes; the Executive Budget includes over $1.1 billion in new spending priorities for Fiscal 2017 alone. Therefore, it remains unclear if this reflects a divergence in priorities, or simply a desire to push discussions of these items closer to budget adoption.

[1] The Charter date for the Council's Response to the Preliminary Budget is March 25th and for the Executive Budget is April 26th.

[2] The start date for SYEP in Fiscal 2017 is July 5, 2016.

The Financial Plan

The Executive Budget proposes an $82.1 billion budget for Fiscal 2016, barely rising to $82.2 billion in Fiscal 2017.[3] As required by the Charter, the budget is balanced for Fiscal 2016 and Fiscal 2017. Outyear budget gaps range from $2.3 billion to $3 billion. In the past, gaps of this size have been manageable, as long as the City's economy remains healthy. Indeed these gaps are somewhat inflated as they include a $1 billion general reserve in each year from Fiscal 2017 through Fiscal 2020 and by a $500 million capital stabilization reserve in Fiscal 2017.

Fiscal 2017 Executive Financial Plan Summary
Dollars in Millions

	FY16	FY17	FY18	FY19	FY20	Avg. Annual Change
REVENUES						
Taxes	$53,748	$54,643	$57,216	$59,715	$62,087	3.7%
Misc. Revenues	7,070	6,500	6,432	6,577	6,777	(1.1%)
Unrestricted Intergovermental Aid	6					
Less: Intra-City and Disallowances	(1,998)	(1,778)	(1,779)	(1,773)	(1,780)	(2.8%)
Subtotal, City Funds	**$58,826**	**$59,365**	**$61,869**	**$64,519**	**$67,084**	**3.3%**
State Aid	13,485	13,682	14,291	14,761	15,247	3.1%
Federal Aid	8,467	7,677	6,811	6,680	6,618	(6.0%)
Other Categorical Grants	705	851	834	832	828	4.1%
Capital Funds (IFA)	583	645	643	582	581	(0.1%)
TOTAL REVENUES	**$82,066**	**$82,220**	**$84,448**	**$87,374**	**$90,358**	**2.4%**
EXPENDITURES						
Personal Services	44,152	45,437	47,676	50,027	51,249	3.8%
OTPS	34,109	33,774	33,276	33,578	33,979	(0.1%)
Debt Service	6,009	6,628	6,996	7,504	8,164	8.0%
	84,270	85,839	87,948	91,109	93,392	
General Reserve	50	1,000	1,000	1,000	1,000	111.5%
Capital Stabilization Reserve	-	500	-	-	-	
Less: Intra-City	(1,983)	(1,763)	(1,764)	(1,758)	(1,765)	(2.9%)
Spending Before Adjustments	82,337	85,576	87,184	90,351	92,627	3.0%
Debt Defeasances	(103)					
Surplus Roll Adjustment (Net)	(168)	(3,356)				
TOTAL EXPENDITURES	**$82,066**	**$82,220**	**$87,184**	**$90,351**	**$92,627**	**3.1%**
Gap to be Closed	**$-**	**$-**	**($2,736)**	**($2,977)**	**($2,269)**	

Source: *OMB Fiscal 2017 Executive Financial Plan*

On the revenue side, City funds are expected to grow at an average rate of 3.3 percent a year over the Financial Plan. However, spending supported by City funds as projected in the Financial Plan grows at a faster rate. Correcting for prepayments and assuming outyear gaps are filled with City funds revenue, City funds spending grows at an average annual rate of 4.2 percent, with the fastest growth of 6.2 percent between Fiscal 2016 and Fiscal 2017. Overall, City funded spending is projected to grow at around the same pace as the City's economy during Financial Plan period, though significantly faster than the economy in Fiscal 2017.[4] It

[3] Comparing total spending between the current year and the next year in the financial plan is not a good we to analyze the growth of the City's budget. Prepayment of expenses and the treatment of categorical grants distort the comparison. It is best to compare City funded spending adjusted for prepayments. See below.
[4] The Finance Division forecast of the average rate of GCP growth of 4.2 percent.

should be noted that since World War IIs, state and local government spending has generally grown a bit faster than the economy.[5]

Balancing the Budget

The principle changes in City funds introduced in the Fiscal 2017 Executive Budget are:

- new needs of $385 million in Fiscal 2016 and $1.1 billion in Fiscal 2017;
- a $250 million contribution to the Retiree Health Benefit Trust (RHBT);
- the loss of $200 million in New York City sales tax revenue to New York State; and
- $180 million forgiveness of NYC Health and Hospitals (H + H) debt service.

Roughly speaking, all of this is funded by an expansion of the Citywide Savings Program and a few other expense adjustments.

[5] For a brief discussion see Tax Foundation "A Short History of Government Taxing and Spending in the United States" http://taxfoundation.org/article/short-history-government-taxing-and-spending-united-states accessed May 2, 2016.

Closing the Gap *Dollars in Millions*		
	FY16	**FY17**
Gap as of Fiscal 2017 Preliminary Financial Plan	**$0**	**$0**
Expense Changes		
New Needs		
Uniformed Services	97	130
Health and Welfare	14	346
DOE	93	214
H + H	160	7
Other New Needs	21	418
Citywide Savings		
Medicaid Re-estimate	(305)	(305)
Debt Service	(50)	(89)
Judgement & Claims Re-estimate	(23)	(56)
Other Citywide savings	(117)	(250)
Retiree Health Benefit Trust	250	
General Reserve	(250)	
Collective Bargaining	(96)	54
All other adjustments	(289)	77
Expense Changes	**($495)**	**$546**
Revenue Changes		
Tax Revenue Forecast	*443*	*(259)*
NYS Retention of NYC Sales Tax – related to STARC	*(50)*	*(150)*
* Net Changes to Misc. Revenue	*171*	*74*
H+H Debt Service Forgiveness		*(180)*
Unrestricted Aid	*2*	
Revenue Changes	**$566**	**($515)**
SUBTOTAL	**$1,061**	**($1,061)**
TOTAL: Gap Opening & Closing Actions		
Offset by increase of FY16 Prepayments to FY17	(1,061)	1,061
NEW GAP in Executive Financial Plan	**$0**	**$0**

Source: *OMB Fiscal 2017 Executive Budget*

* Excludes adjustments to NYC Health + Hospitals debt service reimbursement

Tax Revenues are up in Fiscal 2016 but down in Fiscal 2017 as compared to the Preliminary Budget. There are three things behind this change. First, Wall Street earnings and bonuses are down, weakening the personal income and general corporation tax collections compared to what was expected in January. Second, the property market continues to do better than OMB expected. Third, New York State is taking $600 million of New York City sales tax revenue over the next three years, as shown in its adopted budget. This is New York State claiming the gains New York City made in 2014, by refinancing Sales Tax Asset Receivable Corporation (STARC) bonds.

New Needs

The Executive Plan includes $1.1 billion in city funding for new needs in Fiscal 2017. Of the total, over 40 percent is allocated to the Department of Homeless Services ($246 million) and the Department of Education ($217 million). When combined with actions in the November and Preliminary Plans, the Financial Plan includes additional City-funding of nearly $2 billion since adoption of the Fiscal 2016 budget, for new needs in Fiscal 2017. Appendix 1 shows new needs by agency introduced since adoption of the Fiscal 2016 budget. The new needs in the Fiscal 2017 Executive Budget increase citywide headcount by 3,160 full time positions.

Fiscal 2017 Executive Plan New Needs (City Funds Only)			
Dollars in Thousands	**Fiscal 2016**	**Fiscal 2017**	**Positions**
Uniformed Forces:	**$96,618**	**$130,008**	**775**
Police	3,439	29,599	327
Fire	53,447	63,228	291
Corrections	1,816	16,486	144
Sanitation	37,915	20,695	13
Health and Welfare:	**$173,989**	**$366,415**	**1,386**
Administration for Children's Services	0	14,640	106
Social Services	2,424	53,725	648
Homeless Services	11,300	246,440	407
Department for the Aging	0	6,900	7
Youth and Community Development	0	6,563	0
Health and Mental Hygiene	265	30,878	218
Health and Hospitals	160,000	7,269	0
Other Agencies:	**$16,714**	**$335,135**	**563**
Housing Preservation and Development	0	49,986	1
Environmental Protection	(5,854)	99,116	4
Transportation	1,009	20,507	37
Parks and Recreation	6,929	16,366	37
Citywide Administrative Services	3,004	11,962	48
All Other Agencies	11,626	137,198	436
Education:	**$93,321**	**$237,136**	**436**
Department of Education	93,321	217,004	423
City University	0	20,132	13
Other:	**$4,028**	**45,840**	**0**
Miscellaneous	4,028	45,840	0
TOTAL NEW NEEDS	**$384,670**	**$1,114,533**	**3,160**

Highlights of City funding for new needs in the Fiscal 2017 Executive Budget include:

Homeless Services

- $160.1 million for increased shelter capacity to address the projected need in Fiscal 2017.
- $45 million to upgrade security at all shelters.

- $66.3 million for homeless programmatic enhancements in HRA and DHS to implement reforms resulting from the 90-Day review process, which includes homeless prevention services, increasing outreach for street homelessness, improving shelter conditions, and addressing rehousing efforts for the homeless and those at risk of becoming homeless.
- $10.3 million for the Department of Education's Students in Shelters initiative, which will provide services to students in shelters. Attendance teachers will work in certain shelters to target chronic absenteeism, and new social workers will be hired for high need schools. Funding is added for one year only.

Department of Education

- $37 million to create additional seats for the continued expansion of Universal Pre K. A total of $57.7 million was included for Fiscal 2017 comprised of City, State and federal funds.
- $21 million for "Summer in the City" a new approach to summer school for students in grades 2-12. This program will be available to both mandated and non-mandated students who will have opportunities to study literacy, math and STEM as well as visit cultural institutions. It is expected that 150,000 students will participate this summer.
- $9 million for physical education and wellness programs to bring all elementary schools in to compliance with State physical education standards by Fiscal 2019. The cost will increase to $30 million by Fiscal 2018 and will include the hiring of 419 physical education teachers.

Environmental Protection

- $28.7 million is added to the Department of Environmental Protection (DEP) to dredge Flushing Bay in order to remove sediment mounds and reduce nuisance odors. The bulk of the dredging is expected to be completed in Fiscal 2017.
- $21.3 million for the City's Filtration Avoidance Determination (FAD) which ensures water entering the Catskill and Delaware Watersheds is clean. To achieve this, FAD focuses on forestry, land management, flood hazard mitigation and storm water, wastewater, and stream management.

Fire Department

- $4.9 million for 50 additional Basic Life Support Ambulance Tours in the Bronx and Queens. Once fully implemented, the cost will total $10 million annually and will increase EMS headcount by 206 positions.
- $15.5 million to cover anticipated overtime needs.

Other Highlights

- $17.8 million to expand the Law Department's Vertical Case Processing unit which contests frivolous lawsuits filed against the New York City Police Department.
- $8.9 million to reduce the risk of Zika transmission in the City.
- $3.5 million to establish the Department Veterans Services.

A Savings Program to Balance the Budget

The Fiscal 2017 Executive Budget builds upon the Citywide Savings Plan introduced in the Fiscal 2017 Preliminary Budget. The Citywide Savings Plan provides agencies the opportunity to voluntarily identify and offer savings as they deem appropriate. For Fiscal 2016, the savings presented in Executive Budget total $495.1 million and for Fiscal 2017 savings total $700.5 million. Savings shown in the Preliminary and Executive Budget total approximately $1.3 billion in Fiscal 2016, while for Fiscal 2017 savings total $997.4 million. The table below provides a breakdown of the cost savings program by category for Fiscal 2016 and Fiscal 2017 in the Fiscal 2017 Executive Budget.

Fiscal 2017 Executive Budget Citywide Savings Program		
Dollars in Thousands	**Fiscal 2016**	**Fiscal 2017**
Uniformed Forces		
Police Department	-	($9,690)
Fire Department	($215)	(1,908)
Department of Corrections	-	-
Department of Sanitation	(12,000)	(4,000)
Health and Welfare		
Administration for Children's Services	($20,000)	($16,263)
Department of Social Services	(305,289)	(306,685)
Department of Homeless Services	(11,625)	(38,224)
Department of Health and Mental Hygiene	-	(7,386)
Other Mayoral		
Department for the Aging	($300)	($50)
Department of Cultural Affairs	(596)	-
Housing Preservation & Development	-	(300)
Department of Environmental Protection	-	(24,613)
Department of Finance	(1,000)	-
Department of Transportation	(3,907)	(8,259)
Department of Parks and Recreation	(1,000)	(4,000)
Department of Citywide Admin	(2,926)	(3,871)
All Other Mayoral	(14,666)	(2,817)
Major Organizations		
Deparment of Education	($3,800)	($59,000)
City University	-	-
Health and Hospital Corporation	-	-
Other	-	
Citywide Pension Contributions	-	($124,000)
Miscellaneous	(68,157)	(89,439)
Debt Service	(49,622)	-
TOTAL	**($495,103)**	**($700,505)**

Like the savings included in the Fiscal 2017 Preliminary Budget, the Fiscal 2017 Executive Budget savings seem to stem largely from accruals, delays in spending, re-estimates, and other non-recurring savings, rather than programmatic savings. True programmatic savings are typically permanent spending reductions such as the elimination of redundancies, providing services in a more efficient manner, or reducing staffing.

Given how the documents currently provided by OMB outline the Citywide Savings Program, it is difficult to discern which reductions are actual programmatic savings and which are technical budget re-estimates. For example, the Miscellaneous Budget reflects a $23 million savings in Fiscal 2016 and a $56 million in savings in Fiscal 2017 for judgements and claims as a result of a baseline realignment of how OMB estimates claims expenses. This savings is not a true savings, but rather a more accurate estimate of the amount of funding the City needs in Fiscal 2016 and Fiscal 2017 to settle tort and contract liability claims. While it is important for a Financial Plan to indicate more accurate spending projections, re-estimates should not be labeled as savings, but rather a more accurate spending projection.

Similar to re-estimations, accruals should not be presented as a saving. Many of the accruals are a result of delays in spending. For example, the Police Department's Preliminary and Executive Budget savings program reflect accruals as a result in hiring delays. The Council adopts a budget with the expectation that operations will be funded at a certain level, and when accruals take the form of hiring and spending delays, the budget that was agreed upon by the Council and the Administration is not being executed at it was originally intended.

To provide more thorough descriptions of the Administration's cost savings program, categories should be assigned to each of the savings, such as programmatic efficiency, accruals, re-estimation of costs, or non-recurring savings. By categorizing each saving, a deeper analysis can then be conducted as to which savings are actual permanent spending reductions that can be applied across several fiscal years, and which savings are a reflection of more precise estimate of costs for the current and upcoming fiscal year.

Furthermore, OMB's documents do not show where the Citywide Savings Program impacts an agency's budget by Unit of Appropriate and Budget Code. Line items of the savings program are reflected in other adjustments, but it is difficult to conduct analysis or track the savings without knowing where exactly the proposed savings will affect an agency's budget.

In addition to the categorization issue of the Citywide Savings Program, many of the descriptions of the cost savings provided by OMB do not give enough detail to show how the agency will achieve the cost savings. The Human Resources Administration's (HRA) and the Department of Education's (DOE) savings comprises of 43 percent of the total cost savings in the Fiscal 2017 Executive Budget, yet the descriptions of almost all of the savings are simple one sentence explanations. For example, HRA's Medicaid Re-estimate will result in $305 million in savings in Fiscal 2016 and in the outyears, yet the description of how the agency will be able to achieve this saving only states it is the result of reimbursement changes associated with the Affordable Care Act (ACA). Other examples of cost savings that lack any detail include:

- Housing Preservation and Development - $300,000 in Fiscal 2017 for Personal Services (PS) savings realized;
- Department of Education – $6.1 million in Fiscal 2017 and the outyears in efficiency savings in Other Than Personal Services (OTPS); and
- Department of Buildings - $2.3 million in Fiscal 2017 savings.

Without additional conversations with OMB or the agency it is nearly impossible to conduct further analysis as to how the agency is able to achieve the savings and what the potential impact may be.

From subsequent conversations with OMB it has been possible to understand Medicaid savings. HRA's Fiscal 2017 Executive Budget includes a $305.2 million in savings for federal Medicaid reimbursements. This re-estimate is based on an increase in the State's federal reimbursement match for childless adults under the age of 65 who qualify for Medicaid under the Affordable Care Act. Previously, New York State received a 50 percent reimbursement match from the federal government for these childless adults, but beginning in 2014, the federal government began to gradually phase in an increase in its matching rate. In 2017, the federal reimbursement match will be 86 percent, and the remaining costs will be divided between the State and the City. The State estimates this will amount to $305.2 million in savings for the City.

Council Priorities

Out of the 82 expense priorities identified by the Council in its Response to the Preliminary Fiscal 2017 Budget, the Executive Budget provides approximately $61.9 million to implement several of these proposals. Listed below are Council recommendations that were included in the Fiscal 2017 Executive Budget[6].

- **Ensuring Opportunities for our Youth.** The Executive Budget added $17.6 million in Fiscal 2017 and $32 million in Fiscal 2018 for the Department of Education to support and strengthen Career and Technical Education Programs. The Plan baselines $5.6 million for the Department of Youth and Community Development to enhance services for the Beacon Program beginning in Fiscal 2018. A total of $4.5 million has also been added in Fiscal 2017 for Administration for Children's Services to fund the Foster Care Discharge Grants and extracurricular activities.
- **Budgeting for a More Equitable City.** The Administration added $4.8 million in Fiscal 2017 to boost pay rates of contract case management staff at the Department of the Aging.
- **Baselining City Priorities.** The Fiscal 2017 Executive Budget adds $3 million to fund the ongoing operations of 15 senior centers under NYCHA's management; $1.1 million for senior center space costs; and $1.6 million for the Commission on Human Rights to hire new staff.
- **Expanding and Enhancing Vital City Services.** The Fiscal 2017 Executive Budget adds $9.8 million to provide 50 new Emergency Medical Services (EMS) tours, $12.9 million for additional maintenance and seasonal staff at the Department of Parks and Recreation (DPR), and $1.3 million for the DPR's GreenThumb Program.

Despite these additions, the Administration failed to include most of the Council's recommendations. The most significant omissions are expanded funding for youth programs including the Work, Learn, Grow (WLG) program and Summer Youth Employment Program (SYEP) for which the Council strongly advocated. Due to the summer schedule of many youth programs, last minute funding increases made at adoption of the City's budget become difficult to implement effectively.

[6] See the NYC Council's Response to the Mayor's FY 2017 Preliminary Budget and FY 2016 Preliminary Mayor's Management Report for full discussions on all the initiatives mentioned above.
http://council.nyc.gov/html/budget/2017/FY17-Preliminary-Budget-Response.pdf

- **Work Learn, Grow.** The Council called on the Administration to baseline and increase the total budget for WLG in order to support long-term program improvement, incorporating seven essential recommendations – run WLG year round, include out-of-school youth, maximize youth earnings, allow younger youth to work, reduce orientation requirement, create a year round youth employment program for the Mayor's action plan for neighborhood safety, and enhance the year round employment program for New York City Crisis Management System.
- **Summer Youth Employment**. Recognizing the critical importance of the Summer Youth Employment Program, as well as the gap between the supply of and demand for positions, the Council called upon the Administration to expand the program to offer 100,000 jobs by Fiscal 2019, which would be phased in over three years. The Council also requested that the Administration reserve 3,078 jobs for vulnerable youth and expand the Ladders for Leaders program in its Fiscal 2017 programs. Another key component of the Council's recommendation is an overhaul of SYEP including evaluating the current SYEP model, returning to a seven-week program model, limiting SYEP to 14-21 year olds, improving vulnerable youth support, and connecting Career and Technical Education high schools with SYEP.

Other major recommendations in the Council's Fiscal 2017 Preliminary Budget Response that were overlooked by the Administration include the following:

- **Expand the Comprehensive After-School System of NYC (COMPASS) for elementary students.** To restore the program to its former peak size and to match the scope of the middle school after school program, the Council called for a 65,000 seat COMPASS program for a total cost of $74.3 million.
- **Restore the 34,000 Schools Out NYC (SONYC) Summer Slots to DYCD.** In Fiscal 2016, the Administration cut 34,000 seats from DYCD's SONYC program and later restored the seats for a single summer only. SONYC, like all other after school programs should include a summer component. The Council called upon the Administration to permanently restore these slots with a $74 million increase.
- **Create Wage Parity Between Child Care Providers.** The Council proposed that the Administration add funds in Fiscal 2017 to make the wages of approximately 800 Early Learn teachers and directors, and more than 2,000 support staff comparable to wages paid to UPK contracted staff.
- **Improve Library Services.** The Council and the Administration invested $43 million into the three library systems in Fiscal 2016 to increase access to libraries and ensure 6-day service in every public library. Nevertheless, the library systems still need an additional $22 million to meet the increasing demand for their services and programs. Hence, the Council urged the Administration to baseline $65 million to ensure continuity of 6-day service in all library branches.

State Budget

The Governor's Proposed 2016-2017 New York State Executive Budget would have imposed several burdensome costs on the City. Among the Council's primary concerns were proposals to:

- Make the City responsible for projected cost growth in the Medicaid program;
- Have the City assume a 30 percent share of CUNY senior colleges' net operating costs, which would have totaled $485 million in Fiscal 2017;
- Create a new approval process for New York City and other municipalities to issue tax-exempt private activity bonds;
- Provide only a modest increase in school aid; and
- Divert to the State $600 million of New York City's sales tax revenue on the grounds that the City misused that amount of State sales tax revenue. The controversy involves debt of a specially created local authority, the Sales Tax Asset Receivable Corporation (STARC).

The State Fiscal 2016-2017 Enacted Budget rightfully excluded these proposals, with the exception of STARC. A refunding of STARC bonds was done in October 2014 with the knowledge and approval of New York State. In the refunding, STARC issued $2 billion in new bonds, which, because they were sold at a premium, raised about $2.5 billion. This was used to pay off older bonds outstanding and to provide a grant to the Transitional Finance Authority (TFA). The TFA used this money to defease TFA bonds, resulting in a net city savings which were to be realized over a few years period. According to the State, the savings were accrued to the City due to structural provisions. Given the unique structure of the bonds, the State will realize the savings it is due over the next three State fiscal years through the adjustment of sales tax receipts otherwise payable to New York City. So, instead of this sales tax revenue coming to the City, the State is seizing it. The City will lose approximately $200 million annually from Fiscal 2017 through Fiscal 2019. However, the City's Executive Budget recognizes only a $50 million interception of sales tax revenue in Fiscal 2016 and a $150 million interception in Fiscal 2017, as OMB hopes that the State will reverse its decision in its 2017-2018 Budget. This leaves a $400 million interception of sales tax revenue unaccounted for in the Financial Plan, exposing the City to unnecessary risk. There is currently no indication that the State intends to change its decision in the Fiscal 2017-2018 Budget.

Challenges

New York City Health + Hospitals

The financial condition of New York City Health + Hospitals (H + H) poses a major risk to the City's financial plan, a risk that is not fully addressed in the Executive Budget. With the release of the Executive Budget the Mayor unveiled the "One New York Health + Hospitals Transformation Plan," a four part plan to transform H+H and address the financial risks facing the City's public hospital system. The Plan encompasses:

1. Providing access to care and insurance coverage for the uninsured;
2. Expanding outpatient care and community based services;
3. Increasing revenue and operational efficiencies; and
4. Advancing a State and federal agenda seeking fairer reimbursements for care provided.

In addition to the transformation plan the Fiscal 2017 Executive Budget added a lump sum subsidy of $160 million to the Fiscal 2016 budget of H+H bring the total subsidy to nearly $500 million for this fiscal year. The Executive Budget also transferred responsibility for H+H's debt service costs to the City through all the years of the Financial Plan. The debt service costs start at $180 million in Fiscal 2017 and rise to $200 million by Fiscal 2020. In addition, the City plans to commit $2.5 billion in capital projects from Fiscal 2017 through Fiscal 2020, an increase of $385 million from $2.1 billion Preliminary Capital Commitment Plan. Specifically, $100 million of this increase will focus on ambulatory and outpatient care. The Administration anticipates that the financial supports provided to H+H plus the Transformation Plan and other actions will address the projected $1.8 billion budget gap that H+H will reach by Fiscal 2020.

While the Fiscal 2017 Executive Budget provides H+H with funding to stabilize its current year budget, it does not adequately address the looming long-term financial risks that are likely to grow out of changes related to the Affordable Care Act and overall decline in the public hospital system's revenue. Success of the Administration's plan for H+H rests heavily on State and federal actions that might improve the revenue outlook for H+H. Further, the Transformation Plan does not present an adequate strategy to maintain and grow H+H's market share with newly insured patients; make up for the inadequacy of Medicaid reimbursements; and to deal with the implications of impending Medicaid disproportionate share hospital (DSH) cuts and sustainability of Medicaid DSRIP waivers.

Reserves

The savings program represents an attempt to be more accurate in projecting expenses, but it is at the cost of less conservative budgeting. In the past these conservatively estimated expenses helped build reserves and became an easy way to trim the budget in downturns. With less "fat" in the budget, increasing reserves becomes much more critical.

One of the ways the City effectively builds up reserves is by prepaying future expenses. The reserves the City expects to have available at the end of Fiscal 2016 in the Executive Budget are larger than what was expected in January's Preliminary Plan. At that time, the City had a total of $5.7 billion saved as reserves. The Fiscal 2017 Executive Budget adds to that $1 billion to the Budget Stabilization Account and $250 million to the Retiree Health Benefits Trust (RHBT). These changes bring the total reserves to $7 billion, approximately the same as the reserves coming into Fiscal 2016. In other words, as of the Executive Budget, the City's reserves remain flat through the current fiscal year.

Fiscal 2017 Reserves
Dollars in Billions

	January 2016 Financial Plan	April 2016 Executive Budget	Change
FY 2016 Budget Stabilization	$2.30	$3.36	$1.06
RHBT	$3.40	$3.65	$0.25
Debt Defeasances	$ -	$ -	$ -
Total reserves:	**$5.70**	**$7.01**	**$1.31**

An increase in expenditures combined with unchanged reserves brings down the ratio of reserves to adjusted operating expenditures[7] to about 8.2 percent, down from 8.5 percent at the end of Fiscal 2015. This pales in comparison with Fiscal 2008, right before the recession, when reserves represented 18.5 percent of adjusted operating expenditures.

As in recent years, there still remains $1 billion in the General Reserve and $500 million in the Capital Stabilization Reserve in Fiscal 2017, and $1 billion in the General Reserve in each of the outyears. These could also be used in the case of an economic downturn.

[7] The reported operating expenditures were adjusted by accounting for prepayments and defeasances.

There has already been some concern that the City isn't saving enough. In August, the City's Comptroller studied "How Much is Needed to Weather the Next Fiscal Storm"[8]. According to the report, Moody's suggests that a 15 to 30 percent fund balance is needed for a high credit like Aa, while fellow credit rating agency, S&P 500, is more flexible: they suggest an 8 to 15 percent fund balance is ideal. Given previous experience with the City's recessions, the Office of the New York City Comptroller claims the City should try to maintain a healthy ratio of reserves to adjusted operating expenditures of around 15 percent.

Economy and Tax Revenues

The Finance Division's economic and tax revenue forecast will be released for the Finance Committee's May 24th hearing.

Council Finance concurs with OMB on the basic outline of the national and the City economy. However, the Finance Division's economic and tax revenue forecast is not yet complete, and small differences in forecasted wages, employment and incomes in the City can often produce meaningful differences in projected tax revenue.

National Economy

Nationally, there's the proverbial 'good news' and the 'bad news.' During the first quarter 2016, payroll employment continued its strong expansion, averaging 209,000 more jobs per month. The unemployment rate has finally reached 5.0%, and the improved labor market has drawn Americans back to the labor force, finally raising the long- depressed labor force participation rate from its 62.4 percent nadir in September 2015, up to 63.0 percent as of March 2016. Lower energy prices have been a dividend for consumers, although its effect on consumption expenditures has been less than hoped for, with an increasing share cautiously directed to savings. A recovering housing market is restoring home equity to households, despite a constrained inventory of homes for sale.

It's puzzling then that the increasing employment has been coupled with dismal economic growth. Real gross domestic product slowed to only 1.4 percent in the fourth quarter 2015, and then further slumped to 0.5 percent in the first quarter 2016. One explanation is that employers have been hiring more, but investing less in new technology. This is reflected in labor productivity - or output per working hour, which has fallen to an average annual rate of only 0.5 percent over the past five years. It previously averaged 1.5 percent annually between 1948 and 2007. Near-flat productivity means that the standard of living is not improving.

The economy has faced additional obstacles since mid-2014. A strong dollar and weaker global demand has battered U.S. manufacturing and exports in general. Diving energy and commodity prices have taken the wind out of the energy and mining sectors, further discouraging business capital investment. The turmoil in financial markets, stemming from the economic troubles in China and emerging markets, have infused volatility in U.S. equities. This has set stock prices on a downward course that has only been halted in mid-February. The Federal Reserve, in response, has adopted a more accommodative stance. After finally raising the federal funds rate by a quarter percentage point in December, the policy committee deferred an anticipated

[8] "Measuring New York City's Budgetary Cushion: How Much is Needed to Weather the Next Fiscal Storm?" NYC Budget Brief, Office of the New York City Comptroller, August 2015.

rate increase in March. This implies a planned trajectory of two quarter percentage point increases a year instead of four. The Fed's actions have contributed to finally arresting the ascent of the dollar and stabilizing energy prices.

City Economy

Turning to New York City, it received a pleasant surprise in March 2016. The U.S. Bureau of Labor Statistics released its annual benchmarking of the City's employment numbers, with full payroll data replacing a sampling of firms. What was previously reported as an additional 100,500 jobs in 2015, itself pretty impressive, was upwardly revised to 119,000: a 2.9 percent increase. The gains were broad-based. Professional and business services, which provide a wide gamut of decent-paying jobs, did not lose momentum, as was reported before the benchmarking, but accelerated its growth by a dynamic 4.5 percent. Finance and insurance which averages six-digit salaries, maintained growth of 2.2 percent. Health care remained sanguine at three percent. Leisure and hospitality, comprising lower-paying service positions, maintained very strong job growth of four percent, though less explosive than the previous four years. Retail was the one disappointment, abruptly halting to almost zero job growth after five years of at least three percent growth.

In the first quarter 2016, payroll employment continued to expand by 106,500 year-over-year, surpassing fourth quarter growth of 93,700, though less than third quarter growth of 116,300. There are mild warning signs, however, that certain sectors are beginning to cool down. Employment growth in professional and business services began to soften a little in February and March, perhaps due to reduced business from their struggling national clientele. During the first quarter, finance and insurance payroll grew by only 60 percent year-over-year, of the pace experienced in 2015 and 2014, reflecting Wall Street's poor performance. The securities industry sustained a 10.5 percent drop in profits in 2015, and a 1.7 percent reduction in revenues.[9] Job growth in leisure and hospitality had begun tapering off in mid-2015, reflecting more cautious spending by tourists and New Yorkers alike. Retail has been losing jobs non-stop since August 2015, for the same reasons.

The City's unemployment rate fell from 6.1 percent in March 2015 to 5.1 percent in October 2015. The rate, however, inched back up to 5.5 percent by March 2016, but the increase was generated by New Yorkers entering or returning to the labor force, drawn by a more promising job market. The City's labor force participation rate remains a concern at 61.5 percent as of March 2016, 1.5 percentage points below the mediocre U.S. rate.

Average wage growth in the City has been less spectacular than job growth, and is estimated to have grown by only 0.4 percent in 2015, according to Council Finance's advanced forecast. The average wage was pulled-down by the struggling securities industry, whose average wage dropped by an estimated 2.1 percent from reduced bonuses. The non-finance average wage is expected to respond to the tighter labor market, reaching 3 percent during the financial plan period.

Real estate is a big beneficiary of rising employment and upward wage pressures. The growth in office-using employment has increased the demand for commercial development and leasing. In 2015, the Manhattan office vacancy rate dropped to 8.5 percent from 9.3 percent in 2014, and asking rents have risen to $71.58 per square foot from $67.70.[10] This dynamic growth has slowed during the first quarter 2016, with leasing falling 6.0 percent year-over-year to 6.6

9 New York Stock Exchange ("NYSE") members' trading and brokerage operations.

10 Cushman & Wakefield, 'Marketbeat Office Snapshot, Manhattan, NY,' 4th Quarter 2015 and 1st Quarter 2016.

million square feet. Residential real estate has also benefited. As of the first quarter of 2016, the median cost of a one bedroom co-op or condo in Manhattan jumped 10 percent from a year ago to $825,000.[11] The sizable commercial and residential construction in the pipeline is expected to soften the unrelenting rise in office and housing costs.

The City's five-year stretch of dynamic growth is beginning to ease. OMB projects employment growth plummeting from 2.9 percent in 2015 to 1.3 percent in 2016, reaching 0.8 percent in 2020. Council Finance expects a more gradual and shallower slow-down.[12] The first quarter employment numbers do not project any sharp decline. OMB expects the average wage to surpass three percent in 2018 and 2019. This is close to Council Finance's initial draft of its forecast. As mentioned before, Wall Street wages will continue to be a drag on overall wage growth.

Economic Forecast Risks

There are appreciable risks to the scenario shared by OMB and Council Finance; that there will only be a slowing down of economic growth, and not a recession. The baseline scenario depends on at least moderate consumer activity, which has been the chief driver of GDP growth during this recovery. Global financial conditions need to stabilize, as any future crises will additionally pound U.S. equities, discouraging U.S. households and firms. Global instability also drives investors to the relatively safe U.S. assets, which further appreciates the dollar, weakening manufacturing and exports. There is the threat of a major terrorist attack, with its incalculable impact on Wall Street, and overall confidence. The Fed's milder approach to raising short-term rates may not be mild enough, and may constrain credit with higher interest rates, as well as strengthen the dollar. As for New York City, the vague signs of a slowdown may prove to be more pronounced, entailing negative growth in gross city product and employment during the course of the financial plan. Prominent economic forecasts have recently upped the odds of a recession, although they're still comfortably below 50 percent. Wells Fargo Securities sets the probability for a recession during the next six months at 26 percent. IHS Global Insight projects a 20 percent probability that a mild recession will occur sometime during the second half of 2016.

There is a slightly smaller chance of around 15 percent that growth will accelerate, also from IHS Global Insight, with GDP growth of 2.6 percent in 2016 and 3.7 percent in 2017. This requires stronger total factor productivity growth in the U.S. and stronger growth in the Global Economy.

Tax Revenue Forecast and Risks

Regarding City's tax revenue, OMB forecasts a 3.5 percent increase in tax collections - including audits in Fiscal 2016, and 1.7 percent in 2017. This is a considerable drop from the 7.5 percent growth in 2015, and the 6.9 percent average annual growth over the past five years.

The projected growth in collections is based on the direction of the City's economy. Property-related tax collections will be driven by rising billable assessed values. These gains, however, will be offset by higher long-term interest rates leveling the climb in market value. Non-property-related tax collections will be buttressed by increasing employment and total wages, most directly through the personal income tax. This too will be attenuated by a volatile stock

[11] http://www.millersamuel.com/aggy-data
[12] The NYC Council Finance Division's forecast is an advanced draft, with the final version released in late May.

market and falling Wall Street profits. The strong dollar will directly hit business tax collections, as well as those of the sales and hotel taxes.

These tax collection forecasts, like the underpinning economic conditions, are subject to considerable downside risks. These revenue projections rest upon global financial markets stabilizing, the dollar finally falling, energy prices rising, maintaining confidence among consumers and firms, and continued employment growth.

There are also upside risks. Council Finance will release its revenue forecast on May 24th, but its advanced estimate projects a milder decline in employment growth than projected by OMB, meaning higher total wages. This would most directly increase PIT withholdings, and indirectly the business and sales taxes. The Council also has a stronger forecast of real gross city product and personal income during the financial plan than does OMB.

OMB Forecast: Growth Rates

Dollars in Millions

	FY16	FY17	FY18	FY19	FY20
Real Estate	7.0%	5.1%	5.9%	5.9%	4.7%
Sales**	3.3%	2.1%	6.2%	4.3%	4.3%
Mortgage Recording	3.2%	-9.5%	-0.4%	2.7%	2.4%
Personal Income	2.5%	0.9%	2.8%	3.7%	4.0%
General Corporation	-4.5%	1.2%	6.2%	0.0%	1.1%
Unincorported Business	3.3%	1.6%	4.4%	4.5%	4.8%
Utility	-3.6%	3.0%	3.4%	3.3%	2.9%
Hotel	1.6%	-4.2%	4.1%	4.3%	4.4%
Commercial Rent	4.8%	4.5%	4.3%	4.2%	4.0%
Real Propery Transfer	-2.8%	-6.6%	0.1%	3.3%	3.0%
Cigarette	-9.5%	-4.4%	-2.3%	-2.4%	-2.4%
All Others***	-0.4%	-2.8%	0.3%	0.2%	0.3%
Audit	-6.3%	-32.6%	0.0%	0.0%	0.0%
Total	**3.5%**	**1.7%**	**4.7%**	**4.4%**	**4.0%**

**Actuals*

***Less $50 million withheld by NYS for STARC*

****Includes STAR*

Source: *OMB, Executive Budget Fiscal 2017*

Financing and Debt Service

The Fiscal 2017 Executive Budget estimates $32.9 billion in long-term borrowing between Fiscal 2016 and 2020 to pay for the Five Year Capital Plan. Considering all financing arms of the City, outstanding liabilities currently total around $102.2 billion.

The City's borrowing strategy is a function of numerous factors, including but not limited to the conditions of the financial market, the City's project schedule, and cash flow considerations. A summary of the financing plan can be seen in the table below.

Summary of Capital Financing Plan - Fiscal 2017 Executive Financial Plan
Dollars in Millions

	FY16	FY17	FY18	FY19	FY20
Financing Plan					
General Obligation Bonds	$0	$2,250	$3,650	$4,040	$4,120
Transitional Finance Authority Bonds [(1)]	3,650	3,375	3,650	4,040	4,120
Water Authority Bonds	1,124	2,083	1,760	1,808	1,770
Total	**$4,774**	**$7,708**	**$9,060**	**$9,888**	**$10,010**
Debt Outstanding					
GO Bonds	$38,023	$38,076	$39,476	$41,307	$43,026
TFA Bonds [(1)]	29,314	31,860	34,539	37,274	40,023
Other Debt [(2)]	2,590	2,494	2,387	2,283	2,171
Total	**$69,927**	**$72,430**	**$76,402**	**$80,864**	**$85,220**
Water Authority Bonds	29,702	31,389	32,858	34,352	35,744
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	12.9%	12.9%	13.0%	13.1%	13.2%

Source: *Mayor's Message Fiscal 2017 Executive Financial Plan*
1) TFA Bonds do not include Building Aid Revenue Bonds issued for education capital purposes which are secured by Building Aid revenues from the State
2) Includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).

This is an unusual financial plan in that it anticipates that the City will not need to issue new money using GO bonds in Fiscal 2016. While the City splits its issuances primarily between GO and TFA, GO issuances for Fiscal 2016 have been used to refund existing debt to take advantage of current low interest rates. The January Financial Plan had anticipated $1.1 billion in new money issuances from GO, but the Executive Budget expects the City to instead use available cash from earlier bond proceeds to finance its capital commitments. The City has been spending down approximately $1.9 billion of its available cash since 2014. The City had held large cash balances from bond proceeds to provide liquidity for the capital program in the face of the economic recession and risks of federal government shutdowns.[13]

The City's debt issuance remains below the City's constitutional debt limit of $85.2 billion, and by the City Comptroller's projections, the debt limit should grow sufficiently to accommodate the Capital Financing Plan.[14] The City's bonds continue to be well received by the markets and thus highly rated.

[13] Information obtained through conversations with the New York City Comptroller's Office.
[14] New York City Comptroller, Fiscal Year 2016 Annual Report on Debt and Obligations, December 2015.

The City's ability to service the debt issued for its capital plan is strong, which is expected from an issuer with highly rated bonds. Under the Executive Plan, the City expects to service nearly $35.8 billion throughout the Financial Plan (not including water debt).

Summary of Debt Service Payments - Fiscal 2017 Executive Plan
Dollars in Millions; Before Prepayments

	FY16	FY17	FY18	FY19	FY20
Debt Service					
GO Bonds	$4,035	$4,184	$4,290	$4,364	$4,686
TFA Bonds (1)	1,804	2,226	2,495	2,908	3,181
Other Debt (2)	308	292	293	314	379
Total	**$6,147**	**$6,702**	**$7,078**	**$7,586**	**$8,246**
Debt Service Burden					
Debt Service/Total Revenue	7.3%	8.1%	8.3%	8.6%	9.0%

Source: *Mayor's Message Fiscal 2017 Executive Financial Plan*

1) TFA Bonds do not include BARBs

2) Includes Conduit Debt, HYIC and TSASC.

The Executive Plan includes $1.5 million in debt service savings for Fiscal 2016, primarily from taking advantage of low interest rates to refund bonds. The Plan reflects $103 million in savings for Fiscal 2017, with similar amounts for the out-years. These additional savings come from a reduction in bond issuance in Fiscal 2016 and a decrease in the City's interest support and tax equivalency payments for the Hudson Yards project due to better than expected revenues.

The City's surplus roll, held in the Budget Stabilization Account for the prepayment of future years' debt service costs, increased to $3.4 billion for Fiscal 2016. In Fiscal 2015, the surplus roll was around $3 billion.

Overall, the City's debt service is rising as a percentage of City funds, and while it is not currently a problem, it is something to keep an eye on.

Labor and Pensions

Labor Agreements

Collective bargaining will cost the City close to $650 million in Fiscal 2016, $91 million in Fiscal 2017, $162 million in Fiscal 2018, $232 million in Fiscal 2019, and another $232 million in Fiscal 2020. The $650 million for Fiscal 2016 is largely the result of a lump sum payment of nearly $400 million to DOE for members of the United Federation of Teachers (UFT). All UFT members who worked for the Department of Education between 2009 and 2015 as well as those who retired after June 30, 2014 received a lump-sum payment of 12.5 percent in October, representing one-eighth of the amount they accrued between 2009 and 2015. The second of these lump sum payments will occur in October of 2017, followed by payments in 2018, 2019, and 2020. Additionally, there is a reduction from the Labor Reserve due to an overestimation by the OMB, who anticipated these UFT member payments to cost more than they did.

The legislation which increased the minimum wage for City government employees and employees who provide contracted work for the City at social service agencies has also resulted in a reduction to the Labor Reserve. Thus, the Financial Plan shows a reduction in the Reserve of over $655 million in Fiscal 2016, from about $996 million in the January plan to $340 million in the Executive plan. The reserve then grows to over $2.5 billion in Fiscal 2020, as shown below.

Wages and Collective Bargaining
Dollars in Millions

Fiscal Year	FY16	FY17	FY18	FY19	FY20	Total
Salaries & Wages	$25,024	$25,716	$26,406	$26,940	$27,074	$131,160
Pensions	9,288	9,422	9,710	9,853	9,785	48,058
Other Fringe Benefits	9,250	9,862	10,411	11,088	11,874	52,485
Retiree Health Benefit Trust	250	-	-	-	-	250
Reserve for Collective Bargaining	340	437	1,149	2,146	2,516	6,588
Total	**$44,152**	**$45,437**	**$47,676**	**$50,027**	**$51,249**	**$238,541**

Source *: Council Finance. OMB data*

To date, the Administration has reached agreements with most of the City's workforce, but a few groups remain without a contract. This includes members of the Patrolmen's Benevolent Association (PBA), whose contract expired in August, 2010. In May 2014 the PBA took the impasse to the PERB for public interest arbitration. This binding arbitration is available under New York State law to unions representing police and fire fighters.[15] This is the fourth time in its last five rounds of collective bargaining the PBA has used such a mechanism.[16] In the end the arbitrator awarded the PBA 1 percent for the first year (2010-2011) and 1 percent for 2011-2012, a similar bargaining pattern established by other uniformed unions, including the Sergeants Benevolent Association and the rank-and-file firefighters of the Uniformed Firefighters Association. This 1 percent award resulted in average retroactive compensation of approximately $8,000 per employee.[17] In late November the PBA sent a letter to the City's Office of Labor Relations (OLR) requesting negotiations for the years after the award and the Administration has expressed a willingness to negotiate for a longer deal.[18]

Pensions

The required annual deposits to the City's five pension systems account for more than one-tenth of the entire budget. For now, the City expects to spend roughly $9.6 billion annually for the five year stretch starting this year (Fiscal 2016). This is slightly less than what was planned in the Fiscal 2017 Preliminary Financial Plan. Required contributions in Fiscal 2016 are $55 million lower than the Preliminary Plan. Contributions in Fiscal 2017, 2018, and 2019 are $23 million, $156 million, and $119 million over what was planned in January, respectively, while contributions in 2020 are $322 million under what was planned in January. The expected annual contribution this year would amount to 11.46 percent of total City Revenue, or over $9.4 billion.

[15] See http://www.perb.ny.gov/faq.asp#int
[16] http://thechiefleader.com/arbitration-looms-again-in-pba-wage-dispute/article_9cfa6776-127e-11e4-af63-001a4bcf6878.html
[17] By PERB rules awards cannot be for longer than two year.
[18] The Chief , "PBA Jumps Back on Contract Horse, Asks City for New Contract", November 30, 2015 https://www.nycpba.org/archive/ch/15/ch-151201-newcontract.html

Pension Expenses
Dollars in Millions

	FY16	FY17	FY18	FY19	FY20
Pension Expenses	$9,288	$9,422	$9,710	$9,853	$9,785
Difference from FY17 Preliminary Financial Plan	($55)	$23	$156	$119	($322)
Percent of City Funds	15.79%	15.87%	15.69%	15.27%	14.59%
Percent of Total Revenue	11.32%	11.46%	11.50%	11.28%	10.83%

Source *: Council Finance. OMB data*

Yields on investment returns from all the pension funds have dropped significantly over the last five years and are particularly bad at the moment. As of February 29, 2016, each of the pension funds is performing in the negative territory. The Teacher's Retirement System (TRS), the New York City Employees' Retirement System (NYCERS), and the Board of Education Retirement System (BERS) have yielded -5.30, -4.93, and -6.61 percent, respectively. POLICE and FIRE haven't done much better, yielding -5.12 and -4.86 percent, respectively. This is highly significant considering the assumed actuarial rate of return is 7 percent. These weak returns pose a risk to the City's financial plan. If they continue, we can expect to see required contributions to the pension funds increase in future financial plans.

A special concern is the Cultural Institution Retirement System (CIRS), which covers 52 cultural institutions and 288 daycare centers. Although the Administration is seeking to change the method of payment to CIRS – from paying them directly to providing the funding to the participating employers, who will then pay CIRS themselves – this was not done in the Executive Budget, and the City continues to fund CIRS through the pension budget (Agency 095). It has yet to be determined whether or not the City will pay for the system's unfunded liability which developed following Early Learn.

Non-City Pension Contributions
Dollars in Millions

	FY16	FY17	FY18	FY19	FY20
CIRS	$21	$22	$22	$22	$23
Difference from FY17 Preliminary Financial Plan	$4	$4	$4	$4	$4

Source *: Council Finance. OMB data*

Executive Capital Commitment Plan

The Executive Capital Commitment Plan for Fiscal Years 2016 through 2020 totals $67.1 billion (City and non-City funds, excluding IFA) for the five years which is an increase of $5.5 billion, or 8.9 percent, from the Fiscal 2017 Preliminary Capital Commitment Plan of $61.6 billion.

The majority of this increase is distributed throughout eleven City agencies:

Agency	FY16-20 Exec	FY16-20 Prelim	$ Increase	Pct. Increase
EDUCATION	$14,178,557	$13,112,984	$1,065,573	8.13%
DEP	13,200,362	12,345,210	855,152	6.93%
PARKS	3,725,137	3,245,322	479,815	14.78%
DOITT	3,602,533	3,131,100	471,433	15.06%
DOT	9,765,421	9,315,092	450,329	4.83%
CORRECTION	2,150,338	1,714,938	435,400	25.39%
H+H	2,522,607	2,137,460	385,147	18.02%
SANITATION	1,969,214	1,684,721	284,493	16.89%
EDC	3,121,389	2,899,915	221,474	7.64%
POLICE	1,736,260	1,551,086	185,174	11.94%
ACS	313,797	142,191	171,606	120.69%
All Other	10,813,442	10,342,407	471,035	4.55%
Total	**$67,099,057**	**$61,622,426**	**$5,476,631**	**4.6%**

Some projects of note that are responsible for the above variances are: $873 million in the Department of Education for 11,800 new school seats; $333 million for Stage 2 of City Water Tunnel Number 3 project; $150 million for Anchor Parks City-wide; $170 million for a new adolescent facility for the Department of Corrections; $145 million for improvements to Health and Hospitals facilites; $129 million for improvements to the Crossroads Juvenile Detention Center; and $111 million for the construction of Sanitation garages 1 and 3 in Staten Island.

The current Executive Plan is the largest capital commitment plan in the City's history and is $9.7 billion larger than the Fiscal Year 2015-2019 Executive Capital Commitment Plan. The Council supports the investment in the City's infrastructure that these increases represent. However, the City Council has concerns about the City's ability to execute this plan as the City's average yearly capital commitments were just $7.9 billion over the Fiscal 2012-2015 time period. The Executive Capital Commitment Plan for Fiscal 2017 is $18.1 billion. Should the City commit funding on a level commensurate with its four year average then the Fiscal 2017-2020 plan will increase by just under $7 billion.

Should the City find itself unable to increase its yearly commitment of capital dollars, the continued rolling of capital funding into future years, and the resulting backlog of projects, will only worsen. It is imperative that City not only plan for the future of its infrastructure but take measures to ensure that that plan is executed as efficiently and as expeditiously as possible.

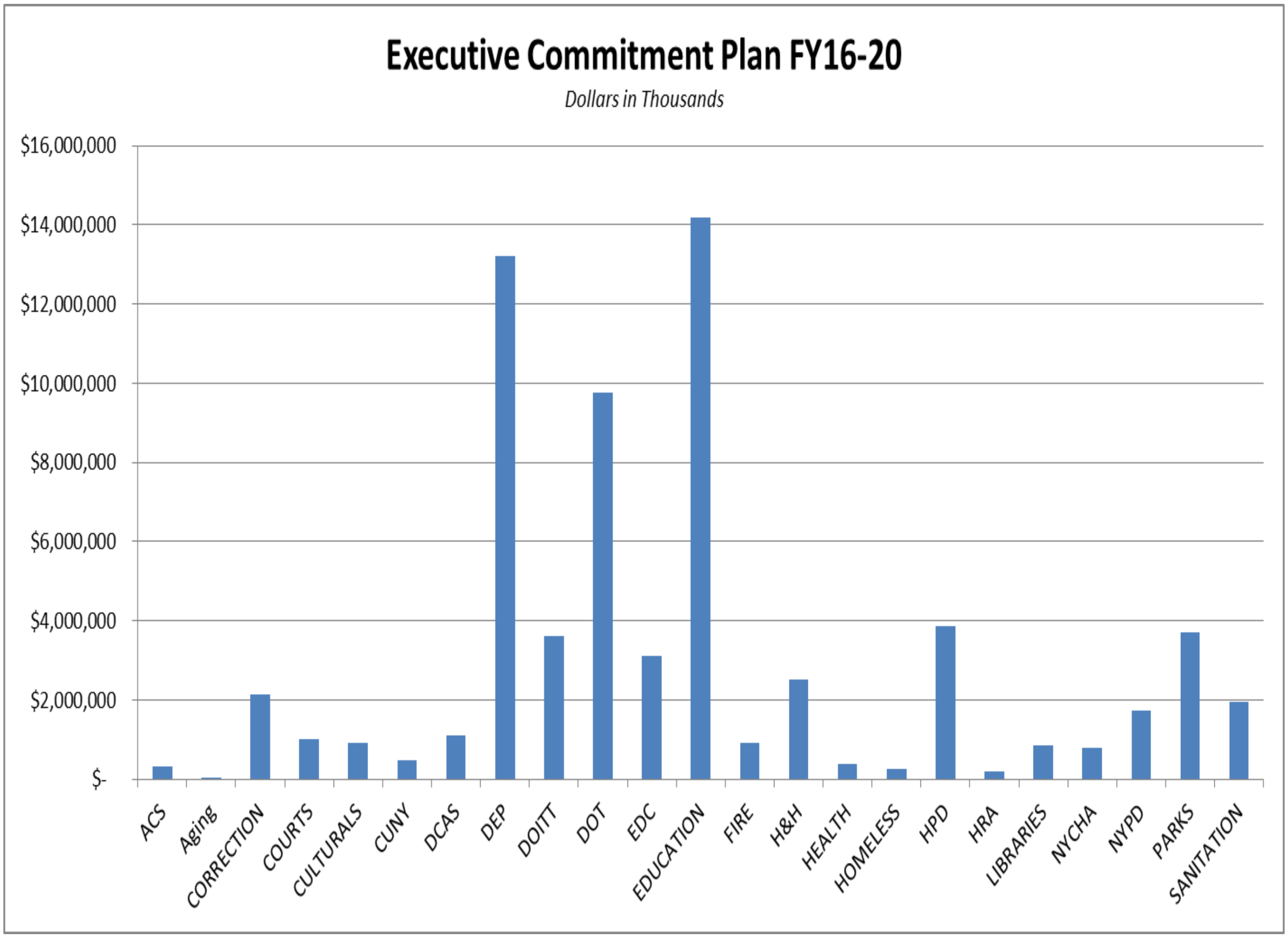
Executive Capital Commitment Plan vs. Preliminary Capital Commitment Plan

Dollars in Millions

2016-2020 Executive Capital Commitment Plan (All Funds Excluding IFA)

	2016	2017	2018	2019	2020	Total
Executive Plan	$14,872	$18,098	$13,122	$11,029	$9,978	**$67,099**
Preliminary Plan	$16,407	$14,414	$11,587	$9,914	$9,299	**$61,622**
Change	($1,536)	$3,683	$1,535	$1,115	$679	**$5,477**
Percentage Change	-9%	26%	13%	11%	7%	**9%**

The below chart depicts the breakdown in City and Non-City funding in the Executive Capital Commitment Plan by City agency:



Appendix

OMB Forecast: Levels

Dollars in Millions

	FY15*	FY16	FY17	FY18	FY19	FY20
Real Estate	$21,317	$22,815	$23,981	$25,397	$26,900	$28,165
Sales**	6,742	6,968	7,116	7,557	7,880	8,216
Mortgage Recording	1,155	1,192	1,079	1,075	1,104	1,131
Personal Income	10,629	10,894	10,990	11,301	11,720	12,185
General Corporation	4,087	3,904	3,949	4,194	4,196	4,242
Unincorported Business	1,962	2,027	2,060	2,150	2,246	2,354
Utility	384	370	381	394	407	419
Hotel	556	565	541	563	587	613
Commercial Rent	735	770	805	840	875	910
Real Propery Transfer	1,765	1,716	1,602	1,603	1,656	1,705
Cigarette	50	45	43	42	41	40
All Others***	1,428	1,422	1,382	1,386	1,389	1,393
Audit	1,132	1,060	714	714	714	714
Total	**$51,942**	**$53,748**	**$54,643**	**$57,216**	**$59,715**	**$62,087**

**Actuals*

***Less $50 million withheld by NYS for STARC*

****Includes STAR*

Source: *OMB, Executive Budget Fiscal 2017*

OMB Forecast Change from Preliminary Plan to Executive

Dollars in Millions

	FY16	FY17	FY18	FY19	FY20
Real Estate	$259	$108	$252	$426	$443
Sales**	(102)	(235)	(104)	(102)	(92)
Mortgage Recording	164	24	10	9	9
Personal Income	(139)	(83)	(103)	(144)	(198)
General Corporation	(67)	(211)	(72)	(149)	(199)
Unincorported Business	20	(12)	(14)	(10)	(3)
Utility	(20)	(13)	(13)	(9)	(6)
Hotel	17	(9)	-	18	33
Commercial Rent	-	-	-	-	-
Real Propery Transfer	147	(4)	(22)	(27)	(29)
Cigarette	(3)	(4)	(4)	(4)	(4)
All Others***	52	30	30	30	30
Audit	65	0	-	-	-
Total	**$393**	**($409)**	**($40)**	**$38**	**($16)**

**Actuals*

***Less $50 million withheld by NYS for STARC*

****Includes STAR*

Source: *OMB, Executive Budget Fiscal 2017*

Fiscal 2017 New Needs since Adoption by Plan - City Funded

Dollars in thousands

Agency	November	Preliminary	Executive	Total
Aging	$0	$5,300	$6,900	$12,200
All Other Agencies	4,724	77,393	71,596	153,713
Board of Elections	0	726	23,572	24,299
Buildings	0	1,980	10,937	12,917
Campaign Finance Board	0	0	2,094	2,094
Children's Services	0	4,599	14,640	19,239
City Planning	0	2,040	1,025	3,065
Citywide Administrative Services	1,556	28,848	11,962	42,365
Corrections	0	107,477	16,486	123,963
Cultural Affiars	0	289	1,121	1,410
CUNY	0	4,920	20,132	25,052
Education	0	132,381	217,004	349,385
Emergency Management	9,731	162	2,199	12,092
Environmental Protection	0	24,464	99,116	123,580
Finance	0	3,959	2,556	6,515
Fire	0	10,677	63,228	73,905
Health & Mental Health	0	79,865	30,878	110,742
Health + Hospitals	0	23,531	7,269	30,800
Homeless Services	0	37,096	246,440	283,536
Housing Preservation & Development	0	19,982	49,986	69,968
Human Resources Administrion	(100)	95,590	53,725	149,215
Human Rights	0	1,958	1,300	3,258
Information Technology & Telecommunication	0	37,705	16,088	53,793
Investigation	2,937	1,590	2,230	6,757
Law	0	7,118	25,588	32,706
Libraries	0	21,860	0	21,860
Parks & Recreation	0	6,821	16,366	23,187
Police	0	29,103	29,599	58,702
Probation	0	646	3,812	4,458
Records & Information Services	63	1,174	0	1,237
Sanitation	0	8,306	20,695	29,001
Small Business Services	0	27,190	15,403	42,592
Transportation	1,177	9,274	20,507	30,957
Veterans' Services	0	0	3,517	3,517
Youth & Community Development	0	4,935	6,563	11,498
TOTAL NEW NEEDS	**$20,088**	**$818,957**	**$1,114,533**	**$1,953,578**