THE COUNCIL OF THE CITY OF NEW YORK

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Speaker of the Council

Hon. Julissa Ferreras-Copeland
Chair, Committee on Finance

Report on the Mayor's 2018 Preliminary Budget
Financial Plan Overview, Economy, Revenue, Pensions, Capital and Debt Service

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FISCAL 2018 PRELIMINARY BUDGET OVERVIEW

This budget reflects a current atmosphere of uncertainty about the future. The ambiguity around the future actions of the Federal government, and subsequent impacts on the City's budget (both directly through potential cuts in Federal funding and indirectly through possible economic shocks) creates uncertainty[1] that makes budgeting as usual a nearly impossible task.

The newly elected President's populism and economic nationalism differ from Republican norms in important ways, therefore memories of past Republican administrations are of limited use in predicting future actions. His budgetary and economic policies are as of yet undeveloped, and even the President's political allies view him as unpredictable[2].

In such uncertain times, it is prudent to budget cautiously and maintain flexibility to respond to new challenges. To a large degree, the Mayor's Fiscal 2018 Preliminary Budget does just that. There are few large new initiatives, and most of those are in the Ten Year Capital Strategy, which by its nature reflects a very long time horizon. Furthermore, the City continues to prune the budget through its Citywide Savings Program.

However, the question remains: does the City's budget contain the flexibility to respond to future demands or stresses? The savings program includes numerous items that are simply reflections of more accurate estimates. Reserves, while improved over the past few years, still have room to grow.

There are other important goals aside from simply maintaining a balanced budget. Perhaps the more significant question is how we strengthen the City's communities in the face of this uncertainty. This includes continuing to address inequality in the face of a Federal Administration whose proposals will likely increase the income of the already wealthy while abandoning Federal programs that provide health care and education to low income communities. It includes supporting our immigrant communities in the face of a President who slanders and attacks them. And it includes securing rights and opportunities, and maintaining progress for women, the LGBT community and communities of color in the face of a Congress that it would appear is at best, is indifferent to their concerns.

These debates are critically important, as the risks to the City are multitude. From slowing economic growth and lack luster tax revenues, to a difficult environment in Albany and uncertainty in Washington, numerous pressures are constraining City actions.

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[1] See http://www.skidelskyr.com/site/article/the-relevance-of-keynes/

[2] See http://thehill.com/homenews/administration/316244-mccarthy-i-love-trumps-unpredictability

Financial Plan

Fiscal 2018 Preliminary Financial Plan Summary
Dollars in Millions

	FY17	FY18	FY19	FY20	FY21	Avg. Annual Change
REVENUES						
Taxes	$54,883	$57,035	$59,725	$62,418	$64,858	4.3%
Misc. Revenues	6,835	6,362	6,602	6,804	6,807	(0.1%)
Unrestricted Intergovernmental Aid	57	-	-	-	-	n/a
Less: Intra-City and Disallowances	(1,839)	(1,801)	(1,796)	(1,802)	(1,802)	(0.5%)
Subtotal, City Funds	**$59,936**	**$61,596**	**$64,531**	**$67,420**	**$69,863**	**3.9%**
State Aid	14,417	14,546	15,008	15,404	15,718	2.2%
Federal Aid	8,826	7,012	6,811	6,809	6,781	(6.4%)
Other Categorical Grants	980	856	847	837	833	(4.0%)
Capital Funds (IFA)	655	658	658	595	593	(2.5%)
TOTAL REVENUES	**$84,814**	**$84,668**	**$87,855**	**$91,065**	**$93,788**	**2.5%**
EXPENDITURES						
Personal Services	44,848	47,393	49,877	51,706	53,093	4.3%
Other Than Personal Services (OTPS)	36,300	34,285	34,521	34,446	34,653	(1.2%)
Debt Service	6,388	6,581	7,301	7,960	8,372	7.0%
General Reserve	300	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Less: Intra-City	(2,039)	(1,786)	(1,781)	(1,787)	(1,787)	(3.2%)
Spending Before Adjustments	85,797	87,723	91,168	93,575	95,581	2.7%
Surplus Roll Adjustment (Net)	(983)	(3,055)	-	-	-	n/a
TOTAL EXPENDITURES	**$84,814**	**$84,668**	**$91,168**	**$93,575**	**$95,581**	**3.0%**
Gap to be Closed	**$-**	**$-**	**($3,313)**	**($2,510)**	**($1,793)**	

Source: *OMB Fiscal 2018 Preliminary Financial Plan*

The Fiscal 2018 Preliminary Budget totals $84.7 billion. This includes $61.6 billion in City funds[3], up 2.8 percent from Fiscal 2017.

Fiscal 2017 is the second year in a row of weak City funds revenue growth. City funds grew 1.1 percent in Fiscal 2016 and in the Financial Plan are expected to grow only 0.2 percent in Fiscal 2017. In Fiscal 2018 things are expected to improve with growth at a healthier, albeit modest, 2.8 percent. This improvement continues through the plan, and as a result City funds revenues are expected to grow at an average rate of 3.9 percent throughout the Financial Plan. However, it is worth cautioning that spending supported by City funds (as projected in the current Financial Plan) grows at an even faster rate, averaging 4.6 percent annually.

[3] City funds are revenue from City taxes, fees, fines, and other non-tax revenue.

Closing the Gap
Dollars in Millions

	FY17	FY18
Gap as of November Financial Plan	**$0**	**($2,241)**
Agency Expense Changes	*($263)*	*($427)*
Tax Revenue Forecast w/o Audits	*$65*	*($183)*
Sale of Taxi Medallions		*($107)*
SUBTOTAL	**($198)**	**($717)**
GAP CLOSING RESOURCES		
Audits	*$300*	
Disallowance of Categorical Grants	*$200*	
Other Non-Tax Revenue	*$199*	*$11*
Citywide Cost Savings Program – Agencies	*$264*	*$156*
Citywide Cost Savings Program - Debt Service	*$85*	*$334*
Citywide Cost Savings Program – Miscellaneous	*$166*	*$91*
General Reserve Takedown	*$700*	
FY 17 Capital Stabilization Takedown	*$500*	*($250)*
Re estimate of Prior Years' Expenses and Receivables	*$400*	
SUBTOTAL	**$2,814**	**$342**
TOTAL: Gap Opening & Closing Actions	**$2,616**	**($2,616)**
Offset by increase of FY17 Prepayments to FY18	*($2,616)*	*$2,616*
NEW GAP in Preliminary Financial Plan	**$0**	**$0**

Source: *OMB Fiscal 2018 Preliminary Budget*

As required by the City Charter, the budget is balanced for Fiscal 2017 and Fiscal 2018. Out year gaps range from $1.8 billion to $3.3 billion, but these figures are somewhat inflated as they include $1.25 billion in general and capital stabilization reserves.

The November 2016 Plan originally projected a $2.2 billion gap for Fiscal 2018. In the Preliminary Plan, this gap is widened by $427 million in new agency spending and a $183 million decline in tax revenues forecast. This larger gap is closed by the Citywide Savings Program which reduces expenses by $581 million, and by using the Fiscal 2017 funding of $2.6 billion in the Budget Stabilization Account (BSA) to prepay Fiscal 2018 debt service.

Notable Revenue Actions

- **Revenue Forecast Update.** City fund revenues for Fiscal 2017 are $770 million higher than projected in the November Plan, but are $271 million less in Fiscal 2018. However, the increase in prepayments for Fiscal 2018 more than offsets the decline in City revenues forecasted for the same period.
- **Disallowances of Categorical Grants**. An unusual gap closing resource is a one-time $200 million addition in the Revenue Budget from a reserve account set up to cover

any disallowances of State and Federal categorical grants.[4] For example, in a 2009 settlement with the Federal government, New York State returned $540 million, $100 million of which was paid back by NYC.[5] This reduction of disallowances represents a judgement by OMB and the Comptroller that the risk posed by these categorical grants is no longer great enough to require all of the $1.1 billion liability currently on the City's balance sheet and held in City accounts.

- **Audits.** The $300 million increase in audits reflects collections. Through December 2016, the business taxes alone have produced $526 million in audit revenues. The bulk of this, $322 million, came from a small group of audits of the old bank tax that were completed in December 2016.
- **Sale of Taxi Medallions.** The Preliminary Fiscal 2018 Budget reduces the expected revenues from the sale of taxi medallions by $107 million, thus no revenues from this source are expected in Fiscal 2018. Revenues are also reduced by $150 million in Fiscal 2019 and $110 million in Fiscal 2020. These reflect changes in the taxi industry that dramatically reduced the value of the medallions and made financing of their purchase more difficult. Given the weakness in the medallion market, it seems likely that future financial plans will further reduce these estimates.

EXPENSE BUDGET

The City's $84.7 billion Fiscal 2018 Preliminary Budget represents a $2.6 billion increase from the $82.1 billion Fiscal 2017 Adopted Budget. City funds (City tax and non-tax revenues) total $61.6 billion, up $2.6 billion (or 2.8 percent) from $59 billion in the Fiscal 2017 Adopted Budget. The Plan increases projected spending by adding $329.3 million for new needs in Fiscal 2017 and $563.4 million in new needs for Fiscal 2018. Other adjustments add $1.1 billion in Fiscal 2017 and save $2.7 billion in Fiscal 2018. Over the five-year scope of the Financial Plan, from Fiscal 2017 – Fiscal 2021, new needs spending totals $2.5 billion. The grand total for other adjustments over the course of the Plan is negative $908.2 million. In every year of the Plan, with the exception of Fiscal 2018, the total value of all other adjustments is positive. The Plan moves budgeted full time headcount up in each year of the Plan, beginning with an increase of 523 positions scheduled for this year. Staffing growth associated with new needs is offset by other adjustments, but overall the budget continues to grow the City's workforce.

Changes in Fiscal 2018 Preliminary Budget

Change	FY17 Headcount Change	FY17 Funding Change	FY18 Headcount Change	FY18 Funding Change
New Needs	523	$329,393	732	$563,438
Other Adjustments	(423)	$1,106,001	(141)	($2,696,721)
Total Changes	**100**	**$1,435,394**	**591**	**($2,133,283)**

Dollars in $000s

The largest driver of the total change in spending introduced in the January Plan is a prepayment that lowers debt service spending in Fiscal 2018 by $2.6 billion and increases

[4] For many years the City added about $15 million annually to this account.

[5] Office of the New York City Comptroller, " Money Left on the Table, A Review of Federal Medicaid Reimbursement to the New York City Department of Education" *Budget and Policy Brief*, August 2015, page 5, https://comptroller.nyc.gov/wp-content/uploads/documents/Budget_and_Policy_Brief_0814.pdf.

spending in Fiscal 2017 by the same amount. Another large other adjustment is the $500 million reduction of the Capital Stabilization Reserve in Fiscal 2017 and a $250 million increase beginning in Fiscal 2018. Other changes that fall into the Other Adjustments category are either technical adjustments, realignments and swaps or savings. The Appendix contains a list of the total new needs and other adjustments for each City agency.

New Needs

When compared to the other adjustments, new needs introduced are modest. The Plan adds $329.3 million ($250.5 million in City funds) for new needs for the remainder of Fiscal 2017, and $563.4 million ($414.8 million in City funds) for Fiscal 2018. The total values of the new needs added to each department are shown in rank order by the Fiscal 2018 value in the table below. The package of new needs is small in comparison with the budget increases introduced during the course of Fiscal 2016. The combined total value of new needs included in the November 2015 Financial Plan, the January 2016 Financial Plan and the April 2016 Financial Plan were $1.1 billion for Fiscal 2016 and $1.95 billion for Fiscal 2017. The headcount increase accompanying these new needs for Fiscal 2017 was 6,963 full-time positions. The Preliminary Budget for Fiscal 2018 makes a 732 position increase which is substantial but far less than budgeted last year. It should also be noted that the November 2016 Financial Plan Update also introduced new needs and headcount increases of $40.9 million and 232 positions, respectively, in Fiscal 2018.

New Needs in the January 2017 Financial Plan

Department	Headcount Change FY17	Funding Change FY17	Headcount Change FY18	Funding Change FY18
Homeless Services	70	$169,953	148	$285,267
Correction	0	$7,414	46	$56,303
Education	37	$41,423	56	$51,519
Youth & Community Development	0	$0	4	$30,493
Fire	0	$5,503	11	$29,738
Police	147	$13,130	147	$20,526
Social Services	95	$15,676	90	$20,467
Transportation	34	$13,692	58	$15,291
Parks and Recreation	27	$7,877	27	$7,310
All Other Departments	113	$54,726	145	$46,524
Total New Needs	**523**	**$329,393**	**732**	**$563,438**

Dollars in $000s

The significant new needs in the Preliminary Plan fall in just a few departments. Half of the budget increase is for the Department of Homeless Services (DHS). The Department of Correction (DOC) has new needs totaling $56.3 million, which is almost entirely for an overtime spending increase. The Department of Education (DOE) has the third largest total increase, but a $56.3 million change pales in comparison with the DOE's $24.3 billion budget and with the $349.4 new needs package introduced last year. Some of the significant initiatives are described below:

Homeless Services Shelter Spending Increase. More than 60,000 people, almost 40 percent of whom are children, live in City homeless shelters. As the shelter population continues to increase, more resources are needed for the agency to not only fulfill its 'right to shelter' mandate, but also to house all eligible homeless families. The DHS Fiscal 2018

Preliminary Budget includes an additional $140.4 million for the remainder of Fiscal 2017 and $255.5 million for Fiscal 2018 and in the out years for adult and family shelter operations to support the growing shelter population. The total Fiscal 2017 shelter budget is now over $1.3 billion, an increase of $265 million when compared to DHS' Fiscal 2017 Adopted Budget, and the Fiscal 2018 shelter budget is $1.16 billion. OMB and DHS have not yet provided a detailed explanation of the revised shelter spending estimate and have left questions raised at the Committee on Finance's December 2016 hearing regarding the November 2016 Financial Plan Update unanswered.

Homeless Shelter Security Improvements. The Preliminary Plan adds $25.7 million in Fiscal 2018 to enhance security in and around homeless shelters. The Department of Homeless Services (DHS) is adding $20 million in Fiscal 2017 and in the out years to enhance security at homeless shelters. By 2018, 78 new peace officers will come onboard, bringing the total number of DHS peace officers to 940. In addition to the funding added in DHS' budget for shelter security, $5.7 million in baseline funding is being added to NYPD's budget for 47 positions (42 uniform and 5 civilian positions) beginning in Fiscal 2018 for NYPD to develop its management team to oversee the management of security at homeless shelters and to provide new recruit and in-service training to all Peace Officers at DHS. The NYPD has already trained more than 700 peace officers on practices such as searching for weapons, understanding mental illness, and crisis management training. Training is usually conducted in groups consisting of 25 Peace officers.

Uniformed Overtime Re-Estimates. The Preliminary Plan introduces baseline adjustments to the DOC and the Fire Department (FDNY) uniformed overtime budgets and plans to implement spending controls. For the DOC the January Plan adds $52 million in Fiscal 2018 and $28 million in Fiscal 2019 and in the out years, bringing the Fiscal 2018 Preliminary Budget to $158.3 million. For the FDNY the Preliminary Plan added $21.8 million in Fiscal 2018 and $16.7 million in Fiscal 2019 and in the out years, bringing the baseline budget for uniform overtime to $228 million. OMB adjusted overtime spending plans based on past spending, and with the assumption that both departments would reach the authorized uniform headcount in the near future. OMB expects each agency to implement overtime controls to prevent overtime spending in excess of the baseline budget.

Summer in the City Expansion. The Preliminary Plan includes a proposal to expand the DOE's Summer in the City program with a budget increase of $1.85 million in Fiscal 2017, and growing to $14.2 million in Fiscal 2018. The program would enroll an additional 4,400 at risk second graders this summer to ensure they are prepared for third grade math and reading coursework. Program hours would also be extended from four to six hours a day and be offered five days a week. The Department of Youth and Community Development's (DYCD) COMPASS program will provide 3,000 slots, an increase of 1,000 from the previous year, in order to provide wrap around services for mandated students. Lastly, this funding supports an expansion of STEM programming for Summer in the City. In Fiscal 2018 there is an overall headcount of 61 positions, an increase of 41 from the previous year, to accommodate the additional students. Headcount will eventually reach 67 positions with funding at $44.5 million in the out years.

DOE Data Center and Broadband Upgrades. The Preliminary Plan provides $8.4 million in Fiscal 2018 and 13 positions to upgrade DOE's data center to support the provision of faster internet speeds to schools. The project will upgrade the data center at Metrotech in Brooklyn, and create two additional data centers as backup to protect data and applications from future system outages. This project will also generate savings as maintenance charges on technology services are expected to be lower following the system upgrades. Additional savings arise from using DOITT fiber cabling rather than issuing a RFP for additional services.

The second piece of the Department's technology upgrade strategy will provide high speed broadband capacity to all schools. DOE has engaged a new vendor, Lightower, to provide fiber cabling for all schools to connect them to high speed broadband. Installation will be done in phases and is expected to be completed by Fiscal 2019. In Fiscal 2018, $8 million is provided for this upgrade. There is no headcount associated with this initiative.

Special Education Student Information System (SESIS) Upgrade. In order to address system performance issues, provide training for all system users and create a data reporting system to enhance data quality, the DOE plans to make a $14.8 million investment in SESIS in Fiscal 2018. The DOE expects the SESIS upgrades to improve DOE's claiming for Medicaid reimbursement for special education services. This is reflected in the Preliminary Plan as an increase from $40.5 million in Fiscal 2017 to $97 million in Fiscal 2018 in anticipated Medicaid revenue. An overall headcount increase of 41 positions will be added the Central Administration to support data capacity. Upgrades to SESIS began in Fiscal 2017 with $12.4 million and increase to $14.8 million in Fiscal 2018. Funds decrease in the out years to $13.9 million in Fiscal 2021.

Summer Youth Employment Program Expansion. The Fiscal 2018 Preliminary Budget adds 5,000 more jobs to SYEP's baseline budget, at a total of $9.3 million. The Council has been pressing for continued expansion of SYEP, with the aim of eventually supporting 100,000 jobs for young people each year. While the Preliminary Budget increases will bring SYEP to an unprecedented size, serving 65,000 young people in Summer 2017, it still fails to make the program universally available to meet current levels of demand.

SONYC Summer Program Extension. The Fiscal 2018 Preliminary Budget includes $15 million for summer SONYC programming for 22,800 middle school students for Summer 2017 only. With the inclusion of funding in the Fiscal 2018 Preliminary Budget to support one year of SONYC summer programming, parents can plan with more confidence for children to receive care over Summer 2017.

Beacon Program Additions. The Fiscal 2018 Preliminary Budget includes $5.9 million to open ten new Beacons in City neighborhoods that have been underserved. The Mayor's Office reports that DYCD is currently working to identify target areas and sites in DOE schools, but that all ten sites should open to the public by September 2017.

School Crossing Guard Increase. To improve pedestrian safety around schools, the NYPD plans to hire 100 full-time School Crossing Guard supervisors. This is a new position. Combined with an increase of 200 part-time School Crossing Guards and a new mobile replacement squad to cover vacancies, the NYPD expects to cover all school crossing posts. While crossing posts are currently covered at near 100 percent rates by using Traffic Enforcement Agents and occasionally police officers, this plan should ensure full coverage by crossing guards, allowing these agents and officers to be redeployed to other duties including enforcement against dangerous driving. The new hires will increase the NYPD's expense budget by $5.4 million in Fiscal 2017 and $6.3 million in Fiscal 2018.

HRA Public Engagement Unit Expansion. In an effort to connect more New Yorkers to city services like health care and rental assistance, and to inform them of their rights (including tenant protections and protection from discrimination) HRA plans to expand its Public Engagement Unit by adding 80 additional staff. The Plan adds $11.82 million in Fiscal 2017 and $13.8 million in Fiscal 2018.

Senior Homecare Services. The only new need included in the Preliminary Plan for the Department for the Aging (DFTA) is a one-year increase of $4.25 million to maintain the current level of funding for homecare services. The Preliminary Budget is not sufficient to eliminate the existing waitlist for homecare and will not ensure that seniors who are referred for homecare services through a case manager receive an adequate number of hours of homecare services.

Traffic Safety Measures Introduced in the Plan. In an effort to reduce traffic fatalities to zero, the City launched the Vision Zero Initiative in 2014 to systematically address causes of serious crashes with the goal to reduce fatalities to zero by 2024. Since then, the Department of Transportation (DOT) – a member of the taskforce formed to implement Vision Zero Action Plan-has continued to implement safety improvements throughout the City. To support the Department's efforts, the Fiscal 2018 Preliminary Budget includes expense funding of more than $13 million in Fiscal 2018 that grows to nearly $20 million by Fiscal 2021 to support the continued implementation of various traffic safety measures undertaken by DOT. The purposes of this funding includes: $6.7 million for pavement marking contracts for additional 15 million linear feet of new markings annually; $2.3 million for 21 inspection and administrative staff positions to support the additional 15 million linear feet of new markings; $3 million and 19 positions to allow DOT to implement daytime marking operation to install and refurbish short-line markings and maintain a 4.5-year replacement cycle for existing markings; and $690,000 and four positions for bike network intersection upgrades and safety improvements to 20 intersections on the bike lane network annually.

Salary Increases for Human Service Contract Workers. In his presentation of the Fiscal 2018 Preliminary Budget, the Mayor announced a cost of living adjustment (COLA) for all City human service contract workers. However, the Fiscal 2018 Preliminary Budget does not currently include support for this. OMB plans to add these funds in the Fiscal 2018 Executive Budget.

Citywide Savings Program

The 2018 Preliminary Financial Plan includes a five-year savings program totaling slightly over $2 billion. Proposed savings for Fiscal Year 2017 total $514.6 million and $580.6 million for Fiscal 2018. These savings supplement those introduced in the November 2016 Financial Plan. Together, savings from the two plans total $1.2 billion in Fiscal 2017 and $893 million in Fiscal 2018. The Council has pushed OMB to develop a savings plan that has fewer one shot items and more true or ongoing savings. While this plan contains a higher proportion of true savings than prior plan, the bulk of the savings are comprised of re-estimates of spending projections, funding swaps that shift but don't lower spending, and one-time reductions. These include:

- **Funding Swaps**. The Preliminary Savings Program includes the recognition of more than $300 million in additional State and federal revenue for human services and education in Fiscal 2017, falling to $150 million in Fiscal 2018 and the out years.
- **Debt Service Savings.** A significant portion of the savings result from a re-estimate of the City's Debt Service costs. The November Plan shows debt service savings totaling $85 million for Fiscal 2017, and $334 million in Fiscal 2018 with additional savings in the out years.
- **Citywide Savings Initiatives.** Citywide savings initiatives include, the enforcement of caps on overtime for civilian and skilled trades positions; improving Citywide space management, and auctioning contracts for bulk goods to the lowest bidders. These initiatives are projected to generate savings of $18.7 million in Fiscal 2018, increasing to $31 million in Fiscal 2020 and the out years.
- **Headcount Reductions**. The Preliminary Savings Program eliminates 253 City-funded vacant positions with expected annual savings of $7.4 million. The most notable eliminations include: 150 NYPD civilian positions with annual savings of $5 million, and 35 DoHMH positions with annual savings of $1.5 million.

Citywide Savings Program in the Fiscal 2018 Preliminary Budget

Agency	FY17 HC	FY17 Savings	FY18 HC	FY18 Savings
General and Lease Purchases, Debt Service Funds	-	($84,826)	-	($334,320)
Miscellaneous	-	(166,009)	-	(90,896)
Education	-	(57,714)	-	(62,392)
City-wide Savings Initiatives	-	-	-	(18,700)
Social Services	(20)	(49,621)	(20)	(14,509)
Children's Services	-	(119,612)	-	(13,297)
Health and Mental Hygiene	-	(4,867)	(35)	(8,759)
DoITT	-	(2,478)	-	(7,064)
NYPD	(150)	(5,081)	(150)	(5,081)
Transportation	-	(5,073)	9	(4,415)
All Other Agencies	-	(12,040)	4	(13,429)
Grand Total Savings	**(170)**	**($507,324)**	**(192)**	**($572,863)**
Non-Savings Other Adjustments				
Other Adjustments	(423)	1,106,001	(141)	(2,696,721)
Savings	(170)	(507,324)	(192)	(572,863)
Net: Non-Savings Other Adjustments	**(253)**	**$1,613,325**	**51**	**($2,123,858)**

Dollars in $000s

Headcount

FT Headcount Changes in the Preliminary Financial Plan					
Agency	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
New Needs Headcount Changes					
Board of Elections	30	30	30	30	30
Commission Human Rights	8	8	8	8	8
Buildings	0	21	21	21	21
City Planning	4	4	4	4	4
Corrections	0	46	46	46	46
Education	37	56	62	62	62
Probation	0	2	2	2	2
Human Resources Administration	95	90	90	90	90
Transportation	34	58	58	58	58
Small Business Services	21	21	21	21	21
Citywide Administrative Services	27	36	36	36	36
Homeless Services	70	148	148	148	148
Parks & Recreation	27	27	27	27	27
Youth & Community Development	0	4	4	4	4
Records & Information Services	8	8	8	8	8
Fire	0	11	11	11	11
Housing Preservation & Development	8	8	8	8	8
Mayoralty	6	6	6	6	6
Office of Administrative Trials & Hearings	1	1	1	1	1
Police	147	147	147	147	147
New Needs Subtotal	**523**	**732**	**738**	**738**	**738**
Other Adjustment Headcount Changes					
Civilian Complaint Review Board	0	(1)	(1)	(1)	(1)
Education	12	35	35	35	1,831
Health & Mental Hygiene	(277)	(60)	(60)	(60)	(60)
Probation	22	0	0	0	0
Human Resources Administration	(20)	(20)	(20)	(20)	(20)
Transportation	12	9	28	9	9
Environmental Protection	(50)	0	0	0	0
Homeless Services	(1)	10	10	10	10
Information Technology & Telecomm.	(26)	(26)	(26)	(26)	(26)
Parks & Recreation	1	0	0	0	0
Financial Information Services	(2)	(2)	0	0	0
Fire	24	24	24	24	24
Housing Preservation & Development	5	40	37	37	37
Mayoralty	2	2	2	2	2
Office of Payroll Administration	(4)	(4)	0	0	0
Police	(121)	(148)	(148)	(148)	(148)
Other Adjustments Subtotal	**(423)**	**(141)**	**(119)**	**(138)**	**1,658**
GRAND TOTAL	**100**	**591**	**619**	**600**	**2,396**

The budgeted headcount is a critical piece of the City's budget because it is a driver of both our current year and long term spending. Each position added moves the baseline PS budget for the employing agency up as well as the central budgets for pensions and fringe benefits. Spending on employees can be difficult to reduce once staff are brought on-line. However, vacancies created by staff turnover or by newly budgeted positions generate budget accruals and can present an opportunity to lower agency spending. A high vacancy rate can also be an indicator that a newly launched program is not operational, that management controls are not optimal, that salary rates are too low, or that working conditions are poor.

Vacancies by Agency

Agency	Budgeted Headcount	Actual Headcount	Vacancies	Vac. Rate
Education	130,503	130,372	131	0.1%
Pedagogical	*119,278*	*117,960*	*1,318*	*1.1%*
Civilian	*11,225*	*12,412*	*(1,187)*	*(10.6%)*
Police	51,880	50,742	1,138	2.2%
Civilian	*16,058*	*14,499*	*1,559*	*9.7%*
Uniform	*35,822*	*36,243*	*(421)*	*(1.2%)*
Fire	16,861	17,106	(245)	(1.5%)
Civilian	*5,977*	*6,066*	*(89)*	*(1.5%)*
Uniform	*10,884*	*11,040*	*(156)*	*(1.4%)*
Human Resources Administration	15,084	13,169	1,915	12.7%
Correction	12,524	11,850	674	5.4%
Civilian	*2,188*	*1,669*	*519*	*23.7%*
Uniform	*10,336*	*10,181*	*155*	*1.5%*
Sanitation	9,695	9,812	(117)	(1.2%)
Civilian	*2,250*	*2,112*	*138*	*6.1%*
Uniform	*7,445*	*7,700*	*(255)*	*(3.4%)*
Administration for Children's Services	7,116	6,218	898	12.6%
C.U.N.Y.	6,348	6,162	186	2.9%
Civilian	*4,441*	*4,283*	*158*	*3.6%*
Pedagogical	*1,907*	*1,879*	*28*	*1.5%*
Environmental Protection	6,224	5,726	498	8.0%
Health and Mental Hygiene	5,550	4,857	693	12.5%
Transportation	5,244	4,713	531	10.1%
Parks and Recreation	4,326	4,185	141	3.3%
District Attorneys	3,437	4,246	(809)	(23.5%)
Elected	2,881	2,607	274	9.5%
Housing Preservation & Development	2,494	2,249	245	9.8%
Homeless Services	2,367	2,524	(157)	(6.6%)
Citywide Administrative Services	2,332	2,128	204	8.7%
Finance	2,169	1,897	272	12.5%
Information Technology and Tel.	1,771	1,419	352	19.9%
Law Department	1,702	1,524	178	10.5%
Buildings	1,630	1,442	188	11.5%
Design and Construction	1,584	1,383	201	12.7%
Probation	1,071	967	104	9.7%
Taxi and Limousine Commission	700	537	163	23.3%
All Other	5,210	4,583	1,124	21.6%
TOTAL	**300,703**	**292,418**	**8,782**	**2.9%**

The table above shows the vacancies by agency as of December 2016. The overall vacancy rate was only 2.8 percent in December, but this average is thrown off by the uniform agencies that hire large classes of recruits each year that can push staffing over the budgeted headcount.

The District Attorneys are all also above headcount because their headcount budgets are not aligned with the offices' actual staffing patterns. Excluding uniform staff and the prosecutors' offices from the tally shows a Citywide average vacancy rate of 4.1 percent, with 232,970 of 242,902 FT positions filled.

Labor Contracts

Labor Overview

There are a number of reductions to the City's Labor Reserve in the January Plan, largely the result of recent collective bargaining agreements. Some major highlights include:

- An average of $56.9 million annually for an agreement reached on behalf of approximately 25,000 CUNY workers (represented by the Professional Staff Congress) as well as a handful of DC37 locals at Hunter Campus Schools representing 12,000 workers. Among other changes, the contract provides 10.41 percent in compounded wage increases.
- Approximately $12 million in Fiscal 2017 increasing to an average of $22.3 million in Fiscal 2018 through 2021 for an agreement reached with District Council 1707, an AFSCME affiliate representing day care and homecare workers at centers run by private, non-profit agencies. This agreement brings salaries for Day Care Certified teachers up to par with current starting salaries for UPK certified teachers.
- Nearly $9.3 million, on average, annually for an agreement with AFT Local 3457 United College Employees of the Fashion Institute of Technology.

From Fiscal 2017 to Fiscal 2018 the Labor Reserve will grow from $261 million to $945.7 million. It then increases further to nearly $1.9 billion in Fiscal 2019, $2.3 billion in Fiscal 2020, and over $2.7 billion in Fiscal 2021. This growth reflects an assumed annual wage increase of 1.0 percent, which follows the pattern set by the most recent round of contracts settled under the Administration (2010-2017).

Tentative Collective Bargaining Agreement with PBA

Not reflected in the Preliminary Budget is the tentative agreement reached between the City and the Patrolmen's Benevolent Association (PBA) covering roughly 24,000 NYPD employees.

The wage increases in the tentative contract are retroactive – members receiving 1.0 percent in both 2012 and 2013, 1.5 percent in 2014, 2.5 percent in 2015, and 3.0 percent in 2016. These increases total 11 percent when including the 2.0 percent awarded in the 2015 arbitration covering the years 2010 and 2011. This matches the pattern in contracts reached previously with the City's other uniformed workers.

If ratified, members will also receive a "neighborhood policing differential" of 2.25 percent of salary, effective March 15, 2017. This is being funded by a reduction in salary for newly hired employees. The PBA also joins other uniformed unions in reaching a deal on accidental disability pensions. Employees will contribute 1.0 percent of salary, with the City picking up the rest (the equivalent of 1.2 percent of salary).

Additionally, the PBA has agreed to drop litigation against the City regarding body cameras, and all patrol officers will be outfitted with cameras by the end of 2019. The PBA also agreed that administering the life-saving drug Naloxone is a term and condition of employment, and will not pursue litigation on this subject. Finally, the PBA agreed to withdraw litigation related to the 2014 and 2016 letter agreements regarding health savings and welfare fund contributions between the City and the Municipal Labor Committee (MLC). PBA will now participate in the goal of reaching $3.4 billion in health care savings, which the MLC agreed to in May 2014.

Assuming the contract is ratified by members, the following financial plan (Executive Fiscal 2018) would show a reduction in the Labor Reserve to the Police Department, in order to fund the retroactive wage increases. In total, the agreement is expected to cost the City $336.7 million, but the costs are being covered by the Labor Reserve.

Ballots to ratify the contract were mailed out on February 13, and are due back on February 27.

Other Fringe Benefits

On health insurance costs, the City anticipates spending $3.7 billion in Fiscal 2017 and $4.0 billion in Fiscal 2018, an increase of almost 9.0 percent. This will increase, on average, 7.3 percent per year, reaching over $5.0 billion in Fiscal 2021. Regarding the health care savings agreement between the Administration and the Municipal Labor committee (MLC), both groups expect to meet the $1 billion in health savings required for Fiscal 2017 and note in their most recent quarterly report that "existing initiatives will generate over $3.25 billion in savings by the end of Fiscal 2018, leaving less than $150 million in savings to be achieved in Fiscal 2018 to meet the four year $3.4 billion savings goal."[6] Whether an additional savings agreement will materialize is unknown, but the many changes already implemented will continue to save the City money well past Fiscal 2018.

The fastest growing fringe benefit in the financial plan is Workers' Compensation, growing an average of 13.9 percent annually. Finance Division is still unclear why this is increasing so rapidly but the City expects to spend close to $463.4 million in Fiscal 2021 – up from $275.8 million in Fiscal 2017.

Wages and Collective Bargaining
Dollars in Millions

Fiscal Year	FY17	FY18	FY19	FY20	FY21	Total
Salaries & Wages	$25,568	$26,370	$26,885	$27,366	$27,509	$133,698
Pensions	9,413	9,819	10,100	10,152	10,170	49,654
Other Fringe Benefits	9,606	10,258	10,981	11,920	12,701	55,466
Reserve for Collective Bargaining	261	946	1,911	2,268	2,713	8,100
TOTAL	**$44,848**	**$47,393**	**$49,877**	**$51,706**	**$53,093**	**$246,918**

Source*: Council Finance. OMB data*

[6] Report of the Status of Healthcare Savings, Q1 Fiscal Year 2017. December 22, 2016. Pg. 2. https://www1.nyc.gov/assets/olr/downloads/pdf/collectivebargaining/savings-report-q1-fy2017.pdf

Pensions

Total pension contribution estimates have hardly budged since the November Plan update. In Fiscal 2018 pension expenses will reach $9.8 billion, a 4.3 percent increase from Fiscal 2017. In the out years, pension expenses will increase by an average of 1.2% per year, reaching nearly $10.2 billion in Fiscal 2021. The bulk of this funding is for the actuarial pensions (NYCERS, TRS, etc.) but the City also contributes to a handful of non-city retirement systems, including the Cultural Institutions Retirement System (CIRS) and the Teachers' Insurance and Annuity Association (TIAA). In Fiscal 2018, the City anticipates contributing roughly $89 million to these non-City pensions. Additionally, the City will contribute over $75 million to certain non-actuarial retirement systems (contributions calculated on a "pay-as-you-go" basis) that are no longer open to active city employees. The only significant changes since November include an annual decrease of nearly $9.4 million in each year of the plan at the Board of Education Retirement System (BERS) and a $2 million reduction annually in contributions to TIAA in Fiscal 2018 through 2021.

Pension Expenses
Dollars in Millions

	FY17	FY18	FY19	FY20	FY21
Pension Expenses	$9,413	$9,819	$10,100	$10,152	$10,170
Percent of City Funds	15.7%	15.9%	15.7%	15.1%	14.6%
Percent of Total Revenue	11.1%	11.6%	11.5%	11.1%	10.8%

***Source**: Council Finance. OMB data*

Financing and Debt Service

New York City sells bonds to fund its ambitious capital program, and the Fiscal 2018 Preliminary Budget estimates $37.6 billion in long-term borrowing between Fiscal 2017 and 2021 to pay for the Five Year Capital Plan. 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.

The City's debt issuance remains well below the City's constitutional debt limit[7] of $90.2 billion, with the margin between debt service and debt outstanding the highest it has been in a decade. The debt limit is forecasted to grow sufficiently to accommodate new borrowing in the Capital Financing Plan.[8] The City's bonds continue to be well received by the markets, and all of its issuing authorities have maintained AA ratings or better by Moody's, Standard & Poor's and Fitch.

[7] New York State Constitution Article VII

[8] New York City Comptroller, Fiscal Year 2017 Annual Report on Capital Debt and Obligations, December 2016.

Summary of Capital Financing Plan - Fiscal 2018 Preliminary Financial Plan *Dollars in Millions*					
	FY17	**FY18**	**FY19**	**FY20**	**FY21**
Financing Plan					
General Obligation Bonds	$2,281	$3,350	$4,220	$4,350	$4,130
Transitional Finance Authority Bonds(1)	3,200	3,350	4,220	4,350	4,130
Water Authority Bonds	1,874	1,597	1,777	1,848	1,845
TOTAL	**$7,355**	**$8,297**	**$10,217**	**$10,548**	**$10,105**
Debt Outstanding					
GO Bonds	$38,020	$39,155	$41,188	$43,169	$44,910
TFA Bonds(1)	31,685	34,038	36,936	39,902	42,536
Other Debt(2)	2,494	2,387	2,283	2,170	2,054
TOTAL	**$72,199**	**$75,580**	**$80,407**	**$85,241**	**$89,500**
Water Authority Bonds	31,049	32,343	33,803	35,275	36,721
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	12.5%	12.6%	12.9%	13.2%	13.3%

Source: *OMB Fiscal 2018 Preliminary 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).

While the City enjoys a strong cushion on its debt limit and favorable credit ratings on its bonds, there are factors to keep an eye on. The City's debt service is rising as a percentage of City revenues. The City also has an above-average debt burden per capita.[9]

Summary of Debt Service Payments - Fiscal 2018 Preliminary Plan *Dollars in Millions; Before Prepayments*					
	FY17	**FY18**	**FY19**	**FY20**	**FY21**
Debt Service					
GO Bonds	$3,971	$4,134	$4,209	$4,537	$4,696
TFA Bonds(1)	2,187	2,225	2,848	3,127	3,381
Other Debt(2)	304	305	326	379	378
TOTAL	**$6,462**	**$6,664**	**$7,383**	**$8,043**	**$8,455**
Debt Service Burden					
Debt Service/Total Revenue	7.5%	7.8%	8.3%	8.7%	8.9%

Source: *OMB Fiscal 2018 Preliminary Financial Plan*

1) TFA Bonds do not include BARBs

2) Includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).

The Preliminary Plan includes $84.8 million in debt service savings for Fiscal 2017, primarily from revised interest rate assumptions for variable rate bonds and savings related to retention of state building aid revenues by the Transitional Finance Authority (TFA). TFA has reached its limit for issuing building aid revenue bonds (BARBs), yet continues to receive

9 Ibid.

state building aid, which is used for school construction. Building aid revenue in excess of what is needed to service TFA BARBs will be used for general debt service.

The Plan reflects $334.3 million in savings for Fiscal 2018, including an additional $248.9 million in savings from TFA building aid retention. Savings in the out years reflects a lowering of interest rate assumptions on variable rate debt and the removal of assumed interest costs associated with issuing short-term debt.

The City's surplus roll, held in the Budget Stabilization Account for the prepayment of future years' debt service costs, is nearly $3.1 billion for Fiscal 2017. In Fiscal 2016, the surplus roll was around $3.4 billion.

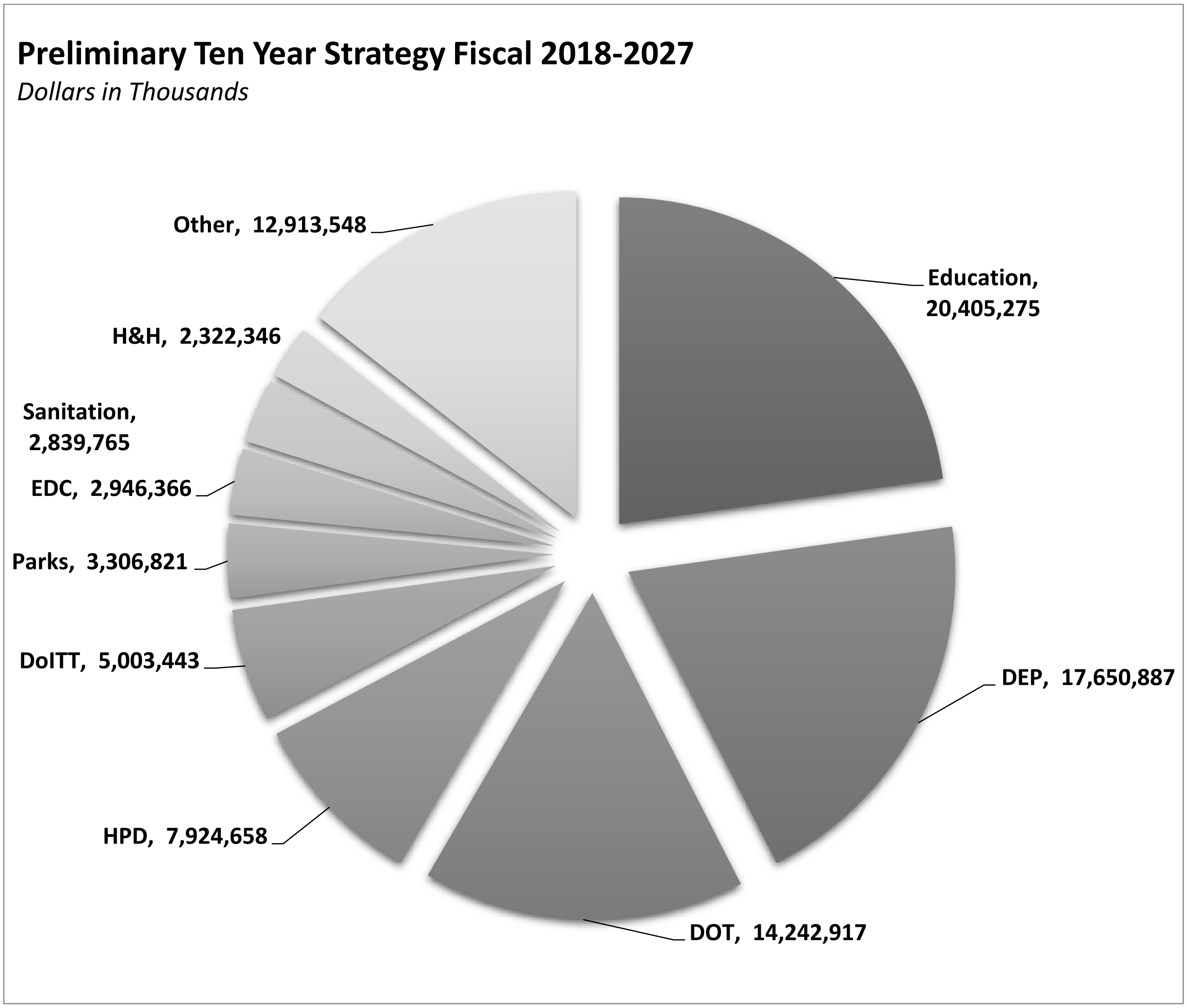
CAPITAL BUDGET

Preliminary Ten Year Capital Strategy

The Ten Year Capital Strategy (the Strategy) is the City's long term capital planning document which provides a framework for capital spending by agency. The Strategy is released every two years as mandated by the City Charter.

The $89.6 (all funds) billion Strategy included in the Preliminary Plan is $5.8 billion larger than the $83.8 billion in the last approved Ten Year Strategy. The majority of the planned capital spending (58 percent) is in three agencies: the Department of Education ($20.4 billion), the Department of Environmental Protection ($17.7 billion), and the Department of Transportation ($14.2 billion). Some highlights of the Strategy include:

- An increase of $459 million to the Department of Education (DOE) in Fiscal 2019 to fully fund the City's new school capacity needs. The next School Construction Authority 5-year plan will include an additional 38,487 seats.
- An increase to the Department of Environmental Protection (DEP) of $1 billion to fund improvements to wastewater treatments plants Citywide, including improvements to the North River Wastewater Treatment Plant of $530 million.
- An increase to the Department of Transportation (DOT) of $1.8 billion, the majority of which is to fund the repaving of 1,300 lane miles of highways per year through Fiscal 2019.
- NYCHA funding is increased by $1 billion to fund the repair of roofs throughout the City, beginning in Fiscal 2019 at $110 million per year.



Preliminary Capital Commitment Plan

The City's Fiscal 2018 Preliminary Capital Commitment Plan (the Commitment Plan) includes $64 billion in Fiscal 2017-2020 (including City and Non-City funds). The amount in the Preliminary Commitment Plan for Fiscal 2017-2020 is 4.2 percent greater than the $59.8 billion scheduled in the September Commitment Plan, representing an increase of $4.2 billion. The Plan is only partially a subset of the Preliminary Ten Year Capital Strategy as it includes the current Fiscal Year 2017, while the Strategy does not. The below chart compares the four year totals of the Preliminary Commitment Plan as compared to the Adopted Commitment Plan in June 2016:

Dollars in Thousands	FY17	FY18	FY19	FY20	FY17-FY20
Preliminary	$20,027,477	$17,937,700	$13,395,568	$12,685,340	$64,046,085
Adopted	19,242,283	17,161,904	12,257,537	11,175,734	59,837,458
Change	785,194	775,796	1,138,031	1,509,606	4,208,627

Fiscal 2017 is significant as it will play a role in the eventual size of the final Ten Year Capital Strategy. As seen above, Fiscal 2017 currently totals $20.0 billion. However, not all of that is expected to be committed, and will likely be rolled into subsequent fiscal years. Should the City commit capital dollars on par with its four-year average commitment level of $8.3 billion, the Ten Year Capital Strategy will increase by $11.8 billion in July.

Some projects of note that are contained largely in the Fiscal 2017-2020 period of the Preliminary Capital Commitment Plan are:

- The renovation and upgrade of the NYPD's firearms training facility at Rodmen's Neck increases the capital budget by $274.6 million in the first four years of the plan.
- Citywide technology upgrades totaling $175 million are included in DoITT's capital budget.
- The Life Sciences Hub has been added to the Economic Development Corporation's capital plan for $140 million.
- The Parks capital budget has increased by $155 million for the Citi Storage acquisition and by $125 million for the Passerelle bridge project.

While the City Council supports and encourages the improvements to the City's infrastructure represented in the Capital Commitment Plan and Ten Year Strategy, there is genuine concern that the City may not be able to execute these projects within the planned timeframe. The Council would like to be a true partner with the Administration in not just the reauthorization and approval of the capital budget at Adoption, but with its execution during the fiscal year.

Currently, the only modification done to the capital budget is at Adoption, while there are multiple modifications to the expense budget voted on by the Council. The main reason for this is that there are excess capital appropriations in the majority of City agencies which negate the need for the Administration to request a capital modification. Instead, the Administration can act without input from the Council in areas with excess appropriations, while on the other end of the spectrum, areas without excess appropriation are forced to wait until Adoption to move forward. If the Council and Administration could move in concert, as we do in the expense budget, then capital projects in need of appropriation would move in a timelier and more efficient manner.

Below is a chart representing the current available appropriations in each agency, the Fiscal 2017 planned commitments, and what was actually committed in Fiscal 2016 in those agencies as a reference. As you will see, the amount of appropriations far exceeds the planned commitments, which in turn exceed last year's actual commitments. It is the Council's recommendation that a portion of the current appropriations be rescinded to be brought more in line with what each agency plans to commit.

Agency Name	Available City Appropriations	FY17 Prelim Plan	FY16 City Commitments
DEPARTMENT FOR THE AGING	38,451	19,498	1,231
WATERWAY BRIDGES	631,352	188,605	100,772
CORRECTION	964,071	506,360	78,581
COURTS	512,262	205,569	35,747
ADMIN FOR CHILDREN'S SERVICES	134,662	101,943	10,169
DOITT DP EQUIPMENT	331,475	228,700	166,825
EDUCATION	1,976,167	3,343,126	2,455,089
ECONOMIC DEVELOPMENT	1,247,682	1,057,527	168,494
DEP EQUIPMENT	512,201	105,132	77,585
FIRE	379,051	243,258	145,076
FERRIES & AVIATION	242,018	164,276	9,951
HOUSING AUTHORITY	508,958	372,117	167,066
HIGHWAY BRIDGES	1,628,458	536,478	148,032
HOUSING & DEVELOPMENT	2,057,549	867,669	645,493
HOMELESS SERVICES	98,838	64,857	10,777
HEALTH	346,569	131,919	22,339
HIGHER EDUCATION	405,954	288,465	40,447
HEALTH & HOSPITALS CORP.	410,059	440,536	115,419
HUMAN RESOURCES	95,160	61,449	15,928
HIGHWAYS	1,513,241	858,051	252,030
NEW YORK RESEARCH LIBRARY	37,151	33,785	915
BROOKLYN PUBLIC LIBRARY	206,978	91,143	8,547
NEW YORK PUBLIC LIBRARY	330,457	143,161	9,012
QUEENS BOROUGH PUB. LIB.	191,246	162,562	10,287
MTA BUS COMPANY	62,170	22,517	8,004
PARKS	1,868,554	1,035,440	172,713
POLICE	764,806	588,319	189,273
EDP EQUIP & FINANC COSTS	1,357,341	631,755	160,447
CULTURAL INSTITUTIONS	880,401	421,099	100,587
PUBLIC BUILDINGS	676,598	332,423	120,533
REAL PROPERTY	37,649	25,835	3,002
SANITATION	608,091	373,960	175,651
SEWERS	1,366,402	800,687	279,283
SIRTOA	4,050	4,050	3,700
TRANSIT AUTHORITY	943,637	258,369	217,496
TRANSPORTATION EQUIPMENT	76,858	48,662	14,397
TRAFFIC	225,757	81,542	81,052
WATER SUPPLY	1,664,849	233,380	16,819
WATER MAINS	1,784,470	1,100,914	295,153
WATER POLLUTION CONTROL	3,450,487	878,531	566,974
Grand Total	**30,572,130**	**17,053,669**	**7,100,896**
***Actuals from FY 2016 Draft June Transaction Analysis**			

Dollars in $000s

REVENUE BUDGET

National Economy

The national economy continues its long growth following the recession of 2008. Indications of the future remain relatively positive, although there remains great uncertainty about the impact of actions from Washington, DC. Following growth of only 1.6 percent in 2016, GDP is expected to grow between a modest 2 and 3 percent in the near term.

The U.S. is currently in its fourth longest economic expansion in post-war history. At 91 months, this is only a little bit behind the expansions of 1991-2001 (120 months), 1961-69 (106 months), and 1982-90 (92 months). Under the new administration's fiscal stimulus proposals, a new milestone could be reached, but much is up in the air. For a detailed discussion of risk, see the accompanying Risks section (pg. 30). Regarding the current expansion, a few things are relatively clear. Firstly, the current expansion has likely lasted so long due to the severity of the Great Recession, leaving considerable slack for a subsequent recovery. Between December 2007 and early 2010, the economy lost 8.7 million jobs and unemployment had reached 10 percent by late 2009.[10] Secondly, the expansion has been the weakest in post-war history, helping to extend its length without overheating. Finally, expansionary monetary policy during the recovery has kept interest rates historically low, stimulating borrowing, consumer spending and economic growth.

The Bureau of Labor Statistics reported positively on the U.S. "employment situation" in early February.[11] Total non-farm payroll employment increased by 227,000 in January, and the unemployment rate stayed fairly constant at 4.8 percent. The number of long-term unemployed declined by 244,000 over the year, although the number of persons employed part-time for economic reasons was little changed. While the job market has enjoyed steady growth, it doesn't appear tight enough to lift worker pay. Thus, wage growth remains subpar. Average hourly earnings over the 12 months ending in January 2017 grew just 2.5 percent. It is important to note that although wages have increased in recent quarters, they've been largely stagnant in real terms for 25 years. Furthermore, increasing income inequality remains a serious concern. The top 10 percent of wage earners in 2016 made over 5 times what the lowest 10 percent of their counterparts took home, the largest gap going back to 1979, according to the Bureau of Labor Statistics.[12] Put another way, the top 10 percent of wage earners made $2,095 in a typical week in 2016, while those in the bottom 10 percent earned less than $415.

As far as monetary policy is concerned, the Federal Open Market Committee left the benchmark interest rate unchanged at its first policy making meeting of the year, following an increase in December – only the second increase since the financial crisis. Fed officials predicted in December that they would raise the benchmark rate three times in 2017 but cautiously warned that "economic conditions will evolve in a manner that will warrant only

[10] http://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession and https://fred.stlouisfed.org/series/UNRATE Research.st.louisfed.org Retrieved 2/19/2017.
[11] https://www.bls.gov/news.release/empsit.nr0.htm
[12] https://www.bls.gov/news.release/wkyeng.t09.htm

gradual increases in the federal funds rate," and that "the federal funds rate will depend on the economic outlook as informed by incoming data."[13]

Although the recovery has certainly been dragged out, the U.S. economy is expected to expand even further in the near future. Following GDP growth of 1.6 percent in 2016, IHS Global Insight forecasts 2.3 percent growth in 2017 and 2.6 percent growth in 2018.[14] Similarly, Wells Fargo is suggesting growth of 2.2 percent in both 2017 and 2018.[15] This is higher growth in 2017 and 2018 than Wells Fargo expects for other advanced economies such as the Eurozone (1.6 percent, 2.2 percent),the United Kingdom (1.3 percent, 2.1 percent), and Japan (0.5 percent, 0.7 percent).

The nation is currently enjoying a rebound in business investment, due largely to the recovery of the energy sector, and a reduced drag from the long inventory correction. The economy is also benefiting from strength in the single-family housing market.

The dollar is expected to remain strong through 2017, being a drag on growth, but will see a steady-though-slow decline after that. Between fourth quarter 2016 to fourth quarter 2017, the inflation-adjusted, trade-weighted value of the dollar for the broad index of trading partners is expected to increase 3.2 percent, according to IHS Global Insight.[16] The dollar will then decline, dropping 14.8 percent between 2017 and 2026. A weaker dollar will likely help reduce the trade deficit in the U.S., and could provide leverage for an administration looking to renegotiate a number of trade deals.

Wall Street markets rebounded after a dismal 2015 and first two months of 2016, after turbulence in global markets. Since then, equity markets have climbed throughout 2016, despite two brief dips in June and October. Net earnings by the securities industry - represented by members of the New York Stock Exchange (NYSE), finally posted decent returns in the second and third quarters of 2016 after two disappointing quarters. Third quarter net income soared 78.5 percent above the same quarter a year ago. The second quarter was also strong, growing 24.7 percent. Net revenues, however, have not been growing at the same pace as profits. Revenues increased 11.8 percent in the third quarter year-over-year, but fell 0.3 percent in the second quarter.

The five largest investment banks have already posted their net earnings for the fourth quarter of 2016, which in sum were an impressive 38 percent above a year ago.[17] Net earnings for all of 2016, were a more muted 2 percent above 2015. Net revenues of the five big banks, like their NYSE counterparts, were less impressive. Revenues in the fourth quarter of 2016 were only 2 percent above a year ago, while 2016 revenues were 2.3 percent lower than in 2015. The big banks, like the smaller NYSE members, have achieved increased profits by cutting expenditures, mostly through shrinking their payroll, reducing bonuses, or moving employees to less expensive locations outside of the City. The big banks additionally

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[13] https://www.federalreserve.gov/monetarypolicy/files/monetary20161214a1.pdf pg. 2
[14] US Executive Summary – January 2017. IHS Economics. Pg. 1.
[15] 2017 Annual Economic Outlook: Risk and reward in an aging business cycle. Pg. 18. https://www08.wellsfargomedia.com/assets/pdf/commercial/insights/economics/annual-economic-outlook/2017-annual-economic-outlook-report-120716.pdf
[16] US Executive Summary – January 2017. IHS Economics. Pg. 5.
[17] The five largest investment banks by assets are JPMorgan Chase, Bank of America, Citigroup, Morgan Stanley, and Goldman Sachs.

benefitted by reduced litigation costs in 2016. The dependency of net earnings on shrinking expenditures, rather than higher revenues, does not bode well for sustained growth, and the reduction in payroll means a loss of valuable jobs in the City's securities industry. The Trump Administration's promise to dismantle Dodd-Frank regulations may provide a needed boost to the industry, by again permitting highly-risky but profitable transactions. The attendant risks to the economy are of course another question.

City Economy

After enjoying dynamic growth since 2011, surpassing that of the U.S., the City's economy is showing distinct signs of slowing and is now close to zero growth. The New York Federal Reserve Bank's 'Coincident Economic Indicators' – a composite measure of local economic growth – shows New York State's economy having contracted over the last four consecutive months as of December 2016.[18] The indicators show New York City's economy having slowed from 2.5 percent over the past 12 months, to an annual rate of only 1.2 percent as of November 2016, and 1.1 percent as of December 2016.

That the City's economy is slowing down should not come as a surprise. In 2016 there were half a million more private sector jobs than there were in 2008 before the start of the Great Recession. The rate of growth has been remarkable, and it is unlikely that it could be sustained.

Though the City continues to add more jobs, it is doing so at a slower pace. In the fourth quarter of 2016, job growth in the City declined significantly. After adding an average of 99,000 new jobs year-over-year in the first three quarters of 2016 (compared to the same period in 2015), only 67,000 new jobs were added in the fourth quarter.[19] This represents a 1.6 percent year-over-year increase in the fourth quarter of 2015 – the slowest quarterly job growth (year-over-year) the City has experienced since the third quarter of 2010 (0.6 percent). In spite of the disappointing job growth in the fourth quarter, overall job growth in 2016 was very decent, adding 91,000 new positions on average compared to 2015. Nonetheless this 2.2 percent growth, while still a healthy pace, was the least impressive payroll expansion since 2010 (0.5 percent). The private sector added 86,000 jobs in 2016, representing 2.3 percent job growth over 2015 – also the smallest gain since 2010.

The slowdown in job growth is especially keen in some of the major sectors of the economy. Professional and business services, the super-sector that led the City out of the last recession, and provides a broad array of decent-paying jobs, has been losing steam since the second quarter of 2016. Business services grew by only 1.6 percent, year-over-year in the fourth quarter of 2016, ending 2016 with a job growth of 2.5 percent over 2015 – the lowest performance the sector has seen since 2010. Also, the financial activities sector, a key source of City tax revenues, has been shrinking its payroll since December 2015, with net income more reliant on cutting expenditures than the sluggish revenues. In 2016, job growth in financial activities barely changed, adding only 180 jobs.

[18] The Coincident Economic Indicator (CEI) for each region is computed using data on employment, real earnings, the unemployment rate and average weekly hours worked in manufacturing

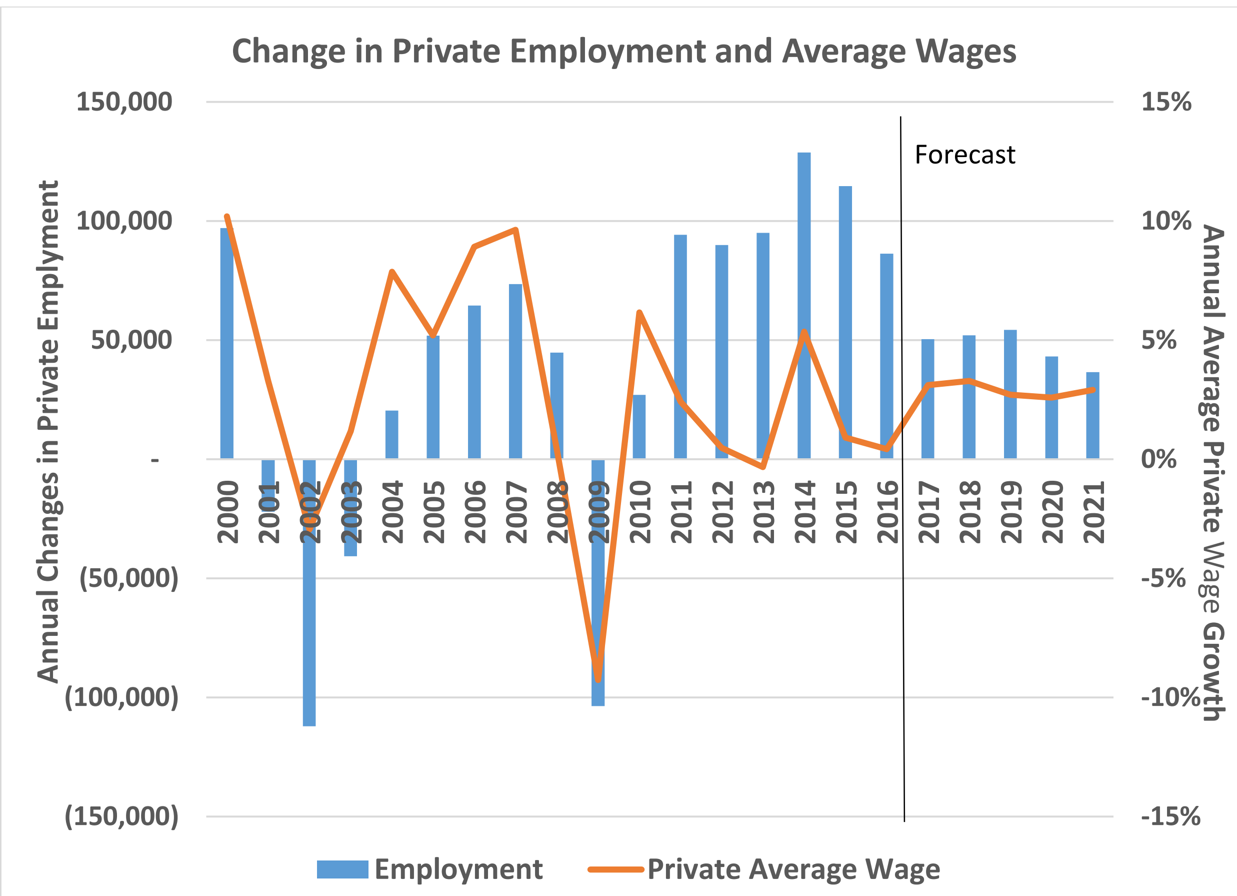
[19] NYS Department of Labor, Current Employment Statistics, December 2016

After a phenomenal 5.9 percent increase year-over-year in the third quarter of 2016, job growth in the leisure and hospitality sector slowed to 3.3 percent in the fourth quarter. Overall, in 2016 the sector added more than 16,700 new jobs, representing a growth rate of 3.9 percent. While still an impressive gain, this is the least number of jobs added since 2009 (the peak of the last recession).

One bright spot has been the health care and social assistance sector, which has long generated strong payroll growth, even during the last recession. Jobs in health care grew 2.7 percent year-over-year in the third and fourth quarters of 2016 – finishing 2016 with job growth of 3 percent over 2015.

One major issue for the City's economy is the continuous job loss in the retail sector. The sector lost over 3,000 jobs year-over-year in the fourth quarter of 2016, bringing its job losses to six consecutive quarters. In 2016, retail lost over 4,000 jobs over 2015, declining 1.1 percent.

The City's unemployment rate fell to 5.2 percent in December 2016, down from 5.7 percent the prior month, but remained flat when compared to December of the prior year. Over the course of 2016, the unemployment rate averaged 5.4 percent, ranging from 5 percent to 5.9 percent. The 5.4 percent unemployment rate for 2016 is the lowest the City has experienced since 2007, when its unemployment rate hit 5.1 percent. This decline in the jobless rate can be attributed to the number of unemployed City residents falling by over 8,000 from 2015 to 2016.



Source: NY State Department of Labor, Current Employment Statistics, December 2016; IHS Global Insight; Forecast by NYC Council Finance

The labor force participation rate continues to remain a major concern for the City. The City's participation rate averaged 60 percent in 2016, declining slightly from 61 percent in 2015. Since reaching an all-time high of 61.5 percent in March 2016, the participation rate has dropped to 59.8 percent in December 2016.

Like the labor market, average wage growth in the City has been very disappointing. The private sector average wage is estimated to have grown by less than half a percent in 2016 – after it grew by only nine-tenths of a percent in 2015. The low average wage growth in 2016 is largely attributed to the securities industry, whose average wage fell by almost three percent in 2016. Excluding the securities industry, average wage growth still slowed significantly from 2.5 percent in 2015 to 1.3 percent in 2016.

The City's real estate market remains vibrant but not to the same degree as the previous two years. Nearly 2.1 million square feet of new office construction was completed in Manhattan in 2016, with 84.0 percent coming from 10 Hudson Yards.[20] New office leasing in Manhattan was at a decent volume of 26.3 million square feet last year, although leasing slowed in the 4th quarter. Net absorption - the additional occupied office space-was much more modest in 2016, with 2.6 million additional square feet, than in 2015 with 4.5 million. Net absorption actually turned negative during the fourth quarter, losing 380,000 sq. ft. The vacancy rate rose to 9.3 percent in the fourth quarter compared to 9.1 percent in the third quarter, and 8.5 percent in the fourth quarter of 2015. This was due to an 11.0 percent increase in direct available office space, more than offsetting the slower growth in office-using employment. Manhattan office rents have increased moderately by only 1.7 percent over the year to $72.82 per square foot.

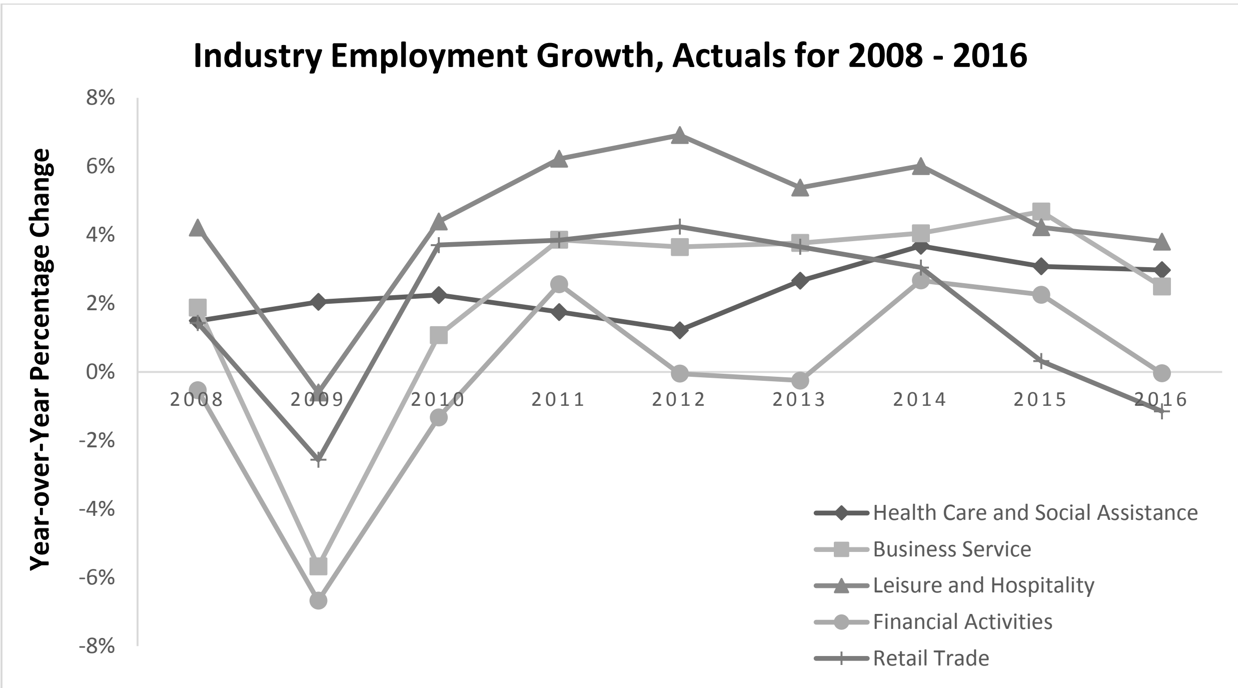
Like the commercial sector, residential real estate is still dynamic but softer than before. Housing developers rushed to obtain building permits before the expiration of 421a tax benefits at the end of 2015. Consequently, the City is experiencing a boost in multifamily housing construction. Median home prices in Brooklyn have soared 15.4 percent over the year to $750,000, while those in Queens have risen 6.0% to $498,000.[21] However, the exorbitant median price of Manhattan co-ops and condos has been corrected, falling 9.1 percent to $1,067,750. Throughout the five boroughs, the number of total home sales have fallen 1.7 percent. The median Manhattan rent has risen by only 0.6 percent year-over-year, while those in Brooklyn and Queens have risen 1.9 percent and 2.4 percent respectively.[22]

2016 was the seventh consecutive record-breaking year of 60.3 million visitors to the City, 21 percent coming from abroad. Spending-per-tourist however, has softened, partially due to the strength of the dollar. This has been recounted by managers at high-end stores. The explosion of new hotel space since 2014 has also lowered average room rates.

Looking ahead, the Council's Finance Division expects the slowdown in job growth to decline further. Council Finance projects private employment to grow by only 1.3 percent in 2017, and further slow to less than one percent by 2021. Similar to Council Finance's forecast, OMB

[20] Cushman & Wakefield, Marketbeat: Manhattan Office, Q4 2016.
[21] Miller Samuel Inc., New York City Real Estate Market Residential Brief, 4Q 2016.
[22] Miller Samuel Inc., Elliman Report: Manhattan, Brooklyn & Queens Rentals, January, 2017.

expects total payroll jobs to grow by 1.3 percent in 2017, and slow to less than one percent by 2021 as well.[23] Council Finance expects private average wage to bounce back going forward – growing at 3.1 percent in 2017 and averaging 3 percent in 2018 through 2021. OMB expects stronger wage growth, with the City's average wage rising by 3.9 percent in 2017 and climbing to 4 percent by 2021.



Source: NY State Department of Labor, Current Employment Statistics, December 2016

[23] NYC Office of Management and Budget, 'January 2017 Financial Plan Detail Fiscal 2017 – 2021,' p. 15.

Forecast of Selected Economic Indicators: National and New York City, CY2016-2021	CY16	CY17	CY18	CY19	CY20	CY21
NATIONAL ECONOMY						
Real GDP %	**1.6**	**2.3**	**2.7**	**2.3**	**2.1**	**2.2**
Private Employment						
Level Change, '000	2,289	2,127	2,030	1,510	1,049	1,067
Percent Change, %	1.9	1.7	1.6	1.2	0.8	0.8
Unemployment Rate, %	**4.9**	**4.6**	**4.2**	**4.1**	**4.2**	**4.3**
Total Wages %	**2.4**	**2.4**	**3.0**	**3.2**	**3.3**	**3.3**
Interest rates %						
3-Month Treasury Bill	0.32	0.86	1.65	2.51	2.85	2.85
30-Year Conventional Mortgage Fixed	3.65	4.33	5.04	5.80	6.08	6.08
NEW YORK CITY ECONOMY						
Real GCP %	**1.7**	**2.0**	**2.5**	**1.8**	**1.6**	**1.9**
Private Employment						
Level Change, '000	84.9	50.4	52.0	54.3	43.1	36.6
Percent Change, %	2.3	1.3	1.4	1.4	1.1	0.9
Average Private Wages %	**0.4**	**3.1**	**3.3**	**2.7**	**2.6**	**2.9**
Total Private Wages %	**2.8**	**4.5**	**4.7**	**4.2**	**3.7**	**3.9**
NYSE Member Firms %						
Total Revenue	4.7	8.3	4.1	0.6	1.5	3.2
Total Compensation	-1.0	8.1	5.7	3.8	4.3	5.3

Source: *IHS Global Insight, February 2017 (Nat'l); New York City Council - Finance Division (City)*

Tax Revenues

The Finance Division forecasts a 2.8 percent increase in tax collections in Fiscal 2017, following a 3.0 percent increase in Fiscal 2016. This would be the second consecutive year of reduced growth in tax revenue, reflecting a less dynamic City economy. Collections are expected to rebound in Fiscal 2018 by 4.0 percent, and average 4.1 percent in the out years, as business activity and equity markets regain a stronger footing.

Property tax collections will maintain strong growth throughout the financial plan of between 5 and 7 percent per year, driven by a recent history of strong market value growth, which will keep assessment growth strong through the plan.

On January 17, 2017, the Department of Finance (DOF) released the preliminary assessment roll for Fiscal 2018, which showed stronger than expected growth in values, but nonetheless slower than Fiscal 2017. Market values are up 8.7 percent, with 7.5 percent of the growth due to market forces. Similarly, assessed values are up 8.5 percent, totaling $226 billion in billable assessed value. Based on the preliminary roll, Fiscal 2018 collections are expected to be approximately $25.6 billion.

The transaction taxes, **real property transfer (RPTT)** and **mortgage recording (MRT),** ended their 5-year track record of double-digit annual growth in Fiscal 2016. Collections are expected to fall by 13.4 percent in Fiscal 2017, driven by fewer high-end commercial sales and a softer Manhattan housing market, and continue a milder decline in 2018. Positive growth will return in Fiscal 2019 through 2021, but will remain in the single-digits as long-term interest rates begin to rise.

Personal income tax collections (PIT) eked out less than one percent growth in Fiscal 2016, as the 10.5 percent tumble in Wall Street profits in 2015 took a huge toll on bonus payments, and falling stock prices choked-off capital gains realizations. Revenues are expected to recover in Fiscal 2017, thanks to the resurgent equities market in 2016 and continuous gains in employment and wages. Annual growth in collections will stay around 3 percent through the Plan years.

Collections from the two business taxes, **general corporation (GCT)** and **unincorporated business (UBT)**, went in different directions in Fiscal 2016. The UBT, which taxes generally smaller, more locally-based businesses, maintained moderate growth, and is expected to average roughly four percent growth through the Plan. GCT collections, which are more nationally-oriented, suffered an 11.4 percent drop in Fiscal 2016, reflecting reduced corporate profits and stock market turmoil in 2015. The transition to the business tax reforms may have also delayed the timing of collections. GCT revenues continued to decline – but more mildly in the first half of Fiscal 2017. Collections are expected to rebound sharply in the second half of the year, reflecting the stronger corporate profits in the second half of 2016, and stellar Wall Street performance in the fourth quarter of 2016. GCT collections are expected to grow between one and two percent annually in the out years, reflecting a softer economy.

Sales tax collections are growing at a moderate pace of between 3 and 4 percent in Fiscal 2017[24], being supported by rising employment and wages, and high consumer confidence. This has more than compensated for some softening in tourist spending due to a strong dollar. While traditional, brick-and-mortar stores have been struggling with weaker receipts, online shopping, which is generally taxed, has been increasing its revenues. Decent 3 to 4 percent growth in annual collections is expected to continue through the Plan.

Turning to the other main taxes, the **commercial rent tax** collections are expected to maintain their typically smooth growth of around 4 percent annually through the Plan. **Utility tax** collections are projected to fall in Fiscal 2017 through 2019, before resuming meager growth. **Hotel tax** collections are expected to slow to less than 2 percent growth in Fiscal 2017 and 2018, as the strong dollar is reducing spending by foreign tourists and the additional supply of hotel space pushing down daily room rates.

In short, strong revenues from the property tax and moderate collections from the PIT, business, transactions and sales taxes are reflecting a City economy that's still growing, but less dynamically than between 2013 and 2015.

Council Forecast: Growth Rates

	FY16*	FY17	FY18	FY19	FY20	FY21
Real Property	7.2%	5.8%	5.9%	7.0%	5.5%	4.7%
Personal Income	1.0%	3.8%	3.5%	3.4%	2.7%	3.9%
General Corporation	(11.4%)	5.2%	3.4%	1.4%	1.1%	1.4%
Unincorporated Business	4.0%	2.0%	4.6%	6.9%	2.9%	4.1%

[24] This does not factor in STAR C payments to New York State.

	FY16*	FY17	FY18	FY19	FY20	FY21
Sales	2.5%	2.9%	6.2%	4.0%	4.1%	3.5%
Commercial Rent	6.0%	5.3%	4.3%	4.1%	3.4%	3.3%
Real Property Transfer	0.6%	(15.6%)	0.2%	6.3%	5.3%	3.8%
Mortgage Recording	6.9%	(11.2%)	(7.5%)	8.5%	9.1%	4.2%
Utility	(7.8%)	6.5%	2.4%	0.7%	1.7%	2.0%
Hotel	1.6%	1.8%	1.5%	3.0%	3.8%	4.1%
All Other**	(0.3%)	(14.7%)	(6.4%)	(0.3%)	(0.3%)	(0.3%)
Audits	2.6%	(10.3%)	(18.3%)	(15.2%)	0.0%	0.0%
Total Taxes	**3.0%**	**2.8%**	**4.0%**	**4.9%**	**4.2%**	**3.9%**

Source: *Council Finance Division*
**Continuation from previous page*

Council Forecast: Difference from OMB Forecast
Dollars in Thousands

	FY17	FY18	FY19	FY20	FY21
Real Property	$0	($11)	$128	$317	$371
Personal Income	(17)	34	29	(248)	(276)
General Corp. & Banking Corp.	(58)	49	11	34	(19)
Unincorporated Business	12	22	62	5	8
Sales	66	(13)	(57)	(114)	(131)
Commercial Rent	4	7	6	1	(5)
Real Property Transfer	54	16	16	(4)	27
Mortgage Recording	35	20	37	60	92
Utility	12	9	9	7	5
Hotel	7	9	14	22	30
All Other*	0	0	0	0	0
Audits	0	0	0	0	0
Total Taxes	**$116**	**$143**	**$255**	**$82**	**$104**

Source: *Council Finance Division, OMB Fiscal 2018 Preliminary Financial Plan*

RISKS

Economic Risks

The Finance Division's forecast over the next four years continues to be one of slower growth for the City, with a low likelihood of a recession. There are, however, significant downward risks, most of which would filter down from the national level or global events:

- The Federal Reserve's cautious approach to raising short-term rates may not be circumspect enough, pushing interest rates up to levels that discourage business and consumer credit.
- The new administration's bellicose stance on protectionism may trigger a mounting trade war, especially with Mexico and China. This would choke-off U.S. exports, especially with Mexico, one of its largest markets. Everyday items may become more expensive.
- With the administration's mass deportation of undocumented workers, there could be labor force shortages in sectors such as agriculture, food services and home care.

Turning to New York City:

- Soaring costs in housing and construction may deter households and firms from locating in the City, stifling additional growth.
- The City would be disproportionately hurt by any trade war. New York specializes in high-end professional services, and any trade barriers would discourage its lucrative foreign clientele, without any of the benefits from protectionism.

IHS Global Insight gives a 25 percent probability of a two-quarter recession in the middle two quarters of 2018. The New York Federal Reserve puts the probability of a recession 12 months from now at 7.5 percent.[25]

There are upward risks as well.

- GDP may grow faster than anticipated, partially from the new administration's tax cuts, rolling-back of regulations, and infrastructure spending. This would provide an additional boost to capital investment and help maintain strong employment growth.
- Struggling global markets, such as Europe and China may recover more quickly, increasing net exports, and lowering the relative position of the dollar.

IHS Global Insight gives a 15 percent probability of the economy doing better than expected.

Tax Forecast Risks

The tax revenue forecast is subject to its own risks. This most formidable risks come from the underpinning economic conditions mentioned before. One policy-related risk is OMB's assumption that the City can renegotiate the $600 million reimbursement to New York State for savings from refinancing the Sales Tax Asset Receivable Corporation (STARC). The

[25] 2017 Annual Economic Outlook: Risk and reward in an aging business cycle. Pg. 15.

Preliminary Budget, only acknowledges a $50 million repayment in Fiscal 2016 and a $150 million repayment in 2017. It does not recognize the remaining payments of $50 million more in 2017, $200 million in 2018, and $150 million in 2019. The Finance Division has also made those assumptions in its forecast.[26] However, should the State refuse to waive the remaining payments, the City will face a considerable total cost of $400 million through reduced sales tax revenues.

There is also an upside risk from tax audits. Between 2010 and 2016, additional revenue from tax audits has been averaging around $950 million per year. OMB projects $1,040 million in audits in Fiscal 2017. Between Fiscal 2018 and 2021, however, OMB forecasts more conservative audits averaging $750 million per year. The City may very likely garner at least an additional $100 million in each of those four years.

Federal Budget Uncertainty

The new President and Congress pose significant threats to the Federal aid received by New York City. The problem has two components: the reduction in Federal aid threatened by President Trump's January 25th Executive Order "Enhancing Public Safety in the Interior of the United States" and reductions under consideration as part of the Federal Budget. In both cases, it is too soon to tell what will happen. However, there are things we can say about the risks.

The Executive Order directs the federal government to limit funding to sanctuary cities. The implications are still unclear, and the Mayor has said he will sue to prevent its implementation. Published reports suggest that grants at risk are those from Homeland Security and perhaps the Justice Department. According to Finance Division analysis, approximately 0.3 percent of the City's budget is at risk, and that assumes total elimination of all grants from these Federal agencies.[27] The total elimination of these grants seems unlikely. While most of the money at risk is going to the Police and Fire Departments and the Office of Emergency Management, smaller amounts of funding for DOITT, Corrections, and some other agencies are at risk. The Finance Division is closely tracking the issue.

The President's Executive Budget is expected to be released by late spring, though a 'skinny' version of the budget may be released as early as March 14.[28] Until then, budget reports from the Republican Study Committee and the Heritage Foundation give us a glimpse of what the budget might contain. The overarching picture is a 8-10 year timeline by which they hope to balance the budget and cut federal spending over the period by around $10 trillion, while making substantial tax cuts.[29] As reference, of the $3.9 trillion in federal spending in Federal Fiscal 2016, only $1.2 trillion is discretionary. In order to meet their goals, Republicans would have to cut nearly all of this, or cut into funding for the military, Social Security, or

[26] The Finance Division generally follows OMB's assumptions about tax policy changes in its forecasts.
[27] The Comptroller's office has said it believes approximately $165 million may be in jeopardy, mostly made up of homeland security grants. See http://www.politico.com/states/new-york/city-hall/story/2017/01/de-blasio-response-sanctuary-cities-exec-order-109048
[28] See http://www.rollcall.com/news/policy/trump-intends-release-2018-budget-mid-march
[29] See http://www.salon.com/2017/01/19/donald-trump-will-adopt-heritage-foundations-skinny-budget-arts-violence-against-women-funding-to-be-cut/

Medicare.[30] Given Mr. Trump's commitment not to cut Medicare or Social Security, and to increase military spending, exactly how this will work is hard to figure out.[31]

Given the size of the potential cuts, much of the City's federal funding could be at risk. Funding for programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), and education are usual targets of Republican attempts to convert funding into block grants, which could lead to reduced support. Several federal initiatives that fund City programs are targeted to be eliminated, including:

- Workforce Innovation and Opportunity Act (WIOA) programs, which fund $39.6 million for job training through Small Business Services (SBS) and $24.5 million for youth employment programs through Department of Youth and Community Development (DYCD);
- Housing and Urban Development's (HUD) Public Housing Capital Fund, which gives $296.2 million to NYCHA's capital budget;
- Social Service Block Grants, which give $67.9 million to the Department for the Aging (DFTA); and
- Head Start, which gives $129.3 million to the Administration for Children's Services (ACS).

There are also recommendations for eliminating Community Development Block Grant (CDBG) funding, which alone accounts for $238.9 million spread across several agencies. Outside the City's budget, the proposed repeal of the Affordable Care Act would pose a serious threat to Health and Hospitals, and the associated reduction in Federal Medical Assistance Percentage (FMAP) for Medicaid expansion could drive a substantial hole in New York State's budget.[32] A recommendation to eliminate the Federal Transit Authority (FTA) would hurt the Metropolitan Transportation Authority (MTA), which relies on FTA funds for 23% of its capital budget.

For the City there may be some upside to the new administration. This would mostly come from its tax and regulatory policies. Major proposals include:

- Reduce personal income tax – reduce number of tax brackets from 7 to 3 at 12%, 25% and 33%
- Reduce corporate tax rate from 35% to 15% and apply 15% rate to pass through entities
- Ease regulation of the financial service and energy industries.

The tax cuts under consideration are geared towards the wealthiest one-percent of the population. A significant part of this population lives in the City and the cuts may help the

[30] Federal budget numbers taken from the Congressional Budget Office's (CBO) *Budget and Economic Outlook: 2017 to 2027*: https://www.cbo.gov/publication/52370

[31] http://thehill.com/policy/finance/314991-trump-team-prepares-dramatic-cuts Conservatives are puzzled to see: http://www.nationalreview.com/corner/444067/trump-administration-budget-plans-entitlement-cuts-still-table

[32] http://cityandstateny.com/articles/politics/new-york-state-articles/lawmakers-obamacare-repeal-a-complex-and-complicated-equation-for-new-york.html#.WK3gUm_yuUl

City's luxury housing, high-end dining, and luxury goods sectors. They will provide a fiscal stimulus, which may boost growth somewhat in 2018 and 2019, though they are poorly designed for this purpose. Regulatory changes may boost earnings in the financial service industry that is so important to the City, though this may come at the cost of additional financial instability. Deregulation in the energy industry may boost investment, but at the cost of long term damage to the environment. Finally, the Administration has discussed an infrastructure program that would provide $167 billion in tax credits with the hope of leveraging $1 trillion in new investment.

Trump Tower Security. The Fiscal 2018 Preliminary Budget does not reflect the costs incurred and anticipated by the Police and Fire Departments for providing security for Trump Tower. According to the NYPD, during the period from election day to inauguration day, the City incurred $25.7 million in costs to protect Trump Tower. Currently the Department is seeking federal reimbursement for the costs incurred from election day to inauguration day. The Police Department estimates that the Department will spend an average of $127,000 to $146,000 a day and the FDNY will spend $4.5 million annually, to protect the First Lady and their son while they reside in the Trump Tower after the inauguration. However, the NYPD anticipates these costs will increase to an average daily rate of $308,000 during Presidential visits. Given the substantial cost already incurred by the City to protect Trump Tower from election day to inauguration day, it is anticipated that the City will continue to devote a significant amount of resources. Currently the Fiscal 2018 budget does reflect an increase in funding to the NYPD and FDNY for Trump Tower security. While, the Police Department and the Mayor are encouraging the federal government to reimburse the City for these costs. It will remain a budget risk until the funds are recognized by the NYPD and FDNY.

State Budget Risks

The Governor's 2017-2018 New York State Executive Budget has been proposed in an uncertain fiscal environment. As in New York City, State tax revenues have been weaker than expected. Furthermore, the new President and Congress seem likely to make significant changes to programs that help fund education, health care, infrastructure and social services, as discussed in the prior section.

The State Executive Budget addresses federal risks in two ways:

- First, it restrains the growth of the budget. State operating funds spending grows 1.9 percent from Fiscal 2016-2017 to Fiscal 2017-2018. Breaking this down into its parts, spending on State agency operations and fringe benefits are up by 0.4 percent, while local assistance is up by 2.3 percent. Local assistance includes most of the programs that impact on the City's budget such as school aid, aid for social services and mental hygiene.

- Second, the Governor has given himself the power to modify part of the budget without the Legislature. The Governor could execute this power in the event that receipts (including federal grants) are less than the amounts assumed in the 2017-2018 Financial Plan.

According to analysis by the State Division of Budget, the Executive Budget has a net positive impact of $279 million on the City in City Fiscal 2018. Among the Council's primary concerns were the following proposals:

School Aid. The City's Fiscal 2018 Preliminary Budget for the Department of Education does not take the Governor's Executive Budget into account. The Plan projects State aid based on the previous year's growth. In total, the Governor's proposed 2017-2018 aid to New York is $264 million less than the City's Financial Plan. Foundation Aid, the vehicle used to directly fund school budgets, has a discrepancy of $242.1 million between the two plans. Foundation Aid is also the mechanism for funding charter schools, and given the Governor's proposed changes to charter schools, including an increase in facilities payments for new and expanding charters, an increase in the charter school supplemental tuition rate, and removing the regional cap on charter school growth in New York City, we should expect to see an increase of at least $198 million in costs associated with charter schools. The significant difference between the Governor's proposal for schools and the DOE's Preliminary Budget is cause for concern, which is compounded by the underestimation of the DOE's spending on charter schools in Fiscal 2018. We anticipate that additional enrollment growth and a charter school tuition increase, neither of which are contemplated in the Preliminary Budget.

Special Needs Children. The State Executive Budget proposes to restructure funding for residential placements of children with special needs to require New York City to pay the housing portion of tuition costs for children placed in residential schools outside of New York City. While the State anticipates that this proposal impacts NYC by $23 million, costs could exceed this amount as expenditures are dependent on the number of foster care placements and associated tuition costs.

General Public Health Work Program. The Department of Health's General Public Health Work (GPHW) program, also known as the Article 6 Public Health local assistance provision, reimburses local health departments for providing core public health services individually tailored to the needs of their communities Despite this crucial support for family health, communicable disease control, and other essential public health programs, the Governor has proposed to reduce the City's reimbursement rate from 36 percent to 29 percent based on the precarious belief that the City can capitalize on public health funding sources other than the GPHW program. This would result in a loss of $32.5 million that supports Ending the Epidemic, Nurse Family Partnership, Newborn Home Visiting Program and other essential services.

Medicaid. While most of the State Executive Budget continues existing policies with respect to Medicaid, such as adhering to the spending cap, there are two main programs that cause concern. In an effort to lower New York State and New York City Medicaid costs, the budget would require the City to improve the Medicaid claiming of School Supportive Health Services and to identify opportunities to enhance Federal funding for SSHS. Should the plan fail to generate the required savings, the State Department of Health (DOH) will have the authority to reduce Medicaid payments to the City by $50 million. The Council is also concerned with the uncertainty at the federal level with the possible repeal of the Affordable Care Act and how that might impact the Medicaid program.

421-a. The 2018 Executive Budget introduces the tax incentive program "Affordable New York Housing Program," a revised version of 421-a. While the Council supports the overall goal of the program to develop affordable housing in mixed-income buildings, we are concerned over the elimination of the City Council authority to restrict or tighten eligibility of the program, particularly for so costly of a program. The 421-a program already represents an annual cost of $1.3 billion in Fiscal 2017. With the Governor's modifications, the cost of the program is expected to grow over the years, leaving the City with a substantial expense on its books and no real power to control it. This is neither fiscally responsible nor appropriate.

Under Budgeting for Homeless Shelters. Mid-year re-estimation of current year shelter costs have become a standard practice for the Administration. Since adoption of DHS' Fiscal 2017 Budget, which totaled $1.29 billion, an additional $225 million has been added for the current fiscal year to house the surging homeless population. DHS' Fiscal 2017 Budget now totals $1.68 billion. The practice of routinely making substantial mid-year funding increases to support the shelter population is problematic as it not only brings the accuracy of the whole DHS budget into question but also erodes the Council's confidence in the capacity of DHS to carry out its mandate. The Preliminary Budget, it is important to note, raises the baseline budget for shelters by $255.6 million. However, given the Independent Budget Office's estimation that the budget could be as much as $200 million short of the need and the Administration's months long refusal to provide the Council with information required to assess the DHS' spending plan, we remain concerned that the DHS shelter budget is again inadequate.

Loss of Title XX Funding. The Fiscal 2017-2018 State Executive Budget proposes to redirect the State's $27 million discretionary portion of Title XX Social Services block grant from community-based senior services to child care services. New York City receives $17 million in Title XX funding, which is typically used to support DFTA senior centers. DFTA estimates that if this proposal were enacted, it would impact about 20 to 25 percent of its senior centers, and would require 60 to 65 senior centers to close, leaving approximately 6,000 seniors without access to senior center meals and other programmatic supports. Since the State's budget process is still ongoing, the impact of this proposal is yet to be included in DFTA's Fiscal 2018 Budget.

Other Risks

There are two assumptions in the Fiscal 2018 Preliminary Budget that pose major risks to the revenue budget:

Sales Tax. The Preliminary Budget assumes the State will reverse the decision made in April 2016 to take $200 million a year for three state fiscal years from New York City's sales tax revenue. If this assumption is wrong it will reduce City sales tax revenue by $50 million in Fiscal 2017, $200 million in Fiscal 2018 and $175 million in Fiscal 2019 compared to the Preliminary Budget's financial plan. The funds in dispute originated in savings New York City realized in refinancing Sales Tax Asset Receivables Corporation (STARC) debt.

Taxi Medallions. The Preliminary Budget's financial plan still contains substantial funds from the sale of taxi medallions. The plan assumes $107 million in Fiscal 2019, $ 257 million in Fiscal 2020 and $367 million in Fiscal 2021. Given the weakness in the medallion market it seems likely that future financial plans will reduce these estimates.

Reserves and Managing Risks

The Preliminary Plan expects Fiscal 2018 to start with $8.6 billion in reserves, the largest component of which is $4.1 billion in the Retiree's Health Benefit Trust. These reserves are a crucial tool that smooth out some of the fluctuations in the economy and help maintain services during downturns. As such, it makes sense to bolster reserves when times are good.

At first glance, it may appear that the City is currently drawing down reserves rather than saving them. In the Fiscal 2018 Preliminary Budget, Fiscal 2017 is being balanced with $983 million in funds from prior years. It has been the practice over several administrations to start the year balanced with prior years' funds and over the course of the year reducing the amount of these funds that are used. Fiscal 2017 is the kind of 'good year' that should end with an increase of reserves. With $300 million available in the Fiscal 2017 general reserve, and the Council forecast which sees $116 million in extra revenue, this seems well within reach.

Of course it may not be useful to increase reserves if current reserves are adequate. In order the judge the adequacy of reserves, the City Comptroller has created a measure of these reserves: the Prior-Year Accumulated Resources and Reserves (PARR). The PARR is defined as total prior year resources and reserves available, at the sole discretion of the City, for current or future budget balance[33], and the PARR ratio reflecting the PARR's relationship to adjusted expenditures[34]:

$$\frac{\textbf{PARR}}{\textbf{adjusted expenditures}} = \textbf{PARR ratio}$$

The City remains below the Comptroller's recommended ratio of between 12 and 18 percent. In Fiscal 2009, just before the great recession impacted the City's Budget, the PARR was 17.4 percent.[35] The Preliminary Plan has a PARR ratio of 9.8 percent at the start of Fiscal 2018, down slightly from the 9.9 percent at the start of Fiscal 2017. However, it is expected that

[33] PARR consists of:

- Resources used to prepay debt service and subsidies – i.e., the roll.
- The General Reserve at the beginning of the year which is a contingency reserve and can then serve to increase the roll at the end of the fiscal year.
- The Retiree Health Benefits Trust, because fund assets excluding the deposits for the pay-as-you go portion of retiree health insurance costs can potentially be drawn down in the future to reduce General Fund retiree health expenditures.
- Bond defeasance since it uses current year resources to reduce out year debt service.
- The Capital Stabilization Reserve because any funds not used in the current fiscal year can be used to prepay debt service or defease bonds.

[34] Adjusted Expenditures: Adjusted operating budget. (Adjusted to reflect removal of prior-year resource uses and reserves.)

[35] Office of the New York City Comptroller "Comptroller Stringer Presents Analysis of New York City's Preliminary FY 2018 Budget and January Financial Plan" February 15, 2017, https://comptroller.nyc.gov/newsroom/press-releases/comptroller-stringer-presents-analysis-of-new-york-citys-preliminary-fy-2018-budget-and-january-financial-plan/

this ratio will grow as Fiscal 2017 winds down, and funds are rolled forward into future reserves (as noted earlier).

Beyond the reserves, there have always been less transparent resources that have been used by OMB to help balance budgets when needed. Some of these are 'conservative' estimates of costs (for example, the debt service budget overestimates of variable rate bond cost) past assumptions of unneeded short term borrowing costs. Others are 'one shots' such as the $200 million in the revenue budget from Disallowances of Categorical Grants. The de Blasio Administration, with a push from the Council, seem to be moving towards greater transparency in many parts of the budget, including reserves. The savings program has eliminated some of the overly conservative cost estimates, including the short term borrowing cost mentioned above. The revenue from disallowances of categorical grants was recognized in the Preliminary Budget and has not been not held for a future budget. As the push towards greater transparency continues, the adequacy of PARR becomes more important as there will be fewer hidden reserves to draw upon in bad times.

These reserves are best used to cover revenue shortfalls that are believed to be transitory, as in the ups and downs of the business cycle. Using reserves may also make sense in short term for non-transitory adjustments that occur at a difficult time (e.g. during mid-year when it is difficult to change priorities in the expense budget). But in general, the use of reserves to cover the impact of long-term Federal policy changes is more problematic. One would hope that elimination of funding for a program such as Head Start would be reversed in a reasonable period of time, but that may not be the case. New York City has seen adverse policy decisions, such as the elimination of the commuter tax, that have not been reversed.

Reserves are intended to be used in an economic downturn. We know such a downturn will occur, we just do not know when. If the Comptroller's analysis is correct, the City still has a way to go to have adequate reserves for the next downturn. While using reserves to cover Federal policy changes may be necessary, it will make meeting the goal of ensuring adequate reserves for the next downturn more difficult.

APPENDIX

Fiscal Year 2018 Preliminary Budget: Agency New Needs and Other Adjustments
(Dollars in Thousands)

New Needs	**FY 2017**	**FY 2018**	**FY2019**	**FY 2020**	**FY 2021**
Department of Homeless Services	$169,953	$285,267	$285,271	$285,271	$285,271
Department of Correction	7,414	56,303	32,628	41,246	51,856
Department of Education	41,423	51,519	44,845	45,205	45,597
Department of Youth and Community Development	-	30,493	16,805	18,116	18,116
Fire Department	5,503	29,738	17,975	40,975	40,975
Police Department	13,130	20,526	14,538	15,124	15,124
Department of Social Services	15,676	20,467	18,982	18,955	18,955
Department of Transportation	13,692	15,291	17,362	19,499	21,812
Department of Parks and Recreation	7,877	7,310	4,981	4,981	3,488
Department of Sanitation	-	6,250	25,250	27,250	34,000
Health + Hospitals	2,309	5,916	5,516	5,516	5,516
Miscellaneous	3,940	5,047	5,047	5,047	2,774
Department of Info, Tech, and Telecomm	8,753	4,864	2,550	2,555	2,555
Department of Health and Mental Hygiene	585	4,750	4,750	4,750	4,750
Department for the Aging	-	4,250	-	-	-
Department of Small Business Services	2,425	2,390	2,390	2,390	2,390
Board of Elections	3,890	2,245	2,245	2,245	2,245
Department of Citywide Administrative Services	4,508	2,104	2,238	2,308	2,308
Department of Probation	890	1,790	1,790	1,790	1,790
Department of Buildings	-	1,678	1,645	1,645	1,645
All Other New Needs	27,426	5,241	6,841	7,529	7,608
TOTAL New Needs	**$329,393**	**$563,438**	**$513,649**	**$552,397**	**$568,774**
Other Adjustments					
Debt Service	$2,531,058	($2,950,205)	($83,400)	($72,201)	($53,154)
Miscellaneous	(612,138)	178,836	181,528	170,086	169,352
City University	76,457	55,506	57,023	54,211	54,211
Fire Department	25,447	23,113	-	-	-
Citywide Savings Initiative	-	(18,700)	(26,000)	(31,000)	(31,000)
Police Department	36,586	17,261	17,261	10,261	9,261
Department of Education	22,328	13,156	54,848	53,326	320,468
Administration for Children's Services	38,023	11,630	13,150	14,916	16,953
Pension Contributions	(9,374)	(11,374)	(10,995)	(10,334)	(10,286)
Energy Adjustment	9,981	(10,873)	(36,197)	(37,070)	(40,386)
Department of Info, Tech, and Telecomm	18,750	(8,120)	(8,120)	(8,120)	(8,120)
Housing Preservation and Development	17,505	7,755	7,853	6,279	6,279
Department of Transportation	(1,308)	(4,415)	49,696	(94)	(354)
Department of Homeless Services	2,274	(2,657)	(2,657)	(2,657)	(2,657)
All Other	(1,049,590)	2,366	(5,238)	(2,030)	(102,368)
TOTAL Other Adjustments	**$1,106,001**	**($2,696,721)**	**$208,753**	**$145,572**	**$328,199**
Net Changes in the Preliminary Plan	**1,435,394**	**(2,133,283)**	**722,402**	**697,969**	**896,973**

Fiscal 2018 Preliminary Budget Revenue Plan
Dollars in Millions

	FY17	FY18	FY19	FY20	FY21
Taxes					
Real Estate	$24,196	$25,629	$27,292	$28,618	$29,929
Sales	7,044	7,564	7,910	8,289	8,592
Mortgage Recording	1,061	994	1,063	1,140	1,158
Personal Income	11,155	11,493	11,890	12,496	13,007
General Corporation	3,904	3,890	3,982	4,004	4,113
Banking Corporation	(35)				
Unincorported Business	2,069	2,155	2,265	2,388	2,483
Utility	365	377	380	388	398
Hotel	568	575	587	602	620
Commercial Rent	816	848	884	919	955
Real Propery Transfer	1,444	1,485	1,580	1,685	1,717
Cigarette	44	42	41	40	39
All Other	655	598	597	597	597
Audit	1,041	850	721	721	721
Tax Program					
STAR	556	535	533	531	529
Total Taxes	**$54,883**	**$57,035**	**$59,725**	**$62,418**	**$64,858**
Federal Categorical Grants	**$8,826**	**$7,012**	**$6,811**	**$6,809**	**$6,781**
State Categorical Grants	**$14,417**	**$14,546**	**$15,008**	**$15,404**	**$15,718**
Non-Governmental Grants (Other Cat.)	**$1,635**	**$1,514**	**$1,505**	**$1,432**	**$1,426**
Unrest. / Anticipated State & Federal Aid	**$1,635**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	996	977	980	980	980
Water and Sewer Charges	1,407	1,361	1,347	1,336	1,337
Licenses, Permits, Franchises	731	645	639	644	641
Rental Income	235	225	224	224	224
Fines and Forfeitures	923	902	891	880	870
Other Miscellaneous	429	356	563	712	722
Interest Income	75	110	177	241	246
Intra City	2,039	1,786	1,781	1,787	1,787
Total Miscellaneous	**6,835**	**6,362**	**6,602**	**6,804**	**6,807**
Net Disallowances & Transfers	(1,839)	(1,801)	(1,796)	(1,802)	(1,802)
Total Revenue	**$86,392**	**$84,668**	**$87,855**	**$91,065**	**$93,788**
City Funds	**$61,514**	**$61,596**	**$64,531**	**$67,420**	**$69,863**
Federal & State Revenue	**$24,878**	**$21,558**	**$21,819**	**$22,213**	**$22,499**
Federal & State as a Percent of Total	**28.8%**	**25.5%**	**24.8%**	**24.4%**	**24.0%**
City Funds as a Percent of Total Revenue	**71.2%**	**72.8%**	**73.5%**	**74.0%**	**74.5%**

Source *: OMB Fiscal 2018 Preliminary Budget*

Fiscal Year 2018 Preliminary Budget: Revenue Changes from Fiscal 2017 November Plan
Dollars in Millions

	FY17	FY18	FY19	FY20
Taxes				
Real Estate	$171	$219	$372	$427
Sales	($91)	$7	$30	$73
Mortgage Recording	(24)	(81)	(41)	9
Personal Income	(29)	(60)	(81)	60
General Corporation	35	(304)	(214)	(238)
Banking Corporation	(35)	0	0	0
Unincorported Business	2	5	19	34
Utility	(14)	(17)	(27)	(31)
Hotel	21	12	0	(11)
Commercial Rent	8	8	9	9
Real Propery Transfer	(44)	(118)	(76)	(20)
Cigarette	0	0	0	0
All Other	65	12	12	12
Audit	300	134	5	5
Tax Program	0	0	0	0
STAR	0	0	0	0
Total Taxes	**$365**	**($183)**	**$8**	**$329**
Federal Categorical Grants	$292	$213	$173	$171
State Categorical Grants	$287	$156	$148	$58
Non-Governmental Grants (Other Cat.)	$8	$1	$63	$0
Unrest. / Anticipated State & Federal Aid**	$57	$0	$0	$0
Miscellaneous Revenue				
Charges for Services	6	$2	$2	$1
Water and Sewer Charges	7	4	(1)	0
Licenses, Permits, Franchises	61	1	1	2
Rental Income	10	0	(1)	(1)
Fines and Forfeitures	17	7	8	8
Other Miscellaneous	18	(107)	(150)	(111)
Interest Income	14	5	39	99
Intra City	78	8	9	8
Total Miscellaneous	**$211**	**($80)**	**($93)**	**$6**
Net Disallowances & Transfers	$137	($8)	($9)	($8)
Total Revenue	**$1,357**	**$99**	**$290**	**$556**
City Funds	**$713**	**($271)**	**($94)**	**$327**
Federal & State Revenue	**$636**	**$369**	**$321**	**$229**

Source *: OMB Fiscal 2018 Preliminary Budget and Fiscal 2017 November Plan.*

Council Forecast: Levels
Dollars in Millions

	FY17	FY18	FY19	FY20	FY21
Real Property	$24,196	$25,618	$27,420	$28,935	$30,300
Personal Income	11,137	11,526	11,920	12,246	12,729
General Corporation	3,811	3,939	3,993	4,038	4,094
Unincorporated Business	2,081	2,177	2,327	2,393	2,491
Sales	7,110	7,551	7,853	8,175	8,461
Commercial Rent	820	855	890	920	950
Real Property Transfer	1,498	1,501	1,596	1,681	1,744
Mortgage Recording	1,096	1,014	1,100	1,200	1,250
Utility	377	386	389	395	403
Hotel	575	584	601	624	650
All Other	1,255	1,174	1,171	1,168	1,165
Audits	1,041	850	721	721	721
Total Taxes	**$54,999**	**$57,176**	**$59,982**	**$62,498**	**$64,960**
OMB Financial Plan	*$54,883*	*$57,034*	*$59,726*	*$62,418*	*$64,856*

Source: *Council Finance Division*