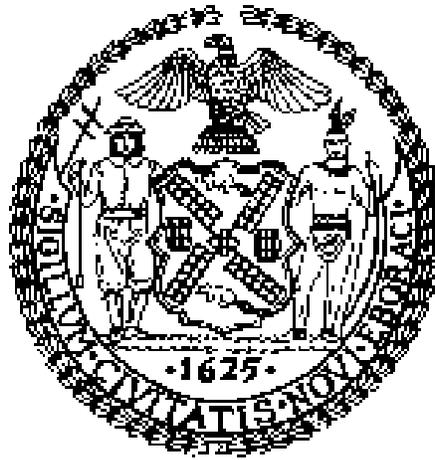


THE COUNCIL OF THE CITY OF NEW YORK

Hon. Corey Johnson
Speaker of the Council

Hon. Daniel Dromm
Chair, Committee on Finance



Report to the Committee on Finance

Fiscal 2020-2024 Preliminary Financial Plan Overview

March 2, 2020

Finance Division
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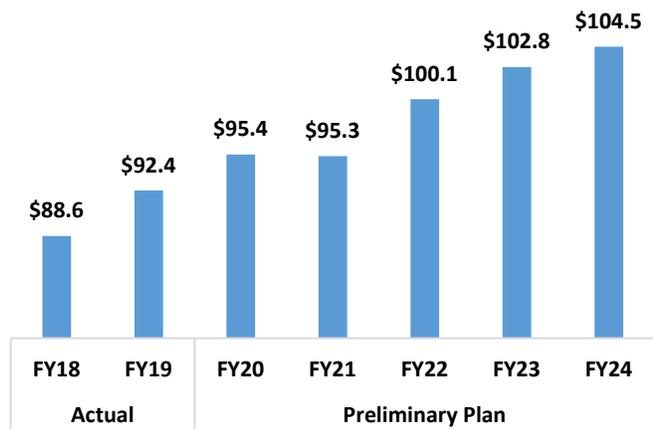
Introduction

On March 2, 2020, the Committee on Finance will begin the New York City Council’s review of the Fiscal 2021 Preliminary Budget with the first Council hearing on the proposed budget. The Committee will hear testimony from the Office of Management and Budget (OMB) and broadly examine the Administration’s programmatic priorities and fiscal estimates as presented in the Fiscal 2020-2024 Preliminary Financial Plan (Preliminary Plan or Plan). The proposed spending levels, the Citywide Savings Plan, and revenue estimates will be scrutinized.

The Preliminary Plan introduces modest changes as the Administration’s concerns about a possible economic slow-down continue. Funding risks from New York State (the State) loom over New York City, placing it in a more uncertain fiscal position this year. Accordingly, the Administration has released a more conservative Preliminary Budget relative to prior fiscal years. Planned spending is expanding at a modest rate and there are relatively few major new initiatives. Most of the projected growth in spending is associated with increased labor costs, criminal justice reform, and education, such as 3-K for All, special education, and charter schools.

New York City Budget FY18-24

Dollars in Billions



Although the Fiscal 2021 Preliminary Budget is balanced, there are significant risks and omissions that concern the Council and will need to be addressed in the Executive Budget. These risks come from all levels of government – the Administration, the State, and the federal government – and include shortfalls such as Medicaid funding and unfunded education mandates. Additionally, the Council’s priorities have yet to be considered. Over the coming months, the Administration and the Council will undergo negotiations to finalize a budget that reflects the needs and priorities of all New Yorkers.

This report, one of three prepared for this hearing, provides a historical overview of City spending, reviews the Fiscal 2021 Preliminary Budget, and describes how the City proposes to balance the budget. The report then reviews major components of the City’s budget and describes how the City’s budget is structured. Additionally, the report summarizes significant changes since the adoption of the Fiscal 2020 budget, including new spending, headcount changes, and the Citywide Savings Program.

The second report prepared for today’s hearing, “Economic and Revenue Forecast for the Fiscal 2021 Preliminary Budget,” discusses the City Council Finance Division’s economic and tax revenue forecast and provides a snapshot of the City’s economy and the Fiscal 2021 Preliminary Revenue Budget. The third report, “Fiscal 2021 Preliminary Capital Budget and Commitment Plan Overview,” addresses the Fiscal 2021 Preliminary Capital Budget and the Preliminary Capital Commitment Plan for Fiscal 2020-2024.

Financial Plan Overview

The Fiscal 2021 Preliminary Budget totals \$95.3 billion. This includes \$70.8 billion in City funds, up 1.05 percent from the Fiscal 2021 estimate in the Fiscal 2020 Adopted Budget. While the Preliminary Plan shows both revenues and expenses increasing steadily over the five-year plan period, total revenue grows at an average annual rate of 1.6 percent and total expenditures increase by 2.3 percent on average, resulting in outyear gaps. Overall, the budget for Fiscal 2021 is balanced, as is the revised Fiscal 2020 budget. The Preliminary Plan summary provided below shows anticipated revenues and expenditures for all years, as well as the average annual percentage change in each category. Changes in the Plan are modest compared with previous years at this time.

FY21 Preliminary Financial Plan Summary						
<i>Dollars in Millions</i>						
	FY20	FY21	FY22	FY23	FY24	Average Annual Change
REVENUES						
Taxes	\$64,352	\$65,614	\$67,615	\$69,610	\$71,315	2.6%
Miscellaneous Revenues	7,547	7,086	7,079	7,096	7,097	(1.5%)
Unrestricted Intergovernmental Aid	111	-	-	-	-	
Less: Intra-City and Disallowances	(2,141)	(1,867)	(1,859)	(1,857)	(1,857)	(3.3%)
Subtotal, City Funds	\$69,869	\$70,833	\$72,835	\$74,849	\$76,555	2.3%
State Aid	\$15,674	\$15,803	\$16,263	\$16,720	\$16,769	1.7%
Federal Aid	8,158	7,113	7,010	6,976	6,971	(3.7%)
Other Categorical Grants	1,006	874	864	863	861	(3.7%)
Capital Funds (IFA)	719	676	676	676	676	(1.5%)
TOTAL REVENUES	\$95,426	\$95,299	\$97,648	\$100,084	\$101,832	1.6%
EXPENDITURES						
Personal Services	\$51,306	\$52,684	\$53,850	\$55,602	\$56,630	2.5%
Other Than Personal Services (OTPS)	40,460	38,440	38,667	38,854	39,087	(0.8%)
Debt Service	6,984	7,500	8,158	8,906	9,366	7.6%
General Reserve	300	1,000	1,000	1,000	1,000	58.3%
Capital Stabilization Reserve	-	250	250	250	250	
Less: Intra-City	(2,126)	(1,852)	(1,844)	(1,842)	(1,842)	(3.4%)
Spending Before Adjustments	\$96,924	\$98,022	\$100,081	\$102,770	\$104,491	1.9%
Surplus Roll Adjustment (Net)	(\$1,498)	(\$2,723)				
TOTAL EXPENDITURES	\$95,426	\$95,299	\$100,081	\$102,770	\$104,491	2.3%
Gap to be Closed	-	-	(\$2,433)	(\$2,686)	(\$2,659)	

Source: OMB, Fiscal 2021 Preliminary Financial Plan Summary, Fiscal 2020-2024.

The Fiscal 2020 Adopted Budget estimated a \$3.5 billion budget gap for Fiscal 2021. As detailed in the chart below, that gap has been closed largely by using \$2.7 billion in newly identified resources from Fiscal 2020 that are used to prepay Fiscal 2021 debt. The resources come from increased revenues, reductions in spending, spending re-estimates, and the usual transfer of current year reserves. While the Fiscal 2021 budget is balanced, budget gaps are projected for Fiscal 2022 through Fiscal 2024, as projected expenditures outpace revenues. Expenditures are expected to reach \$104.5 billion by Fiscal 2024.

Closing the Gap		
<i>Dollars in Millions</i>		
	FY20	FY21
Gap as of Fiscal 2020 Adopted Budget	\$0	(\$3,521)
Revenue Budget Changes		
Tax Revenues, net of audits	\$931	\$393
Audits	0	200
Citywide Savings Program	162	8
Other Revenues	233	134
SUBTOTAL	\$1,326	\$735
Expense Budget Changes		
Agency Expense Changes	\$752	\$629
Citywide Savings Program	(518)	(500)
Pensions	(132)	(191)
General Reserve (FY20 from \$1.15B to \$300M)	(850)	0
Capital Stabilization Reserve	(250)	0
Re-estimate of Prior Years' Expenses & Receivables	(400)	0
SUBTOTAL	(\$1,398)	(\$62)
TOTAL: Gap Before Prepayments	\$2,724	(\$2,724)
FY 2020 Prepayment of FY2021 Expenses	(\$2,724)	\$2,724
NEW GAP in January 2020 Financial Plan	\$0	\$0

Does not include intra-fund capital spending or intra-city revenue

The largest source of newly identified resources in Fiscal 2020 are revenues, which are up \$1.3 billion since the Fiscal 2020 Adopted Budget. Overall, tax revenue is projected to increase by \$931 million. Other sources of revenues include \$162 million in revenue re-estimates included in the Citywide Savings Program and an increase of \$233 million in other miscellaneous revenues.

Other newly identified resources come from the Preliminary Plan projection that spending will be down \$1.4 billion in Fiscal 2020. This includes savings of \$518 million from the Citywide Savings Program, \$132 million less in pension contributions, and \$400 million from the re-estimation of prior years' expenses and receivables. These reductions are offset by a \$752 million increase in agency expenses.

Finally, roughly \$1.1 billion in Fiscal 2020 resources used to close the Fiscal 2021 budget gap come from drawing down current year budgetary reserves. This action typically occurs at this point in the budget cycle, demonstrating that as the revenue and spending plans develop fully, the need for in-year buffers declines. Specifically, the reduction of the General Reserve totals \$850 million, while the takedown of the Capital Stabilization Reserve totals \$250 million.

After the \$2.7 billion in Fiscal 2020 resources is accounted for, there still remains a \$797 million gap in Fiscal 2021 that is being closed with additional revenue recognized in Fiscal 2021 which exceeds new expenses for the year. Fiscal 2021 changes recognized since the Fiscal 2020 Adopted Budget add \$735 million in new revenue and reduce spending by \$62 million. Ninety percent of this \$735 million in newly recognized revenues, or \$593 million, is from tax revenue and audits. The Citywide Savings Program further increase revenues by \$8 million, while other revenues increased by \$134 million.

On the expense side, newly identified expense reductions in Fiscal 2021 include \$500 million in the Citywide Savings Program and \$191 million in pension contributions. This is mostly offset by new agency spending of \$629 million.

Budget Reserves

The City's revenues vary with the ups and downs of the economy. Over the years the City has developed an informal system to manage the budget across the business cycle, saving during the good times and using those funds in bad times. The City's informal system can be categorized into three general components that collectively make up the City's reserves:

1. Current year budget reserves such as the General Reserve and the Capital Stabilization Reserve;
2. The Budget Stabilization Fund (also referred to as the surplus roll) which prepays future years' debt service costs; and
3. The Retiree Health Benefits Trust (RHBT).

The City's reserves have grown consistently since Fiscal 2014, in large part due to the Council's advocacy. However, it is important to highlight that the City ended Fiscal 2019 with a Budget Stabilization Fund balance that was \$355 million less than the Fiscal 2018 year-end balance, ending Fiscal 2019 with about \$4.2 billion. Put simply the City needed to use some of its reserves to balance Fiscal 2019. Combined with roughly \$4.7 billion in the RHBT, the City's reserves had a total net end-of-year reserve balance of \$8.9 billion, representing 9.7 percent of total adjusted expenditures. In the Preliminary Plan, the estimated end-of-year reserves amount to about \$7.7 billion, but this is expected to grow over the course of the year as OMB tends to raise revenue estimates and find additional expense savings as the fiscal year progresses.

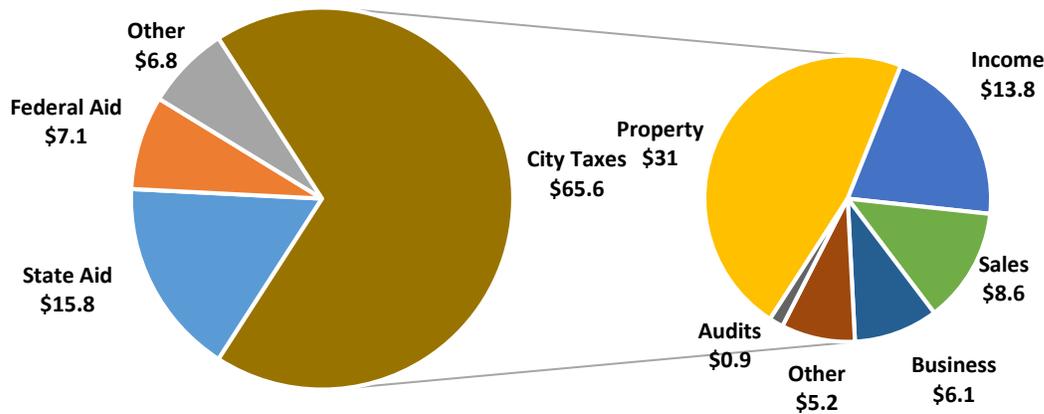
Reserve Components <i>Dollars in Billions</i>	Year-End-Reserves FY2019	Prelim FY2020
Budget Stabilization Fund	\$4.2	\$2.7
Capital Stabilization Reserve	-	-
RHBT	\$4.7	\$4.7
General Reserve	-	\$0.3
Total Reserves as of Preliminary	\$8.9	\$7.7

Revenue Budget

In the Preliminary Plan, revenues for Fiscal 2021 total \$95.3 billion, 0.9 percent higher than the budget for Fiscal 2021 as of the Fiscal 2020 Adopted Budget. Revenues come from multiple sources, including local taxes, miscellaneous revenues, and State and federal categorical grants, as shown in the chart below.

City Taxes Account for the Majority of FY20 Total Revenue

Dollars in Billions



City taxes for Fiscal 2021 are expected to total \$65.6 billion, up 0.9 percent compared to the Fiscal 2020 Adopted Budget. Real property tax comprised 47.3 percent of all tax revenues, while the personal income comprised 21 percent. For additional details on the Revenue Budget, see the “Economic and Tax Revenue Forecast for the Fiscal 2021 Preliminary Budget” report.

Tax Expenditures

City tax expenditures, commonly referred to as “tax breaks,” consist of abatements, exemptions, and incentives granted to subsidize certain forms of private spending or to provide targeted tax relief. Although different than direct spending, tax expenditures can have a major impact on the budget in as much as money not collected is functionally the same as money spent.¹ Recognizing this, the Charter requires the Department of Finance (DOF) to publish an annual report on tax expenditures, most recently published in February, 2020.

However, data limitations make it difficult to provide a comprehensive picture of the total tax expenditures in the current budget. Some tax expenditures are not easily quantifiable and therefore no clear estimates exist for the cost of those tax breaks.

However, even for those that are easily quantifiable, the timing of tax return filings make timely and consistent analysis challenging. The most recent DOF Tax Expenditure Report provides estimates as of Fiscal 2020 for the Real Property Tax, while the most recent estimates for expenditures based on other taxes are from earlier periods. The Business, Excise, and Sales tax expenditures are estimates for the Tax Year 2016, while those for the Personal Income Tax (PIT) are for Tax Year 2017.

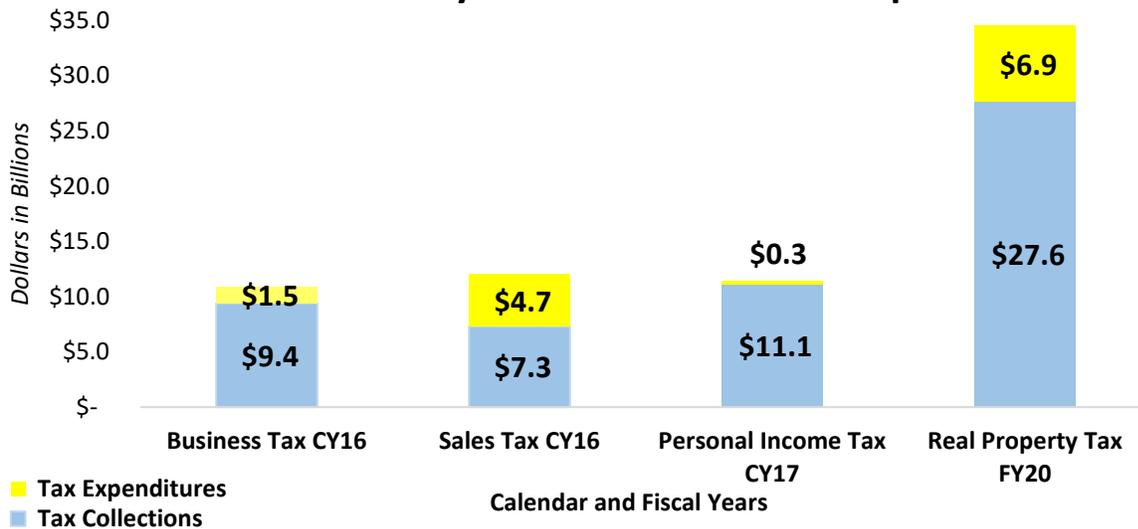
Therefore, this report will provide not only background on the most recent analysis of the City’s tax expenditures, but also context as to what share of the tax is reduced by the expenditures. That can

¹ There are exceptions to this rule, for example if the tax expenditure was necessary to induce some economic activity, and no comparable spending would have taken place in its absence, then the amount of the fiscal impact of the tax expenditure would be less than the subsidy provided. The question of when tax expenditures are necessary to incentivize investment is debatable, but research shows that inducement effects are often small and frequently overstated in public discussions.

help provide insight into the potential budgetary impact of the tax expenditures in the current and upcoming budgets.

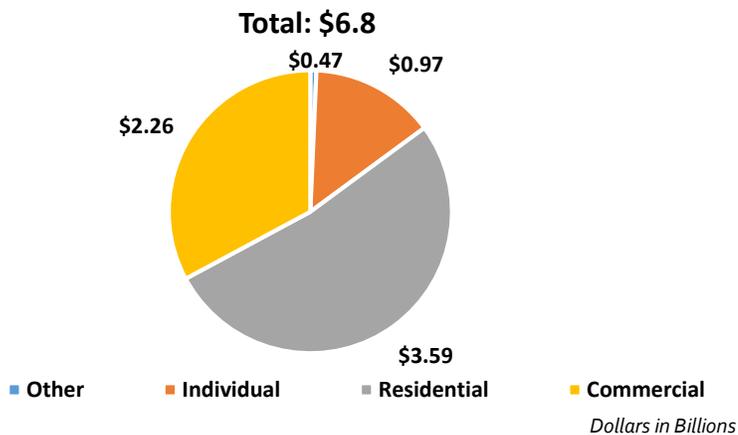
Additionally, increasing transparency and oversight could lead to more efficient and targeted use of tax expenditures to achieve economic and social goals, in particular those related to economic development. For that reason, the Council has been making strides in increasing its oversight and transparency of the City’s economic development tax expenditure programs. Local Law 18 of 2017 established an evaluation process where the Independent Budget Office (IBO), in discussion with the Council Finance Division, issues an in-depth report on a chosen tax program each year. So far, one evaluation has been conducted as a result of the local law. A second evaluation is being prepared and is expected to be released this summer.

New York City Tax Collection vs Tax Expenditures



Real Property Tax is the largest revenue source of New York City, is expected to raise \$29.7 billion of total tax revenue in Fiscal 2020. In that same period, real property tax expenditures are expected to total \$6.8 billion or 18.8 percent of revenues actually collected.

Real Property Tax Expenditures By Purpose Fiscal 2020



The City's property tax programs can generally be categorized by purpose. First, residential benefits comprise 52 percent of property tax expenditures, with a value of \$3.6 billion in Fiscal Year 2020. This category includes various programs that incentivizes new construction or rehabilitation of residential property. The second largest category is commercial incentives at \$2.3 billion, or 33 percent of total property tax expenditures. Properties assisted by the commercial programs range from hotels, retail space, and office buildings to properties involved in manufacturing and distribution activities, such as factories and warehouses. Third, programs for individual assistance totaled \$978 million. There were 94,822 exemptions that reduced taxes for veteran and senior citizen homeowners, while the Senior Citizen Rent Increase Exemption (SCRIE) provided relief to an estimated 61,147 senior citizen renters. Finally, others comprise \$47 million or 1 percent of benefits represent miscellaneous benefits such as the tax program that exempts the Chrysler Building.² The single largest residential tax expenditure program is the Section 421-a program, with 203,757 units and a value of \$1.6 billion.³ In addition, the five largest real property tax expenditures program account for 55 percent of net total of real property tax expenditure programs.

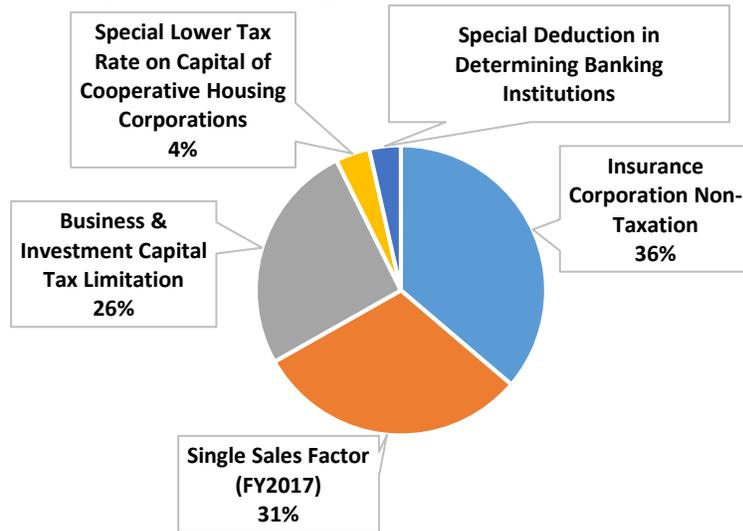
Five Largest Real Property Tax Expenditures Programs	
<i>Dollars in Millions</i>	FY2020
Section 421-a	\$1,570
NYC Housing Authority	661
Co-op/Condo Abatement	614
Industrial and Commercial Incentive Program	539
Industrial Development Agency	440
Net Total	\$3,824

Business Income and Excise Tax expenditures that could be quantified were value at \$1.5 billion in calendar year 2016. This corresponds to 16.0 percent of the total tax collection of \$9.4 billion in calendar 2016. Many of these programs are designed to foster economic development, for example reducing City energy costs for eligible businesses or providing relocation incentives. The five largest business income and excise tax expenditure programs accounted for 88 percent of the quantifiable cost of annual business income and excise tax expenditures. A small number of tax expenditures in this area are not easily quantifiable as no data is collected on those breaks, and therefore those breaks are not included in the total amounts within this report.

² This is one of the oldest tax breaks in New York State. The exemption stems from Cooper Union's ownership of the land beneath the Chrysler Building. The value of the tax exemption is required to be remitted from the building's owner to Cooper Union to support its educational mission.

³ See Department of Finance, Annual Report on Tax Expenditures, Fiscal 2020.

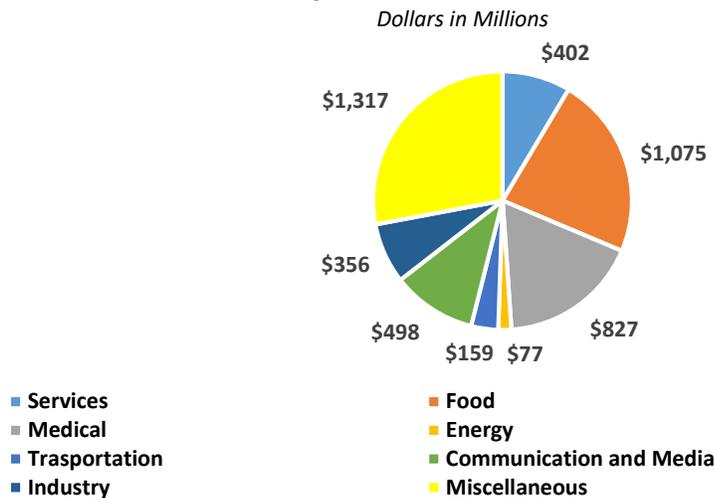
Five Largest NYC Business Income and Excise Tax Expenditure Programs Calendar Year 2016



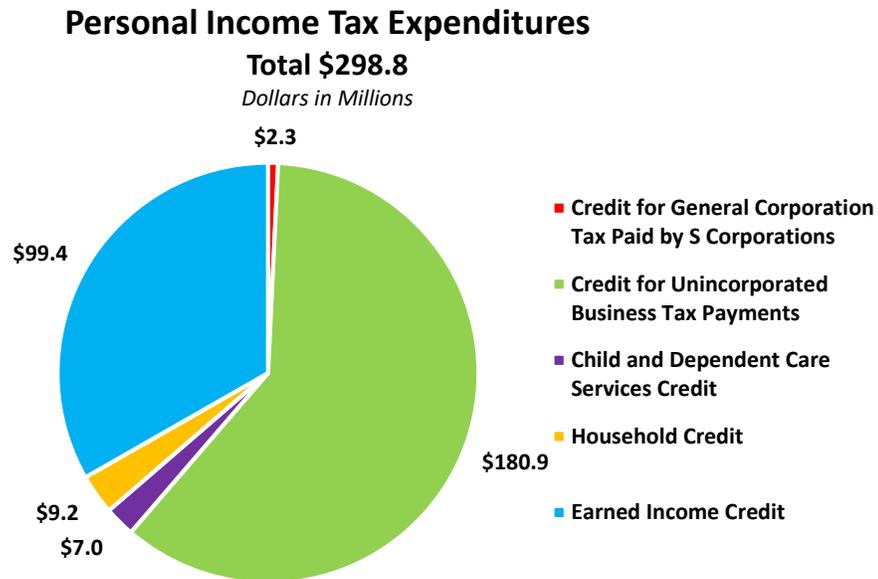
City Sales Tax. New York City sales and use tax generally applies to retail sales of tangible personal property and certain services occurring within the City. Tax Expenditures related to the City sales tax quantified for calendar year 2016 were estimated at \$4.7 billion which is equivalent to 64.4 percent of the \$7.3 billion in sales tax revenue during that same period.

Sales tax exemptions include a wide variety of consumable goods and services, such as exemptions for grocery purchases, medicines, fuel sold to airlines, tailoring and laundry services, internet access services, and clothing and footwear less than \$110. A break down by category can be seen in the chart below.

NYC Sale Tax Expenditure Estimates For All Programs Exemption Calendar Year 2017



City-funded Personal Income Tax Credits. New York State administers the City PIT and, accordingly, modifications to income, such as exclusions, deductions and other adjustments allowed by the State in determining taxable income, are automatically passed through to the City tax. In calendar year 2017, PIT tax credits represented \$298 million or 2.7 percent of personal income tax revenue.



As mentioned above, tax expenditures are not easy to quantify and therefore no clear estimates exist for the cost of those tax breaks. However, if one were to assume that the most recently available shares of tax expenditures to their taxes held constant, then tax expenditures would total \$14.1 billion or 14.7 percent of the City’s tax revenues in Fiscal 2020, and \$14.5 billion or 14.8 percent of total tax revenues in Fiscal 2021.

Tax Expenditures	FY20	FY21	FY22	FY23	FY24
Property Tax Expenditures (22.9%)	6.8	7.1	7.4	7.6	7.8
Business Tax (16.0%)	1.5	1.5	1.5	1.5	1.5
Sale Tax (64.4%)	5.4	5.5	5.7	5.9	6.1
Personal Income Tax (2.7%)	0.4	0.4	0.4	0.4	0.4
Estimated Tax Revenue Expenditures	\$14.1	\$14.5	\$15.0	\$15.5	\$15.9

Risks to the Financial Plan

The Preliminary Plan does not yet account for certain risks, including State budget shortfalls and reductions in federal aid. Because the State and federal budgets are not yet finalized, the exact amount of any shortfalls cannot be accurately projected at the time of this writing. This is typical of City Preliminary Budgets and historically more fixed projections of State and federal aid are made in the Executive Plan. Other budget risks include the possibility of an economic downturn, as well as City spending that is not accurately accounted for in the Preliminary Plan based on historical trends and known needs. For further information on risks, please refer to the “Economic and Revenue Forecast for the Fiscal 2021 Preliminary Budget” report.

State Budget Shortfalls

The Governor's Executive Budget for State Fiscal Year 2020-2021 includes several proposals that would have a negative impact on the City's budget if adopted. Potential cuts and cost shifts could lower State aid to the City by roughly \$1.5 billion next year compared to the Preliminary Budget's projections. The Preliminary Plan did not alter State revenue projections to align with the Governor's proposals, and, as in past years, the Council expects that OMB will adjust the financial plan after the State adopts its budget. The State risks fall into three general categories – Medicaid, Education, and Public Aid – each of which is discussed in detail below.

Medicaid Cost Shift to Localities

The 2021 State Executive Budget reflects a \$2 billion gap related to Medicaid. To address this State budget shortfall, the Executive Budget proposes a significant cost shift for Medicaid to localities. Any locality that exceeds two percent property tax growth and incurs Medicaid spending growth over three percent would be required to pay for all growth in Medicaid spending. For New York City this proposal could raise the City's required contribution to Medicaid by \$1.1 billion next year. OMB projected the cost shift based on an average annual growth of about seven percent for New York City Medicaid spending over the last two State fiscal years. Currently, the City's local share of Medicaid is capped at \$5.3 billion annually.

In addition, the Governor reconvened a Medicaid Redesign Team (MRT II) to identify \$2.5 billion in reoccurring savings statewide by April 1, 2020.⁴ If MRT II fails to identify \$2.5 billion in savings by the deadline, the Governor can impose across-the-board cuts to spending. Notably, because approximately half of State Medicaid costs are covered by a federal match, MRT II would effectively need to identify \$5 billion in savings to generate \$2.5 billion for the State. It is unclear how cuts identified by MRT II or across-the-board cuts would impact the City, but most likely any cuts would impact Health + Hospitals (H+H), because H+H is the City's largest Medicaid provider.

Education Aid

Although the 2021 State Executive Budget proposes \$11.6 billion in School Aid for the City, representing a two percent increase from the prior year, this amount falls \$136 million short of OMB's School Aid projection in the Preliminary Plan, which budgeted for a 3.2 percent growth in Fiscal 2021. While Foundation Aid is proposed to increase by \$127 million, the Governor has proposed to consolidate ten expense-based aid categories into Foundation Aid, which would create a \$173 million shortfall in Foundation Aid based on the City's anticipated revenue projections for these revenue streams for the upcoming fiscal year. The overall estimated shortfall for School Aid will constrain the City's ability to fully fund schools at 100 percent of the Fair Student Funding formula.

Temporary Assistance for Needy Families (TANF)

The Executive Budget proposes to impose a five percent local share for the City for the Family Assistance portion of the Temporary Assistance for Needy Families (TANF) block grant. This would result in a cost shift of \$34 million in Fiscal 2020, and \$68 million in Fiscal 2021 and in the outyears. This is in addition to the ten percent local share for TANF enacted in the 2020 State Budget, which cut the City's annual TANF revenue by \$125 million.

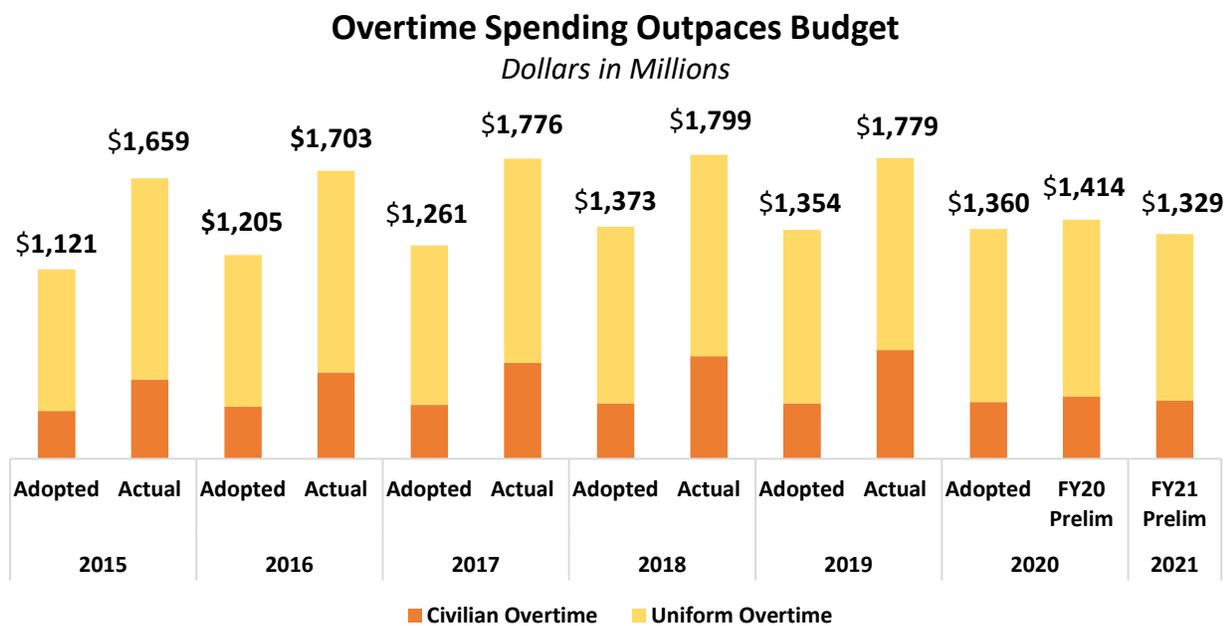
⁴ Notably, MRT II appointees do not include any representatives from the City's public hospital system or City elected representatives.

The Governor also proposes to limit the services the City is able to claim under the TANF Flexible Fund for Family Services (FFFS) on child welfare services. The proposed restrictive guidelines for FFFS would result in the City claiming less revenue from the grant, and would leave a \$7.1 million shortfall in Fiscal 2020, growing to \$14.2 million in Fiscal 2021 and in the outyears.

Other Budget Risks

Overtime Spending

Actual overtime costs have consistently outpaced the budgeted costs, and the Preliminary Plan does not adjust overtime to match historical spending. Without developing a plan to reduce overtime expenditures, by either tightening controls or imposing strict limits inside City agencies, it is highly unlikely that future spending will match the overtime levels carried in the Plan. Below is a chart detailing actual overtime expenses since Fiscal 2015.



Since Fiscal 2015, the overtime budget at adoption has been, on average, 28 percent less than actual expenditures. Although the overtime budget totals \$1.3 billion in the Fiscal 2021 Preliminary Budget, overtime expenditures have averaged \$1.7 billion over the past five years. As of January 2020, actual expenditures for overtime total \$973.9 million, meaning that the City is again on track to spend approximately \$1.7 billion on overtime in Fiscal 2020, which is approximately \$385 million, or 27 percent more than the current budget.

Board of Elections

The Fiscal 2021 Preliminary Budget for the Board of Election (BOE) totals only \$130.9 million and is not an accurate projection of spending. The Fiscal 2021 budget does not include the \$75 million that was added in the Fiscal 2020 budget that was required to implement early voting for the current fiscal year and which will be needed again to implement early voting in Fiscal 2021. However, it is anticipated that the Administration will include this funding in the Fiscal 2021 Executive Budget.

Department of Education

Although the Department of Education's (DOE) Fiscal 2020 budget for Carter Cases increases by \$150 million as of the Fiscal 2021 Preliminary Budget, for a total of \$540.2 million, DOE's Fiscal 2021 budget for Carter Cases remains underfunded. The Fiscal 2021 budget for Carter Cases is only \$405.6 million, or approximately \$134 million less than what is budgeted for the current fiscal year. Given that Carter Case spending includes both current payments, as well as payments for services in prior years, and costs tend to increase year-over-year, this is a significant shortfall for Fiscal 2021.

Additionally, the Preliminary Plan includes a \$64 million increase in Fiscal 2020 related to pupil transportation costs to address a budget shortfall, but this increase is not reflected in the outyears.

Model Budget Funding

Pursuant to the Fiscal 2018 Adopted Budget deal, the Administration agreed to revise senior center budgets and included \$10 million for the first phase of a three-year, senior center model budgeting project. The commitment was for a total baselined investment of \$20 million that would reach full implementation in Fiscal 2021. However, the Fiscal 2021 Preliminary Budget does not include the additional \$10 million in baseline funding to the Department for the Aging's (DFTA) budget.

NYC School Bus Grant Program - Employee Protection Provisions

The Fiscal 2021 Preliminary Budget includes \$18.5 million for Fiscal 2020 for the Department of Small Business Services (SBS) grant program for school bus vendors, but this funding is not included in the outyears. SBS implemented this program at the end of the 2013-2014 school year when DOE removed employee protection provisions from the school bus contracts, but OMB has continued to budget on a year-to-year basis. Reliant Transportation is the only firm that receives a supplement from SBS through this program.

Council Priorities

The Preliminary Plan does not include funding for the Council's discretionary initiatives, which totaled approximately \$450 million in Fiscal 2020 for vital services provided to New Yorkers through community-based organizations. The Plan also does not provide for the continuation of \$215.7 million in one-time funding restored in Fiscal 2020 and which will need to be included in the Fiscal 2021 budget. Finally, the Plan does not continue the \$12.5 million in PEG restorations that were negotiated as a part of the Fiscal 2020 Adopted Budget.

Expense Budget

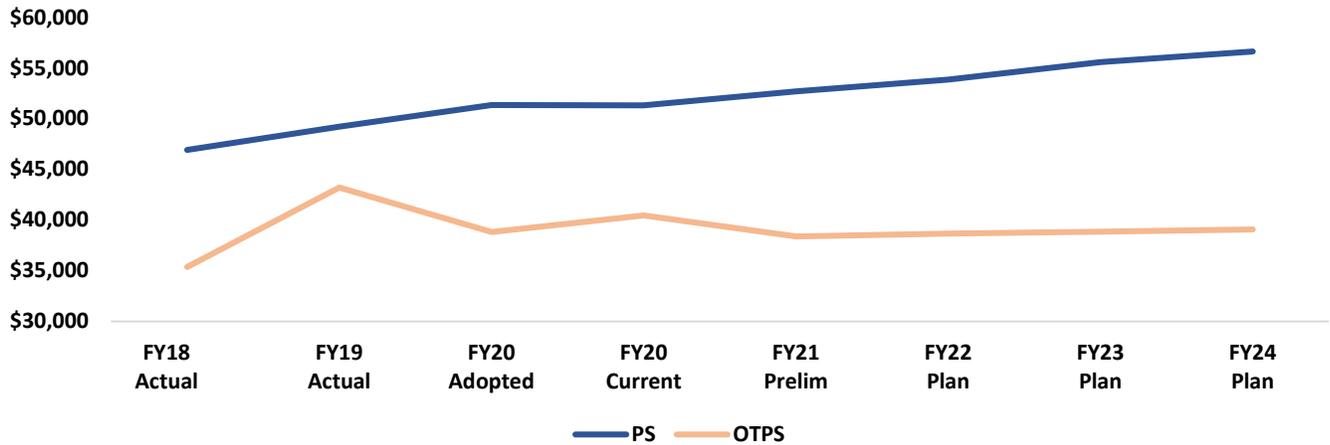
The Fiscal 2021 Preliminary Budget totals \$95.3 billion, which is \$2.5 billion, or 2.7 percent, more than the Fiscal 2020 Adopted Budget and \$100 million less than the current Fiscal 2020 budget as modified by the Preliminary Plan. The projected growth over the Preliminary Plan period is 9.5 percent, equaling an annual growth rate of 2.3 percent from Fiscal 2020 to 2024.

The Fiscal 2021 Preliminary Budget includes \$52.7 billion for personal services (PS) costs, \$38.4 billion for other than personal services (OTPS) costs, \$7.5 billion for debt service, and \$1.25 billion set aside for reserves. Backing out the roughly \$1.8 billion projected for intra-city spending, along with approximately \$2.7 billion in debt service prepayment with Fiscal 2020 dollars, leaves the Fiscal 2021 Preliminary Budget at \$95.3 billion. The following discussion will review the PS and OTPS portions of the Expense Budget. Debt service and reserves are discussed in the companion reports to today's hearing.

The overall growth in spending projected in the Preliminary Plan is entirely driven by PS spending. Between Fiscal 2020 and Fiscal 2024, PS spending will grow by 10.3 percent while OTPS spending will fall by three percent. Growth in the PS budget is largely attributable to labor contracts.

PS Budget Grows Across the Financial Plan While OTPS Remains Flat

Dollars in Millions

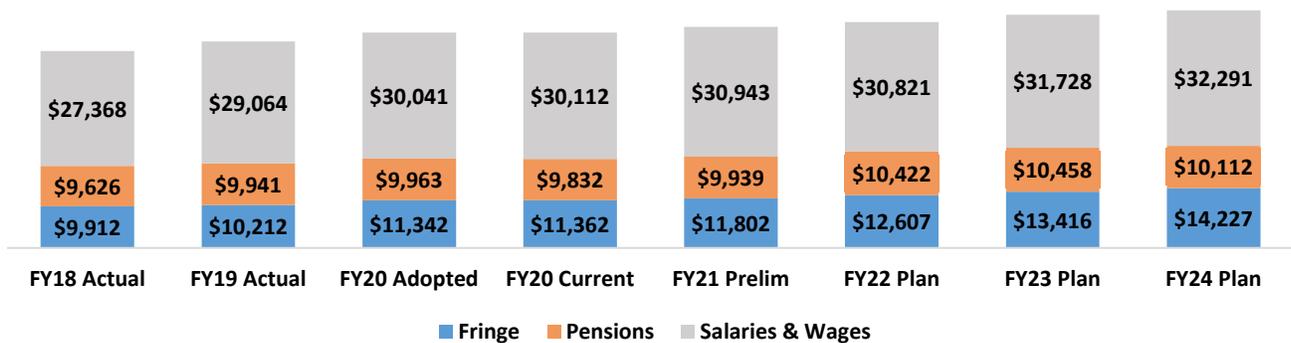


PS Spending

In aggregate, PS expenditures – which include salaries and wages, fringe benefits, and pension contributions – are projected to grow throughout the Financial Plan. The average annual percentage increases during this five-year period are expected to be approximately 1.8 percent for salaries and wages, 5.8 percent for fringe benefits, and 0.8 percent for pension contributions.

PS Spending, by Category and Year

Dollars in Millions



PS spending in the Fiscal 2021 Preliminary Budget totals \$52.7 billion, accounting for approximately 55.3 percent of the City’s total operating budget. It includes \$30.9 billion (about 58.7 percent of PS spending) for salaries and wages, \$11.8 billion (about 22.4 percent of PS spending) for fringe benefits, and \$9.9 billion (about 18.9 percent of PS spending) for pension contributions. Fringe benefits account for more than one-half of the increase in PS spending over the five-year plan period. The PS budget is projected to grow to \$56.6 billion by Fiscal 2024. Although the annual increases are somewhat large

in absolute terms, the shares of the overall PS budget for each component are anticipated to remain stable.

Collective Bargaining Adjustments

The Preliminary Plan recognizes a number of recent collective bargaining agreements between the City and various unions; as of the Preliminary Plan, the City has reached settlements with approximately 80 percent of the municipal workforce. Wage increases reflect the established “pattern,” set by the United Federation of Teachers (UFT) and District Council 37 (DC 37), which provide for total pay hikes of roughly 7.5 percent over the life of each union contract. Recent settlements include the agreement between City University of New York (CUNY) and its faculty and staff represented by the Professional Staff Congress (PSC), and with traffic agents and their supervisors of the Police Department who are represented by the Communications Workers of America (CWA).

These and additional settlements are funded in the Reserve for Collective Bargaining, better known as the Labor Reserve. To address anticipated collective bargaining needs, the Labor Reserve is expected to rise from \$1.5 billion in Fiscal 2022 to nearly \$2.5 billion in Fiscal 2024. The Preliminary Plan lowers the total amount in the Labor Reserve for Fiscal 2020 from \$1.093 billion to \$1.011 billion. This change is accounted for, on net, by \$154 million in transfers from the Labor Reserve into agency budgets that are associated with collective bargaining agreements, increments, and other adjustments in Fiscal 2020. The largest of these drawdowns is to fund lump-sum payments for retroactive wages to healthcare workers at H+H. Additionally, there is an inflow of \$72 million in Fiscal 2020 relating to a December 2019 contract settlement between the City and the Uniformed Officers Coalition (UOC). The 36-month labor agreement with UOC, which is comprised of eight unions representing over 16,000 employees, including correction officers, firefighters, sanitation workers, and other uniformed workers, is slightly more generous than the pattern discussed above, resulting in successively larger annual increases to the Labor Reserve that total \$410 million through Fiscal 2024.

Salaries and Wages

Spending on salaries and wages is expected to total \$30.9 billion in Fiscal 2021, representing about 32 percent of the City’s expenditures and about 59 percent of the PS budget. Full-time pedagogical salaries amount to approximately \$11.1 billion, or approximately 36 percent of the total salaries budget for Fiscal 2021, and is concentrated in the DOE’s budget. Salaries for full-time uniformed personnel amount to approximately \$5.4 billion, or 17 percent, of the salaries budget in Fiscal 2021—encompassing police officers, firefighters, sanitation workers, and correction officers.

Overtime amounts to approximately four percent of all spending on salaries. The Fiscal 2021 Preliminary Budget includes \$1.4 billion for overtime in Fiscal 2020, a four percent increase since adoption. For reasons discussed above, the projection for overtime spending is likely to be understated in the Preliminary Plan.

Fringe Benefits

Fringe benefits account for approximately \$11.8 billion, or 22 percent, of the Fiscal 2021 PS budget and 12 percent of the total budget. The fringe benefits rate for civilian employees stands at around 48 percent in Fiscal 2020.⁵ Spending on fringe benefits is projected to grow by about four percent

⁵ Note: Federally approved rates include pensions and selected fringe categories. Please see next section for separate discussion and analysis of pension benefits.

from the current fiscal year to the next. The largest component of fringe benefits spending is health insurance for employees and retirees, which will reach nearly \$7.5 billion in Fiscal 2021—including \$2.8 billion at the DOE, an increase of nearly eight percent for the agency from Fiscal 2020.

Fringe Benefit Expenditures as of January 2020 (Excluding Pensions)

Dollars in Millions

	Fiscal 2020	Fiscal 2021	Percent Change
Health Insurance	\$7,054	\$7,471	6%
Social Security	2,268	2,303	2%
Supp. Welfare Benefits	1,344	1,309	(3%)
Worker's Compensation	394	423	7%
Annuity Contributions	118	120	2%
Allowance for Uniforms	77	75	(3%)
Worker's Comp. - Uniformed	42	44	4%
Unemployment Insurance	37	38	1%
Other Fringe Benefits	15	6	(61%)
Faculty Welfare Benefits	12	12	0%
Disability Insurance	1	1	0%
TOTAL	\$11,362	\$11,801	4%

Growth in projected costs for health insurance is the main driver of the rise in budgeted fringe benefits spending in the Preliminary Plan. Fringe benefits spending on retirees in particular, for health and other benefits (excluding pensions), are estimated to be around \$2.7 billion. Departmental comparisons show that DOE leads other agencies in estimated fringe costs overall in Fiscal 2021, followed by the Police Department (NYPD), the Fire Department (FDNY), the Department of Correction (DOC), and the Department of Sanitation (DSNY).

Top Agencies by Projected Fringe Costs as of January 2020 (Excluding Pensions)

Department	FY21 Fringe Costs
	<i>Dollars in Millions</i>
Education	\$4,781
Police	2,471
Fire	821
Correction	747
Sanitation	481

Pensions

The bulk of the City's pension contributions fund five actuarial pensions – the New York City Employees' Retirement System, the Teachers' Retirement System, the New York City Board of Education Retirement System, the New York City Police Pension Fund, and the New York City Fire Pension Fund. The City also contributes to a handful of non-city retirement systems, including the Cultural Institutions Retirement System and the Teachers' Insurance and Annuity Association.

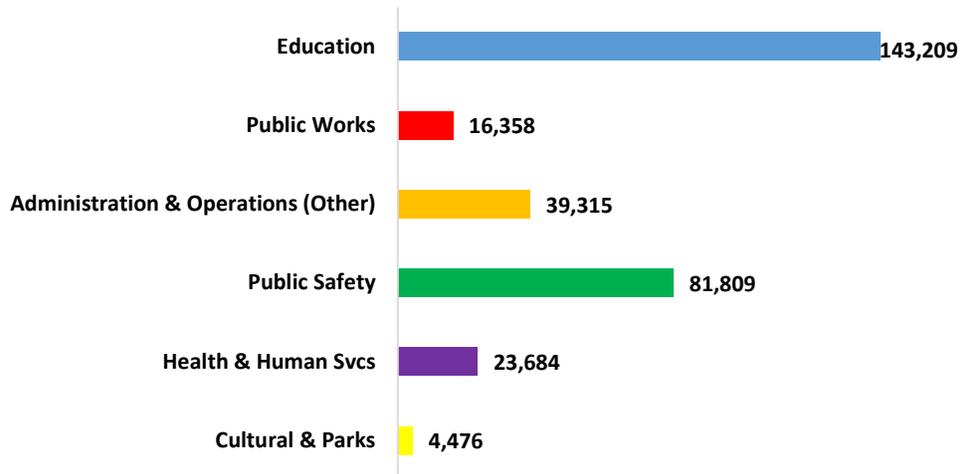
Total pension spending will reach \$9.9 billion in Fiscal 2021, accounting for 10.4 percent of the City's budget and 19 percent of the PS budget. Since the November Plan, which increased pension expenses by \$2 million in Fiscal 2020 and reduced them by \$17 million in Fiscal 2021, the Preliminary Budget shows further savings for this year and next. Contributions to the five major retirement systems have been reduced by \$134 million in Fiscal 2020 and by \$174 million in Fiscal 2021. This includes a reduction of \$125 million annually reflecting actuarial methods being changed at the Board of Education Retirement System. Expenses for the Police and Fire pension systems will increase by a combined \$10 million annually, reflecting the cost of certain benefit increases following State legislative actions. Following returns of 8.7 percent in Fiscal 2018 and 7.2 percent in Fiscal 2019, combined returns for the current fiscal year average just 4.1 percent.

Pension expenses reflect the various boards of trustees’ decisions to adopt new sets of actuarial assumptions and methods recommended by the Chief Actuary in Fiscal 2019. These assumptions and methods relate primarily to demographics, including assumptions about mortality, probability of termination, and use of overtime. Should further actuarial assumption changes be necessary in the coming years, the Preliminary Plan includes a pension reserve of \$200 million in Fiscal 2022, rising to \$275 million starting in Fiscal 2023, to pay for such costs.

Citywide Budgeted Headcount

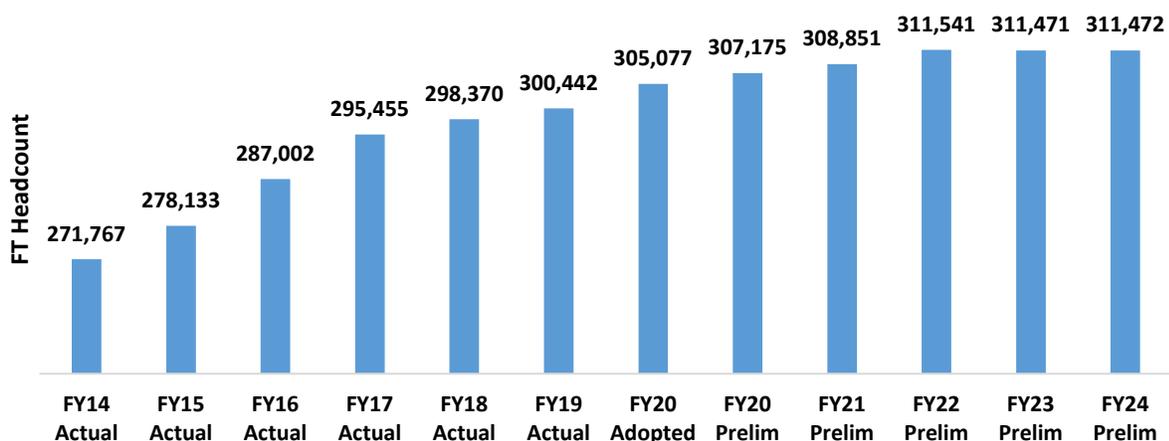
The Fiscal 2021 Preliminary Budget includes 308,851 full-time (FT) positions and 27,327 full-time equivalent (FTE) positions. Of these, 83 percent of FT positions and 91 percent of FTE positions are City-funded. Education and Public Safety workers make up 72.9 percent of the City’s workforce, as shown in the chart above. Since Fiscal 2014, FT headcount has increased by 37,084 positions, or 13.6 percent, while FTE headcount has increased by 1,745 positions, or 6.8 percent.

Fiscal 2021 FT Budgeted Headcount



Full-time budgeted headcount for Fiscal 2021 is 1,676 positions larger than the FT budgeted headcount for Fiscal 2020, primarily attributed to increases in headcount across multiple City agencies to comply with the State legislative changes to bail and discovery practice in criminal cases. Furthermore, the Fiscal 2021 Preliminary Budget increases FT budgeted headcount by 2,621 positions by Fiscal 2024, primarily due to headcount increases for special education within DOE. Please refer to the graph below for information on the growth of FT headcount since Fiscal 2014.

**Full-Time Headcount
FY14-24**



Headcount Changes in the November Plan

The Fiscal 2021 budgeted headcount has grown by 2,745 positions since adoption of the Fiscal 2020 budget. The November 2019 Financial Plan added a net total of 758 positions in Fiscal 2021, including 1,358 positions added in new needs and 600 positions eliminated in other adjustments. The Preliminary Plan added a net total of 202 positions in Fiscal 2021, including 47 positions added in new needs and 155 positions added in other adjustments.

Total Headcount Changes since Adoption of the Fiscal 2020 Budget					
Type of HC Change	FY20	FY21	FY22	FY23	FY24
New Needs	1,352	1,405	1,404	1,397	1,397
Other Adjustments	161	(445)	(442)	(445)	(445)
Total	1,513	960	962	952	952

The November Plan added 1,023 positions in new needs for Fiscal 2020, and 1,024 for Fiscal 2021, across several City agencies to comply with changes to bail and discovery laws, with \$75.3 million allocated in Fiscal 2020 and \$70.5 million allocated in Fiscal 2021 to finance these new positions. Of the 1,023 positions added beginning in Fiscal 2020, 729 of these positions were baselined across the City’s District Attorney’s Offices and the Office of Special Narcotics. Additionally, the November Plan included a baselined reduction of 840 uniformed positions at DOC for the closure of the Brooklyn House of Detention (BKDC) and Eric M. Taylor Center (EMTC) jail facilities through attrition.

In the Preliminary Plan, the Civilian Complaint Review Board (CCRB) baselines 17 new needs positions beginning in Fiscal 2021 due to revisions to the New York City Charter made after the voter referendum held during the November 2019 general election. Additionally, the Department of Buildings (DOB) baselines 12 positions beginning in Fiscal 2020 to provide for additional building inspectors for citywide facades inspections. A complete list of headcount by agency can be found in the appendix “Budgeted Headcount” on page 27.

Citywide Vacancies

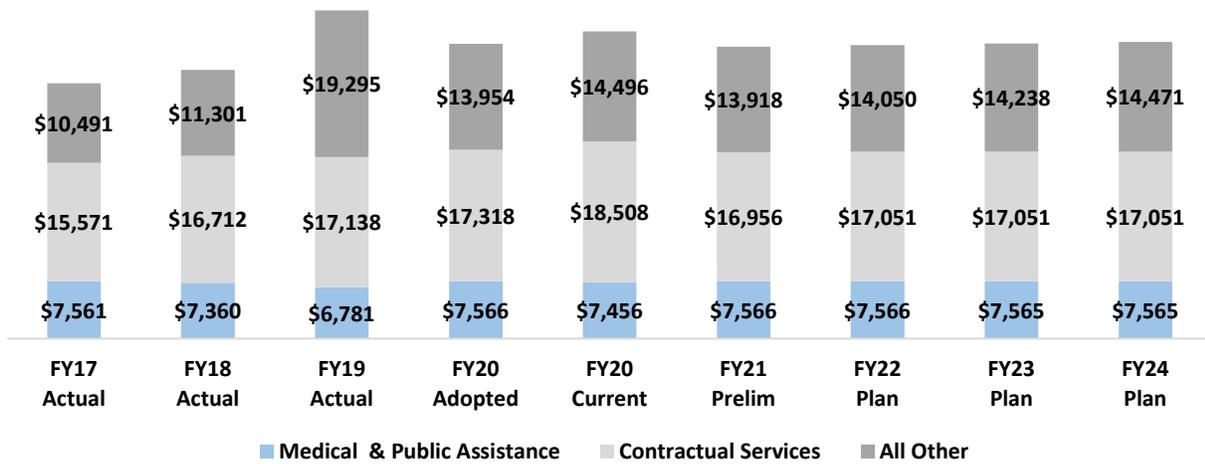
As of November 2019, the City has a total vacancy rate of just 1.6 percent, with 5,016 vacant FT positions, of which 3,080 positions are City-funded. The vacancy rate is stable and is comparable to the rate of 1.8 percent at this time last year. The rate is tracked in order to identify both management issues and potential savings. However, should these positions remain vacant for the remainder of the fiscal year, it could generate over \$100 million in savings, even though City-funded vacancies are low. As a point of reference, over 1,200 vacant positions were eliminated citywide as part of the Program to Eliminate the Gap (PEG) introduced in the Fiscal 2020 Executive Plan. These reductions generated annual savings of \$91 million.

OTPS Spending

The Fiscal 2021 OTPS Preliminary Budget totals \$38.4 billion, representing almost 40 percent of the City’s entire Fiscal 2021 budget. The Fiscal 2021 OTPS budget is marginally smaller than the Fiscal 2020 OTPS current budget, however, not all contractual spending planned for Fiscal 2021 and in the outyears is reflected in the Plan. The OTPS budget is relatively flat over the five-year plan, but it declines as a share of the overall expense budget because of the increase in PS spending.

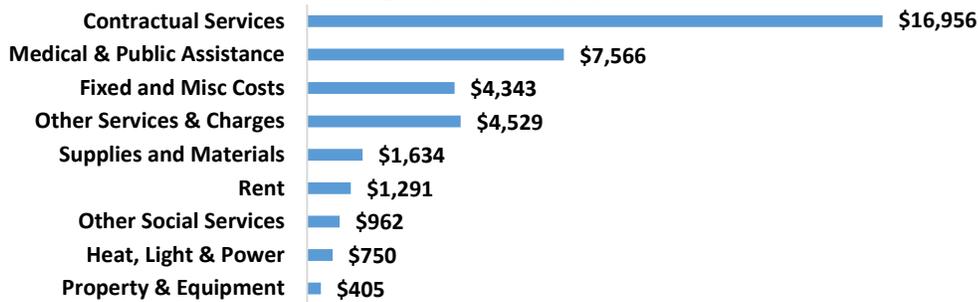
OTPS Spending is Flat Across the Preliminary Plan

Dollars in Millions



Fiscal 2021 OTPS Breakdown

Dollars in Millions



For Fiscal 2021, contractual services accounts for \$16.9 billion, or 44 percent, of all OTPS spending proposed for Fiscal 2021. Fixed and miscellaneous costs of \$4.3 billion include various payments and subsidies for City and

non-City government institutions and other civic partnerships, including the Metropolitan Transit Authority (MTA), New York City Housing Authority (NYCHA), H+H, cultural institutions, libraries, and federal Section 8 programs. The \$5.9 billion Medical Assistance cost is comprised almost entirely of direct payments from the City to the State for Medicaid. Other direct operating costs include heat, light and power; rent; supplies and materials; property and equipment; and other services and charges, comprising 18.7 percent of the OTPS budget. Lastly, the OTPS budget includes \$1.6 billion for public assistance grants.

Contract Budget

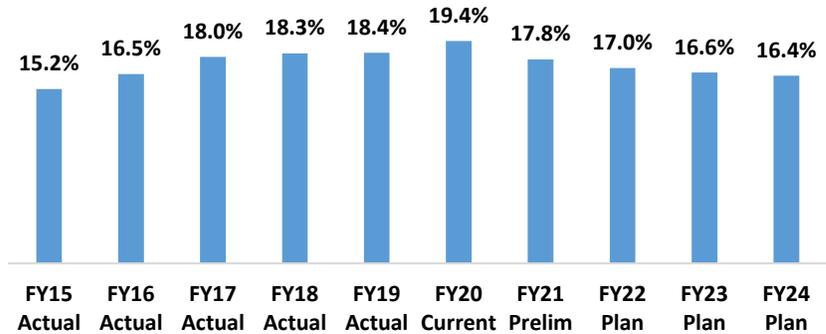
The contract budget is a subset of the City’s OTPS budget and represents the outsourcing of the delivery of public services such as education, child care, and employment training, as well as contractual services used to support the operation of the City government, such as information technology services, cleaning, and legal services. The Fiscal 2021 Preliminary Contract Budget totals \$16.9 billion, representing 17.8 percent of the City’s total budget.

Since the Fiscal 2020 budget was adopted, the contract budget for Fiscal 2020 has increased by roughly \$1.2 billion to \$18.5 billion. The increase is largely attributed to the recognition of federal and State grants, in addition to various technical adjustments in the contract budget across the agencies.

Since Fiscal 2015, actual contract spending has increased from 15 percent of actual total expense spending to more than 18 percent, with the largest jumps occurring between Fiscal 2015 and Fiscal 2017. Some of the more significant increases are for Hurricane Sandy-related housing recovery, charter schools, homeless shelters, and the creation of the New York City School Support Services to provide school custodial services. The contract budget is expected to increase over the Preliminary Plan as some contractual costs are reviewed and re-estimated on a year-to-year basis.

Five agencies account for the majority of the City’s total contract budget for Fiscal 2021, providing either health and human services or public education, demonstrating the City’s reliance on outsourcing to deliver these services to the public. The five agencies that house the largest contract budgets are the DOE, the Department of Homeless Services (DHS), the Administration for Children Services (ACS), the Department of Health and Mental Hygiene (DOHMH), and the Department of Social Services (DSS)/Human Resources Administration (HRA). Collectively their contract budgets equals 77 percent of the total contract budget.

Contract Expenses as a Share of Citywide Total Expenses



Contract Spending by Agency

Dollars in Millions



Financial Plan Actions since Adoption

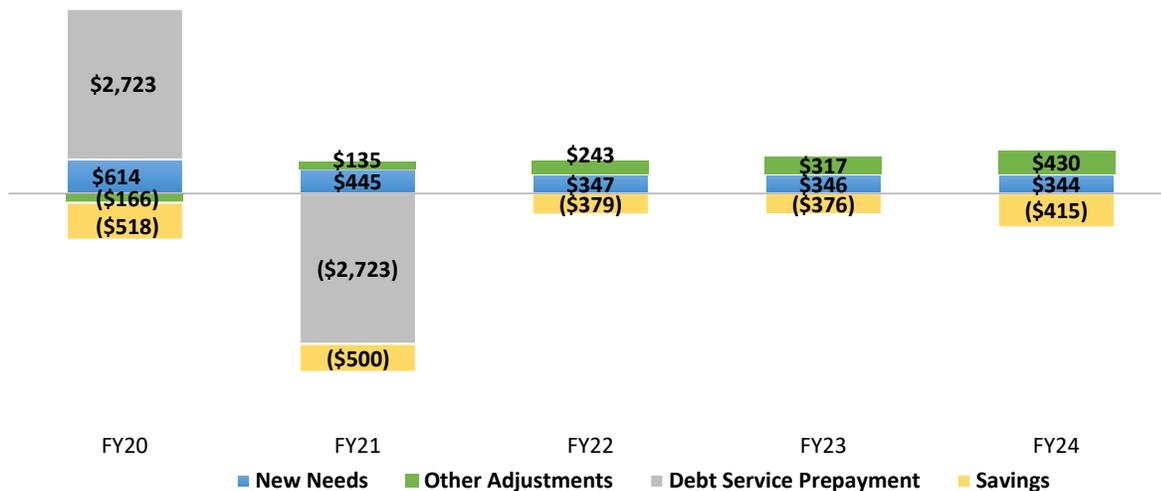
Since the adoption of the Fiscal 2020 budget, the November 2019 and Preliminary Plans introduced \$614.3 million in new needs for Fiscal 2020, offset by reduced spending of \$165.6 million due to other adjustments and \$518.3 million in expense savings. In Fiscal 2021, new needs total \$445.4 million

while other adjustments add \$134.8 million and \$500.1 million in expense savings. Additionally, \$2.7 billion in anticipated Fiscal 2020 budget surplus will be used to pre-pay Fiscal 2021 debt service expenditures to close the budget gap. The largest new need across the five years of the Preliminary Plan are a \$150 million adjustment to the DOE’s budget in Fiscal 2020 for Carter Cases and an additional \$106 million in Fair Fares funding in HRA’s budget in Fiscal 2021.

The Preliminary Plan introduces \$380.2 million in new needs for the current year and \$148.2 million in new needs for Fiscal 2021, with new needs declining to \$39.7 million in Fiscal 2024, for a total of \$652.9 million in new needs across the Plan. Savings total \$258.6 million for Fiscal 2021 with savings over the five years of the Preliminary Plan totaling roughly \$1.3 billion. Other adjustments in the Preliminary Plan reflect a decrease of \$1.2 billion in Fiscal 2020 and a decrease of \$31.9 million in Fiscal 2021. Note that savings are categorized as other adjustments.

Financial Plan Actions Since Fiscal 2020 Budget Adoption

Dollars in Millions



Other notable adjustments in the Preliminary Plan include the drawdown of both the General Reserve and the Capital Stabilization Reserve. The Fiscal 2020 General Reserve, which provides financial protection in the event of an economic downturn, has been drawn down by \$850 million in the Preliminary Plan to \$300 million. It should be noted that reserves are typically drawn down over the course of the fiscal year as it becomes clearer that they will not need to be used in the current period. The General Reserve is baselined at \$1 billion throughout the Preliminary Plan. Similarly, the Capital Stabilization Reserve has been drawn down by \$250 million in Fiscal 2020, and there is \$250 million budgeted annually between Fiscal 2021 through 2024. A complete list of all new needs can be found in the appendix “New Needs” on page 29.

Significant New Needs

Fiscal 2021 Preliminary Plan

- Fair Fares.** The Preliminary Plan includes \$106 million in Fiscal 2021 to HRA for the Fair Fares Program. This amount is the same as what was added in prior years for the program. Notably, the actual expenditures in Fiscal 2019 and Fiscal 2020 were significantly less than the

budgeted amounts because the program was limited to a small pool of individuals (recipients of cash assistance or Supplemental Nutrition Assistance Program benefits, and certain NYCHA residents, CUNY students, and student veterans). At the end of 2019, approximately 100,000 individuals were enrolled in the program. As of January 27, 2020, the program has expanded to all City residents who meet the eligibility criteria and it is expected that enrollment levels will significantly increase.

- **Department of Environmental Protection (DEP).** DEP has a variety of new needs that amount to \$52 million in Fiscal 2020 and \$35.3 million in Fiscal 2021 and in the outyears. The Preliminary Plan includes \$25 million in Fiscal 2020 and \$35 million in Fiscal 2021 and in the outyears for agency PS shortfalls as DEP realigned its spending forecast for PS costs to support shift differential, holiday pay, and overtime needs of daily operations. DEP also received approximately \$16.8 million for Fiscal 2020 for the Build It Back program. This program was created in the wake of Superstorm Sandy, and offers services such as construction, reimbursements, rental assistance, or acquisition of homes on behalf of City residents impacted by the hurricane. Finally, the Fiscal 2021 Preliminary Plan includes \$9.95 million related to retroactive, collective bargaining payment for sewage treatment workers.
- **Build It Back Funding.** The Department of Design and Construction (DDC) received approximately \$17.6 million for Fiscal 2020 for the Build It Back program. While the funding introduced in this financial plan is new, the enhancement serves as an adjustment to meet current year spending forecasts, rather than implementing a lasting new need for future financial plans.

November 2019 Plan

- **Criminal Justice Reform.** The adopted State budget for 2019-2020 included transformative criminal justice changes. Changes to discovery practice and new limits on the use of bail took effect in January 2020. However, this legislation was passed without State funding, and, as such, City investments made to support the implementation of the State criminal justice reforms were included as new needs in the November Plan. These include approximately \$75.3 million in PS and OTPS funding, and approximately 1,023 in additional baselined headcount across seven different City agencies including: the District Attorneys (DA's) and Special Narcotics Prosecutor (SNP), the NYPD, the Law Department, FDNY, DOHMH, the Mayor's Office on Criminal Justice (MOCJ), and the public defense providers.
- **Indirect Cost Rate.** As a part of the Fiscal 2020 Adopted Budget agreement, the Administration agreed to fund indirect rate increases for human service contracts. The November Plan added \$54 million across twelve agencies in Fiscal 2020 and in the outyears for this initiative. The amounts were derived by analyzing existing contracts for each agency within the Health and Human Services (HHS) Accelerator platform.
- **Pay Parity – Legal Services.** The November 2019 Plan included \$7.3 million for pay parity across the Public Defense Provider contracts that are managed by MOCJ and HRA's Office of Civil Justice (OCJ), with \$3.69 million and \$3.7 million for each Office's contracts respectively. Although the Council fought for parity for all attorneys, the adjustment only impacted those with zero to four years of experience working on City baselined contracts; attorneys with zero to four years of experience working on State and City Council contracts are not included in these adjustments. As of February, 2020, the providers' contracts have yet to be amended to reflect the salary adjustments.

Other Adjustments

Fiscal 2021 Preliminary Plan

- **Collective Bargaining.** As noted earlier in this report, the City made several collective bargaining adjustments with various unions. For more information on these adjustments and the impact on the budget, please see the full write-up on page 15.
- **Pension Re-Estimates.** As noted earlier in this report, the City made changes in actuarial methods, most notably a \$125 million annual reduction related to the Board of Education Retirement System. For more information on these adjustments and the impact on the budget, please see the full write-up on page 16.

November 2019 Plan

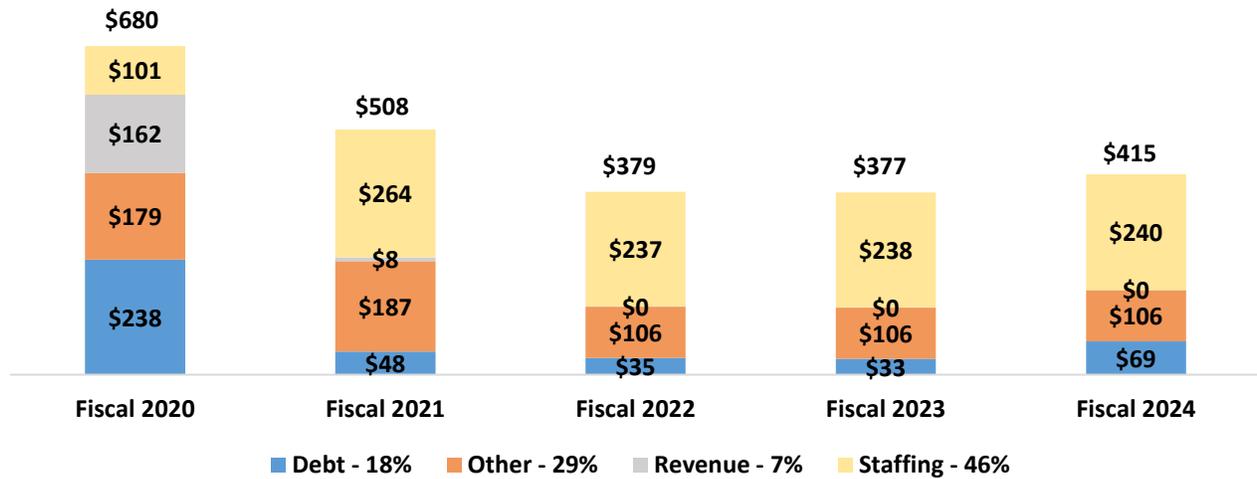
- **State and Federal Funding.** Most of the other adjustments in Fiscal 2020 are primarily recognizing additional federal, State, and Community Development Block Grant revenue. The funding from these sources collectively total \$1.1 billion and comprise 80 percent of all November 2019 Plan adjustments. Agencies routinely acknowledge certain non-City revenue on a year-by-year basis in the November Plan. Some noteworthy items included \$50 million in asset forfeiture revenue in Fiscal 2021 and 2022 for supervised release expansion, \$207.1 million to the Department of Housing Perseveration and Department (HPD) for NYCHA and other repairs to meet building standards, and \$104.8 million for DOE for code violation removal, school kitchen renovations, accessibility improvements, and environmental health.
- **Pay Parity – Early Childhood.** The 2019 November Plan included \$19.2 million in Fiscal 2020 growing to \$56.6 million in Fiscal 2023 for pay parity for early childhood teachers with bachelors and master’s degrees. Approximately 315 certified pre-kindergarten teachers saw phased-in wage increase beginning in October 2019, with parity for first year UFT teacher salaries achieved by October 2021. Non-certified early education teachers and support staff will also see increases in compensation. District Council 1707, Local 205, and non-union teachers will receive a 2.75 percent salary increase beginning on October 1st, 2020. Approximately 900 non-certified pre-kindergarten teachers and 3,000 support staff such as janitors and cooks also received a \$1,800 bonus, and a two percent wage increase in fiscal 2020 growing to 2.25 percent by Fiscal 2023. Approximately 2,650 Certified Head Start and Early Head Start program staff will see parity with DOE first-year teachers over three years at a cost of \$7 million. Non-certified Head Start teachers and support staff will receive a \$1000 ratification bonus.

Citywide Savings Program

The Preliminary Plan includes a Citywide Savings Program that introduces a mix of efficiency savings, cost and revenue re-estimates, and debt service prepayments. The Preliminary Plan introduces \$1.3 billion in savings over Fiscal 2020 to Fiscal 2024. When combined with the November 2019 Financial Plan Citywide Savings Program, the Fiscal 2021 Savings Plan totals \$2.4 billion across the same five-year period. Last year, the Mayor announced the first PEG of his Administration at the Fiscal 2020 Executive Plan. Under this PEG, all City agencies were required to identify a savings target that must collectively add up to \$750 million. There was not a PEG introduced in this Preliminary Plan, and it remains unclear if a PEG will be introduced for this fiscal year.

Fiscal 2021 Citywide Savings Program by Savings Type

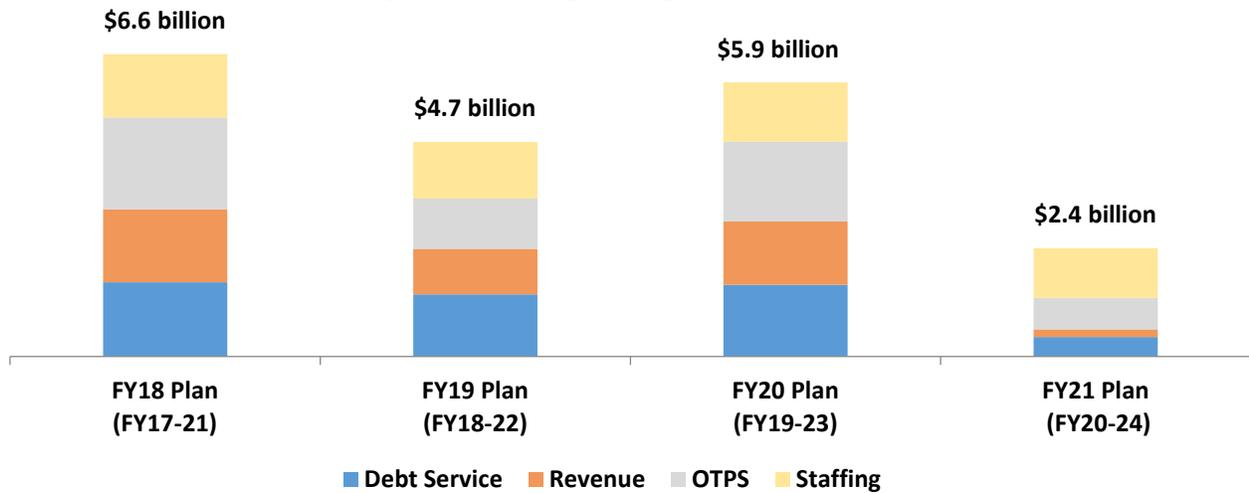
Dollars in Millions



In the November 2019 and Preliminary Financial Plans, almost half, or 46 percent, of the Citywide Savings Program came from staffing. Staffing savings were generated through PS accruals, hiring delays, staffing efficiencies, and the closure of BKDC and EMTC jail facilities. OTPS savings comprise approximately 29 percent of the savings and reductions in planned debt service payments comprises 19 percent of the savings. The remaining seven percent of savings came from additional revenues at the agency level.

The Fiscal 2021 Citywide Savings Program establishes savings that are concentrated in the first fiscal year of the program similar to previous savings programs, with 28.9 percent of savings booked in Fiscal 2020. This is primarily due to the significant amount of debt service-related savings in Fiscal 2020, as well as increased revenue projections. It is typical for the Citywide Savings Program to have greater savings in the current year, as OMB becomes more confident of year-end surplus estimates. To date, the Fiscal 2021 Citywide Savings Program is 40 percent the size of the Fiscal 2020 program, which totaled \$5.9 billion at adoption. In comparison, the Fiscal 2019 Citywide Savings Program totaled \$4.7 billion over five fiscal years (2018-2022). As in the previous four fiscal years, an additional Citywide Savings Program is expected with the release of the Fiscal 2021 Executive Plan. The Executive Plan would require a Citywide Savings Program of approximately \$3.5 billion over the five-year period in order to match the size of last year’s program.

Citywide Savings Programs FY18-FY21



The \$2.4 billion in savings in the Fiscal 2021 program to date represents a reduction in City funds spending of just over 0.5 percent over the five-year plan – despite rising City fund contributions to over \$76 billion by Fiscal 2024. In comparison, the Fiscal 2020 program reduced City funds spending by 1.6 percent, the Fiscal 2019 program reduced City funds spending by 1.4 percent, and the Fiscal 2018 program reduced City funds by spending by just under two percent. In addition to agency savings, the Administration implements citywide initiatives to achieve further savings across all agencies. Below are two sections detailing significant agency savings, along with new citywide initiatives.

Significant Savings

Fiscal 2021 Preliminary Plan

- Retiree Health Re-Estimates.** Additional savings will result from fewer City employees retiring than anticipated, thus reducing spending on retiree health insurance by \$50 million in both Fiscal 2020 and 2021. However, the City anticipates spending more on health insurance for active employees and retirees in the outyears of the Plan as a result of updating actuarial methods involving health care cost trends. This will result in additional contributions of \$82 million in Fiscal 2022, \$189 million in Fiscal 2023, and \$282 million in Fiscal 2024, all of which is reflected in the miscellaneous budget.
- Debt Service Savings.** The Preliminary Plan shows debt service savings totaling \$129.2 million for Fiscal 2020, with additional savings in the outyears. Debt service savings for Fiscal 2020 are derived primarily from re-estimates of debt service costs related to the City’s variable-rate bonds and the retention of state building aid revenues by the Transitional Finance Authority (TFA). This is on top of the \$109.2 million in savings for Fiscal 2020 in the November Plan.
- Medicaid Reimbursement.** The Preliminary Plan recognizes \$100 million in savings as one-time revenue to the City as a result of a reconciliation on Medicaid with the State for State Fiscal Year 2017 and State Fiscal Year 2018. The revenue relates to federal savings, passed down by the State and owed to the City, under the Affordable Care Act, which offers an enhanced federal portion for Medicaid expansion costs to childless adults.
- DOE Savings.** The Preliminary Plan recognizes two significant savings for DOE related to staffing efficiencies and professional development trainings.

- DOE will claim a total of \$39 million in baseline savings by increasing the use of the Absent Teacher Reserve (ATR) pool instead of contracting out replacements and by reducing food service headcount through attrition as negotiated through the collective bargaining process.
- DOE will see \$31 million in baselined savings beginning in Fiscal 2021 associated with a reduction in professional development training. The professional development savings are tied to underutilized and repetitive professional development courses, not a reduction of access to professional development opportunities for staff.

November 2019 Plan

- **Jail Closures.** DOC intends to close BKDC and EMTC as a part of the City's plan to close Rikers Island and replace the City's correctional system with four smaller, borough-based jails. The November Plan acknowledged savings of \$22 million in Fiscal 2020, growing to \$69.8 million for Fiscal 2021 and in the outyears. Additionally, the November Plan reflects a baseline headcount reduction of 840 uniform positions, which will be achieved through attrition.
- **DOE Savings.** DOE included \$20.9 million in savings in the current year, which it expected to grow to baselined savings of \$79.5 million beginning in Fiscal 2021, from the ATR Severance program, contracted professional development reductions, underspending, strengthened procurement controls, elimination of hold harmless allocations, and food contract efficiencies.
- **Debt Service Savings.** The November Plan shows debt service savings totaling \$109.2 million for Fiscal 2020, with additional savings in the outyears.

All of the saving initiatives introduced in the November 2019 and Fiscal 2021 Preliminary Financial Plans are listed in the appendix "Citywide Savings Program: Savings by Agency" on page 31.

New Citywide Initiatives

The Fiscal 2021 Citywide Savings Program includes three Citywide Initiatives, which aim to generate savings across agencies through improvements in operating efficiency. Two initiatives were introduced in the November Plan, with an additional initiative added in the Preliminary Plan. When first recognized in the financial plan, the savings estimates associated with these initiatives are targets. As City agencies develop savings implementation plans in consultation with OMB, more definitive savings estimates are moved into agency budgets. Of the \$2.4 billion in savings reflected in the November Plan and the Preliminary Plan, \$7.4 million, or less than one percent, are from Citywide Initiatives:⁶

- **Agency Phone Plan Review II.** The Department of Information Technology & Telecommunication (DoITT) will review phone plans to ensure competitiveness, improve billing, and upgrade technology. Expected savings are \$5.8 million between Fiscal 2020 and Fiscal 2024.
- **Contract Auditing.** The Department of Citywide Administrative Services (DCAS) will review vendor charges for citywide contracts and recoup overpayments. While this action is listed as an official Citywide Savings Initiatives, the Preliminary Plan does not have an expected savings

⁶ In addition, the Preliminary Plan introduces savings of \$55.5 million related to procurement for Fiscal 2021 through Fiscal 2024 annually. This procurement savings, which is a perennial component of the budget, is more accurately labeled a "takedown" of the inflation reserve.

value attached to this assessment. The Council expects an estimate in the Fiscal 2021 Executive Plan in April.

- **Fleet Size Reduction Salvage Revenue.** The City is anticipating savings through additional salvage revenue associated with the Fleet Size reduction announced in Executive Order No. 41. Expected savings are \$1.6 million between Fiscal 2020 and Fiscal 2021.

The Financial Plan started to implement Citywide Savings Initiatives in Fiscal 2018. A complete list of all Citywide Savings Initiatives and the estimated savings can be found in the appendix “Citywide Savings Initiatives” on page 30.

Conclusion

The changes introduced in the Preliminary Plan are modest. Over the next several weeks, the Council will thoroughly examine the programmatic impact of this Plan and will issue recommendations in anticipation of the Executive Budget through the Council’s Fiscal 2021 Preliminary Budget Response. There are notable risks from the State and the Trump Administration which will need to be addressed prior to adoption, such as Medicaid expenditures and education programming. Additionally, the Administration’s lack of a Program to Eliminate the Gap leaves this budget with a tepid Citywide Savings Program.

The table below shows the projected budget and gap this year and for the next five years. The Preliminary Plan closed a \$3.52 billion gap since adoption of the Fiscal 2020 budget. Any revisions in the Fiscal 2021 Executive Budget will need to ensure there is no gap for Fiscal 2021. The Finance Committee looks forward to an engaging budgetary process in the collective mission shared by the Administration and the Council to prepare a budget that represents all New Yorkers.

Fiscal 2021 Preliminary Plan					
<i>Dollars in Billions</i>					
	FY20	FY21	FY22	FY23	FY24
Overall Budget	\$95.42	\$95.29	\$100.08	\$102.77	\$104.49
Gap	-	-	(\$2.43)	(\$2.69)	(\$2.66)

Appendices

Budgeted Headcount

Full Time Budgeted Headcount (All Funds)			
Agency Number	Agency	Fiscal 2020	Fiscal 2021
002	Mayoralty	1,356	1,320
003	Board of Elections	517	517
004	Campaign Finance Board	121	103
008	Office of the Actuary	46	46
010	BP - Manhattan	56	56
011	BP - Bronx	69	69
012	BP - Brooklyn	67	67
013	BP - Queens	54	54
014	BP - Staten Island	45	45
015	Comptroller	791	791
017	Office of Emergency Management	215	67
021	Tax	50	50
025	Law	1,916	1,914
030	City Planning	359	362
032	Investigation	408	391
040	Department of Education - Peds	122,004	123,968
040	Department of Education - Civilian	12,724	12,854
042	C.U.N.Y. - Peds	4,441	4,441
042	C.U.N.Y. - Civilian	1,946	1,946
054	Civilian Complaint Review Board	212	229
056	Police - Civilian	16,040	15,798
056	Police - Uniform	36,201	36,201
057	Fire - Civilian	6,394	6,631
057	Fire - Uniform	10,952	10,951
063	Department of Veterans' Services	49	49
068	Admin. for Children's Svces	7,167	7,424
069	Department of Social Services	14,577	14,591
071	Department of Homeless Services	2,383	2,219
072	Correction - Civilian	2,028	2,027
072	Correction - Uniform	8,949	8,949
073	Board of Correction	38	38
101	Public Advocate	54	54
102	City Council	463	329
103	City Clerk	70	70
125	Aging	323	323
126	Cultural Affairs	55	55
127	FISA	447	443
131	Payroll Administration	164	161
132	Independent Budget Office	38	38
133	Equal Employment Practices	14	14
134	Civil Service Commission	8	8

Agency Number	Agency	Fiscal 2020	Fiscal 2021
136	Landmarks Preservation	76	77
156	Taxi & Limousine	597	597
226	Human Rights Commission	160	160
260	Youth & Community Development	574	564
312	Conflicts of Interest Board	26	26
313	Collective Bargaining	17	17
499	Community Boards	157	157
781	Probation	1,244	1,214
801	SBS	324	301
806	HPD	2,576	2,526
810	Buildings	1,877	1,867
816	Health and Mental Hygiene	5,830	5,827
820	OATH	313	313
826	Environmental Protection	6,176	6,246
827	Sanitation - Civilian	2,241	2,237
827	Sanitation - Uniform	7,842	7,808
829	Business Integrity Commission	92	91
836	Finance	2,147	2,147
841	Transportation	5,560	5,529
846	Parks & Recreation	4,507	4,421
850	Design & Construction	1,555	1,555
856	Citywide Administrative Services	2,578	2,566
858	DoITT	1,826	1,891
860	DORIS	65	64
866	Consumer Affairs	435	433
901	DA - New York	1,185	1,185
902	DA - Bronx	1,064	1,064
903	DA - Brooklyn	1,097	1,094
904	DA - Queens	730	723
905	DA - Staten Island	207	202
906	Special Narcotics	239	239
941	PA - New York	13	13
942	PA - Bronx	8	8
943	PA - Brooklyn	13	13
944	PA - Queens	8	8
945	PA - Staten Island	5	5
	Total	307,175	308,851

New Needs

November & Preliminary Plan - New Needs - All Funds					
<i>Dollars in Thousands</i>					
Agency	FY20	FY21	FY22	FY23	FY24
Department of Education	\$219,699	\$5,961	\$5,961	\$5,961	\$5,961
Dept. of Environmental Protection	69,053	39,111	39,111	38,761	38,761
Miscellaneous	39,429	77,411	77,467	77,560	75,760
Police Department	38,391	33,541	33,296	33,323	33,323
Department of Sanitation	25,010	812	677	699	699
Law Department	22,555	1,701	1,701	1,701	1,701
Department of Transportation	21,688	55,153	64,017	65,025	65,025
Department of Small Business Services	19,559	822	1,422	1,122	622
Department of Design & Construction	19,083	0	0	0	0
Dept. of Health & Mental Hygiene	16,779	27,151	26,092	25,572	25,572
Department of Homeless Services	14,451	14,451	14,451	14,451	14,451
Department of Finance	12,227	2,500	2,500	2,500	2,500
Department of Social Services	11,954	116,405	10,405	10,405	10,405
Manhattan District Attorney	10,668	10,668	10,668	10,668	10,668
Admin.for Children's Services	9,163	9,163	9,163	9,163	9,163
Department of Citywide Administrative Services	9,150	0	0	0	0
Housing Preservation & Development	8,404	979	979	979	979
Brooklyn District Attorney	7,351	7,351	7,351	7,351	7,351
Queens District Attorney	7,033	6,833	6,833	6,833	6,833
Bronx District Attorney	6,345	6,345	6,345	6,345	6,345
Department for the Aging	5,525	7,133	6,883	6,883	6,883
Dept. of Youth & Community Development	3,739	3,739	3,739	3,739	3,739
Fire Department	3,562	2,650	2,520	2,410	2,410
Staten Island District Attorney	2,872	2,682	2,662	2,657	2,657
Mayoralty	2,752	4,660	4,660	4,660	4,660
Office of the Comptroller	2,624	0	0	0	0
Office of Prosecution - Special Narcotics	1,587	1,508	1,305	1,305	1,305
Dept. of Parks & Recreation	1,133	1,803	1,803	1,803	1,803
Department of Buildings	932	860	860	860	860
Department of Veterans' Services	662	1,260	1,324	1,110	1,110
Department of Consumer Affairs	463	1,514	1,562	1,059	1,059
Civilian Complaint Review Board	250	976	976	726	726
Dept. of Information Technology, & Telecommunications	120	240	240	240	240
City University	100	0	0	0	0
TOTAL	\$614,316	\$445,383	\$346,971	\$345,870	\$343,570

Citywide Savings Initiatives

Citywide Savings Initiatives, \$000s								
Plan Year	Savings Title	FY18	FY19	FY20	FY21	FY22	FY23	FY24
FY18	Fleet Optimization	(\$10,000)	(\$13,000)	(\$11,000)	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)
FY18	Skilled Trades Overtime	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
FY18	Civilian Overtime Cap Waivers	(4,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
FY18	Space Management	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
FY18	Reverse Auctions	(1,700)	(5,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
FY18	Paper Check Reform	(1,000)	(2,000)	(3,000)	(4,000)	(4,000)	(4,000)	(4,000)
FY18	Printing Reform	(1,000)	(1,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
FY18	Procurement Reform	0	(20,000)	(30,000)	(40,000)	(40,000)	(40,000)	(40,000)
FY18	Enhanced Space Management	0	(10,000)	(15,000)	(20,000)	(20,000)	(20,000)	(20,000)
FY18	Redeploy	0	(2,000)	(5,000)	(10,000)	(10,000)	(10,000)	(10,000)
FY18	Centralized Skilled Trade Pool	0	0	(5,000)	(10,000)	(10,000)	(10,000)	(10,000)
FY19	Fleet Legal Coordination	0	(4,800)	(4,800)	(4,800)	(4,800)	(4,800)	(4,800)
FY19	Electric Vehicles	0	(1,938)	(2,263)	(2,589)	(2,914)	(2,914)	(2,914)
FY19	Agency Phone Plan Review	0	(1,575)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
FY19	Enterprise Print Management	0	(1,227)	(3,000)	(5,000)	(10,000)	(10,000)	(10,000)
FY19	Standardize Travel Policies	0	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
FY19	Auto Service Workers	0	(686)	(686)	(945)	(945)	(945)	(945)
FY19	Energy Load Management	0	(553)	(1,092)	(2,463)	(4,667)	(4,667)	(4,667)
FY19	Paper Reduction	0	(250)	(800)	(3,000)	(4,500)	(4,500)	(4,500)
FY20	Auto Service Workers II	0	0	(1,414)	(2,814)	(4,621)	(6,369)	(6,369)
FY20	Consolidating Consultant Contracts	0	0	0	(500)	(500)	(500)	(500)
FY20	Lease Auditing	0	(2,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
FY21	Agency Phone Plan Review II	0	0	(848)	(1,100)	(1,254)	(1,305)	(1,305)
FY21	Contract Auditing	0	0	0	0	0	0	0
FY21	Fleet Size Reduction Salvage Revenue	0	0	(806)	(806)	0	0	0
TOTAL		(\$30,700)	(\$88,029)	(\$125,209)	(\$155,517)	(\$165,701)	(\$167,500)	(\$167,500)

Citywide Savings Program: Savings by Agency

November & Preliminary Plans Citywide Savings					
<i>Dollars in Thousands</i>					
Agency/Savings Category	FY20	FY21	FY22	FY23	FY24
Administration for Children's Services	(\$30,768)	(\$12,650)	(\$2,650)	(\$2,650)	(\$2,650)
Business Integrity Commission	(246)	(149)	(149)	(149)	(149)
City University	(3,000)	(6,000)	(6,000)	(6,000)	(6,000)
Conflicts of Interest Board	(41)	(54)	0	0	0
Department for the Aging	(2,500)	(2,000)	(2,000)	(2,000)	(2,000)
Department of Buildings	(6,000)	(4,000)	0	0	0
Department of City Planning	(675)	(412)	0	0	0
Department of Citywide Administrative Services	(5,681)	(7,408)	0	0	0
Department of Consumer Affairs	(600)	(250)	0	0	0
Department of Correction	(32,000)	(79,800)	(69,800)	(69,800)	(69,800)
Department of Cultural Affairs	(246)	(3,096)	0	0	0
Department of Design and Construction	(1,230)	(366)	(366)	(366)	(366)
Department of Education	(28,800)	(171,750)	(171,750)	(171,750)	(171,750)
Department of Emergency Management	(1,262)	(206)	0	0	0
Department of Environmental Protection	(1,212)	(1,018)	(100)	(100)	(100)
Department of Health and Mental Hygiene	(17,304)	(2,191)	(2,691)	(2,691)	(2,691)
Department of Housing Preservation and Development	(71)	(71)	(71)	(71)	(71)
Department of Information Technology and Telecommunications	(8,940)	(5,901)	(2,789)	(2,489)	(2,489)
Department of Parks and Recreation	(14,126)	(5,000)	0	0	0
Department of Probation	(2,309)	(2,522)	0	0	0
Department of Sanitation	(36,915)	0	0	0	0
Department of Small Business Services	(1,628)	(1,244)	0	0	0
Department of Social Services	(108,000)	(2,000)	(2,000)	(2,000)	(2,000)
Department of Transportation	(5,713)	(2,658)	(885)	(818)	(815)
Department of Youth and Community Development	(6,000)	(3,000)	(3,000)	(3,000)	(3,000)
Financial Information Services Agency	(195)	0	0	0	0
Fire Department	(11,602)	(8,080)	(3,000)	(3,000)	(3,000)
Landmarks Preservation Commission	(230)	(230)	(230)	(230)	(230)
Law Department	(15,958)	(84)	0	0	0
Mayorality - Mayor's Office of Contract Services	(858)	0	0	0	0
Mayorality - Office of Labor Relations	(478)	(434)	(107)	(107)	(107)
Mayorality - Office of Management and Budget	(90)	(90)	0	0	0
Mayorality - Office of the Mayor	(1,272)	0	0	0	0
Office of Payroll Administration	(131)	(120)	0	0	0
Police Department	(35,800)	(10,000)	0	0	0
Citywide Initiatives	(1,654)	(1,906)	(1,254)	(1,305)	(1,305)
Debt Service	(238,404)	(48,304)	(35,339)	(31,578)	(69,328)
Miscellaneous	(58,315)	(69,543)	(20,295)	(21,163)	(22,072)
Procurement Savings	0	(55,519)	(55,519)	(55,519)	(55,519)
TOTAL	(\$680,252)	(\$508,056)	(\$379,628)	(\$376,420)	(\$415,075)