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**The Council of the City of New York**

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Report to the Committee on Finance on the Fiscal Year 2016 Executive Budget

# The New York City Budget Structure and the Ten-Year Capital Strategy

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## INTRODUCTION

On May 7, 2015, Mayor de Blasio released a $78.3 billion Fiscal 2016 Executive Budget. Characterized as "progressive, responsible, and honest" by the Mayor, the Budget proposes significant spending increases for government programs for the most vulnerable New Yorkers: the homeless, public housing residents, low-wage workers and those suffering from mental illness. Support for education grows with continued expansion of Universal Pre-Kindergarten, more afterschool programs for middle schoolers, a major budget increase for Renewal schools, and investments in the Science, Technology, Engineering and Math (STEM) Program at City University of New York (CUNY). Economic development initiatives include business support from the Department of Small Business Services and round-the-clock ferry service for Staten Island. In total, the Executive Budget proposes $716.7 million in City-funded new spending on agency programs.

In Fiscal 2015, City funds (City tax and non-tax revenue) in the May Financial Plan are an estimated $57.2 billion, up by approximately $1 billion compared to the Fiscal 2016 Preliminary Plan. The higher revenue projections are largely due to higher than expected collections from the personal income tax and the property transaction taxes – namely the real property transfer tax and mortgage recording tax. In the outyears, City funds and total revenues are expected to grow at a healthy annual average of 3.4 percent in Fiscal 2017 and 2.6 percent in Fiscal 2018, with tax revenue and state aid driving growth. The Council's forecast reports higher anticipated tax revenues than Office of Management and Budget's (OMB) projections, predominantly in the outyears.

With most labor settlements reached – notable exceptions being most uniformed unions – the Fiscal 2016 Executive Budget presents a more accurate estimate of baseline agency costs. The budget funds the Mayor's priority initiatives while also attempting targeted spending reductions.

The Executive Budget recognizes a new feature, the Citywide Savings Program, which outlines plans to reduce City spending by $589 million in Fiscal 2015 and $465.5 million in Fiscal 2016. To develop the program, OMB asked all agencies to identify efficiencies, alternative funding sources and programmatic changes that would yield budgetary savings without reducing service levels. The program identifies City agency spending reductions of $318.5 million this year and $218.7 million in Fiscal 2016. Additional savings are found in debt service, which drops by $240.5 million in Fiscal 2015 and $159.2 million in Fiscal 2016, the miscellaneous budget, with savings of $30 million and $32.2 million, and, beginning in Fiscal 2016, $55.5 million in scheduled across-the-board procurement savings. Over the five-year Plan, the savings program expects to secure $2.9 billion in savings. With personnel spending right-sized, programmatic priorities funded, and an effort to eliminate unnecessary expenditures the Fiscal 2016 Executive Budget begins to be more accurate, especially when the revised revenue projections are also considered.

Given the City's healthy fiscal state, it is appropriate to take advantage of the existing prosperity and save for future downturns. The Mayor's Budget sets aside reserves to ensure sustainability and resiliency in the future. To sustain core operations and newly introduced programs, the Budget leaves $1 billion in reserves in each year of the Financial Plan. Further stability is provided by a boost of the Retirees Health Benefits Trust Fund to

$2.6 billion. Finally, a new reserve is set up for Fiscal 2016, through which the Mayor proposes setting aside $500 million to support the City's capital program. Proposing the largest ever Ten-Year Capital Strategy and a $6.3 billion increase to the City's 2015-2019 Capital Commitment Plan, the Administration plans to ensure that the vital operations of the City are supported by its capital infrastructure.

The Mayor's proposals support a vision for New York based on progressive ideals within a guarded framework that both launches new initiatives and prepares for economic downturns. On May 18th, the City Council will begin its public hearings on the Mayor's budget proposals with a hearing of the Committee on Finance on "The New York City Budget Structure and the Ten-Year Capital Strategy."

This is a different start for hearings on the Executive Budget. It allows an examination of some big questions about the expense and revenue budget proposals. What is opening budget gaps? How should they be closed? Is this affordable? Can it handle a recession? It allows similar questions about the Ten-Year Capital Strategy. Does it meet the needs of a city with a growing population and record levels of employment? Does it address issues of inequality? What about the special problems of the environment and climate change?

Over the next three weeks, the Committee will hold joint hearings on the budgets of major agencies. These hearings will continue the review of the Executive Budget's priorities. It is a chance to get down to that all important level of connecting the budget proposal to specific services.

The Committee will conclude its hearings on June 9th by again talking with the Director of the OMB. This will be a chance to bring into focus what the Council has learned over the preceding three weeks. It will also set the stage for negotiations between the Mayor and the Council and, later in June, an Adopted Budget.

## Preliminary Budget and Council Hearings

On February 9, 2015, Mayor de Blasio released the Fiscal 2016 Preliminary Budget, which set forth an agenda that in many ways aligned with the priorities of the City Council. However, it omitted major initiatives and lacked details that the City Council expected to be included in the Financial Plan.

For example, the financial plan details of the Mayor's affordable housing plan, "Housing New York: A Five-Borough, Ten-Year Plan," released on May 5, 2014 were not fully incorporated in the City's Preliminary Ten-Year Capital Strategy. The Plan calls for the construction of 80,000 units of affordable housing and preservation of an additional 120,000 units over the next ten years, which the Council supports generally, but omission of funding details for the affordable housing plan in the Preliminary Ten-Year Capital Strategy made it nearly impossible for the Council to determine the impact of the plan or to assess its progress during the Council's Preliminary Budget hearings.

Similarly, the Preliminary Budget did not include agency efficiencies, the Administration's new effort to identify budgetary savings and improve operational efficiency. In November 2014, in preparation for the Preliminary Budget, the OMB solicited recommendations from agencies that would promote "better management of existing programs to free up funds that can be invested in enhanced services to New Yorkers." However, the process of identifying these agency efficiencies, their savings targets, plans for implementation and monitoring, was not explained. An explanation of how those efficiencies would differ from Programs to Eliminate the Gap (PEGs) was not communicated to the Council prior to the release of the Preliminary Budget.[1] It was not clear to the Council whether efficiencies would be subject to the same level of monitoring and oversight as the PEGs. The Preliminary Budget did not contain any agency efficiencies that may have been identified in response to OMB's November 2014 request, and the Council was informed that any identified agency efficiencies would be included in the Mayor's Executive Budget. This delay hindered the Council's ability to adequately review the agency efficiency program during the regular budget cycle.

The exceptionally preliminary nature of the Preliminary budget was problematic because the Council's hearings on the Preliminary Budget and hearings on the Executive Budget provide the Council with two opportunities to review budget measures prior to budget adoption. This two-step process is necessary to ensure that the Council and the public are able to fully analyze the Administration's proposals and have a voice in the discussion and changes to the City's budget to ensure that all New Yorkers benefit from the City's resources.

Throughout the entire month of March, the Council heard testimony from over 40 agencies and the public. While Council Members acknowledged the good fiscal health of the City's economy, happiness with the end of the budget dance, and better collaboration with the Administration, many Council Members voiced concerns about the continued lack of transparency in the City's budget and the need for long-term budget stabilization.

## The Council Response and the Executive Budget

On April 14, 2015, the Council released its Response to the Mayor's Fiscal 2016 Preliminary Budget, which reflected the priorities of the Council. These recommendations were made with an eye toward "Responsible Prosperity" by calling for a budget that is transparent, progressive, efficient, and equitable, and aims to ensure access, opportunity, and justice for all New Yorkers.

The Mayor incorporated a number of these recommendations in the Fiscal 2016 Executive Budget. They include:

- Increased funding to the Department of Health and Mental Hygiene to prevent overdose deaths;
- Increased funding to improve viral hepatitis surveillance;
- Increased funding to the Human Rights Commission to increase headcount;
- Increased funding for the Anti-Gun violence Initiative;

[1] PEGs are one category of budget changes that are introduced to close a budgetary gap. Since there was no budget gap in Fiscal 2015, and no gap is projected for Fiscal 2016, the Administration stated that it plans to fund new needs and streamline programs by requiring agencies to find budget efficiencies. The PEG process previously used by OMB entailed formal and frequent PEG-monitoring meetings between OMB, the Council, and other fiscal monitors that allowed close scrutiny of PEGs through discourse and information sharing.

- Increased salary and promotional path for Civilian Complaint Review Board investigators;
- Funding to increase the number of runaway and homeless youth beds;
- Baseline funding for Priority 5 vouchers;
- Restoration of CUNY Prep;
- Increased funding to support additional worker cooperatives; and
- Baseline funding to elimination of school lunch fees in most middle schools.

While the Mayor's Executive Budget reflects these priorities, and contains many progressive initiatives, the journey to Responsible Prosperity, via transparency in the City's budget, continues.

One key area of transparency revolves around units of appropriation (U/As). The Executive Budget contains four new U/As which the Administration committed to create last year, personal services (PS) and other than personal services (OTPS) U/As for Universal Pre-Kindergarten and PS and OTPS U/As for Early Intervention in the Department of Health and Mental Hygiene. It also included and PS and OTPS U/As for the Mayor's Office of Contract Services within the Mayoralty, additions that were not included on the Council's priority list. However, ambiguous and broad U/As, which the Council proposed changing in the Preliminary Budget Response, remain in the Executive Budget. The Appendix lists the U/As and budget reporting improvements recommended by the Council.

The Ten-Year Capital Strategy provides a greater level of detail than did the Preliminary Strategy; however, details regarding implementation of the projects proposed in the Strategy, including timeline, project management staff, and existing infrastructure to facilitate such a plan, are unclear.

## BALANCING THE BUDGET

Starting with balanced budgets for Fiscal 2015 and 2016 in the Financial Plan, the Executive 2015 Financial Plan recognizes new revenues and agency savings offset by increased spending and a bolstering of what are effectively reserve funds. This allows the May 2015 Financial Plan to maintain balanced budgets in Fiscal 2015 and 2016, as required by law.

While balance is maintained in the near term, changes in the Executive 2015 Financial Plan result in slightly larger outyear gaps, though they remain modest and of the size that have been easy to close in a healthy economy.

**Fiscal 2016 Executive Financial Plan Summary**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 | Avg. Annual Change |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Taxes | $51,053 | $52,028 | $53,782 | $55,649 | $57,675 | 3.1% |
| Misc. Revenues | 8,188 | 6,560 | 6,715 | 6,815 | 6,875 | (4.3%) |
| Less: Intra-City and Disallowances | (2,018) | (1,806) | (1,809) | (1,820) | (1,815) | (2.6%) |
| **Subtotal, City Funds** | **$57,223** | **$56,782** | **$58,688** | **$60,644** | **$62,735** | **2.3%** |
| State Aid | 12,569 | 12,993 | 13,364 | 13,771 | 14,102 | 2.9% |
| Federal Aid | 8,412 | 7,127 | 6,832 | 6,401 | 6,300 | (7.0%) |
| Other Categorical Grants | 888 | 831 | 839 | 844 | 841 | (1.4%) |
| Capital Funds (IFA) | 559 | 575 | 546 | 548 | 548 | (0.5%) |
| **TOTAL REVENUES** | **$79,651** | **$78,308** | **$80,269** | **$82,208** | **$84,526** | **1.5%** |
| **EXPENDITURES** | | | | | | |
| Personal Services | 41,747 | 43,157 | 43,731 | 45,650 | 48,049 | 3.6% |
| OTPS | 32,971 | 31,945 | 32,084 | 32,157 | 32,451 | (0.4%) |
| Debt Service | 5,954 | 6,637 | 6,820 | 7,173 | 7,707 | 6.7% |
| General Reserve | 50 | 1,000 | 1,000 | 1,000 | 1,000 | |
| Capital Stabilization Reserve | | 500 | | | | |
| Less: Intra-City | (2,003) | (1,791) | (1,794) | (1,805) | (1,800) | (2.6%) |
| **Spending Before Adjustments** | 78,719 | 81,448 | $81,841 | $84,175 | $87,407 | 2.7% |
| Debt Defeasances | (99) | (103) | | | | |
| Surplus Roll Adjustment (Net) | 1,031 | (3,037) | | | | |
| **TOTAL EXPENDITURES** | **$79,651** | **$78,308** | **$81,841** | **$84,175** | **$87,407** | **2.4%** |
| **Gap to be Closed** | **$-** | **$-** | **($1,572)** | **($1,967)** | **($2,881)** | |

***Source:*** *OMB Fiscal 2016 Executive Financial Plan*

## Fiscal 2015 Changes

The Executive Financial Plan recognizes additional revenue of $625 million from taxes and $350 million from fees, fines, sales and other miscellaneous revenue in Fiscal 2015. Higher tax revenue projections primarily result from stronger than expected personal income and real property transfer taxes. The personal income tax was boosted by employment and wage growth. Real property transfer taxes increased due to higher market values. The sale of city-owned property on East 73rd street ($174 million) and the recognition of asset forfeiture restitution ($81.7 million) make up the bulk of the increase in miscellaneous revenue.

Included in the Executive Plan is a Citywide Savings Program that reduces City spending by over $1 billion in Fiscal 2015 and 2016. Of the total reduction, $400 million comes from debt service savings. The cost savings plan was designed to identify agency efficiencies, but much of the savings result from cost re-estimates and the elimination of budget surpluses. A significant portion of debt service savings results from adjusting interest rate assumptions to better reflect market conditions. The program also recognizes annual citywide procurement savings of $55 million without detailing how it will be realized.

The Executive Plan introduces $509 million in new spending in Fiscal 2015, including a $280 million contribution to the Retiree Health Benefits Trust (RHBT) Fund.

The net effect of changes in the Executive Plan creates a Fiscal 2015 budget surplus of $1.46 billion. The surplus is allocated to the Budget Stabilization Account (BSA) to be used to prepay Fiscal 2016 debt service. Total contributions to the BSA in Fiscal 2015 to date total $3 billion.

## Fiscal 2016 Changes

New City funding in Fiscal 2016 includes $700 million in new agency expenses, $500 million to create a Capital Budget Reserve and an additional $250 million for the General Reserve, bringing its total to $1 billion annually. Funding for the Capital Budget Reserve is only provided in Fiscal 2016.

The Plan changes the schedule of an anticipated taxi medallion sale, reducing projected revenue by $312 million in Fiscal 2016. Also, introduced is a move to eliminate Water Board rental payments to the City, which reduces Water Board rental revenue by $88 million in Fiscal 2016, with rental relief increasing to $197 million by Fiscal 2019.

The increased BSA, Citywide Savings Program, and the recognition of additional tax revenue combine to offset the new spending and reductions in revenue, leaving a balanced budget in Fiscal 2016.

**Closing the Gap**
*Dollars in Millions*

| | FY15 | FY16 |
|---|---|---|
| **Gap Preliminary Financial Plan** | **$0** | **$0** |
| **Opening the Gap** | | |
| Agency Expenses Changes | 201 | 700 |
| Taxi Medallion Sales Revenue Reduction | 26 | 312 |
| Pensions | (31) | 181 |
| Retiree Health Benefits Trust Fund Payment | 280 | 0 |
| Increase General Reserve | 0 | 250 |
| Capital Budget Reserve | 0 | 500 |
| Other Adjustments | 2 | 180 |
| **Increased Gap** | **$478** | **$2,123** |
| **Closing the Gap** | | |
| Tax Revenue Forecast | 625 | 218 |
| Citywide Cost Savings Program | 589 | 466 |
| Genera Reserve Reduction | 250 | 0 |
| Misc. Revenue | 373 | (20) |
| Other Adjustments | 100 | 0 |
| **Gap Closing Resources** | **$1,937** | **$664** |
| Gap Closing - Gap Opening | 1,459 | (1,459) |
| Increase in FY 2016 Prepayments | (1,459) | 1,459 |
| **Gap Executive Financial Plan** | **$0** | **$0** |

***Source:*** *OMB Fiscal 2016 Executive Financial Plan*

The Fiscal 2016 Executive Budget includes $56.8 billion in City funds[2], a decrease of 0.7 percent in Fiscal 2016 from the prior year. This decline represents a common trend in

[2] Comprising revenue from City taxes, fees, fines, and other non-tax revenue.

executive budgets as revenues such as federal aid and one-time miscellaneous revenues like audit revenue are recognized towards the end of a fiscal year.

## Outyear Changes

In the outyears, the Executive Plan increases annual spending by over $900 million, mostly as a function of additional agency expenses. While this new spending is in part offset by the Citywide Cost Savings program, the City's outyear budget gaps increase when compared to the Preliminary Plan. Projected revenues remain relatively flat from Fiscal 2017 to Fiscal 2019 when compared to the Executive Plan.

The Council's forecast projects tax revenue will surpass OMB projections, with a greater impact in the outyears. Using the Council's tax revenue forecast would eliminate the budget gap in Fiscal 2017 and reduce gaps moving forward. See the Forecast section for a more comprehensive discussion of the Council's tax revenue forecast.

**Impact of Finance Division Forecast**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 | Total |
|---|---|---|---|---|---|---|
| Executive Plan Budget Gap | $0 | $0 | ($1,572) | ($1,967) | ($2,881) | ($6,420) |
| Finance Div. Forecast- Difference in Executive Plan | 98 | 576 | 910 | 802 | 771 | 3,158 |
| Prepayments from Prior Year | | 98 | 675 | 13 | 0 | 0 |
| **Surplus or Deficit** | **$98** | **$675** | **$13** | **($1,153)** | **($2,110)** | **($3,262)** |

***Source:*** *Council Finance Division, OMB Fiscal 2016 Executive Financial Plan*

# RISKS

## The Federal Government

With the State budget complete there is little risk to expected state aid. However, current conditions in Washington, DC bring major risks to federal categorical grants which represent roughly nine percent of revenues in the Fiscal 2016 Executive Budget.

The persistent dysfunction of the federal budget process creates instability that could impact critical funding streams. The Highway Trust Fund is expected to run out of funds this summer, which would negatively impact the City's Capital Budget for highways and bridges, as well as the Metropolitan Transportation Authority (MTA). The federal debt limit has repeatedly produced shocks as difficulties in raising the limit have resulted in sequestration, and instability in the financial markets. If repeated these outcome can produce an impact on blow to the City's budget by increasing the City's borrowing costs and hurting a significant employment and revenue source.

Even with a functional federal government, the current composition of Congress and its push to cut the federal budget poses a risk to the City's budget. On May 5, 2015 Congress passed a budget resolution for the first time since 2009.[3] While the resolution is not binding, it maintains the caps on discretionary spending established by the Budget Control

[3] Wall Street Journal, May 5, 2015, http://www.wsj.com/articles/senate-passes-budget-agreement-1430863263

Act of 2011 and modified in 2013. Most federal categorical grants in the City budget come from this part of the federal budget. Though the Executive Branch does not support the level of cuts proposed by Congress, the risk of cuts in a compromised budget remains.

## Economic Risks

There's a risk that the national economy, which undergirds local conditions, may unexpectedly sour. The disappointing Gross Domestic Product (GDP) growth in the first quarter was due to more than transient factors, such as the exceptionally severe winter and work stoppages along West Coast ports. The climbing dollar with its impact on exports, reduced investment in energy infrastructure, and cautious consumer spending – despite the energy dividend provided by low oil prices – have already taken their toll and are poised to continue. Slow productivity growth may further constrain wage growth nationally. Federal Reserve Chair Janet Yellen has emphasized a cautious pace in raising short-term interest rates, but their eventual increase may nonetheless stifle economic activity more than anticipated. Anticipation of the Federal Reserve raising the federal funds rate, while Europe and Japan practice monetary expansion, has already caused the dollar to rise in value. The strong dollar is already weakening American exports. It is also putting pressure on emerging economies such as Brazil, Turkey and Russia. If these impacts prove to be greater than expected they could threaten the economic expansion.

If there is a foreseeable constraint to the City's growth, it sits at the intersection of the labor and real estate markets. Rising home prices and rents are already a cause for concern and the City is seeking relief. With the economy improving in other parts of the country, parts of the City's labor force may find opportunities in places with better combinations of wages and housing prices. The timing of the additional supply of office space may not be sufficient to slow the rise of office rents, reinforcing some companies' decisions to relocate elsewhere.

## Recessionary Risks

The Mayor's Fiscal 2016 Executive Budget Summary raised concern about the economy. With pages entitled, "Storm Clouds on the Horizon," "Global Economy Uncertain" and "Economic Shocks", the document attempted to strongly emphasize the risk of recession.

Indeed, recessions are largely inevitable; the question is not whether a recession will occur, but when. The period preceding the 2001 dot-com crash was the longest stretch in US history without a recession and lasted a full decade. Since the most recent recession reached its low point in mid-2009, the economy has been expanding for almost six years, which is about the average length of economic expansions since World War II.[4] New York City-specific economic cycles generally follow national trends; the nine-plus-year expansion preceding 2001 was the longest in contemporary history and the ongoing local expansion has lasted since late 2009.[5]

[4] The National Bureau of Economic Research identifies unofficial, but commonly used, dates referencing the start and end of domestic economic recessions.

[5] Finance Division analysis of the Index of Coincident Economic Indicators, tracked by the Federal Reserve Bank of New York. Accessed from: http://www.newyorkfed.org/research/regional_economy/coincident_summary.html

So while some might argue New York City is due for an economic downturn, a forecast model developed by the Federal Reserve Bank of New York puts the chance of a recession in the next 12 months at four percent. This compares well to the 10 percent monthly average experienced during the two-decade stretch between 1995 and 2014. This low expectation of a recession is backed by another model developed by University of California economist Marcelle Chauvet and maintained by the Federal Reserve Bank of St. Louis (FRBSL), which places the chance of a recession at around 1.2 percent. However, it is exceptionally difficult to forecast recessions particularly more than a year ahead.

Though neither Council Finance nor OMB are forecasting a recession for anytime during the financial plan, the risk does remain and mismanaging that risk can have severe consequences.

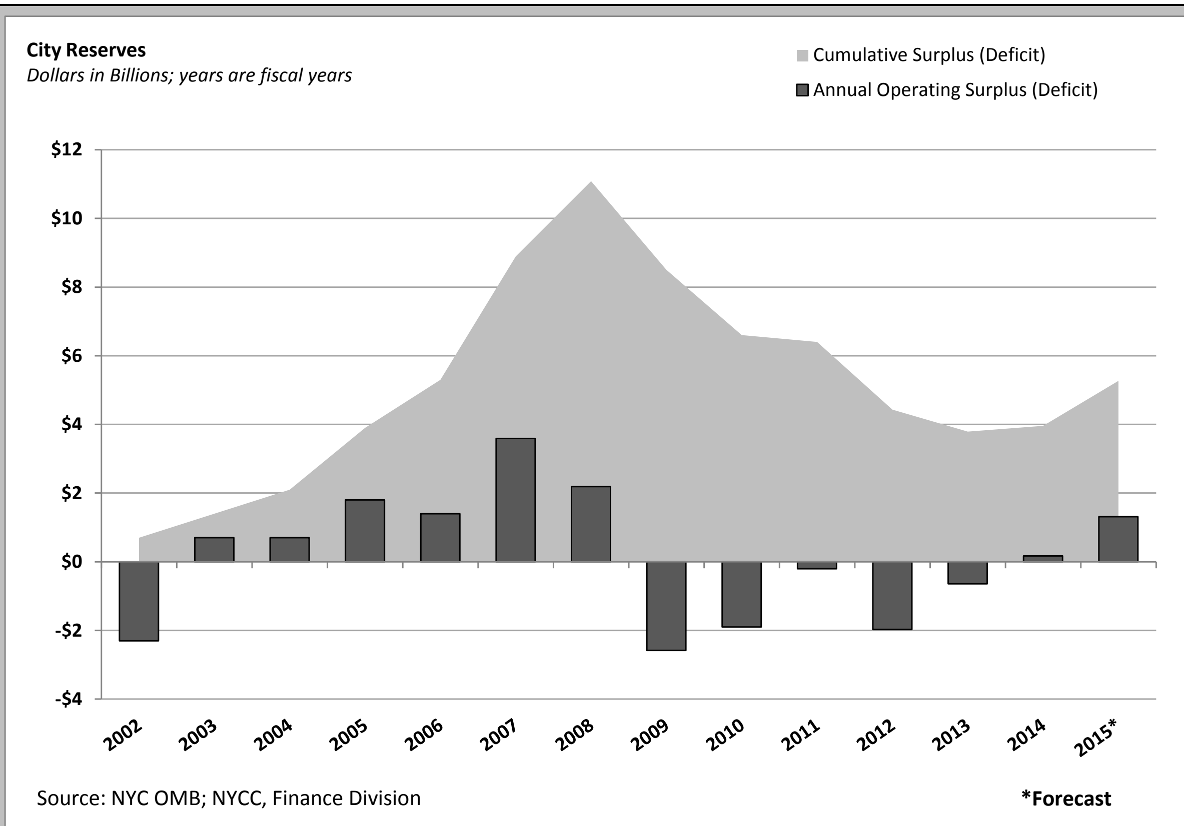
## Managing Risk

The Financial Plan would position the City to boost the savings it accumulates through a pair of techniques – transfers to the RHBT and the pre-payment of debt service – to $5.3 billion. This is good news, but it still falls well short of positioning the City to ride out a significant, unexpected financial downturn without cutting services.

Savings are an important factor beneath the City's long-term financial health, and much of its ability to manage risks to the Financial Plan depends on how well it has prepared for unexpected downturns. In good times the City can use options such as the RHBT and debt pre-payment to save for tougher times. This kind of budgeting was critical in helping the City weather the Recent Recession – between Fiscal 2008 and 2009 the City's tax revenues declined by 7.1 percent and the pension systems incurred large losses, requiring extra contributions from the City. The State simultaneously cut back on aid. However, the set asides from prior years meant the City had $11 billion saved to mitigate the impact of the revenue loss. Between Fiscal 2009 and 2013 more than $7 billion of those savings were used to balance the budget. Even with that massive preparation, the City still had to raise taxes by $2.1 billion and cut services by $3.5 billion to balance the budget during that period.

The City's economy has gained steam, and Fiscal 2015 revenue is expected to exceed spending significantly. The City has again started to put funds aside for the future. The Administration has proposed adding an extra $280 million to the RHBT and increasing pre-payment of debt service by $932 million. The Financial Plan also proposes raising one of these reserve funds, the General Reserve, to $1 billion by Fiscal 2016 and creating a new reserve fund, Capital Stabilization Reserve, at $500 million. [6] If funds in these accounts are not used by the end of the fiscal year, they can be used to prepay expenses for the future, and thereby rolled into future years.

[6] The budget has a number of reserves set aside of specific purposes, the best known of which is the Reserve for Collective Bargaining, set aside to prepare for future agreements with labor. By contrast, the General Reserve and the Capital Stabilization Reserve lack specific, stated purposes.




The operating balance (the dark bars, above) reflects annual surpluses and deficits – revenue minus spending – each year. The Charter requires that the Council adopt a balanced annual budget. But the City has developed tools to save during good times without violating this mandate (e.g. Fiscal 2003 to 2008). Those tools include deposits in the RHBT and pre-payment of debt service. As of Fiscal 2008, the City had saved $11 billion (the shaded area) through these methods. In bad times the City spending exceeds revenue, depleting these savings (e.g. Fiscal 2009 to 2013). The City's economy improved, and Fiscal 2015 revenue is expected to exceed spending significantly; the Administration has therefore proposed adding an extra $280 million to the RHBT and increasing pre-payment of debt service by $932 million.

The Capital Stabilization Reserve is a new account, but it is very similar to a proposal in the Council's Response to the Fiscal 2016 Preliminary Budget. The Council proposed the use of a pay-as-you-go capital spending platform (Paygo Capital) as a budget stabilizer and as a way to help keep down the size of the City's debt. The only difference is that Paygo Capital, in addition to being a budget stabilizer and being used to prepay debt, may also be used in good years to fund capital projects without borrowing. This would reduce the City's debt service in the future.

## TEN-YEAR CAPITAL STRATEGY

The Administration presents its Ten-Year Capital Strategy (the Strategy) as the financial framework for three distinct plans: "One City: Built to Last," which focuses on building with the City's goal of a reducing the City's carbon emissions by 80 percent from 2005 levels by

2050, "Housing New York," which focuses on ending the affordable housing crisis and "One New York," which seeks to address equity and resiliency. It also is a response to a growing city, with record population and employment. The Administration expects continued growth and forecasts the City's population will reach nine million by 2040. The Finance Division also expects continuing growth in the City's economy, though we are concerned that congested infrastructure and rising housing costs may constrain that growth in the long term. A capital strategy that addresses not only the previously mentioned goals but the deferred maintenance of the City's infrastructure as well as the necessary replacement of assets and equipment that have exceeded their useful life in an affordable is vital to the City's future. The main challenge of the Ten-Year Capital Strategy will be the execution of plan of this size and scope within the City's current managerial capabilities.

The Mayor's Ten-Year Capital Strategy for Fiscal Year 2016 through 2025 totals $83.8 billion (City and non-City funds), which is the largest Ten-Year Capital Strategy in the City's history.

**Ten-Year Capital Strategies from Fiscal 2006 through 2016**

**Dollars in Millions**

| Type of Work | FY06-15 | FY08-17 | FY10-19 | FY12-21 | FY14-23 | FY16-25 |
|---|---|---|---|---|---|---|
| **State of Good Repair** | $27,910 | $40,006 | $28,755 | $22,958 | $26,615 | $47,631 |
| **Program Expansion** | 18,189 | 19,606 | 19,124 | 17,719 | 13,568 | 19,647 |
| **Programmatic Replacement** | 16,311 | 24,053 | 13,796 | 13,422 | 13,535 | 16,500 |
| **TOTAL** | **$62,410** | **$83,665** | **$61,675** | **$54,099** | **$53,718** | **$83,778** |

The Executive Ten-Year Capital Strategy is $20.7 billion larger than the average of the last five Ten-Year Capital Strategies going back to Fiscal Year 2006. As shown in the table above, the major area of increase within the Strategy is the State of Good Repair category, which is $18.4 billion greater than the average of the previous five Ten-Year Capital Strategies. The Program Expansion and Programmatic Replacement categories are more in line with historical averages with increases of $2 billion and $277 million respectively.

The State of Good Repair category in the Executive Ten-Year Capital Strategy contains large capital programs such as: the Reconstruction and Rehabilitation of Schools ($16.8 billion); East River and Other Bridge Reconstruction ($7.7 billion); Housing Preservation and Development ($4.2 billion); Reconstruction and Resurfacing of Streets and Highways ($3.7 billion); Resiliency, Energy Efficiency and Sustainability ($2.5 billion); and the Rehabilitation of Hospitals and Health Clinics ($2.4 billion). Due to the adverse effects of chronic deferred maintenance of the City's infrastructure the Administration's renewed commitment to a reasonable state of good repair is very welcome. The Administration's record breaking addition to state of good repair projects is not only timely but absolutely necessary. The City Council recognizes this important first step to a reasonable state of good repair but has concerns that even this record addition may not be enough.

Some of the larger capital programs that fall under the Program Expansion category include: New School Construction ($5.4 billion); New and Special Needs Housing ($4.1 billion); and Neighborhood Revitalization at ($2.3 billion). The third and final category is

Programmatic Replacement which includes various systematic replacement programs such as: the Upgrade of Water Pollution Control Plants ($3.1 billion); Citywide Information Systems and Equipment ($1.8 billion), and Water Main Replacement and Dam Safety Program ($1.8 billion).

Apart from comparisons to Ten-Year Capital Strategies over the past decade, the Executive Ten-Year Capital Strategy is $16.1 billion larger than the Preliminary Ten-Year Capital Strategy released just three months ago. With such a large increase, most City agencies saw an increase to their capital plans. The agencies with the greatest increases from the Preliminary Ten-Year Capital Strategy are shown in the table below:

**Executive Commitment Plan vs. Preliminary Commitment Plan**

**Dollars in Millions**

| Agency | Exec 16-25 | Prel 16-25 | Var 16-25 | Pct Change |
|---|---|---|---|---|
| Transportation | $8,932 | $5,835 | $3,097 | 53% |
| EDP Equipment & Financing | 3,708 | 1,241 | 2,467 | 199% |
| Economic Development | 3,380 | 1,205 | 2,175 | 181% |
| Environmental Protection | 14,688 | 12,791 | 1,897 | 15% |
| Parks | $2,514 | $827 | $1,687 | 204% |

The increases in the above agencies individual capital plans will be discussed in great detail during each of their Executive Budget hearings but some of the priorities that are reflected include: $1.6 billion in road resurfacing and $7.8 billion in bridge rehabilitation; massive equipment purchases to aid in the implementation of One City Built to Last; over $1 billion for neighborhood development; $1.9 billion to protect and properly treat our water supply, and $313 million added to the Parks Department for the reconstruction of the promenade over the FDR.

The City Council recognizes New York City's tremendous infrastructure needs, some of which are detailed in the City's Asset Information Management Systems (AIMS) Report, and the Mayor's Ten-Year Capital Strategy is accordingly ambitious. However, the City Council is concerned that there may be a lack of capacity on the City's part to execute such a large capital plan. City agencies have not previously carried out the volume of work contemplated in the Ten-Year Capital Strategy. The City has averaged $5.7 billion annually in actual City commitments and $7.3 billion in actual All Funds commitments, as shown in the table below.

| Actual Commitments | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | | 2011-14 Avg | |
| *Dollars in Millions* | City | All | City | All | City | All | City | All | City | All |
| DEP | $1,235 | $1,252 | $1,670 | $1,685 | $1,516 | $1,521 | $1,160 | $1,160 | $1,395 | $1,405 |
| DOT | 563 | 600 | 290 | 460 | 672 | 931 | 491 | 684 | 504 | 669 |
| Education and CUNY | 1,011 | 1,845 | 1,332 | 2,551 | 1,330 | 2,394 | 1,113 | 2,134 | 1,197 | 2,231 |
| Housing and EDC | 400 | 533 | 397 | 542 | 580 | 657 | 590 | 694 | 492 | 607 |
| Admin of Justice | 246 | 246 | 221 | 221 | 204 | 210 | 401 | 418 | 268 | 274 |
| All Other | 1,914 | 2,097 | 1,548 | 1,651 | 1,894 | 2,265 | 1,969 | 2,298 | 1,831 | 2,078 |
| **TOTAL** | **$5,369** | **$6,573** | **$5,458** | **$7,110** | **$6,196** | **$7,978** | **$5,724** | **$7,388** | **$5,687** | **$7,262** |

The first four years of the Ten-Year Capital Strategy (Fiscal 2016 through 2019) have planned commitments averaging $9.4 billion in City funds and $10.8 billion in All funds. The resulting annual gaps between actual and planned commitments of $3.7 billion in City funds and $3.5 billion in All funds are cause for concern as each year uncommitted plan amounts will continue to build and infringe upon the City's ability to begin new projects. The potential roll of unused appropriations from Fiscal 2015 will increase the current Ten-Year Capital Strategy by $6.9 billion if historical actual commitment averages hold, thus exacerbating this problem.

| Fiscals 2016 through 2019 of the Ten Year Capital Strategy | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2017 | | 2018 | | 2019 | | 2011-14 Avg | |
| *Dollars in Millions* | City | All | City | All | City | All | City | All | City | All |
| **Type of Work** | | | | | | | | | | |
| DEP | $2,227 | $2,246 | $1,702 | $1,725 | $1,905 | $2,171 | $1,594 | $1,594 | $1,857 | $1,934 |
| DOT | 1,273 | 1,819 | 1,448 | 1,883 | 1,063 | 1,150 | 1,273 | 1,353 | 1,264 | 1,551 |
| Education and CUNY | 2,528 | 2,846 | 2,487 | 2,682 | 2,025 | 2,697 | 2,475 | 2,670 | 2,379 | 2,724 |
| Housing and EDC | 1,475 | 1,494 | 1,353 | 1,397 | 1,070 | 1,114 | 932 | 982 | 1,208 | 1,247 |
| Admin of Justice | 897 | 981 | 649 | 649 | 962 | 963 | 302 | 302 | 703 | 724 |
| All Other | 3,025 | 3,930 | 2,183 | 2,776 | 1,570 | 2,219 | 1,204 | 1,571 | 1,996 | 2,624 |
| **TOTAL** | **$7,925** | **$9,251** | **$6,672** | **$7,504** | **$5,627** | **$6,993** | **$4,913** | **$5,525** | **$6,286** | **$7,319** |

The Council looks forward to partnering with the Administration to ensure that the Ten-Year Capital Strategy is implemented in an efficient and fiscally responsible manner. One way that the Administration is already addressing this is with the creation of the $500 million Capital Stabilization Reserve. The Capital Stabilization Reserve will help speed along new capital projects by taking on non-capitally eligible pre-scoping work and allowing the projects to begin sooner and transition to the capital budget more effectively. The Capital Stabilization Reserve will also serve as a bulwark against a downturn in the economy that would otherwise necessitate a reduction of the Ten-Year Capital Strategy. It is precisely these types of innovative ideas that will make the Ten-Year Capital Strategy successful. The Council is looking forward to hearing more ideas on how best to execute the Ten-Year Capital Strategy moving forward.

## Transparency in the Capital Commitment Plan

The Preliminary Budget hearings focused in part on the fact that the agencies' Capital Commitment Plans scheduled the large majority of their commitments in Fiscal 2015, with the majority of planned commitments concentrated in the first two years of each plan. Not only was this practice unrealistic, it made the plans less transparent. In response to this, OMB has begun working with City agencies to more accurately reflect the timing of capital projects in the Capital Commitment Plan. The Council's Finance Division has been working in conjunction with OMB to ensure that Council-funded capital projects are also represented correctly in the Executive Capital Commitment Plan. The result has been a more even distribution of capital plan dollars across the five years of the Executive Capital Commitment Plan, and, in the process, a more accurate and transparent plan. The Council expects OMB to continue this project so that the adopted Commitment Plan can be a more accurate portrayal of each agency's capital program.

# MANAGING LONG TERM COMMITMENTS

The Administration's ambitious $83.8 billion Ten-Year Capital Strategy raises questions of affordability. Ninety percent or $75.5 billion of the financing would come from the City, with the State and federal governments and other sources funding the rest. The City would use all three of its biggest credit sources – general obligation bonds (GO), Transitional Finance Authority revenue bonds[7] (TFA) and Municipal Water Finance Authority bonds (NYW) – to finance the program.

Financing of this scale is facilitated by the City's strong credit rating. Standard and Poor's (S&P) currently gives TFA and most NYW bonds its highest rating AAA. General obligation bonds carry an AA rating. Ratings by Moody's and Fitch are similar to the Standard and Poor's. Each of the three rating agencies considers a number of factors before giving the City its respective grade. Using Standard & Poor's as an example, these include: the strength of the metropolitan economy, the City's institutional framework, management, liquidity, budget performance, budgetary flexibility, and debt and contingent liabilities. New York City scores well on all of these, with one noteworthy exception: the rating agencies have begun to take note of the City's debt and liabilities. Consider statements made by each agency this spring:

> "Fitch is increasingly concerned about the city's large and growing long-term liability burden. Growth in the budget burden associated with these liabilities would reduce overall financial flexibility and negatively affect the ratings." (Fitch, March 9, 2015)
>
> "High and growing burden from debt service, pension and retiree health care costs is a challenge." (Moody's, March 9, 2015)

[7] The TFA also issues TFA Building Aid Revenue Bonds. These bonds are financed by New York State and are used for school construction. The City has reached its statutory limit for these bonds, and may only issue new ones as old ones are paid off.

> "Very weak debt and contingent liability profile, pressured by significant unfunded pension and OPEB liabilities." (S&P, March 10, 2015)

While the City's credit outlook is stable, the City has substantial liabilities. The City's outstanding debt is expected to be $99.3 billion in Fiscal 2015. Considering that in Fiscal 2014 the unfunded pension liability was $46.6 billion, and the unfunded liability for the future health care costs of retirees was $89.5 billion, the City's total outstanding liabilities are above $200 billion, a substantial amount.

The City's ability to keep these liabilities at a manageable level is critical to its ability to make the capital investments needed to accommodate past and future growth.

## Financing and Debt Service

The Fiscal 2016 Executive Budget estimates $34.7 billion in long-term borrowing between Fiscal 2015 and 2019 to pay for the Five Year Capital Plan. Considering all financing sources of the City, outstanding liabilities currently total approximately round $99.3 billion.

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

**Summary of Fiscal 2016 Capital Financing Plan**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|
| **Financing Plan** | | | | | |
| General Obligation Bonds | $800 | $2,300 | $3,070 | $3,350 | $3,490 |
| Transitional Finance Authority Bonds(1) | 2,890 | 2,300 | 3,070 | 3,350 | 3,490 |
| Water Authority Bonds | 1,186 | 1,333 | 1,314 | 1,383 | 1,353 |
| **Total** | **$4,876** | **$5,933** | **$7,454** | **$8,083** | **$8,333** |
| **Debt Outstanding** | | | | | |
| GO Bonds | $40,378 | $40,424 | $41,189 | $42,223 | $43,404 |
| TFA Bonds(1) | 26,434 | 28,038 | 30,237 | 32,659 | 34,889 |
| Other Debt(2) | 2,750 | 2,648 | 2,555 | 2,452 | 2,351 |
| **Total** | **$69,562** | **$71,110** | **$73,981** | **$77,334** | **$80,644** |
| Water Authority Bonds | $29,752 | $30,755 | $31,778 | $32,854 | $33,873 |
| **Debt Financing Burden (excludes Water Debt)** | | | | | |
| Debt Outstanding/NYC Personal Income | 13.30% | 13.20% | 13.20% | 13.20% | 13.30% |

***Source:*** *Fiscal 2016 Executive Budget, Message of the Mayor*

1) TFA Bonds do not include BARBs.

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

The City's debt issuance remains below the City's constitutional debt limit of $81.4 billion, and by the City Comptroller's projections, the debt limit should grow sufficiently to accommodate the capital financing plan.[8] The City's bonds continue to be well received by the markets and thus highly rated.

The City's ability to service the debt issued for its capital plan is strong, which is expected from an issuer with highly rated bonds. Under the Executive Plan, the City expects to service nearly $34.7 billion in debt throughout the Financial Plan period (not including water debt).

**Summary of Fiscal 2016 Debt Service Payments**
*Dollars in Millions; Before Prepayments*

| | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|
| **Debt Service** | | | | | |
| GO Bonds | $3,748 | $4,365 | $4,460 | $4,549 | $4,633 |
| TFA Bonds[(1)] | 1,982 | 2,051 | 2,150 | 2,354 | 2,779 |
| Other Debt[(2)] | 298 | 295 | 284 | 351 | 377 |
| **Total** | **$6,028** | **$6,711** | **$6,894** | **$7,254** | **$7,789** |
| **Debt Service Burden** | | | | | |
| Debt Service/Total Revenue | 7.50% | 8.50% | 8.50% | 8.70% | 9.10% |

***Source:*** *Fiscal 2016 Executive Budget, Message of the Mayor*
1) TFA Bonds do not include BARBs.
2) Includes Conduit Debt, HYIC and TSASC.

The citywide savings program includes debt savings of $240.5 million in Fiscal 2015 and $159 million in Fiscal 2016. Most of these savings come from taking advantage of low interest rates to refund bonds, as well as lowering interest payments by adjusting interest rate assumptions to better reflect actual market conditions. The interest rate assumptions are lowered throughout the Financial Plan leading to additional debt service savings in the outyears. Indeed, since adoption of the Fiscal 2015 Budget, planned funding for the City's debt service has been significantly reduced throughout the Financial Plan making for a more accurate accounting of the City's debt service liability. In the current fiscal year, debt service savings totaled $665 million with similar amounts for the outyears.

Also in the Plan, the City's interest support and tax equivalency payments for the Hudson Yards project decrease due to better than expected revenues. The project generates revenue primarily through payments-in-lieu-of-property taxes (PILOT) and the sale of transferable development rights.

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

## Retirement and Pensions

### Pension Contributions

Although pension payments represent a major portion of the budget, accounting for one dollar of every nine the City spends, payments are expected to be largely stable throughout the plan.

[8] New York City Comptroller, Fiscal Year 2014 Annual Report on Debt and Obligations, December 2013.

The City's expected contribution of $8.8 billion to its pension funds in Fiscal 2016 represents a mere 1.6 percent increase from its anticipated payment this year and is on par with payments made in recent history. This stability continues throughout the Financial Plan with payments in Fiscal 2019 at almost the same $8.8 billion as Fiscal 2016.

The annual pension contribution translates to investments made by all five of the City's pension systems. Those investment portfolios then guarantee future retirement payments for municipal workers. The long term returns on those investment portfolios influence the amount the City must pay directly on a year-to-year basis; strong returns on investments ease the pressure on the City's budget, while weak returns leave the City carrying more of the burden directly. On that note, the Fiscal 2016 Preliminary Budget had already recognized the upside of a 17.4 percent return on pension investments last year. This year, stock indices have risen by roughly one-third of that level since mid-2014, suggesting pension returns may experience more modest but still very real gains by the time the fiscal year ends in June. The pension system assumes that the investments will earn an average of seven percent over the long run.

**Other Post-Employment Benefits**

While the City invests to cover the anticipated future cost of retiree pension payments, it pays retiree health care costs on a pay-as-you-go basis. More specifically, it makes annual deposits to the RHBT totaling $2 billion, roughly the amount of money annually withdrawn from the RHBT for retiree health insurance costs. The fund's balance falls far short of preparing to cover the expected future, health-care specific obligations of employees and retirees; that obligation, referred to as the other postemployment benefits (OPEB) liability, totals $89.5 billion. The Financial Plan calls for increasing the City's annual contribution to the trust by an extra $280 million, beginning in Fiscal 2015.

## FORECAST

The City's ability to fund the Financial Plan is based on a largely reasonable forecast of moderate economic growth building on a strong recovery from the Great Recession. The following section outlines how national and local economic forces will impact tax revenues for the City.

### National Economy

The Finance Division remains fundamentally confident in the domestic economic recovery despite a lackluster start to 2015. Yes, the recovery slowed this winter: production, as measured by GDP, tapered off and employment figures for March were disappointing. Broader economic trends, however, continue to expand the economy without major setbacks. The first quarter 2015 data, while unimpressive, track the same three months in 2014 which were also slow but were followed by significant expansion. Analysts suggest 2015 may provide a similar pattern resulting in moderate, if unspectacular, growth.[9]

This pattern may merely match activity for the past few years, but it represents an extension of good news. Analysts see better days ahead, with forecasts that accommodate

[9] IHS Global Insight forecast flash, May.

anticipations of 2.7 percent real GDP growth in 2016 and 2017 and increases in business fixed investment and spending on research and development.[10]

Longer term forecasts envision real growth averaging around 2.4 percent over the coming decades, representing positive territory on average for the foreseeable future. The unemployment rate will continue to fall toward its traditional, full employment level of five percent as employment ticks upward over time. The service sector will gradually represent a larger share of employment growth, with manufacturing taking a back seat in the decades ahead.

Households remain wary enough, six years after the recession ended, to temper any demand for big purchases such as new homes. But some of the big causes of the first quarter slowdown are expected to iron themselves out, leaving room for economic gains in the months ahead.[11] The winter was marked by declining investment in oil rigs, bad weather and interrupted shipping, the latter two of which have turned a corner. Monthly job growth provides another indicator – one less prone to seasonal fluctuations than aggregate production – of economic health, and employment gains have remained relatively smooth for the past four years. Employment this winter had continued the fantastic gains experienced through 2014 until March's addition of just 126,000 new jobs. That drop may prove an anomaly in an otherwise steady increase in domestic employment; April added 223,000 jobs, more in line with recent history.

Economic growth has continued to take swipes at a stubbornly high unemployment rate, good news even as the country's labor resources remain underused. Growth in household spending decelerated this winter but household real income rose, setting the stage for a change in future spending patterns.[12]

At the nexus of the economic trends is a consensus that the economy continues to head in the right direction. Analysts continue to identify variables that will temper growth, but the significant capacity for that growth and the forces poised to support increased household spending have combined to position the domestic economy to make gains in the years ahead.

## City Economy

While New York City's economy is heavily influenced by the national economy, in recent years it has generally outpaced it in terms of growth. March brought the latest example when the U.S. Bureau of Labor Statistics released its annual benchmarking of the City's employment numbers. What had been reported as an additional 86,400 jobs in 2014 compared to 2013, has been upwardly-revised to 120,700 jobs, a three percent increase, which is significant. The gains were broad-based. While lower-paying jobs in leisure, hospitality and retail continued to expand by 31,100, better-paying jobs in professional and business services also grew by 25,300, a huge 3.8 percent increase. Even the struggling securities industry saw gains of 2,300 jobs. Job growth has continued at a good pace during the first quarter of 2015, adding 110,300 positions compared to the same quarter a year

[10] IHS Global Insight. Country Reports – United States, May 12 2015.
[11] IHS Global Insight. 1
[12] Federal Reserve.

ago. The City's once high unemployment rate finally fell to 6.6 percent in March 2015, having been 7.8 percent 12 months earlier.

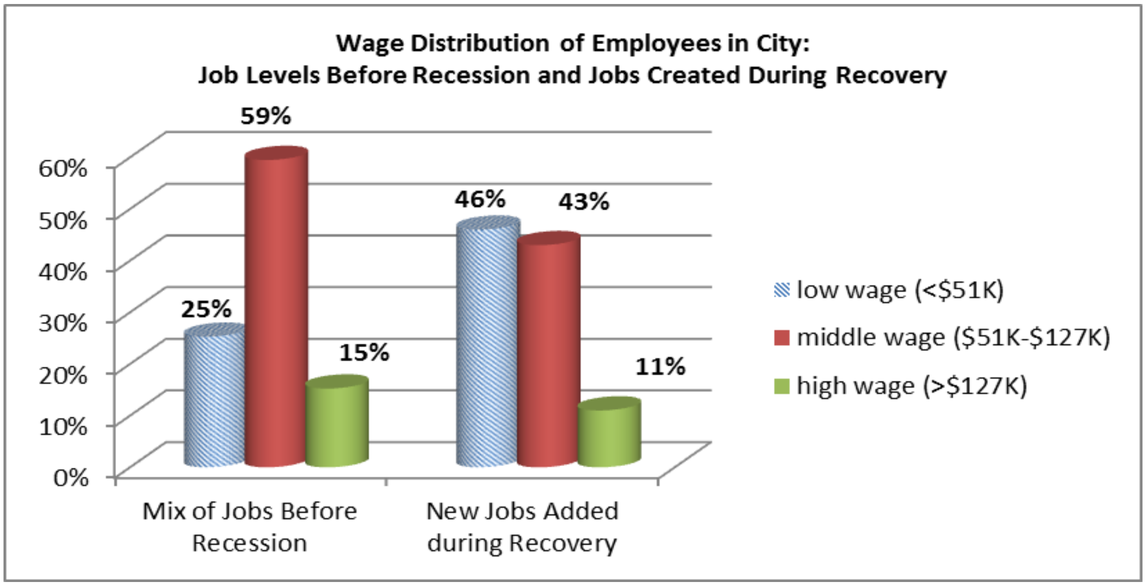
The real estate market tells the same strong story. Construction spending in the City jumped 26 percent in 2014, reaching $36 billion. Residential construction soared 73 percent, increasing for the fourth consecutive year while non-residential construction climbed 20 percent, ending three consecutive years of declines.[13]

The broadest measure of the City's economy is the real gross city product (real GCP) which expanded by a moderate 2.4 percent in 2014. IHS Global Insight forecasts real GCP growth accelerating to 2.7 percent by 2016, followed by a slowdown in the outyears and ending with 2.2 percent in 2019.

This slowdown shows up earlier in other economic indicators and therefore Council Finance projects the City's economy to moderate during the next four years, as it faces local constraints, such as the rising cost of housing and an increasing possibility of a national slowdown. Private sector employment growth is expected to soften to a still decent two percent in 2015 and reach 1.4 percent in 2019. OMB forecasts slower total employment growth of 1.6 percent in 2015, slowing to 1.5 percent in 2016, and reaching 1.1 percent in 2019. Work at the World Trade Center site and Hudson Yards should mean an ample supply of commercial space in the near future.

While broad signs point to a healthy local economy, a closer look shows that this prosperity is not evenly shared. Despite some gains in middle-to-high paying positions during the recovery, the majority of the new jobs in the City tend to be lower paying; especially when compared to the job mix before the last recession. In the third quarter 2008, 25 percent of payroll employment was in sectors paying an average wage of under $51,000 annually,[14] considered by the Federal government as demarcating low income.[15] Between the first quarter 2010 and the first quarter 2015 - the recovery period, 46 percent of the new jobs added were in industries paying less than $51,000 on average. A major challenge facing the City is cultivating the kinds of industries and jobs that support middle-income households.

[13] New York Building Congress, 'Update: NYC Construction Spending Reached $36 Billion in 2014: a 26 Percent Increase from 2013,' April 30, 2015.
[14] In 2015 dollars.
[15] $50,960 in 2015 is 80 percent of the Area Medium Income (AMI) of the New York metropolitan area, used by the U.S. Department of Housing and Urban Development to demarcate low income.




**Source:** NYS Department of Labor and U.S. Bureau of Labor Statistics.
**Note:** Low wage is defined by H.U.D.as 80 percent of the area medium income (AMI) of the NYC MSA. Middle wage is between 80 and 200 percent of AMI. High wage is over 200 percent of AMI.

While wage growth during the recovery has been unsensational, last year the average private sector wage soared over 6.7 percent, driven largely by Wall Street salaries and bonuses. Excluding the atypical securities industry, the average private sector wage still climbed 3.6 percent. Wage growth is expected to soften in 2015 to 1.5 percent, reflecting both reduced bonus growth and a decreasing share of the high-paying securities industry in the overall employment mix. Excluding the securities industry, the average wage will grow by at least 1.8 percent in 2015. The average wage is expected to rebound to 3.5 percent in 2016, and then soften to above three percent in the outyears. OMB's forecast is similar, but trends more smoothly upwards. Their total average wage (private and public) grows by two percent in 2015 and gradually strengthens to 3.3 percent by 2019.

| Forecast of Selected Economic Indicators: National and New York City, CY2014-2019 | | | | | | |
|---|---|---|---|---|---|---|
| | **CY14** | **CY15** | **CY16** | **CY17** | **CY18** | **CY19** |
| **NATIONAL ECONOMY** | | | | | | |
| **Real GDP %** | **2.4** | **2.3** | **2.9** | **2.8** | **2.6** | **2.6** |
| **Private Employment** | | | | | | |
| Level Change, '000 | 2,621 | 2,801 | 2,095 | 1,865 | 1,285 | 1,043 |
| Percent Change, % | 2.3 | 2.4 | 1.7 | 1.5 | 1.0 | 0.8 |
| **Unemployment Rate, %** | **6.2** | **5.4** | **5.1** | **5.0** | **5.1** | **5.2** |
| **Total Wages %** | **2.0** | **2.6** | **2.5** | **2.7** | **2.8** | **2.9** |
| **Interest rates %** | | | | | | |
| 3-Month Treasury Bill | 0.03 | 0.20 | 1.18 | 2.84 | 3.51 | 3.51 |
| 30-Year Conventional Mortgage Fixed | 4.17 | 3.87 | 4.70 | 5.48 | 5.89 | 5.89 |
| **NEW YORK CITY ECONOMY** | | | | | | |
| **Real GCP %** | **2.4** | **2.6** | **2.7** | **2.1** | **1.7** | **2.2** |
| **Private Employment** | | | | | | |
| Level Change, '000 | 120.2 | 70.2 | 58.4 | 58.7 | 52.9 | 54.9 |
| Percent Change, % | 3.5 | 2.0 | 1.6 | 1.6 | 1.4 | 1.4 |
| **Average Private Wages %** | **6.7** | **1.5** | **3.5** | **3.3** | **3.1** | **3.3** |
| **Total Private Wages %** | **10.2** | **4.5** | **5.6** | **4.8** | **3.8** | **4.1** |
| **NYSE Member Firms %** | | | | | | |
| Total Revenue | 1.4 | -0.5 | 4.9 | 6.2 | 4.1 | 3.9 |
| Total Compensation | 3.2 | 3.7 | 6.5 | 7.3 | 6.1 | 6.0 |

***Source:*** *IHS Global Insight, May 2015 (Nat'l); New York City Council - Finance Division (City)*

## Taxes

Council Finance expects the City to have collected $51.2 billion in local tax revenue by the end of Fiscal 2015, a 5.9 percent increase from last year. Furthermore, Council Finance expects a 2.8 percent growth in total tax revenue for Fiscal 2016, for a total of $52.6 billion.

The predicted increase in total tax revenue in Fiscal 2015 would bring the City's tax revenue growth to an average of 6.6 percent over the last five years, a clear indicator of New York City's economic recovery. After unusual peak growth in 2013, the City's tax revenue growth rates have been decelerating, but remain healthy. The forecast's projects' slower outyear tax revenue growth of 3.4 percent, on average, from Fiscal 2016 through Fiscal 2019. At a rate higher than expected inflation (roughly two percent), it would still represent real growth.

The tax revenue forecast reflects the expected state of the City's economy in the near future. While forecasting the future of the economy is very difficult due to unpredictable economic shocks, the forecast shows the current condition of the economy continues to have a positive impact on expected tax revenues. Overall tax revenue growth remains healthy, albeit with moderate growth compared to recent years.

Fiscal 2016 displays a slowdown in the City's expected revenues. Lower growth is specifically highlighted in the personal income tax and the transaction taxes - the real property transfer tax and the mortgage recording tax, which see growth rates of approximately 3.5 percent, negative 0.6 percent, and negative six percent, respectively. The lead drivers of the slowdown in the personal income tax are the total revenue of the New York Stock Exchange and total wages, both economic factors that see a deceleration in 2015. The decline in transfer taxes, on the other hand, is mainly due to their volatility. Given their expected spike in Fiscal 2015, the Council does not expect the transfer taxes to maintain similar growth. The real property tax and the mortgage recording tax are positioned for moderate average growth of 3.6 percent and 5.1 percent after Fiscal 2016.

For Fiscal 2015, Council Finance expects the real property tax (RPT) to generate revenues of $21.3 billion, a $100 million increase over the Preliminary Budget, due to a reduction in refunds. OMB typically adjusts the refunds reserve to better reflect actual assessment reductions. The forecast is still based on the preliminary assessment roll, but the final roll to be released later this month, is expected to bring reductions in assessments due to actions by the Tax Commission and the Department of Finance. Council Finance expects strong and steady property tax revenue growth of 4.9 percent on average in Fiscal 2016 through Fiscal 2019.

The two City business taxes are the general corporation tax (GCT), and the unincorporated business tax (UBT). Effective January 1, 2015, the bank corporation tax (BCT) has been merged with the general corporation tax so that it conforms to the State's business taxes. Council Finance projects business tax collections to rebound in Fiscal 2015 by 2.1 percent reaching $6 billion, compared to earlier estimates of growth closer to six percent. The changes are mainly due to lower than expected collections in the third quarter of Fiscal 2015.

Sales tax collections are expected to maintain strong growth in Fiscal 2015, with a growth rate of 4.7 percent over the prior year, due to record tourism and growing consumer confidence. Growth in the outyears will see a slowdown, with an average growth rate of 3.1 percent.

**Council Forecast: Difference from OMB Forecast**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|
| Real Property | $0 | $72 | $295 | $282 | $408 |
| Personal Income | 96 | 205 | 288 | 314 | 302 |
| General Corp. & Banking Corp. | (69) | 48 | 88 | 34 | 4 |
| Unincorporated Business | 13 | (16) | (29) | (49) | (71) |
| Sales | 42 | 53 | (8) | (113) | (208) |
| Commercial Rent | 10 | 17 | 18 | 18 | 14 |
| Real Property Transfer | (9) | 93 | 117 | 146 | 124 |
| Mortgage Recording | 7 | 50 | 89 | 121 | 137 |
| Utility | 8 | 7 | 2 | (5) | (6) |
| Hotel | 1 | 46 | 50 | 55 | 68 |
| All Other* | 0 | 0 | 0 | 0 | 0 |
| Audits | 0 | 0 | 0 | 0 | 0 |
| **Total Taxes** | **$98** | **$576** | **$910** | **$802** | **$771** |

**Includes NYCHA*
***Source:** Council Finance Division, OMB Fiscal 2016 Executive Financial Plan*

| Council Forecast: Growth Rates | | | | | | |
|---|---|---|---|---|---|---|
| | **FY14*** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** |
| Real Property | 6.8% | 6.5% | 4.9% | 5.6% | 4.2% | 4.8% |
| Personal Income | 4.1% | 6.5% | 3.5% | 1.8% | 2.4% | 3.0% |
| General Corp. & Banking Corp. | (1.4%) | 0.7% | 4.2% | 3.0% | 1.0% | 2.5% |
| Unincorporated Business | 4.1% | 5.3% | 2.8% | 3.6% | 3.4% | 3.3% |
| Sales | 5.9% | 4.7% | 4.3% | 3.1% | 2.6% | 2.3% |
| Commercial Rent | 7.0% | 5.6% | 4.9% | 4.5% | 4.2% | 3.6% |
| Real Property Transfer | 40.7% | 5.8% | (0.6%) | 4.7% | 4.6% | 1.4% |
| Mortgage Recording | 29.5% | 14.5% | (6.0%) | 6.5% | 5.3% | 3.5% |
| Utility | 5.4% | 0.1% | (0.2%) | 1.4% | 1.8% | 2.2% |
| Hotel | 6.2% | 6.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| All Other** | 0.2% | 5.0% | (9.0%) | 2.1% | 0.1% | 0.2% |
| Audits | (14.8%) | 14.2% | (27.6%) | 0.0% | 0.0% | 0.0% |
| **Total Taxes** | **5.8%** | **5.9%** | **2.8%** | **4.0%** | **3.2%** | **3.5%** |

**Actuals **Includes NYCHA*
***Source:*** *Council Finance Division*

## Tax Policy

**NYCHA PILOT.** The New York City Housing Authority (NYCHA) is exempt from property taxes. However, the Authority provides annual payments in lieu of taxes (PILOT) to the City. Starting in Fiscal 2016, the City will no longer charge NYCHA for PILOTs, reducing tax revenues by $32.7 million annually.

**Mansion Tax.** Mayor de Blasio is proposing an additional tax on the most expensive residential properties in the City. There is no available official legislation as of yet, but the Mayor’s press release details the planned reforms. The proposed City-level mansion tax would institute a 1 percent flat tax on residential property sales over $1.75 million, and a 1.5 percent marginal tax for sales over $5 million. The Mayor’s Office estimates the fiscal impact on revenues to be somewhere between $180 and $200 million, which would be devoted to affordable housing projects. The tax reform is not included in the Financial Plan.

# APPENDIX 1: Council Forecast

**Council Forecast: Levels**
*Dollars in Millions*

| | FY14* | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|---|
| Real Property | $19,977 | $21,270 | $22,313 | $23,562 | $24,554 | $25,744 |
| Personal Income | 9,539 | 10,163 | 10,514 | 10,702 | 10,961 | 11,286 |
| General Corp. & Banking Corp. | 3,994 | 4,020 | 4,190 | 4,317 | 4,361 | 4,469 |
| Unincorporated Business | 1,882 | 1,982 | 2,038 | 2,111 | 2,184 | 2,255 |
| Sales | 6,494 | 6,798 | 7,091 | 7,312 | 7,504 | 7,678 |
| Commercial Rent | 710 | 750 | 787 | 823 | 858 | 889 |
| Real Property Transfer | 1,527 | 1,616 | 1,606 | 1,682 | 1,760 | 1,784 |
| Mortgage Recording | 961 | 1,100 | 1,034 | 1,101 | 1,160 | 1,201 |
| Utility | 405 | 406 | 405 | 411 | 418 | 427 |
| Hotel | 536 | 568 | 585 | 602 | 620 | 639 |
| All Other | 1,426 | 1,497 | 1,362 | 1,391 | 1,393 | 1,396 |
| Audits | 860 | 982 | 711 | 711 | 711 | 711 |
| **Total Taxes** | **$48,312** | **$51,152** | **$52,637** | **$54,725** | **$56,483** | **$58,479** |
| NYCHA PILOT Reduction | | | ($33) | ($33) | ($33) | ($33) |
| **Total Taxes (incl. NYCHA)** | **$48,312** | **$51,152** | **$52,604** | **$54,692** | **$56,450** | **$58,446** |
| OMB | $48,312 | $51,053 | $52,028 | $53,782 | $55,649 | $57,675 |

**Actuals*
***Source:*** *Council Finance Division*

# APPENDIX 2: Revenue Plan

**Fiscal 2016 Executive Budget Revenue Plan**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|
| **Taxes** | | | | | |
| Real Property | $21,270 | $22,240 | $23,267 | $24,272 | $25,336 |
| Personal Income | 10,067 | 10,309 | 10,414 | 10,647 | 10,984 |
| General Corporation | 3,236 | 4,065 | 4,223 | 4,327 | 4,465 |
| Banking Corporation | 853 | 77 | 6 | 0 | 0 |
| Unincorported Business | 1,969 | 2,054 | 2,140 | 2,233 | 2,326 |
| Sales | 6,756 | 7,038 | 7,320 | 7,617 | 7,886 |
| Real Propery Transfer | 1,625 | 1,513 | 1,565 | 1,614 | 1,660 |
| Mortgage Recording | 1,093 | 984 | 1,012 | 1,039 | 1,064 |
| Commercial Rent | 740 | 770 | 805 | 840 | 875 |
| Utility | 398 | 398 | 409 | 423 | 433 |
| Hotel | 567 | 539 | 552 | 565 | 571 |
| Cigarette | 49 | 48 | 47 | 46 | 45 |
| Audit | 982 | 711 | 711 | 711 | 711 |
| STAR | 860 | 765 | 797 | 800 | 804 |
| Tax Program | 0 | 0 | 0 | 0 | 0 |
| All Other | 588 | 517 | 514 | 515 | 515 |
| **Total Taxes** | **$51,053** | **$52,028** | **$53,782** | **$55,649** | **$57,675** |
| **Federal Categorical Grants** | **$8,412** | **$7,127** | **$6,832** | **$6,401** | **$6,300** |
| **State Categorical Grants** | **$12,569** | **$12,993** | **$13,364** | **$13,771** | **$14,102** |
| **Non-Governmental Grants (Other Cat.)** | **$1,447** | **$1,406** | **$1,385** | **$1,392** | **$1,389** |
| **Unrest. / Anticipated State & Federal Aid** | **$0** | **$0** | **$0** | **$0** | **$0** |
| **Miscellaneous Revenue** | | | | | |
| Charges for Services | $948 | $948 | $949 | $948 | $948 |
| Water and Sewer Charges | 1,537 | 1,516 | 1,454 | 1,411 | 1,375 |
| Licenses, Permits, Franchises | 665 | 641 | 625 | 619 | 616 |
| Rental Income | 284 | 271 | 271 | 271 | 271 |
| Fines and Forfeitures | 921 | 810 | 805 | 801 | 799 |
| Other Miscellaneous | 1,809 | 554 | 732 | 804 | 903 |
| Interest Income | 21 | 29 | 85 | 156 | 163 |
| Intra City | 2,003 | 1,791 | 1,794 | 1,805 | 1,800 |
| **Total Miscellaneous** | **$8,188** | **$6,560** | **$6,715** | **$6,815** | **$6,875** |
| **Net Disallowances & Transfers** | ($2,018) | ($1,806) | ($1,809) | ($1,820) | ($1,815) |
| **Total Revenue** | **$79,651** | **$78,308** | **$80,269** | **$82,208** | **$84,526** |
| **City Funds** | **$57,223** | **$56,782** | **$58,688** | **$60,644** | **$62,735** |
| **Federal & State Revenue** | **$20,981** | **$20,120** | **$20,196** | **$20,172** | **$20,402** |
| **Federal & State as a Percent of Total** | **26.3%** | **25.7%** | **25.2%** | **24.5%** | **24.1%** |
| **City Funds as a Percent of Total Revenue** | **71.8%** | **72.5%** | **73.1%** | **73.8%** | **74.2%** |

***Source***: *OMB Fiscal 2016 Executive Budget*

# APPENDIX 3: Revenue Changes

**Fiscal Year 2016 Executive Budget: Revenue Changes from Preliminary Budget**
*Dollars in Millions*

| | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|
| **Taxes** | | | | | |
| Real Property | 100 | $127 | $126 | $121 | $116 |
| Personal Income | 250 | 233 | 106 | 56 | 76 |
| General Corporation | 336 | 1,115 | 1,187 | 1,191 | 1,219 |
| Banking Corporation | (318) | (1,117) | (1,184) | (1,191) | (1,218) |
| Unincorported Business | (60) | (64) | (27) | (18) | (19) |
| Sales | (26) | (7) | (7) | (7) | (7) |
| Real Propery Transfer | 124 | 7 | 8 | 2 | (1) |
| Mortgage Recording | 133 | 40 | 26 | 9 | (7) |
| Commercial Rent | 5 | 5 | 5 | 5 | 10 |
| Utility | 0 | (6) | (4) | (5) | (7) |
| Hotel | 0 | (11) | (13) | (9) | 2 |
| Cigarette | 0 | 0 | 0 | 0 | 0 |
| Audit | 70 | 0 | 0 | 0 | 0 |
| STAR | (1) | (112) | (84) | (81) | (77) |
| Tax Program | 0 | 0 | 0 | 0 | 0 |
| All Other | 12 | (25) | (23) | (23) | (22) |
| **Total Taxes** | **$625** | **$185** | **$116** | **$50** | **$65** |
| **Federal Categorical Grants** | $13 | $509 | $399 | $12 | $3 |
| **State Categorical Grants** | $76 | $221 | $183 | $133 | $420 |
| **Non-Governmental Grants (Other Cat.)** | ($25) | $27 | $2 | ($2) | ($2) |
| **Unrest. / Anticipated State & Federal Aid**** | $0 | $0 | $0 | $0 | $0 |
| **Miscellaneous Revenue** | | | | | |
| Charges for Services | 15 | $22 | $23 | $22 | $22 |
| Water and Sewer Charges | (4) | (47) | (79) | (123) | (174) |
| Licenses, Permits, Franchises | 53 | 38 | 48 | 45 | 42 |
| Rental Income | 13 | 0 | 0 | 0 | 0 |
| Fines and Forfeitures | 102 | 22 | 18 | 14 | 12 |
| Other Miscellaneous | 231 | (384) | (31) | 22 | (92) |
| Interest Income | 4 | (16) | (49) | (7) | 0 |
| Intra City | 36 | (13) | (20) | (20) | (25) |
| **Total Miscellaneous** | **$450** | **($378)** | **($90)** | **($47)** | **($215)** |
| **Net Disallowances & Transfers** | ($36) | $13 | $20 | $20 | $25 |
| **Total Revenue** | **$1,103** | **$577** | **$630** | **$166** | **$296** |
| **City Funds** | **$1,039** | **($180)** | **$46** | **$23** | **($125)** |
| **Federal & State Revenue** | **$89** | **$730** | **$582** | **$145** | **$423** |

***Source*** *: OMB Fiscal 2016 Executive Budget and Fiscal 2016 Preliminary Budget.*

# APPENDIX 4: New Units of Appropriation

**New Units of Appropriation and Budget Report Improvements Called for in the City Council Response to the Fiscal 2016 Preliminary Budget**

| Agency # | Agency | Change |
|---|---|---|
| 810 | DOB | Create PS and OTPS U/As for Enforcement and Development. |
| 068 | ACS | Create U/A for Foster Care |
| 068 | ACS | Create U/A for Adoption Services |
| 068 | ACS | Create U/A for Child Welfare PS |
| 068 | ACS | Create U/A for Child Care Vouchers |
| 068 | ACS | Improve UPK transparency in ACS budget |
| 040 | DOE | Divide U/As 401 and 402 – General Education. |
| 040 | DOE | Eliminate U/As 481 and 482 – Categorical Programs. |
| 040 | DOE | Improve Technology Enhancements Section of the 5 Year Capital Plan |
| 040 | DOE | Create an object code for charter schools. |
| 040 | DOE | Accurately report funding sources in 5-Year capital plan. |
| 816 | DOHMH | Create U/As for Disease Prevention and Treatment - HIV/AIDS. |
| 071 | DHS | Align the Living in Communities Funding in Appropriate Program Areas. |
| 069 | HRA | Create a Legal Services program area. |
| 069 | HRA | New U/A for Public Assistance Grants. |
| 069 | HRA | Create additional Budget Codes within Public Assistance |
| 025 | Law | Create U/A for Legal Services |
| 025 | Law | Create U/A for Support Services |
| 098 | Misc | Divide U/A 003 into Current and Post-Employment Benefits |
| 098 | Misc | Divide U/A 002 |
| 068 | NYPD | Divide U/A 001 - Patrol Services |
| 156 | TLC | Create Adult Probation Services PS and OTPS U/As and Juvenile Probation Services PS and OTPS U/As |
| 156 | TLC | Create Enforcement PS and OTPS U/As |
| 260 | DYCD | Create an After School Programs U/A |