Finance Division
The Council of the City of New York

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Speaker of the Council	**Chair, Committee on Finance**

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

Part II
The New York City Budget Structure and the Ten-Year Capital Strategy
(Transparency, Citywide Savings Program, Economy and Tax Revenue)

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Table of Contents

INTRODUCTION

Today's hearing offers a final opportunity for the Council to publically examine the values, priorities, plans and prudence of the Fiscal 2016 Executive Budget proposed by Mayor Bill de Blasio. The Director of the Office of Management and Budget (OMB), Dean Fuleihan, joins us for the second time in these Executive Budget hearings. During his first appearance before the Committee on Finance, the discussion focused on the City's Budget Structure and the Ten-Year Capital Strategy. The narrow focus allowed the Council to closely examine the City's Capital Budget, with an interest in the City's Ten-Year Affordable Housing Plan. Following that hearing, the Council heard over 100 hours of testimony from City agency heads about their agency's operations and priorities and how the Fiscal 2016 Executive Budget supports them.

The Council's budgetary priorities and vision for New York City were expressed in its Response to the Mayor's Fiscal 2016 Preliminary Budget (the Response). The Council's 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 many of the Council's recommendations in the Fiscal 2016 Executive Budget, including plans to improve viral hepatitis surveillance; a larger budget for the Human Rights Commission and increased headcount; increased funding for the Anti-Gun Violence Initiative; baseline funding for Priority 5 vouchers, CUNY Prep, and eliminate school lunch fees in most middle schools. The Executive Budget also included financial details of the City's Ten-Year Affordable Housing Plan, and the Citywide Savings Program, a new feature to identify agency efficiencies that the Council expected to see in the Preliminary Budget. The Administration also introduced plans to provide wage increases for the human services contract workforce and raise its wage floor to $11.50 per hour, which is in line with the Council's call for living wages for public service workers.

While the Mayor's Executive Budget reflected many of the Council priorities, and included details about the City's Housing Plan and the Citywide Agency Savings program, many Council Members voiced concerns about the continued lack of transparency in the City's budget, the feasibility of the implementation of the City Capital Strategy, and the omission of funding for key proposals.

One key area of concern regarding transparency relates to units of appropriation (U/As). The Executive Budget contains only four new U/As requested by the City Council, and agreed to by the Administration to create last year: personal services (PS) and other than personal services (OTPS) U/As for Universal Pre-Kindergarten in the Department of Education and PS and OTPS U/As for Early Intervention in the Department of Health and Mental Hygiene. It also created PS and OTPS U/As for the Mayor's Office of Contract Services within the Mayoralty. However, ambiguous and broad U/As, which the Council proposed changing in the Preliminary Budget Response, remain in the Executive Budget. Additionally, as learned in the Executive Budget hearings, it is not clear whether the U/As that the Council sought were discussed between OMB and the relevant agencies for inclusion into the Executive Budget.

Moreover, while Council Members acknowledged that the Ten-Year Capital Strategy provided a greater level of detail than did the Preliminary Strategy; details regarding implementation of the projects proposed in the Strategy, including timeline, project management staff, and existing infrastructure to facilitate such a plan remain unclear.

Additionally, while the Administration's efforts to improve agency efficiency were reflected in the Fiscal 2016 Executive Budget as the Citywide Savings Program, many proposals identified as savings did not appear to be new actions, or for that matter efficiencies. Some of the largest were customary reductions of conservative estimates made every year by OMB. This led many Council Members to question what action(s) qualifies as an agency efficiency proposal eligible for inclusion in the Citywide Savings Program.

Further, many funding needs identified by the Council in its Preliminary Budget Response are not funded in the Fiscal 2016 Executive Budget. For example, the Council's Budget response called for the Administration to fund 16,616 seats in the City's public schools. However, none of the new funds in the Executive Ten-Year Capital Strategy have been allocated to the Department of Education. The Council also recommended that the Administration provide funding to hire 1,000 new police officers, provide six day library service, enhance and expand youth employment programs, and the baseline merit based scholarships for CUNY students. None of which was included in the Financial Plan.

This report will provide a review of the City's economy, provide updates on collective bargaining agreements, as well as provide details about information learned during the Executive Budget hearings. It is the Council's hope that all of the Council's proposals in the Council's Preliminary Budget Response will be included in the Fiscal 2016 Adopted Budget, and the hearing feedback received by the Administration from the Council and the public will facilitate budget negotiations to ensure that the Fiscal 2016 Adopted Budget reflects the type of Responsible Prosperity sought by the Council.

TEN-YEAR CAPITAL STRATEGY

The Executive Ten-Year Capital Strategy (the Strategy) for Fiscal 2016 through 2025 totals $83.8 billion (City and non-City funds), which is the largest Ten-Year Capital Strategy, in nominal terms, in the City's history. The Strategy is $20.7 billion larger than the average of the last five Ten-Year Capital Strategies going back to Fiscal Year 2006. The majority of the increase in the Strategy is rightfully in the State of Good Repair category, which is $18.4 billion greater than the average of the previous five Ten-Year Capital Strategies. The City's infrastructure has suffered from chronic deferred maintenance in past administrations and the Council welcomes this Administration's renewed commitment to a reasonable state of good repair. With the monetary commitment in place the challenge will be in the execution of the Ten-Year Capital Strategy.

The City Council is concerned that there may be a lack of capacity on the City's part to execute such an ambitious 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. Keeping this track record in mind, 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. In addition to this fact, the potential roll of unused appropriations from Fiscal 2015 will increase the current Ten-Year Capital Strategy by $6.9 billion if historic actual commitment averages hold.

One area of particular concern is the School Construction Authority's ability to carry out its planned school capacity projects. In response to the Council's call to fully fund the DOE's projected need for school seats, the DOE indicated that the SCA's difficulty in finding appropriate sites to construct or lease school facilities may make it difficult to commit the existing funding. The Council is interested in OMB's assessment of the DOE's ability to carry out its $13.2 billion capital program within the next four years.

The Administration must examine its current capital process and identify ways to increase its capacity to better complete capital projects in a timely and fiscally responsible manner. The Council looks forward to partnering with the Administration to identify new and innovative approaches to successfully achieve the goals laid out in the Strategy. To help kickstart larger capital projects, the Administration has added $500 million to the Executive Budget in expense funding to create a 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. It is imperative that the Capital Stabilization Fund is used for this purpose and not simply as a way for the Administration to balance the budget on a yearly basis, as the Pay-Go Capital Fund was used under the Bloomberg Administration. The Council is looking forward to hearing more ideas such as these moving forward.

ECONOMY and TAX REVENUE

The Economy

During the May 18th Finance Hearing, OMB brought attention to signs of "troubled economic times ahead." Eleven days later, real gross domestic product was downwardly revised in the first quarter 2015, from near zero growth of 0.2 percent to a contraction of 0.7 percent, annualized.[1] This followed a modest 2.2 percent growth in fourth quarter 2014. The weakness in the economy can be partially attributed to short-term factors such as the severe winter and work stoppages along West Coast ports. The longer-term factors, however, are of greater concern, particularly the strengthening of the dollar, which makes U.S. goods and services less competitive. The sharp decline in net exports, decreasing exports and increasing imports, subtracted 1.9 percentage points from GDP. If net exports only had zero growth in the first quarter, GDP would have grown by 1.2 percent. Another longer-term factor is energy prices, which are forecasted to remain below their 2014 level for another three years.[2] Lower energy prices are a double-edged sword, in that they can spur consumer activity, but reduce demand in the energy industry. Unfortunately, consumers are currently saving their gasoline and heating oil dividend, while the reduced investment in energy infrastructure is an additional drag on the economy.

There are indications of a second quarter recovery, but the question remains how substantial it will be. In addition to the short-term hurdles being passed, the international trade gap narrowed 19 percent in April, the largest decrease in six years. While changes in the trade deficit are very volatile, the increasing exports and decreasing imports may reduce the drag from the stronger dollar – at least in the second quarter. The national employment numbers for March were dismal, adding only 119,000 positions. However, April and May rebounded, adding 221,000 and 280,000 new workers respectively. Home construction and new home sales were very strong in April, although existing home sales slipped.

New York has fared better than the nation at large during the recovery. Despite the national slowdown the City's economy is maintaining its strong momentum; as of April, private sector employment has expanded by 93,900 over the past 12 months, a 2.7 percent increase.

Tax Revenue

The strength of the City's economy is reflected in the City's tax revenues. Year-to-date tax collections for Fiscal 2015, which cover May for the personal income tax, and April for all other taxes, are 7.2 percent above the same period in Fiscal 2014. Collections are currently $340 million above the recently-released May Plan, all from the personal income tax. One caveat is that some of the strong April collections are overpayments in the form of extensions that leave enough leeway to avoid penalties.

Looking at the individual taxes in Fiscal 2015 year-to-date, the personal income tax is performing better than expected, growing by 10.8 percent from the same period last year. The two transactions taxes, real property transfer and mortgage recording, have soared by 16.8 percent and 21.5 percent respectively. The general corporation tax, on the other extreme has stumbled along at less than two percent. Collections

[1] U.S. Bureau of Labor Statistics, Real Gross Domestic Product, First Quarter 2015, Second Estimate, May 29, 2015.
[2] IHS Global Insight, May 2015.

from the critical real property tax have grown by a decent 6.5 percent. The sales tax has softened to four percent.

The Real Property Tax

On May 26th, the Department of Finance released its assessment roll for Fiscal 2016, which showed a 6.9 percent growth of the Billable Assessed Value (BAV), the amount on which properties are taxed; the growth represents a substantial increase from prior year, with a total BAV of $195.2 billion. The growth in BAV is being driven by large market value increases over the last several years, which continued this year. The real estate market started to recover in 2010, but substantial increases in market values really started in 2013 and have been trending upwards since.

The overall market value is up 7.0 percent over the prior year. The total market value for Classes 1, 2 and 4 grew by 7.7 percent, though only 6.7 percent is due to market forces (the rest is due to physical changes and other changes). Market forces growth is indicative of the increase the typical taxpayer will see. Class 4 saw an increase of 6.1 percent in overall market value, but since changes in market values for these properties are phased in over five years, this period of high market value growth is pushing and will continue to push up BAV and therefore property tax revenue growth in the outyears. Market forces are also pushing values up considerably for Class 2 properties. The City's strong real estate market this past year has resulted in a substantial increase in market values, and consequently assessed values. The real estate market remains resilient in sales and rentals, with continued demand across the board, which is apparent in the assessment roll.

Property Class	Market Value			Taxable Assessed Value	
	Fiscal 2016	*Fiscal 2015-16 Change*	*Changes due to market force*	*Fiscal 2016*	*Annual Change*
Class 1	$442,358,456,521	6.5%	6.9%	$17,727,634,858	4.8%
Class 2	$234,465,618,449	8.6%	7.6%	$67,943,172,752	7.8%
Class 3	$30,721,051,186	8.0%	n/a	$13,476,553,342	9.1%
Class 4	$261,885,267,041	6.1%	5.4%	$96,038,035,574	6.5%
Total	***$969,430,393,197***	***7.0%***	***n/a***	***$195,185,396,526***	***6.9%***

Forecast

Although concerned about the first quarter GDP, the Finance Division's economic forecast is unchanged since last reported on May 18th.[3] It is expected that GDP will grow 2.3 percent in 2015 and 2.9 percent in 2016. The City will continue its pattern of growth with GCP growing 2.6 percent in 2015 and 2.7 percent in 2016. The City will add 70,200 jobs in 2015.

Based on the strength of collections, the Finance Division expects to end Fiscal 2015 with tax revenues $280 million over the May Financial Plan and $182 million over

[3] "Report to the Committee on Finance on the Fiscal 2016 Executive Budget, The New York City Budget Structure and the Ten-Year Capital Plan" Finance Division, The Council of the City of New York, May 18th.

the Division's May 18th forecast. Given the final assessment roll, the Finance Division now expects stronger real property tax collections over the five years of the May Financial Plan; projected revenues from the real property tax for Fiscal 2016 are $22.45 billion – $139.7 million over the previous Finance Division estimate and $212.6 million over OMB's May forecast. With this additional expected revenue from the property tax, the Finance Division expects tax revenues of $52.8 billion in Fiscal 2016, $716 million over OMB's May plan.

COLLECTIVE BARGAINING and OTHER WAGE INCREASES

The Executive Budget includes some funding changes specific to wages, although nothing close to the major collective bargaining changes introduced in the (Fiscal 2015) Budget. That budget was the first to reflect settlements with major unions, including the United Federation of Teachers (UFT) and DC37, that had been left without contracts since the Bloomberg Administration. Last year's settlements represented a net cost to the City of approximately $9 billion – that is, a gross cost of over $13 billion, minus $3.4 billion in savings the City and its unions agreed to find from health insurance and another $1 billion to be taken from their jointly-held Health Care Stabilization Fund.

Late in 2014, labor agreements with supervising uniformed employees, including those at the Police Department, provided slightly more generous wage increases – matching the contracts with other unions and then adding a 1 percent raise in the first year. These extra raises will cost the City another $600 million over the financial plan.

On May 19th the Mayor announced a tentative settlement with the Uniformed Sanitationmen's Association, representing approximately 6,000 sanitation workers. The settlement follows the pattern set for other uniformed employees. With this tentative agreement the City has reached settlements with over 80 percent of the municipal workforce.

The largest union remaining without a contract, the Patrolmen's Benevolent Association (representing rank-and-file police officers), is currently engaged in binding arbitration with the City. The arbitrator's decision is expected this summer.

SETTLEMENTS	COUNT	REMAINING UNSETTLED	COUNT
United Federation of Teachers	117,269	Patrolmen's Benevolent Assoc.	22,199
District Council 37	84,081	220's - prevailing wage titles	8,922
USOC	11,894	Uniformed Firefighters Assoc.	8,045
Local 237	8,338	Correction Officers Benevolent Assoc.	7,230
CWA L1180 - Principal Admin. Assoc.	8,210	OSA Staff Analysts	4,024
NYS Nurses Assoc.	8,001	Professional Staff Congress	3,836
Uniformed Sanitationmen's Assoc.	6,040	L2507/L3621 – EMS	3,410
Other settled	26,978	Other unsettled	9,190
Total	**270,811**	**Total**	**66,856**
Share of total	**80.2%**	**Share of total**	**19.8%**

- Source: New York City Mayor's Office of Labor Relations

Wage Increases for Contract Workers

The Executive Budget proposes increasing wages for the employees of human service nonprofits that contract with the City. These are generally social service workers, many of them working for relatively low wages without the benefits offered to salaried City workers. In its *Response to the Fiscal 2016 Preliminary Budget* the Council called for creating pathways to opportunity for New Yorkers including living wages for all City employees and City contract workers.

According to the Administration, the budget will increase incomes for tens of thousands of these workers – enough to impact salaries for 35,000 full-time workers, a figure that underestimates the actual scope of impact, since many who work in the social service field do so part-time. Specifically, the budget includes $29.1 million for a 2.5 percent raise for human service workers at nonprofits contracting with the City. It also includes another $24.7 million to help many of those workers – roughly 10,000 of the 35,000, according to the Administration – move from minimum wage to $11.50 an hour.

The Executive Budget also includes $5 million to kick-start a professional development program for the same category of workers. The program would look to connect human service workers (again, those at nonprofits under contract with the City) with academics and workforce development specialists through a comprehensive education and training program. This "career ladder" system has been backed by advocate groups, who see it as a potential model for progressive workforce development programs elsewhere.

While the Executive Budget sets aside funding, it does not show how each agency budget will be increased, nor does it show which specific categories of contracts will be affected. All of the increase is parked in the City's Miscellaneous Budget. None of the human service agencies – HRA, DHS, ACS, DOHMH, or DFTA – were able to answer which of their vendors would have contract increases, identify how many workers would be affected, or discuss the mechanics of implementing the wage changes. The hearings provided the first opportunity to review the Administration's proposal to offer wage increases to a subset of the contract workforce, but like other major initiatives, this was not introduced in the Preliminary Budget. Questions raised by Council Members about the specific proposal and about alternatives, such as a $15 per hour minimum, are awaiting answers.

Wage Increases for City Employees

Like the low-wage private workers who perform public services, all City employees represented by DC-37 will see their wages reach a minimum of $11.50 per hour. The Executive Budget funds wage increases for the lowest paid city workers. School crossing guards are among this group. According to the Police Department, their starting wage will rise from $10.33 to $11.50 per hour. However the top wage, earned after three years of service will remain $13.49 per hour. The Council expects to learn the details of this wage increase plan at the hearing.

Additional wage changes introduced in the Executive Budget include $11.6 million funding added to the Department of Education's budget to bring the pay rates of cleaners, handypersons and firepersons employed by school custodians in line with cleaners employed by private custodial companies. A hearing "Oversight: Indirect Employment Systems for School Building Maintenance and its effect on Workers" of the Committees on Education on February 2, 2015, examined the disparity in pay rates among school cleaners who work for school custodians and those who work for contracted custodial service companies and earn the prevailing wage as established by the City Comptroller.

While the increases proposed in the Executive Budget would provide great relief to many public service workers, the approach to awarding wage increases seems somewhat disjointed. There are many types of City workers who work alongside employees of private organizations performing essentially the same service while earning different wages and benefits. Since the Executive Budget introduced the wage proposals but did not move the associated funding into agencies' budgets, the Council was unable to engage in a deep dialogue on why the Administration chose some workers, but not others for wage increases.

Further, the Council heard from several agencies that wage rates for some positions are too low to attract and retain qualified workers. The Civilian Complaint Review Board, for example does not have a competitive salary structure for investigators, leading to an exceptionally high turnover rate. Similarly, the Parks Department pays PEP officers only $37,000 per year, and has trouble keeping them on staff. The Fire Department's salaries for inspectors are so low, it is using overtime to make up for the 20 vacancies and increase salaries. This is inefficient. Among the human services contract workforce, wide disparities persist in the wages paid to teachers in early childhood programs in CBOs and teachers in DOE UPK classes, despite the $10 million provided to raise contracted wages last year. The Council expects the Administration to present its analyses of wage rates and details of its plans to remedy unjust disparities.

CITYWIDE SAVINGS PROGRAM

The Administration introduced a new report with the Executive Budget called the *Citywide Savings Program* (CSP). The report lists a variety of budget initiatives, all identified as "other adjustments" in the *Financial Plan Reconciliation*, that reduce agency spending or replace city tax-levy funding with non-city funding. The plan to include efficiencies or savings in the budget was announced along with the Preliminary Budget, but none were actually included. The Council asked that efficiencies be clearly labeled and be subject to the same type of implementation monitoring as are budget cuts, also known as Programs to Eliminate the Gap ("PEGs"). The Council expects to learn more about the implementation monitoring plan at the hearing.

The savings identified total $589 million this year, $465.5 million in Fiscal 2016 and $2.9 billion through Fiscal 2019. The largest savings identified, which is better categorized as a re-estimate, is a reduction in anticipated debt service payments. Debt service reductions account for almost 52 percent of the entire CSP. This re-estimate of debt service makes the budget more accurate and eliminates $1.5 billion of what could be called padding from the Financial Plan; however it is not rightly labeled a savings.

Throughout the CSP, there are additional budget adjustments and re-estimates that would have been implemented without a CSP. These include a substantial re-estimate of federal aid for fringe reimbursement in Fiscal 2015 of $81.5 million for the Administration for Children's Services (ACS) and $72.3 million for the Human Resources Administration. The Commissioner of the Department of Transportation (DOT) stated at its agency hearing that the additional $28.2 million in Fiscal 2015 and $22.4 million in Fiscal 2016 in revenue recognized by OMB as part of the CSP should not be considered a savings.

Another significant category in the CSP is $55.5 million in procurement savings annually starting in Fiscal 2016. These savings are not distributed across agency budgets and there is not an explanation of how savings will be achieved. The Council expects to learn how OMB plans to achieve these savings.

The remainder of the CSP includes a variety of budget changes, many of which do reflect agency attempts to realign resources and identify efficiencies. Good examples of real savings, if achieved, are the Fire Department's plan to reduce discretionary overtime by $2.2 million and the Department of Education's (DOE) collection of administrative efficiencies, which will allow the DOE to redirect $42 million towards renewal schools. Several agencies have identified contracts for services, information technology (IT) services in many cases that will be insourced. The Council supports the practice of using city workers for ongoing city agency functions, such as IT maintenance. Unfortunately, the presentation of information in the CSP does not clearly indicate whether all the insourcing actions will actually produce savings. To do so the CSP would need to show the reduction in contractual spending alongside the increase in personal service and fringe benefits costs.

Another problematic aspect of the CSP is the odd distribution of savings across agencies. One of our largest agencies, the Police Department (NYPD) has no savings planned. The budget includes only a $3.5 million revenue adjustment in Fiscal 2015. This omission is particularly troubling given the Council's repeated call for an overtime control plan at NYPD and the Mayor's agreement that police overtime is a concern. All together the uniform agencies found savings of only $33.1 million in Fiscal 2016, dropping to $1.7 million in the out years of the plan. The health and welfare agencies found savings of $74.6 million for next year, $48.6 in Fiscal 2017, $61.5 in Fiscal 2018 and $41.3 in Fiscal 2019. OMB has explained that all agencies were asked for savings proposals, but it seems that the effort to follow through was not evenly applied.

Finally there is one small group of savings proposed that would certainly reduce services, despite the Administration's declaration that the CSP would not cut services. The Department for the Aging (DFTA) and the Department of Health and Mental Hygiene (DOHMH) have proposed reductions to City Council initiatives. Both agencies have baselined funding for programs operated through contracts that were originally selected by the Council. It is unacceptable that DFTA and DOHMH would unilaterally decide to cut these services and that OMB would include such proposals in its CSP. These proposals should be withdrawn.

TRANSPARENCY

The Council has long pushed to improve the transparency of the City's budget, not only to allow the Council and the public to know what the City spends their money on, but also to ensure that the Council can exercise its Charter-mandated level of control over the budget. There are many ways to improve and clarify the information available regarding how the City raises and spends money. The Council has, during the last two budget cycles, focused on revamping the budget documents produced by OMB, getting agencies to provide better budget-related reports, and increasing and clarifying the building blocks of the budget: the units of appropriation (U/As), budget codes and object codes. The goal of producing a budget that is precise, understandable, and complete is clear and the Executive Budget for Fiscal 2016 moves towards it, although much change is still needed.

Units of Appropriation

Improving the U/As is especially important to the City Council because the Council adopts the City's budget at the U/A level. U/As are the basic levels of detail within an agency's operating budget, which should reflect the main programmatic activities and goals of each agency. In accordance with the provisions of the New York City Charter, U/As are intended to be highly descriptive in order to facilitate the Council and the public's understanding of agency spending and performance. Despite these Charter mandates, the expense budget the Council receives from the Mayor each year is very different from the one the Charter envisions.

With the exception of a few agencies, the numerous programs and activities of most agencies are often lumped together into one, or just a few, U/As. Continued use of overly broad units of appropriation impedes the City's ability to understand and assess agency spending and make informed decisions about the City's current fiscal condition, properly assess past and current proposals, and adequately make long-term planning decisions. The Council's Response called for changes in more than two dozen units of appropriations across several agencies. The Executive Budget, however, contained only 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 in the Department of Education; and PS and OTPS U/As for Early Intervention in the Department of Health and Mental Hygiene.

While many of the Council's recommendations for new or revised U/As were not included in the Executive Budget, during the hearings the Council learned that some agencies were not consulted by OMB about the possible restructuring of U/As within their agency. For example, in the *Response to the Fiscal 2016 Preliminary Budget*, the Council recommended that the Law Department restructure its budget to include additional units of appropriations to better reflect its programmatic nature, specifically to create U/As for legal services and support services. At the hearing, when questioned about the omission of the requested U/As from the Executive Budget and the discussions that were had on the issue, corporation counsel stated he was unfamiliar with the Council's request for additional U/As and, therefore, had not considered it as part of their budget process.

Progress has been made with some agencies, however. At the hearing regarding the Department of Building's budget, Commissioner Chandler testified that the DOB is in the midst of discussions with OMB to increase the number of U/As within the agency's budget. Currently, $108.5 million of DOB's $148.7 million total budget is in a single unit of appropriation for Personal Services. The Council expects to see new U/As for DOB included in the Adopted Budget.

In addition, the Executive Budget hearings, several agencies committed to reviewing their budget reports with the Council to consider suggestions for improvement. The Police Department has engaged with the Council to improve its reports, and the Department has been more forthcoming with data. However, the NYPD's units of appropriation for Patrol Services remain overly broad, and the Executive Budget did not alter the Budget Function Analysis Report. The publicly available budget reports for the NYPD do not present an accurate representation of the many and varied functions of the Department. School crossing guards, a vital component of the Police Department's workforce, are nowhere in the budget.

Further talks with the NYPD are expected, as are discussions with the Department of Health and HRA. The Council has sought additional U/As for HRA and the Commissioner has agreed to improve the Budget Function Analysis report. The Department of Homeless Services has already updated its Budget Function Analysis to more closely align the report with its programs.

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 with OMB to ensure that Council-funded capital projects are also represented correctly in the Executive Capital Commitment Plan.

The 2015-2019 Executive Capital Commitment Plan introduced an overall increase of $6.3 billion (All funds) or 12.4 percent over the Preliminary Commitment Plan and shifted $3.1 billion out of Fiscal 2015 into later years of the Plan. Fiscal 2016 Commitments City wide are $13.3 billion, or $2.1 billion more than in the Preliminary Commitment Plan. The shifts seen in the Executive Budget have resulted in 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. However, many City agencies still have unrealistically high commitments planned for Fiscal 2015 and 2016. The Council expects OMB to continue this more realistic type of planning so that the adopted Commitment Plan will be a more accurate portrayal of each agency's capital program.

Capital Needs Assessment

In accordance with Section 1110-a of the City Charter, the Administration generates a capital needs assessment report entitled: "The Asset Information Management System (AIMS) Report." This report includes the condition and maintenance schedule for major portions of the City's physical plant. The City Charter defines a major asset as an asset with a useful life of 10 years and a replacement cost of $10 million or more. Excluded from this report are assets leased to the Transit Authority, the New York City Water Finance Authority as well as to certain other public benefit corporations. All in-rem properties owned by the City are excluded and only the community college-owned assets of the City University of New York are included.

Given these very large exclusions in the AIMS report, can the Administration have an accurate idea of what the City's total capital needs are and if the capital plan is correctly sized? While the AIMS report is in compliance with the City Charter the report does not yet accurately reflect the City's true infrastructure needs. The Council encourages to the Administration to widen the scope of this report not only to increase the transparency of the City's needs but to assist in the creation of a more accurate capital plan.

School Capital Plan

The Department of Education's Fiscal 2015-2019 Five Year Capital Plan (Five Year Plan) is the single largest component of the City's Capital Commitment Plan. The Five Year Plan includes thousands of projects with an overall estimated cost of $13.5 billion. The new construction, repair and upgrade projects managed by the School Construction Authority support the DOE's vast capital plant that is used by millions of New Yorkers. The work of the SCA is critical for the delivery of public education. Given the large portion of the City's capital resources dedicated to education and the fact that the budget still remains insufficient to meet all the critical capital needs of public schools, it is especially important that the Council and the public have access to accurate, comprehensive information about school capital spending.

The Plan should present a comprehensive list of projects that includes costs and planned schedules. The current presentation includes budgets and construction start dates for some but not all projects. Some projects are identified so broadly as to be unidentifiable, such as, for example, "Educational Enhancements-Educational Enhancements-School Improvement and Restructuring." Revision of the vast amount of information in the Five Year Plan to make it more descriptive and complete would allow the Council and public to understand the Administration's education priorities.

Additionally, as a threshold matter, the Five Year Plan should be revised to include an explanation of how the plan is funded. At the hearing on the Proposed Amendment, the DOE and SCA representatives were unable to explain how the City finances the school capital plan. The Five Year plan includes roughly one page of text titled "Capital Plan Funding," which includes almost no information related to funding. Building Aid Revenue Bonds, Building Aid revenue projections in the DOE's budget or the City's Miscellaneous Budget, and the method for claiming Building Aid from the State Education Department are not discussed. The report does not show which projects are funded by other City agencies, federal funds or by private entities. Funding made available through the Education Construction Fund is not provided. In order to plan a capital program as massive as the Department of Education's, it is essential to have a solid estimate of the resources available. The Five Year Plan should present a comprehensive funding report as should the City's Ten Year Capital Strategy for DOE.

BUDGET HEARINGS

During the last four weeks the Committee on Finance held 13 hearings jointly with 25 other committees to review the Fiscal 2016 executive Budgets of 34 City agencies. The review focused in many cases on significant agency programs that have been newly introduced, reshaped, or enlarged. The Council had expected to take a first look at Mayor de Blasio's major initiatives for Fiscal 2016 through its Preliminary Budget process, but as detailed in the Council's *Response to the Fiscal 2016 Preliminary Budget*, that was not possible because the Preliminary Budget had so little detail. Examples of major programs and initiatives in the Executive Budget include:

- The Department of Correction's Anti-Violence Agenda, a 14-Point Plan to reduce violence on Rikers Island. The Executive Budget added $36.4 million to DOC's expense budget and $102.4 million to the Capital Commitment Plan to implement the reforms.
- A $100 million homelessness assistance and prevention initiative that involves several agencies, principally HRA and the Department of Homeless Services;
- HRA's launch of a major civil legal services initiative focusing on homelessness prevention and access to government benefits; and

- The Department of Education's renewal school initiative.

Many of the Council's Executive Budget hearings uncovered issues that agencies alone could not address and asked questions that they could not answer. The Administration's plan for carrying out the human services contracts wage increase and the procurement savings are two examples. Others include the following:

- **Procurement Issues**. The ACS hearing included discussion of ACS's recent solicitation for day care programs that will replace the baselined programs originally funded through a City Council Initiative. While ACS revised its original Early Learn request for proposal to give greater consideration to organizations with local experience delivering child care, the hearing revealed several troubling aspects of the solicitation and review process. ACS testified that reviewers did not consider the length of local experience to give more weight to bidders with long-term experience, did not accept testimonials and recommendations, did not consider objective ratings such as Quality Stars, and never visited bidders' day care centers. The Commissioner suggested that the RFP process was too rigid to produce the best results. This most recent Early Learn procurement highlighted the need to revamp the process so that quality, community-based programs have a chance to prevail on bids for City contracts. The Council hopes to join with the Administration to develop better procurement tools, especially for human service contracts.
- **Baselined Programs**. Review of HRA, DYCD, DOHMH, and DFTA's plans for soliciting bids for Council Initiatives that have been baselined all revealed flaws. Finding procurement too difficult, DFTA and DOHMH have proposed to simply cut some baselined funding for Council Initiatives. HRA expects bidders to work with smaller, locally-based organizations but cannot ensure community-level services will continue. DOHMH has proposed to repurpose a significant portion of its Council portfolio of programs. DYCD has awarded contracts, but seems to plan for a service level reduction. Sorting through the Fiscal 2016 procurement plans for the baselined Council Initiatives and ensuring that sufficient funding remains to carry on the programs will require the commitment and support of OMB and the Mayor's Office.
- **Capital Project Cost Comparisons**. The Council's Executive Budget hearings showed how it is difficult to compare the effectiveness and efficiency of any one agency's capital program with another's. The Capital Plan does not allow easy comparison of project costs across agencies. For example, several agencies have major bathroom renovation and construction projects included in the Commitment Plan. The Police Department plans to spend $38 million over the next seven years to renovate 268 bathrooms. This translates to roughly $142,000 per bathroom. The School Construction Authority has budgeted $100 million to upgrade 127 bathrooms; $787,401 per bathroom. The Fire Department and the Sanitation Department also plan or have carried out extensive bathroom projects. While not every bathroom is the same, it would be helpful to have a better understanding of why capital project costs vary so widely.

- **Support for Senior Services**. The DFTA Fiscal 2016 Executive Budget introduced an expanded scope of responsibility for the agency, in that DFTA will assume responsibility for running 17 NYCHA senior social clubs in Fiscal 2016 and will begin to provide social work services to seniors in a handful of senior centers. However, the budget, while expanding for new programs, leaves wide gaps in funding for the agency continuing core services. The Council called on the Administration to add $14.55 million to DFTA's budget to support its core programs, including underfunded and over-utilized senior centers, senior center space and transportation costs, case management and homecare waitlists, and supporting NORCS and NNORCS. Throughout her testimony the Commissioner explained that she is currently in negotiation with OMB over the agency's budget. She repeatedly referenced "ongoing conversations" with OMB about DFTA's funding levels even after the Executive Budget was presented. The Council looks forward to learning more about the substance of these negotiations from OMB and expects the Adopted Budget to include an adequate level of baseline funding for DFTAs operations.
- **Immigrant Services**. The Council called for a $10 million commitment in Fiscal 2016 to support immigrant services, particularly programs related to DACA and Executive Action. HRA indicated that its budget includes $5.6 million for immigrant related programming, much of which was transferred from DYCD. The Council is concerned both with the planned funding level and program operation. Transferring work from DYCD where there is experience in providing immigrant services, particularly adult education programs, into HRA where the focus is on housing and benefits related legal services may leave the immigrant programs to flounder. The portfolio of immigrant services programs should be easily identifiable in the budget and the lines of responsibility and accountability to delivering quality work should be clear. Further, the Council expects a complete report on the programs funded in Fiscal 2015.
- **Correctional Health Services**. The Council has reviewed the performance of the City's correctional health services provider, Corizon, through oversight and budget hearings and found its performance to be deplorable. DOHMH's contract with Corizon expires on December 31, 2015 and despite that and the poor performance record of the vendor DOHMH did not discuss its plans for providing correctional health beginning in January 2016. The Health and Hospital Corporation expressed a willingness to take on correctional health services but did not offer testimony related to any specific plans. The Council, following the agency hearings learned that the City will in fact not renew the Corizon contract. It is unfortunate that this major announcement was not made in advance of the hearings or reflected in the Executive budget. The Council expects a full briefing and related changes to be made in the adopted budget.