



NEW YORK CITY COUNCIL FINANCE DIVISION  
REPORT TO THE COMMITTEE ON FINANCE  
ON THE FISCAL 2017 BUDGET MODIFICATION MN-2 AND MN-3

**New York City Council**

Hon. Melissa Mark-Viverito, Speaker of the Council  
Hon. Julissa Ferreras-Copeland, Chair, Finance Committee

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On December 12, 2016, the Office of Management and Budget requested Council approval of modifications of the Fiscal 2017 expense and revenue budgets. The Expense Budget Modification (MN-2) would transfer money among city agencies, as well as between units of appropriation within City agencies. The Revenue Budget Modification (MN-3) would recognize a reduction in revenues of \$105.5 million as reflected in the November 2016 Financial Plan Update for Fiscal 2017-2020 (the November Plan).

The proposed Expense Budget Modification would leave the City's Fiscal 2017 City funds budget unchanged at \$59 million. The changes proposed in MN-2 within and among agencies would have a net effect of zero on the City's Fiscal 2017 Budget. However, the modification would move funds from agencies and units of appropriation where savings or other adjustments were identified in the November Plan. Some of these funds would be used for agencies and units of appropriations where new needs were identified. Finally, from these funds MN-2 would transfer \$544.6 million into the City's General Reserve, which is housed in the Miscellaneous Budget.

Unlike the Expense Budget Modification, the proposed Revenue Budget Modification would change the size of the City's Fiscal 2017 Budget. MN-3 would reduce the size of the City funds budget by \$105.5 million, reflecting a projected weakness in tax collections identified in the November Plan. The proposed Revenue Budget Modification would reduce the General Reserve by \$544.3 million<sup>1</sup>, leaving the General Reserve essentially unchanged from the Adopted Budget at \$1 billion. A portion of the \$544.3 million transferred from the General Reserve is used to cover the revenue shortfall, while

| <b>Fiscal 2017 Modifications No. 2 and 3: Changes by Agency</b> |                               |
|---|-------------------------------|
| <b>Agency</b>   | <b>FY17 City Funds Change</b> |
| Debt Service  | \$288,236,463                 |
| Homeless Services   | \$98,054,578                  |
| Fire Department   | \$16,297,886                  |
| Design and Construction   | \$7,749,299                   |
| Parks and Recreation  | \$7,271,561                   |
| Law Department  | \$6,818,000                   |
| Board of Elections  | \$4,793,970                   |
| Housing Preservation and Development                            | \$2,191,594                   |
| Department of Finance   | \$1,713,024                   |
| Department for the Aging  | \$1,667,904                   |
| Police Department   | \$1,584,402                   |
| Department of Correction  | \$1,456,876                   |
| District Attorney of NY   | \$1,162,566                   |
| Administrative Trials and Hearings                              | \$1,146,506                   |
| Citywide Administrative Services                                | \$1,137,510                   |
| Financial Information Services Agency                           | (\$1,056,544)                 |
| Small Business Services   | (\$1,609,777)                 |
| Youth and Community Development                                 | (\$2,419,909)                 |
| Info. Technology & Telecommunications                           | (\$3,223,698)                 |
| Transportation  | (\$5,400,182)                 |
| Environmental Protection  | (\$14,856,048)                |
| Children's Services   | (\$27,036,140)                |
| Education   | (\$29,420,367)                |
| Health and Mental Hygiene                                       | (\$30,160,482)                |
| Sanitation  | (\$54,363,620)                |
| Human Resources Administration                                  | (\$117,512,994)               |
| Miscellaneous   | (\$263,977,589)               |
| <b>Total Changes:</b>   | <b>(\$105,507,790)</b>        |

<sup>1</sup> The additions to the general reserve in MN-2 (\$544.6 million) are slightly larger than the reduction of the General Reserve in MN-3 (\$544.3 million).

the remainder (\$438.8 million) would be appropriated to the Budget Stabilization Account, which is housed within the Debt Service Budget. This increase would be available to prepay Fiscal 2018 expenses.

## Expense Budget Modification

The combined impact of Modification 2 and 3 is an overall reduction of the City funds budget for Fiscal 2017 of \$105.5 million. The agency changes result from other adjustments, new needs and savings introduced in the November Plan. The table to the right shows the net City funds budget change by agency for all agencies with positive (15 agencies) or negative (13 agencies) changes in excess of \$1 million. Altogether, the modifications leave 38 agencies with City funds budget increases, 24 with no change, and 43 with a City funds reduction.

### Significant Expense Budget Changes

**Debt Service.** MN-2 reflects a revised projection of the costs associated with the issuance of new general obligation debt in Fiscal 2017. This revision creates a savings of \$14.2 million.

The November Plan includes debt service savings totaling \$150.5 million for Fiscal 2017, with additional savings in the outyears. The main source of these savings relates to short term borrowing. OMB has concluded that the City will not use short term borrowing to manage cash flow in Fiscal 2017, which results in a savings of \$74.6 million. The next most significant source of savings comes from revising the assumed interest rates for variable rate bonds, which results in a savings of \$54.7 million. Both of these savings are accounted for in MN-2.

**Department of Homeless Services.** MN-2 increases DHS' budget by \$192.2 million; of the \$192.2 million, \$115.1 million is additional funding for adult and family shelters needed to match current spending. The increase is comprised of \$52 million in City funds, \$6.9 million in State funds, and \$56.2 million in federal funds. This additional funding is associated with shelter capacity increases of 14,000 units of single adult shelter, 13,700 units of family with children shelter, and 2,000 units of adult family shelter.

The following table provides a breakdown of overall shelter spending by shelter type and by funding source from Fiscal 2016 Actuals to the November Plan. Actual shelter spending for adult shelters was relatively the same in Fiscal 2016 when compared to the Fiscal 2017 Adopted Budget of approximately \$455.7 million, while Fiscal 2016 actual spending for family shelters was \$56.8 million more than the Fiscal 2017 Adopted Budget. Most of new funding for shelter spending is for family shelters, where the November Plan budget for family shelters of \$681.7 million exceeds what was spent in Fiscal 2016 by \$29 million. This additional spending aligns with increase in shelter census from Fiscal 2016 to Fiscal 2017, where the majority of the shelter population are families with children.

| Shelter Budget         | 2016 Actuals           | 2017 Adopted Budget    | Change (Adopted Fiscal 2017 to Nov Plan Fiscal 2017) | November Plan          |
|------------------------|------------------------|------------------------|--|------------------------|
| <b>Adult Shelters</b>  | \$456,421,517          | \$455,790,220          | \$6,600,000  | \$474,868,652          |
| <b>Family Shelters</b> | \$652,750,455          | \$595,925,153          | \$108,522,804  | \$681,781,407          |
| <b>Total</b>           | <b>\$1,109,171,972</b> | <b>\$1,051,715,373</b> | <b>\$115,122,804</b>                                 | <b>\$1,156,650,059</b> |
| <b>City</b>            |                        | \$588,774,262          | \$52,032,971   | \$622,609,569          |
| <b>State</b>           |                        | \$120,558,046          | \$6,937,781  | \$127,516,827          |
| <b>Federal</b>         |                        | \$342,383,065          | \$56,152,052   | \$406,523,663          |
| <b>Total</b>           | <b>\$1,109,171,972</b> | <b>\$1,051,715,373</b> | <b>\$115,122,804</b>                                 | <b>\$1,156,650,059</b> |

In addition, the modification increases DHS' budget by \$38.2 million. This is essentially a transfer from HRA back to DHS, because DHS has not yet moved all preventative and after care services operations to HRA.

**Human Resources Administration.** MN-2 reflects a one-time revenue adjustment for HRA totaling \$70 million related to reimbursements to the Cash Assistance program for prior year's open receipts that had not been billed to the State.

**Education.** MN-2 decreases DOE's City funding by \$36.4 million as a result of the net impact of \$44.4 million in savings and an \$8.5 million increase in City funding. The majority of the savings identified by DOE are a result of more efficient claiming of State revenue. DOE savings include a swap of \$24 million in City funding for State revenue for special education services, due to efforts to better document service provision by paraprofessionals by giving them access to and training on the Special Education Information System (SEIS). This increased revenue is expected to continue in the outyears. The modification also recognizes \$8 million in State funding to replace City funds for contracted special education services; and a \$10 million savings due to lower than expected spending on after school programs in middle schools.

In addition to these savings, MN-2 recognizes an additional \$8.5 million in collections of school use fees, and adds \$4 million for lease costs increases.

**Health and Mental Hygiene.** The modification decreases the Department's City Tax Levy funds by \$30.2 million in Fiscal 2017. This net change consists of a one-time savings of \$30 million that is achieved by recognition of prior year receivables, including \$12 million in State funding for Early Intervention, \$7.8 million in federal funding for Environmental Health, and \$6.4 million federal funding for Epidemiology. Additional changes occurred in General Health Administration.

**Administration for Children's Services.** MN-2 reflects a \$28.3 million increase in baselined State and federal revenues as a result of improvements in cost allocation rates for programming.

**Miscellaneous Budget.** In total, MN-2 increases the Miscellaneous Budget by \$450.6 million (Total Funds). This results from several actions. Collective bargaining transfers and fringe benefits savings reduce the Miscellaneous Budget by \$95.3 million. As discussed above, \$544.6 million is being transferred to the General Reserve (which is within the Miscellaneous Budget) – the largest transfer in the entire budget modification. Some highlights of funding changes included in the modification include the following:

- Collective Bargaining Adjustments: \$21.7 million is drawn from the Labor Reserve to fund collective bargaining agreements and other adjustments, including over \$16 million for the Uniformed EMTs and Paramedics of the FDNY (Local 2507) and the Uniformed EMS Officers of the FDNY (Local 3621).
- Other Than Personal Services: MN-2 reduces the Miscellaneous Budget by \$8.4 million for OTPS changes.
- Fringe Benefits: MN-2 reduces the Miscellaneous Budget by over \$66 million for Fringe Benefits adjustments. This includes \$40 million for a health insurance re-estimate and \$26.4 million in other fringe benefit savings.

**Department of Sanitation.** MN-2 reduces the Department's budget by \$54.4 million by recognizing savings due to lower than expected closure construction costs for the final mound to be remediated at Fresh Kills Landfill, as well as savings due to delays in the Hamilton Avenue Marine Transfer Station becoming operational.

## Revenue Budget Modification

MN-3 recognizes a revenue shortfall of \$105.5 million in Fiscal 2017, relative to the Adopted Budget. This comprises a \$125 million shortfall in tax collections, partially offset by a \$20 million surplus in miscellaneous revenue. The tax shortfall consists of lower than expected revenues from the personal income tax, the general corporation tax, and the real property transfer tax. To cover this shortfall, the expense modification re-appropriates \$544.6 million from the Citywide Savings Program to add to the General Reserve. The revenue modification then withdraws roughly the same \$544.3 million from the General Reserve, reducing the City funds budget by \$105.5 million to close the revenue gap. The remaining \$438.8 million is added to the Budget Stabilization Account, where it will be available to prepay Fiscal 2018 expenses.

| November Plan Tax Revenue Changes |                |
|-----------------------------------|----------------|
| Taxes (million \$)                | FY17 Changes   |
| Real Property                     | \$0            |
| Personal Income                   | (41)           |
| General Corporation               | (80)           |
| Unincorporated Business           | 7              |
| Sales and Use                     | 19             |
| Commercial Rent                   | 3              |
| Real Property Transfer            | (70)           |
| Mortgage Recording                | 0              |
| Utility                           | (2)            |
| Cigarette                         | 1              |
| Hotel                             | 6              |
| All Other                         | 5              |
| Tax Audit                         | 27             |
| STAR                              | 0              |
| <b>Total Tax Changes</b>          | <b>(\$125)</b> |