THE COUNCIL OF THE CITY OF NEW YORK

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Report to the Committee on Finance on the Fiscal 2018 Executive Budget

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Introduction and Overview

On May 25, 2017, the New York City Council (Council) will conclude its public hearings on the Fiscal 2018 Executive Budget proposed by Mayor Bill de Blasio. This hearing will offer the members of the Council a final opportunity to publicly scrutinize the budgetary priorities and fiscal planning of the de Blasio Administration. The Director of the Office of Management and Budget (OMB), Dean Fuleihan, will testify for a second time before the Council regarding the Executive Budget, Capital Plan and Ten-Year Capital Strategy. Director Fuleihan first testified at the Committee on Finance's hearing on May 4, 2017, and the Committee focused its review on the City's budget structure, capital planning, savings and the City's reserves, as well as the Council's and the Administration's programmatic priorities. The Council also highlighted the continuing threat to essential programs and services posed by President Donald Trump and the federal government. Following this hearing, twenty-seven Council Committees heard approximately 100 hours of testimony from over thirty agencies regarding their operations and priorities, including the extent to which they were addressed in the Fiscal 2018 Executive Budget.

The Council expressed its vision and priorities for New York City's budget in its Response to the Preliminary Fiscal 2018 Budget, released on April 3, 2017. The Response's 63 recommendations focused on strengthening our communities in uncertain times. The Council advocated for a budget that recognized the risks posed by the new situation in Washington through budgeting responsibly and prudently, while also protecting and investing in those New Yorkers whose well-being is threatened by the policies of the President and Congress.

The Mayor incorporated several Council recommendations in the Executive Budget, including providing air conditioners in all public school classrooms, scuttling a proposal to construct a new jail facility on Rikers Island, enhancing support for immigrant services, repairing facades at 150 New York City Housing Authority buildings, funding the construction and renovation of animal care centers, reducing excess capital appropriations, and supporting Administrative for Children's Services Child Protection Supervisors and improving the preventive services referral process.

Despite the inclusion of these items, the Council does not believe the Executive Budget as it currently stands properly reflects both the Mayor and the Council's vision for the budget. Council Members articulated numerous concerns throughout the Executive Budget hearings about inefficient capital planning, lack of budgetary transparency, and the omission of funding for key proposals. Several Commissioners testified about programs and priorities that they would like to have funded in the Fiscal 2018 Adopted Budget. The Council's final hearing on the Fiscal 2018 Executive Budget will stress those areas from which the Council seeks improvement and greater transparency as it negotiates the final budget.

One of the Council's primary issues continues to be the need to reform the City's capital planning and management process. The Capital Commitment Plan for Fiscal 2017-2021 continues the longstanding misalignment of planned capital commitments and agencies' ability to execute capital projects. Year after year, the City's actual commitments fall far below the level of planned commitments. Therefore, unspent capital funds are rolled into the subsequent fiscal year. This limits transparency and reduces the ability to exercise effective oversight over these projects. While the Council sought a more accurate planning timeline in the Executive Capital Commitment Plan, the Administration instead added $4.6 billion in planned commitments to the Fiscal 2018 Executive Plan. Throughout the Executive Budget hearings, many agencies were unable to explain how they would implement planned capital projects. Furthermore, Council Members continued to express frustration about the slow pace and cost overruns of capital projects administered by agencies such as the Department of Design and Construction and the Department of Parks and Recreation.

During the hearings, the Council highlighted the lack of clarity and transparency when it came to many of the most important items included in the Executive Budget. For example, during his presentation of the Executive Budget to the Council, Mayor de Blasio announced that the Administration would implement a partial hiring freeze on administrative and managerial positions. The Council, concerned with growing headcount each year under this Administration, was pleased to learn of the plan. However, because the proposed budget does not show the hiring freeze savings at the agency level, Commissioners were unable to explain the impact of the freeze on operations during the Council's hearings. Additionally, the budget does not accurately present the spending plan for legal services and immigrant services, which both the Mayor and the Council have made a top priority. The unit of appropriation structure and other budget documents have not kept pace, in all cases, with the changing landscape of City services and programs. Finally, the Administration has not provided details and budgetary implications regarding some of the most significant, long-term initiatives such as the plan to close Rikers Island, compliance with New York State's Raise the Age law, and the implementation of the "Turning the Tide on Homelessness" plan. which were not reflected in relevant agency budgets. The Council looks forward to working with the OMB to improve the functionality, accuracy and transparency of the City's budget, and to developing a spending plan that supports these major initiatives.

Furthermore, many of the most important funding needs identified by the Council in the Budget Response were not included in the Executive Budget. For example, while the Administration included support for 5,000 additional Summer Youth Employment Program (SYEP) slots in the Fiscal 2018 Preliminary Budget, the Council has recommended a 20,000 slot increase to more closely match the overwhelming demand for the program. However, not a single additional SYEP job was funded in the Executive Plan. Additionally, despite wide support from the public and elected officials, the Executive Budget failed to heed the Council's call to eliminate school lunch fees. The Council's recommendations for enhanced funding for senior services, year-round youth jobs, and the Emergency Food Assistance Program, among others, were also absent from the Executive Plan.

This report will provide a review of the national and City economy, the tax revenue forecast, and an assessment of risks to the economic forecast. The Council continues to forecast slower economic growth for the City, and therefore urges the Administration to plan appropriately. To that end, the report will then focus on the City's reserves and the Mayor's proposed hiring freeze. The report will conclude with an overview of key agency and budget issues and concerns as expressed through this year's Executive Budget hearings. The Council hopes that the priorities laid out in its Budget Response, and the feedback received by the Administration from the Council and the public in the budget hearings, will facilitate budget negotiations that result in an adopted budget that strengthens our communities during this critical time.

Economy and Tax Revenue Forecast

The New York City Finance Division sees continued growth for both the national and City economies through the years of the Fiscal 2018 Executive Budget Plan. However, the Finance Division is now less optimistic about the City economy and tax revenue than it was in its Preliminary Budget forecast.

The Finance Division's changing view of the City's economy and tax revenue needs to be put into context. Since the beginning of 2008 payroll employment in NYC has grown by 15 percent. This is significantly better than our suburbs, the United States as a whole or the 100 top metropolitan areas in the country.[1] A slowdown from this pace was inevitable, the challenge is forecasting the timing and extent of the slowdown.

Forecast of Selected Economic Indicators: National and New York City, CY2016-2021

	CY16	CY17	CY18	CY19	CY20	CY21
NATIONAL ECONOMY						
Real GDP %	**1.6**	**2.2**	**2.7**	**2.4**	**2.2**	**2.2**
Private Employment						
Level Change, '000	2,288	2,012	1,635	1,459	1,078	1,069
Percent Change, %	1.9	1.6	1.3	1.2	0.8	0.8
Unemployment Rate, %	**4.9**	**4.5**	**4.2**	**4.0**	**4.1**	**4.2**
Total Wages %	**2.4**	**2.7**	**3.2**	**3.4**	**3.4**	**3.4**
Interest rates %						
3-Month Treasury Bill	0.32	0.92	1.65	2.51	2.85	2.85
30-Year Conventional Mortgage Fixed	3.65	4.45	5.04	5.79	6.07	6.07
NEW YORK CITY ECONOMY						
Real GCP %*	**1.6**	**1.7**	**2.6**	**1.9**	**1.7**	**1.9**
Private Employment						
Level Change, '000	83.6	54.7	47.3	42.6	38.9	38.4
Percent Change, %	2.3	1.4	1.2	1.1	1.0	1.0
Average Private Wages %	**1.2**	**3.8**	**4.2**	**4.0**	**4.1**	**4.3**
Total Private Wages %	**3.5**	**5.3**	**5.5**	**5.1**	**5.1**	**5.3**
NYSE Member Firms %						
Total Revenue	2.9	4.2	7.4	2.1	1.1	3.0
Total Compensation	-1.6	6.4	7.6	4.7	4.1	5.2

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

** Calculated by IHS Markit*

National Economy

The national economy is continuing its moderate growth pattern overall, and the fundamentals have barely changed since the Preliminary Budget. The dismal 0.7 percent (annual rate) real GDP growth in first quarter 2017 is widely considered an aberration, with the Federal Reserve's policy committee calling it "transitory." The especially weak first quarter is attributed largely to an unusually warm winter and spike in energy prices, which sharply reduced consumer spending on fuel and winter clothing.

IHS Markit forecasts a 3.4 percent rebound in the second quarter, and 2.2 percent growth in all of 2017. Growth will accelerate to 2.7 percent in 2018, and then level-off to 2.2 percent in the outyears. This pattern is pretty close to IHS's January forecast, which also projects 2.2 percent as the new, long-run trend. In both forecasts, moderate growth is sustained by consumer activity, as employment

[1] Moody's Analytics, "Hudson Yards: The New York City Economic Outlook: January 2017.

continues to grow and disposable incomes and household wealth rise. The recovery of business capital investment will help maintain the economy's momentum.

The unemployment rate has declined to 4.4 percent, reflecting a tight labor market and slower employment growth going forward. In both the May and January 2017 forecasts, IHS projects private-sector employment growth to slow from 1.6 percent in 2016 to 0.8 percent in both 2020 and 2021. [2] IHS estimates wages and salaries to grow by 2.7 percent in 2017, unadjusted for inflation. Wages are expected to gradually climb to an annual growth rate of 3.4 percent between 2019 and 2021 as the labor market continues to tighten.

This slow long-run trend of 2.2 percent real GDP growth is a product of slow labor force growth and the slow growth of labor productivity. The forecast assumes there will be a tax cut reducing personal and business income taxes, an infrastructure program, an increase in defense spending and a hiring freeze for federal nonmilitary employees. It gives the economy a modest boost in 2018 but the boost peters out quickly. In IHS Markit estimates it does not change the fundamentals; in particular, it does not accelerate productivity growth.

During the period of the financial plan interest will rise significantly, which will increase costs of the City's capital financing plan.

New York City Economy

The City's economy continues to show signs of slowing. In 2014 and 2015, private-sector payroll employment in the City grew by a record 130,100 and 120,600 respectively, compared to the previous year. In 2016, employment expanded by a far less dynamic 83,600 position. By the first quarter 2017, year-over-year job growth decelerated further to 66,800.[3] On the bright side, the City's unemployment rate has fallen to four percent as of March 2017 from 5.2 percent a year ago. However, the City's low labor-force participation rate of 60.2 percent as of February 2017, has hardly budged from a year ago. The average private-sector wage is only about one percent growth in both 2015 and 2016.

Going forward, the Finance Division sees private-sector payroll growth further decelerating in 2017 to about 54,700 jobs year-over-year. This slowdown is expected to continue into the outyears - but less sharply, and will stabilize to a steady pace of around 38,000 jobs in 2020 and 2021. The slower payroll growth reflects the City reaching a very low unemployment rate, with diminishing slack in the labor market. Soaring housing and commercial real estate costs present an additional bottleneck, as location decisions factor in the cost of space. On the other hand, continued growth in national GDP is expected to provide enough demand for City services to at least maintain very moderate employment growth in the outyears.

The slower job growth is seen in individual sectors. Finance and insurance has been losing well-paid positions since the second half of 2016. Retail employment has been shedding jobs since late 2014, as ordering online continues to replace brick-and-mortar store purchases. Healthcare and social services has been a major generator of growth, but is now threatened by a massive loss of health insurance coverage from a repeal of the Affordable Care Act. Growth in leisure and hospitality, which is heavily dependent on tourism, has slowed since the beginning of 2016, as a strong dollar has reduced the level of spending by foreign visitors. In addition, Tourism Economics has downwardly

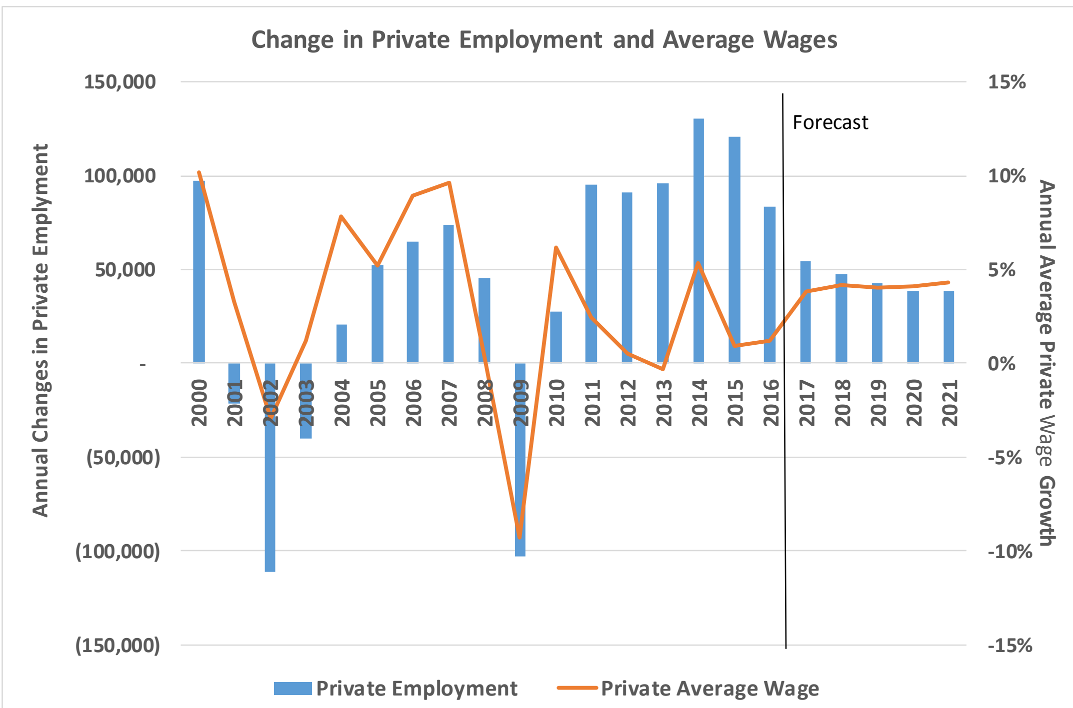
[2] IHS Markit, May 2017.

[3] NYS Department of Labor, Current Employment Statistics (CES), March 2017.

revised its estimate of foreign travelers to the City in 2017 by 700,000, due to the perception of the Trump Administration's suspicious stance and rigorous vetting of foreign travelers.[4]

The Finance Division sees slightly slower job growth during the Financial Plan than it did in its January forecast, now expecting about 3,000 fewer additional jobs each year on average. Growth was revised downward after the weak employment numbers in February and March. The forecast is less severe than OMB's total employment forecast, which expects an average of 4,000 fewer additional jobs each year.

After two years of weak growth, the Finance Division expects the average private sector wage to climb 3.8 percent in 2017 and 4.2 percent in 2018, boosted by increased bonuses in the high-paying finance sector. The average wage is expected to slow to around four percent in 2019, as reduced gains in equity markets soften wage growth in the securities industry. By 2021, wage growth again accelerates to around 4.3 percent, being pushed-up by a tightening labor market. The Finance Division's January forecast followed a similar pattern, though not as strong. OMB's Executive Budget projects modest average wage growth of 2.8 percent in 2017, strengthening to four percent by 2021.



Source: *NYS Department of Labor, Current Employment Statistics and Quarterly Census of Employment and Wages; NYCC Finance Division (forecasts).*

Tax Revenues

The Finance Division forecasts a 2.2 percent increase in tax collections in Fiscal 2017, following a 3.2 percent increase in 2016. This would be the second consecutive year of reduced growth in tax revenue, reflecting a less dynamic City economy. Collections are expected to strengthen slightly to 3.4 percent in Fiscal 2018, and then rebound to 4.6 percent annual growth in the outyears.

[4] Donna Keren, VP Research, NYC & Co., Testimony before New York City Council Committee on Economic Development, April 20, 2017.

The Finance Division expects steady **real property tax** (RPT) revenue growth from Fiscal 2017 through Fiscal 2021, with average growth of six percent. The Finance Division predicts higher interest rates will start affecting capitalization rates in Fiscal 2020 and 2021. Albeit with a lag, cap rates are expected to increase, pushing down market values, and slightly slowing the growth rate of RPT revenue over the last years of the financial plan. The forecast is based on the preliminary assessment roll, but the final roll to be released on May 25th, is expected to bring reductions in assessments due to actions by the Tax Commission and the Department of Finance. The forecast for Fiscal 2018 is similar to that of the Preliminary Budget and OMB's current Executive forecast. The Finance Division's average growth projection for Fiscal 2019-2021 is 5.68 percent, while OMB's is slightly lower, at 5.3 percent. The discrepancy is largely due to differences in interest rate growth expectations in the outyears.

Fiscal 2017 shows a significant decline in the City's expected revenues from the two transaction taxes, the **real property transfer tax** (RPTT) and the **mortgage recording tax** (MRT), with growth rates of -22.76 percent and -10.87 percent, respectively. The lead driver of the decline is a drop in commercial transactions. The decline follows years of enormous growth and to some extent, the transfer taxes are normalizing. The Executive forecast is significantly lower compared to the Preliminary Budget mainly due to disappointing collections. The RPTT real MRT are positioned for slow average growth of 3.70 percent and 2.76 percent after Fiscal 2018. The transaction taxes are typically very volatile in nature, as just a few individual large transactions can sway the tax revenue, and those are very challenging to predict.

Personal income tax (PIT) collections are expected to increase by 2.8 percent in Fiscal 2017 after eking out only one percent growth in 2016. However, after adjusting for New York State changing the STAR credit from a City to a State credit, collections actually grow by only 0.6 percent. Additional adjustments have to be made in Fiscal 2018 where estimated growth of 5.2 percent is only 2.0 percent, as the State removes the City's STAR tax rate cut in return for another State credit.[5] The source of the PIT's poor performance is the estimated payments. Withholdings are experiencing moderate growth, helped by increasing employment and recovering bonuses. Estimated payments, however, have plunged -13.8 percent year-to-date as of April compared to last year. The decline is in part a vestige of Wall Street's poor performance in 2015 and early 2016. In additions, it appears that taxpayers are delaying capital gains realizations in anticipation of President Trump's tax cuts. The plunge in real estate transactions is also taking a toll on realizations. PIT collections are expected to recover in Fiscal 2019 as reduced federal capital gains tax rates are likely to take effect in tax year 2018. Outyear growth is stronger, averaging 4.5 percent. This forecast is a significant drop from the Finance Division's Preliminary Budget, which had anticipated an upturn in estimated payments in March. It is only slightly above OMB, which also significantly took down its Preliminary Budget forecast.

Business corporation tax collections for Fiscal 2017 show year-to-date collections through March diving -15.6 percent from the previous year. This follows an -11.4 percent decline in 2016 collections. Much of this decline is due to huge overpayments for tax year 2015, when there was enormous uncertainty about the City's complex business tax reform. These overpayments were put on account for future tax years. Firms currently have a clearer picture of their earlier liabilities. They are reducing their quarterly payments and filing for refunds. The bright side is that when April collections are posted, they might include significant payments from finalized 2016 liabilities. June collections will include the first payments for tax year 2017, which will reflect the resurgence in

[5] New York State had provided the City with a STAR benefit in the form of lower City personal income tax rates, with the state reimbursing the City for the lost revenue. As of tax year 2017 the state eliminated the lower tax rates, but provided an equal benefit to City tax payers through a state personal income tax credit. The administrative change was therefore revenue neutral for both the City and City taxpayers.

corporate profits and equity markets. On the other hand, April collections may include additional refunds from prior-year overpayments. With this keen uncertainty, the Finance Division is cautiously estimating that Fiscal 2017 collections will fall by only one percent. This is six percentage points below both its own forecast at Preliminary and OMB's current forecast. Collections are expected to normalize in 2018, with collections growing by 4.2 percent. The outyears will average 3.3 percent growth.

Unincorporated business tax (UBT) collection are expected to have zero growth in 2017, reflecting the weakness in the finance sector during the first half of 2016, and refunds reaching double their historic volume. This is lower than the Council's Preliminary estimate and higher than OMB's Executive forecast. Collections will pick up in Fiscal 2018 with 5.6 percent growth, as the finance industry regains a firm footing. Outyear growth will average 4.8 percent.

Sales tax (STX) revenue is expected to slow to 1.2 percent growth in Fiscal 2017, but if the STARC[6] reimbursement to New York State is not included, actual collections have increased 3.4 percent. The moderate growth is sustained by consumer activity, although the strong dollar has probably softened receipts from foreign visitors. Revenue will grow by four percent in 2018, but when adjusted for STARC the actual collections grow by 3.2 percent. Collections in the outyears average 3.8 percent, or 3.1 percent if not including the payments. The sales tax forecast through the financial plan is $1.1 billion below the Council's Preliminary estimate, and $1.2 billion below OMB's current forecast.

Turning to smaller revenue sources, **utility tax** collections are expected to sharply rebound by a strong 7.3 percent in Fiscal 2017, following a 7.8 percent plunge in 2016, as energy prices finally recover. Revenue growth in the outyears will average modest 1.8 percent growth. **Hotel tax** revenues will grow by 2.1 percent in 2017, with its slower growth rate partially a function of the strong dollar. Additionally, the perception of rigorous vetting of foreign visitors referred to earlier, is dissuading many foreigners from visiting the U.S. Outyear growth is expected to pick-up, averaging 3.5 percent, as travel to the U.S. becomes more affordable.

The Finance Division's total tax revenue forecast for Fiscal 2017 and 2018 is $520 million less than its forecast last January. This reflects lower estimated collections from all the major non-property taxes; including PIT, business, sales and transactions. These lower projections are based on slower growth in employment, real estate transactions, and timing issues pertaining to the business and personal income taxes. The forecast for the two years is a modest $143 million above OMB's forecast, which was also significantly reduced since the Preliminary Budget.

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[6] New York State has charged the City $600 million in reimbursement for savings in refinancing the Sales Tax Asset Receivable Corporation (STARC) bonds. The City subtracted from its sales tax collections $50 million from Fiscal 2016, $200 million from 2017 and $150 from 2018. The City has not yet recognized in the Financial Plan an additional $50 million in 2018 and $150 million in 2019.

CCNY Finance Division Growth Rates					
	FY17	**FY18**	**FY19**	**FY20**	**FY21**
Real Property	6.2%	6.4%	6.0%	5.9%	5.2%
Personal Income	2.8%	5.2%	5.0%	3.7%	4.9%
Business Corporate	(1.0%)	4.2%	3.7%	2.1%	4.2%
Unincorporated	0.0%	5.6%	5.8%	4.5%	4.1%
Sales	1.2%	4.0%	4.5%	3.6%	3.3%
Commercial Rent	5.0%	3.9%	4.7%	3.4%	3.3%
Real Property Transfer	(22.8%)	1.6%	2.5%	4.9%	3.7%
Mortgage Recording	(10.9%)	(10.0%)	3.4%	2.6%	2.3%
Utility	7.3%	(3.3%)	0.4%	2.5%	2.3%
Hotels	2.1%	1.5%	3.5%	3.6%	3.4%
All Others	(15.9%)	(32.2%)	(0.4%)	(0.4%)	(0.4%)
Audits	7.7%	(28.0%)	(8.8%)	0.0%	0.0%
Total Taxes	**2.2%**	**3.4%**	**4.9%**	**4.5%**	**4.5%**

Source: *CCNY Finance Division, Executive Budget Fiscal 2018*

Finance Division vs OMB					
$ millions	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Real Property	$6	$335	$224	$520	$715
Personal Income	75	(54)	111	10	81
Business Corporate	(208)	(153)	(107)	(48)	9
Unincorporated	14	18	38	11	(22)
Sales	2	(94)	(278)	(369)	(456)
Commercial Rent	2	2	6	1	(5)
Real Property Transfer	26	30	29	38	64
Mortgage Recording	26	55	64	49	54
Utility	3	(15)	(18)	(18)	(22)
Hotels	6	16	14	29	41
All Others	0	0	0	0	0
Audits	0	50	100	100	100
Total Taxes	**($47)**	**$190**	**$182**	**$324**	**$559**

Source: *CCNY Finance Division, NYC Office of Management and Budget, Executive Budget Fiscal 2018*

Forecast Risks

The Finance Division continues to forecast slowing growth for the City, with a low likelihood of a recession. There are, however, significant downward risks, most of which would filter down from the national level or global events.

- The Trump Administration's under-developed and volatile policy-making is the most important risk to the forecast. Council Finance assumes a fiscal stimulus from tax cuts early enough to effect the economy in 2018. If this does not occur it will slow growth in 2018, though it may actually boost growth in 2020 and 2021. The Finance Division expects our trading partners and the financial markets to remain patient with the erratic bluster of the Administration's trade policy. If this is wrong, slower growth is likely.

- The Finance Division assumes there is at least some slack in the labor market. If this is not the case as the economy surpasses full employment, it will be characterized by rising unit labor costs, even slower hiring, and accelerating inflation, which the Federal Reserve will try to slow down with increasing interest rates.

IHS Markit gives a 20 percent probability of a two-quarter recession in the second half of 2018.

There are upward risks as well.

- GDP may grow faster than anticipated, partially from the new administration's tax cuts, rolling-back of regulations, and infrastructure spending. On the supply-side, the lower corporate rates may incentivize more capital investment, leading to innovations and higher productivity. On the demand-side, the lower income tax rates would increase disposable income and consumer activity.
- Struggling global markets, such as Europe and China may recover more quickly, increasing net exports, and lowering the relative position of the dollar.

IHS gives a 20 percent probability of the economy doing better than expected.

The tax revenue forecast is subject to its own risks. These revenue projections rest upon stable global financial markets, the dollar continuing its fall, stable energy prices, and the maintenance of confidence among consumers and firms.

S&P Global considers the risk of an equity market correction the most significant risk to state and local tax revenues.[7] The Finance Division assumes a considerable slowdown in the S&P 500 starting in the first quarter 2018. If there is this becomes a full-fledged correction, we would expect lower business and personal income tax collections in Fiscal 2018 and Fiscal 2019.

One policy-related risk is OMB's assumption that the City can renegotiate the reimbursement to New York State for savings from refinancing the Sales Tax Asset Receivable Corporation (STARC) found in New York State's Fiscal 2018-2019 Adopted Budget. The City's Executive Budget, only acknowledges a $50 million repayment in Fiscal 2017 and a $150 million repayment in Fiscal 2018. It does not recognize the remaining payments of $50 million more for the fourth quarter of Fiscal 2018, and $150 million in 2019. The Finance Division follows OMB's assumption in its revenue forecast, but considers a successful waiver of the remaining debt unlikely.

[7] S&P Global Market Intelligence, "U.S. State and Local Governments Wait for the Economic Boost to Kick in" April 18, 2018, https://www.globalcreditportal.com/ratingsdirect

Reserves

Building reserves is crucial because they are the primary source of relief during an economic downturn. We know such a downturn will occur, but we cannot be sure when. The City is already showing signs of a slowing economy, with decelerating job growth that is expected to continue. The Finance Division sees slightly slower job growth during the Financial Plan than it did in its January forecast, now expecting about 3,000 fewer additional jobs each year on average. Growth was revised downward after the weak employment numbers in February and March.

The Executive Plan expects Fiscal 2018 to start with $672 million more in reserves compared to the Preliminary Plan. This brings the total reserves to $9.3 billion, the largest component of which is $4.04 billion in the Retiree's Health Benefit Trust (RHBT). The ratio of reserves to adjusted total spending, however, is only up 0.7 percent, to a total ratio of 10.7 percent. Even with the additional $672 million in the cushion, the City is below the Comptroller's recommended ratio[8] of 12 to 18 percent.

Fiscal 2018 Reserves
Dollars in Billions

	January 2017 Financial Plan	April 2017 Executive Budget	Change
FY 2017 Budget Stabilization[1]	$3,055	$3,727	$672
RHBT	$4,035	$4,035	$0
Capital Stabilization Reserve	$250	$250	$0
General Reserve	$1,000	$1,000	$0
General Reserve remaining	$300	$300	$0
Total reserves:	$8,640	$9,312	$672
Adjusted spending:	$86,473	$87,337	$864
Reserve ratio	**10.0%**	**10.7%**	-

[1]Fiscal Year 2017 Budget Stabilization and Discretionary Transfers total $3.727 billion, including GO of $1.418 billion, TFA-PIT of $1.909 billion and Retiree Health Benefits of $400 million.

[8] http://comptroller.nyc.gov/wp-content/uploads/documents/PARR_Report_Final.pdf

Budget Issues and Concerns

Through a series of over 30 hearings with various City agencies on the Fiscal 2018 Executive Budget, the Finance Committee with its partner committees reviewed the Administration's spending and savings proposals. After careful review of the proposed agency budgets and listening to agency testimony, there remain budget issues and concerns that fall into three broad categories: transparency and reporting issues; headcount; and new needs and other funding issues.

Transparency and Reporting Issues

The City Council is responsible for overseeing the operations of City agencies, evaluating their performance, and assessing their effectiveness. In the budget process, the Council carefully reviews the output of agencies and the spending that supports them. The Council relies on the many budget documents published by OMB to accomplish its Charter-mandated oversight and budgetary work. Supplementary reports from agencies, legislatively required reports and terms and conditions attached to the budget allow the Council, as well as the public, to better understand how well our City government functions. However, the design, clarity and accuracy of the City's budget documents can sometimes be a significant hindrance to the Council's oversight work. Budget allocations that are not always programmatic, the budget structure has not always kept pace with programmatic changes, and too often allocations are overly large and support too wide a variety of programs. The Council and OMB have made significant improvements in budget transparency, but the recent hearings uncovered some issues that should be addressed.

- **Closing Rikers Island.** In order to close Rikers Island, the Administration will have to make significant investments in programs that will continue to reduce the population on Rikers Island and invest in borough based facilities. The Capital Plan moved approximately $1.1 billion into a lump sum line for jail capacity projects. But this is far less than the approximately $10 billion capital investment needed to build a community-based jail system. The expense budget does not reflect the Administration's and the Council's commitment to close Rikers Island. The Council urges to the Administration to include funding for these programs and for the budget to reflect the Administration's strategy to close Rikers Island.
- **HRA Legal Services Program Area.** The Human Resources Administration's (HRAs) legal services program area only accounts for other than personal services (OTPS) spending, and not personal services (PS). To fully analyze HRA's legal services budget, PS spending needs to be reflected, so that headcount and other PS related expenses can be tracked. In addition, the budget should show what types of legal services such as immigration and anti-eviction are funded in this program area.
- **Legal Services for Immigrants.** The Fiscal 2018 Executive Budget includes $18.1 million and seven positions for "Legal Defense for Immigrants and Expansion of Action NYC" within HRA's budget. MOIA testified that $16.4 million will go towards legal defense of immigrants facing deportation, and $1.7 million to expand Action NYC. The Council called on the Administration to support the NYIFUP in the Budget Response. It remain unclear whether this allocation will in fact do so.
- **HRA Homeless Services Program Area.** HRA now oversees all homeless services programs related to shelter move outs, yet the agency's budget does not have a program area for homeless services. There is a lack of transparency of how much in total the agency is spending on homeless services broken down by type of homeless services and overall PS and OTPS costs related to these programs.

- **Homeless Services Expense and Capital Spending.** The Administration has explained that it will pay for the Mayor's new homeless plan entitled "Turning the Tide on Homelessness" with the current allocations proposed for HRA and the Department of Homeless Services (DHS), with the exception of customary re-estimates of shelter spending to match actual spending. However, the budget does not show how the components of the plan will be funded and supplemental reports on homeless services and shelter spending are deficient. In addition, DHS' capital commitment plan does not identify projects for increasing the capacity of existing DHS shelters. In order to budget appropriately and to monitor implementation of the plan, the homeless services budget documents and spending reports should be improved.
- **DOC Capital Spending Timeline.** The Department of Correction's (DOC) Commitment Plan indicates $1.1 billion for a new jail facilities project, which is shown in Fiscal 2018 only. This is not a realistic timeline for this type of capital project and funding needs to be reallocated across the agency's Capital Commitment Plan to show a more accurate timeline of spending.
- **Office to End Gun Violence.** In February 2017, the Administration established the Office to Prevent Gun Violence, which is housed within the Mayor's Office of Criminal Justice (MOCJ), but the budget does not show how this office is funded. The OMB should create separate units of appropriation and responsibility centers for the Office to Prevent Gun Violence to allow for better transparency. Furthermore, all of the contracts and headcount in other agencies for the Crisis Management System and all other anti-gun violence programming should be consolidated within the Office to Prevent Gun Violence.
- **Office of Special Enforcement.** The Executive Budget increased funding for the Office of Special Enforcement (OSE). However, funding and headcount for the Office is reflected across multiple agencies in the Budget. The Administration should ensure that the City's budget provides a clear and complete description of OSE's budget, headcount and spending. This could be accomplished by creating a budget code for OSE within each agency and by providing a supplemental report on activities and spending.
- **Law Department Budget Structure.** The Law Department's budget has only two units of appropriation: PS and OTPS. Its proposed Fiscal 2018 Budget totals $208 million, and is comprised of 16 divisions and four support divisions. In its current form, the Department's budget lacks transparency and allows for funding shifts with little oversight. Furthermore, as the Raise the Age Law is implemented, the Department's headcount and budget is likely to grow. At a minimum the Department's budget should include a U/A pair for all 16 divisions.
- **DoITT Budget Structure.** DoITT's budget includes only two units of appropriation, Personal Services and Other Than Personal Services. Its proposed budget for Fiscal 2018 totals over $620 million and includes funding for major technology services most notably, the 311 customer service center, the public safety answering centers, the City's wireless network and NYCTV. In its current form, DoITT's budget lacks transparency and allows for funding shifts with little oversight.
- **Young Women's Initiative.** In Fiscal 2017, the Council allocated $5 million to support recommendations from the Speaker's Young Women's Initiative (YWI). In addition, the Administration added funding for some YWI recommendations, including Nurse Family Partnership. Given the Council's and the Administration's commitment to address the needs of young women of color across the City, an office to oversee the YWI should be created and funded by the Administration. This is especially critical given that the Executive Director of the Commission on Gender Equity position is vacant, and this position would have most likely coordinated the implementation of legislative and budgetary YWI recommendations.

Headcount

Over the last several years, the City has recognized hundreds of millions of dollars in PS accruals from agencies operating under budgeted headcount. As of March 2017, the City was operating under budgeted headcount by nearly 6,000 city-funded full-time positions. With this in mind, the Council's Response to the Fiscal 2018 Preliminary Budget called on the Administration to review recent investments to ensure that they are properly scaled and structured. The Council recommended that budgeted headcount levels be right sized and vacant positions be eliminated.

The Executive Plan recognized over $100 million in savings across Fiscal 2017 and 2018 related to vacant headcount and delays in hiring. In addition to these savings, the Mayor announced that the City would implement a partial hiring freeze on some administrative and managerial positions citywide and has recently issued directives to the agencies as to how this plan will be implemented. The Council has requested and is awaiting further details that include the plan's scale, participating agencies, savings targets, and whether permanent savings can be generated.

New Needs and Funding Issues

Throughout the Executive Budget hearings, agencies indicated that they were still working with OMB to secure additional funding before the adoption of the Fiscal 2018 Budget, or announced new initiatives that have yet to be funded in the upcoming fiscal year. In addition, several budgetary issues came to light during these budget oversight hearings, such as budgetary gaps yet to be filled or an accurate budget or timeline for spending for programs and initiatives. The following section provides highlights of these issues.

- **Summer Youth Employment Program.** With more than 146,000 applications received for SYEP in the upcoming summer, the 65,000 jobs currently funded will not meet consistently high demand for programming. The Fiscal 2018 Executive Budget includes no funding for additional positions. Additionally, the budget does not show support for the four SYEP improvement pilots developed by the Youth Employment Task Force that are expected to launch this summer.
- **ACS New Needs Funding.** At ACS' Fiscal 2018 Executive Budget Hearing, the Commissioner indicated that the agency has submitted additional new needs request to OMB for Fiscal 2018 Adopted Budget related to addressing the attrition rate, caseloads, and morale of Child Protection Specialists (CPS). There was no additional information provided as to what the budget is for these new needs and how many CPS workers would be impacted.
- **Human Service Contracts.** The monetary value of many of the City's human services contracts is not sufficient to support the actual costs to deliver services; nearly 20 percent of the of the City's non-profit providers are insolvent, and 40 percent have less than two months worth of funding to cover services readily available. DHS is the only human services agency whose Executive Budget includes additional funding to right-size shelter provider contracts, the remaining agencies that fall under human services have yet to address budgetary shortfalls for contracted services.
- **Raise the Age.** Recently passed State Raise the Age legislation mandates that 16 and 17 year-olds will no longer be sentenced to or detained in facilities with adults, and no youth under the age of 18 will be held at Rikers Island. This legislation has budgetary implications for several City agencies including DOC, ACS, the Law Department, the Department of Probation, Mayor's Office of Criminal Justice, the New York Police Department, District Attorneys, and City Courts, yet expense and capital funding needed to comply with this legislation has yet to be added to

impacted agency's budgets. There is also very little information disseminated as to how the City plans to comply with this legislation, as well as how much funding the City will receive for State.

- **DFTA New Needs Funding.** At the Fiscal 2018 Executive Budget Hearing, the Department for the Aging (DFTA) Commissioner stated that she is still working with OMB to secure additional funding for DFTA in the Fiscal 2018 Budget. Any new needs and adjustments planned for DFTA should align with the Council's call to improve the reach and quality or senior services, and must be made available for the Council to review prior to adoption of the budget.
- **DFTA Contracting Staff Needs and Procedure.** At the Executive Budget hearing, DFTA announced that it will add four additional staff lines to deal with the volume of procurement, but the Executive Budget does not include a headcount increase or new need for procurement staff. Additionally, the Commissioner sent a memo to DFTA's partner agencies detailing the failure of the agency's procurement operations this year. Given the performance, potential for agency expansion, and the importance of the work managed by DFTA, the proposed budget for DFTA deserves scrutiny and further adjustment.
- **Fast Track NYCHA Roof Repairs.** The NYCHA Chair has testified that NYCHA has the capacity to complete $1 billion of roof repairs over a five-year period, but the Capital Commitment Plan includes only $433 million from Fiscal 2018 through Fiscal 2021. OMB should revise the allocation for roof repairs in the Fiscal 2018 September Capital Commitment Plan in accordance with NYCHA's capacity to complete the work.
- **Tree Stump Removal Backlog.** The Department of Park and Recreation (DPR) will not be able to eliminate the persistent backlog of tree stump removal requests with its proposed budget for Fiscal 2018. In order to remove the current backlog of 18,000 tree stumps, DPR requires a one-time allocation of $5 million in Fiscal 2018.
- **Board of Elections Language Assistance Program.** In response to the Council's recommendation to expand the Language Assistance Program, the Board noted that the Board only provides language services for those languages it is mandated to do so under Section 203 of the Voting Rights Act. However, the Board expressed its willingness to work with the Council to find other means of helping non-English-speaking or limited-English-speaking New Yorkers to vote.
- **City University of New York (CUNY) Remediation Program**. CUNY would like to overhaul its program model for remediation, developing a new course curriculum, retraining remedial instructors, and developing new programs to serve students with varying levels of need, at a projected cost of $4 million. The Fiscal 2018 Executive Budget, however, includes no additional support for remedial programs.
- **COMPASS Slot Restoration.** In the Fiscal 2017 budget, a total of $16 million was added to the COMPASS program to restore slots for a second year and to address extensive wait lists in programs citywide. However, the Fiscal 2018 Executive Budget includes no funding for the approximately 9,800 slots that were supported this year.
- **Foundation Aid.** Although Department of Education (DOE) received an increase in State funds in the 2017-2018 State Budget, the amount of Foundation Aid is $165.6 million less than what DOE had projected in the Preliminary Plan. The level of Foundation Aid in the State Budget fell short of meeting the State's responsibility for the *Campaign for Fiscal Equity* (CFE). DOE planned to use this funding to increase school budgets and there is now no plan in place.
- **Charter School Costs.** Charter schools are funded by the DOE and therefore the DOE budget must account for charter school growth, as well as the per pupil tuition rate that is set by the State. This

year, the State Adopted Budget approved a $500 increase in the supplemental basic tuition rate and an increase in the Charter Facilities Rental Aid for privately leased space. The DOE accounted for the increase in tuition rate in the Executive Budget, but there is no new funding in the budget to support the increase in facilities payments for privately leased space.

- **Students in Shelter.** The Students in Shelter program is designed to better support the needs of homeless students by providing additional supports in schools with the highest concentrations of students living in shelters. This program was first funded in Fiscal 2017 at $10.3 million and was added again for Fiscal 2018 in the Executive Plan. However, DOE stated at the Executive Budget Hearing they would consider adding weights to the Fair to Student Funding Formula to better support students in temporary housing.

Appendix A: Fiscal 2018 Executive Financial Plan

Fiscal 2018 Executive Financial Plan Summary
Dollars in Millions

	FY17	FY18	FY19	FY20	FY21	Avg. Annual Change
REVENUES						
Taxes	$54,846	$56,468	$59,250	$61,792	$64,335	4.1%
Misc. Revenues	7,011	6,480	6,640	6,854	6,841	(0.6%)
Unrestricted Intergovernmental Aid	57					
Less: Intra-City and Disallowances	(1,452)	(1,830)	(1,752)	(1,754)	(1,759)	4.9%
Subtotal, City Funds	**$60,462**	**$61,118**	**$64,138**	**$66,892**	**$69,417**	**3.5%**
State Aid	14,437	14,396	14,849	15,347	15,702	2.1%
Federal Aid	8,937	7,799	7,002	6,897	6,879	(6.3%)
Other Categorical Grants	976	880	868	859	856	(3.2%)
Capital Funds (IFA)	641	667	662	599	597	(1.8%)
TOTAL REVENUES	**$85,453**	**$84,860**	**$87,519**	**$90,594**	**$93,451**	**2.3%**
EXPENDITURES						
Personal Services	$44,610	$46,997	$49,286	$51,055	$52,548	4.2%
Other Than Personal Services (OTPS)	36,637	35,627	35,085	35,103	35,321	(0.9%)
Debt Service	6,282	6,528	7,225	7,908	8,396	7.5%
General Reserve	300	1,000	1,000	1,000	1,000	35.1%
Capital Stabilization Reserve	0	250	250	250	250	
Less: Intra-City	(2,065)	(1,815)	(1,737)	(1,739)	(1,744)	(4.1%)
Spending Before Adjustments	85,764	88,587	91,109	93,577	95,771	2.8%
Surplus Roll Adjustment (Net)	(311)	(3,727)				
TOTAL EXPENDITURES	**$85,453**	**$84,860**	**$91,109**	**$93,577**	**$95,771**	**2.9%**
Gap to be Closed	**$-**	**$-**	**(3,590)**	**(2,983)**	**(2,320)**	

Source: *OMB Fiscal 2018 Executive Financial Plan*

Appendix B: Changes in the Fiscal 2018 Executive Budget

Spending Changes Included in the Fiscal 2018 Executive Budget
Dollars

	Fiscal 2017		Fiscal 2018	
	Headcount	**Funding**	**Headcount**	**Funding**
City Funds				
New Needs	220	$235,012,567	1,136	$631,382,119
Other Adjustments	229	290,348,767	29	(1,109,564,119)
City Funds Total	**449**	**$525,361,334**	**1,165**	**($478,182,000)**
Non-City Funds				
New Needs	5	$9,034,504	108	$105,775,320
Other Adjustments	136	130,138,683	77	593,259,187
Non-City Funds Total	**141**	**$139,173,187**	**185**	**$699,034,507**
All Funds				
New Needs	225	$244,047,071	1,244	$737,157,439
Other Adjustments	365	420,487,450	106	(516,304,932)
All Funds Total	**590**	**$664,534,521**	**1,350**	**$220,852,507**

New Needs by Agency
Dollars

Agency	Fiscal 2017	Fiscal 2018
Homeless Services	$59,978,346	$167,478,609
Department of Education	45,529,559	103,537,588
Campaign Finance Board	-	42,642,070
Board of Elections	-	42,527,625
Social Services	1,323,802	38,722,605
Citywide Administrative Services	4,213,912	33,869,298
Environmental Protection	(288,119)	31,828,386
Fire	15,063,714	31,675,846
Youth and Community Development	-	26,325,623
Sanitation	8,900,450	25,452,949
Administration for Children's Services	-	25,159,131
Miscellaneous	41,071,859	21,876,303
Police	18,163,551	19,958,018
Department of Buildings	-	14,826,500
Health and Mental Hygiene	1,588,125	11,949,389
Department of Info, Tech, and Telecomm	7,534,248	10,731,578
Department of Finance	596,169	10,676,265
City Council	-	9,877,634
Health and Hospitals	1,838,973	9,851,343
Housing Preservation and Development	-	9,624,675
Transportation	2,063,298	9,479,526
Small Business Services	31,591,374	7,811,701
Office of Administrative Trials and Hearings	601,851	5,811,297
Parks and Recreation	3,319,644	4,908,807
ALL OTHER	956,315	20,554,673
Total New Needs	**$244,047,071**	**$737,157,439**