THE COUNCIL OF THE CITY OF NEW YORK

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Speaker of the Council

Hon. Daniel Dromm
Chair, Committee on Finance

Report of the Finance Division on the
Fiscal 2019 Executive Expense and Revenue Budget
May 7, 2018

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Introduction

On April 26, 2018, Mayor Bill de Blasio released the Executive Budget for Fiscal 2019. The budget totals $89.1 billion, representing an approximately $400 million increase over the $88.7 billion Preliminary Budget that was released in February.

As per the budget process set forth in the New York City Charter, the Council has already held in-depth hearings on the Preliminary Budget and conducted an agency-by-agency analysis of the Administration's spending proposals. The extensive review, critical analysis, and consideration of public input that occurred culminated in the Council's release of its Response to the Preliminary Budget, which detailed the funding for the critical programs and initiatives that the Council determined should be included in the Executive Budget.

Now that the Executive Budget has been released, throughout the month of May at hearings held jointly between the Committee on Finance and other Council committees, the Council will conduct a vigorous review of the changes to the budget that were made since the Preliminary Plan. Unfortunately, the recommendations made by the Council in our Budget Response make up far too few of those changes (see following section).

Therefore, our analysis of the Executive Budget will focus on considering the adjustments that the Mayor did include and asking tough questions to hold the Administration accountable for not including the majority of the Council's priorities. As part of that review, we will also focus on the sufficiency of the savings program, the accuracy of the revenue projections and assumptions, and the overall financial stability of the budget.

The month of hearings begins on May 7th with testimony from the director of the Office of Management and Budget (OMB), Melanie Hartzog. The testimony and hearing will be focused on the City's Expense and Revenue Budgets. Director Hartzog will return the following day, May 8th, to provide testimony and answer questions about the City's capital budget. For that reason, this document will be focused on the expense and revenue budgets. For information on the Capital Plan in the Executive Budget, please see the Council's report *Fiscal 2019 Executive Capital Budget and Commitment Plan Overview*.

Subsequent hearings will offer opportunities to go into greater depth on each agency's budget. Throughout the hearings, continuing through negotiations, and ultimately to budget adoption, the Council will continue to fight for the millions of New Yorkers who would benefit from proposals like Fair Fares and a property tax rebate, while also ensuring that the budget is sound and our City is financially secure for the future.

Council Preliminary Budget Response

The Council's response to the Fiscal 2019 Preliminary Budget[1] presented the Council's expectations for increased accountability in the overall budget process and outlined a plan for bolstering the City's social safety net to protect New Yorkers in need. The Council also emphasized the importance of prudent budget planning and recognized the major risks to the City's Financial Plan.

[1] Available here: https://council.nyc.gov/budget/wp-content/uploads/sites/54/2018/04/The-Fiscal-2019-Preliminary-Budget-Response.pdf

In total, the Council presented a plan that, through more efficient spending and recognition of existing resources, could fund 67 new and expanded City programs, projects, and initiatives. Altogether, through more resourceful budgeting, the Council believes the City can support $1.6 billion in additional expense spending, $4.2 billion in capital spending, while still be left with a $211 million surplus by the end of Fiscal 2019. As this committee report is focused on the Expense and Revenue budgets, a discussion of the Capital proposals can be found in the committee report on the capital plan.

The most significant expense and revenue budget proposals presented in the response include calls to:

- **Bolster the City's Reserves** by $500 million to ensure there are at sufficient levels in the event of an economic downturn.
- **Institute Fair Fares**, which would provide half-fare MetroCards to New Yorkers living below the poverty levels, saving them an average of $726 per year.
- **Provide property tax relief for homeowners** with an annual income of $150,000 or less, where approximately 467,000 households would receive a $400 property tax rebate.
- **Direct education dollars to schools** by boosting all school's Fair Student Funding (FSF). The Executive Budget responded with a $125 million increase to FSF, which will raise the FSF floor from 87 percent to 90 percent, and the average to 93 percent. In total, 854 schools will see their FSF budgets grow in Fiscal 2019.
- **Prioritizing permanent housing** by reassessing homeless shelter spending and reallocating funding towards more supportive housing and programs that support move outs from the shelter system.

In addition, the Council called for three unfunded State mandates and shortfalls in State Aid to be funded in the budget. The Executive Budget reflects these items, which include the Metropolitan Transit Authority (MTA) Subway Action Plan, Raise the Age, and the restoration of Close to Home funding. For more information, please refer to page eight of this report.

Of the 50 expense and revenue related proposals, the Fiscal 2019 Executive Budget reflects full or partial support for just eight of these proposals totaling $201.5 million. This is includes the $125 million in FSF funding noted above. Below is a summary of the other seven expense related proposals included in the Fiscal 2019 Executive Budget:

- **Summer Youth Employment Program (SYEP) Minimum Wage - $20 million.** As the Council called for in the Budget Response, the Fiscal 2019 budget required an additional $27.5 million for minimum wage increases for the more than 52,000 City-funded SYEP jobs. The Executive Budget reflects $20 million for SYEP minimum wage increase.
- **Conduct Opioid Abuse Prevention and Treatment - $13.6 million.** The Fiscal 2019 Executive Budget includes funding for the expansion of HealingNYC – the City's plan to combat the opioid epidemic across the Department of Health and Mental Hygiene (DOHMH), NYC Health + Hospitals (H+H), and the District Attorneys.
- **Fund Indigent Defense Providers - $12.5 million.** The Fiscal 2019 Executive Budget reflects $7.8 million in baselined funding for indigent defense providers in Fiscal 2019 and the outyears, and $12.5 million in Fiscal 2019 for indigent defense homicide cases.
- **Support Students in Shelter - $11.9 million.** The Council called for $22.4 million to be added to DOE's budget to fund a new FSF weight for homeless students. Although an

additional weight was not added to the FSF formula for homeless students, the Fiscal 2019 Executive Budget reflects $11.9 million to support students in shelters for the upcoming fiscal year only.

- **Bolster Census 2020 Outreach - $4.25 million.** The Fiscal 2019 Executive Budget dedicates $4.25 million in Community Development Block Grant (CDBG) funding for Census 2020 outreach.
- **Restore 14 NYCHA Senior Centers - $3.1 million.** The Council urged the Administration to restore $2.8 million for 14 NYCHA senior centers and the Executive Budget includes $3.1 million in Fiscal 2019 to continue the operation of these centers for one more year. The additional funding supports Cost of Living Adjustments (COLAs) for workers at these senior centers.
- **Support Prosecutors - $3.4 million**. At the Fiscal 2019 Preliminary Budget hearing, the prosecutors requested funding for core operations and innovative criminal justice related initiatives, including body worn camera infrastructure, specialized units, and increased personal services funding for pay parity. The Executive Budget includes $3.4 million to support Brooklyn, Bronx, Manhattan, and Queens District Attorneys.

The Council also proposed $528 million in agency savings in Fiscal 2018 and Fiscal 2019. Of this amount, the Fiscal 2019 Executive Budget includes $492.5 million, or 93 percent, of these proposed savings. The savings proposals are grouped into four categories: revenue re-estimates, surplus savings, debt re-estimates, and efficiencies. The table below provides the savings proposals included in the Budget Response and which of those were reflected in the Executive Budget.

Proposed Savings Item *Dollars in millions*	**Proposed**	**In Exec. Budget**
Revenue Re-estimates		
Section 421(a) Tax Exempt Fee Revenue	$33.0	$12.3
In-Rem Negotiated Sales Revenue	$17.0	$1.3
Department of Consumer Affairs Revenue	$5.0	$2.3
Parking Fines	$80.0	$13.6
Surplus Savings		
Vacant Headcount Savings	$75.0	$206.0
OTPS Surplus Savings	$35.0	$159.4
Debt Re-estimate		
VRDB Debt Service Re-estimates	$141.0	$61.0
Efficiencies		
Expand the DCAS Demand Response Program	$35.0	$0.6
Expand Vertical Case Handling	$10.0	-
Increased collection of Environmental Control Board Fines	$50.0	$28.2
Reduce IT Contracts	$20.0	$4.0
NYCWin Decommissioning	$15.0	-
Department of Corrections OTPS Reduction	$2.0	-
Financial Information Services Agency Budget Reduction	$5.0	$2.9
Mayor's Office of Media & Entertainment Film Incentive Fund Reduction	$5.0	$0.9
TOTAL	**$528.0**	**$492.5**

Financial Plan

The Fiscal 2019 Executive Plan reflects new conditions set by the State Budget, new information from year-to-date tax collections, the Administration's new needs and Administration's reaction to the Council's Preliminary Budget Response. The budget has grown to $88.7 billion in Fiscal 2018 and $89.1 billion in Fiscal 2019, up from the Preliminary Budget by $1.23 billion in Fiscal 2018 and by $397 million in Fiscal 2019. Because spending can be partially paid for by prepayments of debt service, spending before adjustments is a better picture of City spending for a given fiscal year. This spending was $89.2 billion in Fiscal 2018 and $92.7 billion in Fiscal 2019, up $142 million from the Preliminary Budget in Fiscal 2018 and $1.46 billion in Fiscal 2019.

Fiscal 2019 Executive Financial Plan Summary
Dollars in Millions

	FY18	FY19	FY20	FY21	FY22	Avg. Annual Change
REVENUES						
Taxes	$58,267	$60,076	$62,349	$64,762	$66,495	3.4%
Misc. Revenues	7,128	6,789	6,830	6,735	6,714	(1.5%)
Unrestricted Intergov't Aid Less: Intra-City & Disallowances	(2,123)	(1,839)	(1,785)	(1,789)	(1,789)	(4.2%)
Subtotal, City Funds	**$63,272**	**$65,026**	**$67,394**	**$69,708**	**$71,420**	**3.1%**
State Aid	14,865	14,969	15,299	15,760	16,243	2.2%
Federal Aid	8,799	7,507	7,127	7,106	7,089	(5.3%)
Other Categorical Grants	1,088	879	871	866	861	(5.7%)
Capital Funds (IFA)	646	682	641	638	638	(0.3%)
TOTAL REVENUES	**$88,670**	**$89,063**	**$91,332**	**$94,078**	**$96,251**	**2.1%**
EXPENDITURES						
Personal Services	46,767	49,302	51,161	52,939	53,525	3.4%
Other Than Personal Services	38,358	37,025	36,396	36,617	36,896	(1.0%)
Debt Service	6,231	6,962	7,511	7,903	8,608	8.4%
General Reserve	50	1,000	1,000	1,000	1,000	111.5%
Capital Stabilization Reserve	-	250	250	250	250	
Less: Intra-City	(2,208)	(1,824)	(1,770)	(1,774)	(1,774)	(5.3%)
Spending Before Adjustments	89,198	92,715	94,548	96,935	98,505	2.5%
Surplus Roll Adjustment (Net)	(528)	(3,652)				
TOTAL EXPENDITURES	**$88,670**	**$89,063**	**$94,548**	**$96,935**	**$98,505**	**2.7%**
Gap to be Closed	**$-**	**$-**	**($3,216)**	**($2,857)**	**($2,254)**	

Source: *OMB Fiscal 2019 Executive Financial Plan*

Both Fiscal 2018 and 2019 are balanced by prepayments from prior years. The net roll of $528 million for this year reflects both the $4.2 billion rolled into Fiscal 2018 and the $3.7 billion rolled out to prepay Fiscal 2019 expenses. The fact that more is rolled in than out reflects a net use of reserves this year, a year with a healthy economy and strong tax collections. The gaps in the outyears are no surprise given the use of prepayments to balance Fiscal 2019. In recent years, the City has managed gaps of this size without difficulty.

End of the years reserves for Fiscal 2018 in the Executive Budget are $7.9 billion. Each year also includes a general reserve and a capital stabilization reserve totaling $1.25 billion. However, there are outyear budget gaps ranging from $3.2 billion to $2.25 billion. The end of the year reserves plus the reserves in the plan are sufficient to close these gaps but would leave the City with less than $1 billion to address an economic downturn. Based upon a statistical analysis Finance Divisions believes that the City needs approximately $11 billion in reserves to have a reasonable probability of weathering a future downturn.[2]

Balancing the Budget

Almost all of the growth in City Funds for Fiscal 2018 is due to the recent windfall in income tax collections, which accounts for $801 million of the increased tax revenues for Fiscal 2018. This growth is rolled over to prepay Fiscal 2019 expenses, increasing the total Fiscal 2019 expenses prepaid in Fiscal 2018 by $1.1 billion, to a total of $3.7 billion.

Closing the Gap
Dollars in Millions

	FY18	FY19
Gap as of February 2018 Financial Plan	**$0**	**$0**
Revenue Changes		
OMB Tax Forecast	*$973*	*$227*
NYS intercept of STARC savings		*($150)*
Misc. Revenues	*$55*	*$1*
SUBTOTAL	**$1,028**	**$78**
Expense Changes:		
Enacted State Budget	*($1)*	*$531*
Citywide Savings Program	*($368)*	*($386)*
Agency Expense Changes	*$537*	*$946*
Pensions	*$42*	*$55*
Takedown of General Reserve	*($250)*	*$0*
SUBTOTAL	**($40)**	**$1,146**
TOTAL: Gap Opening & Closing Actions	**$1,068**	**($1,068)**
Additional FY18 Prepayment of FY19 Expenses	*($1,068)*	*$1,068*
NEW GAP in Preliminary Financial Plan	**$0**	**$0**

Source: *OMB Fiscal 2019 Executive Budget*

The Executive Budget sees a commitment over Fiscals 2018 and 2019 of $530 million to cover new needs mandated by the State's Enacted Budget, and a nearly $1.6 billion increase in agency expenses when including pension cost adjustments.

This $2 billion increase in spending is covered by $1.1 billion in updated revenue projections, $750 million from Citywide Savings Program, and an additional takedown of $250 million from the General Reserve. The Executive Budget's revenue forecast also reflects an adjustment of

[2] For a full discussion of the City's reserves, see the Revenue Note "Budget Reserves: How Much Does New York City Need?" from the Council's Finance Division, released at the Committee on Finance Preliminary Budget Hearing on March 5, 2018. http://legistar.council.nyc.gov/MeetingDetail.aspx?ID=594635&GUID=9F085F0D-2AAB-4278-B740-2F9B8D703F86&Options=info&Search

Sales Tax Revenues to recognize the State's intention to intercept $150 million from the City to capture savings from STARC bond refinancing.[3]

Revenue Changes

Tax forecasting has become a lot more complicated this year than in past years. Forecasters are not only factoring in the perceived direction of economic indicators, but also taking into account sizable one time revenue - both economic and also related to major tax policy changes. Tax collections in Fiscal 2018 are coming in a lot stronger than anticipated. This is seen in OMB's tax revenue revision in the Executive Budget. Between the Preliminary and Executive budgets, tax revenue has been upwardly re-estimated by a sizable $973 million in Fiscal 2018. Of that amount, $801 million is from the personal income tax (PIT). The Mayor has indicated that roughly $200 million of the extra PIT revenue is recurring, and the remaining $600 million all in one-shots. Reflecting this thinking, the forecast for Fiscal 2019 is also up, but not by as much, rising only $77 million. This figure would be higher, but this forecast update also reflects the State's $150 million intercept of the City's sales tax noted above.

Tax Revenue Changes from Fiscal 2019 Preliminary Budget

Dollars in millions

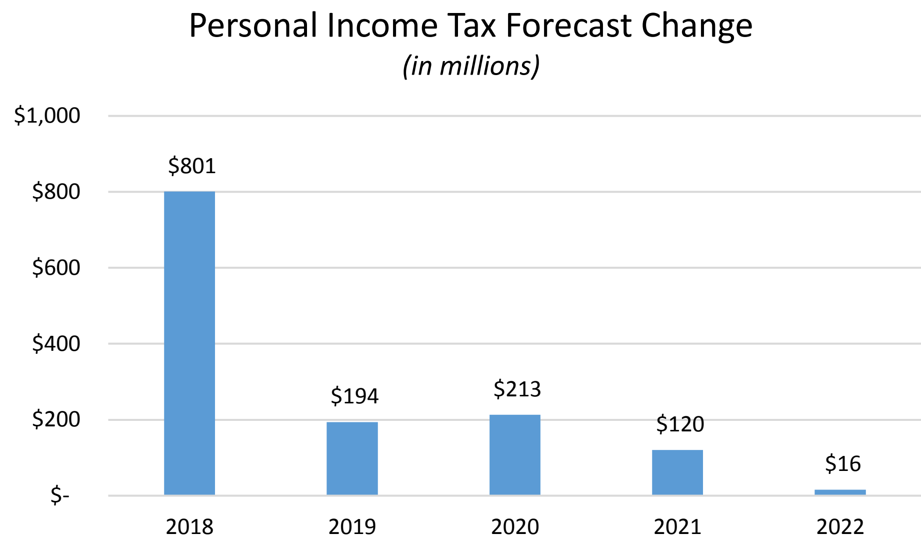
	FY18	FY19	FY20	FY21	FY22
Real Property	114	115	141	273	981
Personal Income	801	194	213	120	16
General Corporation	-112	-121	-113	-96	-163
Unincorporated Business	83	6	-8	-22	-33
Sales and Use	59	-144	-60	-86	67
Commercial Rent	0	15	18	11	7
Real Property Transfer	6	-10	-53	-26	-15
Mortgage Recording	22	10	-19	-2	5
Utility	1	-3	-3	-2	-3
Hotel	0	15	10	10	10
All Other	-1	0	0	0	0
Total	**$973**	**$77**	**$126**	**$180**	**$872**

After including updates to its forecast, OMB projects a rebound in tax revenues of 6.6 percent in Fiscal 2018 – an additional $3.6 billion, following sluggish growth of 1.9 percent in 2017 – adding $1.1 billion. Collections will then moderate to 3.1 percent growth in 2019 - up $1.8 billion. Forty percent of the growth in 2018 - $1.4 billion, comes from the personal income tax (PIT).

Personal Income Tax

Driving the surge in PIT collections are economic factors, such as rising employment, wages finally moving, dynamic equity markets and exceptionally stellar bonuses on Wall Street. The exceptional market performance and bonuses are not likely to reoccur in the next few years, as higher interest rates dampen Wall Street's performance.

[3] For more on the Sales Tax Asset Receivable Corporation (STARC) refinancing, see http://www.nyc.gov/html/starcorp/html/activities/activities.shtml



The PITs performance is also driven by tax policy changes. The Tax Cuts and Jobs Act (TCJA) introduced a $10,000 cap on state and local tax deductions which incentivized the reporting of income before the law's enactment in 2018. This has resulted in a flood of capital gains realizations. A significant portion of the reported capital gains is attributable to the dynamic stock market since mid-2016. However, many taxpayers deferred cashing-in their assets since late 2016, anticipating lower rates from promised tax reforms. After the TCJA failed to lower the capital gains rate, and established the December 31 deadline for full deductibility of state and local taxes, taxpayers scrambled to cash-in their capital gains - both those postponed, and others pushed forward.

Another tax policy change was the treatment of non-qualified deferred compensation accounts (NQDC). These are accounts where the employee agrees to receive compensation in the future for services performed today. Because they do not receive tax benefits, they typically reside offshore, where their annual returns are not taxed. In 2008 the Emergency Economic Stabilization Act required all NQDCs to repatriate to the U.S. and report all income by December 31, 2017. This resulted in another one time surge of PIT revenues in the first half of Fiscal 2018.

Consequently, it is very difficult to delineate how much of the recent PIT payments reflect the general improvements in the current economy, versus how much of it reflects the transitory impact from capital gains realizations and tax policy changes. Until that can be determined, it is prudent to treat the stellar performance of the PIT over the last 5 months as a one shot with only limited implications for growth over the rest of the financial plan.

Other Taxes

The confusion between economic versus tax policy factors is also seen in the business taxes. OMB expects unincorporated business tax collections (UBT) to reach 10 percent growth in Fiscal 2018, after contracting the previous year. Collections have benefited from a strong business environment, especially for hedge-funds. However, the TCJA has incentivized the moving forward of reported profits to tax year 2017. More significantly, the repatriated income from NQDC is disproportionately from managed funds, which pay the UBT, producing a one time in collections.

The business corporation tax continues to post weak collections, despite stronger corporate profits. This may be partially due to the 2015 business tax reforms, when firms, confused by the many changes, overpaid their taxes. The overpayments were placed on account and applied to future years.

The other City's taxes are less impacted by recent policy changes and issues of one shot revenue. Real property tax collections are expected to maintain strong growth through 2020, decelerating slightly in the outyears from rising interest rates. The transaction taxes (real property transfer and mortgage recording) are still showing weak collections, due to a softer commercial real estate market and reduced demand for high-end condos. Sales tax collections are expected to remain at a healthy pace, being supported by continued job growth, record consumer confidence, and growing tourism.

The Finance Division's economic and tax revenue forecast will be completed over the next few weeks and released at the May 24th Executive Budget hearing with OMB, the Comptroller, and the IBO.

Miscellaneous Revenue

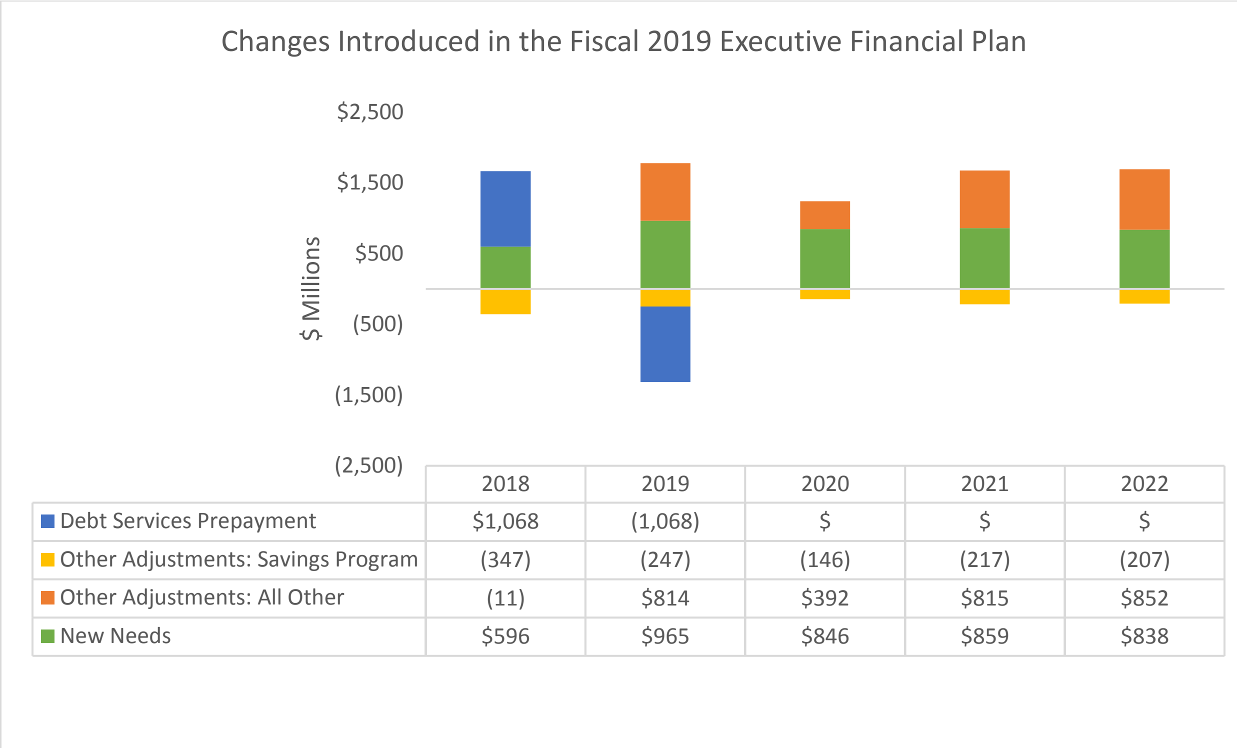
Miscellaneous revenues in Fiscal 2019 were roughly flat. The one major change in miscellaneous revenue is that the Mayor's Executive Budget no longer anticipates any revenue from the sale of taxi medallions during the years of the Financial Plan. This entails writing off expected revenues of $107 million in Fiscal 2019, $257 million in Fiscal 2020, $367 million in Fiscal 2021, and $198 million in Fiscal 2022.

The $107 million in lost revenue in Fiscal 2019 is offset by various positive miscellaneous revenue re-estimates, including some proposed by the Council. These include Section 421(a) tax exempt fee revenue, in-rem negotiated sales revenue, Department of Consumer Affairs revenue, re-estimated parking fines, and increased collections of Environmental Control Board fines.

Spending Changes

The Fiscal 2019 Executive Plan introduced a package of new needs totaling $965 million for Fiscal 2019, which is partially offset by a reduction of roughly $247 million in non-revenue savings[4]. About $1.1 billion in debt payments due in Fiscal 2019 have been budgeted for prepayment in Fiscal 2018, while all other adjustments to the budget in Fiscal 2019 total a net of $814 million. These other adjustments consist of funding for unfunded state mandates and shortfalls in State aid including the MTA Action Plan, Raise the Age, State School Aid Backfill. For more information on these items, see the previous section. Also included in the other adjustments is the Citywide Savings program. The collective result of the changes was to increase the budget for Fiscal 2019 to $90.9 billion.

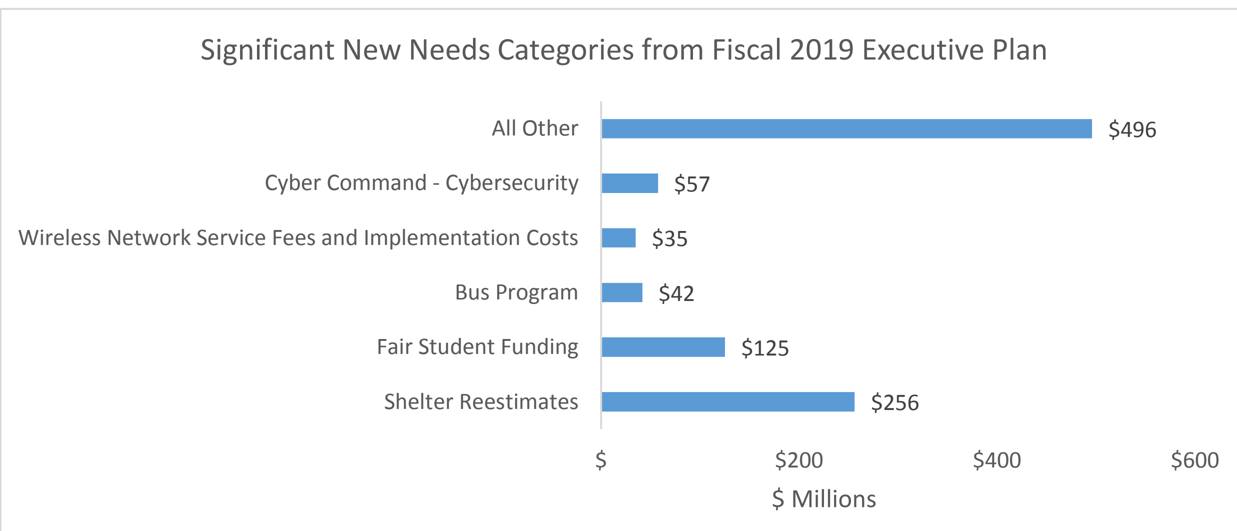
[4] These savings do not include agency changes to the revenue budget which are included in the Citywide Savings Program. The Program recognizes additional revenues of $20.5 million in FY18, $139.2 million in FY19, $12.3 million FY20, and $11.3 million in FY21-22.



	2018	2019	2020	2021	2022
Debt Services Prepayment	$1,068	(1,068)	$	$	$
Other Adjustments: Savings Program	(347)	(247)	(146)	(217)	(207)
Other Adjustments: All Other	(11)	$814	$392	$815	$852
New Needs	$596	$965	$846	$859	$838

The largest new need in the Fiscal 2019 Executive Plan is the DHS Shelter Re-Estimate, which totals approximately $207 million in Fiscal 2018 and baselined funding of $256.2 million in Fiscal 2019 and the outyears. The largest single Other Adjustment is to the MTA Subway Action Plan, which includes an additional $254 million in State-mandated funding for Fiscal 2019.

Significant New Needs



The five initiatives presented in the chart above make up almost half of the $964.7 million in new needs funding for Fiscal 2019.

- **Shelter Re-estimates.** The Department of Homeless Services (DHS) posted new needs totaling $207 million in Fiscal 2018 and $256.2 million in Fiscal 2019 and the outyears.

Since the adoption of the Fiscal 2018 budget, shelter spending has increased by $410.1 million or 19 percent in Fiscal 2018, and by $432.8 million or 24 percent in Fiscal 2019.

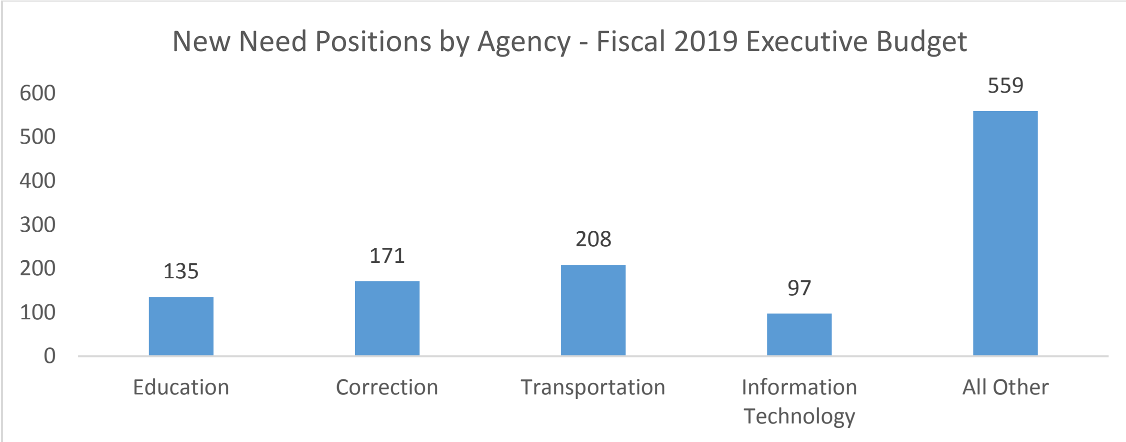
- **School Bus Program.** The Department of Small Business Services (SBS) included $41.8 million for Fiscal 2019 for the wage supplement for Reliant Transportation Inc.'s contract with the Department of Education. The Financial Plan recognized the Fiscal 2019 spending estimate in advance of the fiscal year at the insistence of the City Council. In prior fiscal years, the program was funded mid-year.
- **Fair Student Funding.** The Department of Education (DOE) included new needs for Fair Student Funding totaling roughly $125.2 million.
- **NYCWiN Replacement Costs.** Due to the decommission of the New York City Wireless Network (NYCWiN), the Department of Transportation (DOT) has allocated $35 million in expense funding in Fiscal 2019 to lay fiber optic cabling for its Traffic Control Boxes and effectively transfer out of the system. Additionally, there is $75 million in capital funding for other Traffic Control Box technology related upgrades.
- **Cyber Command.** The Department of Information Technology and Telecommunications (DoITT) included a roughly $55 million new need to cyber security in Fiscal 2019, increasing to roughly $125 million by Fiscal 2022. Cyber Command was created in July 2017, by Executive Order 28, which has led the City's cyber defense efforts by directing citywide cyber defense and incident response, mitigating cyber threats, and providing guidance to the Mayor and City agencies.

All together, the Executive Financial Plan for Fiscal 2018-2022 introduced 202 new needs. Combined with the new needs introduced in the November 2017 and February 2018 Financial Plans, the Administration has grown Fiscal 2019 spending by $3.82 billion since adoption of the Fiscal 2018 budget. For the current year, this Plan adds $286.3 million for new needs that are not baselined. For a list of the new needs introduced in the Executive Plan, with their Fiscal 2019 and Fiscal 2018 values, please refer to Appendix A.

Headcount Changes

In the Fiscal 2019 Executive Financial Plan, the net full-time headcount increases by 1,042 positions. This brings the total budgeted headcount of the City to 331,210 in Fiscal 2019, of which 304,448 are full-time positions and 26,762 are full-time equivalent (FTE) positions. There is an increase in headcount associated with New Needs of 1,170 positions, of which 1,104 are City funded. Agencies with large growth in headcount include the Department of Education, the Department of Transportation, and the Department of Correction. The following chart provides an overview of the agencies with the greatest growth in new positions.

The largest increase in new budgeted headcount comes from DOT, as it adds 208 positions, 145 of which are related to the pedestrian ramp program. Furthermore, the DOE adds 65 positions related to the students in shelters program, as called for by the Council in the Fiscal 2019 Preliminary Budget Response. The Department of Information Technology and Telecommunications (DoITT) adds 97 full-time positions, including 77 for the newly created New York City Cyber Command (NYC3). The Department of Correction (DOC) adds 171 full-time positions, including 71 for the Investigations Division and 55 for the Compliance and Safety Center. Another notable increase is a 50 position add to the Bronx District Attorney in Fiscal 2019, 26 of which are for trial preparation assistants



With regard to Other Adjustments, the Executive Plan results in a decrease of 128 positions. This is the net result of a 1,000 one-time vacancy reduction across 32 agencies. As of March 2018, city funded vacant positions total 3,442. This represents an increase of approximately 1,200 vacant positions since January 2018. The one-time vacancy reduction is largely offset by 802 new positions related to Raise the Age, including 254 for the Law Department and 212 for the Administration for Children's Services. The table below breaks down the net headcount changes by type and Fiscal Year.

Headcount Changes in the Executive Budget by Type					
	FY18	**FY19**	**FY20**	**FY21**	**FY22**
New Needs	(11)	1,170	1,114	1,195	1,178
Other Adjustments	42	(128)	1,106	1,275	1,115
Net Change	**31**	**1,042**	**2,220**	**2,470**	**2,293**

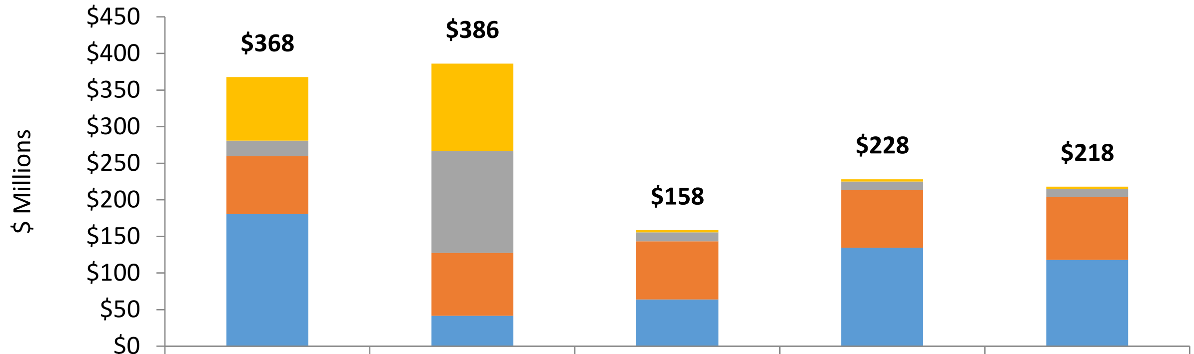
Citywide Savings Program

The Fiscal 2019 Executive Citywide Savings Program registers $1.4 billion in budget savings over Fiscal 2018-2022. Of that, about half, or $754 million are in Fiscal 2018 and 2019, and used to help balance the budget for those years.

When combined with the November 2017 and Preliminary Fiscal 2019 Programs, the Fiscal 2019 Citywide Savings Program totals $4.7 billion over the same five-year period. At the Preliminary Budget Hearing, OMB testified that agencies had been directed to find $500 million in additional savings over Fiscal 2018 and Fiscal 2019. Agencies exceeded this directive, achieving $753.6 million in savings over this period. Nonetheless, new needs in the Executive plan far exceed savings. The Council has advocated for new spending to be balanced by savings.

Unlike in previous programs, agency other than personal services (OTPS) savings make up a major share of overall savings in the Executive Program, at 30.2 percent of the total. Nonetheless, debt service estimates still make up the greatest share of savings, at 39.6 percent of the total. In addition, savings in the Executive Program are much more concentrated in Fiscal 2018 and Fiscal 2019 than were savings in the November and Preliminary Programs, with staffing and revenue savings particularly sparse in the outyears. For example, while staffing savings make up 15.8 percent of total savings in the Executive Program, almost all of these savings represent PS accruals in Fiscal 2018 and a one-time vacancy reduction of 1,021 positions in Fiscal 2019, with almost no staffing savings in the outyears. The City Council has consistently advocated for a more balanced savings program across fiscal years, which this program does not achieve. Of the $1.4 billion in savings, $232.7 million, or 17.1 percent, of savings are labeled as efficiencies by OMB. Many of them however are not programmatic changes. The chart below highlights the Fiscal 2019 Executive Citywide Savings Program of $1.4 billion by fiscal year and type of saving.

Fiscal 2019 Executive Citywide Savings Program



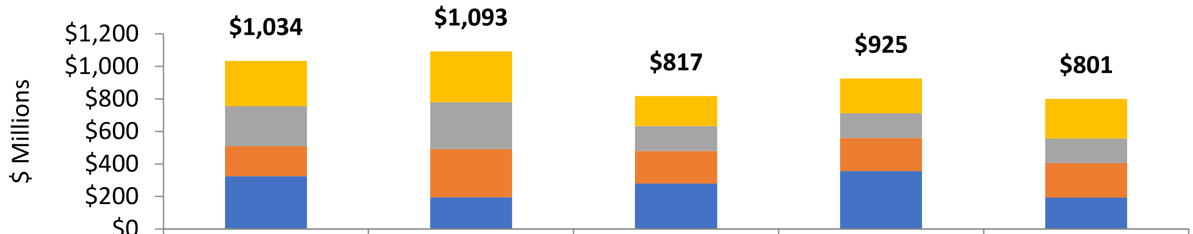
	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022
Staffing	$87	$119	$3	$3	$3
Revenue	$21	$139	$12	$11	$11
Other	$80	$86	$79	$79	$86
Debt Service	$181	$41	$64	$134	$118
Total	$368	$386	$158	$228	$218

Debt Service Other Revenue Staffing

In the Preliminary Budget Response, the Council called on the Administration to introduce a more aggressive Citywide Savings Program with higher savings targets. However, to date, the Fiscal 2019 Citywide Savings Program of $4.7 billion is only 71 percent the size of the Fiscal 2018 Program, which totaled $6.6 billion at adoption. This $4.7 billion represents a reduction in the planned spending of City funds of just 1.4 percent over the five-year program.

In comparison, the Fiscal 2018 program cut planned spending of City funds by more than two percent over five fiscal years. The Chart below highlights the Fiscal 2019 Citywide Savings Program over the November, Preliminary and Executive Plans by fiscal year and type of saving.

Fiscal 2019 Citywide Savings Program, November, Preliminary and Executive Plans



	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022
Staffing	$279	$312	$184	$214	$244
Revenue	$247	$290	$153	$152	$151
Other	$184	$296	$201	$204	$212
Debt Service	$325	$195	$279	$356	$194
Total	$1,034	$1,093	$817	$925	$801

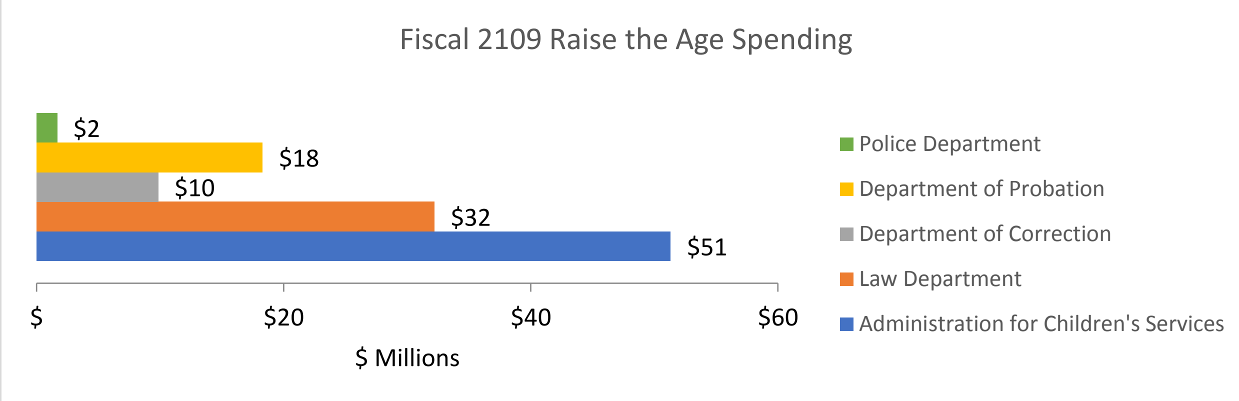
Debt Service Other Revenue Staffing

Finally, the Council also called for the clear categorization of each savings item within the Program. This was not addressed in the Executive Citywide Savings Plan, in which a majority of savings measures are not categorized by type.

Unfunded Mandates and Shortfalls in State Aid

The Fiscal 2018-2019 New York State Enacted Budget contains a set of unfunded mandates and shortfalls in State aid that are recognized in the Executive Plan. For Fiscal 2018 and Fiscal 2019 these provisions cost the City a combined $530 million. The Executive Budget also recognizes an additional $150 million reduction in City sales tax revenue that stems from State actions in 2016. The main components of these costs are:

- **MTA Subway Action Plan.** As mandated by the Fiscal 2019 State Enacted Budget, the City is contributing an additional $254 million in expense funding to support the MTA Subway Action Plan (SAP). The City is also contributing $164 million in capital funds in Fiscal 2019 for SAP, bringing its total contribution to the program to $418 million.
- **Raise the Age.** In the coming year, the City must begin the phase in of the State's mandates associated with the 2017 Raise the Age law. The Executive Plan adds $113.4 million in Fiscal 2019 for costs associated with the operational changes required by October 2018. These include moving all juveniles off Rikers Island, establishing youth parts in the Criminal Courts, and transferring jurisdiction for 17-year-old offenders to the Law Department. The figure below details the agencies that posted other adjustments for Raise the Age.



- **<u>State School Aid Backfill.</u>** The Executive Plan includes baselined funding of $136 million in the DOE's budget beginning in Fiscal 2019 through Fiscal 2022 to bridge the gap between the State funding shortfalls for the DOE.
- **<u>Close to Home.</u>** The State has provided support for the Close to Home program since 2013, but the 2018-2019 State Budget eliminates this support for New York City only. The Executive Plan includes baselined funding of approximately $30.5 million beginning in Fiscal 2019 to continue this program.
- **<u>STARC Sales Tax.</u>** In 2014 Sales Tax Asset Receivable Corporation (STARC) refinanced its bonds. This saved about $600 million which was used by the City to prepay other bonds. Funding for STARC comes from New York State. Since 2016 New York State has been recovering this savings for its own use by taking $200 million of New York City sales tax revenue. The State taking of the last $150 million of this money is recognized in the Executive Budget for Fiscal 2019.

Pensions and Fringe Benefits

Pensions

The Executive Plan shows substantial changes to pension expenses in Fiscal 2019 and the outyears, including the potential cost of $100 million in Fiscal 2019 to implement a recommended change to the actuarial valuation process. To determine the employer contribution for a fiscal year, the City will move from using a two-year lag methodology to a one-year lag methodology. In other words, the City will use the previous year's census data and asset information (instead of census data and asset information from two years ago) to determine the employer contribution for the current year. Additionally, the city is setting aside $300 million in Fiscal 2021 and 2022 to address costs from other recommendations from an independent actuarial auditor that are pending.

Pension Expenses
Dollars in Millions

Fiscal Year	FY18	FY19	FY20	FY21	FY22
Pension Expenses	$ 9,632	$ 9,852	$ 9,903	$ 10,162	$ 10,367
Percent of City Funds	15.2%	15.2%	14.7%	14.6%	14.5%
Percent of Total Revenue	10.9%	11.1%	10.8%	10.8%	10.8%

Source: *Council Finance; OMB data*

There are also significant changes at many of the individual systems due to valuation updates from the Office of the Actuary. Because of these updates, City contributions have been reduced by $44.9 million in Fiscal 2019, then increase by $44.2 million in Fiscal 2020, $83 million in Fiscal 2021, and $84 million in Fiscal 2022. In total, pension contributions will increase by $50 million in Fiscal 2019, $140 million in Fiscal 2020, $483 million in Fiscal 2021, and $485 million in Fiscal 2021.

Other Fringe Benefits

From the Preliminary to the Executive Plan the City has increased what it anticipates spending on fringe benefits. Within the Miscellaneous Budget, which contains fringe benefit expenditures for employees and retirees of mayoral agencies, costs are increasing $26.3 million in Fiscal 2019 and by an average of $58.8 million annually in Fiscal 2020 through 2022. This is mostly due to anticipated expenditures on fringe benefits associated with headcount. For example, expenditures on health insurance for this group of employees will increase $19.1 million in Fiscal 2019, and by an average of $47 million annually in Fiscal 2020 through 2022.

In total, the City will spend $10.7 billion on non-pension fringe benefits in Fiscal 2019. This expenditure – which represents nearly 17 percent of City Funds – will then increase by 7 percent annually, reaching $13.1 billion in Fiscal 2022.

Labor Reserve

The Labor Reserve – which contains funding for wage and benefit increases negotiated in collective bargaining – is being drawn down by $522.7 million for the current fiscal year, and $11.5 million annually in Fiscal 2019 through 2022. The large reduction this year is largely due to lump sum payments totaling $447.7 million that will be made to teachers this fiscal year. As part of the costs of the 9-year agreement between the City and the United Federation of Teachers in 2014, teachers who retired between November 2009 June 2014 were eligible for a lump sum payment for two 4-percent raises retroactive to the first two years of the 9-year accord.[5] Teachers who retired after June 2014 or continued in the system also received lump sum payments, but the payouts were spread out over a five-year period. 12.5 percent of the lump sum was paid out in Fiscal 2016, 12.5 percent (or $447.7 million) will be paid out this year, and 25 percent will be sent out each October for the next three fiscal years (2019-2021).

Wages and Collective Bargaining
Dollars in Millions

Fiscal Year	FY18	FY19	FY20	FY21	FY22	Total
Salaries & Wages	$ 27,083	$ 27,272	$ 27,826	$ 28,100	$ 28,361	$ 138,642
Pensions	9,632	9,852	9,903	10,162	10,367	49,916
Other Fringe Benefits	9,989	10,733	11,647	12,418	13,098	57,885
Reserve for Collective Bargaining	63	1,445	1,785	2,259	1,699	7,251
Total	**$ 46,767**	**$ 49,302**	**$ 51,161**	**$ 52,939**	**$ 53,525**	**$ 253,694**

Other reductions to the Labor Reserve in Fiscal 2018 include $43.7 million for workers at Health and Hospitals (DC37, NYSNA, and 1199 SEIU), $20.9 million for School Safety Agents (Teamsters

[5] That 9-year contract is about to come to an end, concluding on October 31, 2018.

Local 237), $7.1 million for an Additional Compensation Fund for various groups within DC37, and roughly $3 million for electricians, painters, and glaziers at NYCHA (DC37).

The City is currently in contract negotiations with many of the 144 collective bargaining units – with roughly 40 percent working under expired contracts. As shown below, the Labor Reserve totals $1.4 billion in Fiscal 2019, $1.8 billion in Fiscal 2020, $2.3 billion in Fiscal 2021, and nearly $1.7 billion in Fiscal 2022.

Appendix: New Needs In the Executive Budget

New Needs	Fiscal 2018	Fiscal 2019
DHS Shelter Reestimate	$207,009,197	$256,225,560
DOE Fair Student Funding	$0	$125,197,950
Cyber Command – Cybersecurity for DoITT, HRA, DEP, & ACS	$0	$57,481,075
SBS School Bus Program	$0	$41,800,000
DOT Wireless Network Service Fees and Implementation Costs	$0	$35,000,000
NYCHA Repairs	$19,492,000	$33,860,000
Universal Literacy Enhancements	$0	$30,550,428
NYCC FY 2019 Budget	$0	$27,227,507
Pedestrian Ramp Program	$266,432	$20,254,345
Student Youth Employment Program Minimum Wage Increase	$0	$20,000,000
Non-Public School Security	$0	$14,000,000
Snow Removal	$23,122,537	$13,648,846
Filtration Avoidance Determination Requirements	($600,000)	$12,618,057
Sewer and Water Main Emergency Repair	$0	$12,517,209
Indigent Defense for Homicide Cases	$0	$12,509,970
BOE PS for FY2019 Election Cycle	$0	$12,092,559
HealingNYC Opioid Overdose Prevention	$0	$12,075,932
Students in Shelters	$0	$11,920,890
Pollworker Salaries	$0	$10,445,744
New Schools - Maintenance & Operations	$0	$9,817,790
Indigent Defense for Non-Homicide Cases	$0	$7,800,000
SBS Career Pathways	$0	$7,120,143
Campaign Finance Board FY19 Budget	$0	$6,823,928
Prison Cell Door Replacements	$0	$5,617,815
DOT Public Infrastructure Funding	$0	$5,462,088
Parking Meter Rate Increase	$0	$5,070,966
Capital Project Scope Development	$0	$5,000,000
Additional Funding for Assigned Counsel Plan (18B) (Indigent Defense)	$13,800,000	$0
DOE Carter Cases	$80,000,000	$0
Law Department Case-Specific Needs	$8,500,000	$0
Federal Insurance Contributions Act tax Re-estimate	$25,000,000	$0
DHS Information Technology	$25,000,000	$0
NYPD IT Maintenance	$13,140,000	$0
Judgement and Claims Re-estimate	$20,000,000	$0
FDNY OTPS Deficit	$5,700,000	$0
FDNY and DSNY PS Deficit	$71,000,000	$0
Re-estimate of payments due to the NYS Division of Homes Community Renewal	$14,000,000	$0
DHS Street Homeless Programs Reestimate	$17,000,000	$0
DOE Transportation	$20,000,000	$0
All Other	$2,050,047,134	$116,031,454
Grand Total	**$596,249,985**	**$964,672,255**