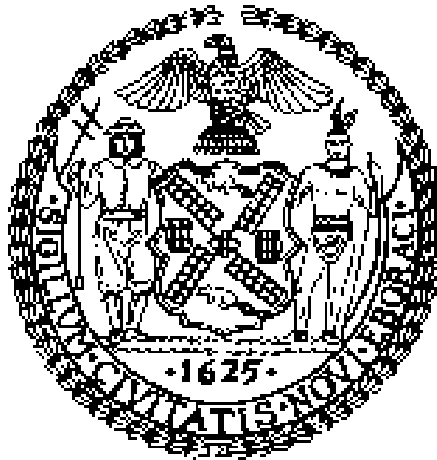


THE COUNCIL OF THE CITY OF NEW YORK

Hon. Corey Johnson
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Hon. Daniel Dromm
Chair, Committee on Finance

Hon. Vanessa L. Gibson
Chair, Subcommittee on Capital



Report to the Committee on Finance

Fiscal 2020-2024 Executive Financial Plan Overview

May 6, 2020

Finance Division
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Introduction

On May 6, 2020 the Committee on Finance begins the City Council's review of the proposed budget for Fiscal 2021. The Committee will hold a series of hearings to review agency budgets during the next several weeks and conclude with a hearing on May 21 devoted to public testimony regarding the proposed Fiscal 2021 Executive Budget. These hearings will be held virtually since restrictions in place to prevent the further spread of COVID-19 do not allow in person meetings. The challenges and changes imposed by the social distancing rules are major disruptions to the way the Council ordinarily operates but just minor adjustments in comparison to the harms done to our City by the virus.

The long-lasting toll imposed by the COVID-19 pandemic will be reflected in the City's budget for at least several years to come. The Administration prepared the Executive Financial Plan for Fiscal 2020-2024 (the Plan or Executive Plan) in the midst of the worldwide pandemic that had driven the City's economy into a recession in a few short weeks. The Plan reflects the incredible uncertainties related to the COVID-19 crisis, how our public agencies should respond, and the rush the Administration took to rebalance the Fiscal 2020 and 2021 Budgets in the Plan.

The Preliminary Financial Plan released in January 2020 projected a current fiscal year budget of \$95.4 billion and a Fiscal 2021 Expense Budget of \$95.3 billion. In this report, we offer a summary of the five-year Plan and we show how the budget gap opened by a loss of tax revenue is filled while adding new spending to respond to the pandemic. We discuss the expenditure changes introduced to show how modest the new needs changes are in comparison to the spending cuts and the almost complete exhaustion of reserves. We then present a summary of the planned COVID-19 related spending followed by a discussion of the precarious reduction of current-year reserves proposed for Fiscal 2021. To emphasize how uncertain the proposed Plan is, we discuss the risks to the budget that include uncertain new needs to combat the disease, falling revenues, and inaccurate spending projections. We conclude with a discussion of the capital program and the proposal to cut new commitments in this and the next fiscal year.

Financial Plan Overview

The Fiscal 2021 Executive Budget totals \$89.3 billion. This includes \$65.2 billion in City funds, down 6.2 percent from the Fiscal 2021 Preliminary Budget. The Executive Financial Plan shows both revenues and expenses decreasing significantly in Fiscal 2021 but increasing steadily thereafter. Total revenue is expected to grow at an average annual rate of 0.5 percent while total expenditures are expected to grow by 1.8 percent on average, resulting in outyear gaps. The Executive Financial Plan Summary below shows anticipated revenues and expenditures for all years, as well as the average annual percentage change in each category.

April 2020 Executive Financial Plan Summary*Dollars in Millions*

	FY20	FY21	FY22	FY23	FY24	Average Annual Change
REVENUES						
Taxes	\$62,113	\$60,186	\$64,634	\$67,275	\$68,560	2.6%
Miscellaneous Revenues	7,552	6,877	6,830	6,815	6,817	(2.5%)
Unrestricted Intergovernmental Aid	1,411	-	-	-	-	
Less: Intra-City and Disallowances	(2,193)	(1,863)	(1,849)	(1,846)	(1,846)	(4.0%)
Subtotal, City Funds	\$68,883	\$65,200	\$69,615	\$72,244	\$73,531	1.7%
State Aid	\$15,979	\$15,448	\$16,283	\$16,738	\$16,788	1.3%
Federal Aid	10,832	7,137	6,964	6,922	6,917	(9.3%)
Other Categorical Grants	1,072	872	861	860	857	(5.1%)
Capital Funds (IFA)	672	675	675	675	675	0.1%
TOTAL REVENUES	\$97,438	\$89,332	\$94,398	\$97,439	\$98,768	0.5%
EXPENDITURES						
Personal Services	\$49,824	\$50,297	\$53,376	\$55,000	\$56,025	3.0%
Other Than Personal Services (OTPS)	42,900	37,548	38,603	38,818	39,059	(2.1%)
Debt Service	6,938	7,390	8,027	8,732	9,166	7.2%
General Reserve	20	100	1,000	1,000	1,000	325.0%
Capital Stabilization Reserve	-	-	250	250	250	
Less: Intra-City	(2,178)	(1,848)	(1,834)	(1,831)	(1,831)	(4.0%)
Spending Before Adjustments	\$97,504	\$93,487	\$99,422	\$101,969	\$103,669	1.6%
Surplus Roll Adjustment (Net)	(\$66)	(\$4,155)				
TOTAL EXPENDITURES	\$97,438	\$89,332	\$99,422	\$101,969	\$103,669	1.8%
Gap to be Closed	-	-	\$5,024	\$4,530	\$4,901	

Source: Office of Management and Budget, April 2020 Executive Financial Plan for Fiscal 2020-2024.

City Funds Budget Changes

As required by the City's Charter, the Preliminary Financial Plan for Fiscal 2020-2024 was balanced for both Fiscal 2020 and Fiscal 2021. However, the outbreak of COVID-19 in New York and the United States and the associated efforts to combat the pandemic have caused dramatic changes to the City's fiscal situation. While much of the new pandemic spending is supported through federal funds, the \$7.4 billion reduction to the City's tax revenue forecast over Fiscal 2020 and 2021 creates a major budgetary issue for the City. Despite new federal aid and \$2.6 billion in additional savings program reductions, the proposed budgets for Fiscal 2020 and 2021 are balanced only through use of a substantial portion of the City's reserves. The table below provides an overview of the changes to City-funds budget between the Preliminary and Executive Financial Plans.

CITY FUNDS BUDGET CHANGES		
<i>Dollars in Millions</i>		
	FY20	FY21
Gap as of the Preliminary Financial Plan	\$0	\$0
<u>Revenue Budget Changes</u>		
Tax Revenues	(\$2,239)	(\$5,177)
Other Revenues	(232)	(227)
Federal Aid	1,298	0
Total Revenue Changes	(\$1,173)	(\$5,404)
<u>Expense Budget Changes</u>		
<u>Agency Level Changes</u>		
Agency Expense Changes	\$66	(\$39)
Citywide Savings Program	(1,163)	(1,499)
Pensions	(11)	(4)
Subtotal Agency Level Changes	(1,108)	(1,542)
<u>Intergovernmental Impacts</u>		
Enacted State Budget	\$34	\$763
Federal Aid	(250)	(444)
Subtotal Intergovernmental Impacts	(\$216)	\$319
<u>Drawdown of "Reserves"</u>		
General Reserve	(\$280)	(\$900)
Capital Stabilization Reserve	0	(250)
Retiree Health Benefits Trust Fund	(1,000)	(1,600)
Subtotal "Reserves" Drawdown	(\$1,280)	(\$2,750)
Total Expense Changes	(\$2,604)	(\$3,973)
Surplus of (Gap) Before Prepayments	\$1,431	(\$1,431)
FY 2020 Prepayment of FY 2021 Expenses	(\$1,431)	\$1,431
Gap as of April 2020 Financial Plan	\$0	\$0
<i>Does not include intra-fund capital spending or intra-city revenue</i>		

Total revenues for Fiscal 2020 are estimated to be down by \$1.2 billion. This results from a \$2.2 billion drop in tax revenues, a drop of \$232 million in other revenues, and an increase of \$1.3 billion in federal aid. The additional federal aid consists of two items, the nature of which allow them to be counted as City funds in the Financial Plan.

The first is a \$497.5 million reduction of the City's share of Medicaid expenses since January 1, 2020. Since the adjustment is retrospective, the increased federal funds are available to support general City operations.

The second item is \$800 million of the City's \$1.4 billion in CARES Act funding. CARES Act funding is categorical and may be used to support COVID-19 related spending. Ordinarily all of the CARES Act funding would be categorized as categorical funding. However, at the time of publication, OMB had not yet identified expenditures to which to apply this funding. These expenditures are currently reflected as City-funded expenditures, and as such this funding is currently categorized as City funds. Once OMB identifies the specific expenditures, these funds and associated expenditures will be relabeled as categorical rather than City tax-levy.

The Fiscal 2020 city-funds expense budget is down by \$2.6 billion from the Preliminary Financial Plan. Agency direct spending decreased by \$1.1 billion, largely because of \$1.2 billion in savings and a \$11 million reduction in required pension contributions. Revenue changes further reduce

Fiscal 2020 city funded spending. FEMA aid is allocated to cover previously budgeted overtime spending, 90 percent of which is for uniform overtime, of \$250 million. The Executive Financial Plan also draws down the General Reserve in Fiscal 2020 by \$280 million and reduces contributions to the Retiree Health Benefits Trust Fund by \$1 billion. Since the expenditure reductions exceed the revenue reductions, the Plan recognizes a current year surplus of roughly \$1.4 billion and rolls it into Fiscal 2021 by prepaying expenses like debt service.

This roll is critical to balancing Fiscal 2021 as OMB forecasts a major, recession-driven \$5.4 billion reduction in Fiscal 2021 revenues. That gap is widened further by \$319 million in intergovernmental actions. The resultant \$5.7 billion gap is filled by the aforementioned \$1.4 billion roll, agency spending cuts of \$1.5 billion, and \$2.8 billion in reserves. The overall agency spending reduction is driven almost entirely by the citywide savings program.

The \$319 million increase associated with intergovernmental actions stems largely from State funding shortfalls and mandates that were in the recently adopted State budget. This accounts for \$763 million in new needs for city-funded spending at agencies. This increase is partially offset by increased federal matching aid for Medicaid expenses allowing the City to reduce its share of the expense by \$444 million.

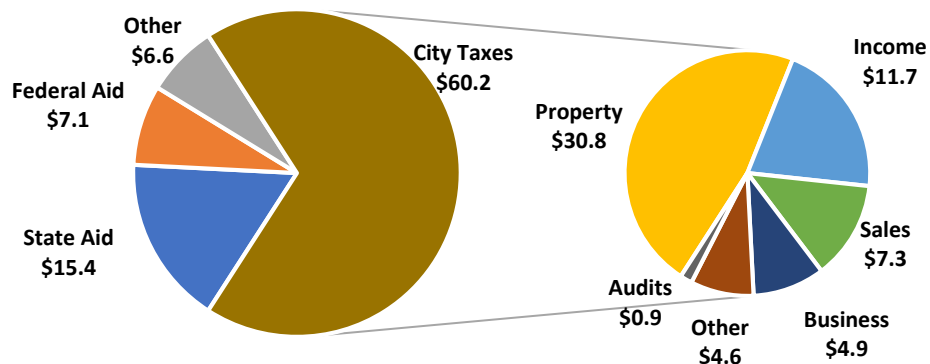
Notably, half of the gap caused by the revenue forecast collapse in Fiscal 2021 is filled with a substantial use of City reserves. In-year reserves that allow the City to address mid-year surprises are cut to the bone; the General Reserve is reduced to a mere \$100 million in Fiscal 2021, netting \$900 million in additional resources, while the \$250 million capital stabilization reserve is completely exhausted. Finally, contributions to the Retiree Health Benefits Trust Fund are reduced by \$1.6 billion, totaling \$2.75 billion in reserves used to help balance Fiscal 2021.

Revenue Budget

In the Executive Financial Plan, revenues for Fiscal 2021 total \$89.3 billion, 6.3 percent less than the Preliminary Financial Plan. Revenues come from a handful of sources, including local taxes, miscellaneous revenues, and State and federal categorical grants as shown in the chart below.

City Taxes Account for 67% of FY21 Revenue

Dollars in Billions



City taxes for Fiscal 2021 are expected to total \$60.2 billion, down 8.3 percent compared to the Fiscal 2020 Adopted Budget. Real property tax comprises 51.2 percent of all City tax revenues, while the personal income comprised 19.4 percent. For a detailed discussion of the Revenue Budget, see the “Economic and Revenue Forecast for the Fiscal 2021 Executive Budget” report.

Expenditures

The Executive Financial Plan introduced changes that increased the Fiscal 2020 Budget to \$97.4 billion and decreased the Fiscal 2021 Budget to \$89.3 billion. New needs total \$112.6 million in Fiscal 2020 and \$195.8 million for Fiscal 2021. Savings included in the Program to Eliminate the Gap (PEG) amount to \$2.66 billion over Fiscal 2020 and 2021 and reflect both projected revenue increases and spending reductions. Baselined savings amount to more than \$800 million in each year. Finally, the Plan introduces other adjustments of \$1.29 billion for Fiscal 2020, and a \$3.25 billion decrease in Fiscal 2021. Included in other adjustments is prepayment of about \$1.43 billion in debt service due in Fiscal 2021.

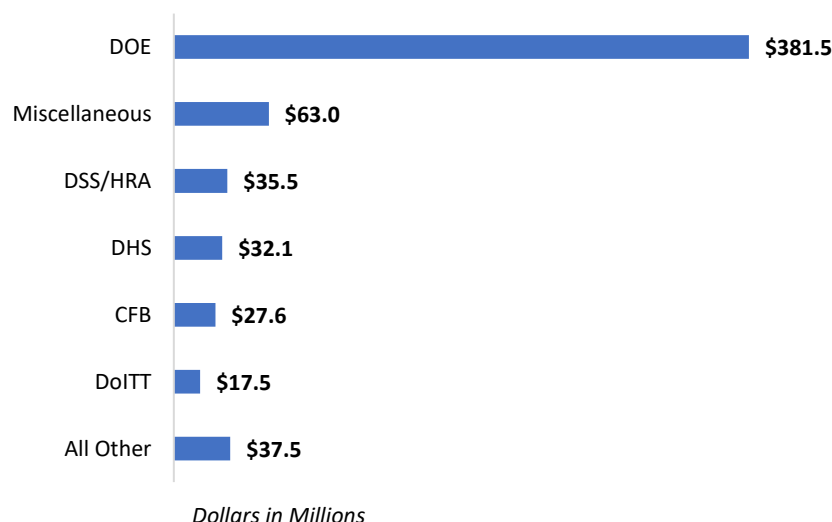
Changes in the April 2020 Executive Financial Plan										
Action	FY20		FY21		FY22		FY23		FY24	
	All*	CTL*	All	CTL	All	CTL	All	CTL	All	CTL
New Needs	\$113	\$108	\$196	\$595	\$17	\$86	\$17	\$86	\$17	\$86
PEG	(\$1,163)	(\$1,163)	(\$1,500)	(\$1,500)	(\$813)	(\$813)	(\$840)	(\$840)	(\$872)	(\$872)
Other Adj.	\$1,288	\$1,550	(\$3,250)	(\$3,317)	\$124	\$87	\$10	(\$18)	\$20	(\$8)
Pre-pay Debt Svc.	\$1,431	\$1,431	(\$1,431)	(\$1,431)	\$0	\$0	\$0	\$0	\$0	\$0

*"All" is all funds, "CTL" is City tax-levy, \$ in millions.

New Needs

The Executive Plan outlines \$195.8 million in Fiscal 2021 new needs. While this may seem like a modest package, State budget cuts shift a significant burden on the City, requiring the City to swap City tax-levy dollars for State funding in the Plan. When assessing just City tax-levy dollars, New Needs amount to approximately \$594.7 million in Fiscal 2021. Descriptions of the new needs follow:

FY21 City-Funded New Needs



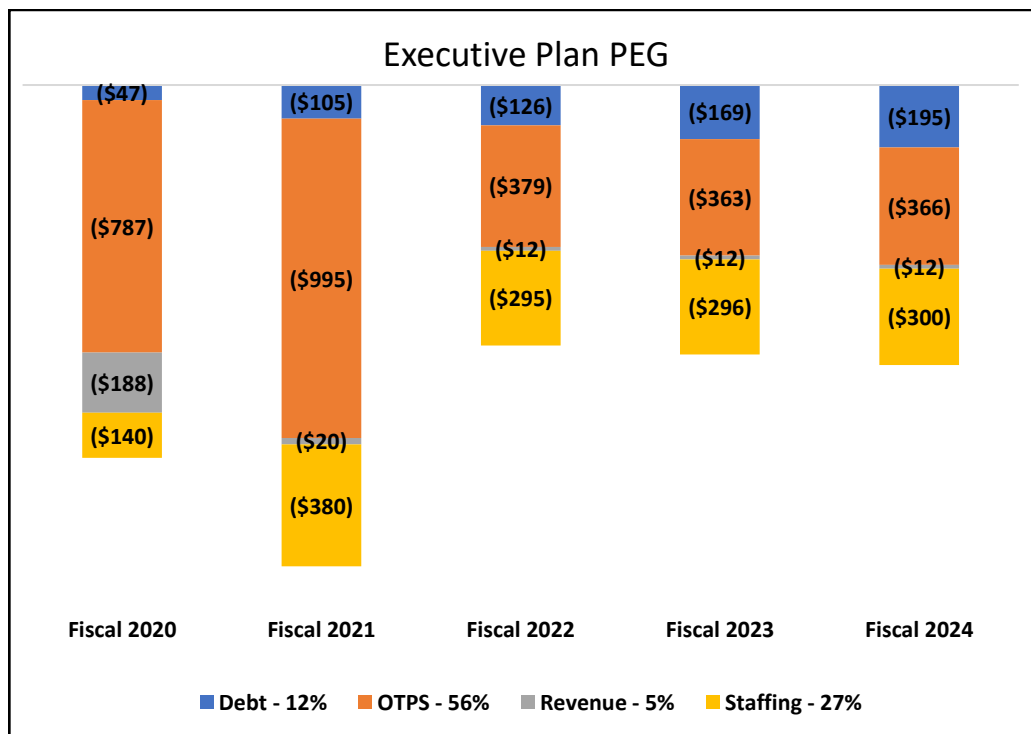
- State Cuts Backfill.** The enacted State Budget left significant funding gaps for New York City. Chief among them was a \$381.5 million reduction in school aid assumed in the Preliminary Plan for Fiscal 2021. Additionally, the State imposed another round of reductions to the Family Assistance component of the Temporary Assistance for Needy Families (TANF) block grant amounting to \$34.1 million in Fiscal 2020 and \$68.5 million in Fiscal 2021. The State

also increased the City's share of the para-transit program and imposed a \$250 million City contribution to a new fund for distressed hospitals.

- **Emergency Food Programs.** Due to the extreme economic hardship brought on by the pandemic, thousands more New Yorkers have become food insecure. At the Council's urging, the Administration has expanded support to food pantries by \$25 million and pledged a total of \$170 million to implement the response "Feeding New York." The Executive Plan shows only \$75 million for the initiative \$37.5 million for Fiscal 2020 and Fiscal 2021, all in federal funds in the Department of Sanitation's Budget.
- **Campaign Finance Board (CFB).** The CFB received \$27.6 million in new needs for Fiscal 2021 for improving voter outreach, public communication, and the Public Matching Funds program.

Savings

The Executive Budget delivers \$2.7 billion in savings through the Program to Eliminate the Gap (PEG) across Fiscal 2020 and Fiscal 2021. PEGs total approximately \$1.2 billion in Fiscal 2020 and \$1.5 billion in Fiscal 2021. Savings include a mixture of staffing reductions, re-estimates in revenue and debt service, and programmatic cuts. It should be noted that in Fiscal 2021, the Plan trims approximately 3,400 positions, particularly due to Department of Correction (DOC) facility closures and a citywide hiring freeze. Out of these 3,400 positions, 2,400 are baseline reductions, mostly from DOC facility closures. The chart below illustrates the breakdown of the PEG by year.



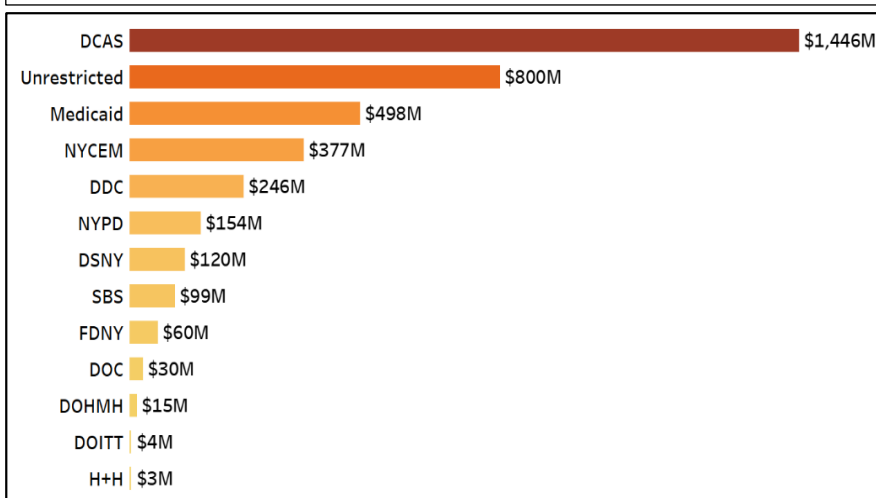
Other Adjustments

The significant other adjustments included in the Executive Plan are the recognition of COVID-19 related spending in Fiscal 2020 only, reduced spending on retiree health benefits which are instead paid from the Retiree Health Benefits Trust (RHBT), and depletion of the Capital Stabilization Reserve and partial, but significant, reduction of the General Reserve. The RHBT shift allows reductions of \$1 billion in Fiscal 2020 and \$1.6 billion in Fiscal 2021 in City tax levy dollars. For the two fiscal years noted, the RHBT will make the payments through the trust itself. The Executive Plan reduces the reserves by \$1.15 billion in Fiscal 2021, leaving just \$100 million in the General Reserve.

COVID-19 Spending

The Executive Plan introduces a very preliminary estimate of the City's spending related to its response to and recovery from the COVID-19 pandemic. The Plan recognizes direct federal aid from the federal relief bills totaling \$3.85 billion in Fiscal 2020. As displayed in the chart, the largest allocation of current year spending is to the Department of Citywide

Federal Support for NYC COVID-19 Response in FY20



Administrative Services (DCAS). DCAS makes COVID-19 related purchases such as medical equipment, gloves, masks and cleaning supplies on behalf of direct service agencies. Much of this projected DCAS spending should be transferred to the agencies that use the materials. The second and third largest categories shown are the direct fiscal relief that the Plan uses to replace lost City tax-levy funding. The Unrestricted category is a portion of the direct aid from the CARES Act and the Medicaid is the reduction in the City's share of Medicaid costs.

Some of the major initiatives related to COVID-19 are the Office of Emergency Management's (NYCEM) hotel program that provides free hotel stays to eligible New Yorkers who cannot isolate where they live and frontline workers in the healthcare industry who wish to reduce the risk of transmission at home. For the month of April, NYCEM awarded a \$250 million contract for hotel rooms. The Department of Small Business Services (SBS) has launched two loan and grant programs in response to the pandemic, the NYC Business Continuity Loan Fund and the NYC Employee Retention Grant Program.

- **NYC Business Continuity Loan Fund.** Businesses with fewer than 100 employees, seeing a decrease in sales up to 25 percent or more, are eligible for zero interest loans up to \$75,000 to help mitigate losses. Due to overwhelming interest, SBS paused application intake on April 8th after receiving approximately 10,000 applications. SBS expects to award about \$20 million

in loans. The Plan includes \$10 million in federal dollars for the Fund and does not include another \$10 million in private funding which brings the total for the loan fund to \$20 million.

- **The NYC Employee Retention Grant Program.** The City is also offering eligible small businesses with fewer than five employees a grant to cover 40 percent of payroll costs for two months to help retain employees. The Plan allocates \$39 million in federal funding for the Program. Awarded small businesses are receiving an average grant of \$7,800 and the Program is no longer accepting applications.

It should be noted that the Financial Plan presents a best current estimate of federal aid available for COVID-19 related spending and fiscal relief. However, the estimates of where and when actual spending will happen are rough. We anticipate that a significant amount of the Fiscal 2020 projected spending will shift into Fiscal 2021 along with the supporting federal aid, and that new needs related to pandemic response, repair and preparation will be needed in Fiscal 2021 and the outyears as discussed in the Risks section below.

Reserves

The City has managed to keep the Fiscal 2020 and 2021 budgets balanced through a substantial use of the City's informal reserve system. As noted in the City Funds Budget Changes section, reserves account for over half the resources used to offset the budget gap caused by the COVID-19 recession. These reserves include distinct line items that provide cushions to each year's requirement that expenditures and revenues be balanced. These in-year budget reserves are made up of the General Reserve and the Capital Stabilization Reserve. These reserves are useful for responding quickly to mid-year shocks such as unexpected expenses or forecasted revenues not turning out as expected.

Reserves also include two initiatives as follows:

- **The Roll:** The Budget Stabilization Account, also referred to as the surplus roll prepays future years' debt service costs.
- **The Retiree Health Benefits Trust (RHBT):** This fund is used to pay the health care benefits of the City's retirees. Funds can effectively be added to this reserve by contributing more than is needed in any year, thereby increasing its net balance. Conversely, the City can decrease contributions below replacement level, thereby drawing down the net balance. In both cases, retiree health benefits are fully funded.

Multi-year Reserves Remaining at End of Year			
<i>Dollars in Billions</i>			
	Fiscal 2019	Fiscal 2020	Fiscal 2021
RHBT	\$4.7	\$3.7	\$2.1
Roll	<u>\$4.2</u>	<u>\$4.1</u>	<u>\$0.1</u>
Total	\$8.9	\$7.8	\$2.2
<i>Change from Prior Year</i>		<i>(\$1.1)</i>	<i>(\$5.6)</i>
<i>*In-year reserves in the current plan are assumed to be added to the roll for purposes of this table.</i>			

The Budget Stabilization Account had a balance of \$4.2 billion at the end of Fiscal 2019. Combined with roughly \$4.7 billion in the RHBT, the City's Fiscal 2019 reserves had a total net end-of-year balance of \$8.9 billion. The Executive Plan uses approximately \$66 million of

the Budget Stabilization Account and \$1 billion of RHBT funds to balance Fiscal 2020. The use of reserves in Fiscal 2020 decreases the City's reserve level to \$7.8 billion. Fiscal 2021 makes use of

the remaining \$4.16 billion in the roll and another \$1.6 billion of the RHBT to balance the budget. This leaves \$2.1 billion in the RHBT after Fiscal 2021.

The City has nearly zeroed out its in-year budgetary reserves for the current and upcoming fiscal years. For Fiscal 2020, the capital stabilization reserve had already been zeroed out in the Preliminary Financial Plan, while the General Reserve has been drawn down to a minimal amount. This is not an unusual position at this point in the budget cycle as the year is almost over, though generally a slightly larger cushion of \$50 million is left versus the \$20 million proposed in this plan.

More troubling is the irregular drawdown in Fiscal 2021 of the in-year reserves, both the general reserve and the capital stabilization reserve. It is highly unusual to draw these reserves down before the fiscal year even begins. The Fiscal 2021 capital stabilization reserve has been completely zeroed out and that year's general reserve has been slashed from \$1 billion to a mere \$100 million. Adopting a budget with a mere \$100 million in cushioning would be the lowest in-year reserves in at least 20 years.

One other source of cushion is the City's practice of conservative budgeting whereby it tends to under-forecast revenues and over-forecast expenses. This minimizes unexpected gap increases. However, the lack of transparency about the degree of conservative forecasting, along with the unprecedented economic and spending pressures, raises concerns about the City's ability to execute the budget as proposed without greater reserves.

Risks to the Fiscal 2021 Executive Budget

Although the Fiscal 2021 Executive Budget is balanced, it does not accurately project revenues or spending in several areas. First, in response to the COVID-19 pandemic, the Executive Plan recognized \$2.6 billion of spending supported by City, State, and federal funding streams, but for Fiscal 2020 only. The projected City-funded portion of the spending for COVID-19 response is only \$70 million during the current year. This \$2.6 billion does not include COVID-19 related expenses in agencies including the Department of Education (DOE) and the Department of Homeless Services (DHS) that have stood up significant response functions. The Financial Plan also fails to budget for COVID-19 response and recovery related expenses in Fiscal 2021, nor does it propose baseline budget changes for public health programs, emergency management, or emergency food programs. The impact of COVID-19 will have a long lasting impact on the City's budget, but it is not yet reflected across the Financial Plan.

Second, the State Executive Budget stipulates that the State Budget Director has the authority to withhold any appropriations if State revenue drops or spending increases by one percent or more. Subsequent to the release of the City's Financial Plan, the State Budget Director recognized a State revenue gap of \$13.3 billion in State Fiscal Year 2021 – a 14 percent decline from the Executive Budget forecast released in January.¹ Unless there is additional federal aid for the State to fill this gap, State spending will be reduced further by \$10.1 billion, with approximately \$8.2 billion in reductions in aid to localities.

State school aid and Medicaid funding are particularly vulnerable to funding reductions, as they account for the majority of aid to localities. The State Budget includes \$27.69 billion in Fiscal 2021

for School Aid to all localities, or 63.4 percent of the total budget for local aid programs. New York City's share of school aid is 41.2 percent. If we are to assume that the \$8.2 billion cut is proportional to the distribution of local aid, this could result in a \$5.19 billion cut to School Aid State-wide, and a \$2.14 billion cut to New York City. This may force the Department of Education to further reduce school budgets, in addition to the \$310.9 million already identified as part of the Fiscal 2021 Executive Plan PEG program. It should be noted that the Financial Plan already backfilled \$450 million in State cuts for Fiscal 2021.

Lastly, there are several specific budget gaps across City agencies for Fiscal 2021 including the following:

- **DOE Pupil Transportation.** The Fiscal 2021 allocation for pupil transportation in DOE's budget is \$1.38 billion, \$115.9 million less than the Fiscal 2020 budget. Spending changes related to school closures this year are not reflected, and the projected spending in Fiscal 2021 does not account for cost increases for new contracts likely to be issued.
- **Carter Cases.** DOE's Fiscal 2021 Executive Budget includes \$405.6 million for Carter cases, \$134.7 million less than Fiscal 2020, and \$93.7 million less than actual spending in Fiscal 2019. DOE's plan to reduce Carter case spending by offering alternative public school programs is overly optimistic and the budget should be increased until DOE can demonstrate a reduction in new Carter cases. Over the past five fiscal years, the Department on average has budgeted \$264.5 million for Carter cases, while it has spent on average \$383.5 million year over year.
- **New York City School Support Services (NYCSSS).** The Plan schedules \$644.2 million for NYCSSS across the Plan period despite a new contract that anticipates annual increases in prevailing wages (3.0%) and fringe benefits (5.5%) starting in Fiscal 2021.
- **Campaign Public Matching Funds.** The Campaign Finance Board submitted a Public Matching Funds budget of \$78.8 million for Fiscal 2021, but only \$2 million is included in the Executive Budget. This stands at odds with section 1052(c) of the City Charter that requires the Mayor to include the Board's estimate in the Executive Budget without revision.
- **Senior Center Funding.** The Department for the Aging's Fiscal 2021 Executive Budget does not include the second \$10 million tranche for senior center model budgeting. Model budget funding was first included at \$10 million in Fiscal 2018, with a commitment to double the increase to \$20 million by Fiscal 2021.
- **Non-Public School Security Guard Reimbursement Program.** Local Law 2 of 2016 stipulates that up to \$19.8 million be allocated annually to finance the Non-Public School Security Guard Reimbursement Program. DCAS' Fiscal 2020 budget includes \$19.8 million for this program but it is not funded in Fiscal 2021.
- **Lack of Early Voting Funding.** In Fiscal 2020 the Board of Election's Budget included \$75 million for early voting; early voting for upcoming elections is not funded in Fiscal 2021. We estimate the need to be approximately \$50 million, given that Fiscal 2021 only contains two elections, rather than the three that were budgeted for in Fiscal 2020.

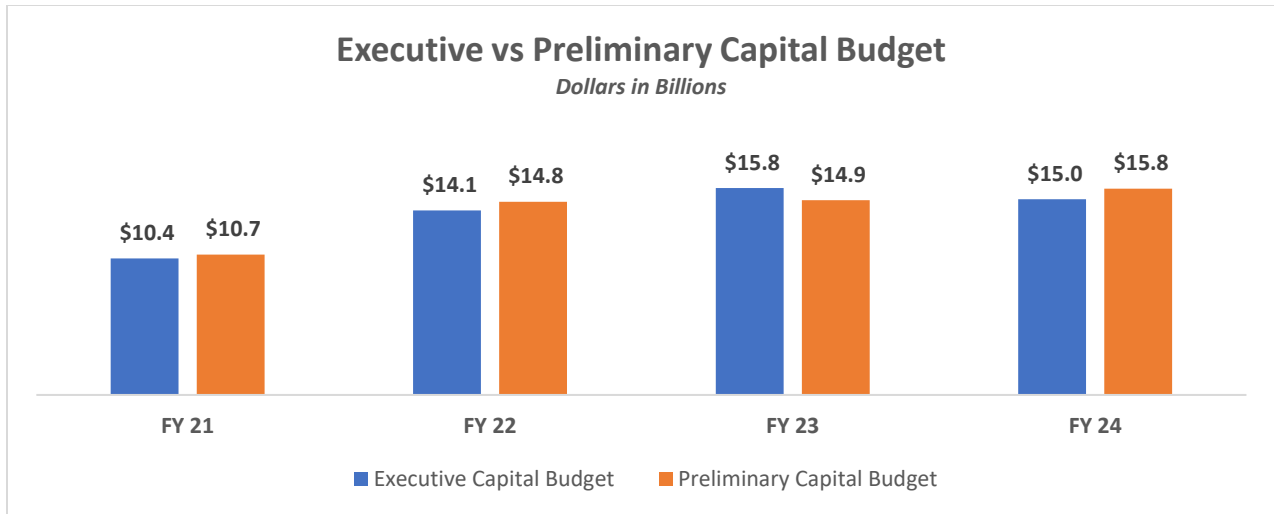
In addition to the risks described above, the Executive Budget does not include \$686 million to support programs funded in Fiscal 2020 pursuant to the adopted budget agreement. This includes \$216.7 million in one-time funding and PEG restorations across several agencies including \$46.6 million for DYCD programs, \$33.9 million for parks services, \$23.75 million to support cultural intuitions, and \$19.7 million for child care vouchers. In addition, \$457.2 million in Council Discretionary funding, which includes citywide Council Initiatives and Council Member discretionary allocations, is yet to be negotiated with the Administration and reflected in the Fiscal 2021 Budget.

The City's Capital Program

The City's Capital program was released during the COVID-19 pandemic, which has wreaked havoc on the health and freedoms of New York City's residents as well as our economy. The City's capital projects and processes were greatly impacted not only by a State ban on most construction projects but also the City's own cashflow issues which necessitated a temporary cessation of all non-COVID health and safety related projects. As expected, this has resulted in widespread project delays and movement of planned commitments into subsequent years, causing a reduction in both the Capital Budget and Capital Commitment Plans. However, the City had begun right sizing its Capital Budget and Commitment Plan during the Preliminary budget process prior to COVID-19 related delays making the impact less dramatic, from a budgeting and planning perspective, on the City's capital program than it could have been.

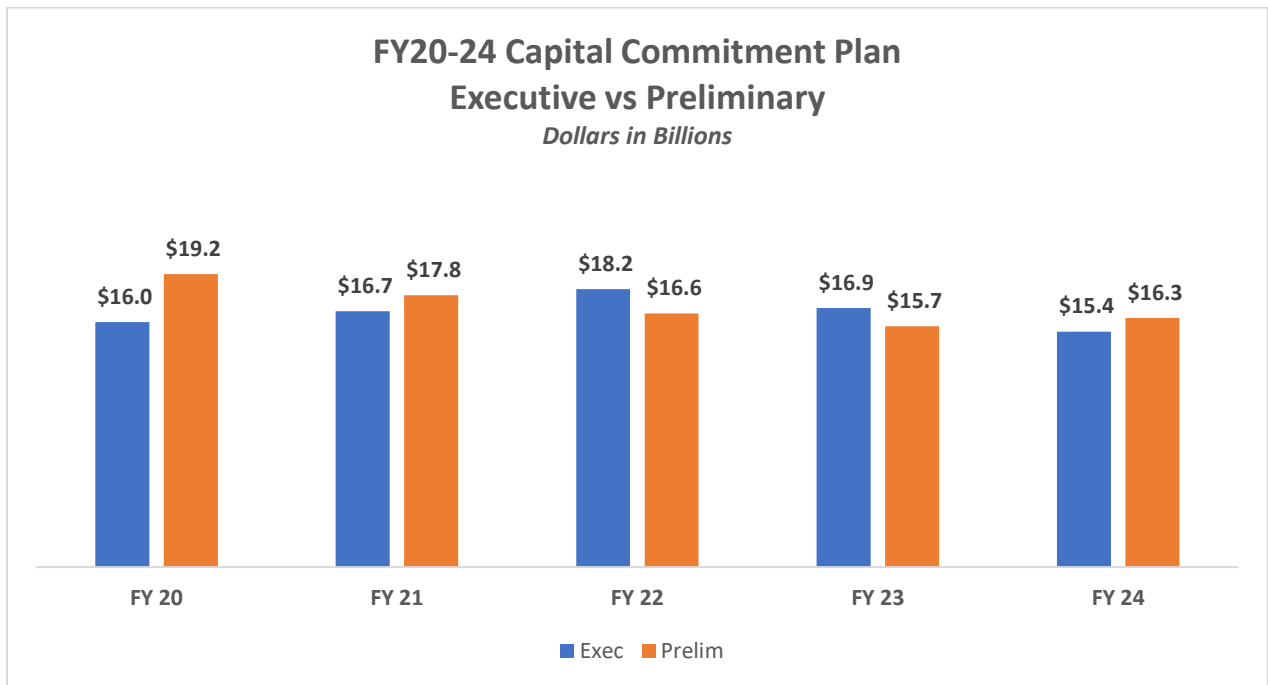
Fiscal 2021-2024 Executive Capital Budget

The Capital Budget supports large, long-term investments that aim to improve the state of good repair of the City's infrastructure, as well as support its growth. The Capital Budget provides, by agency and budget line (analogous to units of appropriation, or U/As, in the expense budget), the requested appropriations for Fiscal 2021 and the three-year capital program. It proposes new appropriations of \$10.4 billion for Fiscal 2021 and a total of \$55.3 billion for Fiscal 2021 through Fiscal 2024. As the chart below shows, there are minimal changes in the Executive Capital Budget from the Preliminary Capital Budget with a decrease of \$844 million over the four-year period. The Executive Capital Budget also reauthorizes available appropriations from prior years in the amount of \$6.3 billion authorizing total capital expenditures in Fiscal 2021 of \$16.7 billion.



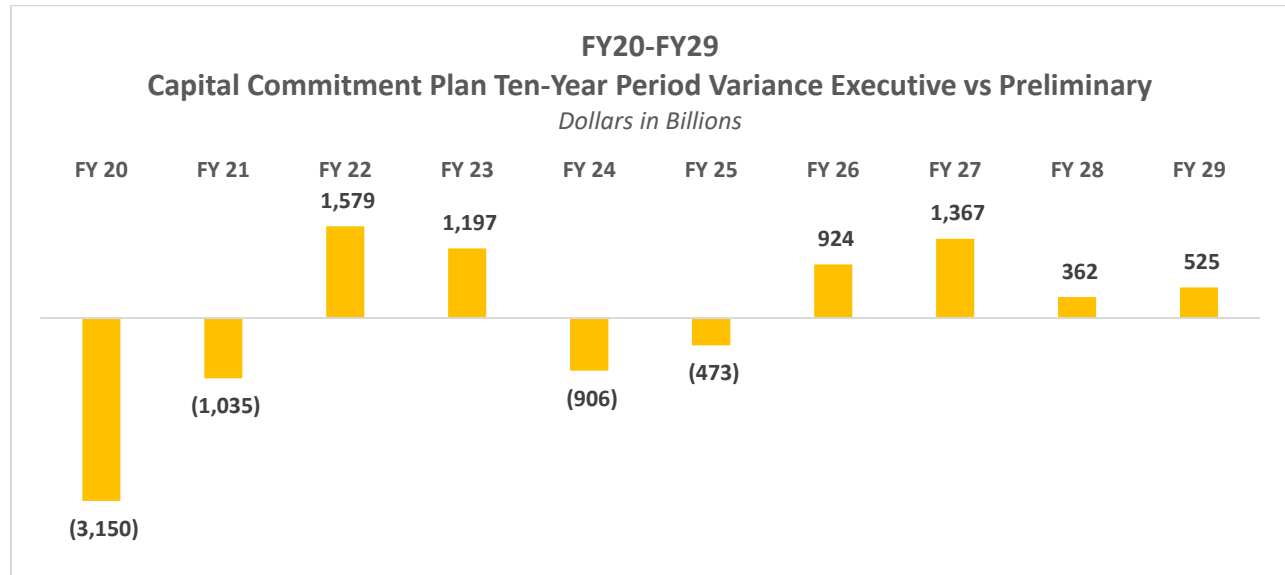
Fiscal 2020-2024 Executive Capital Commitment Plan

The Fiscal 2020-2024 Capital Commitment Plan includes \$83.5 billion in planned commitments for Fiscal 2020 through Fiscal 2024, which represents a decrease of \$2.3 billion from the Preliminary Capital Commitment Plan.



COVID-19 related delays have had a significant impact on the Commitment Plan but not all of this movement can be attributed to it. The Administration had begun a large-scale right sizing of the City's Commitment Plan during the Preliminary budget process. As a result of that process \$4.6 billion in planned commitments were rescheduled during the Preliminary budget process and moved out of the Plan period of Fiscal 2020-2024 into Fiscal 2025-2029. Due to this fact, the budgetary and scheduling impact of COVID-19 related delays were greatly lessened. As shown in

the chart below, the Commitment Plan decreases by \$2.3 billion in the Fiscal 2020-2024 period but over the Fiscal 2020-2029 period it increases by \$389 million. It is also easy to see the near-term impact of COVID-19 on Fiscal 2020 and 2021 with \$4.2 billion in rescheduling into the out-years of the Plan.



COVID-19 Impacts

The City's sudden and dire cashflow problems caused by necessary emergency spending on COVID-19 related issues, created a situation where movements of some capital spending has run counter to the City's priorities. Appendix 1 shows movement of planned commitments by agency in the five-year and ten-year plan timeframes.

Affordable Housing. The Executive Capital Commitment Plan moves a combined \$513 million out of very low income, supportive housing, and assisted senior housing programs. This is a reduction to the City's affordable housing plan, projects are cut not delayed.

Borough-Based Jails. Planned commitments for new borough-based jails have been reduced by \$472 million in the Executive Commitment Plan and moved into the Fiscal 2025-2029 plan. Continued delays of these projects into years beyond the current Administration decrease the chances of these jails being built.

Financing and Debt Service

New York City sells bonds to fund its capital program and the Fiscal 2021 Executive Budget estimates long-term borrowing of \$47 billion over the full financial plan, a decrease of \$1 billion from the Preliminary Plan. The decrease is mostly due to lower GO borrowing in the outyears of the Plan. This includes \$7.9 billion in borrowing by the New York City Municipal Water Finance Authority (NYW), for which NYW pays its own debt service through dedicated water and sewer fees. A summary of the financing plan is shown in the table below.

The City's borrowing strategy is a function of numerous factors, including but not limited to the conditions of the financial market and over all the economic fallout of the COVID-19 pandemic, the City's project schedule, and cash flow considerations. The financing plan does not directly align with the Ten-Year Strategy or the Commitment Plan, as it more closely follows the City's actual capital expenditures. Making the Strategy and Commitment Plan more accurate and realistic would help better illuminate the connection between what the City spends on capital projects and how it pays for them.

Summary of Capital Financing Plan - Fiscal 2021 Executive Financial Plan					
<i>Dollars in Millions</i>					
	FY20	FY21	FY22	FY23	FY24
Financing Plan					
General Obligation Bonds	\$3,780	\$4,820	\$4,580	\$5,420	\$5,760
Transitional Finance Authority Bonds ⁽¹⁾	3,600	3,820	4,580	5,420	5,760
Water Authority Bonds	1,704	1,512	1,533	1,507	1,670
Total	\$9,084	\$10,152	\$10,693	\$12,347	\$13,190
Debt Outstanding					
GO Bonds	\$39,156	\$41,194	\$43,760	\$46,828	\$49,975
TFA Bonds ⁽¹⁾	40,102	42,748	46,029	49,881	53,899
Other Debt ⁽²⁾	2,080	1,987	1,894	1,775	1,678
Total	\$81,338	\$85,929	\$91,683	\$98,484	\$105,552
Water Authority Bonds	30,907	31,992	33,075	34,108	35,292
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	11.8%	12.1%	12.5%	13.0%	13.4%
Source: NYC Office of Management and Budget, April 2020, Executive Financial Plan: Fiscal 2020-2024.					
1) TFA Bonds do not include Building Aid Revenue Bonds issued for education capital purposes which are secured by Building Aid revenues from the State					
2) Includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).					

The City's debt issuance remains well below the City's constitutional debt limit of \$116.3 billion,¹ which is forecasted to grow sufficiently to accommodate new borrowing in the Capital Financing Plan.² The City's bonds continue to be well received by the markets, and all of its issuing authorities have maintained AA ratings or better by Standard & Poor's and Fitch. Moody's upgraded the City's credit rating from Aa2 to Aa1 on March 1, 2019.³

While the City enjoys a strong cushion on its debt limit and favorable credit ratings on its bonds, these positions are not assured. The City's debt service is projected to rise as a percentage of City revenues over the course of the Financial Plan period, from 10.9 percent in Fiscal 2020 to 13.1 percent by Fiscal 2023. The City also has an above-average debt burden per capita compared to other cities.⁴ Further, given the City's uncertain fiscal position due to the COVID-19 pandemic and

¹ New York City's debt limit, as established by the State Constitution, is ten percent of the five-year rolling average of the full value of taxable real property in the City.

² New York City Comptroller, *Fiscal Year 2020 Annual Report on Capital Debt and Obligations*, December 2019 (available at <https://comptroller.nyc.gov/reports/annual-report-on-capital-debt-and-obligations/>).

³ See Moody's Credit Opinion, March 1, 2019. Available at <https://comptroller.nyc.gov/wp-content/uploads/2019/03/Moodys-Credit-Opinion.pdf>

⁴ Ibid.

resultant economic fallout, there is a risk that the City's credit rating could decline and raise its borrowing costs.

Summary of Debt Service Payments - Fiscal 2021 Executive Financial Plan					
<i>Dollars in Millions; Before Prepayments</i>					
	FY20	FY21	FY22	FY23	FY24
Debt Service					
GO Bonds	\$3,951	\$4,126	\$4,460	\$4,813	\$5,153
TFA Bonds ⁽¹⁾	2,906	3,248	3,572	3,946	4,094
Other Debt ⁽²⁾	208	208	202	223	195
Total	\$7,065	\$7,582	\$8,234	\$8,982	\$9,442
Debt Service Burden					
Debt Service/Total Revenue	7.3%	7.9%	8.4%	8.9%	9.2%
Source: NYC Office of Management and Budget Fiscal 2021 Executive Financial Plan: Fiscal 2020-24.					
1) TFA Bonds do not include BARBs					
2) Includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).					

Debt Service Savings

The Fiscal 2021 Executive Financial Plan recognizes \$129.2 million in debt service savings for Fiscal 2020, primarily from revised interest rate assumptions for variable rate bonds and the retention of State building aid. These savings are in addition to savings of \$109.2 million for Fiscal 2020 recognized in the November 2019 Financial Plan, which largely resulted from the same reasons.

The debt service budget serves as a routine source of savings for the City as savings from lower-than-assumed interest rates are recognized and refundings are done over the course of the fiscal year. This means the debt service budget tends to be overstated for the outyears. Therefore, while the Executive Plan projects that debt service will stay in line with measures of best practice and affordability over the financial plan period, it is likely that actual debt service costs will be even lower in the outyears than currently projected. For example, the City's actual debt service costs in Fiscal 2019 were 20.2 percent lower than first projected in the Fiscal 2016 Preliminary Budget and 4.6 percent lower than projected in the Fiscal 2019 Preliminary Budget.⁵ This overestimation skews the picture of the City's debt affordability over the Plan and provides the Administration a convenient source of savings for subsequent Citywide Savings Plans.

⁵ Mayor's Office of Management and Budget (OMB); New York City Comprehensive Annual Financial Report of the Comptroller for Fiscal Year 2019

Appendix 1

Planned Capital Commitments by Agency: Executive vs. Preliminary FY20-24 Capital Commitment Plans
Dollars in Millions

Agency	Exec 20-24	Prelim 20-24	Var 20-24	Exec 20-29	Prelim 20-29	Var 20-29
ACS	\$346	\$381	(\$35)	\$396	\$439	(\$43)
DFTA	52	54	(2)	67	69	(2)
DOC	6,362	6,834	(472)	9,965	9,965	-
DCLA	1,085	1,076	9	1,154	1,148	6
CUNY	508	616	(108)	758	756	2
DCAS	7,787	7,797	(10)	11,535	11,458	77
DEP	11,309	10,863	446	21,330	21,255	74
DOITT	524	524	-	896	896	-
DOT	9,877	10,357	(480)	16,642	16,558	84
EDC	3,238	4,500	(1,262)	4,872	4,846	26
SCA	18,484	18,368	116	24,497	24,381	116
FIRE	976	977	(1)	1,462	1,463	(1)
H+H	2,564	2,514	50	3,009	3,001	9
DOHMH	746	749	(3)	1,164	1,167	(3)
DOH	483	477	7	666	658	9
HPD	5,890	5,882	8	10,131	10,123	8
HRA	330	325	5	384	379	5
LIBRARIES	777	762	14	1,031	1,017	14
NYCHA	2,780	2,780	-	3,990	3,990	-
NYPD	1,183	1,643	(459)	1,971	1,971	0
DPR	4,206	4,344	(138)	5,001	4,992	10
DSNY	2,112	2,112	-	3,424	3,424	-
TRANSIT	1,593	1,593	-	1,793	1,793	-
Totals	\$83,211	\$85,527	(\$2,316)	\$126,138	\$125,749	\$389