Staff Report

REVIEW OF FYs 2016-2019 FINANCIAL PLAN

July 28, 2015

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I. Overview

The city has adopted a balanced budget for FY 2016, mainly due to strong fiscal management in FY 2015. In May the city projected increased revenues of $2.4 billion. The June modification showed city-funded revenues soared an additional $815 million, primarily from the personal income tax and real estate transfer taxes, for a total of $3.2 billion in FY 2015. The city recognized savings in FY 2015 of $1.5 billion, predominately from the takedown of reserves and debt service. The city used these funds to boost the Retiree Health Benefits Trust by $955 million, and prepay FY 2016 expenses by almost $3.6 billion. The trust now contains a high of $3.3 billion.

With the support of the FY 2015 surplus, the FY 2016 adopted budget increases agency spending by $1.5 billion. The added spending continues the Mayor's priorities in the Department of Education for prekindergarten, operational and academic support and the creation of renewal schools. The city has also continued to extend its support of the Health and Hospitals Corporation and the Housing Authority. The City Council added $335 million in initiatives for Youth and Community Development, senior citizen programs, and libraries. It also increased support for cultural organizations, housing, legal services, public safety, and other areas.

The city also decided to add significant resources to the Police Department. The added funding will allow the hiring of 1,297 new police officers, which will bring total uniformed headcount to nearly 35,800 by July 1, 2016. The department will use the added headcount to develop a new counterterrorism response unit and to implement a new neighborhood policing program strategy that is expected to enhance community relations. The new hires will generate higher spending in FY 2016. The outyear spending is expected to be reduced by adding civilian hires and implementing new controls on overtime. The city decided to not start the year expecting much lower overtime and then increase funding as needed in each modification to the financial plan, as in the past. In FY 2016, the city has developed what it believes is a reasonable overtime budget and will cap city funding to that level, except for extraordinary events. This is an important step in trying to control growing overtime costs. It should be noted, that we still see a significant risk for overtime in the Fire and Correction Departments, as the city struggles to add personnel and implement reforms.

Even with the incremental spending, the city has maintained, in FY 2016 and beyond, conservative revenue forecasts and has increased the general reserve to an historic high of $1 billion in each year of the financial plan. City-fund revenues increase by $6.2 billion, or 10.9 percent, from FY 2016 to FY 2019. The city has been cautious after two very strong years to not assume continuation of high growth in revenues. Weak nonproperty taxes, along with a downturn in miscellaneous and nonrecurring revenues, lower city-funded revenue growth to 1.8 percent in FY 2016. Moderate growth returns in FYs 2017-2019. We agree with the city's caution given the financial uncertainties overseas, and the Federal Reserve's decision to start raising interest rates later this year. Based on the current trends, however, we believe that nonproperty and miscellaneous revenues are likely to be higher by as much as $500 million in FY 2016.

From FYs 2016-19, city-funded expenditures are expected to grow by 15.9 percent, or an average annual growth rate of five percent. The large areas of growth continue to be salary and wages, due to the implementation of the last labor settlements, and healthcare costs. Healthcare costs are estimated to grow for active city workers by 19 percent over the four-year plan. This would be even higher if the city had not achieved healthcare savings in the recent labor settlements. The annual pay-as-you-go retiree health benefits costs are expected to grow from $2.2 billion in FY 2016 to $2.7 billion in FY 2019, an increase of 24 percent. The other largest area of growth continues to be debt service. Total-funded debt service is expected to grow by 19.1 percent over the plan, from $6.5 billion in FY 2016 to $7.7 billion in FY 2019. The growth in debt service reflects an expanding city-funded capital program as well as conservative borrowing assumptions.

The city released a finalized Ten-Year Capital Strategy for FYs 2016-25 that comprises an expanded scope. The strategy contains $83.8 billion of capital commitments, which is over $30 billion larger than the last strategy. The vast majority of the additional commitments are classified as capital-eligible repairs to the city's existing physical assets. While the city projects that debt service as a percent of tax revenues will stay below the 15 percent level that is deemed to be affordable, over the ten-year period revenues could be volatile. With that in mind the city has created a capital stabilization reserve in FY 2016 totaling $500 million. This reserve is meant to cushion an increase in the debt service burden that could be exacerbated by a reduction in tax revenues. The reserve would be used, if necessary, to defease bonds and give the city time to react and reduce the capital strategy to keep debt service affordable.

With the increased spending and conservative revenue estimates, the outyear gaps are projected to be $1.5 billion in FY 2017, $1.9 billion in FY 2018, and $2.9 billion in FY 2019. These outyear gaps are manageable with the general reserve at $1 billion in each year. The city, however, needs to manage FY 2016 in a way that builds up a surplus so it can continue to decrease the outyear deficits.

JUNE FINANCIAL PLAN:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2016-2019

TABLE 1 ($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Revenues				
Taxes:				
General Property	$22,321	$23,424	$24,427	$25,486
Other Taxes	29,124	30,006	30,873	31,840
Tax Audit Revenue	711	711	711	711
Sale of Property Tax Liens	63	63	63	63
Miscellaneous Revenues	6,539	6,684	6,785	6,844
Less: Intracity Revenues	(1,769)	(1,763)	(1,774)	(1,769)
Disallowances	(15)	(15)	(15)	(15)
Total City Funds	$56,974	$59,110	$61,070	$63,160
Other Categorical Grants	856	846	851	848
Interfund Revenues	575	546	548	549
Federal Categorical Grants	7,146	6,878	6,475	6,375
State Categorical Grants	12,977	13,349	13,755	14,083
Total Revenues	**$78,528**	**$80,729**	**$82,699**	**$85,015**
Expenditures				
Personal Service	$43,424	$43,920	$45,888	$48,297
Other Than Personal Service	32,439	32,204	32,301	32,615
General Obligation, Lease & TFA Debt Service	6,488	6,833	7,191	7,725
Budget Stabilization & Prepayments	(3,554)	--	--	--
Capital Stabilization Reserve	500	--	--	--
General Reserve	1,000	1,000	1,000	1,000
Subtotal	$80,297	$83,957	$86,380	$89,637
Less: Intracity Expenditures	(1,769)	(1,763)	(1,774)	(1,769)
Total Expenditures	**$78,528**	**$82,194**	**$84,606**	**$87,868**
Gap To Be Closed	**$0**	**($1,465)**	**($1,907)**	**($2,853)**

CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR FISCAL YEARS 2016-2019 JUNE FINANCIAL PLAN COMPARED TO FEBRUARY MODIFICATION

TABLE 2 ($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Revenues				
Taxes:				
General Property	$271	$346	$339	$329
Other Taxes	105	192	136	161
Tax Audit Revenue	0	0	0	0
Sale of Property Tax Liens	0	0	0	0
Miscellaneous Revenues	(399)	(121)	(77)	(246)
Less: Intracity Revenues	35	51	51	56
Disallowances	0	0	0	0
Total City Funds	$12	$468	$449	$300
Other Categorical Grants	24	6	3	3
Interfund Revenues	28	3	2	3
Federal Categorical Grants	528	445	86	78
State Categorical Grants	205	168	117	401
Total Revenues	**$797**	**$1,090**	**$657**	**$785**
Expenditures				
Personal Service	$838	$720	$698	$850
Other Than Personal Service	1,356	866	541	734
General Obligation, Lease & TFA Debt Service	(206)	(380)	(346)	(326)
Budget Stabilization & Prepayments	(1,976)	--	--	--
Capital Stabilization Reserve	500	--	--	--
General Reserve	250	250	250	250
Subtotal	$762	$1,456	$1,143	$1,508
Less: Intracity Expenditures	35	51	51	56
Total Expenditures	**$797**	**$1,507**	**$1,194**	**$1,564**
Gap To Be Closed	**$0**	**($417)**	**($537)**	**($779)**

RISKS TO THE FINANCIAL PLAN

TABLE 3 ($ in millions, positive numbers are offsets to risks)

	FY 2016	FY 2017	FY 2018	FY 2019
Stated Financial Plan Gap	**$0**	**($1,465)**	**($1,907)**	**($2,853)**
Estimation				
Nonproperty Taxes	300	200	100	100
Miscellaneous Revenue	200	175	125	125
Uniformed Services Overtime*	(214)	(249)	(290)	(284)
Risk Total	**$286**	**$126**	**($65)**	**($59)**
Total FCB Estimated Surplus/(Gap)	**$286**	**($1,339)**	**($1,972)**	**($2,912)**

*Excludes Police Department

II. Balancing the FY 2016 Budget

The June 2015 Financial Plan projects that FY 2016 revenues will cover expenditures of $78.5 billion, providing a balanced budget that is $2 billion smaller than for FY 2015. The year-over-year lower revenue forecast represents a nearly $1 billion decrease in categorical aid, as well as a reduction of $1.064 billion in city funds, despite an additional $1.114 billion in property tax revenues. The reduction in city funds is driven by a lower forecast for nonrecurring resources. Excluding nonrecurring revenues such as a one-time release of monies from the Health Stabilization Fund, city funds would be higher by $214 million in FY 2016 than FY 2015.

With lower revenues, the city made commensurate adjustments to its FY 2016 operating expenditures. In actuality, expenses are projected to climb in several areas of the FY 2016 budget, namely healthcare and debt service. Additionally, the financial plan increases funding for the general reserve and creates a capital stabilization reserve. To balance the FY 2016 budget, the city is using all of the $3.55 billion FY 2015 budget surplus. With no surplus currently forecasted for FY 2016 to aid future budget balance, budget gaps of $1.5 billion, $1.9 billion and $2.9 billion are projected for each of FYs 2017-19, respectively.

CITY FUNDS SURGE $815 MILLION AS FY 2015 COMES TO A CLOSE

The June 2015 modification contains $815 million in additional FY 2015 city-funded revenue compared with the May modification. These revenue gains were used to help future budgets by prepaying some expenses before the close of FY 2015. The nonproperty taxes contributed an extra $602 million to the year-end revenue gains, primarily due to strong results from the personal income and the real estate transactions taxes. Audits added $92 million while miscellaneous revenue contributed $121 million. Since the May modification, total revenues are up by $893 million in FY 2015 because of the previously mentioned city-fund increases and a net increase of $78 million in categorical grants and interfund revenue. These large increases helped push FY 2015 revenues to such high levels that FY 2016 revenue estimates appeared small by comparison.

CITY FUNDS DROP BY $1.1 BILLION IN FY 2016, AS TOTAL REVENUE FALLS BY $2 BILLION

FY 2016 City-Fund Revenues Decrease by $1.1 Billion ($ in millions)	
Property Tax	$1,114
Nonproperty Taxes	(184)
Audits	(363)
STAR Aid	(95)
Miscellaneous Revenue	(258)
Nonrecurring Revenue	(1,278)
City Funds	**($1,064)**
Categorical Aid	(970)
Interfund Revenue	18
Total Change in Revenues	**($2,016)**
Note: Numbers may not add due to rounding.	

Compared with the super-strong collections of FY 2015, city-fund revenues decline by $1.064 billion to $57 billion in FY 2016. Most revenue sources, aside from the property tax, contribute to the softening of revenue, as shown in the figure. Supplemented by a gain of $144 million in the final tax roll, FY 2016 property tax revenue increases by $1.114 billion, year-to-year, to $22.4 billion. But even this strong gain was sufficient to ameliorate but not avert the downtrend. Despite climbing personal income tax receipts, the nonproperty taxes are lower by $184 million. City tax auditors concluded large settlement agreements at the close of FY 2015, which helped depress, by comparison, the audit plan for FY 2016 by $363 million to $711 million. The city's allocation of the state's school tax relief program (STAR) diminishes by $95 million to $765 million. Miscellaneous and nonrecurring revenue shrink by a combined $1.5 billion to $4.8 billion, as explained in "Miscellaneous Revenue" on page 18.

Total revenue declines by $2 billion, to $78.5 billion. The weaker FY 2016 total revenues include shifts in categorical grant programs, which are down by $970 million. Categorical aid from all sources is $21 billion in FY 2016, of which $7.1 billion is federal aid, $13 billion is from state programs and $856 million is from private sources.

Federal aid decreases by $1.3 billion in FY 2016. About 330 out of 660 federal aid budget line items have not yet been funded, but it is possible that some of these grant items could be restored as the year progresses. About $300 million in Sandy projects have either been completed or funds have not yet been rolled from the previous year. The city is hopeful that Sandy aid could increase once approval has been secured for $9 billion in FEMA grants to repair and improve city hospitals, public housing, schools, beaches and boardwalks, roads and lighting systems, and wastewater treatment plants and pump stations. Additionally, the city is investing $4.2 billion in HUD funding to help recover from the hurricane damage to private housing, businesses and city infrastructure. Federal education grants increase by $46 million.

State grants increase by $402 million in FY 2016, reflecting $492 million in additional education aid less planned decreases to other aid programs. The extra resources reflect the state's ongoing commitment to strengthen city educational programs from prekindergarten through higher education. Private grants decline by $71 million.

The city expects the nonproperty taxes to decline by $184 million to $28.4 billion in FY 2016. Following strong collections growth in FY 2015, the May modification had expected FY 2016 nonproperty tax receipts to increase by $371 million. That did not happen because the collections surge at the end of FY 2015 added $602 million to FY

2015 nonproperty taxes, but the city cautiously decided to add only $47 million to the FY 2016 collections target, resulting in the $184 million downturn. This slight decline of 0.6 percent follows five years of rising nonproperty tax receipts since the start of the recovery. Growth started off with a strong 13 percent upturn in FY 2011, at the start of the recovery, and then weakened to four percent in FY 2012. Growth in FYs 2013 and 2014 of 11 percent and six percent was lifted by the spin-up in local tax collections that resulted from federal tax increases. Growth edged up to 7.1 percent in FY 2015, which was followed by a revenue decline of 0.6 percent in FY 2016.

The business taxes change significantly in FY 2016 due to recent legislative action that merged the general corporation (GCT) and the banking corporation (BCT) taxes. Accordingly, the GCT increases by $851 million, which is offset by a BCT decline of $840 million, for a slight net gain of $11 million, or 0.3 percent, for the two newly combined business taxes. This conservative forecast is warranted by the uncertainty regarding how the tax law changes will affect collections. The unincorporated business tax gains $40 million, or two percent, following the upward path of the personal income tax, which increases by $105 million, or one percent. Other increasing taxes are the city sales tax, with a gain of $270 million, or four percent; the commercial rent tax with growth of $30 million, or 4.1 percent; and the utility tax with an increase of $7 million, or 1.8 percent. The city projects 20 percent declines for the property transactions tax, which is down $355 million, and the mortgage recording tax which falls $228 million. The hotel tax drops by $24 million, or 4.3 percent. The minor taxes are down by $39 million, or seven percent, due to scheduled reductions in payments in lieu of taxes (PILOTs).

Overall, we believe that the city's nonproperty taxes could be higher in FY 2016 by $300 million, as seen in Table 3 on page 5 and discussed in more detail in "Nonproperty Taxes" starting on page 14.

EXPENDITURE HIGHLIGHTS

The city ended FY 2015 strongly with a surplus of $3.6 billion, driven mostly by higher-than-forecasted revenue, and begins FY 2016 on sound footing. With planned total-funded spending of $78.5 billion in FY 2016, the city will continue to focus attention on improving education, health and welfare services as well as other areas such as libraries, and Youth and Community Development. The financial plan assumes added funding to increase the general reserve, create a capital stabilization reserve, and to hire additional police officers. The hiring of extra uniformed police also brings about a conscientious effort to contain overtime spending by implementing an annual cap on city-funded uniformed police overtime.

FY 2015 Expenditure Changes

Since the FY 2015 adopted budget, the city has recognized more than $3.1 billion of additional city-funded net revenue than initially projected and identifies $412 million of net expenditure savings. As shown in the figure to the right, the city allocated $955 million to the Retiree Health Benefits Trust (RHBT), which brings its funding level to nearly $3.3 billion, an historical high, and adds $161 million, net of a $100 million reestimate in the labor reserve, to fund the new labor pattern established for uniformed personnel and to settle the Council of School Supervisors and Administrators' contract.

FY 2015 Revenue and Expense Changes City Funds ($ in millions)	
Total Revenue Increase	**$3,142**
Expenditures	
RHBT	$955
Net Labor Increase	161
Reserves	(830)
Debt Service	(643)
Pension	(44)
Net Agency Spending	(11)
Total Expenditure Decrease	**($412)**
FY 2015 Surplus Roll-out	$3,554
FY 2014 Surplus Roll-in	(2,006)
Net Surplus Roll	**$1,548**

The city recognized savings in FY 2015 totaling more than $1.5 billion generated mostly from the takedown of reserves and reduced debt service costs. As shown in the figure, the city reduced reserves by $830 million with most of that amount, $730 million, taken from the general reserve. Additional monies, totaling $100 million, were recognized from the reserve for prior-year payables. Savings of $643 million from debt service were also realized. The reduction in debt service costs primarily reflects the realization of lower-than-forecasted variable rate interest costs; savings due to lower borrowing costs than were projected and the sale of refunding bonds; the receipt of offsetting revenues to pay lease obligations; and the removal of short-term interest costs, as no cash flow financing was required to support the operating budget.

In addition to these savings, pension costs and agency spending declined by $44 million and $11 million, respectively. The lower pension costs are due to technical adjustments in collective bargaining estimates. The net savings of $11 million in agency spending is due to the rollout of a new savings initiative that reduces agency spending. The city had increased spending citywide in FY 2015 by $337 million to cover mostly agency new needs. As an offset, savings valued at $348 million were identified, which nets to the $11 million difference.

Adding together the higher revenue of $3.1 billion and expenditure savings of $412 million, the city exited FY 2015 with $3.6 billion of surplus funds, which is $1.5 billion greater than generated in FY 2014, as shown in the figure. The $3.6 billion surplus was used to prepay FY 2016 debt service expenditures.

Expenditure Changes between FYs 2015 and 2016

After adjusting for the use of surplus funds, the FY 2016 adopted budget assumes city-funded expenditures will decrease by $1.1 billion from $58 billion to $57 billion between FYs 2015 and 2016, respectively. As shown in the figure to the right, before adjusting for the use of surplus funds, projected spending changes by $4 billion. The year-to-year difference contains higher agency spending of $1.5 billion. Other changes include a higher general reserve, creation of a capital stabilization reserve, and increased miscellaneous expenditures, pension and debt service costs, which collectively add to $2.5 billion. The year-to-year difference between net surplus rolls from FYs 2015 to 2016 of $1.5 billion and $3.5 billion, respectively, reduce spending by $5.1 billion.

Expenditure Changes Between FYs 2015 and 2016 City Funds ($ in millions)	
FY 2015 Expenditures	**$58,038**
Agency Spending	$1,158
City Council Initiatives	335
Total Agency Increase	**$1,493**
Other	
General Reserve	$980
Capital Stabilization Reserve	500
Miscellaneous	376
Pension	148
Debt Service	541
Total Other	**$2,545**
Total Change	$4,038
Net Surplus Roll	(5,102)
Total Spending Decrease	**($1,064)**
FY 2016 Expenditures	**$56,974**

Agency Spending

The $1.5 billion increase in agency spending between the fiscal years reflects added funding in FY 2016 for almost all agencies. The increase reflects the Mayor's continued effort in improving education and citywide services, and to support other agency needs. For example, the Department of Education (DOE) gains additional support of $532 million for such areas as prekindergarten, operational and academic support and renewal schools. Some of these funds have also been directed to cover collective bargaining costs. The city also projects a larger allocation to the Health and Hospitals Corporation (HHC) totaling $111 million.

Also part of increased agency spending is the city's allocation of funds to the Police Department to hire 1,297 new police officers, which brings total uniformed headcount to nearly 35,800 by July 1, 2016. The department will use the added headcount to develop a new counterterrorism response unit and to implement a new neighborhood policing strategy that is expected to enhance community relations. The new hires are expected to generate higher spending in FY 2016 and beyond. The city projects the gross cost, including the overtime adjustment, to total $185 million in FY 2016, $187 million in FY 2017, $196 million in FY 2018, and $205 million in FY 2019.

The added headcount also brings about a turnaround in how the city budgets for police uniformed overtime. The city will offset the cost of the new hires by capping city-funded uniformed overtime expenditures in the department starting in FY 2016. However, noncity funded overtime and civilian overtime are not part of the cap. The cap reduces planned overtime expenditures and offsets the cost of the added uniformed headcount by $16 million in FY 2016 and $63 million in each of FYs 2017-2019. Table 4 on page 11 details the FY 2016 adopted overtime budget for the Police Department. Starting in FY 2016, the city caps city-funded overtime for uniformed personnel at $515 million but drops to $453 million in each of FYs 2017-2019. The projected total spending,

including noncity funds and civilian overtime costs, are $608 million in FY 2016, which decreases to $546 million in each of FYs 2017-2019.

POLICE DEPARTMENT FY 2016 ADOPTED OVERTIME BUDGET

TABLE 4

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Uniformed Total	**$522**	**$460**	**$460**	**$460**
City Funds	515	453	453	453
Noncity Funds	8	8	8	8
Civilian Total	**$85**	**$85**	**$85**	**$85**
City Funds	47	47	47	47
Noncity Funds	38	38	38	38
Total Department	**$608**	**$546**	**$546**	**$546**

Numbers may not add due to rounding.

City Council initiatives add $335 million to FY 2016 expenditures. Mayoral agencies will receive the majority of the Council funding totaling $213 million. About one-quarter, or $58 million, of these funds will be allocated to Youth and Community Development. Senior services and libraries will receive $45 million. Other program areas to benefit are small business support, cultural organizations, housing, legal services, and public safety. Collectively, these programs receive more than $75 million. Other funding areas supported by the Council are health and welfare agencies and the city's major organizations. Health and welfare, comprised of the Administration for Children Services, and the Departments of Social and Homeless Services, and Health and Mental Hygiene, receive $47 million. The city's major organizations, made up of the DOE, City University of New York, and HHC, receive $51 million.

Other Agency Spending

The city anticipates higher pension and debt service costs of $148 million and $541 million, respectively. The majority of the projected increase in debt service results from additional debt to be issued in FY 2016 as well as cautious interest rate assumptions. Projected interest rates on both fixed and variable debt are higher than actual rates realized in FY 2015. Historically, the city uses conservative assumptions for its interest rate projections. As a result, actual debt service costs for FY 2016 have the potential to be lower than currently estimated. Additionally, $64 million of the FY 2016 debt service increase represents projected short-term interest expense for cash flow financing, which also reflects a customary conservative approach. In all likelihood, short-term borrowing will not be needed in FY 2016, as it has not within the past 11 years, which would also lower debt service costs.

III. The FYs 2016-2019 Financial Plan

Without the availability of surplus budget resources beyond FY 2016, the city's financial plan contains budget gaps of $1.5 billion for FY 2017, $1.9 billion for FY 2018 and $2.9 billion for FY 2019, as the growth in expenditures exceeds that of revenues. However, the expense budget includes allocations of an unprecedented $1 billion in each of FYs 2016-19 to the general reserve and $500 million in FY 2016 to the newly created capital stabilization reserve, which serve as budget management tools.

As stated in the financial plan, total revenues increase by $6.5 billion, or 8.3 percent, over the four-year period, from $78.5 billion in FY 2016 to $85 billion in FY 2019; while total expenditures climb by 11.9 percent, from $78.5 billion in FY 2016 to $87.9 billion in FY 2019. The city maintains conservative revenue forecasts that average 2.7 percent annually, with the rise in real property and nonproperty taxes contributing largely to the growth. Meanwhile, total expenditures are projected to grow at a faster average annual rate of 3.8 percent, driven by salary and wages, fringe benefits and debt service costs. The higher spending reflects the phase-in of funding to cover labor settlements for the latest round of collective bargaining, increasing healthcare costs for active and retired city workers, as well as rising debt service costs from an expanding city-funded capital program, as well as conservative borrowing assumptions.

THE OUTLOOK FOR REVENUE GROWTH

Total revenue increases by $6.5 billion, or 8.3 percent, from $78.5 billion in FY 2016 to $85 billion in FY 2019, as shown in Table 5 on page 13. At the start of the plan, revenues decline by 2.5 percent in FY 2016. This weaker projection follows three years of steady growth averaging 6.1 percent annually for total revenue. This past strong revenue growth was lifted by steady increases in tax collections, federal assistance to rebuild following Hurricane Sandy, and by state education grants. After the weakness in FY 2016, total revenue increases by 2.8 percent in FY 2017, 2.4 percent in FY 2018 and 2.8 percent in FY 2019.

TABLE 5

CITY FUNDS INCREASE BY $6.2 BILLION OVER THE PLAN

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2016-19 % Change	FY 2016-19 $ Change
Property Tax	$22,384	$23,487	$24,490	$25,549	14.1%	$3,165
Nonproperty Taxes	28,359	29,209	30,073	31,036	9.4	2,677
Audit Revenue	711	711	711	711	0.0	0
Miscellaneous	4,732	4,713	4,734	4,708	(0.5)	(24)
Nonrecurring	38	208	277	367	860.7	329
STAR Aid	765	797	800	804	5.1	39
Disallowances	(15)	(15)	(15)	(15)	0.0	0
Total City Funds	**$56,974**	**$59,110**	**$61,070**	**$63,160**	**10.9%**	**$6,186**
Federal Grants	$7,146	$6,878	$6,475	$6,375	(10.8%)	($771)
State Grants	12,977	13,349	13,755	14,083	8.5	1,106
Private Grants	856	846	851	848	(0.9)	(8)
Categorical Aid	**$20,979**	**$21,073**	**$21,081**	**$21,306**	**1.6%**	**$327**
Interfund Revenue	575	546	548	549	(4.5)	(26)
Total Funds	**$78,528**	**$80,729**	**$82,699**	**$85,015**	**8.3%**	**$6,487**

City-fund revenues increase by $6.2 billion, or 10.9 percent, from $57 billion in FY 2016 to $63.2 billion in FY 2019. At first, weak nonproperty taxes, along with downturns in miscellaneous and nonrecurring revenues diminish city-funded revenue growth in FY 2016. Revenues are down 1.8 percent in FY 2016, following robust growth of 7.3 percent in FY 2015 and 7.4 percent in FY 2014. Moderate growth returns in FY 2017 with a 3.7 percent upturn after which growth slows to about 3.3 percent in the outyears. Rising tax receipts are driving the revenue growth, with the real property tax growing by $3.2 billion, or 14.1 percent, and nonproperty tax collections increasing by $2.7 billion, or 9.4 percent, over FYs 2016-19.

Categorical aid, which consists of federal, state and private program-specific grants, falls by nearly $1 billion in FY 2016 to $21 billion. Grants then remain at that reduced level with only a slight upturn at the end of the plan, reaching $21.3 billion by FY 2019, up $327 million, or 1.6 percent, from the grants issued in FY 2016. Gains in state aid are sufficient to offset the decreases in federal aid and private grants. Over FYs 2016-19, state aid increases by $1.1 billion, or 8.5 percent, due to the state's support for the city's education budget, particularly for the prekindergarten program. Federal aid diminishes by $771 million, or 10.8 percent. This decline reflects a pullback of federal involvement in the city's budget, after furnishing Sandy reconstruction aid in FYs 2013 through 2015. The city is hopeful that federal aid could increase once approval has been secured for an additional tranche of Sandy aid. Private grants fall by $8 million, for a decline of 0.9 percent.

Property Tax Growth

Property tax revenue increases by $3.2 billion, or 14.1 percent, from $22.4 billion in FY 2016 to $25.5 billion in FY 2019. Property tax growth drops to 5.2 percent in FY 2016 from the 6.5 percent growth rate recorded in both FYs 2014 and 2015, after which revenue growth edges down to 4.9 percent in FY 2017 and to 4.3 percent in the outyears. The accelerated growth in the previous two years reflects the firming of the local real estate market and the city's success in controlling tax breaks, such as rescinding abatements to nonresident owners of cooperative and condominium apartments and a

review of tax exemptions to restore ineligible properties to the tax roll. Even though these revenue-producing programs continue in FY 2016, the growth rate drops in comparison to the upsurge in the previous years.

The June plan added $144 million to the previous estimate in the May modification. The extra revenue was recognized after billable assessment growth improved to 6.9 percent in the final tax roll for FY 2016, up from the 5.8 percent estimate in May. Billable assessments have been on an upward trend, with growth accelerating from 4.4 percent in FY 2013 to 5.7 percent in FY 2014 and 6.1 percent in FY 2015, to the most recent measurement of 6.9 percent for FY 2016. Billable growth is scheduled to slow to 5.2 percent in FY 2017, 4.8 percent in FY 2018, and 4.2 percent in FY 2019.

The current strength of billable assessments was enabled by five consecutive increases in market values, which accelerated to seven percent on the city's FY 2016 final tax roll from 5.6 percent in FY 2015 and from the tepid below-three percent growth rate of the three previous years. The upward trend of market values indicates that the local real estate market has normalized following the slump that hit after FY 2009. Each successive year of accelerating market values helps lift billable growth because assessments of most large properties are phased in over five years.

In our March staff report, we included positive risks of an extra $275 million in property tax revenue in FY 2016, $150 million in FY 2017, $100 million in FY 2018 and $50 million in FY 2019. The city has subsequently raised its property tax plan by $271 million in FY 2016, $346 million in FY 2017, $339 million in FY 2018, and $329 million in FY 2019. These revenue increases consist of large positive increments to the levy, averaging $233 million, augmented by reductions to contingency and refund reserves averaging $88 million. With these stronger revenue projections, the city has virtually matched our upside risk for FY 2016, and exceeded our estimates for the outyears. Despite the downsizing of property tax reserves that occurred in the May modification, the reserves appear to be sufficient to meet foreseeable contingencies. However, if these reserves are not fully utilized, they could be used to supplement property tax revenues before the close of each fiscal year.

Nonproperty Taxes

In the city's financial plan, the nonproperty taxes increase by $2.7 billion, or 9.4 percent, from $28.4 billion in FY 2016 to $31 billion in FY 2019, as shown in Table 5 on page 13. Lackluster growth of about three percent lingers in the plan for FYs 2017 through 2019. Previously, at the start of the recovery, these taxes surged by 13 percent in FY 2011 but growth then dropped to four percent in FY 2012. The nonproperty taxes soared by 11 percent in FY 2013 when taxpayers acted to recognize incomes early in order to avoid impending federal tax increases. The resulting spin-up also helped lift FY 2014 collections growth to six percent. FY 2016 tax projections lag behind the strong collections achieved in FY 2015 and decline by $184 million, or 0.6 percent.

The fastest growing nonproperty taxes are the real property transfer tax (RPTT) and the mortgage recording tax (MRT), each of which increases by at least 16 percent over FYs 2016-19. Also showing solid growth are the unincorporated business,

commercial rent, and sales taxes, each of which increases by more than 12 percent. The newly combined general corporation and banking corporation taxes are projected to increase by nine percent, while the personal income and hotel taxes each grow six percent. The cigarette and minor taxes drop by six percent and 0.4 percent, respectively.

Business Taxes

Two of the city's business taxes, the general corporation tax (GCT) and the banking corporation tax (BCT), have been combined. The city's plan suggests that the third of these taxes, the unincorporated business tax (UBT), will grow more strongly than the two newly merged taxes. As a group, the business taxes climb almost 11 percent from $6.1 billion in FY 2016 to $6.8 billion in FY 2019. Whereas UBT surges by 14.4 percent, the combined GCT and BCT increases by a more moderate nine percent. Although the city expects the new tax law to be revenue neutral, a cautious forecast is warranted by the difficulties of estimating the actual effects of the business tax changes.

Business tax reform legislation, which was enacted in April, has eliminated the city's separate banking corporation tax by merging it with the general corporation tax, starting with liability year 2015. The new rules have simplified tax reporting and are consistent with state business tax reforms that were previously enacted. The local tax base has been narrowed by repealing an alternative tax base for income plus compensation and by eliminating an alternate tax on bank assets. The city, like the state, will apply customer based sourcing rules. This latter rule change could reduce taxes for local companies that do business outside the city, while generating revenue from outside companies that conduct business in the city. The generally applicable tax rate under the new rules is 8.85 percent, which is the same as the old rate for the GCT. Large financial businesses will pay nine percent, which is also unchanged from the old BCT rate. The tax rate on small businesses is reduced to 6.5 percent, and small manufacturers will pay 4.425 percent.

During the transition to the new rules, the city allowed affected firms to postpone tax payments that were due June 2015 for three months until September. We were concerned the delayed due date would shift tax payments from FY 2015 into the following fiscal year. Preliminary collections indicate that taxpayers did not take advantage of the transitional grace period and no shortfall was observed.

Even though the June payments were strong, we remain concerned that cuts to the business tax base and tax rates could slow collections. We are placing the business taxes at risk for $100 million in each of FYs 2016 through 2019.

Property Transactions Taxes

This group of taxes, consisting of the RPTT and MRT, increases by almost 17 percent in the city's plan from $2.3 billion in FY 2016 to $2.7 billion in FY 2019. Compared to FY 2015, the city reduced its FY 2016 estimate for the property transactions taxes by a combined $583 million, resulting in a 20 percent decline in FY 2016. Growth recovers to about 10 percent in FY 2017 before dropping below three percent in the outyears.

The city's cautiously negative growth in FY 2016 could result from concerns about higher mortgage interest rates that could cool the demand for real estate. Indeed, these taxes can be extremely volatile, recording severe declines of between 22 and 51 percent during the three recession years of FYs 2008-2010. Subsequently, while recovering from the recession in FYs 2011-14, these taxes soared at an average annual rate of 26.5 percent.

The Federal Reserve has proven that it can hold down interest rates and when interest rates start to escalate, we expect the increases to be gradual so as not to shock the markets. We think that the transactions taxes could yield an extra $200 million in FY 2016 and $100 million in FY 2017.

Sales Tax

In the June financial plan, the city anticipates that the same economic variables that positively impacted sales tax revenue in FY 2015 will continue during FYs 2016-19, but at a more moderate pace. These factors include employment and wage gains that bolster consumer confidence and spending, and large numbers of domestic and international visitors. After advancing four percent to $7.026 billion in FY 2016 from the prior year, sales tax revenue remains in the four percent range in FYs 2017 and 2018 before growth slows to 3.5 percent in FY 2019. The city's sales tax forecast for FYs 2016-19 is conservative and achievable. It aligns with the lower range of historical collections at four to five percent annually rather than at the higher end of at least eight percent per year.

The local economy added 120,700 jobs in 2014 and an average of 90,000 jobs during 2011-13. Going forward, the city expects the pace of job growth to decelerate over the plan period from 67,000 jobs in 2015 to 47,000 jobs in 2019. In comparison to 2014, finance sector compensation in the forecast period of 2015-19 provides a modest boost to total wage earnings, which increase at an average annual rate of 4.3 percent during this time. In the first quarter of 2015, consumers were slow to increase borrowing and spend the windfall from lower gas prices, in part due to the winter weather. Recent data indicate a more positive, but restrained outlook for consumption and borrowing by households, where retail sales are up, but activity is uneven month-to-month. Some consumers may feel "wealthier" from a new record set in household net worth in the March 2015 quarter from rising home and stock prices.

The steadiness of sales tax collections in recent years has been facilitated not only by income and job gains, but from a steady stream of tourists since 2009. There was a new record set in 2014 of 56.4 million tourists who generated $41.4 billion in direct spending and $61.3 billion in a broader economic impact. The latest estimate by the city is for 58.1 million domestic and international visitors in 2015. However, there is a question whether tourists from overseas will continue to spend as in the past given the appreciation of the dollar and other global events. Whether the 2014 tourism record is overtaken in 2015 or the momentum slows during the plan period, the effect of tourism on local industries and sales tax revenue remains significant.

Personal Income Tax

Personal income tax revenue over the past few years including FY 2015 has experienced remarkable growth as job creation became more broad-based in 2014 with hiring in the financial activities industry, along with stronger gains in nonwage rather than wage income. Improvements in nonfinance sector employment continue to support base withholding collections, but by its size, Wall Street compensation has had a stronger effect on withholding, particularly if bonus payouts are geared more to cash than stock.

In terms of nonwage income, personal income tax collections have also reflected higher taxpayer liability from more dividends, and capital gains realizations from the appreciation of real estate and stock holdings. The profitability of New York Stock Exchange (NYSE) member firms has remained high, and ranged from $16 billion to $24 billion in 2012-14. These profits occurred despite billion-dollar legal settlements, more regulations concerning bank capital and risk, and increased compliance costs.

The June financial plan reflects more subdued growth for the personal income tax during FYs 2016-19 based on modest gains in income and jobs, but declines in capital gains realizations in the near term. After leaping 10 percent to $10.5 billion in FY 2015 from the prior year, personal income tax collections rise marginally by one percent in FY 2016, 0.2 percent in FY 2017, 2.2 percent in FY 2018, and 3.2 percent in FY 2019. One of the reasons for the slowdown in growth from FY 2015 to FY 2016 and thereafter, is that the total settlement declines in each year of FYs 2016-18.[1]

While private sector job creation of over 90,000 annually in 2011-13 and 120,100 in 2014 is remarkable, it is unsustainable in the long term. As a result, the city expects the local economy will add 67,000 jobs in 2015 and 62,000 jobs in 2016. Bonus payouts will not provide a significant boost to withholding in the near term of the forecast period, and wage growth for each year of 2015-19 will stay in the three and four percent range for the finance and nonfinance sectors of the economy, respectively.

A major issue for the personal income tax is whether activity in the finance sector will be negatively affected by events in the Eurozone and other countries, and if such events will influence the Federal Reserve's plan to raise short-term interest rates in 2015. Before the uncertainty on the global scene intensified, all three of the domestic stock market benchmarks—Nasdaq Composite Index, Dow Jones Industrial Average, and Standard & Poor's 500 Index—were in record territory, and Wall Street firms were enjoying a boom in initial public offerings, and advising on mergers.

Earnings for the first quarter of 2015 for Wall Street banks reflected higher revenue from a combination of trading in stocks and FICC, advising on mergers, and more loans including mortgages, in a context of higher client activity and lower legal and other costs. In the first quarter of 2015 profits at NYSE member firms were $6.5 billion, up from $5.3 billion at the same time in 2014. The city's forecast of $14.5 billion in securities industry profits annually in 2015-19 is reasonable and achievable assuming

[1] The total settlement is the sum of final returns, extensions, offsets, and refunds in a year.

there is no major shock to the markets. In the reports of second quarter bank earnings, continued cost-cutting efforts, merger advising fees, and higher loan volume by firms are helping to raise profits in a tougher business environment that led to declines in trading revenue and lower net interest margins. Yet, the gains achieved by NYSE member firms in the first quarter of 2015 might not be lost later in the year if global events are resolved quickly, to prevent excess uncertainty and volatility in the markets.

While there is no evidence at this point of an acceleration in wages across all industries, some of the new jobs being created locally are in the higher-paying securities subsector, and the industries of financial activities, professional and business services, and information. These sectors offer higher base salaries and different types of compensation comprised of cash bonuses, performance awards, and incentive pay. For these reasons, the city's personal income tax forecast might be exceeded by $200 million in each of FYs 2016-19.

Miscellaneous Revenue

In the adopted budget, miscellaneous revenue falls 24.4 percent or $1.5 billion to $4.8 billion in FY 2016 from the prior year. During the financial plan period of FYs 2015-19, miscellaneous revenue decreases 19.5 percent or $1.2 billion to $5.1 billion by FY 2019. By either measure, a substantial part of the negative variances can be traced to the variable nature of nonrecurring resources. The city used over $1 billion of nonrecurring resources in FY 2015, but we estimate FY 2016 will begin with under $50 million of one-time actions within miscellaneous revenue.[2] In the outyears, sales of assets raise over $200 million in FY 2017 and FY 2018, and over $350 million in FY 2019, primarily from taxicab medallion sales.

After adjusting for nonrecurring and other resources, miscellaneous revenue declines 7.2 percent in FY 2016 after increasing 1.7 percent in FY 2015, and slides 4.3 percent during FYs 2015-19. One explanation for the projected declines is conservative budgeting, and that the last year of the forecast period is a bare-bones estimate. However, some of the momentum generated in certain revenue sources in FY 2015 may continue into FY 2016 and FY 2017. This is separate from new initiatives that offer recurring revenue growth that have yet to be specified, but will be part of upcoming modifications to the financial plan. For these reasons, miscellaneous revenue could exceed the city's forecast by $200 million in FY 2016, $175 million in FY 2017, and $125 million in both FY 2018 and FY 2019.

There are revenue sources in the categories of licenses and charges for services that could see positive growth past FY 2015, because they are influenced by the local economy. This includes construction and building permits, and housing-based fees. License revenue falls 5.5 percent in FY 2016 to $641.1 million and decreases each year until FY 2019 at $616.1 million. Collections in charges for services, which are comprised

[2] Among the nonrecurring resources that were generated and used in FY 2015, the largest were the $1 billion health stabilization payment and asset sales.

of housing and other fees, total $970.2 million in FY 2015, and remain just below $950 million annually in FYs 2016-19. Fine revenue drops 15 percent in FY 2016 to $809.8 million and slips to just under $800 million by FY 2019 in a broad-based decline encompassing parking, building, and environmental fines. While the city has taken numerous steps to increase compliance with local laws -- outreach to small businesses, stepped-up enforcement at the precinct level with Vision Zero, and more cameras -- it is unclear how long it takes to change certain behaviors which would result in a lasting reduction in fine revenue.[3]

Unlike the other miscellaneous revenue categories that contributed to the 1.7 percent gain in FY 2015, interest income rises modestly to $29.4 million in FY 2016 from a hike in the federal funds rate from the current zero to 0.25 percent by the Federal Reserve, and a conservative estimate of cash balances. There were record high cash balances in FY 2015 from another year of strong tax revenue growth, which may continue to an extent in FY 2016. If this occurs, there would be more funds available in FY 2016 for short-term investment at a higher interest rate. By the time of FY 2018 and FY 2019, interest earnings are forecast to exceed $150 million annually as short and long term interest rates resemble historical patterns.

SOURCES OF EXPENDITURE GROWTH OVER THE FINANCIAL PLAN

Projected growth in total-funded expenditures between FYs 2016 and 2019 is presented in Table 6. The financial plan assumes expected growth of 12 percent, or $9.4 billion. Based on this projection, average annual growth is 3.9 percent. Total-funded expenditures, categorized as Personal and Other Than Personal Services (OTPS), are expected to grow by 11.5 percent and 2.4 percent, respectively.

[3] The city has raised the number of speed and bus lane cameras that have been deployed, but within authorized levels, such as 57 out of 140 speed cameras currently in use. However, their revenue potential is limited due to restrictions associated with their operation. The number of red light cameras in place did not increase from 190 cameras at 150 intersections, but the cameras are being upgraded.

TABLE 6 **PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH IN FYs 2016-2019**
(yr/yr percent change, $ in millions)

	FYs 2016-17	FYs 2017-18	FYs 2018-19	FYs 2016-19	Level in FY 2016	Level in FY 2019
Total Funds	**4.7%**	**3.0%**	**3.9%**	**12.0%**	**$77,952**	**$87,320**
Total PS	**1.2%**	**4.6%**	**5.4%**	**11.5%**	**$42,444**	**$47,318**
Salaries and Wages	0.3%	5.4%	5.8%	11.9%	24,523	27,441
Fringe Benefits	5.2%	5.8%	7.7%	19.9%	9,278	11,121
Pensions	(0.4%)	0.6%	1.1%	1.3%	8,643	8,756
Total OTPS	**(0.9%)**	**1.2%**	**2.2%**	**2.4%**	**$39,062**	**$40,001**
Public Assistance	(1.1%)	0.0%	0.0%	(1.1%)	1,481	1,464
Medical Assistance	1.5%	0.0%	0.0%	1.5%	6,326	6,424
Debt Service	5.3%	5.2%	7.4%	19.1%	6,488	7,725
Other OTPS	(3.2%)	0.4%	1.3%	(1.5%)	24,766	24,388
FY 2015 Prepayment					**($3,554)**	**$0**

Notes: Excludes interfund agreements for an annual adjustment ranging from $546 million to $575 million. Debt service is net of prepayments. Numbers may not add due to rounding.

In Personal Service (PS), fringe benefit costs are expected to grow by 19.9 percent, or $1.8 billion, between FYs 2016 and 2019. The majority of fringe benefit expenses are for Social Security Tax (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and healthcare insurance. The cost of healthcare insurance is the largest of these expenses. Estimated healthcare spending for active city workers, including payments to Supplemental Welfare Funds (SWF), is expected to increase from $4.7 billion in FY 2016 to $5.6 billion by FY 2019, a 19 percent increase. Growing at about the same rate are Other Postemployment Benefits (OPEB). This includes healthcare coverage for retirees and payments to their SWF. The annual pay-as-you-go OPEB cost is expected to increase from $2.2 billion in FY 2016 to $2.7 billion in FY 2019, an increase of 24 percent.

The other contributor to PS expenditure growth, which is expected to increase between FYs 2016 and 2019 by 11.9 percent, is salaries and wages. The higher spending reflects the phase-in of funding to cover labor settlements for the latest round of collective bargaining. Growth is higher between FYs 2018 and 2019 reflecting additional funding for one percent increases per year beyond the current bargaining round. To date, the city has settled with about 80 percent of its represented workers. However, the Patrolmen's Benevolent Association (PBA), United Firefighters Association, and Correction Officers' Benevolent Association have yet to settle contracts, although the city has fully funded the labor cost for those settlements following the pattern set by the Uniformed Superior Officers Coalition and the Sergeants' Benevolent Association. The primary complication in settling the remaining contracts is an impasse in labor negotiations between the PBA and the city. The PBA has rejected the patterns of other unions and has chosen to argue its case by binding arbitration in front of the state Public Employment Relations Board to seek resolution. The PBA arbitration is expected to be decided sometime this Fall.

In the OTPS budget area, the largest source of growth over the financial plan period is in the city's debt service expense (net of prepayments). As shown in Table 6 on page 19, the city projects debt service will increase by 19.1 percent from $6.5 billion in FY

2016 to $7.7 billion in FY 2019.[4] The growth in debt service reflects an expanding city-funded capital program, as well as conservative borrowing assumptions. The growth has been tempered by the application of state building aid ranging from $42 million in FY 2016 to $115 million in FY 2019 to pay debt service on future tax secured bonds sold by the New York City Transitional Finance Authority. For a further discussion of debt service costs see "The Capital Strategy and Resulting Debt" starting on page 22.

Turning to city-funded expenditures, projected growth between FYs 2016 and FY 2019 is presented in Table 7 on page 21. The financial plan assumes expected growth of 15.9 percent, or $9 billion. Based on this projection, average annual growth is five percent. City-funded expenditures are mostly comprised of agency spending across six categories, as shown in the table. Other major city-funded spending is directed to pension and debt service. Total city-funded agency spending is expected to grow by 9 percent, or $4 billion, between FYs 2016 and 2019 from $45.7 billion to $49.9 billion. The main drivers of the growth are covered organizations and the miscellaneous budget areas.

Covered organizations, comprised of the Department of Education (DOE), the City University of New York, and the Health and Hospitals Corporation, are projected to grow collectively by 14.8 percent, or $1.7 billion. Responsible for much of the growth, the DOE adds $479 million between FYs 2016 and 2017, $459 million between FYs 2017 and 2018, and $592 million between FYs 2018 and 2019. The funding variances from year to year reflect increased spending for collective bargaining, universal prekindergarten, and educational programs. The changes in miscellaneous spending are mostly due to increased funding to the labor reserve to cover contract settlements and projected higher healthcare costs.

[4] FY 2016 debt service includes defeasance savings of $103 million.

PROJECTED CITY-FUNDED EXPENDITURE GROWTH IN FYs 2016-2019

TABLE 7 (yr/yr percent change, $ in millions)

	FYs 2016-17	FYs 2017-18	FYs 2018-19	FYs 2016-19	Level in FY 2016	Level in FY 2019
Total City Funds	**6.3%**	**4.0%**	**4.8%**	**15.9%**	**$56,974**	**$66,013**
Total Agency	**(0.6%)**	**4.4%**	**5.1%**	**9.0%**	**$45,722**	**$49,843**
Uniformed Services	(0.3%)	0.6%	0.7%	1.0%	9,163	9,254
Health and Welfare	0.7%	0.4%	0.1%	1.2%	9,666	9,786
Mayoral	(8.6%)	(1.1%)	(0.6%)	(10.1%)	5,350	4,812
Covered Organizations	4.8%	4.2%	5.0%	14.8%	11,306	12,978
Miscellaneous	(4.1%)	15.5%	16.1%	28.7%	9,667	12,440
Elected Officials	(0.4%)	0.7%	0.0%	0.3%	570	572
Other	**2.1%**	**2.7%**	**4.1%**	**9.2%**	**$14,805**	**$16,170**
Pensions	(0.4%)	0.6%	1.1%	1.3%	8,611	8,724
Debt Service	5.6%	5.5%	7.8%	20.2%	6,194	7,447
FY 2015 Prepayment					**($3,554)**	**$0**

Note: Excludes state, federal and other categorical funds as well as intracity expenses and interfund agreements. Debt service is net of prepayment. Miscellaneous recognizes prior-year payables; adjustments for energy, lease, and OTPS inflation; and adjustments to the general reserve. Numbers may not add due to rounding.

As shown in the table, while agencies in uniformed services, and health and welfare grow only modestly at about one percent, the budgets for elected officials stay relatively flat. Mayoral agencies, consisting of 49 agencies in total, are collectively expected to reduce departmental spending by 10.1 percent. The reduced spending in mayoral agencies reflects funding changes between FYs 2016 and 2017. The budget contains funding increases in FY 2016 that are not carried over the life of the financial plan. Elsewhere, the city projects pension costs to grow modestly by 1.3 percent between FYs 2016 and 2019, while debt service grows at 20.2 percent.[5]

The financial plan assumes budget gaps of $1.5 billion in FY 2017, $1.9 billion in FY 2018, and $2.9 billion in FY 2019. One of the risks that could increase the outyear gaps is uniformed overtime spending for the Fire, Correction, and Sanitation Departments. We exclude Police Department overtime from this calculation. The new budgeting process for Police Department overtime, which caps annual uniformed personnel expenditures and will be closely monitored, poses no budgetary risk. However, we will continue to risk uniformed overtime for the remaining service areas when warranted.

Based on actual overtime expenditures through May 2015, we project total fiscal year-end spending for the Departments of Fire, Correction, and Sanitation of $650 million. The city projects uniformed overtime expenditures of $436 million for FY 2016, $401 million for FY 2017, $360 million for FY 2018, and $366 million for FY 2019. Based on the FY 2015 projected total, we hold at risk $214 million for FY 2016, $249 million for FY 2017, $290 million for FY 2018, and $284 million for FY 2019, as seen in Table 3 on page 5.

[5] FY 2016 debt service includes defeasance savings of $103 million.

THE CAPITAL STRATEGY AND RESULTING DEBT

In accordance with its charter requirement, every two years the city outlines its capital program strategy for the ensuing 10-year period. The city released a finalized Ten-Year Capital Strategy for FYs 2016-25 that comprises an expanded scope. The strategy contains $83.8 billion of capital commitments, which is $30.1 billion larger than the strategy that covered FYs 2014-23. The vast majority of the additional commitments are classified as capital-eligible repairs to the city's existing physical assets.

The first four years of the capital strategy encompass the financial plan years and reflect contracts in which the city is authorized to enter. The commitments for FYs 2016-19 total $43.2 billion, and are front loaded at 52 percent of the ten-year strategy. It is expected that the scope of projects entered into may vary somewhat from the strategy, and that the actual costs, timing, as well as funding sources may differ.

Notably, the ten-year strategy is heavily city funded, with $61.1 billion covered by tax-supported debt financing to be undertaken by the city and the New York City Transitional Financing Authority (NYCTFA). An additional $14.4 billion of commitments specifically for environmental protection are covered by bonds to be sold by the Water Finance Authority, which are backed by city water and sewer user fees, not tax revenues. The financing profile has changed from the prior strategy, with a substantial amount of capital commitments for education having been reclassified as city funded instead of state funded. To counterbalance the substantial growth in city-funded commitments, the city allocated a portion of ongoing state building aid it expects to receive in support of education capital projects to partially offset debt service costs financed with tax-supported bonds. With this action, debt service is projected to grow at an average annual rate of 3.9 percent over the 10-year period, and its consumption of tax revenues falls well below the 15 percent threshold often used as an affordability measure. However, the associated outstanding debt, which has been cited as a credit challenge by rating agencies, is growing more rapidly. This section of the report reviews the allocation of major capital commitments in the ten-year strategy, and assesses the corresponding debt profile.

Capital Program Profile

Having been enlarged by $30 billion, the current ten-year strategy reflects an expansion more than a reprioritization compared to the prior ten-year strategy, with the largest additions allocated to the areas of housing, transportation, education, energy efficiency, economic development and environmental protection. For each functional area, the commitments are distributed among the three program classifications of capital-eligible repairs, replacement or expansion.[6] Of the $30 billion incremental

[6]Repair includes corrective maintenance, encompassing extensive reconstruction and rehabilitation of the city's physical assets. Replacement, defined as preventive maintenance, ensures equipment and asset components are replaced on a regular basis at the end of their life cycle. Expansion includes the acquisition or construction of new assets.

commitments, $21 billion (70 percent) are ascribed as repairs to existing assets, so that repair work represents 57 percent of the current strategy, up from 50 percent of the prior strategy. This is consistent with the results in the charter-required FY 2015 Asset Information Management System (AIMS) Report. The city recently released its FY 2015 AIMS Report, revealing that the investments that are recommended to bring select portions of its assets up to a state of good repair within the four-year period of FYs 2016-19 are funded on average at a historically high level, with a 10 percentage point improvement over the FY 2014 AIMS Report. The state of good repair needs identified in the FY 2015 AIMS Report topped $6.5 billion, with 71 percent cited as being funded within four years. The following is a highlight of the areas in the ten-year strategy receiving the most substantial increases in commitments.

Housing. Commitments for housing were ratcheted up by $5.4 billion, as displayed in Table 8 on page 25. Now at $8.4 billion, housing comprises 10 percent of the total ten-year strategy. Commitments for housing are distributed between two agencies. The Department of Housing Preservation and Development (HPD), with $7.2 billion of city-funded and $276 million of federal-funded commitments for the 10-year period, is tasked with providing loans toward and investing directly in expanding ($4.1 billion) and repairing ($3.3 billion) the housing stock. Specifically, HPD plans to undertake the creation and preservation of 200,000 housing units citywide over the next ten years under the Housing New York program. During the same period, the New York City Housing Authority is slated to undertake $591 million of city-funded and $308 million of federal-funded commitments to upgrade public housing. The adequacy of planned maintenance to city-owned housing is unspecified because such assets are excluded from the charter reporting requirements.

Transportation and Transit. With a $4.8 billion increase over the prior strategy, capital commitments in the current strategy for the Department of Transportation (DOT) and the Transit Authority sum to $13.4 billion (16 percent of the total ten-year strategy), as shown in Table 8 on page 25. Charged with the safe and efficient movement of people and goods in the city, DOT maintains roadways, bridges, municipal parking facilities, and the municipal ferry system; provides traffic lights and signs as well as streetlights; and purchases automotive and data processing equipment. Meanwhile, the New York City Transit, the largest agency within the regional transportation network of the Metropolitan Transportation Authority (MTA), is charged with maintaining the subway stations and cars, as well as making a contribution to the MTA's capital budget. Approximately 90 percent of the commitments for transportation and transit are allocated for repairs, with the other 10 percent involving asset replacements. With this volume of commitments, 89 percent of the recommendations in the FY 2015 AIMS Report to bring transportation assets up to a state of good repair is designated as funded, which is a major driver behind the historically high 71 percent total funding level for asset maintenance.

ALLOCATION OF MAJOR CAPITAL COMMITMENTS

TABLE 8 ($ in millions)

	FYs 2016-25 Capital Strategy	Change From FYs 2014-23 Strategy	Program Classifications			Sources of Funding		FY 2015 AIMS Report Capital Recommendations	FY 2015 AIMS Report Capital Funding
			Repairs	Replacement	Expansion	City	NonCity		
DOE	**$23,030**	**$3,364**	**$16,822**	**$0**	**$6,208**	**$20,344**	**$2,686**	**$1,650**	**$1,650**
DEP	**14,688**	**2,278**	**1,383**	**7,735**	**5,571**	**14,381**	**308**	**NA**	**NA**
Pollution Control	5,588	1,215	-	4,663	925	5,308	280		
Water Mains	3,333	(199)	214	1,756	1,364	3,330	3		
Sewers	4,061	1,882	941	790	2,329	4,037	24		
Water Supply	1,180	(468)	228	-	952	1,180	-		
Equipment	526	(151)	-	526	-	526	-		
Transportation and Transit	**13,422**	**4,761**	**12,060**	**1,362**	**-**	**10,978**	**2,444**	**2,896**	**2,573**
Bridges	7,763	3,407	7,737	26	-	6,554	1,210	522	522
Highways	3,667	1,022	3,667	-	-	3,077	589	2,236	1,942
Transit	837	317	-	837	-	833	4	NA	NA
Traffic	642	(10)	642	-	-	275	367	57	42
Ferries	447	17	14	433	-	179	268	80	66
Equipment	66	8	-	66	-	60	6	NA	NA
Housing	**8,357**	**5,434**	**4,246**	**-**	**4,111**	**7,773**	**584**	**NA**	**NA**
Energy Efficiency & Citywide Equipment	**4,219**	**3,071**	**2,475**	**1,745**	**-**	**4,219**	**-**	**NA**	**NA**
Small Business Services	**3,380**	**3,026**	**-**	**-**	**3,380**	**3,289**	**91**	**208**	**26**
Parks	**2,514**	**1,485**	**2,343**	**-**	**171**	**2,265**	**249**	**510**	**59**
HHC	**2,403**	**1,509**	**2,089**	**314**	**-**	**841**	**1,562**	**307**	**108**
Sanitation	**2,303**	**739**	**1,031**	**1,152**	**119**	**2,301**	**2**	**123**	**22**
All Others*	**9,462**	**4,393**	**5,183**	**4,191**	**87**	**9,108**	**354**	**888**	**239**
Total	**$83,778**	**$30,061**	**$47,631**	**$16,500**	**$19,647**	**$75,499**	**$8,279**	**$6,581**	**$4,676**

*All Others includes Correction, Public Buildings, Courts, Police, Fire, Cultural Affairs, Homeless Services, Health, CUNY, Human Resources, Children's Services, Libraries, Real Estate, Aging, Youth & Family Justice, and Taxi and Limousine Commission.
NA: Not applicable
Numbers may not add due to rounding.

Education. By far the largest share of commitments in the FYs 2016-25 strategy, the allocation for the Department of Education (DOE) is $23 billion or 27 percent. DOE's commitments have increased by $3.4 billion (17 percent) compared to the FYs 2014-23 strategy, with $4.9 billion of additional commitments designated for repairs partially offset by a $1.6 billion reduction for program expansion. The emphasis of DOE's capital program is on bringing the roughly 1,500 school buildings used by more than one million students and the support facilities up to a state of good repair with $16.8 billion of commitments dedicated to that end, and $6.2 billion for program expansion, as outlined in Table 8 on page 25. With this amount of commitments for repairs, DOE has cited 100 percent of the investment needs identified in the FY 2015 AIMS Report as being funded.

The new ten-year strategy drops the assumption of a continued 50/50 funding split for education between the city and the state, and instead designates $20.3 billion of the commitments for DOE as city funded and $2.7 billion as noncity funded. It recognizes that over the next few years the financing vehicle for state-funded education commitments is reaching the authorized limit. The NYCTFA has been authorized by the state to sell bonds in an amount outstanding of up to $9.4 billion to support school construction, with the debt service being backed by state building aid, and as such not an obligation of the city. Between FYs 2007 and 2015, the NYCTFA sold almost $8 billion of Building Aid Revenue Bonds (BARBs), of which $7.5 billion is outstanding. The current ten-year strategy assumes limited sales of state-funded BARBs up to the $9.4 billion outstanding debt limit, leaving the vast majority of school construction commitments to be city funded. While city-funded debt now will be the primary source of financing for education capital projects, it is expected that the city will continue to receive the same level of building aid from the state to support school construction. Historically, state building aid has covered, on average, 50 percent of the debt service on all bonds sold for the city's school construction projects that are reimbursable by the state. The current ten-year strategy now explicitly assigns the excess annual state building aid, the amount remaining after the BARB debt service payment and an allocation to the DOE, to offset NYCTFA debt service costs.

Energy Efficiency and Citywide Equipment. Fully city funded at $4.2 billion, commitments in the current strategy for the areas of energy efficiency and citywide equipment spiked by $3.1 billion, more than double the amount in the prior strategy, as presented in Table 8 on page 25. The increased investment largely supports a new comprehensive energy management strategy for roughly 4,000 city buildings that aims to reduce substantially the city's greenhouse gas emissions, and the replacement of data processing equipment and services to achieve greater productivity. The $2.5 billion of commitments ascribed as repair work for this area do not fall within the scope of the AIMS Report.

Department of Small Business Services. The largest percentage increase in capital commitments (855 percent) has been assigned to the Department of Small Business Services (SBS). As illustrated in Table 8 on page 25, the SBS is allocated $3.4 billion to facilitate the expansion of economic development throughout the city, with the bulk of the mostly city funds going towards neighborhood revitalization, and industrial,

commercial, waterfront and market developments. The $208 million of repair needs identified in the FY 2015 AIMS Report for existing assets of this agency are largely not expected to be undertaken.

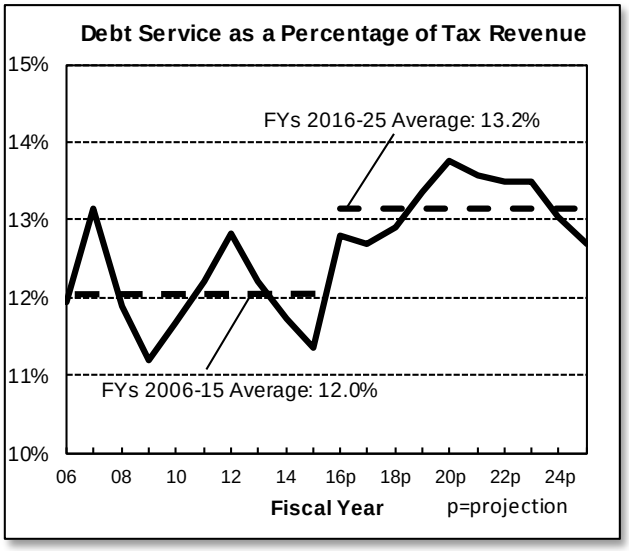
The Department of Environmental Protection. The second largest share of capital commitments in the ten-year strategy at 18 percent, or $14.7 billion, is earmarked for the Department of Environmental Protection (DEP) to ensure the water and sewer systems are safe, maintained and adequate to meet the needs of New York City residents. DEP's capital commitments have been bolstered by $2.3 billion in the current strategy compared to the FYs 2014-23 strategy, as shown in Table 8 on page 25. In all, $1.4 billion of environmental protection commitments are classified as state of good repair work. The adequacy of commitments to bring DEP's assets to a state of good repair is indeterminable because the assets are leased to the Water Finance Authority and as such are excluded from the charter reporting requirements. The Water Finance Authority funds the vast majority of the city's environmental protection capital needs with the sale of revenue bonds secured by city water and sewer user fees.

Debt Profile

The portion of the city's capital program that is financed by tax-supported debt is represented in the operating budget in the form of annual debt service costs. Of the $83.8 billion capital commitments in the FYs 2016-25 strategy, $61.1 billion are slated to be financed by general obligation (g.o.) bonds to be sold by the city and Future Tax Secured (FTS) bonds to be sold by the NYCTFA. When debt related to the new ten-year strategy is layered onto existing debt, the debt service costs for the city and the NYCTFA are projected to climb from $6.6 billion in FY 2016 to $7.7 billion in FY 2019 and $9.3 billion in FY 2025. This reflects a 5.1 percent average annual growth rate for the FYs 2016-19 plan period and a slower rate of 3.3 percent for FYs 2019-2025, for an average annual rate of 3.9 percent over the combined 10-year period of FYs 2016-25. The tapered debt service growth rate from FY 2019 is predicated on the capital program contracting in the latter years of the ten-year strategy.

Additionally, debt service costs were reduced by a range of $42 million in FY 2016 to $115 million in each of FYs 2019-2025 to reflect the latest assumption that residual state building aid for education capital projects will be applied to offset debt service on FTS bonds sold by the NYCTFA. This action represents the assignment of state building aid not needed for BARB debt service payment to be used instead to service debt on NYCTFA FTS bonds, as city-funded debt has now largely replaced the sale of BARBs, which is being constrained by the previously discussed impending debt limit.

The city actively manages debt service costs with consideration to the proportion of tax revenues to be consumed. As projected in correspondence with the new ten-year strategy, debt service costs will absorb an increasing share of tax revenues, climbing from 12.8 percent in FY 2016 to peak at 13.8 percent in FY 2020, beyond which the burden begins declining to 12.7 percent in FY 2025. As such, the debt service burden forecasted through FY 2025 remains below the 15 percent threshold often used as a measure of affordability, but on average is higher at 13.2 percent than what was experienced over the past 10-year period at 12 percent, as illustrated in the figure to the right.[7] Debt service fluctuated between 11.2 percent and 13.1 percent over the last 10-year period, where some years benefited from refunding and defeasance savings. The projected burden assumes robust growth in tax revenues that exceeds that of debt service particularly from FYs 2021-25, and could prove to be lower annually if actual interest costs are below the conservative estimates employed.



For a comprehensive debt profile, we review the Statement of Debt Affordability covering the financial plan years, which the city produces annually at the time of the executive budget. The Statement of Debt Affordability presents the aggregate debt and debt service levels for all bonds backed by tax revenues sold to support the city's capital program, including city and NYCTFA, as well as city lease agreements. Table 9 on page 29 displays measures used in the Statement of Debt Affordability.

In its Statement of Debt Affordability, the city projects that debt service will climb from $6.637 billion in FY 2016 to $7.707 billion in FY 2019.[8] This reflects an average annual growth rate of 5.1 percent. Meanwhile, the city projects tax revenues, from which debt service is paid, will increase from $52 billion in FY 2016 to $57.7 billion in FY 2019, reflecting a slower average annual growth rate, relative to debt service, of 3.5 percent. The share of tax revenues that debt service will consume is forecasted to climb from 12.8 percent in FY 2016 to 13.4 percent in FY 2019. Over the plan years, debt

[7] The city has not published actual debt service and tax revenues for FY 2015. We use the levels for FY 2015 from the June 2015 Financial Plan.

[8] Debt service projections are based on long-term financing assumptions in the executive budget and are net of prepayments. Debt service estimates based on assumptions in the adopted budget amount to $6.591 billion in FY 2016, $6.833 billion in FY 2017, $7.191 billion in FY 2018 and $7.725 billion in FY 2019, for an average annual growth rate of 5.4 percent.

service is forecasted to consume a steady share of local personal income of between 1.2 percent and 1.3 percent. As a proportion of total revenue, debt service is projected to grow from 8.5 percent in FY 2016 to 9.1 percent in FY 2019, with debt service forecasted to rise at about twice the average annual rate of the 2.6 percent for total revenues. Based on the assumption that the city's population size will hold steady at 8,175,000, per capita debt service is projected to increase from $812 in FY 2016 to $943 in FY 2019.

DEBT AFFORDABILITY MEASURES

TABLE 9 ($ in millions, except per capita)

	FY 2016	FY 2017	FY 2018	FY 2019	Average Annual Growth
City & NYCTFA Debt Service	$ 6,637	$ 6,820	$ 7,173	$ 7,707	5.1%
Debt Service Per Capita	812	834	877	943	
Debt Service as Percentage of:					
Tax Revenues	12.8%	12.7%	12.9%	13.4%	
Total Revenues	8.5%	8.5%	8.7%	9.1%	
Local Personal Income	1.3%	1.2%	1.2%	1.3%	
City, NYCTFA & Conduit Outstanding Debt	$ 69,907	$ 72,791	$ 76,166	$ 79,499	4.4%
Outstanding Debt Per Capita	8,551	8,904	9,317	9,725	
Outstanding Debt as Percentage of:					
Local Personal Income	13.2%	13.2%	13.3%	13.3%	
Tax Revenues	$ 52,028	$ 53,782	$ 55,649	$ 57,675	3.5%
Total Revenue	78,308	80,269	82,208	84,526	2.6%
Local Personal	527,970	550,530	574,370	597,970	4.2%

Note: FY 2016 debt service excludes debt defeasance savings of $103 million.

With the enlargement of the city's tax-supported capital program, Table 9 shows the combined outstanding debt climbing from the already high base of $69.9 billion at the end of FY 2016 to $79.5 billion at the end of FY 2019, for an average annual growth rate of 4.4 percent. This growth rate is twice the pace that was projected two years ago when the ten-year strategy was less expansive. Moreover, the amount of outstanding debt allotted to each New York City resident is expected to rise from $8,551 in FY 2016 to $9,725 in FY 2019. The debt to income ratio is forecasted to edge up slightly from 13.2 percent in FY 2016 to 13.3 percent in FY 2019, as the growth rate for outstanding debt is anticipated to overtake that for personal income. The accelerated growth rate is a cause for concern, as historically the city's debt load has been cited by credit rating agencies as a challenge that, to some extent, counteracts the city's highly effective budget management. In sensitivity to its high debt load, the city has funded the first ever capital stabilization reserve at $500 million in FY 2016, which among the various potential uses could be a minor one-time source of capital financing.

IV. Glossary of Acronyms

AIMS	Asset Information Management System
BARBs	Building Aid Revenue Bonds
BCT	Banking Corporation Tax
CSA	Council of Supervisors and Administrators
CUNY	City University of New York
CY	Calendar Year
DEP	Department of Environmental Protection
DOE	Department of Education
DOT	Department of Transportation
FCB	Financial Control Board
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FICA	Federal Insurance Contributions Act
FICC	Fixed Income, Currencies, and Commodities
FTS	Future Tax Secured
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
G.O. Bonds	General Obligation Bonds
HHC	Health and Hospitals Corporation
HPD	Department of Housing Preservation and Development
HUD	US Department of Housing and Urban Development
MRT	Mortgage Recording Tax
MTA	Metropolitan Transportation Authority
NYCHA	New York City Housing Authority
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority

NYSE	New York Stock Exchange
OPEB	Other Postemployment Benefits
OTPS	Other than Personal Service
PBA	Patrolmen's Benevolent Association
PILOTs	Payments in Lieu of Taxes
PS	Personal Service
RHBT	Retiree Health Benefits Trust
RPTT	Real Property Transfer Tax
SBS	Small Business Services
STAR	School Tax Relief program
SWF	Supplemental Welfare Funds
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers

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