

Staff Report

**JANUARY MODIFICATION
FYs 2020-2024**

March 17, 2020



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I. Overview

After the city submitted the January modification to the financial plan on January 16, 2020, events have occurred that could have a substantial impact on the city's finances. The timing and extent of the risks are not quantifiable at this time. First, the state executive budget contains a number of actions that could affect the city's FY 2021 budget. As usual, there are several proposals that would shift some costs from the state to the city. More important, due to the state's fiscal position, there are proposals that could have an impact on all local governments concerning who pays for Medicaid growth. The Governor has reconvened the Medicaid Redesign Team and instructed them to identify \$2.5 billion in savings by mid-March. While the instructions are to not impact local governments, it is uncertain, at this time, what the impact on the city's hospital system will be and if the city will therefore decide to increase its subsidy to Health + Hospitals. There are also proposals to control the cost to the state of Medicaid growth. At this point it is not known what the actual growth of Medicaid will be and which of these proposals will be approved by the State Legislature.

In addition, the onset of the coronavirus and its ramifications has raised concerns over its impact on the global, national and local economies. How serious and how long it lasts will determine the impact on the city's financial plan. The recent declarations of emergency on the state and local levels requiring the shutdown of large gatherings, such as the closing of Broadway shows, could negatively impact the upside potential in revenues identified in this report. The volatility in the stock market will make it harder for the city's retirement systems to meet the expected seven percent earnings on its pension investments, which would increase the city's pension contribution.

Given these new risks, the city was prudent in maintaining its conservative approach to financial planning. In the January modification, the city was able to build up its projected surplus from \$550 million in November modification to \$2.7 billion, which will be used to help balance the FY 2021 budget. This was accomplished because the city limited its new needs to \$440 million, which was largely offset by an agency savings program and a reduction in pension costs. In addition, the city recognized additional city-fund tax revenue of \$678 million. This additional revenue was mainly due to strong personal income tax and general corporation tax collections partially offset by a drop in the unincorporated business tax.

The city was also able to rely on the large reserves created at budget adoption, which will not be needed in FY 2020. The general reserve was reduced by \$850 million, the capital stabilization account was reduced by \$250 million, and prior-year payables were reduced by \$400 million. Our review of current tax collections shows that the positive impact of strong securities industry profits for 2019 on the business and personal income taxes may lead to an additional \$400 million by the end of FY 2020. Furthermore, strong property tax growth could lead to an additional \$300 million. Overall, in FY 2020, we project more revenues of \$730 million partially offset by \$80 million in higher overtime costs, for an increased surplus of \$650 million. There is also \$300 million in the general reserve, which could increase the surplus, if not needed by the end of the fiscal year.

The city projects that while FY 2021 will be balanced, the outyear gaps will be a manageable \$2.4 billion in FY 2022, and \$2.7 billion in each of FYs 2023-24. Each of these years contain a general reserve of \$1 billion, and a capital stabilization reserve of \$250 million. We project these gaps will also be reduced by approximately \$300 million in each year primarily due to higher-than-projected revenues. The city's plan conservatively projects that nonproperty tax revenue will increase 2.8 percent on an average annual basis during FYs 2021-24. Overall, the moderate growth reflects more subdued gains in wages, jobs, Wall Street profits, and tourism. The property tax, after increasing 7.1 percent in FY 2020, is projected to slow to 4.5 percent in FY 2021, based on estimates of the FY 2021 tentative assessment roll. During FYs 2021-24, property tax revenue rises only 3.1 percent on an average annual basis, with a low of 2.1 percent year-to-year growth in FY 2024. It is likely that this estimate could be higher, which would increase tax revenues in the outyears.

On the expenditure side, the January modification assumes spending will decrease over FYs 2021-24 by a net total of \$124 million. The net decrease is fueled by a citywide savings program totaling \$879 million and lower-than-projected pension costs of \$524 million. These savings, totaling \$1.4 billion, completely offset new agency spending of almost \$1.3 billion over FYs 2021-24. The new spending largely supports the Fair Fares program and higher costs for collective bargaining and health insurance.

The city needs to continue the conservative approach when the executive budget is submitted in April, given the uncertainties that lie ahead. Agency new needs should be limited, revenue estimates should continue to be conservative, reserves should be increased, and a larger and more aggressive savings program should be developed to both offset any new needs and increase the projected surplus.

**JANUARY MODIFICATION:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2020-2024**

TABLE 1 (\$ in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues					
Taxes:					
General Property	\$29,562	\$30,935	\$32,191	\$33,171	\$33,878
Other Taxes	33,681	33,678	34,623	35,638	36,636
Tax Audit Revenue	999	921	721	721	721
Sale of Property Tax Liens	110	80	80	80	80
Miscellaneous Revenues	7,547	7,086	7,079	7,096	7,097
Unrestricted Intergovernmental Aid	111	--	--	--	--
Less: Intracity Revenues	(2,126)	(1,852)	(1,844)	(1,842)	(1,842)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$69,869	\$70,833	\$72,835	\$74,849	\$76,555
Other Categorical Grants	1,006	874	864	863	861
Interfund Revenues	719	676	676	676	676
Federal Categorical Grants	8,158	7,113	7,010	6,976	6,971
State Categorical Grants	15,674	15,803	16,263	16,720	16,769
Total Revenues	<u>\$95,426</u>	<u>\$95,299</u>	<u>\$97,648</u>	<u>\$100,084</u>	<u>\$101,832</u>
Expenditures					
Personal Service	\$51,306	\$52,684	\$53,850	\$55,602	\$56,630
Other Than Personal Service	40,460	38,440	38,667	38,854	39,087
General Obligation, Lease & TFA Debt Service	6,984	7,500	8,158	8,906	9,366
Budget Stabilization & Prepayments	(1,498)	(2,723)	--	--	--
Capital Stabilization Reserve	--	250	250	250	250
General Reserve	300	1,000	1,000	1,000	1,000
Subtotal	\$97,552	\$97,151	\$101,925	\$104,612	\$106,333
Less: Intracity Expenditures	<u>(2,126)</u>	<u>(1,852)</u>	<u>(1,844)</u>	<u>(1,842)</u>	<u>(1,842)</u>
Total Expenditures	<u>\$95,426</u>	<u>\$95,299</u>	<u>\$100,081</u>	<u>\$102,770</u>	<u>\$104,491</u>
Gap To Be Closed	<u>\$0</u>	<u>\$0</u>	<u>(\$2,433)</u>	<u>(\$2,686)</u>	<u>(\$2,659)</u>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2020-2023
JANUARY MODIFICATION COMPARED TO NOVEMBER MODIFICATION**

TABLE 2 (\$ in millions)

	FY 2020	FY 2021	FY 2022	FY 2023
Revenues				
Taxes:				
General Property	\$50	\$106	\$121	\$141
Other Taxes	399	287	265	349
Tax Audit Revenue	0	200	0	0
Sale of Property Tax Liens	0	0	0	0
Miscellaneous Revenues	149	66	55	54
Unrestricted Intergovernmental Aid	111	--	--	--
Less: Intracity Revenues	(31)	(1)	(1)	(1)
Disallowances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total City Funds	\$678	\$658	\$440	\$543
Other Categorical Grants	21	0	0	0
Interfund Revenues	2	2	3	3
Federal Categorical Grants	145	32	16	14
State Categorical Grants	186	13	12	13
Total Revenues	<u>\$1,032</u>	<u>\$705</u>	<u>\$471</u>	<u>\$573</u>
Expenditures				
Personal Service	(\$146)	(\$174)	\$35	\$167
Other Than Personal Service	269	50	(66)	(68)
General Obligation, Lease & TFA Debt Service	(133)	(12)	(15)	(36)
Budget Stabilization & Prepayments	2,173	(2,173)	--	--
Capital Stabilization Reserve	(250)	0	0	0
General Reserve	<u>(850)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$1,063	(\$2,309)	(\$46)	\$63
Less: Intracity Expenditures	<u>(31)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Total Expenditures	<u>\$1,032</u>	<u>(\$2,310)</u>	<u>(\$47)</u>	<u>\$62</u>
Change to the Gap Decrease/(Increase)	<u>\$0</u>	<u>\$3,015</u>	<u>\$518</u>	<u>\$511</u>

RISKS TO THE FINANCIAL PLAN

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

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Stated Financial Plan Gap	\$0	\$0	(\$2,433)	(\$2,686)	(\$2,659)
Estimation					
Property Tax	300	250	250	250	250
Nonproperty Taxes	400	300	200	200	200
Miscellaneous Revenue	30	100	100	100	100
Fair Fares Program	0	0	(106)	(106)	(106)
Uniformed Services Overtime	<u>(80)</u>	<u>(138)</u>	<u>(134)</u>	<u>(134)</u>	<u>(134)</u>
Risk Total	\$650	\$512	\$310	\$310	\$310
Total FCB Estimated Surplus/(Gap)	\$650	\$512	(\$2,123)	(\$2,376)	(\$2,349)

II. The FY 2020 Budget

In the January Modification to the Financial Plan for FYs 2020-24, the city projects that both FYs 2020 and 2021 will be balanced, with higher-than-projected revenue estimates and implementation of gap-closing expenditure measures. The city projects its FY 2020 year-end budget surplus will grow by \$2.2 billion to a total of \$2.7 billion and applies such funds to prepay FY 2021 expenses for balanced budgets of \$95.4 billion and \$95.3 billion, respectively. However, total expenditures rise to \$100.1 billion in FY 2022, \$102.8 billion in FY 2023 and \$104.5 billion in FY 2024, exceeding total revenues to result in budget deficits of \$2.4 billion in FY 2022 and \$2.7 billion in each of FYs 2023-24.

Compared to the November modification, the FY 2020 estimate of total revenue rises by \$1.032 billion to \$95.426 billion from additional tax and miscellaneous revenues, along with more unrestricted and categorical aid. City-funded revenue climbs by \$678 million to \$69.869 billion from continued strength in the local economy, securities industry, and tourism. Based on current collection activity, it is possible that FY 2020 will end the year with additional surplus funds of \$730 million from higher tax and miscellaneous revenues.

The January modification projects city-funded expenditures to grow to \$69.9 billion in FY 2020, a rise of \$678 million compared to the November modification. The additional spending partly funds agency new needs, but much of the increase is allocated to the FY 2020 Budget Stabilization Account. To offset the higher spending, the city identified agency and pension savings, and as is its normal practice, drew down on reserves that are no longer needed. The city continues to maintain a general reserve in FY 2020 of \$300 million, which is likely to be reduced by fiscal year end adding to the surplus. The city keeps reserves of \$1.25 billion in each of FYs 2021-24 that are expected to be applied to projected budget gaps. While we believe these gaps to be manageable, the potential impact of the enacted state budget in April, and other economic uncertainties may weigh upon the city causing the outyear gaps to increase.

MODERATE GAINS AMONG REVENUE CATEGORIES

Since the release of the November modification, the estimate of total revenue in FY 2020 rises by \$1.032 billion to \$95.426 billion, as seen in the figure to the right. There are higher estimates for taxes, miscellaneous receipts, unrestricted intergovernmental aid and categorical grants, but the projection for audits remains at \$999 million.¹ Led by additional state and federal grants, of \$186 million and \$145 million, respectively, total categorical aid in FY 2020 advances by \$352 million to \$24.838 billion in the January modification.

Changes in FY 20 Revenues	
FY 20 Nov Mod to FY 20 Jan Mod	
(\$ in millions)	
Property Tax	50
Nonproperty Taxes	399
Subtotal Taxes	449
Audits	0
Total Taxes	\$449
Intergov't Aid	111
Miscellaneous	118
City Funds	\$678
Categorical Aid	352
Interfund	2
Total Revenue	\$1,032

¹ The estimate of interfund revenue increases by \$2 million to \$719 million.

Focusing on changes to the FY 2020 projections for Numbers may not add due to rounding. taxes, miscellaneous revenue and unrestricted aid, city-funded revenue improves by \$678 million to \$69.869 billion. In the January modification, property tax revenue is expected to grow 7.1 percent to \$29.672 billion on a year-to-year basis in FY 2020, where the \$50 million variance is from less refunds. Based on collections through January, particularly for the third-quarter payments, property tax revenue could exceed the city's FY 2020 estimate by \$300 million, as seen in Table 3 on page 5.

Nonproperty tax collections without audits increase by \$399 million to \$33.681 billion in FY 2020 from consistent, reasonable gains in local employment, wages, tourism, and consumer spending. There is also a positive impact from strong securities industry profits in 2019 on the business and personal income taxes, but not a concomitant rise in bonus payouts so far. The evidence of new construction activity citywide and demand for building permits bodes well for the property and transfer taxes by the outyears of the plan period.

However, at the present time, there are comparatively fewer sales of high-end residential properties and a slowdown in commercial transactions that constrain real property transfer tax revenue. Within the nonproperty taxes, payments thus far for the general corporation and personal income taxes may lead to an additional \$400 million by the end of FY 2020, as seen in Table 3 on page 5. This estimate is net of slippage in the sales and hotel occupancy taxes due to travel restrictions from the coronavirus that temporarily reduce personal and business trips.

The \$111 million change in unrestricted intergovernmental aid consists of prior-year reimbursements for Medicaid and protecting the United Nations General Assembly. The miscellaneous revenue estimate for FY 2020 rises by \$118 million to \$5.421 billion largely from two categories—water and sewer charges, and fines, at \$1.589 billion and \$1.182 billion, respectively. The \$52 million plan-to-plan variance from higher water and sewer charges pay for expenditures of the Department of Environmental Protection that protect the city's water system and watershed. The latest estimate of fine revenue increases by \$47 million from more parking tickets issued, decrees from the Criminal Courts, and violations of the building code, such as working without a permit. Based on year-to-date collections, particularly for activities related to construction, the city's FY 2020 miscellaneous revenue projection may be exceeded by \$30 million.

Nonproperty Taxes

In the January modification, nonproperty taxes excluding audits advance by \$399 million to \$33.681 billion in FY 2020, as shown in the figure to the right. The backdrop for the nonproperty taxes excluding audits is slower economic growth after FYs 2020-21 from more subdued gains in jobs, wages, and Wall Street profits. Consumers remain positive and continue spending, and domestic and international visitation remains at a high level, but with smaller increases in taxable consumption.

The city expects overall wage growth of 4.5 percent in 2019 and 3.6 percent in 2020 after over six percent growth in each of the prior two years. The city's latest estimate of local employment is 56,500 new jobs or 1.2 percent growth in 2020, and gains of 0.9 percent or about 40,000 jobs in both 2021 and 2022. For 2019, securities industry profits are \$28.1 billion compared with a city estimate of \$27.9 billion in 2019, which is slightly more than the profits earned in 2018. Profits return to more sustainable levels and average about \$15 billion between 2021 and 2022.

Changes in FY 20 Nonproperty Taxes FY 20 Nov Mod to FY 20 Jan Mod	
(\$ in millions)	
General corporation	297
Personal income	118
Sales	63
Minor	45
Mortgage recording	44
Commercial rent	13
Hotel occupancy	10
Real Property Transfer	(120)
Unincorporated bus	(43)
Banking Corporation	(18)
Utility	(6)
Cigarette	(4)
Star Aid	0
Total Change	\$399
Numbers may not add due to rounding.	

Business Taxes. The general corporation tax (GCT) estimate increases by \$297 million to \$4.341 billion as filers determine their liabilities for tax years 2018 and 2019. For the finance and nonfinance parts of the tax base, calculations of liability are influenced by federal tax reform, and the latest quarter of corporate earnings. The city expects pre-tax profits to remain flat in 2019, but grow 3.1 percent in 2020, and 4.2 percent in 2021. The tax base is also boosted by strong Wall Street profits through 2019. The city expects profits to reach \$27.9 billion in 2019 and fall by \$6.3 billion to \$21.6 billion in 2020.

In the January modification, FY 2020 projection for the unincorporated business tax (UBT) is decreased by \$43 million to \$1.993 billion. This is another reduction to the FY 2020 estimate that reflects the performance of the hedge fund industry, which may be impacted by a change in investor preference for passive investing. There is also the possibility that some UBT filers have changed their legal structure, such as from a partnership to a corporation, for the lower corporate tax rate. As an illustration, the private equity firm The Carlyle Group became a corporation in January 2020.

Real-Estate Taxes. This group includes the mortgage recording, commercial rent, and real property transfer taxes. The largest change amid these three taxes is the \$120 million reduction in the estimate for the real property transfer tax to \$1.336 billion in FY 2020, as seen in the figure above. This downward assessment is caused by the current weakness in sales of luxury residential properties and the newer event of less demand for commercial properties.

One reason for the slowdown in commercial transactions is that "foreign investors were net sellers of U.S. commercial real estate last year for the first time since 2012"

including properties in the city.² With two strong years of commercial leasing activity in 2018 and 2019, led by the financial services and TAMI industries, the city expects leasing activity to slow thereafter due to smaller job gains during the plan period and consequently less need for office-space.³ There is also a smaller upward adjustment of \$44 million from the mortgage recording tax as individuals and companies took advantage of low interest rates to refinance residential and commercial properties.

Personal Income Tax. The \$118 million increase in the latest personal income tax (PIT) projection for FY 2020 acknowledges a change in taxpayer behavior due to recent federal tax reform, and strong wage gains, especially at the lower income levels. After increasing three percent in FY 2019, the city expects withholding to rise 5.7 percent in FY 2020 to \$10.191 billion largely from job and wage growth, with a historically modest boost of one percent in Wall Street bonus payouts.

Local taxpayers signaled a change in how their liability will be divided between prepayments and the April final settlement since federal tax reform was passed. For the second year, the December installment was roughly \$40 million since there is no longer a benefit to paying the January installment by the end of December with the higher standard deduction. As a result, more of the FY 2020 city estimate of installments at \$1.924 billion is likely to be received in June, September, and January, with lesser amounts recorded in December and June. In the \$118 million plan-to-plan variance, \$130 million was shifted from installments to extensions, with a \$68 million increase to final returns and \$50 million rise in withholding.

Sales Tax. Taxable consumption continues to be supported by rising wages, job creation, consumer optimism, and increasing numbers of domestic and international tourists. As a result of these factors, the FY 2020 sales tax estimate advances by \$63 million to \$8.354 billion from the November modification, as seen in the figure on page 8. NYC & Company projects domestic and international visitation reached 66.9 million in 2019, and will increase three percent to 68.9 million in 2020. This forecast was developed before the onset of the coronavirus and restrictions on plane travel.

Despite fewer shopping days between November and December 2019, the National Retail Federation determined that “holiday sales during 2019 grew 4.1 percent over the same period in 2018,” when spending was constrained by “a government shutdown, stock market volatility and interest rate hikes.”⁴ Yet, depending on how long the coronavirus outbreak and pause in tourism from China lasts, the 2020 forecast of total

² Esther Fung, “Chinese Lead Foreign Selling of U.S. Commercial Property,” The Wall Street Journal online, February 4, 2020.

³ TAMI includes the technology, advertising, media, and information sectors.

⁴ “NRF says 2019 holiday sales were up 4.1 percent,” National Retail Federation, press@nrf.com, January 16, 2020.

tourism, and the FY 2020 estimates of sales and hotel occupancy revenues may fall short of expectations. Also, it is unclear if the slowdown in consumer spending that occurred in the fourth quarter of 2019 nationally continues into 2020 and affects local consumption.

EXPENDITURES

Between the November and January modifications for FY 2020, city-funded expenditures rise from \$69.191 billion to \$69.869 billion, a net increase of \$678 million. The net increase reflects higher agency spending of \$440 million, offsetting savings of \$1.937 billion and funds directed to the FY 2020 Budget Stabilization Account (BSA) of \$2.174 billion to prepay FY 2021 expenses.

Modification Changes

As shown in the figure to the right, the city allocates \$440 million to address agency new needs, higher collective bargaining costs and other budgetary adjustments. Much of the funding to agencies, \$214 million, is allocated to the Department of Education (DOE) to support Carter cases (\$150 million) and transportation budget (\$64 million).⁵ Other funds, \$65 million, go to the Departments of Environmental Protection, Sanitation and Small Business Services to cover a budget shortfall (\$25 million), costs related to waste export (\$21.5 million) and employee protection provisions (\$18.5 million), respectively. Remaining funds, \$100 million, are spread over other agencies with some monies used to support the Build It Back program (\$41.8 million).⁶ The higher spending is more than offset by the drawdown of the general and capital stabilization reserves totaling \$1.5 billion. Additional savings come from agency spending reductions and lower pension costs that total \$303 million and \$134 million, respectively.⁷ The January modification also increases funding to the

FY 2020 Nov to Jan Mod Changes City Funds (\$ in millions)	
Nov Mod	\$69,191
<u>New Needs</u>	
Agencies	379
Collective Bargaining	38
Budget Adjustments	<u>23</u>
Total Increase	\$440
<u>Budget Savings</u>	
General Reserve	(\$850)
Prior-Year Payables	(400)
Agencies	(303)
Capital Stabilization	(250)
Pension	<u>(134)</u>
Total Savings	(\$1,937)
BSA	\$2,174
Total Net Increase	\$678
Jan Mod	\$69,869
Numbers may not add due to rounding.	

⁵ Funds allocated to the DOE to address funding requirements for the Carter cases are associated with the Supreme Court’s decision in Florence County School District Four v. Carter (510 U.S. 7 1993). Under the decision, disabled children may be removed from a school by their parents if the school does not comply with the Individuals with Disabilities Education Act. The DOE is required to identify and evaluate students with disabilities, and to meet with their parents to recommend appropriate programs and services through an Individualized Education Plan. The requirement mandates the DOE pay the costs associated with the nonpublic education of special needs children if the child is removed from the school.

⁶ The Mayor’s Office of Housing Recovery Operations administers the Build It Back program, which has helped 12,500 families recover from Hurricane Sandy by providing resources for impacted New Yorkers to repair, rebuild, and elevate their homes, or relocate.

⁷ Savings of \$303 million are part of a larger program, totaling \$456 million that includes higher revenue collection of \$153 million. Pension savings are attributable to a change in the methodology for funding the guaranteed annual returns on the Tax Deferred Annuity 403b funds.

BSA by \$2.174 billion, which brings the BSA to \$2.723 billion, which will be used to balance the FY 2021 budget by prepaying expenses in that fiscal year.

Surplus Funds

In the November modification, the city had built a surplus of \$550 million for FY 2020. As shown in the figure to the right, that amount has grown nearly five-fold to \$2.723 billion, an increase of \$2.174 billion, driven by stronger-than-anticipated revenues of \$678 million and a net spending decrease of \$1.496 billion, which allowed the city to add to the BSA. The higher revenue stems mostly from revised tax collections of \$449 million and greater nontax revenue of \$76 million. In addition to the higher tax and nontax collections are agency revenues of \$153 million, most of which are \$100 million from prior-year Medicaid reimbursements and about \$36 million from security reimbursements for the United Nations and higher parking summons issuance. Agency revenues are a component of the citywide savings program, which totals \$456 million in FY 2020, when expenditure and debt service savings are accounted for.

FY 2020 Surplus Changes	
City Funds (\$ in millions)	
Nov Mod Surplus	\$550
Revenues	
Tax	\$449
Nontax	76
Agency Savings Program	153
Total Increase	\$678
Expenditures Dec/(Inc)	
General Reserve	\$850
Prior-Year Payables	400
Capital Stabilization	250
Agency Savings	174
Debt Service	129
Pension	134
New Needs	(379)
Collective Bargaining	(38)
Other Adjustments	(23)
Total Net Decrease	\$1,496
Increase to Surplus	\$2,174
Jan Mod Surplus	\$2,723
Numbers may not add due to rounding.	

Reserves

The city had maintained reserves in FY 2020 to address uncertainties that could arise. As a normal budget practice, the reserves are reduced as the fiscal year closes. For FY 2020, the city maintained \$1.15 billion and \$250 million in its general and capital stabilization reserves, respectively. In the January modification, the city reduces the general reserve to \$300 million with a drawdown of \$850 million and fully reduces the capital stabilization reserve by \$250 million. To the extent the \$300 million general reserve is not needed to offset new expenses, the projected surplus will increase. The city continues the practice of maintaining large reserves in each of FYs 2021-24 with \$1 billion in the general reserve and \$250 million in the capital stabilization reserve. Also in FY 2020, the city performed a reestimate of prior-year expenses and receivables, enabling it to recognize \$400 million of savings.

Citywide Savings Program

In the January modification, the city identified savings of \$456 million in FY 2020 consisting of \$174 million in lower agency spending, \$153 million in increased revenue and \$129 million in debt service savings, as shown in the figure to the right. In agencies, \$51 million of miscellaneous budget savings are due to lower-than-projected fringe benefit costs and reduced health insurance expenses from fewer-than-projected retirees. In Uniformed Services, \$50 million of savings is accounted for from the recognition of prior-year revenue, fringe benefits savings from federal grants, and hiring delays. For Health and Welfare, the majority of the \$33 million in savings are from the recognition of prior-year revenue. In Mayoral, Covered Organizations and Elected Officials projected savings are expected to generate a combined \$40 million through hiring delays, efficiencies and budget reestimates. In addition to the agency savings, the city also realized debt service savings of \$129 million, which was the result of lower interest costs stemming from reduced variable rate assumptions in FY 2020 as well as the recognition of lower-than-projected terms on bond sales undertaken thus far in the fiscal year.

Jan Mod Savings Program	
City Funds (\$ in millions)	
Agencies	
Miscellaneous	\$51
Uniformed Services	50
Health and Welfare	33
Mayoral	28
Covered Organizations	11
Elected Officials	1
Total Agency	\$174
Revenue	153
Debt Service	129
Total Savings Program	\$456

III. The FYs 2021-24 Financial Plan

The January modification to the FYs 2021-24 Financial Plan presents a balanced budget for FY 2021 based on a use of \$2.7 billion budget surplus from FY 2020. Budget deficits remain for FYs 2022-24 in the amounts of \$2.4 billion in FY 2022 and \$2.7 billion in each of FYs 2023-24. However, we estimate that the gaps in these fiscal years could be partially offset by approximately \$300 million in each of FYs 2022-24 primarily from higher-than-projected revenues.

During FYs 2021-24, total revenue increases 2.2 percent on an average annual basis from growth in the property and nonproperty taxes without audits, and categorical grants. City-fund revenue advances 2.6 percent on an average annual basis from FY 2021 to FY 2024, with minimal assistance from intergovernmental aid, miscellaneous revenue, and audits. The city is taking a cautious approach in its tax and economic forecasts after such a long period of expansion, the current environment of trade disputes, and large federal deficits. Based on FY 2020 collections and historical patterns, the city's revenue forecast could be exceeded by \$650 million in FY 2021, and \$550 million in each of FYs 2022-24 from additional tax and miscellaneous receipts.

Meanwhile, over FYs 2021-24 total expenditures increase by an average annual growth rate of 3.1 percent, with city-funded expenditures, net of prepayments, growing by an average annual rate of 3.8 percent. At these levels, expenditure growth is forecasted to outpace revenue growth, resulting in the outyear budget gaps. The major sources of city-funded expenditure growth are labor and debt service costs, as well as operating expenses for the Department of Education. The growth in expenditures has been trimmed somewhat as a result of an agency savings program that saves \$879 million from FYs 2021 to 2024. These savings are expected to be generated through agency revenue collections, reimbursements and efficiencies.

Prudently, the city is continuing to be cautious in its approach to budgeting by controlling spending on agency new needs, maintaining high budget reserves and continuing to generate savings to minimize expenditure increases. The ability of the city to meet its agency new needs with offsetting savings has enabled it to keep the outyear gaps manageable. However, the January modification does not include the impact of the state's proposed SFY 2021 budget, which could increase city expenses substantially.

REVENUE SUMMARY

Total revenue is essentially flat between FYs 2020 and 2021, and reaches \$95.299 billion in FY 2021, as shown in Table 4 on page 14. This is due to projected declines in almost all the categories except for flat growth from the nonproperty taxes and a 4.5 percent year-to-year increase in the property tax based on estimates of the FY 2021 tentative assessment roll.⁸ On a year-to-year basis, city-fund revenue rises 1.4 percent to

⁸ The January modification was released before the Department of Finance issued the FY 2021 tentative property tax roll.

\$70.833 billion in FY 2021, and would likely be higher if there was growth projected in the nonproperty taxes. In FY 2021, the decline in unrestricted intergovernmental aid represents the absence of prior-year reimbursements that were received in FY 2020.

EXPECTATIONS OF A SOFT LANDING BY THE OUTYEARS

TABLE 4 (year-to-year percent change, \$ in millions, average annual growth rates for FYs 2021-24)

	FY 21	FY 22	FY 23	FY 24	FY 21	FY 24	FYs 21-24
Property Tax	4.5%	4.0%	3.0%	2.1%	\$31,015	\$33,958	3.1%
Nonproperty Taxes	0.0%	2.8%	2.9%	2.8%	\$33,677	\$36,636	2.8%
Subtotal Taxes	2.1%	3.4%	3.0%	2.5%	\$64,693	\$70,594	3.0%
Audits	(7.8%)	(21.7%)	0.0%	0.0%	\$921	\$721	(7.8%)
Total Taxes	2.0%	3.1%	3.0%	2.4%	\$65,614	\$71,315	2.8%
Intergov't Aid	(115.6%)	0.0%	0.0%	0.0%	(\$15)	(\$15)	0.0%
Miscellaneous	(3.4%)	0.0%	0.4%	0.0%	\$5,234	\$5,255	0.1%
City Funds	1.4%	2.8%	2.8%	2.3%	\$70,833	\$76,555	2.6%
Categorical Aid	(4.2%)	1.5%	1.7%	0.2%	\$23,790	\$24,601	1.1%
Interfund	(6.0%)	0.0%	0.0%	0.0%	\$676	\$676	0.0%
Total Revenue	(0.1%)	2.5%	2.5%	1.7%	\$95,299	\$101,832	2.2%

Numbers may not add due to rounding. Nonproperty taxes include Star Aid.

During FYs 2021-24, on an average annual basis, the moderate improvement in taxes without audits of three percent provides a foundation for 2.2 percent and 2.6 percent growth in total revenue and city funds, respectively. Excluding taxes and a small rise of 1.1 percent in categorical grants, seen in Table 4, there is stagnation or decline forecast for the rest of the categories in this same period. In the January modification, the city is taking a conservative approach in its tax and economic forecasts, which was released before the coronavirus outbreak. There is a possibility of a loss of momentum in the local and national economies after such long periods of expansion, and an environment of trade frictions and large federal deficits.

The city expects the deceleration in job creation currently underway to continue through the plan period. The latest estimate is a reduction from 84,000 new jobs in 2019, to 56,500 in 2020, and 30,200 by 2024. After 2019, growth in total wage earnings slows to 3.4 percent on an average annual basis, with a limited boost from finance compensation of 3.8 percent on an average annual basis from 2020 to 2024. After realizing over \$20 billion per year from 2017 to 2019 in New York Stock Exchange member firm profits, the city estimates profits of \$21.6 billion in 2020, which declines to \$14 billion to \$16 billion annually during 2021 to 2024. The forecast for the securities industry bonus pool is for very modest gains per year from 2019 through 2024, while capital gains realizations are projected to exhibit a three-year decline from 2018 through 2020, but advance moderately in 2021 and thereafter.

Nonproperty Taxes

Nonproperty tax revenue increases 2.8 percent on an average annual basis during FYs 2021-24, seen in Table 4. Overall, the moderate growth expected during the plan period reflects more subdued gains in wages, jobs, Wall Street profits, and tourism, along with conditions that foster recoveries in the unincorporated business (UBT) and real property transfer taxes. There is a gradual pick-up in real estate transactions where the real property transfer tax increases 2.5 percent on an average annual basis during FYs 2021-24. When short-term rates eventually rise during the plan period, the benefit from

refinancing of residential and commercial properties lessens, leading to only 0.9 percent growth on an average annual basis during this same time for the mortgage recording tax. With a restructured base, and better returns from hedge funds, UBT collections increase three percent on an average annual basis from FY 2021 to FY 2024.

The sales tax benefits from the city's restrained forecast of job and wage growth during the plan period, and from a high level of tourist visitation, which leads to an average annual growth of 3.4 percent from FY 2021 to FY 2024. The relatively low growth rate may also indicate some upward limit on total visitation, along with a pullback in discretionary spending from tourists and residents. In the January modification, the personal income tax (PIT) has the highest expected growth rate among the nonproperty taxes at 3.5 percent on an average annual basis. Supporting the tax base is continued strength in base, nonbonus withholding from annual increases in jobs and wages despite subdued finance sector compensation, and a recovery in nonwage income by the outyears. Within the PIT forecast, there is a refinement of the shift between prepayments in installments and the components of the April final settlement including extensions and offsets.

The general corporation tax (GCT) exhibits only 0.7 percent growth on an average annual basis during FYs 2021-24 with steadier growth as rules related to federal tax reform are promulgated and overpayments are resolved. During this time, improvement in the finance part of the tax base is constrained as Wall Street profits fall from the \$20 billion level of recent years to more sustainable levels, but the other nonfinance filers are helped by the city's expectations of gains in before-tax corporate profits in each of 2020-24.

One possible explanation for the recent gyrations in GCT can be found in a study by the U. S. Congressional Joint Committee on Taxation that analyzed the tax returns of "50 large companies that generate almost 20% of U.S. corporate income."⁹ The study concerns the behavior of these companies prior to and after the enactment of the 2017 corporate tax cut. "The report highlights how companies amplified the benefits of the rate cut, gaining not just from the tax reduction itself but from the transition period to the new system" (Rubin). There were incentives to reduce taxable income by moving deductions into 2017 at the 35 percent tax rate and shifting income into 2018 with the lower tax rate of 21 percent. Deductions included employee costs from wages and salaries, one-time bonuses, and pensions. Besides moving deductions and income between calendar years, the study also found that, "some companies also took advantage of gaps in the law to bring home foreign profits at very low tax rates" (Rubin).

Property Tax

After increasing 7.1 percent in FY 2020, the city projects that property tax revenue will slow to 4.5 percent in FY 2021 to \$31.015 billion based on city estimates of the FY 2021 tentative assessment roll. During FYs 2021-24, property tax revenue rises 3.1 percent on

⁹ Richard Rubin, "Companies Shifted Deductions, Income to Maximize 2017 U.S. Tax-Rate Cut," [The Wall Street Journal](#) online, February 11, 2020.

an average annual basis, which represents much smaller gains in billable assessed value for each of the four classes in the outyears.¹⁰ In the FY 2021 tentative roll, total market value citywide increased 4.7 percent or \$61.8 billion from the prior year, where “seventy six percent of the increase reflects market forces while the rest reflects new construction and apportionments.”¹¹ Furthermore, “the roll reflects total citywide construction activity surpassing a record \$14 billion in new market value, the highest level in the last 10 years” (DOF release). Total market value advanced the most in Class 2 at 6.12 percent, with Class 4 at 4.52 percent, and Class 1 at 4.28 percent. In Class 1 most of the increase in market value is from higher sales prices for homes. In Class 2 more than half of the increase in market value, at 66.2 percent, is due to market forces, while the remaining is from other factors including new construction and physical improvement. In class 4 market forces are mainly responsible, at 53.3 percent, for the rise in market value.

The citywide billable assessed value increased 6.7 percent from the prior year to \$273.8 billion. Between the publishing of the FY 2021 tentative roll and the final roll, the city expects a reduction of \$3.7 billion, which will result in billable assessed value growth of 5.2 percent. Acknowledging the cyclical nature of the real estate market, conditions may improve by the outyears of the financial plan. If this occurs, annual growth in property tax may exceed the city’s forecast of 4.5 percent in FY 2021, four percent in FY 2022, three percent in FY 2023, and 2.1 percent in FY 2024. Consequently, property tax revenue may be higher than the city’s projections by \$250 million in each of FY 2021 through FY 2024.

Another Issue Facing the Property Tax

The issue relates to the preliminary report from the New York City Advisory Commission on Property Tax Reform that was released on January 31, 2020. The purpose of the commission was to develop recommendations designed to make the current property tax system more fair and transparent, while being revenue neutral. “There are flaws in the current law that include: (1) the under-valuation of some coops and condominiums as a result of state law restrictions that require that they be valued as if they were rental properties rather than based on comparable sales; and (2) the assessed value growth caps caused distortions in the effective tax rates (taxes paid per \$100 of sales-based market value) of 1-3 family homes, where properties that have experienced

¹⁰ State law requires that the Department of Finance assign every property to one of four tax classes. Class 1 consists of one-, two- and three-family residential properties and small condominiums. Class 2 comprises all other residential properties, including cooperatives, condominiums, and multi-family rentals. Class 3 represents utility real properties. Class 4 consists of all other real properties, such as office buildings, factories, stores, and vacant lands.

¹¹ Department of Finance (DOF) Publishes Fiscal Year 2021 Tentative Assessment Roll, January 15, 2020.

significant appreciation have lower effective tax rates than new homes or homes whose value has remained relatively flat.”¹²

The commission’s work is part of a process that involves more public meetings and reviews by city and state officials including the city council and state legislature before being signed into law by the governor. At this point, it is unclear how long this process will take and which of the commission’s ten recommendations will be approved. These are the recommendations in the preliminary report.

1. Move coops, condominiums and rental buildings with up to 10 units into a new residential class along with 1-3 family homes. There would still be four classes of property – residential, large rentals, utilities, and commercial.
2. Use a sales-based methodology to value all properties in the residential class.
3. Assess every property in the residential class at its full market value.
4. Phase-in annual market value changes in the new residential class over five years at a rate of 20 percent per year, and eliminate assessed value growth caps.
5. Create a partial homestead exemption for primary resident owners with income below a certain threshold, which would replace the current coop-condo tax abatement.
6. Create a circuit breaker to lower the property tax burden on low-income primary resident owners based on the ratio of property tax paid to income.
7. The new class share system would freeze the relationship of tax rates among the classes for five-year periods, after which time the city would conduct a study to see if adjustments are necessary to maintain consistency in the share of taxes relative to fair market value borne by each class.
8. Keep current valuation methods for properties not in the new residential class, which includes rental buildings with more than 10 units, utilities, and commercial properties.
9. Gradual transition to the new system for current owners, but an immediate transition when a property in the new residential class is sold.
10. Institute comprehensive reviews of the property tax system every 10 years.

MISCELLANEOUS REVENUE

The latest miscellaneous revenue forecast shows a year-to-year decline of 3.4 percent or \$186 million to \$5.235 billion in FY 2021. From FY 2020 to FY 2021, there are

¹² Preliminary Report of the New York City Advisory Commission on Property Tax Reform, January 31, 2020, page 10.

projected decreases in all the categories except for a \$9.4 million improvement in interest income to \$164.3 million in FY 2021.¹³ There is minimal growth from FY 2021 to FY 2024 on an average annual basis, where additional revenue from licenses and interest income offsets small declines in the rest of the categories. In FYs 2021-24, interest income increases 10.9 percent on an average annual basis from the expectation of higher short-term interest rates that boost interest earnings from \$164.3 million in FY 2021 to \$224.4 million in FY 2024. During this same period license revenue increases modestly by \$12.6 million to \$754.8 million in FY 2024.

At this point, there are no major nonrecurring items in the miscellaneous revenue forecast in each of FYs 2021-24. After FY 2020, the projected loss of momentum reflects a forecasting methodology rather than weak growth. As the year progresses, it is likely that the miscellaneous revenue forecast will include new programs and agency efforts to more efficiently deliver services. Based on historical collection patterns, miscellaneous revenue could exceed the city's forecast by \$100 million in each of FYs 2021-24.

One issue that is likely to appear in an upcoming modification concerns medallion taxicabs and their relationship to app-based car services within the for-hire car industry. On January 31, 2020 the Taxicab Medallion Sale Prices Task Force delivered a report to the mayor and city council speaker that focused on "two central questions: (i) how the current financial crisis among over-indebted medallion owners could be addressed, and (ii) how the medallion industry could remain viable in a changing marketplace." The report offered solutions that would involve efforts by the city itself, and in partnership with other stakeholders such as the state and federal governments, non-profits, and the private sector.

While the city council report offers solutions to the issues facing the taxi medallion owners and industry stakeholders, it is separate from recent actions by attorney general. On February 20, 2020 the New York State Attorney General's office filed a notice with the city comptroller that it planned to file a legal action based on the following claims.

1. Beginning no later than 2004, the Taxi and Limousine Commission (TLC) marketed taxicab medallions as investments and conducted auctions in a manner that artificially inflated the price of the medallions.
2. In 2004 TLC permitted collusive bidding in its auctions and failed to take actions to prevent further collusion.
3. Beginning on January 19, 2011 the TLC failed to disclose and concealed information that the price of taxicab medallions was higher than its underlying value.
4. At this time, the city gave the impression that the price of taxicab medallions would only increase.

¹³ The categories are licenses, charges for services, fines, rent, interest, water and sewer charges, and miscellaneous including major nonrecurring initiatives.

The attorney general is seeking \$810 million in damages plus interest and costs. The city believes the claims are without merit, time-limited by state law, and is willing to defend itself in court. We are not holding the \$810 million at risk because there is no way of knowing now the timeframe of any legal proceedings, and how the issues of the legality of the auctions and pricing of the medallions, and monetary relief to the medallion owners, including hedge funds, will be resolved.

EXPENDITURES

In its preliminary budget for FY 2021, the city projects total-funded spending to decrease by \$127 million in FY 2021 to \$95.299 billion from \$95.426 billion in FY 2020, net of prepaid expenses.¹⁴ Actual growth in total-funded expenditures without prepayments between FYs 2020 and 2021 increases by \$1.099 billion, or about one percent. For city-funded expenditures, the budget assumes an increase in spending of \$965 million in FY 2021 to \$70.833 billion from \$69.869 billion in FY 2020, net of prepaid expenses. When prepaid expenses are not accounted for, growth in city-funded expenditures from FYs 2020 to 2021 increases by nearly \$2.190 billion, or about three percent. While some of the growth in total- and city-funded spending between FYs 2020 and 2021 is due to the replenishment of reserves drawn down in FY 2020, the city is also spending more on wages, fringe benefits, pensions and debt service.

Changes between the November and January Modifications

The November modification for FYs 2021-24 assumed a budget gap in FY 2021 of \$3.015 billion and outyear gaps in FYs 2022-24 of \$2.951 billion, \$3.197 billion and \$3.283 billion, respectively. In the January modification, the budget gap in FY 2021 is eliminated by a combination of stronger revenues, agency and pension savings, and the use of surplus funds built up in FY 2020 to prepay FY 2021 debt service expenses. Additionally, the gaps in FYs 2022-24 are narrowed by more than \$500 million in each of FYs 2022-23 and \$624 million in FY 2024, as shown in Table 5.

TABLE 5

NOVEMBER TO JANUARY MODIFICATION CHANGES FYs 2021-24					
City Funds (\$ in millions)					
	FY 2021	FY 2022	FY 2023	FY 2024	Total
Gap to be Closed November	(\$3,015)	(\$2,951)	(\$3,197)	(\$3,283)	--
<u>Revenue</u>					
Tax	\$593	\$387	\$491	\$684	\$2,155
Non-Tax	<u>59</u>	<u>52</u>	<u>52</u>	<u>52</u>	<u>215</u>
Revenue Change	\$652	\$439	\$543	\$736	\$2,370
<u>Expenditure (Inc)/Dec</u>					
Agency New Needs	(\$243)	(\$220)	(\$352)	(\$464)	(\$1,279)
Citywide Savings Program	258	183	203	235	879
Pensions	<u>174</u>	<u>116</u>	<u>117</u>	<u>117</u>	<u>524</u>
Expenditure Change	\$189	\$79	(\$32)	(\$112)	\$124
FY 2020 Prepayment in FY 2021	\$2,174	--	--	--	--
Gap to be Closed January	\$0	(\$2,433)	(\$2,686)	(\$2,659)	--
Change in Gap (Inc)/Dec	\$3,015	\$518	\$511	\$624	

As shown in Table 5, city-funded budget changes between the November and January modifications for FYs 2021-24 include higher revenues of \$2.370 billion and lower

¹⁴ In FY 2019, the city generated a \$4.221 billion surplus of which \$4.021 billion was used to prepay debt service expenses and \$200 million to prepay Health + Hospitals expenditures for FY 2020. In FY 2020, the city has built a surplus of \$2.723 billion, which will be used to prepay FY 2021 debt service expenses.

total expenditures of \$124 million.¹⁵ The revenue increase is mostly generated by higher tax collections, \$2.155 billion over the plan period, accompanied by more nontax revenues that add \$215 million.

On the expenditure side, the January modification assumes spending will decrease over FYs 2021-24 by a net total of \$124 million. The net decrease is fueled by a citywide savings program totaling \$879 million and lower-than-projected pension costs of \$524 million. These savings, tallying \$1.403 billion, completely offsets new agency spending of \$1.279 billion over FYs 2021-24. The new spending largely supports the Fair Fares program and higher costs for collective bargaining and health insurance.

Fair Fares Program

The Fair Fares program was rolled out in January 2019 to provide half-fare MetroCards to low-income subway and bus riders who are living below the federal poverty line. In the first phase of the program, eligible individuals included New York City Housing Authority residents, City University of New York (CUNY) students, military veterans and people receiving Supplemental Nutritional Assistance Program benefits. The second phase, recently implemented, has opened the program to all New Yorkers that meet eligibility and is expected to expand the program beyond the current enrollment of 134,994 individuals. For FY 2020, the city budgeted \$106 million to cover the full cost of the program, which we find to be adequate based on actual expenditures of \$24.7 million in FY 2019. In the January modification, the city has allocated \$106 million to FY 2021, but has not allocated funding to any year beyond. While, it is too early to know what the actual cost will be as enrollment increases, it would be wise for the city to assume funding of at least \$106 million in each of the outyears beyond FY 2021, as shown in Table 3 on page 5.

Collective Bargaining

In FY 2018, the city reached a labor settlement with District Council 37 (DC 37) that established a new labor pattern for the 2017-2021 round of collective bargaining. The agreement included three wage increases of two percent, 2.25 percent, and three percent compounded at 7.42 percent over 44 months and has since been ratified by union members.¹⁶ Following the pattern, the city had reached agreements with mostly all other civilian bargaining units. In the same year, the city reached a healthcare savings agreement with the Municipal Labor Committee (MLC) that cleared the way for the DC 37 deal. The agreement requires healthcare savings to be a part of every settlement to

¹⁵ Revenue excludes \$6 million in FY 2021, which is a component of the January modification's citywide savings program and is included in expense savings.

¹⁶ The established pattern for civilian workers is for 43 months with wage increases of two percent given on the first day, 2.25 percent on the 13th month and three percent on the 26th month for a total compound value of 7.42 percent. The DC 37 contract was extended by one month and includes two 0.25 percent supplemental funding available on 11th and 23rd months for a total compounded value of 7.95 percent over 44 months.

offset labor costs and are contractually enforceable through arbitration. The June 2018 agreement was the second consecutive between the MLC and the city, the first being part of the 2010-2017 round of collective bargaining. Recurring annual savings of \$1.3 billion associated with the 2010-2017 round are reflected in each year of the financial plan. Savings from the 2017-2021 round are valued at \$200 million, \$300 million, and \$600 million in FYs 2019-21, respectively, with \$600 million in savings recurring annually thereafter. The combined savings from both agreements, starting in FY 2021 and extending annually beyond, are \$1.9 billion.

On December 18, 2019, the city reached a tentative contract agreement with the Uniformed Officers Coalition (UOC), which represents eight uniformed personnel unions.¹⁷ The settlement establishes a new labor pattern for uniformed employees and provides wage increases of 2.25 percent, 2.5 percent, and three percent compounded at 7.95 percent over 36 months.¹⁸ The additional cost of the UOC settlement is \$152 million over FYs 2020-24.

Initially, the city had funded the labor reserve assuming the pattern established with the DC 37 settlement would be applied to the entire workforce including uniformed personnel.¹⁹ The additional cost of the UOC settlement, above the already-budgeted civilian pattern and applied to all uniformed bargaining units, is \$410 million over FYs 2020-24.

The city also reached a tentative contract agreement with the Council of School Supervisors and Administrators (CSA) on February 13, 2020. The CSA represents over 6,400 employees who have leadership roles in the city's public school system. The contract begins retroactively from April 2019 to January 2023 with annual wage increases of two percent, 2.5 percent and three percent. The contract conforms to the existing civilian pattern and full funding is reflected in the financial plan.

In addition to the UOC and CSA settlements, CUNY and the Professional Staff Congress (PSC) have come to a labor settlement that has been approved by CUNY's Board of Trustees and ratified by PSC union members. The PSC represents full-time professors, adjuncts, lecturers and other full-time nonacademic employees. The city had included funds for wage increases at CUNY schools when it funded the pattern established by the DC 37 contract. Due to the length of the PSC contract (63 months) and increased work time for adjunct professors, the city adds funding of \$10 million, \$16 million, \$35 million,

¹⁷ The UOC represents over 16,200 employees that are members of the Correction Officers' Benevolent Association (COBA), Correction Captains Association (CCA), Assistant Deputy Wardens and Deputy Wardens Association (ADWDWA), Lieutenants Benevolent Association (LBA), Captains Endowment Association (CEA), Uniformed Fire Officers Association (UFOA), Sanitation Officers Association (SOA), and the Uniformed Sanitation Chiefs Association (USCA).

¹⁸ Ratified contracts at the present include CEA and LBA.

¹⁹ For a detailed explanation of the DC 37 settlement and labor reserve funding requirements, please see "Collective Bargaining" in the July 18, 2018 FCB Staff Report, starting on page 25.

and \$41 million in FYs 2021-24, respectively. The city saves \$15 million in FY 2020 due to the timing of the contract. The city has now reached settlements with about 81 percent its workforce for the 2017-2021 round of collective bargaining.²⁰ The reserve also contains funds for a one percent wage increase for employees in the years beyond the current round of bargaining.

Health Insurance

Health insurance premium rates initially estimated by the Office of the Actuary (OA) were projected to increase by 5.5 percent in FY 2022 and five percent in each of FYs 2023 and 2024. Revised projections in the January modification assume annual increases of 6.5 percent in FY 2022, 6.25 percent in FY 2023 and 6.0 percent in FY 2024. The higher growth rates increase costs in FYs 2022-24 by \$82 million, \$189 million and \$282 million, respectively.

Citywide Savings Program

Over FYs 2021-24, the citywide savings program generates total agency and debt service savings of \$748 million and \$131 million, respectively, as shown in Table 6. Including the November savings program, the city is expected to generate nearly \$2.36 billion of total agency savings in FYs 2020-24.

JANUARY MODIFICATION CITYWIDE SAVINGS PROGRAM FYs 2021-24

TABLE 6

City Funds (\$ in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	Total
Agency					
Miscellaneous and other ^a	\$106	\$56	\$56	\$56	\$273
Covered Organizations	98	98	98	98	393
Mayoral ^b	19	0	0	0	19
Uniformed Services	13	3	3	3	22
Health and Welfare	10	10	10	10	41
Total Agency	\$246	\$168	\$168	\$168	\$748
Debt Service	12	15	36	68	131
Total Savings ^c	\$258	\$183	\$203	\$235	\$879
Includes: ^a Citywide Initiatives and Procurement Savings ^b Elected Officials ^c Revenue and Expense Savings Numbers may not add due to rounding.					

Savings over the plan period comes from all city agency categories. In the category of Miscellaneous and Other, spending is lowered by a total of \$273 million. The primary components of the savings are lower health insurance expenses, \$50 million in FY 2021, reflecting a reduction in the number of retirees, and procurement savings, \$56 million in each of FYs 2021-24, achieved through improvements in budget management.

Over FYs 2021-24, the Covered Organizations budget area projects total savings of \$393 million, as shown in Table 6. The Department of Education (DOE) is projected to

²⁰ On March 25, 2018, the Patrolmen’s Benevolent Association (PBA) announced the filing of a request for binding arbitration with the New York State Public Employment Relations Board. The PBA’s contract expired on July 31, 2017. The arbitration renders a decision to award a contract limited to a two-year period. The arbitration is currently taking place and a hearing is scheduled for late April 2020.

reduce spending by \$92 million in each of FYs 2021-24. The planned savings include efficiencies made possible through the consolidation and reestimate of various programs such as professional development, school food and adult education, which are expected to reduce expenses collectively by about \$47 million in each of FYs 2021-24. In addition, \$39 million in each fiscal year of the plan will be saved from the reduction of the Absent Teacher Reserve (ATR) pool and future anticipated personal service savings. The ATR is mostly a reserve pool of teachers working as substitutes but without permanent assignments because their schools or school programs they taught in have been eliminated.²¹ The ATR was able to be reduced by the permanent placement of teachers that had been previously assigned to the pool.

Also, in Covered Organizations, CUNY reduces spending by \$6 million in each fiscal year of the financial plan by modernizing technology, identifying procurement efficiencies and delaying the hiring of personnel. Including other measures, combined savings for the DOE and CUNY total \$98 million in each of FYs 2021-24. Elsewhere, Mayoral, Uniformed Services, and Health and Welfare agencies are expected to achieve combined savings of \$82 million in each of FYs 2021-24. In addition to agency savings, the city also realizes debt service savings of \$131 million stemming mostly from a net reduction in projected long-term borrowing resulting in annual debt service decreases.

Pension Cost Savings

As shown in Table 5 on page 19, the city projects pension costs to decrease in the January modification by a net \$174 million in FY 2021, \$116 million in FY 2022, and \$117 million in each of FYs 2023-24 after other cost adjustments. Total savings over the plan period are \$524 million. The reduced spending reflects a favorable change in the methodology for funding the guaranteed annual returns on the Tax Deferred Annuity 403b funds of the Teachers' Retirement System and the Board of Education Retirement System used by the OA. The preliminary savings are \$125 million in each of FYs 2021-24, but are subject to revision based on the OA's final calculation. Additional savings have also been realized in pension reserves that are maintained to fund actuarial changes recommended and adopted by the OA in future audits. The funds allocated to this reserve in FY 2021 have been reversed, resulting in savings of about \$59 million. The financial plan assumes reserves of \$200 million in FY 2022 and \$275 million in FY 2023.

Growth in Total-Funded Expenditures

In FYs 2021-24, total-funded spending increases from \$95.299 billion in FY 2021 to \$104.491 billion in FY 2024, which is growth of \$9.192 billion, or 9.6 percent, as shown in Table 7 on page 24. Spending is driven higher mostly from growth in Fringe Benefits and Debt Service costs.

²¹ A small portion of teachers in the ATR, however, has been placed there due to a disciplinary action, which may have led to a brief suspension or a fine.

PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH FYs 2021-24

TABLE 7

Total Funds (yr/yr percent change, \$ in millions)

	<u>FYs</u> <u>2021-22</u>	<u>FYs</u> <u>2022-23</u>	<u>FYs</u> <u>2023-24</u>	<u>FYs</u> <u>2021-24</u>	<u>Level in</u> <u>FY 2021</u>	<u>Level in</u> <u>FY 2024</u>	<u>Avg Yr</u> <u>Growth</u>
Total Funds	5.0%	2.7%	1.7%	9.6%	\$95,299	\$104,491	3.1%
Personal Service	2.2%	3.3%	1.8%	7.5%	\$52,684	\$56,630	2.4%
Salaries and Wages	(0.4%)	2.9%	1.8%	4.4%	30,943	32,291	1.4%
Fringe Benefits	6.8%	6.4%	6.0%	20.6%	11,801	14,227	6.4%
Pensions	4.9%	0.3%	(3.3%)	1.7%	9,939	10,112	0.6%
Other Than Personal	0.6%	0.5%	0.6%	1.7%	\$38,441	\$39,087	0.6%
Public Assistance	0.0%	0.0%	0.0%	0.0%	1,651	1,650	0.0%
Medical Assistance	0.0%	0.0%	0.0%	0.0%	5,915	5,915	0.0%
Other OTPS	0.7%	0.6%	0.7%	2.1%	30,875	31,522	0.7%
Debt Service	8.8%	9.2%	5.2%	24.9%	\$7,500	\$9,366	7.7%
Reserves	--	--	--	--	\$1,250	\$1,250	--
General	--	--	--	--	1,000	1,000	--
Capital Stabilization	--	--	--	--	250	250	--
Other							
Intracity Expenses	--	--	--	--	(\$1,852)	(\$1,842)	--
FY 2020 Prepayment*	--	--	--	--	(\$2,723)	--	--

*FY 2020 prepayment prepays FY 2021 debt service expenses.
Numbers may not add due to rounding.

Fringe Benefits are expected to rise by 20.6 percent between FYs 2021-24, increasing by \$2.426 billion from \$11.801 billion to \$14.227 billion, as shown in Table 7. The average annual growth rate for this budget item is 6.4 percent over the plan period, exceeding the growth of all other budget areas by a significant margin except for Debt Service. Included in Fringe Benefit expenses are Social Security taxes (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and health insurance. Of these components, the cost of health insurance is the largest expense. For active and retired city workers, projected healthcare costs are \$7.471 billion in FY 2021 rising to \$9.529 billion in FY 2024, or 27.5 percent over the financial plan. The growth is mostly due to the expected rise in premiums.

The other area of growth is Debt Service, which is expected to increase by 24.9 percent over FYs 2021-24, as shown in Table 7. The January modification assumes the cost will grow by \$1.866 billion, rising from \$7.5 billion to \$9.366 billion, excluding prepaid expenses in FY 2021. The growth reflects an increase in projected long-term annual borrowing by the city and the New York City Transitional Finance Authority required to fund an expansion of the capital program. Salaries and Wages are expected to increase by 4.4 percent over the plan period due to higher-than-projected collective bargaining costs. Elsewhere, the city estimates expenditures on Public and Medical Assistance to remain at \$1.65 billion and \$5.915 billion, respectively, in each of FYs 2021-24.

Growth in City-Funded Expenditures

The January modification projects total city-funded expenditures, net of prepaid expenses, to grow by 11.8 percent, or \$8.381 billion, between FYs 2021 and 2024, increasing

from \$70.833 billion to \$79.214 billion, as shown in Table 8 on page 25. The expected average annual growth rate over the plan period is 3.8 percent.

TABLE 8

PROJECTED GROWTH IN CITY-FUNDED EXPENDITURES FYs 2021-24

City Funds (yr/yr percent change, \$ in millions)

	FYs 2021-22	FYs 2022-23	FYs 2023-24	FYs 2021-24	Level in FY 2021	Level in FY 2024	Avg Yr Growth
Service Agencies	1.2%	0.8%	0.9%	3.0%	\$44,349	\$45,676	1.0%
Uniformed	0.0%	(0.2%)	0.0%	(0.1%)	10,165	10,154	0.0%
Health and Welfare	(1.1%)	0.0%	0.0%	(1.1%)	11,023	10,903	(0.4%)
Mayoral	0.5%	(0.3%)	0.0%	0.2%	6,667	6,678	0.1%
Covered Organizations	4.0%	2.5%	2.5%	9.2%	15,748	17,199	3.0%
Elected Officials	(0.4%)	0.0%	0.0%	(0.5%)	746	742	(0.2%)
Other Expenditures	4.2%	6.5%	4.1%	15.5%	\$27,958	\$32,288	4.9%
Miscellaneous	0.2%	10.2%	9.4%	20.8%	10,886	13,154	6.5%
Debt Service	9.1%	9.5%	5.5%	26.0%	7,277	9,166	8.0%
Pensions	4.9%	0.3%	(3.4%)	1.8%	9,795	9,968	0.6%
Subtotal	2.4%	3.1%	2.2%	7.8%	\$72,307	\$77,964	2.5%
Reserves	--	--	--	--	\$1,250	\$1,250	--
Prior-Year Payables	--	--	--	--	--	--	--
General Reserve	--	--	--	--	1,000	1,000	--
Capital Stabilization	--	--	--	--	250	250	--
Total City Funds	2.3%	3.0%	2.2%	7.7%	\$73,557	\$79,214	2.5%
FY 2020 Prepayment	--	--	--	--	(2,723)	--	--
Total Net of Prepayment	6.3%	3.0%	2.2%	11.8%	\$70,833	\$79,214	3.8%

Miscellaneous includes energy, lease and inflator adjustments.
Debt service and Health + Hospitals expenses (Covered Organizations) are net of prepayments.
FY 2020 prepayment prepays FY 2021 debt service expenses.
Numbers may not add due to rounding.

As shown in Table 8, Service Agencies grow by three percent over FYs 2021-24. In contrast, Other Expenditures are expected to increase more than three times as much at 15.5 percent. The primary source of growth in Service Agencies is Covered Organizations, growing at 9.2 percent, reflecting mainly higher year-to-year spending in the DOE. Also in Service Agencies are Uniformed Services (Police, Fire, Correction and Sanitation Departments), which is expected to fall slightly by 0.1 percent between FYs 2021-24.

About 10 percent of the combined uniformed agencies budgets are overtime expenditures, which includes both uniformed and civilian personnel. In FY 2020, overtime is expected to total \$1.188 billion with most of the spending for uniformed personnel. Through December 2019, actual overtime expenditures for uniformed personnel totaled \$562 million. Based on this amount, the city projects total uniformed spending to be \$1.045 billion for FY 2020. We believe that the city has underbudgeted the overtime cost by \$80 million and will have to add funding to cover the difference, as shown in Table 3 on page 5. Our risk assessment over the life of the plan grows to \$138 million in FY 2021 and \$134 million in each of FYs 2022-24.

In Other Expenditures, Debt Service and miscellaneous spending account for much of the spending growth at 26 percent and 20.8 percent, respectively. For a more detailed discussion of the city-funded capital program driving debt service growth, see

“Managing the Capital Program,” beginning on page 29. Miscellaneous spending mostly reflects the year-to-year increase in labor reserve funding.²²

State Executive Budget Proposals

Facing a projected \$6.1 billion budget gap in SFY 2021, the state has proposed a number of budget actions in its executive budget that close the gap. Some of the proposals, if enacted, may have an impact on the city’s finances. Some of the more noteworthy are:

- **School Education Aid**
 - The executive budget increases state education aid by \$224 million in FY 2021, though the city had budgeted a \$360 million increase, \$136 million less than the city had estimated. However, the availability of an unallocated fiscal stabilization fund and competitive grants totaling \$200 million could reduce the difference. In addition, historically, the city has received additional education aid as part of the state’s enacted budget.
- **Transportation Aid**
 - The executive budget proposes a cap be placed on school transportation aid, which the city estimates to cost about \$30 million beginning in FY 2022.
- **Family Assistance Programs**
 - Under the Temporary Assistance for Needy Family block grant, the state reimburses the city for eligible spending at a rate of 90 percent. The executive budget proposes to reduce the rate to 85 percent.
 - The executive budget has also proposed an increase in the statewide child welfare threshold that would require localities to meet for child welfare spending before receiving state reimbursements.
- **Charter Schools**
 - The state has proposed an amendment allowing for the reissuance of closed charter schools statewide, including reissuance within the city. This proposal would mainly impact the outyears of the

²² Miscellaneous spending encapsulates funding for the labor, general and capital stabilization reserves, fringe benefits, Transit Authority and private bus services, judgment and claims, state building aid, contractual services, water and sewer, and Other Than Personal Service budget areas (including some state and federal funding).

financial plan. The city will likely address the financial impact if the proposal is enacted in the SFY 2021 budget.

- Medicaid
 - One of the more prominent proposals is a requirement that localities fund the growth in Medicaid, which the state had taken over under a Global Cap, if certain conditions pertaining to property tax and Medicaid expense growth are not met.

The Medicaid program provides healthcare and long-term care services for low-income, elderly and disabled individuals. Medicaid costs have risen statewide due to increased enrollment, higher costs for long-term care and medical service providers, higher minimum wages, additional support to distressed hospitals, and greater utilization levels. In previous years to combat rising Medicaid expenses, the state took actions to control its share of the spending and provide relief to local governments, which pay a portion of Medicaid costs incurred.

In January 2006, the state began the phase-in of a Local Medicaid Cap, which set the growth rate in Medicaid expenses paid by localities to 3.5 percent in FY 2006, 3.25 percent in FY 2007, and three percent per year thereafter. In SFY 2012, state legislation was enacted to limit the year-to-year growth in Medicaid spending to the ten-year rolling average of the medical component of the Consumer Price Index (CPI), which established a Global Cap on allowable growth set to the index. The legislation also gave authority to the Governor to take actions to reduce Medicaid expenditures to maintain the Global Cap.

Also, in SFY 2012, the Governor formed the Medicaid Redesign Team (MRT I) to restructure and reform the state's Medicaid program to reduce spending growth to the annual Global Cap. In SFY 2013, the state began to take over growth in the local share. In SFY 2015, the state took over 100 percent of the growth from local governments to provide budget relief to help localities stay within a state-imposed two percent property tax cap. Although the city was included in the state takeover of Medicaid growth above the Global Cap, it was not included in the mandatory property tax cap.²³

Statewide, the city has the largest Medicaid enrollment relative to other localities. There are more than 3.5 million individuals living in the city that receive services through the program, which is more than half of the state's enrollment of about six million. The city has experienced a rise in Medicaid costs as enrollment has increased, especially since the financial crisis hit in FY 2008. Between FYs 2018 and 2019, total Medicaid spending in the city had risen by 6.99 percent, or \$2.259 billion, from \$32.314 billion to \$34.574 billion, which is about four percent over the Global Cap. The state share between those years increased by \$1.13 billion, from \$16.157 billion to \$17.287 billion. Because the state has

²³ While the two percent property tax cap does not apply to the city, the state executive budget proposal would only apply the cap to determine how much of the growth in Medicaid expenditures would be paid by the state and the city.

taken over 100 percent of the growth, the city's share remained level at \$5.378 billion.²⁴ According to the state, if it had not taken over the growth, the city's share would have been \$7.145 billion in FY 2019, or \$1.767 billion more.

The state's Global Cap currently allows for three percent annual growth as indexed to the medical cost component in the CPI. However, higher-than-projected Medicaid expenses have caused structural imbalances in the state budget of \$4 billion in SFY 2020 and \$3.1 billion in SFY 2021.²⁵ The Governor addresses the Medicaid structural problem in the SFY 2021 executive budget in two ways. First, he has convened a second Medicaid Redesign Team (MRT II) charged with reforming the program and identifying cost-containment measures by April 1, 2020 to reduce annual Medicaid costs on a recurring basis by \$2.5 billion.²⁶ MRT II is expected to formulate a plan that preserves benefits but does not tap local governments as funding sources. Instead, it is expected to find industry efficiencies or additional revenue, and must identify waste, fraud and abuse in the program that can be rooted out.

Second is the enhancement of local Medicaid cost control. The state takeover of 100 percent of the growth in local Medicaid costs was intended to assist localities in staying within the two percent property tax cap. The executive budget ensures that counties that adhere to the cap continue to receive full benefit of the state takeover. The state commits to funding the entire increase in Medicaid costs for local governments as long as they stay within the two percent property tax cap and control Medicaid costs to three percent growth per year. The Global Cap at three percent has been indexed to the medical cost component of the CPI. This index allows localities to increase spending by three percent without losing state funding. If the locality does not stay within those limits, it will be required to pay the total spending growth.

If the city is subject to the property tax cap and growth in property tax collections are limited to only two percent, the city's share of Medicaid expenses will increase only if growth exceeds the Global Cap of three percent. In this scenario, the increase equates to \$74 million for every one percent over the Global Cap. If Medicaid expenses were to grow by seven percent, as in FY 2019, the city would need to increase its share by \$296 million, which is the dollar value of the four percent over the Global Cap.

²⁴ Supplemental Medicaid payments for the Disproportionate Share Hospital and the Upper Payment Limit Programs, totaling about \$537 million annually, are not included in the local share. When added to the city's share, the cost is \$5.915 billion annually as reflected in the financial plan.

²⁵ The SFY 2020 midyear budget update assumes the SFY 2020 budget gap is eliminated and the SFY 2021 gap is reduced to \$2 billion. Payment restructuring accounts for \$2.2 billion and \$177 million of savings in SFYs 2020 and 2021, respectively. Medicaid program savings and other general fund actions account for \$1.8 billion and \$890 million of savings in SFYs 2020 and 2021, respectively. The SFY 2021 executive budget also includes savings, beyond the midyear update, of \$599 million in SFY 2020 growing to \$851 million in SFY 2021.

²⁶ While it is too early to determine how the actions proposed by MRT II could impact the city, there is a likelihood that some measures could directly affect Health + Hospitals.

It is likely, however, that the city will exceed the property tax cap based upon past collections. Property tax collections between FYs 2018 and 2019 rose by 5.59 percent, exceeding the tax cap by 3.59 percentage points. If this scenario were to continue, the city would be required to fund the entirety of the growth. Assuming the same seven percent growth in Medicaid, the city would face an increase in its share of \$518 million in FY 2021. Additionally, the state has proposed to eliminate the enhanced Federal Medical Assistance Percentage paid to localities. According to the city, the elimination could cost the city \$587 million in FY 2021 and \$487 million each year thereafter. These proposals require enactment in the SFY 2021 adopted budget. Given the uncertainty of what the SFY 2021 adopted budget will contain, as well as the growth in Medicaid expenditures will be, it is not possible to predict what the impact on the city's financial plan will be.

MANAGING THE CAPITAL PROGRAM

The city's capital program involves a multi-stage planning process to ensure that the physical infrastructure is capable of facilitating economic growth and accommodating community needs. Every two years, the city presents a ten-year capital strategy that identifies long-term commitments to meet legal mandates and rehabilitate infrastructure while maintaining sustainable levels of debt service under 15 percent of tax revenues. A four-year capital plan is revised three times throughout the fiscal year to reflect changes in the timing and scope of projects and to be consistent with the priorities established in the ten-year strategy. At the end of the fiscal year during the budget adoption process, an annual capital budget is approved.

In order to move forward with its sizeable capital program to meet the needs of an aging infrastructure and a growing population, the city has recognized the importance of establishing a capital plan that better reflects a timelier project procurement and implementation schedule. In recent years, the city has been making an effort to schedule capital commitments in a more practical timetable so that annual projected commitment targets are achievable. Consequently, in the January modification, the city has chosen to redistribute the commitments in the April 2019 ten-year capital strategy to reflect a more realistic timeline of when capital projects can occur.²⁷ The projects initially scheduled for the first four years of the strategy that the city determined as not achievable were reforecast to the outyears of the capital program. The following section is a review of the redistribution of the authorized capital commitments, the changes to the targeted commitments as well as the resulting debt service burden.²⁸

²⁷ Revising the long-term capital program between official releases of the ten-year capital strategy is a new approach to the city's capital planning process.

²⁸ The level of authorized commitments exceeds what the city expects to undertake to allow for potential delays, changes in project scope and other adjustments to projects, while targeted commitments are amounts the city projects it can realistically accomplish.

Capital Strategy Redistribution

In the January modification, the city plans to undertake a record high \$125.7 billion of total-funded authorized capital commitments (or contracts) in FYs 2020-29. This amount is an increase of \$8.8 billion compared to the ten-year strategy released in April 2019.²⁹ To display the redistribution of commitments from the prior strategy, we present the changes to total- and city-fund authorized commitments between the first four years (FYs 2020-23) and the latter six years (FYs 2024-29) of the ten-year capital program by functional area categories in Table 9. The city has reduced total-funded commitments in the first four years of the capital program by a net \$556 million and increased commitments in the latter six years by \$9.4 billion. Proportionally, this shift created a 4.6 percentage point reduction in commitments planned for FYs 2020-23 compared to the prior strategy. In the January modification, approximately 55 percent of commitments are scheduled in FYs 2020-23 compared to almost 60 percent of commitments scheduled for these fiscal years in the April strategy.

IN THE JANUARY 2020 REDISTRIBUTION THE CITY SHIFTED AUTHORIZED COMMITMENTS FROM THE FIRST FOUR YEARS OF THE TEN-YEAR CAPITAL STRATEGY TO THE LATTER SIX YEARS

TABLE 9 (\$ in millions)

Changes from the April 2019 Capital Strategy	City Funds			Total Funds		
	Four Yrs FYs 20-23	Six Yrs FYs 24-29	Total	Four Yrs FYs 20-23	Six Yrs FYs 24-29	Total
Total	(\$1,259)	\$7,908	\$6,649	(\$556)	\$9,396	\$8,840
Environmental Protection	(2,234)	2,542	308	(2,199)	2,539	340
Transportation	(1,550)	2,623	1,073	(1,464)	2,773	1,309
Parks, Libraries Culturals	(563)	1,213	650	(363)	1,229	866
Business Services & City Equipment	(342)	1,865	1,523	(321)	1,961	1,640
Housing	1,332	--	1,332	1,332	--	1,332
Transit Authority	1,265	--	1,265	1,283	--	1,283
Sanitation, Health & Social Services	566	607	1,173	626	693	1,319
Public Safety	242	66	308	322	70	392
Education*	25	(1,008)	(983)	228	131	359

*Education includes the Department of Education and City University of New York. In the DOE, the city replaced funding for \$1.14 billion of city-funded capital commitments with noncity sources in FYs 2024-29.

Based on a review of the redistributed ten-year capital program in the January modification, city-funded authorized commitments total \$117.4 billion, an increase of \$6.6

²⁹ Authorized commitments that are not entered into in a given fiscal year are rolled into the following fiscal year. Approximately \$3.75 billion of FY 2019 authorized contracts that were not undertaken were rolled into FYs 2020-21.

billion over the prior strategy. As shown in Table 9, a net \$1.3 billion of city-funded authorized commitments were rescheduled from FYs 2020-23 to FYs 2024-29. The areas in which capital commitments had the largest shifts from the first four years to the latter six years of the ten-year program are the Department of Environmental Protection (DEP) totaling \$2.2 billion; Department of Transportation amounting to \$1.6 billion; parks, libraries and cultural at \$563 million; and business services and citywide equipment summing to \$342 million.

However, not all areas of the capital program had commitments redistributed to the outyears. Two major areas receiving sizable increases to their city-funded capital projects included in the first four years of the ten-year program are housing and the Transit Authority.³⁰ These increases are the result of the city's legal requirements, priorities, and an agreement with the state. The city's requirements necessitated by the New York City Housing Authority's consent decree to provide capital maintenance to the public housing system as well as the mayor's commitment to providing affordable housing, which is undertaken by the Department of Housing Preservation and Development, account for the increase of \$1.3 billion to housing. As part of an agreement with the state, in which the city is to contribute to the Metropolitan Transportation Authority capital plan, there is increased funding to the Transit Authority of \$1.3 billion.

From the large pool of authorized commitments, the city establishes a capital schedule of targeted commitments that is based on practical timetables and programmatic considerations. The targeted commitment levels are used to project the long-term borrowing amounts and debt service included in the financial plan. In reviewing the funding sources for the capital program, we analyze the changes to the targeted amounts from the prior ten-year capital program.

In the January modification's capital program for FYs 2020-29, the city is projecting \$122.4 billion in total targeted commitments with \$114 billion funded by city sources and \$8.4 billion funded by noncity sources, as shown in Table 10 on page 32. Over the ten-year period, commitments funded with tax-supported bonds issued by the city and the New York City Transitional Finance Authority (NYCTFA) at \$94.9 billion make up almost 78 percent of the total program, while DEP commitments funded with water and sewer rate-supported bonds issued by the Water Authority comprise \$19.2 billion. Compared to the strategy released in April, total-funded commitments represent an increase of \$4.1 billion, all of which is in FYs 2024-29. In addition, as a result of the redistribution, the city rescheduled \$4.1 billion of commitments initially planned for FYs 2020-23 to FYs 2024-29. The combination of the growth in the ten-year capital program and the rescheduled commitments from the first four years increased commitments in the latter six years by \$8.2 billion.

³⁰ For more details regarding the capital programs for housing and the Transit Authority, see "The Capital Program Profile and Associated Debt" in our August 2019 staff report.

CHANGES TO THE TEN-YEAR CAPITAL PROGRAM PLANNING SCHEDULE

TABLE 10

(\$ in millions)

	<u>Targeted Commitments</u>		<u>Changes from the April 2019 Strategy</u>		
	<u>Ten-Year January 20</u>	<u>Ten-Year April 19</u>	<u>Four Years FYs 20-23</u>	<u>Six Years FYs 24-29</u>	<u>Total FYs 20-29</u>
GO/NYCTFA	\$94,863	\$92,924	(\$3,064)	\$5,003	\$1,939
DEP	19,181	19,214	(1,774)	1,741	(33)
City-Funded	\$114,044	\$112,138	(\$4,838)	\$6,744	\$1,906
NonCity	8,387	6,197	703	1,487	2,190
Total	\$122,431	\$118,335	(\$4,135)	\$8,231	\$4,096

Debt Service Costs

Based on the capital funding schedule, 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. The debt service costs for the city and the NYCTFA are projected to climb from \$7 billion in FY 2020 to \$9.4 billion in FY 2024 and \$11.8 billion in FY 2029. Compared to the debt service projections reflecting the borrowing schedule of the prior ten-year strategy, debt service costs are lower by a range of \$32 million to \$246 million over FYs 2020-25 and higher by a range of \$1 million to \$205 million over FYs 2026-29.

In the January modification, city and NYCTFA debt service projections reflect a 7.6 percent average annual growth rate in the FYs 2020-24 plan period and a slower rate of 4.2 percent in FYs 2025-29, for an average annual rate of six percent over the 10-year period of FYs 2020-29, as displayed in the figure to the right. Tax revenues are projected to grow at an overall slower rate than debt service, ranging from a 2.6 percent average annual growth rate in the FYs 2020-24 plan period to an equivalent growth rate to debt service of 4.2 percent in FYs 2025-29, for an average annual rate of 3.5 percent over the 10-year period of FYs 2020-29.³¹ The rising debt service costs will absorb an increasing share of tax revenues, from 10.9 percent in FY 2020 to peak at 13.8 percent in FYs 2026 to 2028, and decline to 13.5 percent in FY 2029.

FYs	Debt Service	Tax Revenues	DS as % Tax Rev
2020	\$6,984	\$64,352	10.9%
2021	7,500	65,614	11.4%
2022	8,158	67,615	12.1%
2023	8,906	69,610	12.8%
2024	9,366	71,315	13.1%
2025	10,019	74,239	13.5%
2026	10,649	77,357	13.8%
2027	11,113	80,606	13.8%
2028	11,583	84,153	13.8%
2029	11,808	87,687	13.5%
Average Annual Growth Rates			
FYs			
2020-24	7.6%	2.6%	
2025-29	4.2%	4.2%	
2020-29	6.0%	3.5%	

The debt service burden for the ten years covered in the capital program remains under 15 percent, which the city has determined as sustainable and fiscally responsible in its debt policy. In the plan period of FYs 2020-24, the debt service burden may be lower

³¹ In FYs 2025-29, we use the growth rates assumed in the April 2019 executive budget for tax revenues, as projections for a ten-year period are only produced during the release of a ten-year capital strategy.

given the conservative estimates for both debt service and tax revenues. The city uses conservative interest rate assumptions, so as terms on actual sales and costs are incorporated in the budget, debt service expenses are lower than projected. In addition, the city uses cautious growth assumptions when projecting tax revenues. The average annual growth rate on actual tax revenues collected in the last five fiscal years is 4.3 percent, while the city is estimating tax revenues will grow at an average annual growth rate of only 2.6 percent in the FYs 2020-24. The city recognizes that tax revenue collections can be volatile and on occasion have even shrunk year-over-year. As a precaution, citing fiscal uncertainties, the city has set aside \$250 million in each of FYs 2021-24 in a capital stabilization reserve fund that could be used to defease debt in the case of a sudden economic downturn that weakens tax collection.

IV. Glossary of Acronyms

ADWDWA	Assistant Deputy Wardens and Deputy Wardens Association
ATR	Absent Teacher Reserve
BSA	Budget Stabilization Account
CCA	Correction Captains Association
CEA	Captains Endowment Association
COBA	Correction Officers' Benevolent Association
CPI	Consumer Price Index
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DOE	Department of Education
DOF	Department of Finance
FCB	Financial Control Board
FICA	Federal Insurance Contributions Act
FY	Fiscal Year
GCT	General Corporation Tax
HPD	Housing Preservation and Development
LBA	Lieutenants Benevolent Association
MLC	Municipal Labor Committee
MRT	Medicaid Redesign Team
MTA	Metropolitan Transit Authority
NYCERS	New York City Employees' Retirement System
NYCHA	New York City Housing Authority
NYCTFA	New York City Transitional Finance Authority
OA	Office of the Actuary
PBA	Patrolmen's Benevolent Association

PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PSC	Professional Staff Congress
RHBT	Retiree Health Benefits Trust
SFY	State Fiscal Year
SOA	Sanitation Officers Association
STAR	School Tax Relief Program
TAMI	Technology, Advertising, Media and Information
TLC	Taxi and Limousine Commission
UBT	Unincorporated Business Tax
UFOA	Uniformed Fire Officers Association
UOC	Uniformed Officers Coalition
USCA	Uniformed Sanitation Chiefs Association

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