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Comments on New York City's Preliminary Budget for Fiscal Year 2017 and Financial Plan for Fiscal Years 2016-2020

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I. Executive Summary

While the City's January 2016 Financial Plan forecasts manageable budget gaps in FY 2017 through FY 2020, the Comptroller's Office projects larger gaps that could grow to $3.77 billion in FY 2020. The Comptroller's identified risks to the Financial Plan are a greater concern given the prospect for continued strong economic growth has diminished in recent months. Moreover, while New York City has experienced six consecutive years of economic growth, characterized by robust job creation, many new jobs have been concentrated in low-wage sectors.

Economy

New York City enjoyed its sixth consecutive year of economic expansion in 2015. The most striking aspect of the current expansion is the pace of job creation. Since 2009, over 525,000 private sector jobs have been created, with the number of jobs added exceeding that in each of the last two economic expansions. The job growth is led by the retail super-sector which grew by nearly 30 percent, or 180,000 employees. This super-sector includes traditional retail consumer goods outlets, as well as food service, and leisure and hospitality establishments. The business super-sector, comprising finance, insurance, real estate, legal services, accounting, architecture and engineering, and corporate headquarters, has recovered from the recession but unlike previous expansions is not the main driver of job growth.

More New Yorkers are employed today than ever before, but the benefits have not been evenly distributed. A disproportionate share of the jobs created since 2009 has been in low-wage industries compared to medium-wage and high-wage industries. Low-wage industries have accounted for 57 percent of the net gain in jobs while medium-wage and high-wage industries have accounted for 20 percent and 23 percent, respectively. In contrast, during the previous economic expansion, from 2003 to 2008, 35 percent of the job gain was in the high-wage industries while 41 percent was in the low-wage industries.

Another area of concern is the slow growth in wage rates. Since 2009, average private-sector weekly earnings have grown at an annual rate of 1.6 percent. This growth is driven primarily by wage increases in industries that already paid the highest wages. After adjusting for inflation, wages in high-wage industries grew by more than 10 percent from 2009 to 2014. Over the same period, real wages in medium-wage industries grew by 4.1 percent but declined by 3.2 percent in low-wage industries.

While there are risks to the City's economy from the stock market decline and potential impact of China's economic slowdown on the global economy, both the U.S. and the City's economy show few of the usual signs of an impending recession. The City's overall economic growth and job creation should continue through 2016, though at a slower pace than 2015. The Comptroller's Office projects that real gross city product (GCP) will grow at 2.6 percent compared to 3.4 percent in 2015.

FY 2017 Preliminary Budget

The FY 2017 Preliminary Budget reflects the continuing expansion of the City's economy. The FY 2017 Preliminary Budget totals $82.1 billion, an increase of $1.2 billion in total funds revenues from the November Plan. Tax revenues are $723 million above the November projections, while non-tax City-funds revenues show a net decline of $83 million. The decrease in non-tax City-funds revenues is driven primarily by the postponement of planned taxi medallion sales. Upward revisions to Federal and State grants account for most of the remaining increase.

City-funds expenditures, excluding the roll of the FY 2016 $500 million Capital Stabilization Reserve (CSR) into FY 2017, is $1.06 billion more than the November Plan. The higher expenditures results from an increase in agency spending of $744 million, additional pension contributions of $582 million due primarily to the adoption of improved retiree mortality assumptions, and $5 million to fund the City's plan to raise the minimum wage of City employees and contract social service workers to $15 an hour by December 31, 2018. These additional expenditures are partially offset by $270 million in spending reductions from the Citywide Savings Program. Together, the changes in City-funds revenues and expenditures and the roll of the CSR increase the FY 2017 gap projected in November from $1.2 billion to $2.16 billion. This gap is closed by prepaying an additional $2.16 billion of FY 2017 debt service in FY 2016. The prepayment reduces FY 2017 expenditures by a commensurate amount.

The increase in the FY 2016 prepayment results from the recognition of $3.56 billion of additional resources in FY 2016 in the current Financial Plan. Upward revisions of $873 million and $281 million to tax and non-tax revenues, respectively, and spending reductions of $804 million from the Citywide Savings Program account for $1.96 billion of the increase. The remaining $1.6 billion of additional resources is due to a $700 million reduction of the FY 2016 general reserve, a re-estimate of prior-year receivables and payables resulting in a net reduction of expenditures of $400 million in the Plan, and the roll of the $500 million CSR from FY 2016 to FY 2017. Part of the additional resources are used to fund Health + Hospitals' debt service, medical malpractice and fringe benefits expenditures totaling $337 million; additional pension costs of $569 million due primarily to the adoption of enhanced mortality assumptions; and $492 million in additional agency spending. The remaining $2.16 billion are rolled into FY 2017, through the pre-payment of FY 2017 debt service, to balance the FY 2017 budget.

The Citywide Savings Program in the January 2016 Financial Plan is similar to the savings program in the May 2015 Financial Plan in that it is a voluntary program with savings targets established by the participating agencies. The program is projected to save $1.07 billion over the first two years of the Financial Plan and $1.85 billion over the five years of the plan period. While the savings over the first two years of the Plan are modestly higher than $1.05 billion savings in last year's Plan, the total savings of $1.85 billion over the five-year period is 36 percent less than last year's savings of $2.91 billion.

Homeless Services

Spending to support citywide homeless services is allocated among three agencies, the Department of Homeless Services, the Department of Social Services, and the Department of Youth and Community Development with the bulk of the spending concentrated in the Department of Homeless Services. Homeless services expenditures are projected to be $1.72 billion in FY 2016, a 46 percent increase from FY 2014. Driving this increase is the growth in rental assistance programs which have grown more than five times from $23 million to $122 million, primarily in support of the Living in Communities (LINC) program. Spending on homeless services is projected to drop to $1.55 billion in FY 2017, due mainly to an expected decline in shelter operations. Additionally, the City has not yet fully recognized anticipated Federal and State grants, particularly for family shelter operations. However, if the shelter population does not decline as forecast by the City, there could be a risk of about $100 million in the projected spending on adult shelter operations, which is about 80 percent supported by City funds. Adult shelter census hit a new peak of 13,216 in February and has shown little signs of slowing down.

Risks and Offsets

In addition to the risk in adult shelter spending estimates, the Comptroller's Office has identified additional risks in the City's assumptions of NYC Health + Hospitals reimbursements; overtime spending; Federal Medicaid reimbursement for special education services; Universal Pre-Kindergarten funding; and Public Assistance spending. NYC Health + Hospitals is required to reimburse the City for debt service, medical malpractice claims, and fringe benefits costs incurred on the system's behalf but has only made the full payment once in the last four years. If the payments are not made in full, the City will have to cover expenses averaging $350 million annually over the next four years. The Comptroller's Office also does not anticipate that the scheduled taxi medallion sales, which are projected to generate revenues of $107 million in FY 2018, $257 million in FY 2019, and $367 million in FY 2020, will take place before FY 2020 given the current uncertainty in the taxi industry.

Offsetting some of the risks is the Comptroller's Office higher tax revenue and camera fines projections, and the expectation that variable interest rates will be below the City's estimates. In addition, the Comptroller's Office does not anticipate that the $300 million in the FY 2016 General Reserve will be needed for FY 2016 budget balance.

All together the risks and offsets identified by the Comptroller's Office result in additional resources of $599 million in FY 2016 and gaps of $200 million in FY 2017, $2.72 billion in FY 2018, $3.83 billion in FY 2019, and $3.77 billion in FY 2020. The cumulative gaps projected by the Comptroller's Office over the five years of the Plan are $1.96 billion more than the Plan projections.

Given the uncertainty of the economy, large outyear budget gaps are now a greater cause for concern and reinforce the need for prudent fiscal management.

Table 1. FYs 2016 – 2020 Financial Plan

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Changes FYs 2016 – 2020 Dollar	Changes FYs 2016 – 2020 Percent
Revenues							
Taxes:							
General Property Tax	$22,761	$24,083	$25,360	$26,694	$27,946	$5,185	22.8%
Other Taxes	$29,599	$30,255	$31,182	$32,269	$33,443	$3,844	13.0%
Tax Audit Revenues	$995	$714	$714	$714	$714	($281)	(28.2%)
Subtotal: Taxes	$53,355	$55,052	$57,256	$59,677	$62,103	$8,748	16.4%
Miscellaneous Revenues	$6,917	$6,621	$6,677	$6,790	$6,892	($25)	(0.4%)
Unrestricted Intergovernmental Aid	$4	$0	$0	$0	$0	($4)	(100.0%)
Less: Intra-City Revenues	($2,001)	($1,778)	($1,787)	($1,781)	($1,787)	$214	(10.7%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$58,260	$59,880	$62,131	$64,671	$67,193	$8,933	15.3%
Other Categorical Grants	$763	$823	$828	$825	$821	$58	7.6%
Inter-Fund Revenues	$606	$632	$573	$573	$572	($34)	(5.6%)
Federal Categorical Grants	$8,664	$7,211	$6,770	$6,566	$6,558	($2,106)	(24.3%)
State Categorical Grants	$13,416	$13,566	$13,979	$14,341	$14,624	$1,208	9.0%
Total Revenues	$81,709	$82,112	$84,281	$86,976	$89,768	$8,059	9.9%
Expenditures							
Personal Service							
Salaries and Wages	$25,601	$25,847	$27,159	$28,756	$29,298	$3,697	14.4%
Pensions	$9,343	$9,399	$9,554	$9,734	$10,107	$764	8.2%
Fringe Benefits	$9,318	$9,837	$10,398	$11,194	$11,983	$2,665	28.6%
Subtotal-PS	$44,262	$45,083	$47,111	$49,684	$51,388	$7,126	16.1%
Other Than Personal Service							
Medical Assistance	$6,078	$6,220	$6,220	$6,220	$6,220	$142	2.3%
Public Assistance	$1,481	$1,502	$1,513	$1,524	$1,535	$54	3.6%
All Other	$26,811	$25,162	$25,330	$25,588	$25,930	($881)	(3.3%)
Subtotal-OTPS	$34,370	$32,884	$33,063	$33,332	$33,685	($685)	(2.0%)
Debt Service							
Principal	$2,231	$2,221	$2,281	$2,208	$2,343	$112	5.0%
Interest & Offsets	$1,992	$2,284	$2,423	$2,588	$2,749	$757	38.0%
Subtotal Debt Service	$4,223	$4,505	$4,704	$4,796	$5,092	$869	20.6%
FY 2015 BSA	($3,524)	$0	$0	$0	$0	$3,524	(100.0%)
FY 2016 BSA	$2,295	($2,295)	$0	$0	$0	($2,295)	(100.0%)
TFA Debt Redemption	($103)	$0	$0	$0	$0	$103	(100.0%)
TFA Debt Service							
Principal	$696	$829	$927	$1,208	$1,213	$517	74.3%
Interest & Offsets	$1,191	$1,384	$1,542	$1,674	$1,918	$727	61.1%
Subtotal TFA	$1,887	$2,213	$2,469	$2,882	$3,131	$1,244	65.9%
Capital Stabilization Reserve	$0	$500	$0	$0	$0	$0	NA
General Reserve	$300	$1,000	$1,000	$1,000	$1,000	$700	233.3%
	$83,710	$83,890	$88,347	$91,694	$94,296	$10,586	12.6%
Less: Intra-City Expenses	($2,001)	($1,778)	($1,787)	($1,781)	($1,787)	$214	(10.7%)
Total Expenditures	$81,709	$82,112	$86,560	$89,913	$92,509	$10,800	13.2%
Gap To Be Closed	**$0**	**$0**	**($2,279)**	**($2,937)**	**($2,741)**	**($2,741)**	**NA**

Table 2. Plan-to-Plan Changes
January 2016 Plan vs. November 2015 Plan

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Revenues				
Taxes:				
General Property Tax	$120	$339	$613	$891
Other Taxes	$498	$381	$358	$464
Tax Audit Revenues	$255	$3	$3	$3
Subtotal: Taxes	$873	$723	$974	$1,358
Miscellaneous Revenues	$179	($77)	($120)	($61)
Unrestricted Intergovernmental Aid	$3	$0	$0	$0
Less: Intra-City Revenues	($73)	($6)	($5)	($5)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$982	$640	$849	$1,292
Other Categorical Grants	($124)	($1)	($1)	($2)
Inter-Fund Revenues	$29	$84	$22	$22
Federal Categorical Grants	$617	$301	$269	$163
State Categorical Grants	$274	$199	$210	$244
Total Revenues	$1,778	$1,223	$1,349	$1,719
Expenditures				
Personal Service				
Salaries and Wages	$153	$453	$466	$565
Pensions	$569	$581	$609	$614
Fringe Benefits	$0	$79	$70	$73
Subtotal-PS	$722	$1,113	$1,145	$1,252
Other Than Personal Service				
Medical Assistance	($204)	($204)	($204)	($204)
Public Assistance	$0	$38	$49	$60
All Other	$772	$711	$743	$672
Subtotal-OTPS	$568	$545	$588	$528
Debt Service				
Principal	$0	$0	$0	$0
Interest & Offsets	($305)	($2)	($10)	($13)
Subtotal Debt Service	($305)	($2)	($10)	($13)
FY 2015 BSA	$0	$0	$0	$0
FY 2016 BSA	$2,160	($2,160)	$0	$0
TFA Debt Redemption	$0	$0	$0	$0
TFA				
Principal	$0	$0	$0	$0
Interest & Offsets	($94)	($6)	($13)	($14)
Subtotal TFA	($94)	($6)	($13)	($14)
Capital Stabilization Reserve	($500)	$500	$0	$0
General Reserve	($700)	$0	$0	$0
	$1,851	($10)	$1,710	$1,753
Less: Intra-City Expenses	($73)	($6)	($5)	($5)
Total Expenditures	$1,778	($16)	$1,705	$1,748
Gap To Be Closed	**$0**	**$1,239**	**($356)**	**($29)**

Table 3. Plan-to-Plan Changes
January 2016 Plan vs. June 2015 Plan

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Revenues				
Taxes:				
General Property Tax	$172	$386	$655	$925
Other Taxes	$680	$459	$524	$649
Tax Audit Revenues	$284	$3	$3	$3
Subtotal: Taxes	$1,136	$848	$1,182	$1,577
Miscellaneous Revenues	$378	($63)	($108)	($54)
Unrestricted Intergovernmental Aid	$4	$0	$0	$0
Less: Intra-City Revenues	($232)	($15)	($13)	($12)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,286	$770	$1,061	$1,511
Other Categorical Grants	($93)	($23)	($23)	($23)
Inter-Fund Revenues	$31	$86	$25	$24
Federal Categorical Grants	$1,518	$333	$295	$191
State Categorical Grants	$439	$217	$224	$258
Total Revenues	$3,181	$1,383	$1,582	$1,961
Expenditures				
Personal Service				
Salaries and Wages	$210	$404	$368	$449
Pensions	$588	$680	$784	$866
Fringe Benefits	$40	$79	$71	$72
Subtotal-PS	$838	$1,163	$1,223	$1,387
Other Than Personal Service				
Medical Assistance	($248)	($204)	($204)	($204)
Public Assistance	$0	$38	$49	$60
All Other	$2,179	$846	$917	$861
Subtotal-OTPS	$1,931	$680	$762	$717
Debt Service				
Principal	$0	($89)	($2)	($19)
Interest & Offsets	($319)	($24)	($42)	($41)
Subtotal Debt Service	($319)	($113)	($44)	($60)
FY 2015 BSA	$30	$0	$0	$0
FY 2016 BSA	$2,295	($2,295)	$0	$0
TFA Debt Redemption	$0	$0	$0	$0
TFA				
Principal	$0	($42)	$38	$37
Interest & Offsets	($162)	$40	($12)	($24)
Subtotal TFA	($162)	($2)	$26	$13
Capital Stabilization Reserve	($500)	$500	$0	$0
General Reserve	($700)	$0	$0	$0
	$3,413	($67)	$1,967	$2,057
Less: Intra-City Expenses	($232)	($15)	($13)	($12)
Total Expenditures	$3,181	($82)	$1,954	$2,045
Gap To Be Closed	**$0**	**$1,465**	**($372)**	**($84)**

Table 4. Risks and Offsets

($ in millions, positive numbers decrease the gap and negative numbers increase the gap)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
City Stated Gap	**$0**	**$0**	**($2,279)**	**($2,937)**	**($2,741)**
Tax Revenues					
Property Tax	$0	$74	$79	$60	$213
Personal Income Tax	$42	$197	$218	$147	($58)
Business Taxes	$37	$3	($44)	($77)	($58)
Sales Tax	$44	$70	$88	$100	$88
Real-Estate-Related Taxes	$333	$101	($12)	($183)	($136)
Subtotal Tax Revenues	**$456**	**$445**	**$329**	**$47**	**$49**
Non-Tax Revenues					
Bus Lane Camera Fines	$0	$16	$6	$0	$0
Speed Camera Fines	$19	$38	$24	$27	$27
Taxi Medallion Sales	$0	$0	($107)	($257)	($367)
Subtotal Non-Tax Revenues	**$19**	**$54**	**($77)**	**($230)**	**($340)**
Total Revenues	**$475**	**$499**	**$252**	**($183)**	**($291)**
Expenditures					
Overtime	($136)	($221)	($200)	($200)	($200)
DOE Medicaid Reimbursement	($80)	($80)	($80)	($80)	($80)
Universal Pre-Kindergarten Funding	$0	($21)	($21)	($21)	($21)
Public Assistance	$0	($20)	($20)	($20)	($20)
Adult Shelters	$0	($100)	($100)	($100)	($100)
NYC Health + Hospitals	$0	($345)	($338)	($344)	($368)
Variable Interest Rate Savings	$40	$88	$70	$52	$52
General Reserve	$300	$0	$0	$0	$0
Subtotal	**$124**	**($699)**	**($689)**	**($713)**	**($737)**
Total (Risks)/Offsets	**$599**	**($200)**	**($437)**	**($896)**	**($1,028)**
Restated (Gap)/Surplus	**$599**	**($200)**	**($2,716)**	**($3,833)**	**($3,769)**

II. The State of the City's Economy

With stock prices declining approximately 8 percent in the first three weeks of 2016, the new year began on an ominous note for the economy. Underlying the market decline is the increasing evidence of a significant slowdown in China's economy and the uncertainty of how that economy's inevitable readjustments will affect its trading partners and the global economy at large. Nevertheless, America's economy continues to create jobs at a healthy pace and shows few of the usual symptoms of an impending recession. The most likely scenario is that the U.S. economy continues to grow on the slow and steady path it has followed for the past six years.

The City's economy is expected to grow at about the same rate as the national economy in 2016. Although the city's economic growth has somewhat outpaced that of the nation since the recovery began, much of that growth has come in the local service industries which are inherently limited by the rate of local population and income growth. As the City's need for retail, food and other services nears its saturation point, further growth in the local economy will be more closely linked to national and international economic conditions.

A. U.S. ECONOMIC OUTLOOK

Despite the quarterly fluctuations that produce recurrent bouts of public fear and optimism, U.S. economic growth has been remarkably consistent since the end of the Great Recession. Annual economic growth has fallen within the narrow range of 1.5 to 2.5 percent in each of the past six years while the headline unemployment rate has fallen in each of them. The outlook for 2016 is more of the same.

The most reassuring aspect of the nation's economic performance in 2015 was job creation. From December 2014 to December 2015 the economy added over 2.6 million private sector jobs, making 2014 the only year this century when more private jobs were created. The monthly pattern was especially promising, with the strongest job figures coming in the final quarter of the year. The composition of the job growth was balanced, with solid gains in construction, retail trade, finance, professional and business services, education, health care, and leisure and hospitality employment. With the exception of the main energy-producing states, there has been no increase in initial unemployment claims that might signal a weakening of the labor market.

The steady job creation has cut the national unemployment rate in half since its recessionary peak of 10.0 percent. The rate fell to a seasonally-adjusted 5.0 percent by the end of the year, where it had been since October 2015. Although the recession and its aftermath forced many baby-boom generation workers to retire earlier and less securely than they had hoped, resulting in slow labor force growth and a somewhat overstated improvement in the headline unemployment rate, the reduction of unemployment was still near the best that could have been hoped for when the recovery began. A significantly improved unemployment rate among young workers also provides hope that more of them can make progress on their life goals and that their spending will provide a boost to housing and other key industries.

The most disappointing characteristic of the recovery so far has been the sluggish growth in wages, a pattern which continued in 2015. Average weekly earnings of all private-sector workers increased only 2.3 percent in 2015, exactly the annual average over the past six years. Consumer price inflation over those six years has averaged 1.7 percent annually, meaning that the real earnings of American workers have grown at less than 1.0 percent per year.

The decline in energy prices will help American consumers stretch their dollars and the tighter labor market should produce some uptick in wage growth in 2016. Nevertheless, wage stagnation, a declining share of national income returning to labor, and widening income polarization have been decades in the making and are likely to remain fundamental factors constraining economic growth in coming years.

Personal consumption expenditures account for about two-thirds of gross domestic product (GDP), so an upsurge in consumer spending can lead the entire economy to faster growth. However, personal consumption can only be financed through current earnings, a draw-down of savings, or borrowing, and so far in this recovery consumers have resisted the credit excesses of the pre-recession years. Real personal consumption expenditures have grown roughly in line with growth in real wage and salary income, and consumer revolving credit (mostly credit card debt) has fallen relative to wage and salary income for eight straight years. While consumer caution has contributed to the modest growth rates in GDP during the recovery, it has also contributed to a more balanced and sustainable expansion.

Business spending on plant, equipment and intellectual capital is the other important driver of economic growth and businesses have also been unusually cautious in their spending, with corporations accumulating large cash balances and many engaging in stock repurchase programs. Early in the recovery it appeared that weak business investment was a temporary after-effect of the financial crisis, but it appears increasingly that there are deeper impediments to business investment. In particular, rather than requiring massive infrastructure investments (as in the early days of railroads or automobiles), new technologies are increasingly allowing businesses to economize on physical capital. As a result, corporate profits are being returned to investors as dividends or stock buy-backs, rather than being plowed into large-scale capital investments.

Since the wind-down of the American Recovery and Reinvestment Act, the fiscal policies of the Federal government have turned toward austerity, creating a drag on overall economic growth. A positive factor in the outlook for 2016 is that, due to the Bipartisan Budget Act of 2015, Federal fiscal policy will be eased and the uncertainties associated with another Federal government shutdown have been removed. The Comptroller's Office estimates that Federal fiscal policy will turn from contractionary to slightly expansionary in 2016.

At the time the President and Congress negotiated the bipartisan budget deal, it appeared that the expansionary effects of higher Federal spending limits would be offset by the Federal Reserve's efforts to normalize interest rates. The Fed did subsequently move to raise short-term interest rates for the first time in seven years, but the financial turbulence early in 2016 will likely slow down the pace of future rate increases. The Fed appears comfortable with a GDP growth rate of 2.0 to 3.0 percent, but with inflation remaining below its target of 2.0 percent, the central bank has no reason to risk triggering a recession.

During 2015 the economic slowdown in China eclipsed the struggles of the euro zone as the primary threat to global economic growth. America's economic linkages to China, however, can easily be overstated. China consumes only 8.0 percent of overall U.S. exports and much of that are intermediate goods that will be re-exported back to the United States. Also, its financial system is still largely closed to foreigners and the direct exposure of Western banks to overleveraged Chinese state-owned enterprises and municipalities is limited. The biggest risk is that other emerging nations which export raw materials to China are adversely affected, causing a contraction of international trade that snowballs into a global slump. Despite such risk, the International Monetary Fund is expecting a pickup in world economic growth to 3.4 percent, from 3.1 percent in 2015, according to its January 2016 World Economic Outlook.

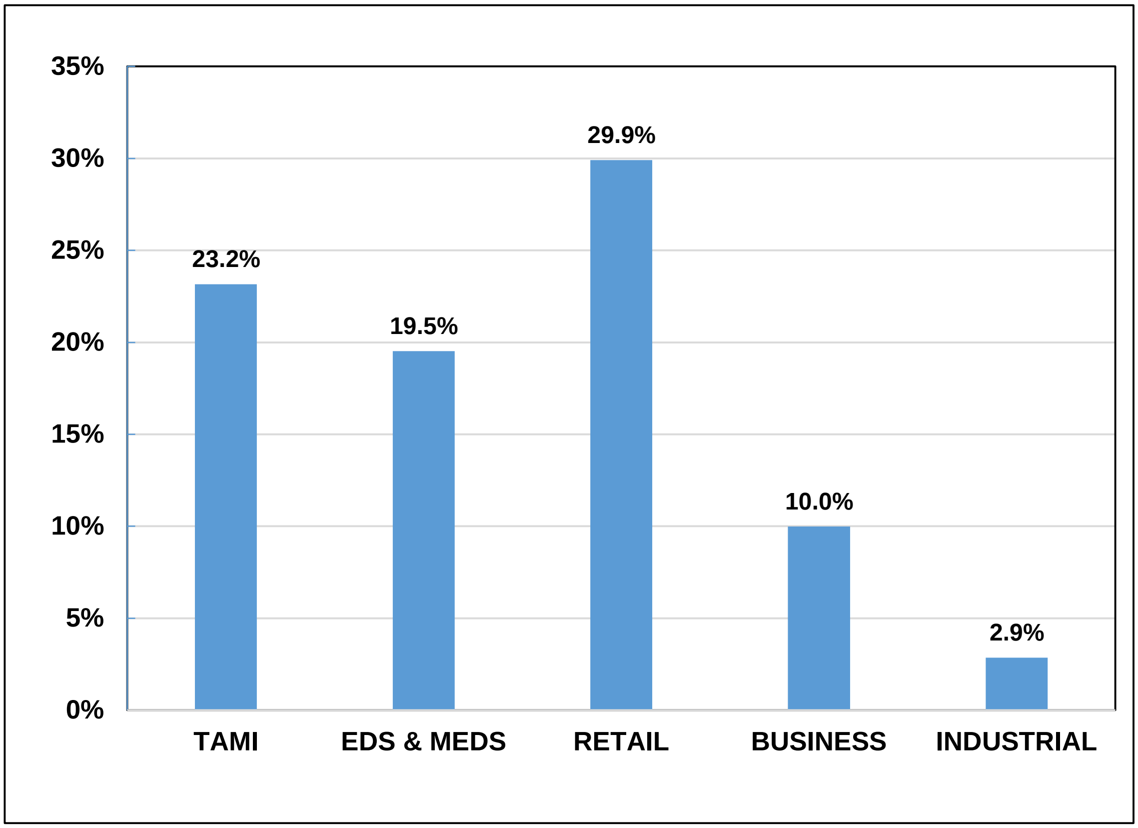
Overall, the U.S. economy has not developed internal imbalances that might cause its expansion to stall and, with inflationary pressures absent, the Federal Reserve has no reason to provoke a recession by raising interest rates aggressively. Positive factors, such as better wage growth and a less contractionary federal fiscal posture, should offset some of the drags on growth, such as modest short-term interest rate hikes and spillovers from China's difficulties, leaving the U.S. on a similar growth track to that of recent years. Consequently, the Comptroller's Office expects the national economy to expand by 2.3 percent in 2016.

B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

New York City enjoyed its sixth straight year of solid economic expansion in 2015. Economic growth, as measured by the change in real gross city product (GCP), was 3.4 percent in 2015, compared to the previous year's growth of 2.1 percent. While the strength of the recovery since the recession has not rivaled other boom periods of the city's history in terms of GCP growth, the number of new jobs created has been remarkable. As total job creation inevitably slows down in coming years, the principal challenge will be to raise the quality of the job mix, their pay levels, and the living standards of the city's households.

Since 2009, the City has added over 525,000 private sector payroll jobs, increasing its overall job base by more than 13 percent compared to its previous peak. Chart 1 shows the percentage growth in jobs over that period (on a year-over-year basis), with industries grouped into super-sectors.

***Chart 1*. Percent Change in Payroll Employment by Super-Sectors, NYC, 2009-2015**



SOURCE: NYS Department of Labor; New York City Comptroller's Office.

Retail has been the fastest-growing super-sector in the city during the current expansion, expanding employment by nearly 30 percent, or by 180,000 employees. The retail super-sector includes traditional retail consumer goods outlets, as well as food service and drinking establishments, and leisure and hospitality establishments.

During this expansion the city's "tech" sector has also emerged as a growth engine. The confluence of technology, media, marketing and culture has produced both disruption and cross-fertilization among firms and industries — creating a new industry cluster sometimes referred to as TAMI — technology, advertising, media and information. The TAMI super-sector has expanded employment by 23 percent from 2009 to 2015, adding nearly 65,000 payroll employees.

The City's enormous "Eds & Meds" super-sector has expanded its employment by nearly 20 percent since 2009. In fact, it has exhibited 2.5 percent average annual growth in employment over the past quarter-century and that growth has sped up in the past three years with the implementation of the Affordable Care Act. Although the education and health care sectors boast many well-paying professional jobs, almost 40 percent of the job growth since 2009 has come in the low-wage home health care industry.

The city's traditional business sector, comprising finance, insurance, real estate, legal services, accounting, architecture and engineering and corporate headquarters has recovered from the recession but has not been the driver of employment growth that it was in previous expansions. Despite continued internal reorganizations prompted by the new business and regulatory environments that have evolved since the financial crisis, and the large legal settlements that have impacted bottom lines, the finance industry has added about 8,000 jobs in each of the past two years. Wall Street profit levels and annual bonus payments have been well below peak levels for the past three years, but the industry's relatively quiet stability over that time has facilitated the city's economic development in other areas.

Throughout the recovery the city's industrial super-sector — here defined to include manufacturing, wholesale trade, transportation and construction — has lagged. Overall employment is up by only 2.9 percent since 2009, representing a net gain of only 13,200 jobs. A recovery of employment in construction and transportation to pre-recession levels has been offset by continuing losses in the manufacturing sector, which now employs only about 74,000 workers in New York City.

The City's strong job creation has helped alleviate the unemployment crisis caused by the 2007-2009 recession. The citywide unemployment rate declined from its high of 10.2 percent in November 2009, to 5.0 percent in December 2015. The total number of unemployed New Yorkers, which reached a high of 400,947 in the fourth quarter of 2009, dropped to 204,534 by the fourth quarter of 2015.

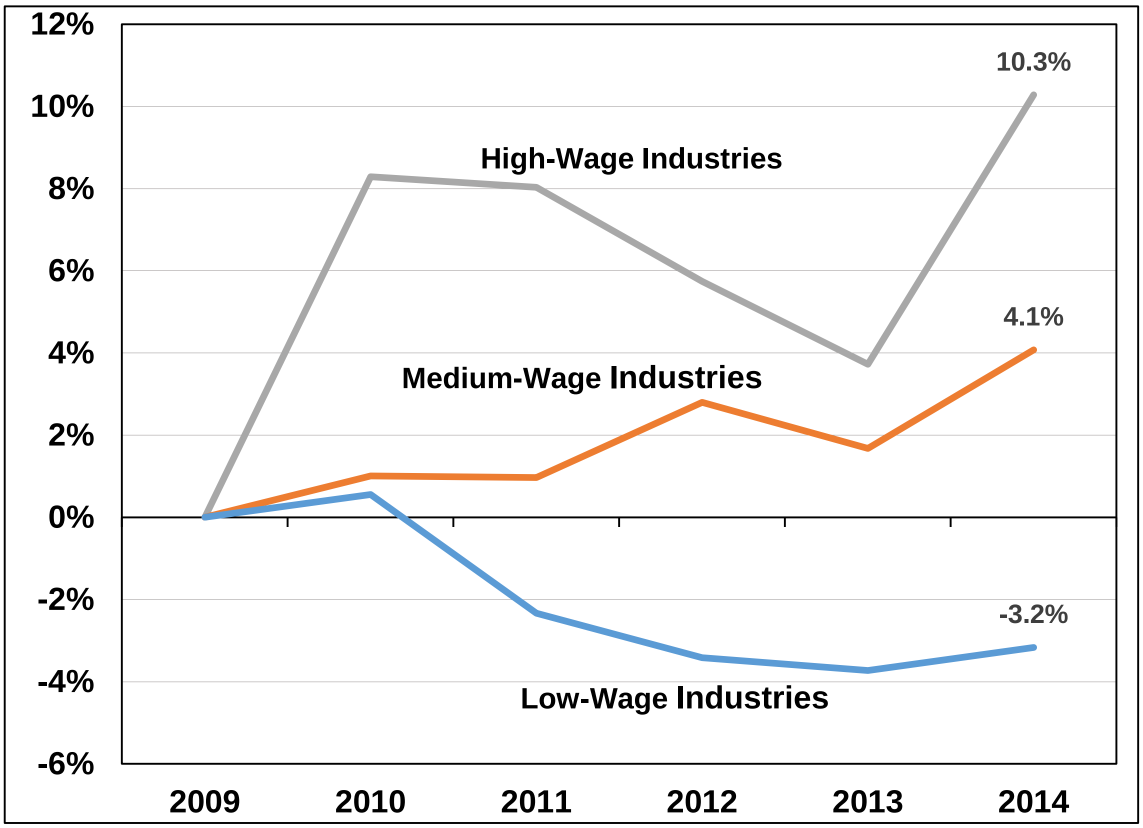
The City's job creation has also come disproportionately in the boroughs other than Manhattan, which has helped to spread job opportunities throughout the city. Prior to the recession, about 38.5 percent of all of the city's private sector jobs were located outside of Manhattan, but since the end of the recession, about 44.2 percent of the jobs added have been in the other boroughs. By the fourth quarter of 2015, that dispersion had helped lower the unemployment rate in each borough to its lowest level since before the recession and financial crisis.

Six years into a generally impressive expansion, it is nevertheless clear that the economic performance has been imperfect. The biggest concern in the city's recovery has been the disproportionate number of low-wage jobs that have been created compared to mid-level and high-wage jobs, and the relatively slow growth of wages, especially at the low end. During the previous economic expansion, from 2003 through 2008, 35 percent of the new jobs created in the city were in high-wage industries, while 41 percent were in low-wage industries. During the current expansion, in contrast, only 23 percent of the net gain in jobs were in high-wage industries, while 57 percent were in low-wage industries. In fact, from 2009 through 2015, 39 percent of the net gain in private jobs came in just three low-wage industries: retail trade, food service, and home health care.

Moreover, wage rates in both the country and the city have lagged. According to aggregate data from the U.S. Bureau of Labor Statistics (BLS), the average weekly earnings of all private-sector employees have grown at only a 2.3 percent annual rate and a 1.6 percent annual rate since 2009, in the United States and in New York City respectively. In both cases, the wage increases have barely kept pace with the rate of inflation.

Using more detailed BLS data, the Comptroller's Office calculates that wage growth in the City has come primarily in the industries that already paid the highest wages. Chart 2 shows the cumulative rate of average real wage growth in the city in low-, mid-, and high-wage industries.

Chart 2. Cumulative Change in Real Wages, NYC, 2009-2014



SOURCE: NYS Department of Labor; New York City Office of the Comptroller.

While employee compensation in high-wage industries is volatile, primarily because Wall Street bonuses fluctuate from year-to-year, workers in high-wage industries enjoyed real wage gains of more than 10 percent from 2009 to 2014. Workers in mid-wage industries saw a more modest 4.1 percent improvement in real wage levels. However, workers in low-wage industries — where the majority of the city's new jobs have been added — actually saw a 3.2 percent decline in their real wage rates over that time.

During 2016, it is likely that there will be some improvement in wage rates due to a tighter labor market. In the City, there is also likely to be a slowing of job creation in the low-wage industries, insofar as local retail and service employment is ultimately limited by local income growth, thereby boosting average wage growth. However, any wage gains are likely to be modest and will fall far short of making up for the declines that occurred during the recession or for the sluggish growth that has ensued.

The concerns about wage stagnation notwithstanding, the city's overall economic growth and job creation should continue through 2016. Although the risks to the U.S. economy have grown in recent months, due primarily to the economic turmoil in China, 2016 should mark the seventh year of the current expansion. The picture beyond 2016 is much more uncertain, as a new President will take office in January 2017 and he or she will appoint a chairperson of the Federal Reserve a year later. The consistency in U.S. economic policy that should prevail during 2016 could be disrupted by the national election results later in the year.

Table 5 shows the Comptroller's and the Mayor's forecast of five economic indicators for 2016 to 2020.

Table 5. Selected NYC Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2016-2020

Selected NYC Economic Indicators, Annual Averages						
		2016	**2017**	**2018**	**2019**	**2020**
Real GCP, (2009 $),	Comptroller	2.6	2.6	2.4	2.2	2.3
% Change	Mayor	1.4	1.7	1.5	1.4	1.5
Payroll Jobs,	Comptroller	68	64	58	58	59
Change in Thousands	Mayor	61	50	49	51	51
Inflation Rate	Comptroller	1.3	2.2	2.4	2.5	2.5
Percent	Mayor	1.7	2.9	2.6	2.5	2.6
Wage-Rate Growth,	Comptroller	1.8	2.2	2.3	2.4	2.4
Percent	Mayor	2.7	2.9	3.0	2.9	2.9
Unemployment Rate,	Comptroller	5.2	5.5	5.6	5.6	5.6
Percent	Mayor	NA	NA	NA	NA	NA
Selected U.S. Economic Indicators, Annual Averages						
		2016	**2017**	**2018**	**2019**	**2020**
Real GDP, (2009 $),	Comptroller	2.3	2.7	2.3	2.1	2.1
% Change	Mayor	2.7	2.9	2.8	2.6	2.5
Payroll Jobs,	Comptroller	2.6	2.2	2.0	2.0	2.0
Change in Millions	Mayor	2.2	1.9	1.9	1.8	1.8
Inflation Rate	Comptroller	1.0	1.9	2.2	2.3	2.3
Percent	Mayor	1.5	2.8	2.4	2.4	2.5
Fed Funds Rate,	Comptroller	0.7	1.4	2.8	3.6	4.0
Percent	Mayor	0.9	1.9	2.9	3.3	3.3
10-Yr Treasury Notes,	Comptroller	2.5	3.2	3.9	4.6	5.1
Percent	Mayor	2.8	3.0	3.5	3.8	3.8

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. GCP=Gross City Product. The NYC Office of Management and Budget in the January 2016 Financial Plan. NA=not available.

III. The FY2017 Preliminary Budget

The Preliminary FY 2017 budget totals $82.1 billion. Revenues, at $82.1 billion, are $1.2 billion higher than the November Plan. More than half of the increase in revenues is due to a net increase of $640 million in City-funds revenues stemming from an increase of $723 million in tax revenues and a net decrease of $83 million in non-tax revenues. The decrease in non-tax revenues reflects the postponement of scheduled taxi medallion sales in FY 2017 to the outyears. Upward revisions to Federal and State grants account for most of the remaining increase. Federal grants are $301 million higher, due primarily to increases of $123 million in estimated reimbursements for Sandy-related expenditures and $141 million in Section 8 voucher funding. State grants are $199 million above the November estimate mainly because of an increase in education aid as discussed in "Federal and State Aid" beginning on page 25.

Total expenditures remain virtually unchanged at $82.1 billion. However, total expenditures in the Preliminary Budget include the roll-out of the $500 million Capital Stabilization Reserve (CSR) from FY 2016 into FY 2017 and a reduction of $2.295 billion in debt service from a planned prepayment of FY 2017 debt service in FY 2016. The reduction in debt service from prepayment is $2.16 million more than the November Plan. Netting out the roll of the CSR and the increase in debt service prepayments, expenditures in FY 2017 are $1.64 billion higher than projected in November. City-funds expenditures account for $1.06 billion of the increase driven by additional agency spending of $744 million, increased pension contributions of $582 million due to the adoption of improved mortality assumptions, and $5 million to fund the City's plan to increase the minimum wage for City employees to $15 per hour by December 31, 2018, as discussed in "Labor" beginning on page 34. These additional expenditures are partially offset by $270 million in spending reductions from the Citywide Savings Program.

Four agencies, the Departments of Correction (DOC), Social Services (DOSS), Education (DOE), and Health and Mental Hygiene (DOHMH) account for more than half of the increase as shown in Table 6.[1] Most of the increase in the DOC is related to operational reforms to reduce violence and prisoner abuse, and improve safety at the correctional facility including:

- $58 million to support reforms agreed to in the settlement of the Nunez case, which alleged excessive use of force against incarcerated individuals by the DOC.

- $22 million to expand adult inmate programming to five hours a day.

- $13 million to increase staffing at the George R. Vierno Center Model facility.

[1] Excludes increases in agency expenditures from collective bargaining transfers.

- $ 4 million to support expedited camera installation.

Table 6. FY 2017 Agency Expenditure Increases from the November Plan

($ in millions)

	FY 2017
Department of Correction	$108
Department of Social Services*	106
Department of Education	100
Department of Health & Mental Hygiene	80
Subtotal	**$394**
All Other Agencies	**$350**
Total	**$744**

* Excludes $204 million in Medicaid funding transfer to NYC Health + Hospitals.

The increase in the DOSS is concentrated mainly in the support for homeless services and ending the HIV/AIDS epidemic by 2020. Support for homeless services is increased by $48 million, while $26 million is budgeted for the HIV/AIDS initiatives. Homeless services is discussed in greater detail in "Department of Homeless Services" beginning on page 35.

The increase in the DOE is mainly to support education reforms announced by the Mayor in September 2015. These include universal literacy in the second grade, enhanced algebra instruction in middle schools, expanded access to Advanced Placement courses and college visits and access. These initiatives are discussed in greater detail in "Department of Education" beginning on page 36.

Approximately $42 million of the increase in the DOHMH is to fund initiatives aimed at supporting the mental well-being of the population. Another $14 million of the increase will fund an initiative to identify and treat individuals with untreated mental health problems and a tendency for violence. Together these two programs account for approximately 70 percent of the increase in the agency.

The FY 2016 Budget

As discussed above, the FY 2017 budget is balanced with the help of an additional $2.16 billion of prepayments of FY 2017 debt service in FY 2016. As Table 7 shows, the additional prepayment is funded with $3.56 billion of additional FY 2016 resources, which also support $1.40 billion of additional expenditures in addition to the increase in prepayments.

Table 7. January Plan City-Funds Changes

($ in millions)

	FY 2016	FY 2017
Gap to be Closed - November 2015 Plan	**$0**	**($1,239)**
Additional Resource		
Tax Revenues	$873	$723
Non-Tax Revenues	281	24
Citywide Savings Program	804	270
Subtotal Revenues and Savings Program	**$1,958**	**$1,017**
General Reserve	700	0
Capital Stabilization Reserve	500	(500)
Re-estimate of Prior Years' Payables and Receivables	400	0
Subtotal Reallocation of Prior-Year Resources and Reserve	**$1,600**	**($500)**
Total Additional Resources	**$3,558**	**$517**
Uses of Resources		
Agency Expenditure Changes	($492)	($744)
Pensions	(569)	(582)
NYC Health + Hospitals	(337)	0
Taxi Medallion Sale	0	(107)
$15/Hr. Minimum Wage	0	(5)
Total Use of Resources	**($1,398)**	**($1,438)**
Net Change Since November	**$2,160**	**($921)**
Change in BSA	**($2,160)**	**$2,160**
Gap to be Closed - January 2016 Plan	**$0**	**$0**

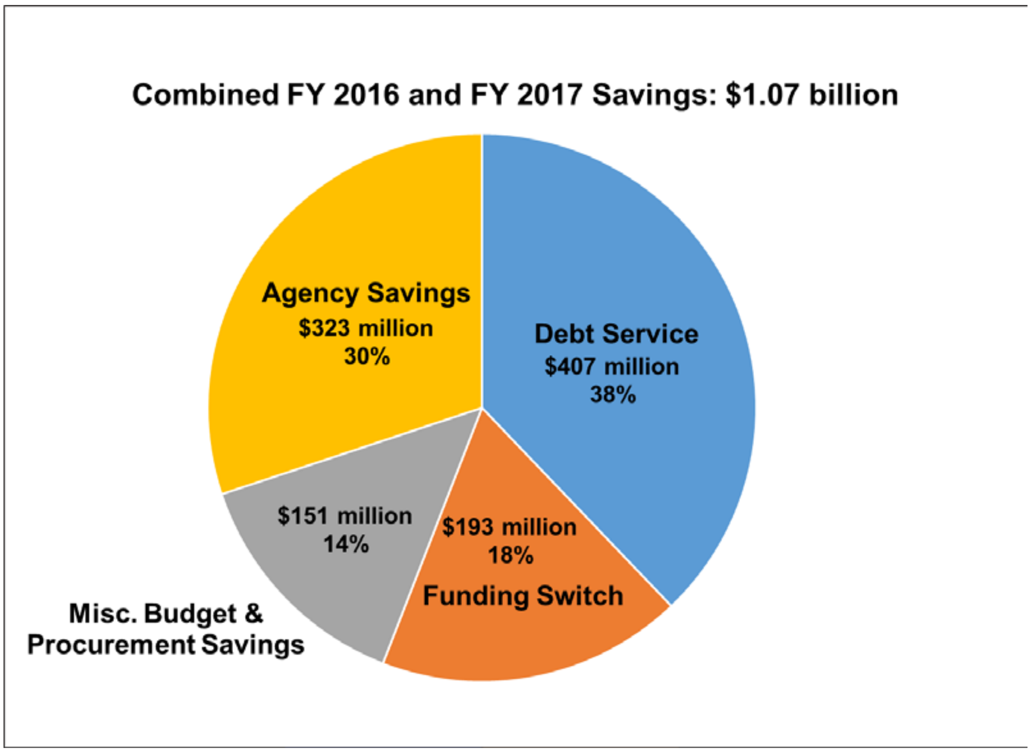
Upward revisions of $873 million and $281 million to tax and non-tax revenue estimates, respectively, account for $1.15 billion of the additional FY 2016 resources. The January Plan's Citywide Savings Program provides another $804 million of resources for FY 2016. In addition, the take-down of the general reserve from $1 billion to $300 million, and the recognition of write downs of prior-year receivables and payables — budget adjustments that are typical in the January/February Plans — provide another $1.1 billion of resources. New this year is the roll-out of the $500 million Capital Stabilization Reserve (CSR) to FY 2017, which provides another $500 million of resources for FY 2016. In total, the recognition of re-estimates to prior-year receivables and payables and the adjustments of reserves account for about 45 percent of the additional resources.

Part of the additional resources are used to fund NYC Health + Hospitals' debt service, medical malpractice and fringe benefits expenditures totaling $337 million, additional pension costs of $569 million due primarily to the adoption of enhanced mortality assumptions, and $492 million in additional agency spending. The remaining $2.16 billion is rolled into FY 2017, through the prepayment of FY 2017 debt service, to balance the FY 2017 budget.

Citywide Savings Program

The January 2016 Financial Plan includes a Citywide Savings Program that is projected to reduce spending by a combined $1.07 billion in FYs 2016 and 2017 and $1.85 billion over the five years of the Financial Plan period, 36 percent less than the five-year savings in last year's program. Similar to the Citywide Savings Program in the May 2015 Financial Plan, agency participation in the program is voluntary with the amount of savings determined by the participating agencies. As Chart 3 shows, agency savings account for only 30 percent of the combined FYs 2016 and 2017 savings. The majority of the savings are due to non-agency savings such as debt service savings, re-estimates of Supplemental Welfare Benefits and FICA expenditures, a reduction to the other-than-personal-service inflator assumption and recognizing additional non-City funds to pay for City-funds expenditures.

***Chart 3*. Composition of Citywide Savings Program**



Risks and Offsets

The Comptroller's Office estimates the City could have larger budget gaps than those projected in the City's January plan for FY 2017 through FY 2020, as shown in Table 8. While the Comptroller projects additional tax revenues throughout the Plan, these resources are more than offset by identified risks.

The Comptroller's Office projects tax revenues will be above the City's forecast by $456 million in FY 2016, $445 million in FY 2017, and $329 million in FY 2018.

However, projected additional tax revenues level off to $47 million in FY 2019 and $49 million in FY 2020. Fines from bus lane and speed cameras are also estimated to be higher than the City's assumptions in each year of the Plan. The largest impact is projected in FY 2017 at $54 million.

Offsetting part of these additional resources is the Comptroller's Office expectation that the City will not sell additional taxi medallions during the Financial Plan. Given the disruption in the yellow taxi industry from for-hire car services companies, the Comptroller's Office does not expect these sales, worth a total of $731 million, to occur before the end of FY 2020. The administration has already delayed these sales three times.

Regarding expenditures, the largest identified risk is NYC Health + Hospitals. The City's public hospital system is required to reimburse the City for debt service, medical malpractice claims, and fringe benefits costs incurred on the system's behalf. However, NYC Health + Hospitals has only made one payment out of the four-year period spanning FY 2013 to FY 2016. While it is expected that the system will unveil a plan to financially restructure, the current fiscal situation is precarious. The public hospital system has a projected year-end cash balance of only $100 million and outyear budget deficits exceeding $1 billion annually. If NYC Health + Hospitals does not make these payments, the City will have to cover expenses of $345 million in FY 2017, $338 million in FY 2018, $344 million in FY 2019, and $368 million in FY 2020. In addition, NYC Health + Hospitals has not yet remit to the City $160 million for reimbursement of Emergency Medical Services costs for FY 2015. Reimbursement for this expense has not experienced extensive delays in the past.

The Comptroller's Office has identified additional risks from overtime, Federal Medicaid reimbursement to the Department of Education (DOE) for special education services, Universal Pre-Kindergarten (UPK), Public Assistance (PA), and adult homeless shelters. Based on actual overtime spending halfway through FY 2016, the Comptroller estimates overtime spending will exceed the City's forecast by $136 million in FY 2016, $221 million in FY 2017, and $200 million in each of the outyears of the Plan. The Comptroller also believes the City's DOE will not realize its full assumption for Federal Medicaid reimbursement for special education services. Between FY 2014 and FY 2015, the DOE collected less than 30 percent of their reimbursement target — $12 million collected compared to revenue targets of $42 million. Since FY 2012, the DOE has only collected 12 percent of the total Medicaid revenues assumed at budget adoption — $55 million realized out of $468 million projected.

A majority of additional funding for UPK adopted in the FY 2016 budget was not included in the City's expenditure forecast beyond FY 2016. A continuation of this funding would cost $21 million in each of FYs 2017 to 2020. The Comptroller also projects the PA budget will be $20 million above the City's annual forecast from FY 2017 to FY 2020 if recent caseload growth endures. The Comptroller believes the cost of adult shelter operations will also be higher by $100 million annually beginning in FY 2017 if the adult shelter population continues to rise.

These expenditure risks are somewhat offset by anticipated savings from low interest rates on variable rate debt bonds (VRDB) if rates remain historically low. The

City also has $300 million remaining in its General Reserve for FY 2016. The Comptroller does not anticipate these reserves will be needed for unexpected expenditures, thus producing commensurate savings.

Overall, the Comptroller projects expenditures could be below the City's plan by $124 million in FY 2016 but higher than the City's plan by $699 million in FY 2017, $689 million in FY 2018, $713 million in FY 2019, and $737 million in FY 2020. Combined, the Comptroller's revenue and expense projections result in a total of $599 million in additional resources for FY 2016. However, in the remaining years of the Plan, the Comptroller projects larger gaps of $200 million in FY 2017, $2.7 billion in FY 2018, and $3.8 billion in both FY 2019 and FY 2020.

Table 8. Risks and Offsets

($ in millions, positive numbers decrease the gap and negative numbers increase the gap)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
City Stated Gap	**$0**	**$0**	**($2,279)**	**($2,937)**	**($2,741)**
Tax Revenues					
Property Tax	$0	$74	$79	$60	$213
Personal Income Tax	$42	$197	$218	$147	($58)
Business Taxes	$37	$3	($44)	($77)	($58)
Sales Tax	$44	$70	$88	$100	$88
Real-Estate-Related Taxes	$333	$101	($12)	($183)	($136)
Subtotal Tax Revenues	**$456**	**$445**	**$329**	**$47**	**$49**
Non-Tax Revenues					
Bus Lane Camera Fines	$0	$16	$6	$0	$0
Speed Camera Fines	$19	$38	$24	$27	$27
Taxi Medallion Sales	$0	$0	($107)	($257)	($367)
Subtotal Non-Tax Revenues	**$19**	**$54**	**($77)**	**($230)**	**($340)**
Total Revenues	**$475**	**$499**	**$252**	**($183)**	**($291)**
Expenditures					
Overtime	($136)	($221)	($200)	($200)	($200)
DOE Medicaid Reimbursement	($80)	($80)	($80)	($80)	($80)
Universal Pre-Kindergarten Funding	$0	($21)	($21)	($21)	($21)
Public Assistance	$0	($20)	($20)	($20)	($20)
Adult Shelters	$0	($100)	($100)	($100)	($100)
NYC Health + Hospitals	$0	($345)	($338)	($344)	($368)
Variable Interest Rate Savings	$40	$88	$70	$52	$52
General Reserve	$300	$0	$0	$0	$0
Subtotal	**$124**	**($699)**	**($689)**	**($713)**	**($737)**
Total (Risks)/Offsets	**$599**	**($200)**	**($437)**	**($896)**	**($1,028)**
Restated (Gap)/Surplus	**$599**	**($200)**	**($2,716)**	**($3,833)**	**($3,769)**

A. REVENUE ASSUMPTIONS

The FY 2017 Preliminary Budget and Financial Plan projects that total revenues will grow by $8.06 billion over the Financial Plan period, from $81.71 billion in FY 2016 to $89.77 billion in FY 2020. City-fund revenues will grow from $58.26 billion in FY 2016 to $67.19 billion in FY 2020. Those projections are based on the City's assumption of continued moderate growth in the City's economy. After reaching a record $51.94 billion in FY 2015, tax revenues are projected to grow at a relatively slow 2.7 percent in FY 2016, driven mainly by growth in property tax revenues. The current Plan projects growth in tax collection to accelerate in FY 2017-2020 as growth in non-property tax revenue resumes. Property tax revenues are projected to grow 22.8 percent over the Plan period from $22.76 billion in FY 2016 to $27.95 billion in FY 2020, while non-property tax revenues are expected to grow 11.6 percent from $30.59 billion in FY 2016 to $34.16 billion in FY 2020.[2]

Miscellaneous revenue, excluding intra-City revenue, is expected to decline 20 percent in FY 2016 to $4.92 billion as projected non-recurring revenues decline. For FY 2017, the Plan anticipates miscellaneous revenue will decline by another 1.5 percent, to $4.84 billion. Miscellaneous revenue is projected to grow from $4.92 billion in FY 2016 to $5.11 billion in FY 2020, an average annual growth of less than one percent. These projections include $731 million in expected proceeds from the sales of taxi medallions over the Plan period.

The January Financial Plan projects total Federal and State aid of $22.08 billion in FY 2016, reflecting an increase of $891 million since the November Plan. A significant portion of this increase stems from $240 million in FEMA reimbursement for Sandy-related costs, including $200 million in Community Development Block Grant funds for disaster recovery (CDBG-DR). Other major changes reflected in the current year include $141 million in Section 8 housing voucher funds, $137 million enhanced reimbursement for fringe costs, $95 million in prior year homeland security grants and $82 million in asset forfeitures. The City forecasts Federal and State aid will decrease to $20.78 million in FY 2017, which is primarily attributable to a $660 million decline in CDBG-DR funds and the City's conservative assumptions for most Federal aid categories other than education grants. In the outyears, Federal and State grants are projected to decline slightly to $20.75 billion in FY 2018 before rebounding to $20.91 billion in FY 2019 and $21.18 billion in FY 2020, driven mainly by the City's expectation of growth in State education aid.

Tax Revenues

In the January 2016 Financial Plan the City raised its FY 2016 tax revenue projection by $873 million to $53.35 billion, bringing the total increase in the City's FY 2016 tax revenue forecast to $1.14 billion since budget adoption. Following stronger than anticipated tax collections, particularly from the Personal Income Tax (PIT) and the real-estate-related taxes (Real Property Transfer and Mortgage Recording taxes), the City increased most major tax revenue projections for FY 2016. Almost half of the forecast increase since the FY 2016 Adopted Budget stems from upward revisions to projected PIT revenues totaling $486 million. FY 2016 revenue projections for the real-estate-related taxes increased by a combined $264 million. In addition, the City increased estimated tax audit revenues by $284 million, primarily to account for large payments

[2] If not indicated specifically, throughout this section, Personal Income Tax (PIT) and Property tax revenues include School Tax Relief (STAR) reimbursement

from sales tax audits. In contrast to the anticipated 2.1 percent contraction in non-property tax revenues assumed in the FY 2016 Adopted Budget, the current forecast of $30.59 billion reflects slow growth in non-property tax revenues of 0.6 percent over the previous year.

The Preliminary FY 2017 Budget projects total tax revenues of $55.05 billion. This forecast represents an increase of $1.7 billion, or 3.2 percent, from the projected FY 2016 level. Since the November 2015 Plan, the City has increased its FY 2017 tax revenue forecast by a net $723 million. The revision is mainly attributable to forecast increases in the property tax, and the PIT.

Changes to the City's Tax Revenue Forecast

As Table 9 shows, since the November 2015 Financial Plan the City increased its tax revenue forecast for every year of the Financial Plan period. The Preliminary Budget and Financial Plan projects additional tax revenues of $873 million in FY 2016, $723 million in FY 2017, $974 million in FY 2018, $1.36 billion in FY 2019 and $2.05 billion in FY 2020. The largest revisions were in the PIT and the property tax revenue projections.

Table 9. Revisions to the City's Tax Revenue Assumptions November 2015 vs. January 2016

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
November 2016 Financial Plan Total	**$52,482**	**$54,329**	**$56,282**	**$58,319**	**$60,055**
Revisions:					
Property	120	339	613	891	1,252
Personal Income (PIT)	282	286	290	397	614
Business	0	0	0	0	197
Sales	76	78	105	162	199
Real-Estate Related	135	(7)	(61)	(118)	(40)
All Other	5	24	24	24	(177)
Tax Audit	255	3	3	3	3
Revisions-Total	$873	$723	$974	$1,359	$2,048
January 2016 Financial Plan - Total	**$53,355**	**$55,052**	**$57,256**	**$56,677**	**$62,103**

SOURCE: NYC Office of Management and Budget

The City increased its FY 2017 property tax revenue forecast by a net $339 million, to $23.87 billion. The adjustment reflects a stronger than anticipated tentative property assessment roll for FY 2017. The FY 2017 tentative assessment roll, released in January 2015, shows a year-over-year increase of 10.6 percent in total market value to $1.07 trillion. Billable assessed value grew by 8.1 percent, or $15.8 billion, over the FY 2016 assessment to $211.0 billion, driven mainly by strong growth in assessed value for Classes 2 and 4 properties. The City anticipates the tentative roll to be reduced by $2.7 billion in the final roll to be released in May 2016.[3]

[3] Class 2 properties consist of residential, primarily cooperatives, condominiums and rental apartment buildings. Class 4 properties consist of all commercial and industrial properties.

The FY 2017 revenue projection for PIT increased by $286 million from the November 2015 Plan, to $11.66 billion. Over the past year, excluding the State Tax Relief Program (STAR) reimbursement, the City increased its projections for PIT revenues by $957 million in FY 2016 and $765 million in FY 2017. These revisions reflect primarily the City's increase in projected revenues from installments and extension payments.

Projected revenues from the business income taxes, i.e., the General Corporation Tax (GCT), and the Unincorporated Business Tax (UBT), were left unchanged from the November Plan forecast at $6.23 billion for FY 2017. The City's forecast for the combined business taxes were lowered in the November Plan for both FYs 2016 and 2017 by $156 million and $137 million respectively. [4]

The FY 2017 revenue projection for the sales tax increased by $78 million to $7.35 billion while estimated revenues from the real-estate-related taxes, i.e., the Real Property Transfer Tax (RPTT), and the Mortgage Recording Tax (MRT), decreased slightly by $7 million to a combined $2.66 billion.

Projected Tax Revenue Growth, FYs 2016-2020

The City projects total tax revenues will grow from $53.35 billion in FY 2016 to $62.10 billion in FY 2020, an average annual growth rate of 3.9 percent. As shown in Table 10, the current Plan assumes growth in tax revenues will slow to 2.7 percent in FY 2016 after registering a 7.4 percent growth in FY 2015. The projected slowdown in total tax revenues in FY 2016 results from a much slower growth projected for PIT revenues and an anticipated decline in revenues from the business and the real-estate-related taxes. In addition, the City expects a 12 percent decline in tax audit revenues in FY 2016. Tax revenues are expected to grow at a faster 3.2 percent in FY 2017 as collections from non-property tax revenues begin to rebound. Tax revenue projections in the outyears of the Plan are based on the City's forecast of modest economic growth.

The Comptroller's Office projects total tax revenues will grow at an average annual rate of 3.7 percent over the Plan period, a slightly slower rate than the City's 3.9 percent growth forecast. This is primarily due to a higher base projection for FY 2016, as the Comptroller's Office estimates growth in tax revenue to be 0.9 percentage points above the City's forecast in the current fiscal year. This variance is mostly driven by the Comptroller's higher projections for PIT, real-estate-related taxes and sales tax revenues in FY 2016. The Comptroller's Office estimates property tax revenues will grow at an average rate of 5.5 percent annually over the Plan period, 0.2 percentage points above the City's forecast.

[4] On April 13, 2015, the Governor signed into law the new corporate income tax reform for New York City which unifies the taxation of general corporations and banking corporations effective January 1, 2015.The City expects the tax reform to be revenue neutral.

Table 10. Tax Revenue Forecast, Growth Rates, FY 2016 through FY 2020

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Average Annual Growth
Property						
Mayor	5.8%	5.8%	5.3%	5.3%	4.7%	5.3%
Comptroller	5.8%	6.1%	5.3%	5.2%	5.2%	5.5%
PIT						
Mayor	3.3%	0.2%	2.8%	3.8%	4.2%	2.7%
Comptroller	3.7%	1.5%	3.0%	3.2%	2.5%	2.5%
Business						
Mayor	(1.2%)	4.2%	3.2%	2.7%	3.0%	3.3%
Comptroller	(0.6%)	3.7%	2.4%	2.2%	3.3%	2.9%
Sales						
Mayor	4.9%	4.0%	4.2%	4.2%	4.1%	4.1%
Comptroller	5.5%	4.3%	4.4%	4.3%	3.9%	4.2%
Real-Estate-Related						
Mayor	(11.1%)	2.5%	1.1%	3.3%	2.8%	2.4%
Comptroller	0.3%	(5.7%)	(3.0%)	(3.1%)	4.8%	(1.8%)
All Other						
Mayor	(0.1%)	1.6%	2.6%	2.0%	2.2%	2.1%
Comptroller	(0.1%)	1.6%	2.6%	2.0%	2.2%	2.1%
Total Tax with Audit						
Mayor	**2.7%**	**3.2%**	**4.0%**	**4.2%**	**4.1%**	**3.9%**
Comptroller	**3.6%**	**3.1%**	**3.8%**	**3.7%**	**4.1%**	**3.7%**

Source: NYC Office of Management and Budget and NYC Comptroller's Office.

The Preliminary FY 2017 Budget projects property tax revenue will grow 5.8 percent in FY 2017 to reach $24.08 billion. Projected growth in property tax revenue is supported by strong billable value growth of 8.1 percent in the FY 2017 tentative assessment roll. Billable assessed value on the final roll is forecast to grow 6.7 percent. Large commercial and residential properties account for most of the growth. Over the financial plan period, property tax revenue growth is expected to surpass growth in non-property tax revenues and average 5.3 percent annually, reflecting steady growth in billable assessed value, part of which is due to the phase-in of the pipeline of assessed value growth from prior years.

After growing by 11 percent in FY 2015, the City anticipates growth in PIT revenues to slow to 3.3 percent in FY 2016 followed by a nearly flat (0.2 percent) growth in FY 2017. While growth in jobs and wages is expected to continue to support withholding collections in FY 2017, non-wage income is expected to decline in tax year 2016. Revenues from PIT are projected at $11.66 billion in FY 2017. Over the forecast period, PIT revenue growth is expected to average 2.7 percent annually.

Business income tax revenues are expected to decline in FY 2016, then grow by 4.2 percent in FY 2017 to $6.23 billion. In FY 2017, tax payments from finance and non-finance sectors are expected to improve. Growth in business tax revenues are forecast to average 3.3 percent annually in FYs 2016 through 2020.

Sales tax revenue is projected to increase by 4.9 percent in FY 2016 and 4.0 percent in FY 2017. These forecasts are in line with the City's expectation of continued moderate growth in the local economy. In FY 2017 sales tax revenue is projected at $7.35 billion. Taxable consumption is expected to rise following a projected increase in wage earnings. Weakness in global economies as well as strengthening of the dollar are expected to slow down growth in tourism spending in both FYs 2016 and 2017. Over the Plan period, revenues from sales tax are projected to grow at an average rate of 4.1 percent annually.

The City expects revenues from real-estate-related taxes to decline 11.1 percent in FY 2016 before rising 2.5 percent in FY 2017 to $2.66 billion. Collections from the MRT and both residential and commercial transfer taxes are expected to decline in the current fiscal year. In FY 2017, revenues from RPTT and MRT are expected to grow by 2.4 percent and 2.6 percent respectively. Stable demand for commercial properties and new residential units reaching the market are expected to lift real-estate-related tax revenues in FY 2017. Aggregate real-estate-related-tax revenue is expected to average 2.4 percent growth annually over the forecast period.

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's Office's projections of risks and offsets to the City's tax revenue assumptions are based on current collections and the Office's latest economic projections. As illustrated in Table 11, the Comptroller's Office projects large offsets for FYs 2016 through 2018 and modest offsets for the last two years of the Financial Plan period.

The Comptroller's Office anticipates that the current surge in commercial property values and sales will cool in coming months and that a continued strengthening in the residential market will not fully offset a decline in transactions tax collections from the commercial sector. However, that anticipated turning of the real estate cycle was not yet apparent through the end of calendar 2015, leading to a large projected offset in real-estate related taxes in FY 2016 and a significantly smaller offset in FY 2017.

Table 11. Risks and Offsets to the City's Tax Revenue Projections

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Property	$0	$74	$79	$60	$213
PIT	42	197	218	147	(58)
Business	37	3	(44)	(77)	(58)
Sales	44	70	88	100	88
Real-Estate-Related	333	101	(12)	(183)	(136)
Total	**$456**	**$445**	**$329**	**$47**	**$49**

Miscellaneous Revenues

In the January 2016 Financial Plan the City raised its FY 2016 miscellaneous revenue projection by a net $106 million. Most of the net increase reflects a $95.5 million payment the City is expected to receive as its share of a recent settlement related to the 1998 Tobacco Master Settlement and $74.3 million in proceeds from a settlement reached between the U.S., New York authorities and the French bank Crédite Agricole for violation of US sanctions laws. The current FY 2016 miscellaneous revenue forecast also includes additional revenues from sale of streets ($25 million), late penalty fees in the department of buildings ($10.3 million), and another $8.8 million in projected revenues from speed camera and bus lane camera fines. These increases are partially offset by $171.8 million in HHC debt service payments that the City is foregoing in FY2016.

The FY 2017 Preliminary Budget and Financial Plan includes miscellaneous revenue projection of $4.84 billion for FY 2017. This projection represents a slight decrease of $73 million or 1.5 percent from the prior year forecast of $4.92 billion. The year-over-year change reflects a small decline in projected revenues from licenses and franchises, charges for services, and water and sewer charges in FY 2017. The current FY 2017 miscellaneous revenue forecast is $83 million lower than the forecast included in the November 2015 Plan.

Table 12 shows the changes in the FY 2017 miscellaneous revenue projections since the November 2015 Plan. The City lowered its forecast for interest income and other miscellaneous revenue and raised revenue projections for licenses and franchises, charges for services, water and sewer charges and fines and forfeitures.[5]

Table 12. Changes in FY 2017 Estimates
November 2015 vs. January 2016

($ in millions)

	November	January	Change
Licenses, Franchises, Etc.	$625	$626	$1
Interest Income	85	61	($24)
Charges for Services	949	951	2
Water and Sewer Charges	1,457	1,472	15
Rental Income	271	271	0
Fines and Forfeitures	805	833	28
Other Miscellaneous	734	629	($105)
Total	**$4,926**	**$4,843**	**($83)**

Source: NYC Office of Management and Budget.

The City's projection for interest income is $61 million, a decrease of $24 million from the November forecast. Estimated revenues from fines and forfeitures increased $28 million, to $833 million. The re-estimate reflects higher projected revenues from bus lane camera fines (4.7 million) and speed camera fines ($22.5 million) in FY 2017. Collections from speed camera fines in FY 2016 are stronger than previously expected. In calendar year 2015 over 1 million tickets were issued to drivers speeding through school zones. The City plans to install an additional 100 cameras in the existing 140 school zone locations for a total of 240 cameras by FY 2018. The January Plan raises revenue projections for both speed camera and bus lane camera fines throughout the Plan period. The City expects to collect a total of $66.8 million from these sources in FY 2017.

[5] Miscellaneous revenue analysis excludes private grants and intra-City revenues. Water and sewer revenues are excluded from the analysis because the bulk of these revenues represents reimbursement for operation and maintenance (O&M) of the water delivery and sewer systems and therefore is not available for general operating purposes.

Estimated revenue from "other miscellaneous" which includes non-recurring revenues such as sale of City property, cash recovery from litigation and other revenues, decreased by a net $105 million in FY 2017. This reduction reflects the City's decision to once again postpone taxi medallion sales, now to FY 2018. The City's initial proposal anticipated a total of $1.6 billion over FYs 2014-2017 from the sale of 2,000 medallions. The City sold the first 400 medallions in FY 2014 and collected approximately $360 million over FYs 2014-2015. Since then, the City has stretched out and postponed anticipated proceeds from medallion sales. The January Plan includes a total of $731 million in estimated proceeds from medallion sales over FYs 2018-2020. The Comptroller's Office believes that given the uncertainty surrounding future taxi medallion auctions, the entire $731 million in anticipated revenues from medallion sales represents a risk to the City's Financial Plan.

After declining to $4.9 billion in FY 2016, total miscellaneous revenue is expected to remain stable and average $5.0 billion in FYs 2017-2020.

Although the City's January Plan increases its projections for bus lane camera fines in FY 2016 and beyond, the Comptroller's Office continues to expect revenues to be above the City's forecast in each of FYs 2017-2018, by $16 million and $6 million respectively. Those offsets reflect our projections following the State-enacted extension and expansion of the City's bus lane camera program in September, 2015 enabling the City to select an additional ten bus routes for camera enforcement. In addition, the Comptroller's Office expects fine revenues from speed cameras to be above the City's forecast by $19 million, $38 million and $24 million in FYs 2016-2018, respectively, and $27 million in each of FYs 2019-2020. These offsets reflect current year collections and the City's plan to install an additional 100 speed cameras in the existing 140 school zones.

Federal and State Aid

The January Financial Plan includes a projection of total Federal and State aid for FY 2016 of $22.08 billion, supporting about 27 percent of the City's expenditure budget. The City's intergovernmental aid assumptions for the current year have risen by $891 million when compared to the November Plan, which include increases of $617 million in Federal aid and $274 million in State grants. A significant portion of the Federal aid increase stems from FEMA reimbursement for Hurricane Sandy-related costs, injecting $240 million to the City's Federal aid assumptions in the January Plan. In total, approximately $1.39 billion is now assumed in FY 2016 Federal reimbursement for clean-up and recovery costs related to the storm. The January Plan also recognized an additional $95 million in prior year Federal homeland security grants, $141 million in Section 8 housing voucher funds, $137 million in enhanced fringes reimbursement for social services agencies and $82 million in asset forfeitures.

The Preliminary Budget projects $20.78 billion of Federal and State grants for FY 2017, about 81 percent of which would be in support of education and social services spending. Federal and State grants are expected to support 25 percent of total spending in FY 2016. The decline in the size of the Federal and State support of the City's budget in

FY 2017 is attributable both to the slower pace of Sandy relief aid and more conservative estimates of certain Federal grants. The only area in which funding is anticipated to grow in FY 2017 is in education, driven mainly by the assumed growth in State education aid. This growth is further amplified by the City's decision to reflect an additional $161 million in Foundation Aid in the FY 2017 Preliminary Budget, based on the expectation that the City will achieve the similar school aid growth as in FY 2016. However, compared to education aid allocations in the State Executive Budget, the City could face a shortfall of $192 million in Foundation Aid unless the State continues to provide more school aid in the enacted budget as it has done in the past.

The State Executive Budget contains three major initiatives that as proposed could negatively impact the City's budget by nearly $1 billion in FY 2017. Foremost among these proposed actions is the increase in City contribution for CUNY Senior College spending. Under the plan, the State would raise the City's responsibility of funding CUNY Senior College net operating and debt service expenses to 30 percent, at an estimated cost of $485 million to the City. The State Executive Budget also proposes to rescind the State's takeover of the City's Medicaid spending growth. Under current law, the City's Medicaid costs are capped at zero growth going forward after the State completed the phase-in takeover of local Medicaid spending growth. The initiative targets New York City specifically and reinstitutes City contribution for its own Medicaid spending growth at a projected $299 million in FY 2017. If the legislature fails to adopt this measure, the State Executive Budget contains a provision that would increase the City's Medicaid administrative costs which could reach $90 million in FY 2016 and $259 million in FY 2017, as indicated by the City. In addition, the State Executive Budget seeks to recoup funds from the City in relation to a 2014 Sales Tax Asset Receivable Corporation refinancing from which the City generated $650 million in savings. The State would achieve this by offsetting $200 million in City sales tax revenue in each of FYs 2017-19. The cumulative impact of these actions are expected to cost the City between $1.19 billion and $1.3 billion annually in FYs 2018-2020. The City's expectation, based on the Governor's public statements, is that the enacted State Budget will not include the CUNY and Medicaid proposals. The January Plan has not yet reflected the State budget impact.

In the outyears, Federal and State grants are projected to decline slightly to $20.75 billion in FY 2018 before recovering to higher levels of $20.91 billion in FY 2019 and $21.18 billion in FY 2020. These projections represent average annual growth of less than one percent, driven primarily by the City's expectation of education aid increases from the State. If these assumptions hold true, the level of Federal and State support for the City's expense budget would decline to about 23 percent by FY 2020. However, because of the City's conservative approach with Federal aid, which is expected to be virtually flat between FY 2017 and FY 2019 (after adjusting for FEMA Sandy reimbursement), the assumed Federal support in the outyears is likely understated.

B. EXPENDITURES ANALYSIS

Total-funds expenditures in the January Financial Plan is projected to grow from $81.7 billion in FY 2016 to $92.5 billion in FY 2020, a growth of 13.2 percent. However, the FYs 2016 and 2017 expenditures in the Plan includes the effects of prior-year prepayments which lower debt service expenditures in these fiscal years. In addition, expenditures in FY 2016 are further reduced by the take-down of the general reserve and the re-estimates of prior-year payables and receivables. After adjusting for prepayments and other prior-year actions, and excluding re-estimates of prior-year receivables and payables and reserves, expenditures are projected to grow from $83.1 billion to $91.5 billion, a growth of 10.1 percent, as shown in Table 13.

Expenditure growth over the Plan period is driven by spending on wages and salaries, debt service, health insurance, other fringe benefits excluding pensions, and judgement and claims. The combined spending in these areas is projected to grow by 20.9 percent over the Plan period, averaging 4.9 percent annually. These expenditure categories make up about half of the adjusted FY 2016 expenditures. All other expenditures, net of the General Reserve, Capital Stabilization Reserve, and prior-year re-estimates, are projected to remain relatively flat over the same period.

Table 13. FY 2016 – FY 2020 Expenditure Growth Adjusted for Prepayments and Prior-Year Actions

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Growth FYs 16-20	Annual Growth
Salaries and Wages	$25,250	$25,506	$26,813	$28,410	$28,953	14.7%	3.5%
Debt Service	6,111	6,717	7,173	7,678	8,223	34.6%	7.7%
Health Insurance	5,681	6,077	6,448	7,009	7,568	33.2%	7.4%
Other Fringe Benefits	3,546	3,664	3,849	4,079	4,302	21.3%	4.9%
J & C	695	746	782	817	855	23.0%	5.3%
Subtotal	**$41,283**	**$42,711**	**$45,065**	**$47,992**	**$49,901**	**20.9%**	**4.9%**
Pensions	$9,231	$9,287	$9,441	$9,622	$9,995	8.3%	2.0%
Medicaid	6,078	6,220	6,220	6,220	6,220	2.3%	0.6%
Public Assistance	1,481	1,502	1,513	1,524	1,535	3.7%	0.9%
Other OTPS	25,069	23,186	23,321	23,556	23,858	((4.8%)	(1.2%)
Subtotal	**$41,858**	**$40,195**	**$40,495**	**$40,921**	**$41,608**	**(0.6%)**	**(0.1%)**
Expenditures Before Reserves and Prior-Year Re-estimates	**$83,141**	**$82,906**	**$85,560**	**$88,913**	**$91,509**	**10.1%**	**2.4%**
Prior-Year Receivables and Payables Re-estimate	**($400)**	**$0**	**$0**	**$0**	**$0**	**(100.0%)**	**(100.0%)**
General Reserve	**$300**	**$1,000**	**$1,000**	**$1,000**	**$1,000**	**233.3%**	**35.1%**
Capital Stabilization Reserve	**$0**	**$500**	**$0**	**$0**	**$0**		
Total	**$83,041**	**$84,406**	**$86,560**	**$89,913**	**$92,509**	**11.4%**	**2.7%**

Pensions

Pension contributions are projected to increase at an average annual rate of 2.0 percent from $9.2 billion in FY 2016 to $10 billion by FY 2020, as shown in Table 14. The projections are above the November Plan projections by $569 million in FY 2016, $582 million in FY 2017, $608 million in FY 2018, and $614 million in FY 2019. Most of the increase is due to the use of new sets of probability tables of post-retirement mortality in determining employer contributions beginning in FY 2016, which is expected to increase contributions by more than $600 million in each year of the Financial Plan.

Revisions to the actuarial asset valuation method (AAVM) beginning in FY 2016 result in a modest reduction in contributions of $28 million in each year of the Plan. Under the revised AAVM, the actuarial asset value (AAV) of each system has to be within 80 percent to 120 percent of its market value. Should the AAV at the time of adoption of the revised method fall outside this corridor, the difference between the AAV and the corridor will be amortized over 20 years. At the time of implementation of the revised method, the AAV of Board of Education Retirement System (BERS) fell below the lower limit of the corridor. The amortization of the actuarial gain from increasing the AAV to the lower limit of the corridor lowered annual contributions by $28 million annually.

Table 14. FY 2016 – FY 2020 City Pension Expenditures

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Pension Contributions November Plan	8,662	8,705	8,833	9,008
Reserve for Mortality Assumption Changes	619	624	629	634
Revised AAVM	(28)	(28)	(28)	(28)
Uniformed Accidental Disability Benefits	(18)	0	0	0
Headcount Changes	0	(9)	11	11
All Other	(4)	(5)	(4)	(3)
Subtotal	**569**	**582**	**608**	**614**
Pension Contributions January Plan	**$9,231**	**$9,287**	**$9,441**	**$9,622**

NOTE: Totals may not add up due to rounding.

Further offsetting the increase in contributions is the removal of $18 million in FY 2016 to fund the City's share of the improvement of accidental disability benefits for uniformed personnel hired beginning July 1, 2009.[6] While the City has agreed to support State legislation to enact this benefit, it is now expected that the necessary legislation will not be in effect before the end of FY 2016.

Headcount

The January Plan projects total-funded full-time headcount to be 292,512 by the end of FY 2016. Headcount is projected to drop modestly to 292,205 in FY 2017, and then increase gradually to 293,096 by FY 2020, as shown in Table 15.

[6] Following Governor Patterson's veto of Tier II legislation extending Tier II accidental disability benefits to uniformed employees hired during the upcoming fiscal year, accidental disability benefits for uniformed employees hired on or after July 1, 2009 were reduced from 75 percent of final average salary to 50 percent of final average salary offset by 50 percent of Social Security disability benefits. To get this benefit restored affected uniformed employees will pay an additional 3.0 percent of their salary to fund 50 percent of the additional cost.

Table 15. Total Funded Full-Time Year-End Headcount Projections

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Pedagogical					
Dept. of Education	114,224	114,697	115,150	115,287	115,424
City University	4,357	4,391	4,391	4,391	4,391
Subtotal	**118,581**	**119,088**	**119,541**	**119,678**	**119,815**
Uniformed					
Police	35,780	35,780	35,780	35,780	35,780
Fire	10,821	10,849	10,875	10,903	10,903
Correction	10,195	10,220	10,220	10,220	10,220
Sanitation	7,427	7,477	7,569	7,569	7,569
Subtotal	**64,223**	**64,326**	**64,444**	**64,472**	**64,472**
Civilian					
Dept. of Education	10,923	11,023	11,217	11,396	11,399
City University	1,856	1,864	1,870	1,876	1,876
Police	15,956	15,687	15,687	15,687	15,687
Fire	5,652	5,711	5,711	5,711	5,711
Correction	2,145	2,144	2,129	2,129	2,129
Sanitation	2,264	2,275	2,307	2,307	2,307
Admin. for Children's Services	7,227	7,288	7,288	7,288	7,287
Social Services	14,604	14,301	14,240	14,245	14,249
Homeless Services	2,639	2,427	2,426	2,426	2,426
Health and Mental Hygiene	5,421	5,320	5,299	5,293	5,292
Finance	2,107	2,102	2,097	2,097	2,097
Transportation	5,074	5,010	5,010	5,019	5,019
Parks and Recreation	4,184	4,135	4,135	4,135	4,135
All Other Civilians	29,656	29,504	29,332	29,226	29,195
Subtotal	**109,708**	**108,791**	**108,748**	**108,835**	**108,809**
Total	**292,512**	**292,205**	**292,733**	**292,985**	**293,096**

Actual total-funded full-time headcount on June 30, 2015 was 277,173. Headcount would have to grow by 15,339, or 5.5 percent, in FY 2016 for the fiscal year-end target to be achieved. As of January 31, 2016, past the midpoint of the fiscal year, headcount has increased by only 6,442, about 42 percent of the planned increase. At the current pace, it is unlikely that the City will be able to achieve its fiscal year-end target.

However, not all agencies will fall short of its year-end headcount target. In fact, as of January 31, 2016, the Department of Education and the Department of Sanitation have exceeded their pedagogical and uniformed year-end target while the Fire Department has exceeded both its uniformed and civilian year-end target, as shown in Table 16.

Table 16. January 31, 2016 Headcount vs. Planned June 30, 2016 Headcount

	6/30/2015 Actuals	1/31/2016 Actuals	6/30/2016 Plan	Change 6/30/2015 to 1/31/2016	Planned Change 6/30/2015 to 6/30/2016	Percent of Planned Change Achieved
Pedagogical						
Dept. of Education	112,272	115,311	114,224	3,039	1,952	155.69%
City University	4,023	4,181	4,357	158	334	47.31%
Subtotal	**116,295**	**119,492**	**118,581**	**3,197**	**2,286**	**139.85%**
Uniformed						
Police	34,618	35,294	35,780	676	1,162	58.18%
Fire	10,777	10,845	10,821	68	44	154.55%
Correction	8,756	9,456	10,195	700	1,439	48.64%
Sanitation	7,381	7,608	7,427	227	46	493.48%
Subtotal	**61,532**	**63,203**	**64,223**	**1,671**	**2,691**	**62.10%**
Civilian						
Dept. of Education	11,693	12,039	10,923	346	(770)	(44.94%)
City University	1,916	1,932	1,856	16	(60)	(26.67%)
Police	14,535	14,538	15,956	3	1,421	0.21%
Fire	5,438	5,683	5,652	245	214	114.49%
Correction	1,418	1,495	2,145	77	727	10.59%
Sanitation	2,005	2,043	2,264	38	259	14.67%
Admin. for Children's Services	5,921	5,788	7,227	(133)	1,306	(10.18%)
Social Services	13,487	13,290	14,604	(197)	1,117	(17.64%)
Homeless Services	1,976	2,189	2,639	213	663	32.13%
Health and Mental Hygiene	4,349	4,279	5,421	(70)	1,072	(6.53%)
Finance	1,856	1,875	2,107	19	251	7.57%
Transportation	4,452	4,546	5,074	94	622	15.11%
Parks and Recreation	3,862	3,844	4,184	(18)	322	(5.59%)
All Other Civilians	26,438	27,379	29,656	941	3,218	29.24%
Subtotal	**99,346**	**100,920**	**109,708**	**1,574**	**10,362**	15.19%
Total	**277,173**	**283,615**	**292,512**	**6,442**	**15,339**	**42.0%**

Headcounts in the Administration for Children Services, the Department of Social Services, the Department of Health and Mental Hygiene, and the Department of Parks and Recreation, which were planned to be above their June 30, 2015 levels declined by 133, 197, and 70, and 18, respectively between June 30, 2015 and January 31, 2016. In contrast, non-pedagogical headcounts in the Department of Education and CUNY, which were planned to be below their June 30, 2015 levels are above their June 30, 2015 levels by 346 and 16, respectively, as of January 31, 2016.

Table 17 shows the changes between the November and January Plans for FYs 2016 – 2019. Headcount for year-end FY 2016 in the January Plan is 3,072 positions higher than in the November Plan. The largest change is an additional 797 full-time total funded headcount in the Department of Correction (DOC), of which 429 reflects the settlement agreed to by the parties in the long-running Nunez case, which alleged excessive use of force against incarcerated individuals by the Department of Correction. In addition to this increase, the DOC plans to add 159 staff for Model Facility Staffing and 152 staff to support five hours per day for adult programming. However, the DOC may find it difficult to meet its staffing plan. As of January 31, 2016, the DOC has only managed to meet 48.6 percent and 10.6 percent of its planned uniformed and civilian headcount increases, respectively.

Other major headcount increases projected for FY 2016 include 327 traffic enforcement agents in the Police Department, 175 positions in the Department of Homeless Services for shelter security, 85 positions in the Department of Health and Mental Hygiene for school mental health, and 82 positions in the Department of Citywide Administrative Services for a Public Safety Answering Center.

Table 17. Changes to FYs 2016 – 2019 Total Funded Full-Time Headcount January 2016 Financial Plan vs. November 2015 Financial Plan

	FY 2016	FY 2017	FY 2018	FY 2019
Dept. of Education	144	586	921	1,236
City University	1	11	17	23
Police	611	368	368	368
Fire	67	156	182	210
Correction	797	797	797	797
Sanitation	17	(100)	24	24
Admin. for Children's Services	0	57	57	57
Social Services	150	327	288	293
Homeless Services	279	171	171	171
Health and Mental Hygiene	255	449	437	438
Finance	63	63	63	63
Transportation	77	141	149	149
Parks and Recreation	67	191	191	191
All Other Civilians	544	623	600	587
Total	**3,072**	**3,840**	**4,265**	**4,607**

Health Insurance

The FY 2017 Preliminary Budget includes $6.077 billion for employees' and retirees' pay-as-you-go health insurance in FY 2017, a net increase of $92 million from the November Plan and $397 million higher than budgeted for FY 2016. The increase from FY 2016 reflects a premium rate increase of almost 6 percent for active employees and pre-Medicare retirees. The senior-care rate is projected to increase by 8 percent.

Historically, annual health insurance expenditures have grown on average by almost 9 percent from $2.229 billion in FY 2003 to $5.153 billion in FY 2013. However, in recent fiscal years actual growth has been more modest, averaging 5 percent annually between FY 2013 and the current estimate for FY 2016. The lower annual growth in health insurance costs reflects an underlying increase of 5.18 percent, 1.22 percent and 2.89 percent in the health insurance rates for FYs 2014, 2015 and 2016, respectively, and the inclusion of the expected savings from the healthcare reform agreement with the Municipal Labor Committee (MLC).

The agreement is expected to generate savings of $400 million in FY 2015, $700 million in FY 2016, $1 billion in FY 2017, and $1.3 billion in FY 2018 and beyond, to some of the cost of the current round of collective bargaining.[7] The City was able to achieve the savings in FY 2015 and has identified initiatives needed to achieve the savings for FYs 2016 and 2017, as shown in Table 18. The FY 2016 initiatives include the use of $58 million from the Health Stabilization Fund to achieve the targeted savings.

Table 18. Health Reform Savings

($ in millions)

	FY 2015	FY 2016	FY 2017
HIP Premium Rate Savings	$17	$343	$537
GHI Senior Care Premium Savings	38	76	85
Dependent Eligibility Verification Audit (DEVA)	108	108	101
Mental Health Parity "Relief"	148	0	0
Funding Structure Change in GHI Plan	58	61	62
GHI CBP Program Changes	0	0	85
HIP HMO Preferred Plan	0	0	64
Changes to Care Management Program	19	21	22
Specialty Drugs (PICA) Program Changes	8	21	21
Reduction in Empire Blue Cross Blue Shield Admin Charges	4	0	0
Lower Radiology Fees	0	10	20
Lower Durable Medical Equipment (DME) Fees	0	1	2
Telemedicine and ZocDoc	0	1	1
Diabetes Case Management	0	0	1
Stabilization Fund Adjustment	0	58	0
Total	**$400**	**$700**	**$1,001**

SOURCE: NYC Office of Labor Relations

As shown in Table 19, health insurance costs are projected to increase to $6.448 billion in FY 2018, $7.009 billion in FY 2019 and $7.569 billion by FY 2020, an average annual increase of 7.4 percent. The out-year projections assume annual increases in health insurance premium rates of 9 percent in FYs 2018, 7 percent in FY 2019 and 6.5 percent in FY 2020. Senior care rates are projected to increase by 8 percent in FY 2018 and 5 percent annually for FY 2019 and FY 2020. The projections in the outyears of the Plan are more than the November Plan projections by $92 million in FY 2018 and $102 million in FY 2019, reflecting additional funding for planned headcount changes.

Table 19. Pay-As-You-Go Health Expenditures

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Department of Education	$2,124	$2,253	$2,362	$2,592	$2,826
CUNY	86	109	114	121	129
All Other	3,471	3,716	3,972	4,296	4,614
Total Pay-As-You-Go Health Insurance Costs	**$5,681**	**$6,077**	**$6,448**	**$7,009**	**$7,569**

[7] Should the cumulative savings exceed the targeted $3.4 billion savings over the four years, the first $365 million of the excess savings will be returned to the workforce. Any additional savings above the $365 million, will be shared equally between the workforce and the City.

Overtime

As a share of wages and salaries, the City's overtime cost continues to increase annually growing from 4.8 percent in FY 2005 to 6.9 percent by FY 2015. In fact, between FY 2005 and FY 2015, overtime expenditures increased at an annual average rate of 6.5 percent compared to 2.5 percent for wages and salaries.[8]

In the FY 2016 Adopted Budget, the City announced that it would cap uniformed police overtime spending at $522 million, along with a planned increase of 1,297 uniformed police officers. In the current Plan, the City has increased its uniformed overtime budget to $545 million, effectively increasing its cap by $23 million. The increase primarily reflects Federal funding for overtime expenses relating to the United Nations security and other urban area security initiatives. Through January of 2016, uniformed police overtime expenditures, including the cost associated with Pope Francis' visit, exceeded $335 million and are on pace to be at least $600 million for FY 2016. Should this trend continue into FY 2017, uniformed police overtime could exceed its budget by at least $121 million as shown in Table 20.

Table 20. Projected Overtime Spending, FY 2016 and FY 2017

($ in millions)

	City Planned Overtime FY 2016	Comptroller's Projected Overtime FY 2016	FY 2016 Risk	City Planned Overtime FY 2017	Comptroller's Projected Overtime FY 2017	FY 2017 Risk
Uniform						
Police	$545	$600	($55)	$479	$600	($121)
Fire	263	274	(11)	199	199	0
Correction	168	238	(70)	124	224	(100)
Sanitation	94	94	0	101	101	0
Total Uniformed	$1,070	$1,206	($136)	$903	$1,124	($221)
Others						
Police-Civilian	$86	$86	$0	$85	$85	$0
Admin for Child Services.	17	17	0	17	17	0
Environmental Protection	23	23	0	23	23	0
Transportation	40	40	0	40	40	0
All Other Agencies	160	160	0	135	135	0
Total Civilians	$326	$326	($0)	$300	$300	$0
Total City	**$1,396**	**$1,532**	**($136)**	**$1,203**	**$1,424**	**($221)**

The Department of Correction (DOC) spent $181 million for uniformed overtime in FY 2015 and is on track to spend at least $238 million for FY 2016. The Department's ongoing initiatives to improve conditions and security, mainly at Rikers Island, coupled with challenges in meeting its hiring plan continue to exert pressure on overtime spending. While the department has boosted its uniformed headcount level from 8,756 at

[8] Wages and salaries in this analysis exclude overtime.

the end of FY 2015 to 9,456 at the end of January 2016, the increase is only 48.6 percent of the planned increase for FY 2016. As discussed in “Headcount” beginning on page 28, it is unlikely that the Department will be able to achieve its headcount target. The ongoing challenges facing the department will likely result in higher overtime cost resulting in risks to the City’s budget of $70 million in FY 2016 and $100 million in FY 2017.

The Fire Department (FDNY) has incurred $152 million of uniformed overtime spending through January 2016. Over the last three fiscal years, the Department has spent an average of $281 million annually for uniformed overtime. Overtime cost is expected to decline as the FDNY increases its uniformed headcount level. Uniformed headcount in the Department stood at 10,845 on January 31, 2016, slightly above the planned fiscal year-end headcount of 10,821.

Labor

The January Plan includes funding for the cost of increasing the minimum wage for certain City employees and workers at social service contractors to $15 an hour by December 31, 2018. There are currently about 20,000 City employees and 30,000 social service contract workers who are paid less than $15 an hour. Affected City employees have already received wage increases to $11.79 an hour and will be paid $12.14 an hour by December 31, 2016, $13.50 by December 31, 2017, and $15 an hour by December 31, 2018. For employees of social service contractors, wages have already increased to $11.50 an hour. Going forward their wages will increase to $12 an hour by December 31, 2016, $13.50 an hour by December 31, 2017 and $15 an hour by December 31, 2018. The City has reserved $5 million in FY 2017, $34 million in FY 2018, $85 million in FY 2019, and $115 million in FY 2020 to fund the additional cost.

The Correction Officers’ Benevolent Association (COBA), which represent correction officers, recently ratified its contract with the City for the current round of collective bargaining. This contract mirrors the pattern established for uniformed employees and grants the members wage increases of 11 percent over seven years. To date the City has reached agreements with unions representing 95 percent of the workforce. The City is still in the process of negotiating agreement with unions representing employees performing skilled trade jobs, emergency medical service and personnel at the City University of New York Community Colleges (CUNY).

The balance in the labor reserve now stands at $996 million in FY 2016, $537 million in FY 2017, $1.3 billion in FY 2018, $2.4 billion in FY 2019, and $2.8 billion in FY 2020. This includes funding for annual wage increases of 1 percent for the entire workforce beyond the current round of collective bargaining. It would cost the City approximately $400 million for a 1 percent wage increase for all employees.

Public Assistance

Through January, the City’s FY 2016 public assistance caseload has averaged 367,722 recipients per month. The average monthly caseload has increased by about

6 percent, or 20,299 recipients, compared to average monthly caseload over the same period in FY 2015. While the City's public assistance caseload remains about 68 percent below the historical peak, it has rebounded significantly since falling to a recent low of 336,403 in May 2014. The December 2015 public assistance caseload of 367,127 represents an increase of about 9 percent from the May 2014 caseload. Thus far in FY 2016, public assistance grants spending has averaged about $118 million per month, representing a 4.6 percent increase from the FY 2015 monthly average of approximately $112.5 million.

The City's FY 2016 public assistance projections maintain caseloads at monthly averages of 368,869 for FY 2016 and 370,666 over the remainder of the Plan period, unchanged since the November Plan. Total baseline grants expenditures are projected at approximately $1.43 billion in FY 2016 and $1.41 billion in each of FYs 2017-2019. Both caseload and grants levels are currently running very close to the City's projections. However, if the rising trends in caseload and spending continue, they could pose risks of $20 million annually in FYs 2017-2019 to the public assistance budget.

Department of Homeless Services

The January Plan projects spending for homeless services to reach $1.72 billion in FY 2016. The Department of Homeless Services (DHS) comprises about $1.31 billion of this total, which includes $580 million for family shelter operations and $424 million for adult shelter operations. In addition to DHS, the City also provides funding for homeless assistance in the budgets of other agencies, such as the Department of Social Services (DSS) and Department of Youth and Community Development. Table 21 shows funding for homeless services by function across various City agencies. Since FY 2014, Citywide funding for homeless services has grown by 46 percent. The most prominent areas from a programmatic standpoint are funding for rental assistance and prevention and aftercare, reflective of the additional resources that the City has devoted to combat the rise in the homeless population over the last two years. Since FY 2014, the rental assistance program has increased by more than five-fold, from $23 million to $122 million, primarily for the implementation of the Living in Communities (LINC) program. Funding for prevention, diversion, anti-eviction and aftercare has more than tripled over the same span, from $82 million to $259 million as the City layered on funding for a host of supportive services targeted at controlling entrants and returnees to the system.

Table 21. Citywide Funding by Major Categories for Homeless Services

($ in millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Adult Shelter Operations	$310	$326	$356	$424	$307
Family Shelter Operations	461	505	577	580	508
Rental Assistance	21	23	39	122	187
Prevention, Diversion, Anti-Eviction & Aftercare	82	82	198	259	201
Domestic Violence, Youth & Emergency Shelters	86	88	95	108	131
Dept. of Homeless Administration & Support	160	151	160	222	218
Total Citywide Homeless Spending	**$1,120**	**$1,175**	**$1,425**	**$1,715**	**$1,552**

Funding for homeless services are projected to fall significantly to $1.55 billion in the preliminary budget for FY 2017, with the decline expected mainly for shelter operations in the DHS budget. In particular, the adult shelter operations budget is expected to fall by over $100 million in FY 2017. Based on current year estimates, about 80 percent of adult shelter operations spending is funded by the City, whereas family shelter operations are more heavily supported by Federal and State grants (67 percent). Therefore, once the City fully recognizes Federal and State funding in FY 2017, the drop in family shelter operations funding will likely be minimized. However, given that the adult shelter census hit a new peak of 13,216 in February and has shown little signs of slowing down, the City has likely underfunded adult shelter operations by $100 million annually beginning in FY 2017.

Department of Education

The January Plan shows a net increase of $30 million in the Department of Education's (DOE) FY 2016 budget. The FY 2016 DOE budget totals $21.93 billion, an increase of 4.6 percent or $972 million above actual FY 2015 spending of $20.95 billion. The funding increase in the January Modification for the current year includes new needs of $68 million to cover collective bargaining settlements with various unions ($35 million) and the initial values of education reforms ($33 million) associated with the FY 2017 Preliminary Budget, to be discussed in greater details later in the section. The DOE Budget also reflected $72 million in spending backed by additional Federal and State funds and School Construction Authority grants. These increases are partly offset by $61 million in projected underspending for prekindergarten special education and $50 million in savings identified by the DOE in the current year.

The FY 2017 Preliminary Budget projects DOE funding at $22.87 billion, representing an increase of $946 million or 4.3 percent from the FY 2016 budget. Compared to the November Plan, the Preliminary Budget reflects a net increase of $167 million. New needs comprise about $132 million of this total, driven mostly by education reforms announced by the Mayor in September 2015. The most prominent actions are universal literacy in the second grade ($16 million), enhanced algebra instruction in middle schools ($21 million), expanded access to Advanced Placement courses ($13 million), dedicated counselors for middle and high school students in Districts 7 and 23 ($15 million) and college visits and access ($9 million). These initiatives are the crux of the education reforms that the Mayor unveiled in September 2015, which will require commitment totaling $164 million by FY 2020 when a majority of the actions are fully phased-in.

The new needs also include learning support services for Universal Pre-Kindergarten ($8 million), mental health support for 100 high schools with the highest suspension and arrest rates ($6 million), college/career planning services for special education students ($6 million) and restorative justice programs for 20 schools with highest number of arrests, summonses and suspensions ($5 million). The remainder of the actions, albeit smaller in magnitude, cover a wide spectrum of enhancements, ranging from district-charter schools collaboration to data tracking for Renewal schools. In addition, the City also assumes additional State support of $161 million through

Foundation Aid. These funding increases are partly offset by reduced special education pre-kindergarten spending of $76 million, MTA student fare subsidy prepayment of $45 million and efficiency savings of $5 million.

Over the remainder of the Plan, the DOE budget is projected to rise to $23.81 billion in FY 2018 and $24.75 billion in FY 2019, before reaching $25.29 billion by FY 2020. Increased State aid is expected to comprise about $899 million or 37 percent of the total growth over this period, with City funds essentially making up the remainder of the increase.

In the January Plan, the City made an unusual move of elevating its Foundation Aid assumptions significantly above levels proposed in the State Executive Budget. Compared to the City's November Plan assumptions, the State Executive Budget provides about $31 million less in Foundation Aid than anticipated for FY 2017. In the past, the City generally conformed with the State's allocations or opted not to reflect the impact until the State enacted its budget. In the January Plan, however, the City has raised its Foundation Aid projection by $161 million. While past State enacted budgets generally provided more school aid than initially proposed, compared to the current State allocations, the increased assumptions in the January Plan could lead to potential Foundation Aid shortfalls of $192 million in FY 2017, $164 million in FY 2018 and $48 million in FY 2019. In addition, the Department still faces ongoing risks from its assumptions of Federal Medicaid revenue in the January Plan. The DOE estimates it will realize Medicaid reimbursement of $97 million annually for special education services. These targets are substantially higher than actual collections over the past two years, during which the Department only managed to collect Medicaid revenues of $2 million in FY 2014 and $10 million in FY 2015. Therefore, the Comptroller's Office projects risks of $80 million in each of FYs 2016-2020. Also, a majority of the additional funding for the UPK program reflected in the FY 2016 Adopted Budget does not extend beyond the current year, therefore similar needs could surface at $21 million annually in FYs 2017-2020.

Debt Service

As shown in Table 22, debt service in the January 2016 Plan, adjusted to exclude the impact of prepayments, is projected to grow from $6.18 billion in FY 2016 to $8.30 billion in FY 2020, an increase of $2.12 billion, or an average annual growth rate of 7.7 percent. [9]

[9] Includes long-term debt service on GO, TFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes. There are no short-term notes in FY 2016.

Table 22. January 2016 Financial Plan Debt Service Estimates

($ in millions)

Debt Service Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Change from FYs 2016 – 2020
GO[a]	$4,051	$4,287	$4,434	$4,501	$4,795	$744
TFA[b]	1,887	2,214	2,469	2,882	3,131	1,244
Lease-Purchase Debt	172	218	269	295	297	125
TSASC, Inc.	74	74	82	82	82	8
Total	**$6,184**	**$6,792**	**$7,263**	**$7,760**	**$8,305**	**$2,121**

SOURCE: January 2016 Financial Plan.
NOTE: Debt service is adjusted for prepayments.
[a] Includes long-term GO debt service and interest on short-term notes.
[b] Amounts do not include TFA BARBs.

These projections represent decreases from the November 2015 Financial Plan of $399 million in FY 2016, $8 million in FY 2017, $23 million in FY 2018, and $27 million in FY 2019.[10]

The decrease in planned FY 2016 debt service is the result of a $247 million reduction in GO debt service, a $57 million decrease in lease-purchase debt service, and $94.6 million in estimated TFA savings. Of the $247 million decline in GO debt service, $227 million is the result of lowering estimates for current year interest costs for GO Variable Rate Demand Bonds (VRDB), along with $20 million in savings from reduced letter of credit and remarketing fees. The decrease in lease-purchase/conduit debt service is due to a reduction of $41.0 million in DASNY Courts related debt service and savings of $16.4 million in Education Construction Fund debt-service. The $94.6 million reduction in FY 2016 TFA debt service results primarily from reduced variable-rate interest cost assumptions.

The reduction in estimated debt service from the November Plan for FY 2017 is comprised of GO and lease-purchase debt service, which net to savings of $2 million. TFA debt service is estimated to decrease by $6 million in FY 2017 from various baseline adjustments.

The FYs 2018 and 2019 decreases of $23 million and $27 million, respectively, are from the outyear impact of a reduction of $360 million in combined GO and TFA borrowing in FY 2017.

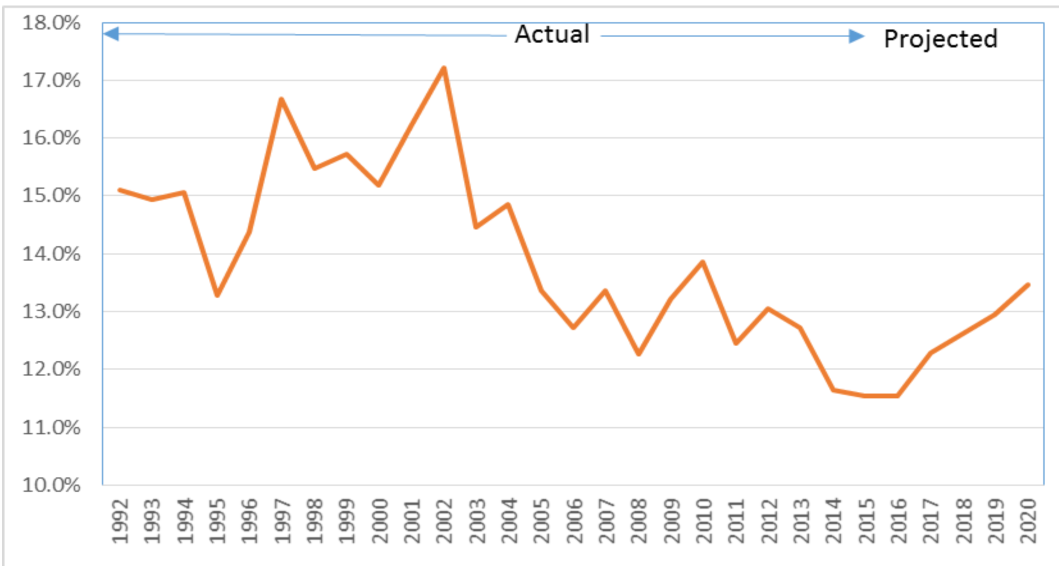
From July 2015 through January 2016, interest costs for GO VRDB bonds are $9 million. The current Plan reduces the budgeted amount for GO VRDB interest to slightly below $70 million, an assumed interest rate of 1 percent. Although $227 million of VRDB savings have been recognized in the current Plan, additional savings are possible if the current interest environment continues through June 2016. Variable interest rates have been under one percent over the last two years.

[10] There was no official estimate for FY 2020 in either the July or November Plans.

Debt Affordability

Debt service as a percent of local tax revenues is one of several measures of debt affordability used by municipal analysts and government officials alike. The January 2016 Plan projects that debt service will consume 11.5 percent of local tax revenues in FY 2016, 12.3 percent in FY 2017, 12.6 percent in FY 2018, 13 percent in FY 2019 and 13.5 percent in FY 2020, as shown in Chart 4. The upward trend of this ratio is the result of the City's debt service growing at a faster rate than its tax revenues. Between FY 2016 and FY 2020 the City's debt service is estimated to grow by 34.3 percent, resulting in an annual growth rate of 7.7 percent over the period. In contrast, the estimated annual tax revenue growth for the same period is 3.9 percent. Although the ratio remains below 15 percent, a commonly held threshold of affordability, we will continue to monitor this differential going forward.

***Chart 4*. Debt Service as a Percentage of Tax Revenues, 1992 – 2020**



SOURCE: NYC Office of Management and Budget, January 2016 Financial Plan.

Financing Program

The January 2016 Financial Plan contains $42.11 billion of planned City and State supported borrowing in FYs 2016 – 2020, as shown in Table 23. GO and TFA PIT-supported borrowing account for just over 76 percent of the total estimated borrowing over this period. Planned TFA bonds total $17.51 billion while GO borrowing totals $14.66 billion.

Planned New York Water Finance Authority (NYW) borrowing of $8.28 billion accounts for a significant 19.7 percent of the City's capital borrowing plan during this period. However, unlike other debt that is financed by revenues derived from collection of the property tax and other general fund revenues, NYW debt service is funded by water and sewer user fees that are collected directly by the NYC Water Board. As a result, neither the water and sewer user fees nor the NYW debt service is included in the City's general fund. TFA Building Aid Revenue Bonds (BARBs) borrowing, which is secured by State Building Aid Revenues, rounds out the Plan with a projected $1.66 billion over the period.

Planned borrowing over FYs 2016 – 2019 is $795 million higher than the November Plan. The additional borrowing is due to a $1.14 billion increase in NYW borrowing to finance sewer overflow and replacement projects.[11] This increase is offset by a drop in GO/TFA borrowing of $320 million.

Table 23. January 2016 Financing Program, FYs 2016 – 2020

($ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2016-2020	Percent of Total
General Obligation Bonds	$14,660	34.8%
TFA – PIT Bonds	17,510	41.6
NYC Water Finance Authority	8,276	19.7
TFA – BARBs	1,659	3.9
Total	**$42,105**	**100.0%**

SOURCE: January 2015 Financial Plan, NYC Office of Management and Budget.

Capital Commitment Plan

The January 2016 Capital Commitment Plan for FYs 2016 – 2019 totals $52.32 billion in authorized all-funds commitments, as shown in Table 24.[12] Consistent with prior Plans, capital commitments for DOE and CUNY, the Department of Environmental Protection (DEP), the Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for more than two-thirds of the planned commitments.[13]

[11] Changes described are from FYs 2016-2019 as FY 2020 was not yet in the November 2015 Financial Plan.

[12] The Commitment Plan is a schedule of anticipated capital contract registrations. The January Commitment Plan contains forecasts for FYs 2016 – 2019 only. FY 2020 will appear at the time of the Executive Budget and Plan.

[13] This percentage assumes all DOT project types, not just bridges and highways.

Table 24. FYs 2016 – 2019 Capital Commitments, All-Funds

($ in millions)

Project Category	January FYs 2016– 2019 Commitment Plan	Percent of Total	Change from September Plan
Education & CUNY	$11,491	22.0%	$5
Environmental Protection	9,983	19.1	1,711
Dept. of Transportation & Mass Transit	8,471	16.2	646
Housing and Economic Development	6,351	12.1	26
Administration of Justice	3,619	6.9	85
Technology and Citywide Equipment	2,683	5.2	(2)
Parks Department	2,710	5.2	150
Hospitals	1,818	3.5	30
Other City Operations and Facilities	5,198	9.9	119
Total	**$52,323**	**100.0%**	$2,770
Reserve for Unattained Commitments	($4,960)	N/A	
Adjusted Total	**$47,363**	**N/A**	

All-funds commitments over the Plan period are $2.77 billion, or 5.6 percent, higher than the September 2015 Commitment Plan. The increase is comprised of increases of $258.4 million in FY 2016, $1.75 billion in FY 2017, $270.3 million in FY 2018, and $492.9 million in FY 2019.

The main drivers of the $258 million FY 2016 increase stem from increases in water main projects ($163 million) and water pollution control projects ($227 million), partially offset by delays in Parks Department projects in the amount of $137 million from FY 2016 to FY 2017.

The increase of $1.75 billion in FY 2017 is due to a $479 million increase in water pollution control related projects, along with $318 million in water main projects, $221 million increase for sewer replacements citywide, and $109 million for ferry purchases and rehabilitation.

The additional $270 million in FY 2018 is driven by increases of $146 million in water pollution control projects, $219 million in highway related projects in DOT, offset by numerous changes across 38 other projects types netting to a decrease of $96 million.

The increase of $493 million in FY 2019 is driven by an increase of $261 million in water pollution control projects, followed by a $120 million increase in highway related projects, an increase of $83 million in Parks Department projects, and $42 million related to sewer project increases.

City-funds commitments, before reserve of unattained commitments, totals $45.79 billion, an increase of $2.61 billion, or 6 percent, from the September 2015 Commitment Plan, as shown in Table 25. Commitments for DEP, DOE & CUNY, DOT & Mass Transit, along with Housing and Economic Development (Business Services) projects account for 70 percent of City-funds commitments over the FYs 2016-2019 period.

The largest increase from the September 2015 Commitment Plan over the four-year period is an additional $1.09 billion for water pollution control projects. The next highest increase is $375.6 million for water mains related projects followed by an additional $350 million for highways projects within DOT. The remaining $793 million increase is allocated among 25 other project types.

Table 25. FYs 2016 – 2019 Capital Commitments, City-Funds

($ in millions)

Project Category	**January FYs 2016 – 2019 Commitment Plan**	**Percent of Total**	**Change from the September Plan**
Environmental Protection	$9,643	21.1%	$1,689
Education & CUNY	10,080	22.0	6
Dept. of Transportation & Mass Transit	6,546	14.3	511
Housing and Economic Development	5,946	13.0	(8)
Administration of Justice	3,493	7.6	(225)
Technology and Citywide Equipment	2,677	5.8	2
Parks Department	2,095	4.6	127
Hospitals	508	1.1	90
Other City Operations and Facilities	4,798	10.5	418
Total	**$45,786**	**100.0%**	**$2,610**
Reserve for Unattained Commitments	($4,960)	N/A	
Adjusted Total	**$40,826**	**N/A**	

IV. Appendix

Table A1. January 2016 Preliminary Budget Revenue Detail

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Change FYs 2016 – 2020 Dollars	Change FYs 2016 – 2020 Percent	Annual Percent Change
Taxes:								
Real Property	$22,761	$24,083	$25,360	$26,694	$27,946	$5,185	22.8%	5.3%
Personal Income Tax	$11,640	$11,660	$11,989	$12,448	$12,967	$1,327	11.4%	2.7%
General Corporation Tax	$3,654	$4,160	$4,266	$4,345	$4,441	$787	21.5%	5.0%
Banking Corporation Tax	$317	$0	$0	$0	$0	($317)	(100.0%)	(100.0%)
Unincorporated Business Tax	$2,007	$2,072	$2,164	$2,256	$2,357	$350	17.4%	4.1%
Sale and Use Tax	$7,070	$7,351	$7,661	$7,982	$8,308	$1,238	17.5%	4.1%
Real Property Transfer	$1,569	$1,606	$1,625	$1,683	$1,734	$165	10.5%	2.5%
Mortgage Recording Tax	$1,028	$1,055	$1,065	$1,095	$1,122	$94	9.1%	2.2%
Commercial Rent	$770	$805	$840	$875	$910	$140	18.2%	4.3%
Utility	$390	$394	$407	$416	$425	$35	9.0%	2.2%
Hotel	$548	$550	$563	$569	$580	$32	5.8%	1.4%
Cigarette	$48	$47	$46	$45	$44	($4)	(8.3%)	(2.2%)
All Other	$557	$555	$556	$555	$555	($2)	(0.4%)	(0.1%)
Tax Audit Revenue	$995	$714	$714	$714	$714	($281)	(28.2%)	(8.0%)
Total Taxes	**$53,354**	**$55,052**	**$57,255**	**$59,677**	**$62,103**	**$8,749**	**16.4%**	**3.9%**
Miscellaneous Revenue:								
Licenses, Franchises, Etc.	$642	$626	$622	$619	$622	($20)	(3.1%)	(0.8%)
Interest Income	$46	$61	$105	$138	$142	$96	208.7%	32.6%
Charges for Services	$975	$951	$951	$951	$951	($24)	(2.5%)	(0.6%)
Water and Sewer Charges	$1,531	$1,472	$1,439	$1,399	$1,359	($172)	(11.2%)	(2.9%)
Rental Income	$271	$271	$271	$271	$271	$0	0.0%	0.0%
Fines and Forfeitures	$832	$833	$845	$839	$834	$2	0.2%	0.1%
Miscellaneous	$619	$629	$657	$792	$926	$307	49.6%	10.6%
Intra-City Revenue	$2,001	$1,778	$1,787	$1,781	$1,787	($214)	(10.7%)	(2.8%)
Total Miscellaneous	**$6,917**	**$6,621**	**$6,677**	**$6,790**	**$6,892**	**($25)**	**(0.4%)**	**(0.1%)**
Unrestricted Intergovernmental Aid:								
Other Federal and State Aid	$4	$0	$0	$0	$0	($4)	(100.0%)	(100.0%)
Total Unrestricted Intergovernmental Aid	**$4**	**$0**	**$0**	**$0**	**$0**	**($4)**	**(100.0%)**	**(100.0%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**	**0.0%**
Less: Intra-City Revenue	**($2,001)**	**($1,778)**	**($1,787)**	**($1,781)**	**($1,787)**	**$214**	**(10.7%)**	**(2.8%)**
TOTAL CITY-FUNDS	**$58,259**	**$59,880**	**$62,130**	**$64,671**	**$67,193**	**$8,934**	**15.3%**	**3.6%**
Other Categorical Grants	**$763**	**$823**	**$828**	**$825**	**$821**	**$58**	**7.6%**	**1.8%**
Inter-Fund Agreements	**$606**	**$632**	**$573**	**$573**	**$572**	**($34)**	**(5.6%)**	**(1.4%)**

Table A1 (Con't). *January 2016 Preliminary Budget Revenue Detail*

($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Change FYs 2016 – 2020 Dollars	Change FYs 2016 – 2020 Percent	Annual Percent Change
Federal Categorical Grants:								
Community Development	$1,531	$870	$441	$243	$243	($1,288)	(84.1%)	(36.9%)
Welfare	$3,407	$3,259	$3,265	$3,261	$3,261	($146)	(4.3%)	(1.1%)
Education	$1,747	$1,747	$1,776	$1,776	$1,776	$29	1.7%	0.4%
Other	$1,979	$1,335	$1,288	$1,286	$1,278	($701)	(35.4%)	(10.4%)
Total Federal Grants	**$8,664**	**$7,211**	**$6,770**	**$6,566**	**$6,558**	**($2,106)**	**(24.3%)**	**(6.7%)**
State Categorical Grants								
Social Services	$1,664	$1,590	$1,601	$1,607	$1,613	($51)	(3.1%)	(0.8%)
Education	$9,725	$10,170	$10,529	$10,841	$11,069	$1,344	13.8%	3.3%
Higher Education	$271	$271	$271	$271	$271	$0	0.0%	**0.0%**
Department of Health and Mental Hygiene	$544	$497	$498	$498	$498	($46)	(8.5%)	(2.2%)
Other	$1,212	$1,038	$1,080	$1,124	$1,173	($39)	(3.2%)	(0.8%)
Total State Grants	**$13,416**	**$13,566**	**$13,979**	**$14,341**	**$14,624**	**$1,208**	**9.0%**	**2.2%**
TOTAL REVENUES	**$81,708**	**$82,112**	**$84,280**	**$86,976**	**$89,768**	**$8,060**	**9.9%**	**2.4%**

Table A2. *January 2016 Preliminary Budget Expenditure Detail*

($ in thousands)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Change FYs 2016 - 2020		Annual Percent
						Dollars	Percent	Change
Mayoralty	$128,783	$120,895	$118,567	$122,901	$122,901	($5,882)	(4.6%	(1.2%)
Board of Elections	$142,397	$88,376	$88,800	$88,800	$88,898	($53,499)	(37.6%)	(11.1%)
Campaign Finance Board	$15,002	$13,924	$14,014	$14,015	$14,015	($987)	(6.6%)	(1.7%)
Office of the Actuary	$7,226	$7,414	$7,441	$7,441	$7,441	$215	3.0%	0.7%
President, Borough of Manhattan	$4,713	$4,529	$4,566	$4,566	$4,566	($147)	(3.1%)	(0.8%)
President, Borough of Bronx	$5,669	$5,406	$5,441	$5,441	$5,441	($228)	(4.0%)	(1.0%)
President, Borough of Brooklyn	$6,513	$5,407	$5,448	$5,448	$5,448	($1,065)	(16.4%)	(4.4%)
President, Borough of Queens	$5,312	$4,705	$4,736	$4,736	$4,736	($576)	(10.8%)	(2.8%)
President, Borough of Staten Island	$4,337	$4,206	$4,229	$4,229	$4,229	($108)	(2.5%)	(0.6%)
Office of the Comptroller	$94,424	$95,550	$96,168	$96,175	$96,175	$1,751	1.9%	0.5%
Dept. of Emergency Management	$52,165	$21,265	$20,382	$20,582	$20,965	($31,200)	(59.8%)	(20.4%)
Office of Administrative Tax Appeals	$4,669	$4,837	$4,872	$4,872	$4,872	$203	4.3%	1.1%
Law Dept.	$190,514	$182,035	$181,949	$180,303	$180,303	($10,211)	(5.4%)	(1.4%)
Dept. of City Planning	$42,040	$41,466	$40,305	$38,188	$38,188	($3,852)	(9.2%)	(2.4%)
Dept. of Investigation	$43,386	$38,366	$33,422	$33,332	$30,735	($12,651)	(29.2%)	(8.3%)
NY Public Library - Research	$26,875	$25,874	$26,000	$26,000	$26,000	($875)	(3.3%)	(0.8%)
New York Public Library	$132,441	$126,275	$126,712	$126,712	$126,712	($5,729)	(4.3%)	(1.1%)
Brooklyn Public Library	$99,296	$94,635	$95,119	$95,120	$95,120	($4,176)	(4.2%)	(1.1%)
Queens Borough Public Library	$100,322	$95,750	$96,112	$96,113	$96,113	($4,209)	(4.2%)	(1.1%)
Dept. of Education	$21,926,189	$22,871,899	$23,814,930	$24,752,855	$25,294,756	$3,368,567	15.4%	3.6%
City University	$993,843	$973,179	$991,140	$1,016,130	$1,024,134	$30,291	3.0%	0.8%
Civilian Complaint Review Board	$15,874	$16,536	$16,605	$16,605	$16,605	$731	4.6%	1.1%
Police Dept.	$5,260,050	$4,860,569	$4,898,881	$4,952,619	$4,963,240	($296,810)	(5.6%)	(1.4%)
Fire Dept.	$2,034,129	$1,897,518	$1,883,574	$1,888,917	$1,890,577	($143,552)	(7.1%)	(1.8%)
Admin. for Children Services	$2,908,091	$2,886,707	$2,891,426	$2,899,643	$2,899,581	($8,510)	(0.3%)	(0.1%)
Dept. of Social Services	$9,652,608	$9,797,506	$9,884,405	$9,932,262	$9,986,976	$334,368	3.5%	0.9%
Dept. of Homeless Services	$1,309,477	$1,107,789	$1,101,998	$1,091,120	$1,079,947	($229,530)	(17.5%)	(4.7%)
Dept. of Correction	$1,314,586	$1,307,597	$1,298,387	$1,297,159	$1,299,709	($14,877)	(1.1%)	(0.3%)
Board of Correction	$2,563	$2,503	$2,511	$2,511	$2,511	($52)	(2.0%)	(0.5%)
Citywide Pension Contribution	$9,230,754	$9,287,220	$9,441,265	$9,621,595	$9,994,815	$764,061	8.3%	2.0%
Miscellaneous	$9,458,682	$9,840,888	$10,645,625	$12,315,187	$13,262,793	$3,804,111	40.2%	8.8%
Debt Service	$4,223,113	$4,503,937	$4,703,328	$4,795,858	$5,092,088	$868,975	20.6%	4.8%
TFA Debt Service	$1,886,980	$2,213,630	$2,469,440	$2,881,830	$3,131,280	$1,244,300	65.9%	13.5%
Redemption of TFA Debt Service	($102,670)	$0	$0	$0	$0	$102,670	(100.0%)	(100.0%)
FY 2015 BSA	($3,524,068)	$0	$0	$0	$0	$3,524,068	(100.0%)	(100.0%)
FY 2016 BSA	$2,294,917	($2,294,917)	$0	$0	$0	($2,294,917)	(100.0%)	(100.0%)
Public Advocate	$3,398	$3,333	$3,353	$3,353	$3,353	($45)	(1.3%)	(0.3%)
City Council	$61,024	$52,492	$52,820	$52,820	$52,820	($8,204)	(13.4%)	(3.5%)
City Clerk	$5,601	$5,550	$5,583	$5,583	$5,583	($18)	(0.3%)	(0.1%)
Dept. for the Aging	$314,986	$279,358	$278,193	$278,899	$278,899	($36,087)	(11.5%)	(3.0%)
Dept. of Cultural Affairs	$167,251	$145,694	$144,620	$144,620	$144,620	($22,631)	(13.5%)	(3.6%)
Financial Info. Serv. Agency	$97,110	$105,000	$107,447	$108,278	$108,278	$11,168	11.5%	2.8%
Office of Payroll Admin.	$17,622	$17,549	$17,706	$17,707	$17,707	$85	0.5%	0.1%
Independent Budget Office	$5,959	$5,650	$5,681	$6,226	$6,226	$267	4.5%	1.1%
Equal Employment Practices Commission	$1,025	$1,106	$1,101	$1,101	$1,101	$76	7.4%	1.8%

Table A2 (Con't). *January 2016 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Change FYs 2016 - 2020 Dollars	Percent	Annual Percent Change
Civil Service Commission	$1,036	$1,101	$1,105	$1,103	$1,103	$67	6.5%	1.6%
Landmarks Preservation Comm.	$5,842	$6,120	$5,956	$5,966	$5,966	$124	2.1%	0.5%
Taxi & Limousine Commission	$68,568	$71,842	$50,550	$50,551	$50,551	($18,017)	(26.3%)	(7.3%)
Commission on Human Rights	$10,981	$10,824	$10,854	$10,855	$10,855	($126)	(1.1%)	(0.3%)
Youth & Community Development	$508,263	$371,771	$363,681	$368,319	$368,319	($139,944)	(27.5%)	(7.7%)
Conflicts of Interest Board	$2,250	$2,299	$2,322	$2,323	$2,323	$73	3.2%	0.8%
Office of Collective Bargaining	$2,520	$2,311	$2,325	$2,325	$2,325	($195)	(7.7%)	(2.0%)
Community Boards (All)	$17,667	$17,167	$17,167	$17,167	$17,167	($500)	(2.8%)	(0.7%)
Dept. of Probation	$88,093	$90,232	$88,656	$88,572	$88,572	$479	0.5%	0.1%
Dept. Small Business Services	$372,617	$159,533	$197,408	$114,322	$114,379	($258,238)	(69.3%)	(25.6%)
Housing Preservation & Development	$1,113,647	$874,104	$831,263	$726,413	$726,306	($387,341)	(34.8%)	(10.1%)
Dept. of Buildings	$155,246	$155,420	$149,320	$145,378	$145,378	($9,868)	(6.4%)	(1.6%)
Dept. of Health & Mental Hygiene	$1,432,993	$1,407,926	$1,427,696	$1,441,406	$1,439,909	$6,916	0.5%	0.1%
NYC Health + Hospitals	$598,952	$676,284	$741,873	$760,277	$760,560	$161,608	27.0%	6.2%
Office of Administrative Trials & Hearings	$38,230	$39,919	$41,021	$41,520	$41,520	$3,290	8.6%	2.1%
Dept. of Environmental Protection	$1,536,980	$1,229,546	$1,184,935	$1,150,567	$1,143,985	($392,995)	(25.6%)	(7.1%)
Dept. of Sanitation	$1,543,586	$1,634,659	$1,657,793	$1,665,427	$1,667,823	$124,237	8.0%	2.0%
Business Integrity Commission	$8,622	$7,669	$7,711	$7,711	$7,711	($911)	(10.6%)	(2.8%)
Dept. of Finance	$267,557	$265,688	$271,661	$269,866	$270,080	$2,523	0.9%	0.2%
Dept. of Transportation	$967,637	$927,846	$881,094	$882,670	$884,065	($83,572)	(8.6%)	(2.2%)
Dept. of Parks and Recreation	$438,603	$409,265	$410,446	$410,461	$410,461	($28,142)	(6.4%)	(1.6%)
Dept. of Design & Construction	$606,016	$549,414	$132,447	$132,461	$131,161	($474,855)	(78.4%)	(31.8%)
Dept. of Citywide Admin. Services	$458,276	$437,780	$406,417	$403,282	$403,821	($54,455)	(11.9%)	(3.1%)
D.O.I.T.T.	$529,052	$463,511	$472,276	$463,527	$462,714	($66,338)	(12.5%)	(3.3%)
Dept. of Record & Info. Services	$7,963	$7,131	$6,427	$6,427	$6,427	($1,536)	(19.3%)	(5.2%)
Dept. of Consumer Affairs	$38,881	$38,794	$39,144	$39,060	$39,060	$179	0.5%	0.1%
District Attorney - N.Y.	$113,137	$100,180	$100,998	$100,999	$100,999	($12,138)	(10.7%)	(2.8%)
District Attorney - Bronx	$59,979	$58,646	$59,148	$59,149	$59,149	($830)	(1.4%)	(0.3%)
District Attorney - Kings	$96,656	$94,096	$94,736	$94,737	$94,737	($1,919)	(2.0%)	(0.5%)
District Attorney - Queens	$57,895	$57,145	$57,568	$57,568	$57,568	($327)	(0.6%)	(0.1%)
District Attorney - Richmond	$10,390	$9,719	$9,788	$9,788	$9,788	($602)	(5.8%)	(1.5%)
Office of Prosec. & Spec. Narc.	$21,441	$21,924	$22,069	$22,069	$22,069	$628	2.9%	0.7%
Public Administrator - N.Y.	$1,762	$1,676	$1,682	$1,682	$1,682	($80)	(4.5%)	(1.2%)
Public Administrator - Bronx	$668	$656	$661	$661	$661	($7)	(1.0%)	(0.3%)
Public Administrator - Brooklyn	$794	$789	$792	$792	$792	($2)	(0.3%)	(0.1%)
Public Administrator - Queens	$571	$585	$589	$589	$589	$18	3.2%	0.8%
Public Administrator - Richmond	$474	$482	$487	$487	$487	$13	2.7%	0.7%
Prior Payable Adjustment	($400,000)	$0	$0	$0	$0	$400,000	(100.0%)	(100.0%)
General Reserve	$300,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$700,000	233.3%	35.1%
Energy Adjustment	($40,322)	$6,049	$55,945	$92,306	$131,806	$172,128	(426.9%)	**N/A**
Lease Adjustment	$0	$32,350	$63,670	$95,931	$129,158	$129,158	**N/A**	**N/A**
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	$166,557	**N/A**	**N/A**
TOTAL EXPENDITURES	**$81,708,701**	**$82,111,661**	**$86,559,502**	**$89,913,604**	**$92,509,040**	**$10,800,339**	**13.2%**	**3.2%**

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