March 2019

Overview: An Analysis of the Mayor's Preliminary Budget for 2020 and Financial Plan

When the Mayor presented his Preliminary Budget in February, he painted a picture of looming threats to the city's budget. The de Blasio Administration anticipates that slower economic growth at both the national and local levels will lead to slower growth in tax revenue than the city has experienced in recent years. The expectation of slower growth and continued budget threats from Albany, which is facing sizable budget gaps, prompted the de Blasio Administration to resume a program of mandatory savings actions for most agencies, yet the announced target of $750 million is fairly modest relative to the size of the total budget. There is little in the way of funding for new initiatives, although the financial plan does contain some additional funding for prior year initiatives such as the expansion of the Department of Education's 3-K for All program and the continuation of the City Council's Fair Fares program. Under the Mayor's plan, the continued growth in the size of the budget is largely driven by three factors: debt service, salaries, and fringe benefits.

Using IBO's estimates of city revenues and expenses under the Mayor's budget program, we project that the budget for 2019 and 2020 will total $92.3 billion and $92.8 billion, respectively (years are fiscal years unless otherwise noted). Both years are expected to end with surpluses, which we assume will be used to prepay subsequent years' expenses. The financial plan estimates obscure the total size of the budget in each year by not accounting for the use of $4.6 billion of 2018 resources to pay for 2019 expenses and the use of $3.2 billion of 2019 resources to prepay some 2020 expenses. Adjusted for prepayments, we project that the 2019 budget will total $93.7 billion (6.2 percent larger than the 2018 budget after adjustments) and the 2020 budget will reach $95.9 billion (an increase of 2.4 percent from 2019). For 2021 through 2023, IBO's re-estimates result in smaller budget gaps than those projected by the Mayor.

Total Revenue and Expenditure Projections
Dollars in millions

		Projection					Average Change
	Actuals 2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2018 -2023**
Total Revenue	**$88,573**	**$92,498**	**$93,244**	**$95,784**	**$98,557**	**$100,974**	**2.7%**
Total Taxes	58,915	61,031	63,474	65,761	68,164	70,550	3.7%
Total Expenditures	**$88,568**	**$92,264**	**$92,755**	**$98,480**	**$100,400**	**$102,596**	**3.0%**
IBO Revenue Less Expenditures	n/a	$234	$489	($2,696)	($1,843)	($1,622)	
IBO Prepayment Adjustment 2019/2020	n/a	(234)	234	-	-	-	
IBO Surplus/(Gap) Projections		**-**	**$722**	**($2,696)**	**($1,843)**	**($1,622)**	
Adjusted for Prepayments							
Total Expenditures	$88,171	$93,671	$95,924	$98,480	$100,400	$102,596	3.1%
City-Funded Expenditures	$64,262	$68,114	$71,355	$73,628	$75,154	$77,305	3.8%

NOTES: IBO projects a surplus of $234 million in 2019 and $489 million in 2020. The surplus could be used to prepay some 2021 expenditures, reducing the 2021 gap to $1.97 billion, and leaving 2019 and 2020 with balanced budgets. Figures may not add due to rounding.

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A major factor contributing to the budgetary uncertainty has been the volatility of current year tax revenue forecasts, particularly for the personal income tax. The after-effects of federal tax changes swelled 2018 tax collections by unprecedented amounts, making projections for 2019 particularly challenging. Tax forecasts by both IBO and the Mayor's Office of Management and Budget (OMB) anticipated large declines in personal income tax collections this year as taxpayer behavior returned to more normal patterns. However, a very sharp drop in estimated payments during December and January indicated that projections for the fiscal year as whole needed to be reduced further. In the Preliminary Budget, OMB cut its income tax forecast for 2019 by $177 million, bringing the projected decline from 2018 to 2019 to $935 million; IBO's forecast is for a smaller year-to-year decline of $650 million. While IBO and OMB both reduced their most recent income tax forecasts, the reductions were much smaller—in dollar and percentage terms—than what was required at the state level because initial state income tax projections had assumed a milder decline from 2018 to 2019. The magnitude of the state's $2.3 billion revenue shortfall for the current state fiscal year will make efforts to stave off adverse state budget actions that much harder for the city.

The Governor's proposed budget includes items that could cost the city budget several hundred million dollars. This includes a proposal to redirect $125 million in federal family assistance funding from the city towards other state priorities. Similarly, the amount of state education aid for the city in the Governor's budget proposal is almost $150 million less than what the Mayor's Preliminary Budget anticipates. If these changes are adopted, the city would have to either reduce services or find other sources of funding, most likely from the city's own coffers. Meanwhile, although the possibility of steep cuts in federal aid to the city has diminished with the inauguration of the new Congress, continued federal budget uncertainty is likely given the highly charged partisan divisions in Washington.

After a brief growth spurt brought on by the 2017 federal tax law and additional fiscal stimulus, U.S. economic growth has begun to slow. IBO projects real gross domestic product (GDP) growth of 2.7 percent in calendar year 2019, down slightly from 2.9 percent last year. Although IBO is not forecasting a recession, we are expecting much slower economic growth throughout the remainder of the financial plan period, particularly in calendar year 2020, when we project GDP growth of just 1.6 percent. The possibility of recession—an actual decline in economic activity—cannot be dismissed, however. The expansion that began in 2010 will shortly become the nation's longest and with federal fiscal policy in disarray, potential trade disruptions, and a shrinking labor force as baby boomers reach retirement age, the odds of a recession get stronger.

New York City employment growth (measured calendar year Q4 to Q4) declined substantially last year from 93,400 in 2017 to 71,500 in 2018. IBO forecasts further slowing this year and next, from 59,400 jobs added in 2019 to just 26,400 jobs added in 2020—the smallest increase in local employment in a decade. The sharp slowdown in 2020 reflects an expected dip in the national economy, though the local impact should be cushioned by the large share of city employment in the education and health care sectors, which are relatively resilient in the face of business cycle shocks. After 2020, IBO forecasts moderate annual employment gains averaging 41,500 a year. Throughout the forecast period, IBO expects slower local economic growth that will constrain tax revenues, particularly taxes on personal income.

IBO's current employment projections are lower than those presented in our December outlook primarily as a result of the impact of Amazon's decision to not go forward with development of its HQ2 in the city; our December forecast had assumed that the Amazon project would proceed as planned. The loss of Amazon's HQ2 will cost the city approximately 4,000 jobs in calendar year 2020 from what it would have had if HQ2 had gone forward, rising to a loss of 18,000 jobs by calendar year 2023. Although most of these jobs would have been in the information and retail sectors, the secondary impacts would be felt more widely across the economy. By 2029, when HQ2 would have reached full employment, IBO estimates that the city's economy will have 53,300 fewer jobs than it would have had if the project had gone ahead.

With revenues from the city's tax on personal income rising nearly 21 percent in 2018, overall tax revenue growth was boosted to 8.5 percent. As expected, tax revenue growth has slowed and IBO now projects an increase of 3.6 percent this year, with collections net of refunds totaling $61.0 billion. Growth is expected to be slightly higher in 2020 (4.0 percent), yielding $63.5 billion. For the remaining three years of the financial plan IBO forecasts that growth in tax revenues will average 3.6 percent annually with revenue reaching $70.5 billion by 2023. Continued strength in the property tax and—to a lesser extent—growth in the general sales and unincorporated business taxes will offset weaker growth in the personal income tax (annual average of 1.4 percent between 2018 and 2023), general

IBO Revenue Projections
Dollars in millions

	Actuals 2018	Projection 2019	2020	2021	2022	2023	Average Change 2018 -2023
Tax Revenue							
Property	$26,219	$27,926	$29,952	$31,356	$32,846	$34,280	5.5%
Personal Income	13,380	12,730	13,046	13,591	13,936	14,319	1.4%
General Sales	7,443	7,926	8,204	8,427	8,714	8,994	3.9%
General Corporation	3,437	3,861	3,744	3,929	4,012	4,055	3.4%
Unincorporated Business	2,182	2,098	2,296	2,440	2,540	2,630	3.8%
Real Property Transfer	1,388	1,535	1,493	1,503	1,548	1,607	3.0%
Mortgage Recording	1,049	1,152	1,025	1,038	1,049	1,110	1.1%
Utility	371	391	410	413	422	426	2.8%
Hotel Occupancy	597	621	637	648	660	675	2.5%
Commercial Rent	853	873	866	893	916	933	1.8%
Cigarette	36	36	34	33	32	31	-2.9%
Other Taxes and Audits	1,960	1,883	1,767	1,490	1,490	1,490	-5.3%
Total Taxes	**58,915**	**$61,031**	**$63,474**	**$65,761**	**$68,164**	**$70,550**	**3.7%**
Other Revenue							
STaR Reimbursement	189	$181	$182	$180	$178	$176	-1.4%
Miscellaneous Revenue	7,196	7,641	6,828	6,802	6,777	6,765	-1.2%
Unrestricted Intergovernmental Aid	-	151	-	-	-	-	n/a
Disallowances	139	91	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$7,524**	**$8,064**	**$6,995**	**$6,967**	**$6,940**	**$6,926**	**-1.6%**
Less: Intra-City Revenue	**($2,172)**	**$(2,154)**	**$(1,794)**	**$(1,796)**	**$(1,794)**	**$(1,792)**	
TOTAL CITY-FUNDED REVENUE	**$64,267**	**$66,941**	**$68,674**	**$70,932**	**$73,311**	**$75,684**	**3.3%**
State Categorical Grants	$14,453	$15,184	$15,372	$15,832	$16,307	$16,362	2.5%
Federal Categorical Grants	7,966	8,469	7,570	7,449	7,376	7,364	-1.6%
Other Categorical Aid	1,255	1,215	967	909	903	902	-6.4%
Interfund Revenue	637	690	661	662	661	661	0.8%
TOTAL REVENUE	**$88,573**	**$92,498**	**$93,244**	**$95,784**	**$98,557**	**$100,974**	**2.7%**

NOTES: Remaining banking corporation tax revenues reported with general corporation tax. Figures may not add due to rounding.
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corporation tax (3.4 percent), real property transfer tax (3.0 percent) and mortgage recording tax (1.1 percent). Total tax revenue growth over the period 2019 through 2023 will average 3.7 percent, well below the 5.3 percent annual average over the preceding five years (2013 through 2018).

Based on the proposals included in the Mayor's Preliminary Budget and IBO's re-estimates of city spending and revenues, we project that the budget for 2019 will end with a surplus of $3.4 billion and 2020 with a $722 million surplus. Assuming the 2020 surplus is used to prepay expenses in the following year, we forecast budget gaps of $1.97 billion in 2021 (2.7 percent of projected city–funded expenditures), $1.84 billion in 2022 (2.4 percent), and $1.62 billion (2.1 percent) in 2023. These gaps would be nearly completely offset by the $1.25 billion of reserves already built into the budgets for each of these years. (These reserves are included in the projected expenditures for each year but are not allocated to specific programs. Assuming they are not used to cover shortfalls or unanticipated needs that emerge during the year, the reserves would be available to close outstanding gaps.)

The following overview presents highlights from IBO's analysis of the de Blasio Administration's Preliminary Budget for 2020 and the financial plan for the current year through 2023.

Projected Surpluses and Gaps

IBO projects the need for an additional $305 million in city-funded expenditures in 2019 as a result of our re-

Pricing Differences Between IBO and the de Blasio Administration
Items that Affect the Gap
Dollars in millions

	2019	2020	2021	2022	2023
Gaps as Estimated by the Mayor	**-**	**-**	**($3,516)**	**($2,939)**	**($3,296)**
Revenue					
Taxes					
Property	$61	$423	$447	$696	$1,170
Personal Income	285	53	282	202	110
General Sales	117	35	(12)	(26)	(28)
General Corporation	62	93	269	300	281
Unincorporated Business	(57)	(34)	13	82	105
Real Property Transfer	7	52	43	52	66
Mortgage Recording	55	92	94	85	121
Utility	5	14	3	1	(4)
Hotel Occupancy	-	1	19	17	24
Commercial Rent	(3)	11	15	4	(14)
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$531**	**$740**	**$1,173**	**$1,413**	**$1,831**
STaR Reimbursement	-	-	-	-	-
Misc. Revenue	8	29	30	30	30
TOTAL REVENUE	**$539**	**$769**	**$1,203**	**$1,443**	**$1,861**
Expenditures					
Debt Service	$7	$38	$0	$0	$0
Fringe Benefits:					
Health Insurance-Education	-	69	72	128	168
Health Insurance-City University	-	3	3	6	8
Health Insurance-All Other Agencies	-	115	116	201	279
Public Assistance	46	52	52	52	52
Education	(73)	(80)	(101)	(127)	(127)
Fire	(50)	(50)	(50)	(50)	(50)
Police	(50)	(50)	(50)	(50)	(50)
Homeless Services	(176)	(238)	(238)	(239)	(239)
Parks	(8)	(13)	(14)	(15)	(15)
Sanitation	(2)	(49)	(88)	(127)	(127)
Housing	-	(3)	(9)	(9)	(9)
Campaign Finance Board	-	-	-	(40)	-
Board of Elections	-	(30)	(30)	(30)	(30)
Small Business Services	-	(44)	(46)	(46)	(46)
TOTAL EXPENDITURES	**($305)**	**($280)**	**($383)**	**($346)**	**($186)**
TOTAL IBO PRICING DIFFERENCES	**$234**	**$489**	**$820**	**$1,097**	**$1,675**
IBO Prepayment Adjustment 2019/2020	(234)	234	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**-**	**722**	**(2,696)**	**(1,843)**	**(1,622)**

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Remaining banking corporation tax revenues reported with general corporation tax. Figures may not add due to rounding.

New York City Independent Budget Office estimates of spending in the February Pre;iminary Budget. This increase in expenditures is more than offset by our tax and miscellaneous revenue forecast for 2019, which is $539 million above the estimate in the Mayor's financial plan. IBO's changes yield a total of $234 million in net additional resources in 2019, increasing the projected 2019 surplus to $3.4 billion. Barring any significant new needs emerging in the remaining months of the fiscal year, we assume this surplus will be used to reduce future year budget gaps.

IBO estimates that planned city-generated revenues in 2020 will once again exceed planned city-funded expenditures. City-funded spending is expected to surpass OMB's forecast for 2020 by $280 million, primarily due to underestimates of shelter costs for the homeless, additional costs at the Department of Education, and overtime expenses for uniformed workers. This additional spending is again more than offset by IBO's projection that the city's own-source revenues will be $769 million greater in 2020 than OMB has forecast. As a result, IBO estimates that 2020 will have a surplus of $489 million. The additional $280 million of 2019 resources coupled with the $489 million from 2020 would create a surplus of $769 million to be rolled into 2021. These funds together with IBO's estimate of $820 million of additional 2021 resources would reduce the 2021 gap to $1.97 billion.

In 2022, IBO's projection for city-funded spending is $346 million greater than the Mayor's while our city-generated revenue forecast is $1.4 billion higher than OMB's. As a result we forecast that $1.1 billion in additional resources will be available in 2022, lowering the projected budget gap to $1.84 billion. For 2023, IBO's forecast includes an additional $1.9 billion of city-funds revenue collections above the Mayor's current estimates and $186 million more in city-funded expenditures for a net of $1.7 billion in additional resources, lowering the estimated budget gap to $1.62 billion.

Spending

IBO projects that under the policies and programs articulated in the Mayor's latest financial plan, city spending adjusted for prepayments will total $93.7 billion in 2019, $95.9 billion in 2020, and grow to $102.6 billion in 2023, an average increase from 2018 of 3.1 percent, annually. Similarly, we expect adjusted city-funded spending, which totaled $64.3 billion in 2018, to grow by 6.0 percent to $68.1 billion in 2019 and reach $77.3 billion in 2023, an average annual increase from 2018 through 2023 of 3.9 percent.

Adjusting further for certain nonrecurring or unallocated expenses, such as the reserve funds that are carried in the expense budget but expected to remain unspent, IBO projects that city-funded expenditure growth from 2018 through 2023 will average 3.5 percent annually.

IBO expects city-funded agency spending, adjusted for prepayments, to increase by nearly $1.0 billion between 2019 and 2020.[1] The majority of the city-funded expenditure increase between 2019 and 2020 is allocated for wage increases for all city employees as a result of the recent contract settlement with District Council 37 (DC 37), the city's largest municipal labor union. Pending resolution of contracts with individual unions, much of these funds are still budgeted in the citywide labor reserve rather than individual agencies. As the salary increases under the new contracts take effect, funds will be transferred from the labor reserve into agency budgets. As a result, in future plans IBO expects that most agencies will see a year-over-year increase in their budgets, the product of increased salaries resulting from the contract settlements already signed and those expected to be settled in the coming months.

Sources of Spending Growth. IBO estimates agency expenditures will grow by 6.4 percent from $73.9 billion in 2018 to $78.6 billion in 2019. Between 2018 and the final year of the financial plan agency expenditures will increase an average of 2.1 percent annually. The large increase in agency spending between 2018 and 2019 is primarily due to the settlement of the city's labor contracts. In June 2018 the city settled its labor contract with DC 37, which provided for 7.42 percent compounded wage increases over a 44-month period—2.0 percent for the first 12 months, 2.25 percent for the next 13 months, and 3.0 percent for the remaining 19 months. This contract set the wage increase pattern for the remaining city unions. In order to fund this pattern the city added resources in 2019 through 2022 over and above what had previously been budgeted in the labor reserve for this round of settlements. The steep increase in 2019 agency costs reflects the cost of retroactive wages resulting from the settlement of these contracts as well as retroactive payments made for previous contracts, in particular for the United Federation of Teachers (UFT). After 2019, agency expenditure growth will average 1.0 percent annually.

Soon after DC 37 settled its contract with the city, the United Federation of Teachers adopted its contract for the 2017-2021 period. While the UFT settlement was in line with the recent DC 37 settlement, it included an additional provision for salary differentials for hard-to-staff positions in certain city schools. At the time the contract was settled, the city assumed that the cost of this differential would be included in funding already allocated within the Department of Education's (DOE) budget. It is doubtful that DOE school budgets have sufficient funds available to fully implement this differential payment program and the DOE will either have to reallocate other funds towards this initiative or require additional city funding not already allocated within its budget. Because the department has not provided detailed information on how many positions would qualify for the differential, IBO is unable to estimate the total cost of the program.

Fringe Benefits, Debt Service Spending. Spending growth over the plan period is focused on a few areas within the budget, particularly fringe benefits and debt service. The increase in the cost of providing fringe benefits for city employees and retirees, including health insurance costs, is the single largest area of spending growth across the plan period. In 2018 the city spent slightly under $10 billion in fringe benefit costs; in the current year these costs are expected to be $10.9 billion, and by 2023 they are estimated to increase to nearly $13.4 billion, an annual growth rate of 6.2 percent. IBO estimates that health care costs, by far the biggest component of fringe benefits, will grow at a rate of 5.8 percent during the same period, from $6.2 billion in 2018 to $8.2 billion by 2023. This projected growth would have been even higher without an agreement between the city and the municipal labor unions to work together to identify $1.1 billion in health care savings over the 2019 through 2021 period.

Although the cost of debt service—payment of principal and interest on the funds the city borrows to finance capital projects—is currently lower than estimated when this year's budget was adopted last spring, over the course of the financial plan IBO expects debt service to rise substantially as the city issues additional debt to finance its capital program. After adjusting for prepayments, debt service is projected to grow at an average annual rate of 8.4 percent, from $6.1 billion in 2018 to $9.1 billion in 2023, an increase of over $3.0 billion. In contrast, from 2014 through 2018 actual debt service costs increased by an average of 2.3 percent annually, from $5.5 billion to $6.1 billion.

The growth in debt service costs is almost entirely a product of OMB's estimate of new long-term bond issuance over the plan period. Debt service on new long-term bonds during the plan period is estimated to add approximately $2.0 billion in costs by 2023, net of any savings accrued from the retirement of older debt and refundings. OMB's debt service forecast assumes the issuance of $6.2 billion of new debt in the current year, increasing to $11.0 billion of new debt in 2023, for a total of $36.8 billion of new long-term debt issued during the plan period. While IBO does not re-estimate the city's bond issuance, the total amount of new long-term debt the city plans to issue through 2023 would greatly exceed any previous five-year period. In contrast, from 2014 through 2018 the city issued about $29 billion of new debt, with the largest issuance, $7.4

IBO Expenditure Projections—Adjusted for Prepayments
Dollars in millions

	Actuals	Projection					Average Change
	2018	2019	2020	2021	2022	2023	2018 -2023
Agency Expenditures	**$64,023**	**$67,039**	**$65,108**	**$65,825**	**$66,440**	**$66,409**	**0.7%**
Fringe Benefits	9,912	10,943	11,536	12,028	12,705	13,385	6.2%
Labor Reserve	-	666	1,850	2,268	1,650	2,109	n/a
Total Agency Expenditures	**$73,935**	**$78,648**	**$78,494**	**$80,121**	**$80,795**	**$81,903**	**2.1%**
Other Expenditures							
Debt Service	$6,077	$6,730	$7,306	$7,658	$8,337	$9,086	8.4%
Pensions	9,626	9,850	9,951	10,418	10,864	11,070	2.8%
Judgments and Claims	730	697	712	727	742	758	0.8%
General Reserve	-	300	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	-	250	250	250	250	n/a
Other Adjustments	-	(401)	5	103	206	321	n/a
Subtotal	**90,368**	**95,824**	**97,718**	**100,277**	**102,194**	**104,388**	**2.9%**
Less: Intra-City Expenditures	$(2,197)	$(2,154)	$(1,794)	$(1,796)	$(1,794)	$(1,792)	n/a
TOTAL EXPENDITURES	**88,171**	**93,670**	**95,924**	**98,481**	**100,400**	**102,596**	**3.1%**

NOTES: Adjustments for prepayments include $4.18 billion of 2017 resources to prepay 2018 expenses, $4.58 billion of 2018 resources to prepay 2019 expenses, and $3.4 billion of 2019 resources to prepay 2020 expenses. Other adjustments include energy, lease, and non-labor inflation adjustments. Figures may not add due to rounding.

New York City Independent Budget Office billion, issued in 2018. Based on past practice, however, even if total debt issuance does in fact grow, the actual increase in new issuance will likely not keep pace with issuance as currently planned.

Labor Costs. In 2018 the city spent approximately $27.5 billion on wages and salaries for employees. The 2018 expenditure was 8 percent greater than the prior year primarily as a result of the finalization of a number of agreements with municipal labor unions on wage increases. The cost of current year wage increases plus the retroactive payments for prior years included in these settlements artificially swelled the 2018 salary and wage total. IBO estimates the city will spend $29.1 billion on wages in 2019, increasing to $31.7 billion in 2023. From 2018 through 2023 the cost of salaries and wages will grow an average of 2.9 percent a year as wage increases related to the settlement of the remainder of the municipal wage contracts begin to take effect.

Pension Spending. Pension costs are often cited as a primary driver of expenditure growth, although in recent years they have accounted for less of the growth than debt service and fringe benefit costs. In 2018 the city spent $9.6 billion on pension costs. OMB estimates that the city's pension costs will increase to $9.9 billion in 2019, $10.0 billion in 2020, and $11.1 billion by 2023, an average growth rate of 2.8 percent from 2018 through 2023. The current rate of growth in pension costs is greater than at this time last year, with the increase primarily attributable to the recent contract settlements. In the November plan an additional $1.1 billion was allocated for pension costs across the plan period to cover the pension costs associated with the salary increases included in the settlements. Excluding the pension increases attributable to the recent contract settlements, annual growth in city-funded pension expenditures over the plan period would have averaged 1.5 percent.

Spending Re-estimates. As a result of differences in various areas of the Mayor's budget, IBO estimates that city-funds expenditures in the Mayor's February financial plan are understated by $304 million in 2019. We expect that city-funded spending will exceed the current plan in each of the four subsequent fiscal years, with the difference reaching a high of $383 million in 2021 before declining to $186 million in 2023.

While changes to expenditures funded with state and federal dollars do not affect the city's budget gaps, shortfalls in state and federal revenues can result in service reductions or a need for additional city funds to replace the deficit in these other sources. IBO estimates that the February financial plan overestimates state and federal funding in 2019 by $60 million. Conversely, we project that state and federal funding is under-estimated by $265 million in 2020, rising to $294 million by 2023. This is primarily the effect of OMB's customary under-budgeting of out-year federal and state funding for certain agencies. IBO's higher estimates for non-city funding within these agencies' budgets are based upon historical analysis of federal and state allocations.

Areas where IBO projects less-than-budgeted spending:

Debt Service. The Mayor's office cut its forecast for 2019 debt service costs by $82 million in the February plan. More than half of these savings resulted from a reduction, to 2.88 percent, of the assumed interest rate on variable rate bonds in the current fiscal year, although that rate remains above current interest rate projections. Using historical data and forecasts from financial institutions to project interest rates on variable rate bonds, IBO estimates that the city's debt service costs will be $7 million less in the current year and $38 million less in 2020 than forecast by OMB.

Health Care Costs. The Mayor's February plan includes $6.6 billion for the city's provision of health care for current and retired city employees in 2019, rising to $8.4 billion by 2023. Based on historical increases in health care costs and federal forecasts, IBO's estimates of health care spending over the financial plan period are slightly lower than the Mayor projects. Although our estimate of city spending on health insurance in 2019 is the same as the de Blasio Administration's, we expect the costs to be lower than presented in the Preliminary Budget by $187 million in 2020, $191 million in 2021, $335 million in 2022, and $455 million in 2023.

Public Assistance Spending. IBO expects that city-funded spending on cash assistance for the poor will be lower than projected by the de Blasio Administration. The city's cost estimates for public assistance are based on caseload projections that are nearly three years old. Because caseloads have declined since the last projections were released, IBO expects that the cost to the city of public assistance will be lower than OMB estimates by $46 million in 2019 and $52 million in each year from 2020 through 2023. In addition we project that state and federal funds for public assistance will be $95 million lower than OMB estimates in 2019 and $106 million lower in each year from 2020 through 2023.

Areas where IBO projects greater-than-budgeted spending:

Homeless Services. The cost of homeless services presents the most notable difference between the two forecasts, with IBO projecting an additional need of $175 million in city funds in the current year, rising to $239 million by 2023. IBO's increased forecast of the cost of homeless services is driven by two factors. First, is the city's underfunding of the provision of shelters, primarily for single adults. The city's current shelter estimate does not account for the continued growth in the size of the single adult and adult family shelter populations or for increases in the per diem cost of shelter. The growth in these shelter populations will require the city to provide an additional $141 million in 2019 and $198 million for each year from 2020 through 2023.

Second, in the past few years the city has consistently received less federal funding for homeless services than OMB has expected. IBO's estimates assume that the ratio of funding among the city, state, and federal governments will closely mirror that of recent years. As a result we project approximately $34 million less federal funding for family shelters than OMB in 2019, growing to $40 million in 2020. We assume that the shortfall will be remedied with an increase in city funding.

Uniformed Overtime. As in past years, we expect overtime costs for the police and fire departments will be higher than estimated in the Mayor's plan. Based on recent historical overtime usage in both departments, IBO anticipates that overtime costs for the police department will exceed the current plan by $50 million in each year of the financial plan. Similarly, we estimate that the city will spend an additional $50 million each year from 2019 through 2023 on fire department overtime costs.

Department of Education. IBO estimates that the city will have to provide an additional $73 million in 2019, $80 million in 2020, $101 million in 2021, and $127 million in 2022 and 2023 for costs related to the city's charter schools. Differences in charter enrollment projections are the largest factor in IBO's forecast of the need for additional charter school funding. Our projections for charter school enrollment exceed the city's estimates by over 3,000 pupils in 2019, increasing to nearly 7,000 more pupils in 2023. As a result we expect that DOE will require an additional $48 million in the current year, $55 million in 2020, $81 million in 2021, and $106 million in both 2022 and 2023.

Differing assumptions about leases for charter schools is the second factor driving IBO's forecast of greater spending on charter schools. The de Blasio Administration based its estimate of state aid for charter school leases on the assumption that once the city reaches $40 million in cumulative allowable charter school lease expenditures since 2015 (the year the state requirement that the city pay for charter schools' leases in private space took effect), it will receive 60 percent reimbursement from the state for any additional lease expenses incurred. In contrast, IBO expects that the state will actually only reimburse 60 percent of the portion of allowable city charter school lease expenditures that exceeds $40 million in any given year. Accordingly, we estimate that the city will need to provide $25 million more a year in 2019 and 2020, and $21 million more each year from 2021 through 2023 for charter school lease expenses.

Small Business Services. The Department of Small Business Services (SBS) budget has customarily been underfunded in the out-years of the financial plan. IBO estimates that SBS's city-funds budget will be $44 million more than budgeted in 2020 and $46 million more in 2021 through 2023. IBO's assumption of higher costs is primarily the result of the city not accounting for funding of the NYC Bus Program beyond the current year of the plan. The program, established in 2014, provides funds to reverse sharp cuts in wages for certain school bus drivers, attendants, dispatchers, and mechanics. Initially the grant was for one year and capped at $42 million, but funding has been allocated every year since its implementation.

The February plan includes funding for the program in 2019 and a small amount of funding, approximately $2 million, in 2020, but none in the remainder of the plan period. On the expectation that these payments will continue, IBO assumes the agency will need an additional $40 million in 2020 and $42 million in each year from 2021 through 2023.

Similarly, SBS's financial plan does not include funding past the current year for some programs that have been funded annually in past budgets. IBO assumes that SBS will need an additional $4.4 million in each year from 2020 through 2023 for continued funding of these programs.

Board of Elections and Campaign Finance Board. IBO estimates that the Board of Elections (BOE) will spend $30 million more than planned each year from 2020 through 2023. Analyzing actual expenditures in recent years, IBO concludes that the currently planned amounts for those years are inadequate for the board to fulfill its mandate.

In addition, IBO projects that the Campaign Finance Board (CFB) will spend $40 million more than budgeted for 2022, the year of the next citywide elections, including the election of a new mayor. IBO's re-estimate of CFB spending for 2022 is generally in line with expenditures in 2014, the last citywide election cycle without an incumbent mayor running for re-election.

Other Agencies. IBO projects that the Department of Sanitation will spend slightly more in 2019 than currently planned. We estimate that the department will require an additional $49 million in 2020, $88 million in 2021, and $127 million in 2022 and 2023. Although we project that the cost of closing the Fresh Kills Landfill will be lower than expected, these savings will be more than offset from 2020 through 2022 by higher personnel costs for waste collection and street cleaning along with higher costs for waste prevention and recycling largely due to contracting.

IBO estimates that the Department of Parks and Recreation will require additional city funding in each year of the plan period. Assuming that agency expenditures in such areas as auto maintenance, funding for city facilities managed by the Wildlife Conservation Society, and human resources will be similar to their average levels in recent years, the department will require an additional $8 million in 2019, increasing to $15 million by 2023.

In addition, we estimate that city funds totaling $3 million in 2020 and $9 million a year in 2021 through 2023 will be needed at the Department of Housing Preservation and Development. These additional costs are primarily the result of the de Blasio Administration not funding a number of current initiatives and programs it has funded routinely in the past; IBO assumes the agency will continue to fund them in the future. These include funding for emergency housing needs, the Alternative Enforcement Program, foreclosure buyback, and other anti-abandonment preservation programs.

Pressure Points

Some of the risks to the financial plan that IBO has highlighted in recent reports have abated. The cost of labor settlements, which had been one of the biggest unknowns in past financial plans, have largely been determined while the changes to the political landscape in Washington have reduced some of the fiscal uncertainty of the first two years of the Trump Administration. But there still remain a number of areas that have the potential to undermine the city's fiscal well-being.

New York City Housing Authority. Earlier this year the city agreed to the terms of a settlement with the federal government to settle pending litigation related to a number of accusations against the New York City Housing Authority (NYCHA). The authority had been accused of negligence and mismanagement in exposing its tenants to dangerous levels of toxic materials as well as for failing to provide for basic levels of housing quality. The settlement agreement requires NYCHA to meet improved performance goals on a set schedule under the oversight of a federal monitor. The city is also required to provide an additional $2.2 billion over the next 10 years for improvements to NYCHA's housing infrastructure. This funding is on top of the city's previously planned $2.0 billion in capital support for a total city investment of $4.2 billion planned by 2028. The settlement does not require the federal government to provide any additional support outsides its customary, annual capital grant allocation, which the authority expects to total $2.1 billion over the next five years.

The settlement with the federal government requires NYCHA to meet certain deadlines for the completion of projects in four critical areas: lead paint and mold remediation, heat restoration, elevator repair, and pest control. If NYCHA does not meet these deadlines the federal monitor has the power to allocate or reallocate resources to assure that the projects are completed. While it is possible that the funding allocated in the settlement agreement will be adequate to ameliorate some of the specific problems identified in the agreement, it is likely that the current funding will not be sufficient to meet all of these targets. According to NYCHA's own needs assessment, its housing portfolio currently has approximately $32 billion of critical needs and a total capital need of $45 billion to bring all NYCHA properties into a state of good repair. It would cost NYCHA approximately $4 billion over the next five years just to make all the repairs outlined in its needs assessment for elevators and heating systems—nearly twice what the city is required to contribute in the settlement and more than 60 percent of the housing authority's current five-year capital plan.

While NYCHA has developed a plan (NYCHA 2.0) that may allow the authority to generate new revenue to address some of its additional capital needs, none of this funding is included in the authority's capital plan. Recent history suggests that it is unlikely that funds needed for repairs in excess of what is already budgeted would come from Washington or Albany—leaving the city to pick up the tab or face the consequences of even greater federal control.

Health + Hospitals. The current H+H financial plan projects operating budget shortfalls, before savings and revenue actions anticipated in its latest transformation plan, of over $1.1 billion in 2019 increasing to $2.0 billion in 2023. The transformation plan to close the gaps relies on efforts to maximize patient volume and revenue by improved billing, documentation, and authorization practices; securing higher reimbursement rates; and ensuring all eligible uninsured patients have insurance, including MetroPlus, H+H's insurance program. Cost savings include efforts to reduce procurement costs, consolidate certain services, and reduce workforce expenses in nonclinical settings. Even if H+H meets all of the transformation plan targets, the public system's exposure to potential federal cuts scheduled for 2020 in Disproportionate Share Hospital funds—money intended to help hospitals serving a disproportionately large share of uninsured patients—is projected by H+H to lead to budget shortfalls as early as 2021. However, H+H's cash balance is projected to be high enough to remain positive over the 2019-2023 period, although 2019's cash balance of $812 million is expected to be only $114 million in 2023. H+H reports modest progress with revenue maximizing and MetroPlus enrollment efforts. The number of uninsured patients served has declined but outpatient visits have yet to increase and an increasing proportion of MetroPlus spending is still going to non-H+H providers. The financial stability of H+H is paramount for the provision of medical services to the city's most needy populations. In order for H+H to remain viable it may fall upon the city to provide for any additional funding necessary to contend with budget shortfalls.

Public Transportation Infrastructure Costs. Additional pressure on the city fisc is likely to come from the costs related to repair and improvement of the Metropolitan Transportation Authority's (MTA) subway and bus system. Under pressure from the state, in 2018 the Mayor agreed to provide half the $856 million cost of an emergency Subway Action Plan aimed at stabilizing the city's deteriorating subway system; the state is providing the other half of the funds. The city is also slated to contribute $2.7 billion of the $17.1 billion of capital spending on subways and buses the MTA budgets in its current capital plan. This funding is not adequate to address all of the system's critical needs, however. The MTA has estimated that it could cost $40 billion or more to properly modernize the city's subway system over the next decade. The Governor and the Mayor have put forward a number of proposals for new or enhanced dedicated funding streams for financing capital improvements to the system. While support for new sources of funding has been gaining momentum, opposition remains widespread and legislation to establish these funding streams is far from certain.

State Budget Concerns. The state recently announced that its current year revenue collections are $2.3 billion below estimates and that its revenue estimates for next year may already be overstated. While it is not unusual for the state to seek budgetary savings to the detriment of the city budget, the state's need to address the revenue shortfall may make it harder for the city to avoid any impact on its own finances. The Governor's budget proposal includes a number of actions that if adopted could require the city to reduce services or allocate hundreds of millions of city dollars to replace the lost state funding. One of the Governor's proposals would require the city to fund 10 percent of the Family Assistance program. The program, which is currently fully funded by federal Temporary Assistance to Needy Families funds, would cost the city $125 million annually: the cuts would include $53 million for cash assistance and $59 million for the provision of family shelter services. Additionally the Governor's proposed budget allocates $148 million less in state education aid to the city than contained in the Mayor's budget for next year. In the unlikely event that all of the Governor's proposals were to be adopted, the de Blasio Administration estimates that the impact on the city's budget could be over $600 million.

Federal Fiscal Policy Concerns. While the likelihood of reductions in federal funding to the city has been diminished with the election of a Democratic majority in the House, continued partisan rancor in Washington has increased the chances of fiscal turmoil that could further slow what is already expected to be a slow-growth U.S. economy. Of particular concern is the need to approve an increase in the debt ceiling. In February 2018 the President signed a law that temporarily eliminated the statutory limit on the debt ceiling for one year. The law expired on March 1, 2019, at which time the statutory debt ceiling came back into effect. The Congressional Budget Office estimates that without an increase in the debt ceiling, the federal government will run out of cash resources by the end of September of this year.

Increasing the debt ceiling would require Congressional approval, but currently there seems to be little motivation on either side of the political aisle to discuss the issue. Congress and the President will also need to address the fate of caps on defense and discretionary nondefense spending levels as well as next year's appropriation bills. Failure to agree on spending late last year resulted in the longest federal shutdown on record. Moodys' Analytics and a number of other economic forecasters are anticipating that official statistics will ultimately show that the shutdown reduced GDP growth by about two-tenths of a percentage point in the first quarter of calendar year 2019 (the agency that measures GDP was one of those closed by the shutdown, which has delayed production of important national economic statistics). Another shutdown could further slow economic growth.

In Reserve

The Mayor and the City Council continue to place substantial funds into reserve that would be available to help balance the budget in the face of either a sharp drop in revenue or the need for unexpected spending. The February plan includes $300 million in reserve funds for 2019—dollars budgeted as expenses but not attached to any specific budget function. If the funds go unused, as they have in the Mayor's prior budget plans, they then become part of the surplus and would likely be used to prepay a portion of 2020 expenses. The financial plan also contains unallocated reserves of $1.25 billion in each year from 2020 through 2023.

In addition to these budgeted reserves, the de Blasio Administration has put aside an estimated $4.8 billion in the Retiree Health Benefits Trust. While funds in the trust can only be used to pay all or part of the cost of retiree health benefits in a given year, it is a sizable sum: $2.5 billion in 2019 and $2.6 billion in 2020. Retiree health costs paid with funds from the trust free up an equal amount of city funds in the budget for other needs, although dipping into the trust fund to provide budget relief makes the city's challenge of funding its future health care obligations to retirees more difficult.

If IBO's economic forecast and our re-estimates of city revenues and expenditures prove generally correct, then the city's fiscal condition should remain stable, with current-year budget surpluses and future-year gaps of a size that the city has routinely managed in past years. We estimate that the city will end 2019 with a total surplus of over $3.4 billion before drawing down the remaining $300 million in unallocated reserve in this year's budget; as typically happens, the city has reduced the unallocated reserves in this year's budget (which originally stood at $1.45 billion) as the year has progressed. This surplus could prepay 2020 expenses, creating a 2020 surplus of $722 million. These funds, along with $820 million in additional resources IBO expects in 2021, could reduce the budget gap in that year to just under $2.0 billion (2.7 percent of estimated city-funded spending). Additionally, our forecasts of revenue and expenditures in the remainder of the financial plan reduce the city's budget gap in 2022 to $1.8 billion (2.4 percent of estimated city-funded spending) and $1.6 billion (2.1 percent of estimated city-funded spending) in 2023. If the city is unable to close these gaps with additional revenues or savings, the $1.25 billion in reserves budgeted for each year of the financial plan are available to help bring the budget into balance. Finally, the city could draw on the Retiree Health Benefits Trust to help eliminate budget gaps.

The city's job growth weakened in calendar year 2018 from the record setting growth that marked the city's recovery from the 2008-2009 recession, and while it is expected to remain positive it is projected to slow further in 2019 and even more so in 2020. Even with this slower growth, IBO expects the city's fiscal condition will remain relatively stable with revenue growth forecast to just outpace growth in expenditures. Though the changing political makeup of Congress has lessened the possibility of additional tax policy changes or budget cuts that could have a negative effect on the city's finances, continued partisan turmoil increases the likelihood of gridlock or policy decisions detrimental to the economy. The recent federal government shutdown could be a portent of things to come. December's stock market correction occurred just as federal leaders proved unable to avoid a government shutdown. The financial losses incurred in December likely contributed to the sharp fall-off in income tax payments to the city and state at the same time. Other risks to the forecast include the need for additional city spending, particularly for NYCHA, the MTA, and H+H, which could place further strain on the city's resources.

As already noted, IBO's forecast assumes that the economy continues to grow over the next few years, albeit slower than in the recent past. If the city economy were to actually contract, the city would initially depend on its reserves to maintain balance. If necessary the city would also use this cushion to formulate spending reductions and work with policymakers in Albany to identify additional revenue sources.

ENDNOTE

[1]The increase of city-funded agency spending is the determined by taking total agency spending from the IBO Expenditure Projections ($78.648 billion in 2019 and $78.494 billion in 2020), subtracting out the non-city revenue totals for each year from the Revenue Projections table, and taking the difference between these two totals.