Review of the Financial Plan of the City of New York

Report 9-2019

OFFICE OF THE NEW YORK STATE COMPTROLLER
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December 2018

Message from the Comptroller

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As the State's chief financial officer, I have a constitutional and statutory responsibility to monitor the finances of the City of New York.

This report discusses the economic, fiscal and social challenges facing New York City in an effort to promote an informed discussion. I encourage every City stakeholder to learn more about these issues and to participate fully in the public debate.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

New York City's economy is strong and continues to set new records. It added 715,000 jobs between 2009 and 2017, the largest and longest job expansion in the post–World War II period. Employment reached a new record of 4.4 million in 2017, 615,000 higher than the prerecession peak. Although job growth has slowed, the City is still on pace to add another 72,000 jobs in 2018. The unemployment rate fell to 4 percent in October 2018, the lowest monthly rate in 42 years.

The economy is also benefiting from record tourism, rising property values, high consumer confidence and growing Wall Street profits. Securities industry profits were up 15.7 percent during the first three quarters of 2018, putting the industry on track for its third consecutive year of increased profitability. However, recent declines in the financial markets and increased volatility could reduce profitability in the fourth quarter.

In June 2018, the City projected a balanced budget for FY 2019 and budget gaps of $3.3 billion in FY 2020, $2.9 billion in FY 2021 and $2.3 billion in FY 2022. Shortly thereafter, the City reached a labor agreement with District Council 37, which represents one-quarter of the municipal work force. The agreement provides for compounded wage increases of 7.4 percent over a 44-month period.

The City also announced a second agreement with the Municipal Labor Committee (MLC) to generate health insurance savings to help fund wage increases for the municipal work force, mitigating the budgetary impact of higher wages.

The City also reached a new labor agreement with the United Federation of Teachers, which represents more than one-third of the municipal work force. The terms of this agreement are similar to the District Council 37 agreement. The City has yet to reach new agreements with any of the unions that represent its uniformed employees. The Patrolmen's Benevolent Association, which represents the City's police officers, has filed for binding arbitration.

In November 2018, the City revised its four-year financial plan (the "November Plan"), which incorporates the impact of these agreements and assumes the remaining unions will reach similar wage agreements. The November Plan also reflects other developments since the FY 2019 budget was adopted in June 2018.

The City now forecasts a surplus of $520 million in FY 2019 (see Figure 1), based largely on the strength of revenue collections during the first quarter ($471 million) and resources anticipated from the citywide savings program ($328 million). These resources were more than enough to offset the impact of higher labor costs in FY 2019 and to fund some relatively small agency needs.

Although higher labor costs would have increased the FY 2020 budget gap to $4 billion, the combination of the FY 2019 surplus and the recurring value of the citywide savings program reduced the FY 2020 budget gap to $3.2 billion. The budget gaps for fiscal years 2021 and 2022, however, have grown to $3.5 billion and $3.4 billion, respectively.

After adjusting for surplus transfers and excluding reserves, City-funded spending is expected to grow by 6.8 percent in FY 2019, nearly three times faster than the inflation rate. Last year, spending rose by 6.1 percent.

While revenues are likely to exceed the City's forecast, some of these resources may be needed to fund higher costs for homeless services and overtime in the uniformed agencies (see Figure 2). Although the City raised its tax estimate for FY 2019, its forecast for fiscal years 2020 through 2022 remains unchanged.

The City has not reduced its reserves, which remain substantial. If not needed for other purposes, these resources could be used to narrow the projected budget gaps. However, there are risks that the City may need to address during the financial plan period.

For example, the November Plan assumes uninterrupted economic growth. While still strong, the economy appears more vulnerable than in recent years. Rising trade tensions or the slowing global economy, or some unforeseen development, could trigger a setback during the financial plan period and make balancing the budget more difficult.

Although the City benefited from better-than-expected pension fund investment earnings in FY 2018, earnings have been disappointing so far in the current fiscal year. A shortfall could require an increase in future contributions.

The Metropolitan Transportation Authority (MTA) is facing its greatest crisis in decades. Service has deteriorated and subway ridership is falling despite the largest job expansion in the City's history. Since July 2018, the MTA's budget gap for 2020 has nearly doubled to $510 million and the 2022 gap has grown to $991 million.

These estimates already assume fare and toll increases of 4 percent in 2019 and 2021. In the absence of new sources of recurring funding, the MTA has indicated it may reduce services or increase fares and tolls more than planned. The MTA is also seeking additional funding for its next five-year capital program. Last year, the State mandated that the City fund half the cost of the Subway Action Plan, which was designed to stabilize the subway system.

The Governor's proposed budget, which is scheduled to be released in January 2019, may include actions that could impact the City's budget. In addition, there is still a risk of federal budget cuts during the financial plan period given the growing federal deficit.

In recent years, the New York City Housing Authority and the Health and Hospitals Corporation have become more dependent on the City. Both continue to face operational and financial challenges that may require additional contributions from the City.

In addition to these risks, the City will need to keep a close watch on health insurance and debt service trends. While the two health insurance agreements with the MLC are expected to generate more than $10 billion in budgetary savings through FY 2022, health insurance costs are still projected to reach $6.4 billion by then, 37 percent more than in FY 2018.

Debt service is projected to grow by 39 percent between fiscal years 2018 and 2022. In the past, similar predictions went unrealized because interest rates remained well below the City's assumptions and capital commitments fell far short of expectations. While the City may continue to fall short of its ambitious capital commitment targets, commitments are rising and so are interest rates.

The unfunded liability for post-employment benefits other than pensions (mostly health insurance) rose by $10.4 billion last fiscal year to $98.5 billion. The annual cost is projected to rise by 19 percent to almost $2.9 billion between fiscal years 2018 and 2022. To its credit, the City continues to contribute to the Retiree Health Benefits Trust, which now has a balance of nearly $4.5 billion, the highest amount ever.

In recent years, the City has relied on surplus resources from prior years to balance the budget. The City ended FY 2018 with a surplus of $4.6 billion (the largest in 10 years), which it used to fund higher spending and to balance the FY 2019 budget.

The Office of the State Comptroller (OSC) expects the FY 2019 surplus to grow as the year progresses as a result of continued strength in revenue collections and a reallocation of unneeded reserves. These resources will be needed to help close the sizeable budget gap remaining in FY 2020 ($3.2 billion). The City will need to consider additional actions to narrow the even larger budget gaps projected for fiscal years 2021 and 2022.

FIGURE 1

New York City Financial Plan

(in millions)

	FY 2019	FY 2020	FY 2021	FY 2022
Revenues				
Taxes				
General Property Tax	$ 27,789	$ 29,295	$ 30,711	$ 31,702
Other Taxes	31,608	32,333	33,330	34,072
Tax Audit Revenue	1,056	721	721	721
Subtotal: Taxes	$ 60,453	$ 62,349	$ 64,762	$ 66,495
Miscellaneous Revenues	7,109	6,786	6,773	6,749
Unrestricted Intergovernmental Aid	61	- - -	- - -	- - -
Less: Intra-City Revenue	(2,074)	(1,804)	(1,805)	(1,803)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 65,534	$ 67,316	$ 69,715	$ 71,426
Other Categorical Grants	982	875	867	861
Inter-Fund Revenues	690	655	654	655
Federal Categorical Grants	8,215	7,265	7,149	7,125
State Categorical Grants	15,136	15,336	15,790	16,259
Total Revenues	**$ 90,557**	**$ 91,447**	**$ 94,175**	**$ 96,326**
Expenditures				
Personal Service				
Salaries and Wages	$ 29,032	$ 30,368	$ 31,430	$ 31,331
Pensions	9,850	9,951	10,418	10,864
Fringe Benefits	10,625	11,420	11,901	12,555
Subtotal: Personal Service	$ 49,507	$ 51,739	$ 53,749	$ 54,750
Other Than Personal Service				
Medical Assistance	5,915	5,915	5,915	5,915
Public Assistance	1,605	1,617	1,617	1,617
All Other	31,466	29,074	29,304	29,572
Subtotal: Other Than Personal Service	$ 38,986	$ 36,606	$ 36,836	$ 37,104
Debt Service	6,819	7,355	7,680	8,386
FY 2018 Budget Stabilization & Discretionary Transfers	(4,576)	- - -	- - -	- - -
FY 2019 Budget Stabilization	520	(520)	- - -	- - -
Capital Stabilization Reserve	250	250	250	250
General Reserve	1,125	1,000	1,000	1,000
Less: Intra-City Expenses	(2,074)	(1,804)	(1,805)	(1,803)
Total Expenditures	**$ 90,557**	**$ 94,626**	**$ 97,710**	**$ 99,687**
Gap to be Closed	**$ - - -**	**$ (3,179)**	**$ (3,535)**	**$ (3,361)**

Source: NYC Office of Management and Budget

FIGURE 2
Office of the State Comptroller (OSC)
Risk Assessment of the New York City Financial Plan
(in millions)

	Better/(Worse)			
	FY 2019	**FY 2020**	**FY 2021**	**FY 2022**
Gaps Per NYC Financial Plan	**$ - - -**	**$ (3,179)**	**$ (3,535)**	**$ (3,361)**
Tax Revenues	425	350	350	350
Miscellaneous Revenues	125	125	125	125
Debt Service	30	50	- - -	- - -
Homeless Services	(70)	(70)	(70)	(70)
Uniformed Agency Overtime	(125)	(125)	(125)	(125)
Fair Fares	- - -	(212)	(212)	(212)
OSC Risk Assessment	**385**	**118**	**68**	**68**
Potential Gaps Per OSC[1,2]	**$ 385**	**$ (3,061)**	**$ (3,467)**	**$ (3,293)**

[1] The November Plan includes a general reserve of $1.125 billion in FY 2019 and $1 billion in each of fiscal years 2020 through 2022. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2019 through 2022. If not needed, these resources could be used to help close the projected budget gaps. The November Plan also includes reserves ($100 million in each of fiscal years 2019 and 2020, rising to $400 million beginning in FY 2021) to fund potential changes in the actuarial assumptions and methodologies used to calculate employer pension contributions.

[2] The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of nearly $4.5 billion (net of any prepayments).

II. Changes Since the Beginning of the Fiscal Year

In June 2018, the City projected a balanced budget for FY 2019 and budget gaps of $3.3 billion in FY 2020, $2.9 billion in FY 2021 and $2.3 billion in FY 2022. Shortly after the June Plan was released, the City reached a labor agreement with District Council 37 and subsequently reached a similar agreement with the United Federation of Teachers.

The City also reached an agreement with the Municipal Labor Committee to generate health insurance savings. The savings will be used to help fund wage increases for the municipal work force, mitigating the budgetary impact. In July 2018, OSC estimated that the FY 2020 budget gap could reach $4 billion if the economic terms of the District Council 37 labor agreement were applied to the entire work force in the absence of other developments.

The November Plan incorporates the impact of these agreements and assumes the remaining unions will reach similar wage agreements. The November Plan also reflects other developments since the FY 2019 budget was adopted in June 2018 (see Figure 3, next page).

The City now forecasts a surplus of $520 million in FY 2019, based largely on the strength of tax collections and resources anticipated from the citywide savings program. These resources were more than enough to offset the impact of higher labor costs. As a result, the FY 2020 budget gap was reduced slightly to $3.2 billion. The budget gaps for fiscal years 2021 and 2022, however, have grown to $3.5 billion and $3.4 billion, respectively.

Although the City raised its revenue forecast for FY 2019 by $471 million, it made little change to its forecast for subsequent years. The higher FY 2019 forecast is driven by an increase in tax collections ($377 million). While personal income tax collections accounted for two-thirds of the increase, most other taxes also outperformed the City's expectation during the first quarter.

For example, the City raised its forecast for tax collections from real estate transactions ($66 million), the commercial rent tax ($44 million), the sales tax ($24 million) and the hotel occupancy tax ($11 million). Business tax collections, however, fell slightly short of the City's expectation ($14 million). The City also received, in the first quarter, a one-time reimbursement ($61 million) from the federal government for protective services provided to the United Nations in prior years.

The citywide savings program is expected to generate $328 million in FY 2019 and smaller amounts in subsequent years (averaging $271 million annually over three years). Most of the savings will come from debt refundings and lower-than-anticipated interest rates on variable debt, and lower personal service costs from vacancies. Only a small portion (averaging $26 million annually over four years) is expected to come from efficiencies.

The combination of higher revenues ($471 million) and resources from the citywide savings program ($328 million) was more than enough to offset the impact of higher labor costs in FY 2019 ($227 million) and to fund some relatively small agency needs, mostly in the uniformed agencies and the Department of Social Services.

The City also benefited from better-than-expected pension fund investment earnings in FY 2018. Last year, the funds earned 8.7 percent on their investments, compared to an expected gain of 7 percent. As a result, the City was able to reduce its planned pension contributions by $50 million in FY 2020, $92 million in FY 2021 and $151 million by FY 2022.

The City has not reduced its reserves, which are substantial. The general reserve remains at $1.125 billion in FY 2019 and $1 billion in each subsequent year. In addition, the capital stabilization reserve totals $250 million annually. If not needed for other purposes, the reserves could be used to narrow the projected budget gaps for fiscal years 2020 through 2022.

In past years, the City has not needed the full amounts set aside for real property tax delinquencies (see Section III for a detailed discussion) and has realized savings from overestimating prior years' expenses. At the end of each fiscal year, the City estimates the amount of expenses that have been incurred but not yet paid, and the amount of revenues earned but not yet received. Over the past 10 years, the City has realized an average benefit of $435 million annually from this source.

In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future cost of post-employment benefits other than pensions (OPEBs). While the RHBT is intended to help fund future OPEB liabilities, it has been used as a rainy-day fund in the past. The balance in the RHBT now totals nearly $4.5 billion (net of any prepayments), the highest amount ever. The City's unfunded OPEB liability, however, grew by $10.1 billion and totaled $98.5 billion at the end of FY 2018.

FIGURE 3
Financial Plan Reconciliation—City Funds
November 2018 Plan vs. June 2018 Plan
(in millions)

	Better/(Worse)			
	FY 2019	**FY 2020**	**FY 2021**	**FY 2022**
Projected Gaps Per June 2018 Plan	**$ - - -**	**$ (3,260)**	**$ (2,889)**	**$ (2,285)**
Tax Reestimates				
Personal Income Tax	244	- - -	- - -	- - -
Real Estate Transactions	66	- - -	- - -	- - -
Commercial Rent Tax	44			
Sales Tax	24	- - -	- - -	- - -
Hotel Occupancy	11			
Business Taxes	(14)	- - -	- - -	- - -
All Other Taxes	2	- - -	- - -	- - -
Subtotal	**377**	**- - -**	**- - -**	**- - -**
Other Revenue Reestimates				
Federal Reimbursement for NYPD Protective Service for the United Nations	61	- - -	- - -	- - -
All Other	33	(4)	- - -	(1)
Subtotal	**94**	(4)	- - -	(1)
Total Revenue Reestimates	**471**	**(4)**	**- - -**	**(1)**
Citywide Savings Program				
Agency Actions	168	145	99	102
Debt Service	160	119	175	174
Total	**328**	**264**	**274**	**276**
Net Cost of Collective Bargaining	**(227)**	**(704)**	**(967)**	**(1,444)**
Expenditure Reestimates				
New Agency Needs	(53)	(35)	(35)	(35)
Pension Contributions	- - -	50	92	151
All Other	1	(10)	(10)	(23)
Net Change During FY 2019	**520**	**(439)**	**(646)**	**(1,076)**
Surplus/(Gap)	**$ 520**	**$ (3,699)**	**$ (3,535)**	**$ (3,361)**
Surplus Transfer	(520)	520	- - -	- - -
Projected Gaps Per November 2018 Plan	**$ - - -**	**$ (3,179)**	**$ (3,535)**	**$ (3,361)**

Sources: NYC Office of Management and Budget; OSC analysis

III. Revenue Trends

The November Plan expects revenues, including federal and State categorical aid, to total $90.6 billion in FY 2019. Nearly three-quarters ($65.5 billion) will come from locally generated revenues (i.e., City funds). City fund revenues are projected to grow by 2 percent in FY 2019 after a 6.5 percent gain in FY 2018, when collections were boosted by one-time gains.

An expanding economy is supporting the growth in tax collections, which account for the bulk of City fund revenues. The City added 715,000 jobs between 2009 and 2017, the largest and longest job expansion in the post–World War II period. Employment reached a new record of 4.4 million in 2017, 615,000 higher than the prerecession peak. The City is on pace to add another 72,000 jobs in 2018. Employment exceeded 4.5 million in October 2018, setting a new record.

The City's unemployment rate fell to 4 percent in October 2018 (the lowest monthly rate in 42 years), down from a recessionary peak of 10.1 percent in January 2010. In addition, the City's economy is also benefiting from record tourism, rising property values, growing Wall Street profits and high consumer confidence.

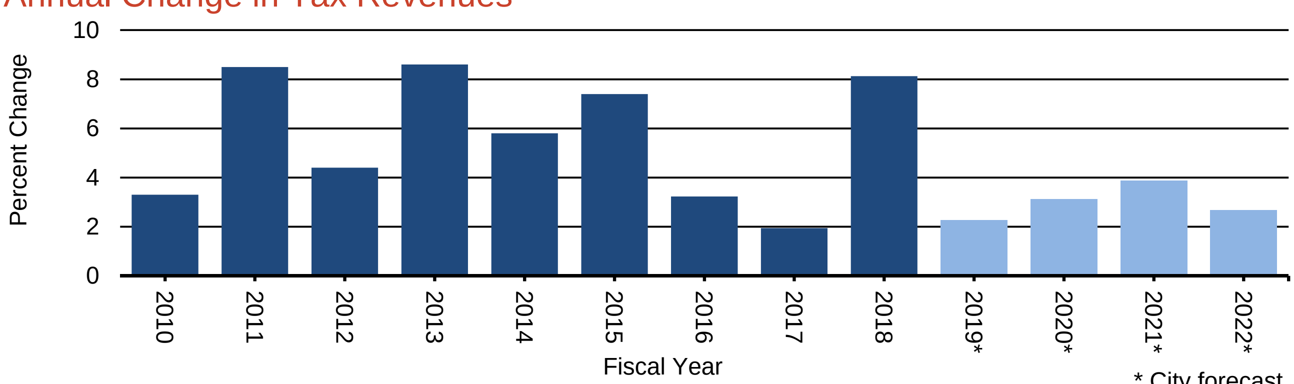
Tax collections received a temporary boost in FY 2018 from taxpayers' response to changes in federal tax law, a large increase in Wall Street bonuses and a surge in capital gains. As a result, tax collections rose by 8.1 percent, the strongest rate of growth in five years (see Figure 4).

Tax collections grew by 4.4 percent during the first quarter of FY 2019, faster than the City had expected. The November Plan recognizes these gains, raising the City's tax forecast by $377 million in FY 2019. Personal income tax collections have been strong, accounting for two-thirds ($244 million) of the increase. Despite the higher forecast, the City's forecast for FY 2019 remains conservative, with tax collections projected to increase by only 2.3 percent.

Although the City raised its tax forecast for FY 2019, it made no change in its estimates for fiscal years 2020 through 2022. The November Plan still assumes continued growth in jobs and wages during the remainder of the financial plan period, with tax collections growing at an average annual rate of 3.2 percent.

Based on continued strength in revenue collections, OSC estimates that tax collections could exceed the City's forecast for FY 2019 by $425 million (driven by higher personal income tax collections) and by $350 million in subsequent years. Miscellaneous revenues are also likely to exceed the City's forecast by $125 million annually.

FIGURE 4
Annual Change in Tax Revenues



Note: Includes revenue from tax audits.
Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 5
Trends in City Fund Revenues
(in millions)

	FY 2018	FY 2019	Annual Growth	FY 2020	FY 2021	FY 2022	Average Three-Year Growth Rate
General Property Tax	$ 26,219	$ 27,789	6.0%	$ 29,295	$ 30,711	$ 31,702	4.5%
Personal Income Tax	13,380	12,622	-5.7%	12,969	13,390	13,722	2.8%
Sales Tax	7,443	7,786	4.6%	8,167	8,491	8,779	4.1%
Business Taxes	5,619	5,850	4.1%	5,978	6,108	6,094	1.4%
Real Estate Transaction Taxes	2,438	2,463	1.0%	2,359	2,437	2,511	0.6%
Other Taxes	2,668	2,887	8.2%	2,860	2,904	2,966	0.9%
Tax Audits	1,337	1,056	-21.0%	721	721	721	-11.9%
Subtotal: Taxes	**59,104**	**60,453**	**2.3%**	**62,349**	**64,762**	**66,495**	**3.2%**
Miscellaneous Revenues	5,019	5,035	0.3%	4,982	4,968	4,946	-0.6%
Unrestricted Intergovernmental Aid	- - -	61	NA	- - -	- - -	- - -	NA
Grant Disallowances	139	(15)	NA	(15)	(15)	(15)	0.0%
Total	**$ 64,262**	**$ 65,534**	**2.0%**	**$ 67,316**	**$ 69,715**	**$ 71,426**	**2.9%**

Sources: NYC Office of Management and Budget; OSC analysis

The November Plan is based on the trends shown in Figure 5 and discussed below.

1. General Property Tax

The market value of all properties in the City rose by 8.8 percent in FY 2019 to reach a record $1.3 trillion. As a result, the November Plan assumes that property tax revenues will increase by 6 percent to reach $27.8 billion in FY 2019. This follows growth of 7.1 percent in FY 2018.

The City has set aside $1.8 billion as a reserve for delinquencies, refunds and tax abatements in FY 2019, $278 million more than the amount needed in FY 2018. As a result, OSC estimates that at least $75 million will not be needed.

The November Plan assumes that growth in collections will slow from 6 percent in FY 2019 to an annual average of 4.5 percent during the remainder of the financial plan period. The City expects rising interest rates to hold down growth in property values. It is also concerned that home values could be adversely impacted by changes in the federal tax code that limit the deductibility of state and local taxes as well as reduce the size of new mortgages for which interest can be deducted. If current trends continue, the City could realize additional revenue during fiscal years 2020 through 2022. This will become clearer with the release of the preliminary tax roll for FY 2020 in January 2019.

On April 24, 2017, Tax Equity Now New York (a coalition of advocates, property owners and tenants) filed suit against the State and the City claiming that the current real property tax system in New York City violates the State and federal constitution and the Fair Housing Act.

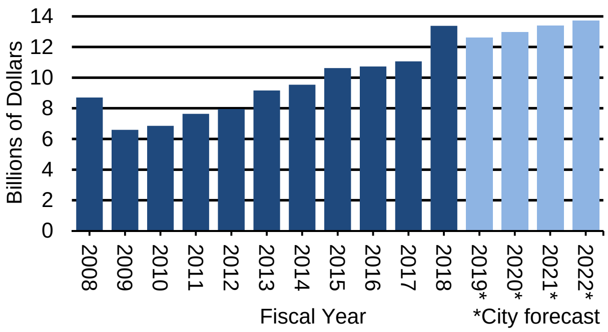
The lawsuit alleges that the City's property tax system imposes unequal tax burdens on similarly valued properties within the same property class, and imposes disproportionate financial burdens on racial minorities. On September 24, 2018, the court dismissed all but two of the claims against the State, but did not dismiss any of the 16 claims against the City. The City and the State have appealed this decision.

The Mayor and City Council Speaker have established an advisory commission to develop recommendations to make the City's property tax system simpler, clearer and fairer, while ensuring that there is no reduction in the revenue used to fund essential City services. The commission is currently holding public hearings, which are expected to continue through next spring.

2. Personal Income Tax

Personal income tax collections surged by 21 percent in FY 2018, reaching a record of $13.4 billion (see Figure 6). Collections were boosted by extraordinary factors, including taxpayer response to changes in the federal tax code, repatriation of deferred compensation that was held overseas in response to a 2008 federal law, and higher bonuses and capital gains.

FIGURE 6
Personal Income Tax Collections



Sources: NYC Comptroller; NYC Office of Management and Budget

The November Plan assumes that these factors will not recur in FY 2019, contributing to a 5.7 percent decline (the first since the recession) as collections return to the trend prior to FY 2018. However, collections remained strong in the first four months of FY 2019 (rising by 10.8 percent), leading the City to raise its forecast by $244 million.

Collections from withholding (e.g., the amount of tax taken from employees' paychecks) grew by 6.2 percent during the first four months of FY 2019. While the City raised its forecast by $210 million, OSC projects job growth to exceed the City's estimates for 2018 and 2019. Although the City projects a small decline in securities industry bonuses, they could be higher based on industry compensation trends. As a result, withholding could exceed the City's forecast by $150 million in FY 2019 and $200 million annually thereafter.

Estimated payments (i.e., quarterly payments made on nonwage income) increased by 14.9 percent during the first four months of FY 2019. The November Plan assumes that collections will weaken during the rest of the fiscal year because of lower capital gains and the loss of one-time factors that drove collections higher in FY 2018. As a result, estimated payments are projected by the City to decline by 21.6 percent in FY 2019, although OSC believes the decline could be less steep.

The June Plan had assumed that distribution payments from the State would decline sharply in FY 2019.[3] However, payments were 34.9 percent higher during the first four months of the fiscal year compared with the same period last year. Based on current trends and the expectation of the State Division of the Budget that payments will remain close to last year's level, OSC estimates that payments are likely to exceed the City's forecast by $150 million in FY 2019.

The November Plan assumes that personal income tax collections will grow at an average annual rate of 2.8 percent during fiscal years 2020 through 2022. This forecast anticipates that the State will extend, at the City's request, the personal income tax surcharge originally implemented in 1991 and currently scheduled to expire on December 31, 2019. The surcharge is valued at about $1.5 billion annually.

Although the Tax Cuts and Jobs Act of 2017 lowered federal personal income tax rates, it capped the deductibility of state and local taxes at $10,000, and reduced the size of new mortgages for which interest can be deducted. As a result, some taxpayers will pay higher federal taxes starting in 2018 despite lower tax rates. A coalition of four states, including New York, are challenging the constitutionality of the cap on the deductibility of state and local taxes.

[3] The State administers the City's personal income tax. The State remits to the City an estimate of its share each month. The State subsequently reviews the results and makes adjustments as necessary.

To mitigate the impact, the State created a Charitable Gifts Trust Fund to accept donations for the purposes of improving health care and education in the State. Taxpayers who itemize deductions may claim these contributions as deductions on their federal and state tax returns (and may also claim a state tax credit).

The State also authorized local governments to establish charitable gift reserve funds and to offer real property tax credits to incentivize contributions. The City Council is considering legislation that would create such a trust. However, the Internal Revenue Service has proposed regulations that would limit the federal tax benefit taxpayers would receive.

3. Sales Tax

Sales tax collections increased by 5.9 percent during FY 2018, the strongest rate of growth in four years.[4] Collections have remained strong during the first four months of FY 2019, rising by 5.9 percent. As a result, the City increased its forecast by $24 million in FY 2019.

The City attributes the strength in sales tax collections to job growth, as well as higher wages and consumer confidence. According to the December 2018 Federal Reserve Beige Book, consumer confidence in the mid-Atlantic states was near its cyclical high in October 2018.

The City's tourism sector is also contributing to the growth in collections, with NYC & Company (the City's official tourism agency) forecasting a record 65.2 million visitors in 2018. Smith Travel Research reported that New York City hotels ranked first in the nation for occupancy, average daily room rate, and revenue per available room during the third quarter of 2018. Attendance at Broadway shows is on pace to reach another record in 2018.

The November Plan assumes collections will increase by 3.8 percent in FY 2019 to $7.8 billion. Based on current trends and our expectations of stronger job and bonus growth, collections could exceed the City's forecast by $50 million annually beginning in FY 2019.

The June 2018 *Wayfair* decision by the U.S. Supreme Court, which eliminated the physical presence requirement for states to collect sales taxes on online transactions, has encouraged states to review their sales tax laws. Although New York State already requires large online sellers to collect sales tax, and has made several unsuccessful attempts in recent years to expand sales tax collections to third-party internet sellers, it has not taken any actions in the wake of the *Wayfair* decision. As the State collects sales tax for all localities, any State actions could provide additional resources for localities, including New York City.

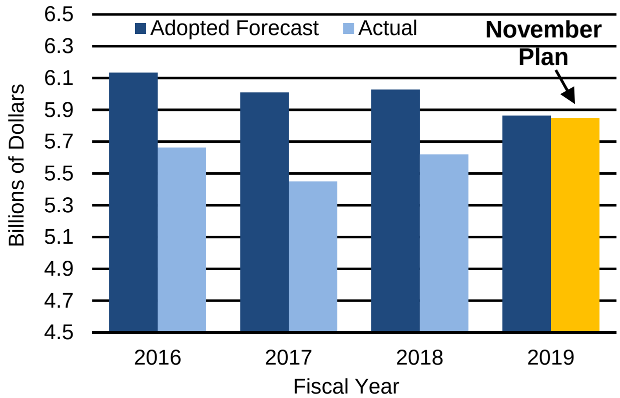
4. Business Taxes

New York City levies both a corporation and an unincorporated business tax. In April 2015, the State enacted legislation that merged the City's banking tax into the corporation tax. The change was intended to be revenue-neutral, but total business tax collections fell far short of the City's expectations during fiscal years 2016 through 2018 (see Figure 7, next page).

After two years of declining revenue, collections rose by 3.1 percent in FY 2018 to reach $5.6 billion. The growth was driven by an 8.9 percent increase in collections from the unincorporated business tax, boosted by higher business earnings and one-time payments as overseas income was repatriated as encouraged by changes in federal law. Collections from the corporation tax stabilized in FY 2018, reflecting the City's belief that businesses had adjusted to the new tax law and that payment patterns had normalized.

[4] All sales tax growth rates are adjusted to account for the State's recoup of savings that accrued to the City from refinancing bonds of the Sales Tax Asset Receivable Corporation.

FIGURE 7
Business Tax Collections



Sources: NYC Comptroller; Office of Management and Budget

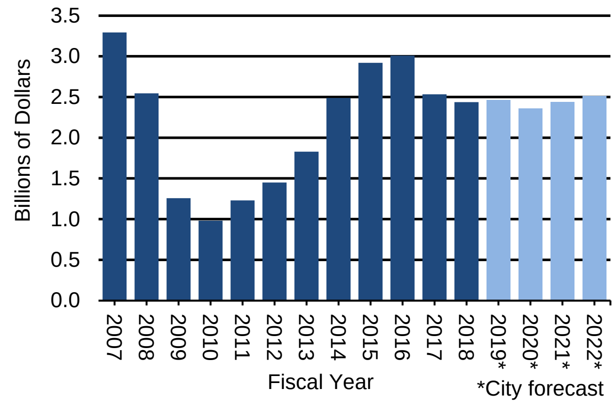
Although business tax collections grew by 7 percent in the first quarter of FY 2019, they fell short of the City's forecasts. As a result, the City reduced its forecast by $14 million in FY 2019. Nonetheless, collections are expected to reach nearly $5.9 billion, an annual increase of 4.1 percent.

The November Plan assumes securities industry profitability will decline by 6.9 percent in 2018. However, profits were up 15.7 percent through the first three quarters of 2018, putting the industry on track for its third consecutive year of increased profitability. As a result, there is the potential for higher-than-planned business tax collections. However, recent declines in the financial markets and increased volatility could reduce profitability in the fourth quarter.

5. Real Estate Transaction Taxes

Over the past two years, real estate transaction tax collections have declined by 19 percent since the post-recession peak in FY 2016 (see Figure 8). The rate of decline slowed in FY 2018 as commercial sales activity picked up in the second half of the year (including Google's purchase of the Chelsea Market property for $2.4 billion), and commercial mortgage refinancing increased.

FIGURE 8
Real Estate Transaction Tax Collections



Sources: NYC Comptroller; NYC Office of Management and Budget

During the first quarter of FY 2019, collections increased by 12.4 percent on the strength of two large commercial transactions. As a result, the City raised its forecast in the November Plan, but collections are still expected to increase by only 1 percent, reaching $2.5 billion in FY 2019.

The City expects residential sales (especially at the higher end of the market) and refinancing activity to continue to slow, reflecting the impact of rising rates and new federal limitations on deductions. Despite recent strength in commercial transactions, the City also expects commercial sales to slow as interest rates rise and international investment wanes in response to slower global economic growth.

The November Plan assumes that collections will decline by 4.2 percent in FY 2020 based on a continuation of recent interest rate and overseas investment trends, as well as concerns that the large increase in construction could lead to oversupply and lower prices in some markets.

6. Miscellaneous Revenues

The November Plan assumes that miscellaneous revenues[5] will hold steady at about $5 billion during the financial plan period. In recent years, miscellaneous revenues (excluding one-time benefits such as asset sales) have exceeded the City's initial forecast at the start of the fiscal year by more than $200 million annually.

Fines and licenses accounted for about two-thirds of this additional revenue in the past two fiscal years. Collections from these two categories increased by 9 percent during the first four months of FY 2019. While the City increased its forecast in the November Plan by $33 million in FY 2019, OSC estimates that miscellaneous revenues could exceed the City's revised forecast by at least $125 million annually beginning in FY 2019.

7. Audit Revenue

Each year, the Department of Finance conducts audits of individuals and businesses to ensure compliance with the tax code. Last year, audit revenue exceeded $1.3 billion, driven by business tax audits. The November Plan assumes collections will decline to $1.1 billion in FY 2019 and then to $721 million annually during the remainder of the financial plan period. However, collections averaged more than $1 billion during fiscal years 2007 through 2017. As a result, it is likely that audit collections will exceed the City's forecast for fiscal years 2020 through 2022 by at least $100 million annually.

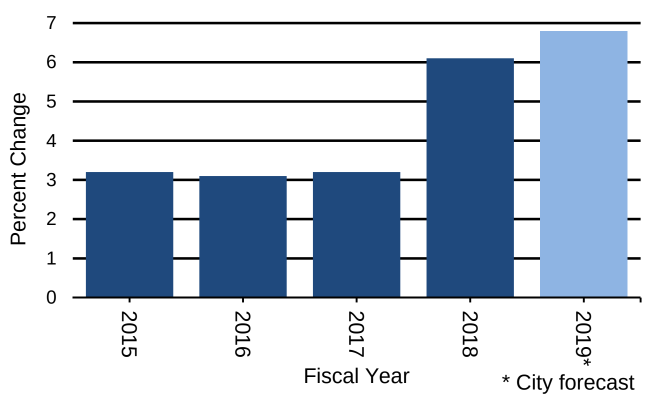
[5] Miscellaneous revenues include fines, license fees, water and sewer charges, and asset sales.

IV. Expenditure Trends

The November Plan assumes the City's expenditures in FY 2019 will total nearly $90.6 billion, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) totals $65.5 billion.

After adjusting for surplus transfers, which can mask expenditure trends, City-funded spending is projected to grow by 9 percent in FY 2019. After excluding reserves, spending would increase by 6.8 percent (see Figure 9), which is nearly three times faster than the projected inflation rate. Last year, City-funded spending rose by 6.1 percent, driven by the cost of collective bargaining and higher agency spending.

FIGURE 9
Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

In FY 2019, projected spending is driven by the continued cost of the 2010-2017 round of collective bargaining, which will peak in FY 2021, and the City's expectation that the remainder of the work force will reach agreements in the current round of negotiations that conform to the pattern established by District Council 37 and the United Federation of Teachers. Salary and wage costs are projected to increase by 9.6 percent in FY 2019, reflecting the cost of collective bargaining and planned increases in staffing.

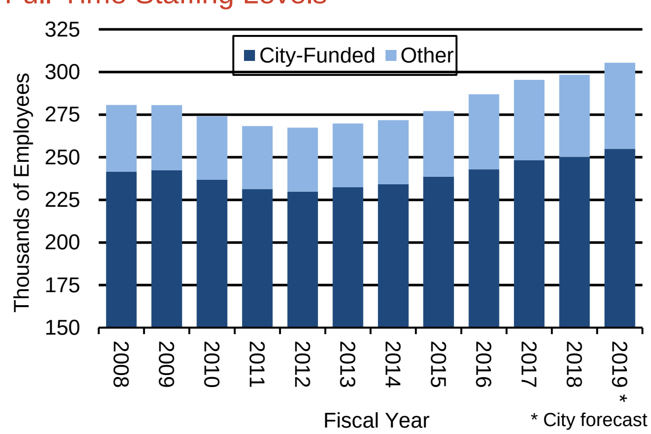
The growth in City-funded spending also reflects higher agency spending, rising health insurance and debt service costs, and a State-mandated increase in City support for the New York City Transit Authority.

Despite a new agreement between the City and the Municipal Labor Committee to generate $1.7 billion in health insurance savings to help pay for wage increases, health insurance costs are projected to increase at an annual rate of 8.1 percent during the financial plan period. Debt service is projected to grow at an annual rate of 8.6 percent.

Since FY 2012, the City's full-time work force (including positions funded by federal and State categorical grants) has increased by 30,947 employees to reach 298,370 in June 2018, the highest level since the 1975 fiscal crisis (including a record 250,105 City-funded employees; see Figure 10).

The November Plan assumes the addition of 7,059 employees during FY 2019, with hiring concentrated in the health and welfare agencies. However, the City fell far short of its hiring target during the first quarter of FY 2019 (by 4,375 positions). The City will realize significant savings if it continues to fall short of its hiring targets during the remainder of the fiscal year.

FIGURE 10
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 11
Trends in City-Funded Spending
(in millions)

	FY 2018	FY 2019	Annual Growth	FY 2020	FY 2021	FY 2022	Average Three-Year Growth Rate
Salaries and Wages	$ 18,510	$ 20,293	9.6%	$ 21,685	$ 22,506	$ 21,972	2.7%
Pension Contributions	9,482	9,706	2.4%	9,807	10,273	10,720	3.4%
Debt Service	5,861	6,569	12.1%	7,103	7,436	8,146	7.4%
Medicaid	5,920	5,813	-1.8%	5,813	5,813	5,813	0.0%
Health Insurance	4,682	5,119	9.3%	5,559	5,885	6,401	7.7%
Other Fringe Benefits	2,793	3,019	8.1%	3,307	3,448	3,586	5.9%
Energy	777	785	1.0%	800	824	843	2.4%
Judgments and Claims	623	557	-10.6%	572	587	602	2.6%
Public Assistance	731	713	-2.5%	719	719	719	0.3%
Retiree Health Benefits Trust	100	- - -	NA	- - -	- - -	- - -	NA
Other	14,680	15,641	6.5%	14,400	14,509	14,735	-2.0%
Subtotal	**64,159**	**68,215**	**6.3%**	**69,765**	**72,000**	**73,537**	**2.5%**
Prior Years' Expenses	(298)	- - -	NA	- - -	- - -	- - -	NA
General Reserve	- - -	1,125	NA	1,000	1,000	1,000	NA
Capital Stabilization Reserve	- - -	250	NA	250	250	250	NA
Total	**$ 63,861**	**$ 69,590**	**9.0%**	**$ 71,015**	**$ 73,250**	**$ 74,787**	**2.4%**

Note: Debt service and totals have been adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

The November Plan is based on the trends shown in Figure 11 and discussed below.

1. Collective Bargaining

As of December 2018, almost two-thirds of the municipal work force has reached new labor agreements with the City for the 2017-2021 round of bargaining. In August 2018, the members of District Council 37 (DC 37), which represents about one-quarter of the municipal work force, approved an agreement that calls for compounded wage increases of 7.4 percent over a 44-month period.[6]

In October 2018, the members of the United Federation of Teachers (UFT), which represents more than one-third of the municipal work force, approved a similar agreement. The UFT agreement also includes financial incentives ($5,000 to $8,000 annually) for teachers and other UFT members to transfer to hard-to-staff positions at high-needs schools.

The City has a long history of pattern bargaining, and it expects the agreements with DC 37 and the UFT to set the framework for negotiations with the remainder of the municipal work force for the 2017-2021 round of collective bargaining. According to the City, similar wage agreements with the entire work force would cost $8.8 billion during the financial plan period.

[6] The first wage increase of 2 percent, retroactive to September 2017, was paid shortly after the agreement was approved by the union members. The second wage increase of 2.25 percent was paid in October 2018. The agreement also calls for a wage increase of 3 percent in October 2019.

FIGURE 12
Budgetary Impact of Pattern Labor Settlements
(in millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Pattern Cost (2017-2021 Contract Period)	**$ (255)**	**$ (781)**	**$ (1,730)**	**$ (2,657)**	**$ (3,390)**
Offsets					
Labor Reserve	113	354	726	1,128	1,413
Anticipated Health Insurance Savings	- - -	200	300	600	633
Total Offsets	**113**	**554**	**1,026**	**1,728**	**2,046**
Net Budgetary Impact	**$ (142)**	**$ (227)**	**$ (704)**	**$ (929)**	**$ (1,344)**

Note: Excludes the anticipated cost of providing similar base wages to contracted employees, such as day care workers.
Sources: NYC Office of Management and Budget; OSC analysis

At the same time the City announced the agreement with DC 37, it announced that it had reached an agreement with the Municipal Labor Committee (MLC) to generate health insurance savings to fund wage increases. The November Plan anticipates savings of $200 million in FY 2019, $300 million in FY 2020 and $600 million in FY 2021, plus recurring savings of $633 million beginning in FY 2022.[7]

According to the agreement, the savings are guaranteed and are enforceable through arbitration. In addition, the annual savings targets could be met with nonrecurring savings, which may include drawing down resources from the health stabilization fund, which currently has a balance of $1.6 billion.

A committee including representatives from the City and the MLC, plus an independent arbitrator, has been established to recommend changes in the way health care is delivered and funded.

After taking into account the savings anticipated in the health insurance agreement and funding that was previously set aside in the City's labor reserve, the net cost of the 2017-2021 round of bargaining would grow from $227 million in FY 2019 to $1.3 billion in FY 2022 (see Figure 12).[8] These costs are in addition to those incurred from the 2010-2017 round of collective bargaining, which will peak in FY 2021.

None of the unions that represent the City's uniformed employees has reached new agreements with the City. In March 2018, the Patrolmen's Benevolent Association (which represents police officers) filed a petition with the New York State Public Employment Relations Board requesting the appointment of a three-member arbitration panel. As of December 2018, the City and the union are still in the process of selecting the three arbitrators. According to State law, arbitration awards for disputes between the City and police officers are binding on both parties and limited to two years.

2. Health Insurance

In May 2014, the City and the MLC reached an agreement to generate health insurance savings to help fund wage increases for municipal employees. Under the agreement, the City and the unions agreed to generate a cumulative total of $3.4 billion during fiscal years 2015 through 2018, and $1.3 billion in recurring savings beginning in FY 2019.

In October 2018, the Commissioner of Labor Relations reported that the City exceeded the cumulative four-year target by $86 million. These savings have been credited toward the new health insurance savings agreement.

[7] The MLC agreement calls for recurring savings of $600 million beginning in FY 2022.

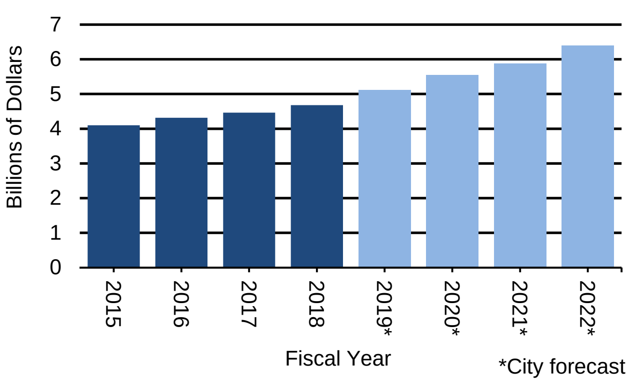
[8] The City incurred $142 million in unplanned costs in FY 2018.

More than three-quarters of the $3.4 billion in cumulative savings came from lower-than-planned increases in insurance premiums and other administrative actions. Cost-containment initiatives accounted for one-fifth of the savings ($723 million), mostly from higher co-payments.

In total, the two health insurance savings agreements with the MLC are expected to generate cumulative savings of $10.3 billion through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. Even if the savings are realized as planned, health insurance costs could still reach $6.4 billion by FY 2022 (see Figure 13), 37 percent more than in FY 2018.

The Commissioner of the Office of Labor Relations recently announced that the City has reached agreement with its primary insurer to increase health insurance premiums for active employees by 3.5 percent in FY 2020 and by 3 percent in FY 2021. The increases are about half of those assumed in the November Plan, which will generate significant savings. The savings will be credited toward the savings targets in the MLC agreement.

FIGURE 13
Health Insurance Costs
City-Funded



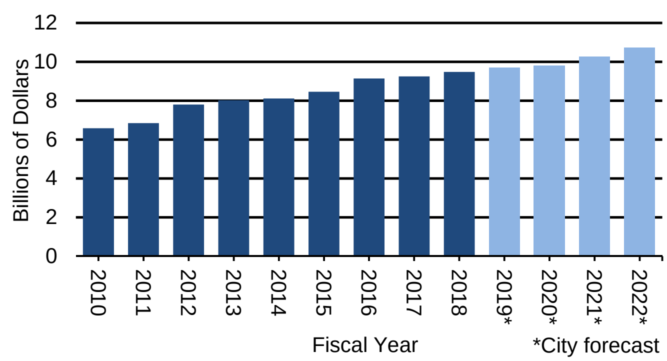
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

3. Pension Contributions

After rising rapidly between fiscal years 2003 and 2012, the growth in City-funded pension contributions slowed, averaging 3.3 percent annually through 2018. The slower rate of growth reflected the impact of changes in assumptions and methodologies used to calculate City pension contributions, savings from lower-cost pension plans for employees hired after March 31, 2012, and better-than-expected investment earnings. The pension funds have earned, on average, 8 percent on their investments since the earnings assumptions were lowered to 7 percent beginning in FY 2012.

As shown in Figure 14, the November Plan assumes that pension contributions will continue to grow slowly in fiscal years 2019 and 2020, but then pick up beginning in FY 2021 as a reflection of the impact of labor agreements for the 2017-2021 round of bargaining. By FY 2022, pension contributions are projected to total $10.7 billion, accounting for 15 percent of City fund revenues.

FIGURE 14
Pension Contributions
City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

However, pension contributions could be higher than planned because investment earnings in the current fiscal year have fallen short of expectations. The markets have fallen on concerns over rising interest rates and global trade wars, and a sell-off in tech stocks. With seven months remaining in the fiscal year, there is still time to mitigate the shortfall.

The June Plan includes reserves ($100 million in each of fiscal years 2019 and 2020, rising to $400 million beginning in FY 2021) to fund potential changes in the actuarial assumptions and methodologies used to calculate employer pension contributions.

Potential changes may follow recommendations issued by an independent actuarial consultant, who recently completed a charter-mandated biennial audit of the pension systems and is expected to issue final recommendations in 2019. Based on the preliminary findings, the consultant may recommend changes to reflect recent trends such as higher overtime and lower mortality rates for active employees, and to reduce long-term inflation and investment.

In the five years since the City adopted new, more transparent financial reporting standards for pension liabilities in FY 2014, the financial condition of the City's five actuarial pension systems has improved. In the aggregate, the pension systems had enough assets to fund (on a market-value basis) 76 percent of their accrued pension liabilities as of the end of FY 2018 (see Figure 15). During this period, the unfunded net liability for all five systems declined by $12.1 billion to $47.8 billion.

FIGURE 15
Funded Status of the NYC Retirement Systems
(As of June 30, 2018)

Pension System	Funded Status
Board of Education Retirement System	90%
New York City Employees' Retirement System	78%
Police Pension Fund	79%
Teachers' Retirement System	74%
Fire Pension Fund	65%
All Systems	**76%**

Sources: NYC Retirement Systems; NYC Comptroller; OSC analysis

4. Debt Service

City-funded debt service increased at an average annual rate of only 2.3 percent during fiscal years 2014 through 2018 because of historically low interest rates that reduced the cost of new issuances and created opportunities to refinance outstanding debt. During the last four years, this has contributed to the City realizing debt service savings that averaged $537 million annually. For FY 2019, the November Plan has identified $160 million in debt service savings.

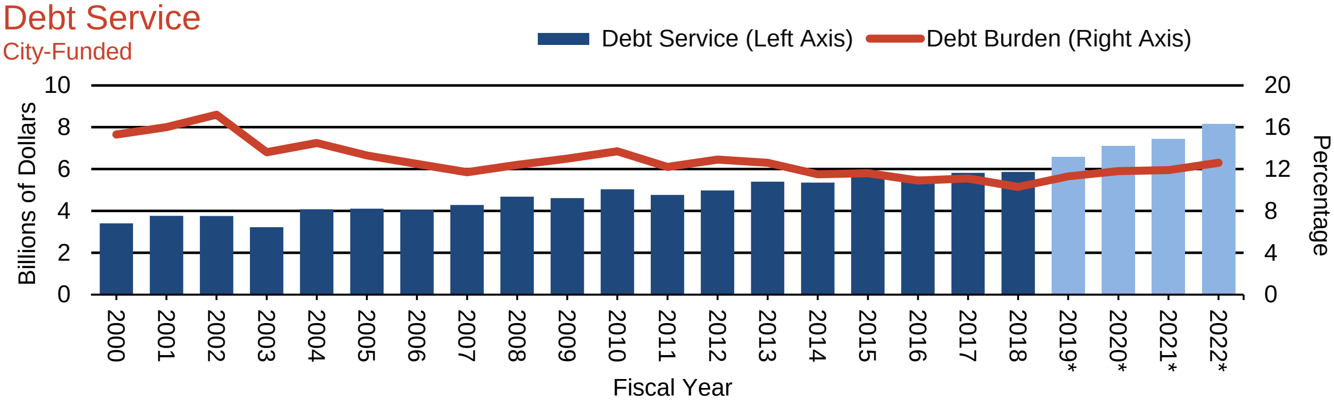
The November Plan assumes debt service will increase by 39 percent between fiscal years 2018 and 2022 (an average of 8.6 percent per year) to reach $8.1 billion (up by nearly $2.3 billion; see Figure 16). Although debt service may grow more slowly than projected, opportunities for future savings may be reduced compared to recent years because of rising interest rates and the expanding capital program.

While the City's interest rate assumptions remain conservative, the Federal Reserve has been increasing short-term interest rates, and the combination of low unemployment and rising inflation could push up long-term rates. As a result, the variance between actual interest rates and those assumed in the financial plan are likely to narrow, reducing the potential for savings.

Despite these developments, the City could still realize savings, at least in the near term, because interest rates are likely to remain below the City's assumptions and commitments are likely to fall short of the City's ambitious targets.

Last year, City-funded capital commitments totaled $10.7 billion, 28 percent less than planned at the beginning of the year. In FY 2019, City-funded commitments are projected to total $12.8 billion. While less than the amount planned for FY 2018, it is still 19 percent more than the amount committed last year. The City expects commitments to reach nearly $17 billion in FY 2020.

FIGURE 16
Debt Service
City-Funded



Note: Debt service has been adjusted for prepayments and defeasances. *City forecast
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Debt service as a share of tax revenue (i.e., the debt burden) has fallen from a post-recession peak of 13.7 percent in FY 2010 to 10.3 percent in FY 2018. The November Plan assumes that the debt burden will rise to 12.6 percent by FY 2022, but this estimate is based on conservative assumptions for revenue, interest rates and capital commitments.

Although debt service is projected to account for a larger share of tax revenue, the share would remain well below 15 percent, a level that is considered high. To prevent the debt burden from rising too quickly in the event of a rapid hike in interest rates or a sharp decline in tax revenue, the City established a capital stabilization reserve in FY 2016. The reserve is valued at $250 million annually during fiscal years 2019 through 2022.

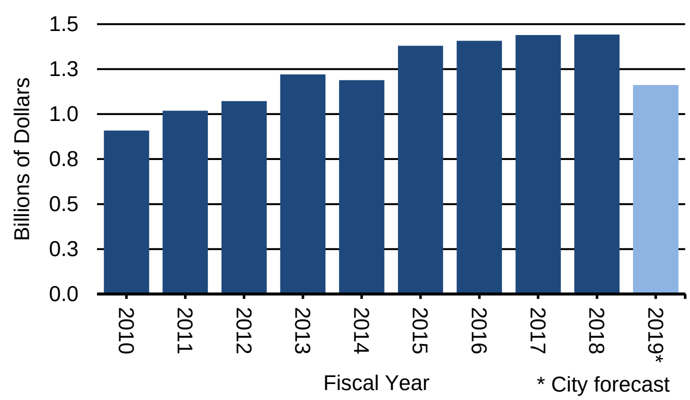
5. Uniformed Overtime

After rising by 52 percent between fiscal years 2010 and 2015, the growth in overtime costs at the uniformed agencies has slowed. Overtime totaled $1.4 billion in FY 2018 (see Figure 17). Although a new record, it was only $3 million more than was incurred in the prior year.

The November Plan assumes that overtime will total less than $1.2 billion in FY 2019, $269 million lower than in FY 2018. However, overtime costs in the uniformed agencies exceeded the City's forecast by $108 million during the first five months of FY 2019, and is likely to approach last year's level based on current trends.

As in past years, unplanned overtime costs could be partly offset by savings in other areas or by the receipt of unplanned federal and State categorical grants. For example, overtime exceeded the City's estimate at the beginning of FY 2018 by $259 million, but these unplanned costs were mostly offset by savings in other personal service costs and by the receipt of federal and State grants. Thus, OSC estimates that the City may need to add $125 million in City funding to cover unplanned overtime costs.

FIGURE 17
Uniformed Agency Overtime

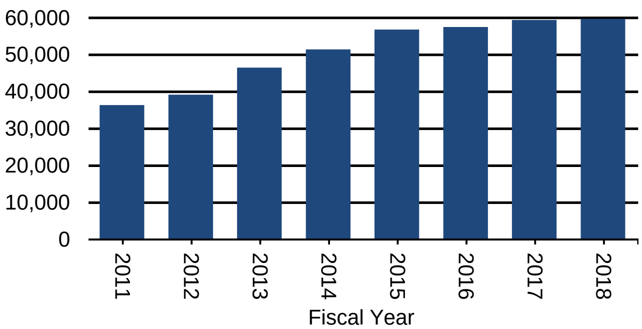


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

6. Homeless Services

The City's shelter population grew rapidly after the State and the City eliminated funding for the Advantage program, which provided rental subsidies to people residing in shelters. The shelter population increased by 63 percent since FY 2011, averaging 59,400 per month during FY 2017 (see Figure 18). Despite the City's efforts to prevent homelessness and to provide permanent housing, the homeless population remained stubbornly high during FY 2018.

FIGURE 18
Average Monthly Shelter Population



Sources: NYC Department of Homeless Services; OSC analysis

The shelter population averaged 59,933 during the first four months of FY 2019, slightly higher than last year. While the number of individuals in the family program (which accounts for three-quarters of the shelter population) declined by 2 percent, the single-adult population increased by 10 percent. The single-adult population has grown by 31 percent between fiscal years 2015 and 2018, while the number of individuals in the family program has remained steady.

The cost of homeless services has increased in recent years, from $1 billion in FY 2014 to a record of more than $2.1 billion in FY 2018 ($1.3 billion in City funds). The City attributes the increase to the higher shelter population, as well as to security and service improvements.

The November Plan assumes that the City-funded cost will average less than $1.2 billion during the financial plan period, about $100 million less than in FY 2018. The actual cost, however, could be higher by at least $70 million based on current trends. For example, the cost of housing homeless adults exceeded the City's forecast by $60 million through November 2018, although the budgetary impact was mitigated in the short-term by savings in other areas.

The City intends to reduce its reliance on hotels and cluster sites, where families are temporarily placed in apartments owned by private landlords. These facilities are expensive and often lack access to support services. The City intends to build 90 new shelters by the end of 2021 so it can eliminate the use of hotels and cluster sites. As of October 31, 2018, a total of 17 new shelters have opened.

7. Public Assistance

The largest public assistance programs in New York State are the Family Assistance (FA) and Safety Net Assistance (SNA) programs. The FA program, which is fully federally funded, provides five years of lifetime benefits to low-income families with children. The SNA program, which is funded by the State, the City and counties outside of the City, provides benefits to families who have exhausted their federal benefits and to low-income individuals who are ineligible for federal benefits.

Between October 2016 (when the City's public assistance caseload reached its highest enrollment in almost 10 years) and June 2018, the caseload declined by 18,620 people (5 percent). Since then, the caseload has averaged 352,194 per month, the lowest in almost four years.

Although the public assistance caseload has declined since October 2016, total spending has increased by 11 percent from FY 2016 through FY 2018. The growth is attributed to an expansion in eviction-prevention programs. The City-funded share is projected to total $713 million in FY 2019 and to increase slightly in FY 2020.

On October 10, 2018, the U.S. Department of Homeland Security (DHS) issued a proposed rule that would change the standard used to determine whether certain immigrants seeking visas or status as lawful permanent residents are likely at any time in the future to become public charges (i.e., individuals who receive certain public income, housing, food and medical benefits) and could be prohibited from entering or remaining in the United States. The public has until December 10, 2018, to comment.

Participation in federally funded programs such as cash assistance, the Supplemental Nutrition Assistance Program (also known as food stamps), Medicaid, the Medicare Part D low-income subsidy, subsidized long-term care and housing assistance could decline if immigrants and their family members discontinue receiving federal benefits or do not apply for these programs out of fear of being denied legal resident status.

8. Fair Fares

The City intends to implement a pilot program proposed by the City Council, known as Fair Fares, to provide half-fares to low-income New Yorkers who use the subway or bus systems operated by the Metropolitan Transportation Authority (MTA), beginning on January 1, 2019.

Under an agreement with the City, the MTA will create a new class of half-fare 7-day and 30-day unlimited MetroCards. The City will pay for half of the cost of the new MetroCards and will distribute them to eligible participants, who will be required to pay the other half.

The City Council estimated that it would cost $212 million annually to subsidize low-income residents at or below the federal poverty level who do not currently receive transportation subsidies (such as senior discounts). The November Plan includes $106 million to fund the program during the second half of FY 2019, but the program is not funded in subsequent years.

The City has not yet made public the program's eligibility requirements, which could affect participation and the program's cost. The City is expected to announce the program's eligibility requirements in the next few weeks.

9. Medical Assistance

Medicaid provides health insurance to low-income children and adults, and pays more toward long-term care costs than any other entity. Medicaid also provides subsidies to health care providers (such as the Health and Hospitals Corporation) that serve large numbers of low-income patients and uninsured patients.

The City's Medicaid caseload grew steadily after the recession and accelerated after January 1, 2014, when Medicaid eligibility expanded under the federal Affordable Care Act (ACA). Enrollment reached almost 3.7 million people in December 2015, an increase of 510,000 people since December 2013.

In January 2016, the caseload fell by 134,000 as the State transferred certain immigrants who were ineligible for federal Medicaid to the Essential Plan (funded by federal and State resources). Since then, the Medicaid caseload has gradually declined to less than 3.5 million as of February 2018 (the latest data available). Of the people enrolled in Medicaid, 80 percent are in managed care plans.

A provision in the ACA increased the federal reimbursement rate (from 50 percent to 90 percent in 2018) to the states, including New York, that had expanded coverage to certain childless adults prior to the ACA. The City's savings have reached $389 million annually, which has been used largely to provide the City with fiscal relief and additional financial support to the Health and Hospitals Corporation. The City will further benefit when the rate increases to 93 percent in 2019. In subsequent years, the rate will return to 90 percent.

The City-funded share of Medicaid will total $5.8 billion in FY 2019 (9 percent of City fund revenues) and remain at that level because the State has assumed financial responsibility for the growth in the local share. These estimates assume there will be no changes in federal and State policies.

V. Semi-Autonomous Entities

1. Department of Education

The November Plan allocates $32.4 billion to the Department of Education in FY 2019.[9] New York City is expected to fund $18.3 billion (56 percent) of the cost, with the remainder funded by the State (37 percent) and the federal government and other sources (7 percent).

The November Plan allocates an additional $1.1 billion to the department in FY 2020. This estimate assumes an increase of $437 million in State education aid. Last year, the City had anticipated an increase of $474 million for FY 2019, but the actual increase was $140 million less than anticipated.

Since FY 2010, student enrollment has increased by 10 percent to exceed 1.1 million in FY 2017, but enrollment declined by 0.5 percent in FY 2018. The City assumes enrollment will stabilize in FY 2019. Given the growth in enrollment, many school districts are overcrowded.

The City's School Construction Authority (SCA) has proposed a $17 billion five-year capital plan for fiscal years 2020-2024. The plan allocates $7.9 billion to create nearly 57,000 new K-12 student seats. Together with the seats funded in the current capital plan, this is expected to meet the need for 83,000 seats identified by the SCA in 2016.

The capital plan for fiscal years 2020-2024 also includes $5.2 billion to upgrade existing facilities, including $750 million to improve classroom accessibility for students with disabilities and $284 million to complete the Mayor's initiative to install air conditioning in all classrooms. Another $3.1 billion will fund mandated programs, such as removing asbestos and converting boilers to cleaner fuels.

In October 2018, the Chancellor announced plans to provide more support to students living in temporary housing, such as shelters. There were 37,823 homeless schoolchildren in the City's shelters during the 2017-18 school year, according to the State Department of Education.

Each year, the Department of Education submits claims for Medicaid reimbursement for services provided to special education students. In the past, the department has had difficulty substantiating such claims to the federal government, but it appears to have made progress. After claiming just $34 million in FY 2017, the department submitted claims totaling $84 million in FY 2018. The November Plan anticipates $97 million in annual Medicaid reimbursement during the financial plan period.

The November Plan does not reflect future increases in the per-pupil charter-school tuition rate that are mandated by the State law. The City estimates that these changes could increase its costs by $119 million in FY 2020, $281 million in FY 2021 and $478 million in FY 2022 if they are not offset by increases in State education aid. The City's estimates are based on preliminary data and are subject to change.

2. Metropolitan Transportation Authority

In November 2018, the MTA released a revised four-year financial plan. While the MTA still projects positive year-end cash balances through 2019, the budget gap for 2020 has grown to $510 million (nearly double the forecast in July) and the 2022 budget gap has grown to $991 million (56 percent larger than projected in July). These estimates already assume fare and toll increases of 4 percent in 2019 and 2021. In the absence of new sources of recurring funding, the MTA has indicated that it may reduce services or increase fares and tolls more than planned.

[9] This estimate includes debt service and pension contributions.

The MTA's July 2018 financial plan assumed that subway ridership would resume growing in 2019, but its revised plan assumes that subway ridership will continue to decline in 2019 for the fourth consecutive year and then stay at that level for the rest of the financial plan period. As a result, the MTA lowered its forecast for fare revenue by $485 million during the period.

At the same time the MTA is seeking funding for its operating budget, it is also seeking additional funds for its capital program. While the MTA has not yet released its capital needs assessment, it has indicated that it has large unfunded capital needs. For example, the president of New York City Transit (which operates the City's subways and buses) estimates that about $40 billion will be needed over the next 10 years to modernize the subway and bus system. A work group created by the State to recommend potential new sources of capital funding is expected to issue its report by the end of 2018.

A report recently issued by OSC identified risks in the MTA's July 2018 financial plan, including the assumptions that the current economic expansion will continue uninterrupted and that the MTA will meet its savings targets. Another uncertainty mentioned in the report involves the cost of the next round of collective bargaining.[10]

3. New York City Housing Authority

The New York City Housing Authority (NYCHA) is an important component of the City's supply of affordable housing. NYCHA manages approximately 176,000 apartments that house nearly 400,000 residents, which amounts to 8 percent of the City's rental apartments.

Federal funds make up 60 percent ($2 billion) of NYCHA's operating budget and 89 percent of the portion that is not funded with rent proceeds. As a result of inadequate federal funding coupled with mismanagement, the City's public housing properties have fallen into disrepair.

In June 2018, the City and NYCHA entered into a consent decree with the U.S. Attorney for the Southern District regarding violations of federal lead paint safety regulations, as well as other federal regulations that require public housing agencies to provide housing that is "decent, safe, sanitary and in good repair."

The consent decree stipulated that the U.S. Attorney would propose a monitor who would develop plans to ensure that NYCHA complied with all federal regulations concerning lead paint safety; that NYCHA properties were free of mold and vermin; and that NYCHA elevators and heating systems were "functionally adequate, operable and in good repair."

Most of the stipulations in the consent decree were contingent on approval by a federal judge. In November 2018, the judge rejected the settlement and ruled that the federal Department of Housing and Urban Development has sole authority and responsibility to monitor and reform public housing agencies. The judge ordered the parties to the consent decree to submit a report to him by December 14, 2018, detailing how they want to proceed.

As a condition of the consent decree, the City was required to provide $4 billion in capital funding to NYCHA during fiscal years 2018 through 2027. In addition, the City was required to provide $2 billion in operating assistance during this period, an amount that was consistent with the City's intentions. The November Plan includes the agreed-upon funding during the financial plan period, and the City has indicated that it will provide the funding despite the ruling.

[10] The current contract with the Transport Workers Union, the MTA's largest union, will expire in May 2019.

NYCHA estimates that its capital needs will total $31.8 billion over the next five years and $45.2 billion over the next 20 years. Despite the commitment of additional State and City funding, the amount of capital resources currently available to NYCHA over the next five years is less than $8 billion, a fraction of the total.[11]

On December 12, 2018, the City announced a proposal that, if fully realized, could address an additional $16 billion of NYCHA's capital needs over the next ten years. The proposal requires the participation of private developers and an expansion of the federal Rental Assistance Demonstration program.

4. Health and Hospitals Corporation

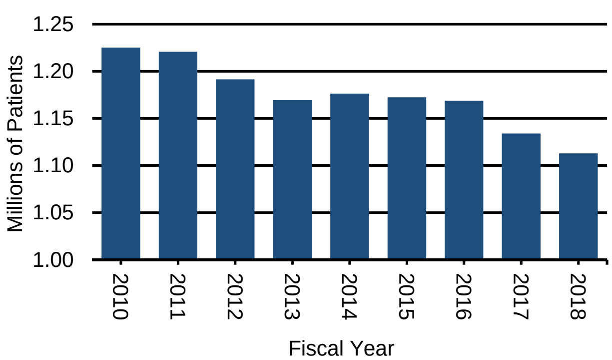
The Health and Hospitals Corporation provides health and mental health services to more than 1.1 million City residents. The Corporation continues to face significant challenges, including the declining use of services and a large share (more than one-third) of patients who lack health insurance.

Since FY 2010, the City and the Corporation have attempted to restructure and transform the Corporation. The Corporation has developed numerous initiatives to increase revenues and contain costs, but a structural imbalance between revenues and expenses has persisted.

As shown in Figure 19, the number of patients served by the Corporation declined by 112,000 patients (9 percent) between fiscal years 2010 and 2018. In addition, the average length of stay in the hospital has increased, and currently exceeds the citywide average.

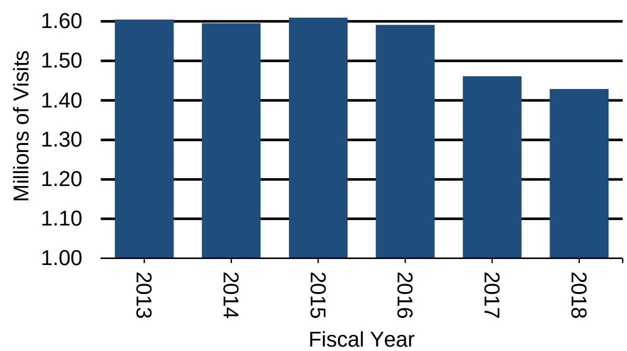
Industrywide, patient care has shifted to less costly outpatient settings, but the Corporation is not keeping pace and both inpatient discharges and outpatient visits are declining. For example, primary care visits (a subset of outpatient visits) at the Corporation have declined by 11 percent since FY 2015 (see Figure 20).

FIGURE 19
Total Patients Served at the Health and Hospitals Corporation



Source: NYC Mayor's Management Report

FIGURE 20
Patient Primary Care Visits



Sources: NYC Health and Hospitals Corporation; OSC analysis

MetroPlus (the Corporation's own health insurance provider) has had problems enrolling and maintaining members in its health insurance programs. While enrollment has grown, the majority of MetroPlus members seek health care from providers other than the Corporation.

The Corporation has increasingly relied on the City for financial assistance. In recent years, the City has increased its financial support to the

[11] The State plans to provide NYCHA with $550 million in additional capital funding, but has not indicated whether the judge's ruling will affect the distribution of the funds.

Corporation (to $1.8 billion in FY 2019 from $1.1 billion in FY 2014) and has allowed the Corporation to delay payments to the City.

The Corporation ended FY 2018 with a cash balance of $736 million, reflecting the benefit of a two-year delay in planned cuts to federal supplemental Medicaid payments. These cuts are now scheduled to become effective on October 1, 2019, and are reflected in the financial plan.

However, the Corporation's financial plan does not reflect the potential impact of a proposed federal rule that would consider the use of public benefits in determining whether immigrants can enter or stay in the country. The Corporation estimates that up to 62,000 of its patients could discontinue health insurance coverage if the proposed rule is enacted, at a cost of $362 million to the Corporation in the first year.

The Corporation's financial plan shows declining, but positive, cash balances through FY 2022. However, the forecast assumes successful implementation of future gap-closing actions, making it difficult to quantify the size of the remaining budget gaps. For example, the Corporation projects a cash balance of $687 million in FY 2020, but that estimate assumes the successful implementation of $1.4 billion in gap-closing actions, including those planned for that year. Unless the Corporation's efforts to restructure its operations are successful, the City could be called upon to further increase its financial support.

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