State of New York
Financial Control Board

FOR IMMEDIATE RELEASE:
July 26, 2017

FOR FURTHER INFORMATION CALL:
Jeffrey L. Sommer (212) 417-5066

PRESS RELEASE

A review of the FYs 2018-2021 Financial Plan and the adopted budget shows that the city continues to follow a successful strategy of conservative revenue estimates and large reserves to ensure budget balance. The city was able to manage the FY 2017 budget in a way that built up a surplus of almost $4.2 billion, which was used to prepay FY 2018 expenses. The surplus was mainly built on higher revenues, the takedown of unnecessary reserves, and the quarterly implementation of agency savings programs.

In FY 2017, the city recognized weakness in some nonproperty taxes during the year and reduced revenue estimates for the personal income, property transfer, and business taxes. These declines were more than offset by increased property taxes, tax audits, and miscellaneous revenues. With that in mind, the FY 2018 Adopted Budget projects city-fund revenues to increase by $1.2 billion, for moderate growth of 1.9 percent compared to FY 2017 revenues. Growth in the property tax continues strong, while moderate growth in nonproperty taxes is partially offset by projected reductions in tax audits and miscellaneous revenues.

In FY 2018, on the expenditure side, just under $1.2 billion in new city spending was added. This included City Council initiatives, funding for the expansion of pre-kindergarten and the launch of pre-k for three-year-olds, and increased costs in homeless programs and debt service. In addition, the city increased the general reserve to $1.2 billion and maintains a $250 million capital stabilization reserve. There is no projected surplus to help close deficits in FYs 2019-21.

In FY 2018, the challenge for the city is how to manage the year so that a surplus similar in size to past years can be produced. Our review of the city's projections finds them mostly reasonable and achievable. We have some concern that there could be a shortfall in the business taxes that might be offset by increased miscellaneous revenues. Without a boom in tax revenues, the city will have to find other ways to build the surplus. The high level of reserves, if not needed, will be helpful. We expect and recommend that the city continues the quarterly process of developing and implementing agency savings programs to help build the surplus. To the extent these actions have recurring value, the outyear gaps will be easier to close.

While projecting a balanced FY 2018 budget, the financial plan shows manageable budget gaps of $3.5 billion in FY 2019, $2.8 billion in FY 2020, and $2.3 billion in FY 2021, while maintaining a general reserve of $1 billion and a $250 million capital stabilization reserve in each of these fiscal years. Total revenues increase by 9.8 percent over the four years of the financial plan, with city-funded revenues growing by 13.1 percent. This is a cautious plan warranted by an uncertain economic environment in which national economic growth has been halting despite stronger business profits. Meanwhile, total-funded expenditures are projected to grow 12.6 percent over the four-year period of the financial plan. Expenditure growth is being driven largely by debt service costs, fringe benefits, and salaries and wages.

The growth in debt service is a manifestation of the high amount of debt that has been and is expected to be issued to support the city's capital program, as well as the application of conservative assumptions in projecting the costs of financing. The actual debt service costs may be lower than projected to the extent interest rates remain low, allowing for the possibility of savings that can be applied to reducing budget gaps.

Our identifiable risks are manageable and cover mainly concerns over the business taxes and uniformed overtime spending. Even these risks will likely be offset by higher pension investment earnings. After two years of dismal investment returns, while not official, investment returns for last year are projected to reach about 13 percent. Phasing in the higher earnings will offset risks in FY 2019 by $141 million, growing to $423 million by FY 2021.

While the known risks are historically minor, the great unknown risk of what actions may be taken by the federal government is still of concern. What, if any, changes due to healthcare reform, tax reform, or just federal budget cuts could affect the city's financial plan are unknown. Medicaid reductions would affect the city directly, as well as Health + Hospitals. Removing tax deductions for state and local taxes would affect the local economy. It is still very uncertain what, when, and if any actions will be taken. With that in mind, the city is wise to continue forecasting conservatively, building-up large surpluses, and developing and implementing agency savings programs with recurring impact.

# # #