Staff Report

REVIEW OF FYs 2018-2021 FINANCIAL PLAN

July 26, 2017

NEW YORK STATE
FINANCIAL CONTROL BOARD

STAFF OF THE
NEW YORK STATE FINANCIAL CONTROL BOARD

ACTING EXECUTIVE DIRECTOR

Jeffrey L. Sommer

SENIOR STAFF

Barbara Marin
Administration

Steven A. Bollon - Acting
Expenditure and Covered Organization Analysis

Martin Fischman - Acting
Economic and Revenue Analysis

Jewel A. Douglas
Finance and Capital Analysis

ANALYTIC STAFF

Sew-Lian Ang
Iwona Matusiak
Michelle McManus
Jean L. Schwartz
Edward C. Thurston

ADMINISTRATIVE AND SUPPORT STAFF

Taina M. Sanchez
Saundra L. Truell

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I. Overview

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.

JUNE FINANCIAL PLAN:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2018-2021

TABLE 1 ($ in millions)

	FY 2018	FY 2019	FY 2020	FY 2021
Revenues				
Taxes:				
General Property	$25,732	$27,459	$28,825	$29,948
Other Taxes	30,138	31,246	32,459	33,688
Tax Audit Revenue	850	721	721	721
Sale of Property Tax Liens	80	80	80	80
Miscellaneous Revenues	6,488	6,648	6,863	6,850
Less: Intracity Revenues	(1,815)	(1,737)	(1,739)	(1,744)
Disallowances	(15)	(15)	(15)	(15)
Total City Funds	$61,458	$64,402	$67,194	$69,528
Other Categorical Grants	880	868	859	856
Interfund Revenues	671	664	602	602
Federal Categorical Grants	7,811	7,014	6,915	6,901
State Categorical Grants	14,419	14,872	15,371	15,727
Total Revenues	**$85,239**	**$87,820**	**$90,941**	**$93,614**
Expenditures				
Personal Service	$46,933	$49,312	$51,084	$52,575
Other Than Personal Service	36,312	35,243	35,292	35,532
General Obligation, Lease & TFA Debt Service	6,528	7,225	7,861	8,331
Budget Stabilization & Prepayments	(4,169)	--	--	--
Capital Stabilization Reserve	250	250	250	250
General Reserve	1,200	1,000	1,000	1,000
Subtotal	$87,054	$93,030	$95,487	$97,688
Less: Intracity Expenditures	(1,815)	(1,737)	(1,739)	(1,744)
Total Expenditures	**$85,239**	**$91,293**	**$93,748**	**$95,944**
Gap To Be Closed	**$0**	**($3,473)**	**($2,807)**	**($2,330)**

CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR FISCAL YEARS 2018-2021 JUNE FINANCIAL PLAN COMPARED TO JANUARY MODIFICATION

TABLE 2 ($ in millions)

	FY 2018	FY 2019	FY 2020	FY 2021
Revenues				
Taxes:				
General Property	$183	$247	$287	$99
Other Taxes	(418)	(466)	(620)	(520)
Tax Audit Revenue	0	0	0	0
Sale of Property Tax Liens	0	0	0	0
Miscellaneous Revenues	126	46	59	43
Less: Intracity Revenues	(29)	44	48	43
Disallowances	0	0	0	0
Total City Funds	($138)	($129)	($226)	($335)
Other Categorical Grants	24	21	22	23
Interfund Revenues	13	6	7	9
Federal Categorical Grants	799	203	106	120
State Categorical Grants	(127)	(136)	(33)	9
Total Revenues	**$571**	**($35)**	**($124)**	**($174)**
Expenditures				
Personal Service	($460)	($565)	($622)	($518)
Other Than Personal Service	2,027	722	846	879
General Obligation, Lease & TFA Debt Service	(53)	(76)	(99)	(41)
Budget Stabilization & Prepayments	(1,114)	--	--	--
Capital Stabilization Reserve	0	0	0	0
General Reserve	200	0	0	0
Subtotal	$600	$81	$125	$320
Less: Intracity Expenditures	(29)	44	48	43
Total Expenditures	**$571**	**$125**	**$173**	**$363**
Change to the Gap Decrease/(Increase)	**$0**	**($160)**	**($297)**	**($537)**

RISKS TO THE FINANCIAL PLAN

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

	FY 2018	FY 2019	FY 2020	FY 2021
Stated Financial Plan Gap	**$0**	**($3,473)**	**($2,807)**	**($2,330)**
Estimation				
Business Taxes	(150)	(150)	(150)	(150)
Miscellaneous Revenue	150	150	125	125
Uniformed Services Overtime	(133)	(191)	(195)	(199)
HHC Reimbursements	(165)	(165)	(165)	(165)
Pension Investment Gains	0	141	282	423
Subtotal	(298)	(215)	(103)	34
Not in City's Control				
STARC Bond Repayment	0	(150)	0	0
Risk Total	**($298)**	**($365)**	**($103)**	**$34**
Total FCB Estimated Surplus/(Gap)	**($298)**	**($3,838)**	**($2,910)**	**($2,296)**

II. Balancing the FY 2018 Budget

The city's adopted budget for FY 2018 holds total-funded expenditure flat relative to FY 2017, decreasing slightly to $85.239 billion from $85.325 billion, or by $86 million. Comparatively, the FY 2018 budget is balanced with the use of $4.169 billion of prior-year surplus funds, which is $132 million larger than what was used to balance the FY 2017 budget. Prudently, the FY 2018 budget makes available $1.45 billion of reserves as a contingency, with a changing economic environment that includes the potential for reductions in federal aid.

Of the total budget, noncity-funded revenues, at $23.8 billion, decline by $1.2 billion year-over-year, reflecting cutbacks of federal categorical aid. Grant estimates could improve as the year progresses, but such an assumption could run counter to shifting national priorities. In contrast, city-funded revenues comprise $61.5 billion, for a year-over-year growth of $1.2 billion. The revenue gain represents strong tax collections, both property and nonproperty taxes, which are partly offset by the projected declines in other major revenue sources like audits, miscellaneous revenue and the ending of drawdowns from the disallowance reserve.

The city has not identified a surplus for FY 2018, and our analysis shows a net risk to budget balance of nearly $300 million. The city should continue to develop new agency savings programs during FY 2018 to offset any risks and to generate a surplus. Additionally, any portion of unused reserves could function as surplus resources that facilitate closing a budget deficit of $3.5 billion projected for FY 2019.

CITY FUNDS SLIP BY $164 MILLION AS FY 2017 COMES TO A CLOSE

FY 2017 city funds declined by $164 million in the June 2017 modification, compared with the April modification. This modest revenue reduction diminishes the surplus that can be applied to help future budgets by prepaying some expenses before the close of FY 2017. A positive increment of $45 million to the property tax was more than offset by a downward adjustment of $104 million to the nonproperty taxes. Of particular concern is that the business taxes weakened by $295 million near the close of FY 2017, mirroring the $298 million shortfall that occurred as FY 2016 drew to a close. The business tax downturn was partly mitigated by improved collections for the personal income and the property transactions taxes. Miscellaneous revenue increased by $81 million. The school tax relief program (STAR) was reduced by $186 million, reflecting the state's assumption of a greater role in the distribution of these taxpayer subsidies. Since the April modification, total revenues are down by $128 million in FY 2017 because the previously mentioned city-fund reductions were partly offset by a net gain of $36 million to categorical grants and interfund revenue.

TAXES IMPROVE BY $2.9 BILLION IN FY 2018 BUT CITY FUNDS INCREASE ONLY $1.2 BILLION

City funds increase by $1.161 billion to $61.5 billion in FY 2018 for a moderate gain of 1.9 percent compared with revenues in FY 2017. Improved tax collections of $2.9 billion are partly offset by declines in other major revenue sources, as shown in the figure. Climbing property values are driving up city property tax revenue by $1.4 billion, year-to-year, to $25.8 billion in FY 2018. The nonproperty taxes increase by $1.5 billion even though some taxes, like the business taxes and the property transactions taxes, have been unsteady. Total revenue declines by $86 million, to $85.2 billion. The weaker FY 2018 total revenues include shifts in categorical grant programs, which are down by $1.3 billion.

FY 2018 City-Fund Revenues Increase by $1.2 Billion
($ in millions)

Property Tax	$1,365
Nonproperty Taxes	1,490
Audits	(401)
Miscellaneous Revenue	(354)
STAR Aid	(168)
Tax Cut Program	(87)
Unrestricted Aid	(57)
Disallowances	(628)
City Funds	**$1,161**
Categorical Aid	(1,291)
Interfund Revenue	44
Total Change in Revenues	**($86)**

Note: Numbers may not add due to rounding.

Aside from taxes, most revenue categories are lower. Tax audits decline $401 million to $850 million, but audits can be reevaluated based on collections results as the year progresses. Miscellaneous revenue shrinks by $354 million to $4.7 billion.

Part of the city's allocation of the state's STAR has been shifted between the city and the state. The state is now paying an increasing share of STAR subsidies directly to city taxpayers. The state is taking over all of the STAR income tax program as of FY 2018. However, the changeover of the STAR property tax program will be more gradual. Accordingly, STAR declines by $168 million to $202 million in FY 2018, while city tax collections are scheduled to increase by a like amount. City revenues are unaffected by the change and city taxpayers are held harmless.

The city is enlarging by $87 million its property tax exemption programs for elderly, disabled and veteran homeowners. Unrestricted aid dropped by $57 million compared with FY 2017, when the federal government reimbursed the city for prior-year Medicaid claims. Disallowances are down $628 million because in the previous year the city released funds from its $1.1 billion reserve for disallowances and applied these funds to its revenue budget. The stronger tax collections expected in FY 2018 should smooth over the discontinuities resulting from the one-time revenues in the previous year.

Compared with the prior year, categorical aid is down $1.3 billion in FY 2018, to $23.1 billion, of which $7.8 billion is federal aid, $14.4 billion is from state programs and $880 million is from private sources. The weakness in categorical aid results from a large reduction in federal aid of nearly $1.2 billion, exacerbated by less consequential declines in state and private grants amounting to $31 million and $105 million, respectively. The decline in grants follows a three-year uptrend. In previous years it was safe to assume that some of the reductions in grants would be made up as the fiscal year progressed. For example, grant estimates for FY 2017 improved by $2.2 billion over the course of the fiscal year. Similarly, grant estimates for FY 2018 could well improve as the year progresses, but such an assumption could run counter to shifting national priorities.

The city expects the nonproperty taxes to increase by $1.5 billion to $30 billion in FY 2018. These taxes increase by 5.2 percent in FY 2018, breaking free of the stagnation that afflicted these taxes during the previous two years, when collections increased by just 0.1 percent in FY 2016 and then fell by 0.5 percent in FY 2017. There is some precedent for the upgraded growth projection because before the recent period of weakness the nonproperty taxes expanded by an average of 8.2 percent in FYs 2013-15.

Most of the individual taxes in this group are participating in the expected collections upturn. The personal income tax in FY 2018 increases by $774 million, or seven percent, and the city sales tax gains $325 million, or 4.6 percent. The business taxes improve by a combined $502 million, or 9.1 percent. Other increasing taxes are the commercial rent tax with growth of $32 million, or 3.9 percent; the utility tax with an increase of $11 million, or three percent; and the cigarette tax with an increase of $2 million, or five percent. The city projects declines for the property transfer tax, which is down $24 million, or 1.7 percent, and the mortgage recording tax, which falls $179 million, or 16.1 percent. The hotel tax drops by $7 million, or 1.2 percent.

The minor taxes are up by $54 million, or 8.4 percent, due to higher estimates for payments in lieu of taxes (PILOTs) and reduced refund payouts. The Hudson Yards Infrastructure Corporation (HYIC) collects PILOTs and other tax equivalency payments from new buildings, including hotels, offices, and residential construction. HYIC is scheduled to remit $100 million to the city starting in FY 2018, with the payments recurring in each year of the plan. This large gain is partly offset by declines to other PILOTs, with the biggest downward adjustment being a $35 million cut in Battery Park City payments. Aside from PILOTs, the minor taxes were augmented by a $14 million reduction in refund payments.

Miscellaneous Revenue

Compared with the executive budget, the FY 2018 miscellaneous revenue estimate rises by $8 million to $4.7 billion in the adopted budget, and represents a decline of seven percent from the prior year. Most of the $8 million plan-to-plan change refers to higher parking fine revenue. It is likely that as FY 2018 progresses, miscellaneous revenue will be augmented by nonrecurring actions and initiatives that offer recurring revenue. An example of a new program with recurring value is the effort from the Police Department to reduce parking placard fraud and abuse. In this endeavor, the police will be assisted by a dedicated enforcement unit, and an additional 100 traffic enforcement agents who will issue summonses.

EXPENDITURE HIGHLIGHTS

The city's adopted budget for FY 2018 holds total-funded spending relatively flat compared to FY 2017, decreasing slightly to $85.239 billion from $85.325 billion, or $86 million. The budget assumes a higher-than-usual general reserve of $1.2 billion plus a capital stabilization reserve of $250 million.[1] The $1.45 billion in reserves reflects the city's prudence in managing its finances by equipping itself with added resources to address a changing economic environment that has lowered revenue projections and to prepare for potential reductions in federal aid. The city has been able to produce these reserves by creating a substantial surplus. For FY 2017, the surplus was $4.169 billion, which was about $132 million larger than FY 2016. The FY 2017 surplus, created in part through a savings program and budget actions, enabled the city to balance FY 2018, cover higher agency expenditures, and increase the general reserve by $200 million in FY 2018. The city still faces outyear gaps of $3.5 billion, $2.8 billion, and $2.3 billion in FYs 2019-21, respectively.

FY 2017 Surplus Funds

Over the course of FY 2017, the city had recognized $986 million of higher-than-expected net revenue collections and $1.836 billion in savings, as shown in the figure to the right. In addition, the city took budget actions that reduced city-funded expenditures by $1.98 billion. Also, the city experienced higher agency expenditures of $632 million, which included $100 million allocated to the Retiree Health Benefits Trust (RHBT). The added revenues, savings, and budget actions generated surplus funds in FY 2017 of $4.169 billion, which were used to prepay debt service, retiree health benefits, and Health + Hospital expenditures in FY 2018.

FY 2017 Surplus Funds City Funds ($ in millions)	
Revenue Inc/(Dec)	
Non-Tax	$1,030
Tax	(44)
Total Increase	**$986**
Savings	
Agency Savings	$1,298
Debt Service	518
Pension	20
Total Savings	**$1,836**
Budget Actions	
General Reserve	$980
Capital Stabilization	500
Prior-Year Payables	500
Total Budget Actions	**$1,980**
Expenditures	
Agency	($498)
RHBT	(100)
Enacted State Budget	(34)
Total Increase	**($632)**
FY 2017 Surplus	**$4,169**
May not add due to rounding	

Expenditure Savings

The city generated savings during FY 2017 totaling $1.836 billion, most of which was from the savings program. The program, totaling $1.816 billion, is comprised mostly of agency savings of $1.298 billion with additional savings in debt service of $518 million.[2] Agencies were instructed to identify savings that would reduce spending in FY 2017 and extend over the life of the financial plan. As discussed in our May 2017 report, the reduction in agency spending, through the April modification,

[1] The city had previously maintained a $1 billion general reserve in each fiscal year of the financial plan. For FY 2018, the city increases the reserve to $1.2 billion and maintains $1 billion in each of FYs 2019-21.

[2] The debt service savings were derived primarily from the recognition of more favorable interest rates than had been assumed, the elimination of short-term borrowing and the one-time application of revenues from the Hudson Yards Infrastructure Corporation resulting from a refunding bond sale.

totaled $1.241 billion in FY 2017.[3] The June modification adds $57 million, bringing the total to $1.298 billion. Through FY 2021, the cumulative impact of agency savings yields more than $5 billion. On top of the savings program are reduced pension costs of $20 million.

Budget Actions

The city took several budget actions in FY 2017 totaling $1.98 billion. The largest action was the drawdown in the general reserve of $980 million leaving $20 million to close out the fiscal year. Also, the city took down its capital stabilization reserve of $500 million. In the past, the city simply transferred these funds to the next fiscal year. However, in the current plan, the city funds the capital stabilization reserve by $250 million in each of FYs 2018-21, for a total reserve of $1 billion. Lastly, the city reduced its reserve of prior-year payables by $500 million.

Expenditure Increases

In FY 2017, expenditures increased by $632 million to cover new agency spending, add funds to the RHBT, and address the impact of the enacted state budget.[4] Of the increase, $498 million covered new agency spending with the Department of Homeless Services allocated almost $204 million. The increase was necessary to support the rise in homeless population, and was used primarily to cover adult and family shelters throughout the city. The city's Uniformed Services and the Department of Education (DOE) were also allocated new monies. In Uniformed Services, about $78 million had been allocated to support operational upgrades such as in technology services, facilities, and fleet vehicles. In the DOE, $94 million in extra funding covered various needs such as upgrading data centers, broadband and operational technology systems; lead testing; and funding of mandated educational costs.

The city added $100 million to the RHBT, bringing its funding level up to an all-time high of about $4.2 billion. The city has made regular contributions to the RHBT since FY 2014. Following significantly larger contributions made in past years, the FY 2017 contribution is notably smaller.[5] Nonetheless, the funding level still remains far below what is necessary to meaningfully reduce the Other Postemployment Benefits (OPEB) liability. As of June 30, 2016, the outstanding OPEB liability was $89.4 billion.

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[3] See "Expenditure Savings "in the FCB May 2017 Staff Report, starting on page 12.

[4] The enacted state budget for SFY 2017-18, which began April 1, 2017, includes actions the city estimates will increase spending in social services and education by a total of $34 million in FY 2017 and $68 million in each of FYs 2018-21.

[5] Annual contributions to the Retiree Health Benefits Trust fund in FYs 2014-16 were $864 million, $955 million and $500 million, respectively.

Expenditure Changes between FY 2017 April and June Modifications

Between the FY 2017 April and June modifications, city-funded spending fell by $164 million from $60.462 billion to $60.297 billion, as shown in the figure to the right. Much of the reduced spending was due to budget actions of $380 million. The city reduced the general reserve by $280 million and recognized an additional $100 million in prior-year payables. The savings program generated $279 million, comprised mostly of debt service savings of $223 million with additional agency savings of $57 million.[6] Lastly, revised agency expenses saved $47 million. The impact of these savings was offset by an increase in prepayment of FY 2018 expenditures, which added $442 million, and the contribution to the RHBT, which added $100 million.

Changes Between April and June Mods City Funds ($ in millions)	
April Modification	**$60,462**
General Reserve	($280)
Savings Program	(279)
Prior-Year Payables	(100)
Agency	(47)
FY 2018 Prepayment	442
RHBT	100
Total Net Decrease	($164)
June Modification	**$60,297**
May not add due to rounding	

Expenditure Changes between FYs 2017 and 2018

The FY 2018 adopted budget assumes city-funded spending grows from $60.297 billion in FY 2017 to $61.458 billion in FY 2018, a net increase of $1.161 billion. As shown in the figure to the right, spending in the Service, Expense, and Other Adjustments categories is expected to grow $1.719 billion, $1.812 billion, and $1.930 billion, respectively, totaling $5.461 billion. The growth is offset by $4.301 billion in year-to-year changes in prepayments.[7]

Spending in Service categories is expected to increase by $1.719 billion, which includes City Council initiatives of almost $381 million.[8] Covered Organizations, which include the DOE, the City University of New York, and

Changes Between FYs 2017 and 2018 City Funds ($ in millions)	
FY 2017	**$60,297**
Service Categories	**$1,719**
Covered Organizations	639
Health and Welfare	477
Mayoral	324
Uniformed	263
Elected Officials	16
Expense Categories	**$1,812**
Miscellaneous	1,211
Debt Service	424
Pension	177
Other Adjustments	**$1,930**
General Reserve	1,180
Prior-Year Payables	500
Capital Stabilization	250
Prepayment Adjustment	**($4,301)**
Total Net Increase	**$1,161**
FY 2018	**$61,458**
May not add due to rounding	

[6] As part of the savings, the New York City Transitional Finance Authority received $113 million to use as an offset to its debt service, which was enabled by the sale of refunding bonds by the Hudson Yards Infrastructure Corporation.

[7] The year-to-year adjustment to the prepayment reflects the difference between the net prepayment of negative $132 million in FY 2017 and the prepayment of $4.169 billion of FY 2018 expenses.

[8] Among the largest of these initiatives is to support aging, youth and local programs at about $52 million. The City Council also directed to education programs $36 million and to cultural organizations almost $29 million. Other large initiatives are for senior services totaling $22 million and for higher education programs totaling more than $20 million.

Health + Hospitals, account for $639 million of higher spending. The DOE's budget increases by $529 million. Part of the increase includes starting a 3-K for All program, which broadens the effort to enhance early care and education. In addition, the increase covers such programs as other early childhood education initiatives and the installation of air conditioners in every classroom.

Another source of spending growth in Covered Organizations is Health + Hospitals. Health + Hospitals is the largest public hospital system in the country, serving approximately 1.2 million people, and is the single largest provider of healthcare to uninsured and Medicaid patients in the city. The city's share to support Health + Hospitals increases by $89 million in FY 2018 to nearly $786 million (net of prepaid expenses). The city's support provides funding of prison inmate healthcare, uniformed service employees, and other city services. Included in the funding are costs related to the most recent round of collective bargaining. Expenditure growth is mostly due to rising health insurance costs and wage increases.

In recent years, Health + Hospitals has experienced falling revenue and higher spending that is related to increased competition among city hospitals for Medicaid patients, underutilization of hospital beds, the declining use of hospital services, and reduced safety-net funding. The confluence of these events has put the system under severe financial stress that has required additional financial support from the city. In FY 2016, the city had provided a $160 million subsidy and waived miscellaneous revenue reimbursements, which included $172 million in debt service, $140 million in judgment and claims, and $25 million in fringe benefits. In addition to these actions, the city absorbed wage increases for covered employees in the latest round of collective bargaining.

In FY 2017, the city permanently waived debt service reimbursement and collected payments for fringe benefits, and judgments and claims of $165 million. In recent developments, the system made major staffing changes, reducing its workforce by almost 400 people. Given the uncertainties facing Health + Hospitals, including changes to the Affordable Care Act, the reimbursements related to fringe benefits, and judgments and claims are at risk, in each of FYs 2018-21, as shown in Table 3 on page 5. Further, the possibility of reduced collection in state and federal aid may force the city to increase its financial support by way of additional subsidies.

Elsewhere, Health and Welfare Services are expected to spend $477 million more in FY 2018 than in FY 2017, due mostly to increases in the Department of Social Services and Administration for Children Services. Mayoral agencies, which encompass Libraries, Aging, Cultural Affairs, Housing Preservation, Environmental Protection, Finance, Transportation, Parks and Recreation, and Citywide Services, are projected to spend $324 million more. Uniformed Services increase collectively by $263 million, with the Police and Sanitation Departments increasing by $116 million and $92 million, respectively.

On top of the $1.719 billion of new agency spending in Service categories is $3.742 billion of other increases. The city will maintain a general reserve of $1.2 billion in FY 2018, which accounts for $1.18 billion of year-to-year variance. Also, the city projects higher debt service, miscellaneous spending, and pension costs totaling $1.812 billion.[9] Lastly, the city had transferred $250 million of capital stabilization reserves from FY 2017 into FY 2018 and adjusted prior-year payables by $500 million. When aggregated, agency and other spending total $5.461 billion. After accounting for the adjustment between prepayments, the net increase from year-to-year is $1.161 billion, bringing total FY 2018 city-funded expenditures to $61.458 billion.

[9] Miscellaneous and debt service expenditures are net of prepayments. The debt service projection for FY 2018 employs conservative interest rate assumptions.

III. The FYs 2018-2021 Financial Plan

Beyond FY 2018, for which the adopted budget is balanced, the June 2017 Financial Plan forecasts revenues growing slower than expenditures in FYs 2019-21. However, the gap between revenues and expenditures declines annually from $3.5 billion in FY 2019 to $2.8 billion in FY 2020 and $2.3 billion in FY 2021.

Total revenues increase by $8.4 billion, or 9.8 percent, over the four-year period, from $85.2 billion in FY 2018 to $93.6 billion in FY 2021, with city-funded revenues climbing by $8.1 billion, or 13.1 percent, from $61.5 billion in FY 2018 to $69.5 billion in FY 2021. The unevenness of city-funded growth in recent years suggests the need for caution in setting revenue goals. Caution is also warranted by an uncertain economic environment in which national economic growth has been halting despite stronger business profits. The city's business tax collections weakened at the close of FY 2017, creating potential risks to the outyears of the plan.

Meanwhile, the growth in total-funded expenditures between FYs 2018 and 2021 is projected at $10.7 billion, or 12.6 percent, with incremental increases from $85.2 billion in FY 2018 to $95.9 billion by FY 2021. 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 market interest rates remain low, allowing for the possibility of savings that can be applied to reducing budget gaps. Additionally, the city has set aside $1.45 billion of reserves in FY 2018 to address uncertainties that may arise during the fiscal year, and an additional $1.25 billion in each of FYs 2019-21, which may be available to help close the gaps.

THE OUTLOOK FOR REVENUE GROWTH

City-fund revenues increase by $8.1 billion, or 13.1 percent, from $61.5 billion in FY 2018 to $69.5 billion in FY 2021, as shown in Table 4 on page 15. The growth over the plan is almost identical to the 13.2 percent growth rate that the city projected last year at this time. The plan relies upon strong tax growth estimates coupled with moderate gains for miscellaneous revenue. The solid growth, which the city expects for the next three years, follows three consecutive years of weak city-funds growth. City funds had been stagnant with increases of 1.2 percent in FY 2016, 2.7 percent in FY 2017, followed by an estimated 1.9 percent in FY 2018. The weakness in FY 2018, however, differs from the two preceding years of slumping revenues in that tax estimates are up, but other revenue sources like audits, disallowance reserves and miscellaneous revenue are down. This prolonged spell of flat growth followed two years of robust growth in FYs 2014 and 2015, which saw gains of 7.3 percent and 7.5 percent, respectively. Growth returns with gains of 4.8 percent in FYs 2019, 4.3 percent in FY 2020, after which growth slows to 3.5 percent in FY 2021.

Rising tax estimates and miscellaneous revenue are driving the city-funded revenue growth. The real property tax increases by $4.2 billion, or 16.3 percent; and nonproperty tax collections gain $3.6 billion, or 11.9 percent, over FYs 2018-21. Miscellaneous revenue climbs 9.3 percent and increases by $433 million. This solid growth is moderated by conservative audit estimates and shifts in state STAR aid. The state is paying an increasing share of STAR subsidies directly to city taxpayers, shrinking the portion of the program that is administered by the city. The city is expanding its property tax exemption programs for elderly, disabled or veterans homeowners by $87 million starting in FY 2018, with the enhancements scheduled to cost $98 million by FY 2021.

TABLE 4

CITY FUNDS INCREASE BY $8.1 BILLION OVER THE PLAN

($ in millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2018-21 % Change	FY 2018-21 $ Change
Property Tax	$25,812	$27,539	$28,905	$30,028	16.3%	$4,216
Nonproperty Taxes	30,023	31,137	32,356	33,590	11.9	3,567
Audit Revenue	850	721	721	721	(15.2)	(129)
STAR Aid	202	200	198	196	(3.0)	(6)
Tax Cut Program	(87)	(91)	(95)	(98)	13.4	(12)
Miscellaneous	4,673	4,911	5,124	5,106	9.3	433
Disallowances	(15)	(15)	(15)	(15)	0.0	0
Total City Funds	**$61,458**	**$64,402**	**$67,194**	**$69,528**	**13.1%**	**$8,070**
Federal Grants	$7,811	$7,014	$6,915	$6,901	(11.6%)	($910)
State Grants	14,419	14,872	15,371	15,727	9.1	1,308
Private Grants	880	868	859	856	(2.8)	(25)
Categorical Aid	**$23,110**	**$22,754**	**$23,145**	**$23,484**	**1.6%**	**$374**
Interfund Revenue	671	664	602	602	(10.2)	(69)
Total Funds	**$85,239**	**$87,820**	**$90,941**	**$93,614**	**9.8%**	**$8,375**

Note: Numbers may not add due to rounding.

Total revenue increases by $8.4 billion, or 9.8 percent, from $85.2 billion in FY 2018 to $93.6 billion in FY 2021. At the start of the plan, revenues decline by 0.1 percent in FY 2018. This weak projection follows three years of uneven total revenue growth averaging 5.1 percent annually. The stronger revenue growth of previous years had the particular advantage of accelerating categorical aid, like federal assistance to rebuild following Hurricane Sandy and state education grants. In contrast, FY 2018 grants decline by 5.3 percent. After the weakness in FY 2018, total revenue increases by three percent in FY 2019, 3.6 percent in FY 2020 and 2.9 percent in FY 2021.

Categorical aid, which consists of federal, state and private program-specific grants, falls by $1.3 billion in FY 2018 to $23.1 billion. Grants drop by $357 in FY 2019 followed by a two-year upturn, with gains of $392 million in FY 2020 and $339 million in FY 2021. This source of aid reaches $23.5 billion by FY 2021, up $374 million, or 1.6 percent higher than the grants scheduled for FY 2018. Gains in state aid are sufficient to offset the decreases in federal aid and private grants. Over FYs 2018-21, state aid increases by $1.3 billion, or 9.1 percent, due to the state's support for the city's education budget. Federal aid declines by $910 million, or 11.6 percent. The decline reflects a reduction in Sandy funding, as the Sandy work funded out of the expense budget is completed. Other federal grants may be modified upward as program milestones are achieved and funds still in the pipeline are released. Private grants fall by $25 million, for a decline of 2.8 percent.

Property Tax Growth

Property tax revenue increases by $4.2 billion, or 16.3 percent, from $25.8 billion in FY 2018 to $30 billion in FY 2021. Property tax growth drops to 5.6 percent in FY 2018 from 7.8 percent in FY 2016 and 6.4 percent in FY 2017. Revenue growth accelerates to 6.7 percent in FY 2019 after which growth drops to five percent in FY 2020 and 3.9 percent in FY 2021. The June plan added $183 million to the previous property tax estimate for FY 2018 in the April modification. This extra revenue was recognized after billable assessment growth improved to 7.5 percent in the final tax roll for FY 2018, up from the preliminary estimate of 6.7 percent that was based upon the tentative tax roll. The strong final tax roll enabled the city to add an extra $875 million to its cumulative estimate of the property tax levy for FYs 2018-21, compared with the tentative estimates.

The city has upgraded its contingency reserves to offset the extra risks associated with the higher tax levy estimates. In particular, the city raised its reserve for cancellations by $42 million since the June 2016 plan, to $594 million in FY 2018, with similar increases in the outyears of the plan. The extra cancellation reserve reflects the city's concern that the rapid escalation of assessments could lead to taxpayer challenges and assessment appeals. The city has proposed a tax program to expand eligibility for its property tax exemption programs for elderly, disabled and veterans homeowners. The proposal would raise the income threshold for elderly and disabled homeowners, for a 50 percent exemption, from $29,000 to $50,000. The changes would cost $87 million starting in FY 2018 increasing to $98 million by FY 2021. Once this initiative is implemented, the city could enlarge its property tax reserves to cover the program enhancements.

Nonproperty Taxes

The nonproperty taxes increase by $3.6 billion, or 11.9 percent, in the city's financial plan, from $30 billion in FY 2018 to $33.6 billion in FY 2021, as shown in Table 4 on page 15. The city expects moderate nonproperty tax growth of 3.7 percent in FY 2019, 3.9 percent in FY 2020 and 3.8 percent in FY 2021. In contrast to these steady future growth estimates, past growth had swung unsteadily from strong increases averaging the 8.2 percent in the three years FYs 2013-15 to virtually flat growth in FYs 2016 and 2017. The nonproperty taxes break out of stagnation with a 5.2 percent upturn in FY 2018, setting the stage for the steady moderate increases in the plan for FYs 2019-21.

The fastest growing nonproperty taxes over the plan are the sales and unincorporated business taxes, which are scheduled for three-year increases of 17.4 percent and 17.1 percent, respectively. The commercial rent tax grows by 12.6 percent, the personal income tax increases by 11.2 percent, while the real property transfer and mortgage recording taxes each gain 9.2 percent. Also increasing are the utility tax, which adds 7.1 percent; the hotel tax, with a gain of 6.7 percent; and the business corporation tax which increases 5.7 percent. The minor taxes remain flat, while the cigarette tax drops by 7.1 percent.

Subpar national economic growth could put the city's tax collection plan in question. The city's most current economic plan, which was presented in April, could overstate national growth. The city's plan projects GDP growth of 2.3 percent in 2017 and

2.5 percent in 2018. By comparison, the more current July Blue Chip consensus projections of 2.2 percent in 2017 and 2.4 percent in 2018 are only slightly lower than the city's estimates. Actual results are even weaker. Real GDP growth slowed to 1.4 percent in the first quarter of CY 2017 from the painfully weak 1.6 percent increase for the whole of 2016. Estimates for the next two quarters, which the Federal Reserve Bank of New York furnished in its July 21, 2017 *Nowcasting Report*, are discouraging. The Fed estimates GDP growth of two percent in the second quarter of 2017 and two percent in the third quarter. If these estimates for the first three quarters of 2017 prove to be close to the mark, GDP could remain stalled below two percent for two years in a row.

Business Taxes

As a group, the business taxes increase by $588 million, or 9.8 percent, from $6 billion in FY 2018 to $6.6 billion in FY 2021. However, the city's tax plan suggests that the unincorporated business tax (UBT) will grow more strongly than the business corporation tax. Whereas UBT surges by 17.1 percent, the business corporation tax growth is a more modest 5.7 percent. Previously, business tax growth had been extremely volatile, wavering from a decline of 6.4 percent in FY 2016 and an estimated decline of 2.4 percent in FY 2017, after which the city expects these declines to be followed by a 9.1 percent surge in FY 2018. The weakness in both FYs 2016 and 2017 went unrecognized until collections faltered and refund issuance increased late in each fiscal year. The possibility of a repeat of this pattern of late-year shortfalls remains an ongoing concern. Another concern is the previously-mentioned weakness in national economic growth, which could affect local business taxes. Despite these concerns, reports on business profits appear to be strong enough to support the city's business tax estimates.

The Bureau of Economic Analysis (BEA) reports that national pretax corporate profits increased by 8.9 percent in the first quarter of 2017, year to year, following an even more solid gain of 14.1 percent in the fourth quarter of 2016. Profits of New York Stock Exchange member firms improved to $17.3 billion in 2016 from $14.3 billion in 2015, and the city projects that profits will remain strong at $15.6 billion in 2017. The Intercontinental Exchange reported that Wall Street firms earned $6.1 billion in the first quarter of 2017, indicating that the city's outlook for the securities industry is achievable. The FDIC reports that net income increased by 12.7 percent in the first quarter of 2017 for all insured banking institutions in the nation. Similarly, first-quarter profits of insured banks in New York State increased by 7.1 percent.

Had business tax collections achieved their goals in FY 2017, the city's plan for future collections would have appeared attainable. Unfortunately, preliminary collections data indicate that the business corporation tax weakened again in June 2017, similar to the downturn that occurred at the end of FY 2016. During the close of FY 2017, the city will need to find other sources to adjust for the business tax shortfall. Because of the history of collections weakness, we are risking $150 million for the business taxes in each of FYs 2018-21.

Property Transactions Taxes

This group of taxes consisting of the real property transfer and the mortgage recording taxes increase by $212 million, or 9.2 percent, from $2.3 billion in FY 2018 to $2.5 billion in FY 2021, with both taxes participating about evenly in the projected growth. Previously, the growth rate of these taxes had been sinking from the robust growth of 36 percent in FY 2014 and 17 percent in FY 2015. Growth slowed to 3.1 percent in FY 2016 before going negative in FY 2017, when revenues declined by an estimated 16.9 percent. The city expects revenues to decline by another 8.1 percent in FY 2018, after which slow growth of about three percent per year resumes. Actual collections through May indicate that the transactions taxes are likely to close FY 2017 slightly ahead of plan, lending confidence to the city's revenue goals.

Sales Tax

In an unusual turn of events the sales tax is facing headwinds during the forecast period of FYs 2018-21 that will temporarily depress collections. In the June financial plan, sales tax revenue rises by $1.3 billion, or 5.5 percent on an average annual basis, from $7.3 billion in FY 2018 to $8.6 billion in FY 2021. The likelihood of fewer international visitors and less tourist spending is a reaction to the federal travel ban that is under court review. Households are optimistic and wealthier from an appreciation in home values and stock prices, but are not spending as much on goods as expected. This may be due to lackluster growth in inflation-adjusted wages. Sales tax revenue will continue to be intercepted by the state until FY 2020 as repayment for a refunding of Sales Tax Asset Receivable Corporation (STARC) bonds by the city.[10]

The FY 2018 sale tax estimate of $7.3 billion includes a cut of $200 million for the full cost of the STARC bond recoupment for that year, but the FY 2019 projection of $7.9 billion does not reflect any such reduction. We are therefore placing at risk $150 million in FY 2019, which is the total amount of city sales tax revenue that will be paid to the state. With the remittances from FY 2019, the city would have foregone $600 million in sales tax revenue during FYs 2016-19, which would complete the state budget action to intercept the city's sales tax.

In addition to the impact from the repayment to the state, there are smaller-than-expected gains in taxable consumption from residents and tourists, which have collectively contributed to the dramatically slower pace of sales tax collections. Annual growth was 2.5 percent in FY 2016, 1.2 percent in FY 2017, and the city expects a 4.6 percent gain in FY 2018.[11] Through June 2017, sales tax revenue is up 1.4 percent, which is a small improvement over the 0.8 percent gain recorded through March. During the plan period, the city's employment forecast, for a maturing economy, shows a downward trend in job creation, from 86,400 new jobs in 2016 to 52,500 in 2017, and 35,300 in 2019. With a

[10] For background information on the prior-year STARC bond repayment see "Sales Tax" on page 16 in the July 2016 FCB Staff Report.

[11] If the funds allocated for the STARC bond repayment were added back to sales tax revenue in FYs 2016 and 2017, collections would have grown 3.2 percent and 3.4 percent, respectively, from the prior year.

tightening labor market, and mandated increases in the minimum wage, the city assumes wages will increase 4.7 percent on an average annual basis during 2017-21, with historically moderate increases in finance sector earnings during this time.

Given further job creation at the current pace, and a pickup in economic activity in the spring, it is unlikely that collections in the near-term of FYs 2018 and 2019 will resemble past years with four to six percent annual growth. However, this may be contradicted if there is a stronger-than-anticipated pickup in wages and compensation in both the finance and nonfinance sectors, or a turnaround in the number of international tourists coming to the United States and New York City. After setting a record in 2016 of 60.7 million in total visitors to the city, NYC & Company estimates a drop in foreign travelers of 2.1 percent to 12.4 million in 2017. Yet, the group suggests that there will be more domestic visitors in 2017 that cause a new high of 61.7 million in total travelers for the year. Until the travel ban is finally adjudicated by the Supreme Court, the number of tourists and their economic impact from direct and indirect spending will negatively affect sales tax collections.[12]

Personal Income Tax

In the June financial plan, the personal income tax increases by $1.3 billion, or 3.6 percent on an average annual basis from $11.8 billion in FY 2018 to $13.2 billion in FY 2021. FY 2018 marks a transition point to a more positive outlook for several components of the tax that rely on improving growth in wage and nonwage income. The city expects withholding revenue in FY 2018 will get a boost from a technical change in the School Tax Relief (STAR) program and higher bonus payouts, despite a smaller impact from comparatively fewer new jobs during the plan period than in recent years.

Nonwage income begins to recover based on very modest growth in capital gains realizations in 2017 from a pick-up in commercial real estate and financial transactions. These actions would in turn support a turnaround in installment payments starting in FY 2018. After a year-to-year decline of 11.9 percent to $1.9 billion in FY 2017, installments exhibit positive growth thereafter, but at relatively low rates of under three percent annually until FY 2021. With brighter prospects for wage and nonwage income during the plan period, on a common rate and base, personal income tax revenue rises 2.0 percent in FY 2018, 3.5 percent in FY 2019, 4.4 percent in FY 2020, and 4.2 percent in FY 2021.

In the current state budget, the personal income tax rate reduction from the STAR program was replaced with a credit on the state income tax return for city filers with taxable incomes at or below $500,000. Higher withholding tax rates would go into effect in tax years on or after January 1, 2017. The difficulty is that when the new withholding tables take effect on July 1, 2017, it will leave six months--July through December 2017--to account for the full-year impact. As a result, on a year-to-year basis, withholding revenue

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[12] For more information on NYC & Company's visitor forecasts, and the potential harm to the city and state from fewer international travelers, see the "Sales Tax" starting on page 9 in the May 2017 FCB Report.

improves from 5.5 percent in FY 2017 to 11.7 percent in FY 2018, but slows to 2.4 percent in FY 2019 with a full-year implementation of the higher tax rates in 2018.

Withholding is the largest component in the personal income tax at $9 billion to $10 billion annually in FYs 2018-21, and is supported by continued improvement in compensation including bonus payouts. Even with the focus on lowering expenses at major financial institutions, the city estimates that a 1.8 percent year-to-year gain in private sector bonus payouts in FY 2017 will be followed by a rise of 5.6 percent in FY 2018, followed by modest growth in the outyears. It is possible that during the plan period there could be more cash than restricted stock in the bonus payouts in the finance and tech industries, and the exercise of any remaining stock options from prior years. The city projects increases in overall wages of over four percent each year from 2017 through 2021, assisted by moderately higher finance sector compensation. After job gains in the 85,000 to 130,000 range during 2011-16, the positive impact from this factor will lessen as the number of new jobs declines to 52,500 in 2017, 44,900 in 2018, and plateaus at about 35,000 in the remainder of the plan period.

After lackluster revenue growth in the first half of 2016, the outlook for the securities industry improved in the second half of 2016 and carried into 2017 as Wall Street firms continued to cut expenses and generate profits, often led by trading revenue. New York Stock Exchange (NYSE) member firms earned profits of $17.3 billion in 2016, and $6.1 billion in the first quarter of 2017, with a city estimate of $15.6 billion for the year. The city estimates NYSE member firm profits at just under $16 billion in both 2018 and 2019, before settling at $14.1 billion in 2021.

Another source of good news for the finance industry is that "for the first time since the annual stress tests began in 2011 all firms got passing grades" for their capital plans from the Federal Reserve and "big U.S. banks plan to increase dividend payouts and share buybacks to their highest levels in years."[13] Second quarter results at major banks show improvement in profits and revenue, despite slippage in trading revenue from low volatility and client activity, from higher lending and wealth management, among other business lines. The financial industry is expecting the administration to repeal sections of Dodd-Frank, start fewer enforcement actions, and lower corporate and individual income tax rates. As of now, it is uncertain when the administration and Congress will agree on what constitutes tax reform for the personal and corporate income taxes.

Miscellaneous Revenue

In the June financial plan, miscellaneous revenue increases three percent on an average annual basis from $4.7 billion in FY 2018 to $5.1 billion in FY 2021, largely from more interest income and nonrecurring actions in FY 2021 than in FY 2018. Within the forecast of asset sales, the largest one refers to taxicab medallions that yield $107 million

[13] Liz Hoffman and Ryan Tracy, "Fed 'Stress Tests' Clear All Banks to Issue Payouts to Shareholders," Wall Street Journal online, June 28, 2017.

in FY 2019, $257 million in FY 2020, and $367 million in FY 2021. Assuming that the sales take place as scheduled, and are not shifted into other years, it will be in an industry that is transitioning from a monopoly to a free market where technological change encouraged more competition within the for-hire vehicle industry. As of now, a market-determined floor in medallion prices has not been identified, financing for medallion purchases can be difficult to obtain, and the Taxi and Limousine Commission (TLC) continues to develop rules to encourage an even-playing field for the app-based ride hail and for-hire vehicle participants.

Some of the new regulations from the TLC include a single license for drivers of green and yellow taxis, for-hire vehicles, and the ride hail companies. Other rules make it easier to sell a medallion before the need for a foreclosure sale. "Taxi-industry sources say close to half a dozen transactions could be announced in the coming months, where prices range from $200,000 for a just-concluded all-cash deal to others in the low- to mid-six figure range that are getting bank or credit union financing."[14] If proceeds from the taxicab medallion sales turn out to be less than planned, the city will need to find other initiatives to replace the funds that offer recurring value during the plan period.

Shifting the focus to recurring growth in miscellaneous revenue during FYs 2018 to 2021, the core categories rise one percent on an average annual basis to $3.2 billion in FY 2021. Comparing the forecasts for FY 2018 and FY 2021, receipts are higher by $90.8 million primarily from more interest income despite slippage in fines and licenses, and essentially no change in the projections for rental income, charges for services, and other miscellaneous. Based on higher short-term interest rates in the plan period and projections of cash balances without seasonal borrowing, interest income more than doubles from $109.8 million in FY 2018 to $246 million in FY 2021.

A projected decline of $33.2 million in fines, mostly in parking violations, likely reflects forecasting methodology at the end of the plan period rather than weakness. However, the negative variance of $11.8 million in the license category from FYs 2018-21, may be an early indication of less revenue from construction permits due to a slowdown in building activity, and Department of Telecommunications' franchises that reflect a change in consumer preferences for cable programming. Based on the likelihood that the present forecast will be augmented by new initiatives during the year, miscellaneous revenue could be higher than the city's projections by $150 million in each of FYs 2018 and 2019, and $125 million in each of FYs 2020 and 2021.

SOURCES OF EXPENDITURE GROWTH OVER THE FINANCIAL PLAN

The projected growth in total-funded expenditures between FYs 2018 and 2021 is presented in Table 5 on page 22. The city projects total-funded expenditures of $84.6 billion in FY 2018 to grow to $95.3 billion by FY 2021, which includes the prepayment of

[14] Matthew Flamm, "Taxi–medallion sales rev up as investors kick tires," Crain's New York Business online, May 16, 2017.

$3.5 billion in debt service expenses for FY 2018. The financial plan assumes growth of 12.7 percent, or $10.8 billion, for an average annual growth of 4.1 percent.

TABLE 5

PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH IN FYs 2018-2021

(FY to FY percent change, $ in millions)

	FYs 2018-19	FYs 2019-20	FYs 2020-21	FYs 2018-21	Level in FY 2018	Level in FY 2021
Total Funds	**7.2%**	**2.8%**	**2.4%**	**12.7%**	**$84,568**	**$95,342**
Total PS	**6.1%**	**3.7%**	**3.0%**	**13.3%**	**$45,450**	**$51,514**
Salaries and Wages	5.2%	3.0%	2.2%	10.8%	26,279	29,116
Fringe Benefits	11.4%	8.3%	6.7%	28.8%	9,712	12,506
Pensions	3.2%	0.7%	0.6%	4.6%	9,459	9,893
Total OTPS	**(0.4%)**	**1.7%**	**1.6%**	**2.9%**	**$42,588**	**$43,828**
Public Assistance	0.7%	0.7%	0.0%	1.4%	1,594	1,617
Medical Assistance	0.0%	0.0%	0.0%	0.0%	5,915	5,915
Debt Service	10.7%	8.8%	6.0%	27.6%	6,528	8,331
Other OTPS	(3.1%)	0.3%	0.9%	(2.0%)	28,551	27,966
FY 2017 DS Prepayment					**($3,469)**	**$0**

Excludes intracity and interfund expenditures. Debt service is net of prepayments.
Expenditures include $700 million of prepaid expenses in retiree health benefits and Health + Hospitals.
Numbers may not add due to rounding.

In FYs 2018-21, Personal Service (PS) and Other Than Personal Service (OTPS) are expected to grow by 13.3 percent and 2.9 percent, respectively. In PS, there are two main budget areas driving growth: fringe benefits, and salaries and wages. Spending on fringe benefits is expected to grow by 28.8 percent, or $2.8 billion, between FYs 2018 and 2021. Much of the cost in fringe benefits consists of Social Security Taxes (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and healthcare insurance. The cost to provide healthcare insurance is the largest of fringe benefits spending. Driven mainly by premium payments, healthcare spending is expected to increase from $6.4 billion in FY 2018 to $8.2 billion in FY 2021, or 27 percent, for an average annual growth of 6.2 percent.[15]

Over the plan period, growth in salaries and wages is expected to increase by 10.8 percent, or $2.8 billion. The growth reflects the phase-in of funding to cover labor settlements for the latest round of collective bargaining and funding for one percent increases per year beyond the current bargaining round starting in FY 2018. To date, the city has settled with 99.6 percent of its represented workers. The contract settlements include healthcare savings agreed to between the city and the Municipal Labor Committee (MLC). The agreement called for the release of $1 billion from a health stabilization account, jointly run by the city and the MLC, and annual targeted savings starting in FY 2015 that would total $3.4 billion through FY 2018. The targeted savings of $400 million in FY 2015, $700 million in FY 2016, and $1 billion in FY 2017 have all been achieved. Annual savings of $1.3 billion are expected to be achieved in FY 2018, reaching $3.4 billion in total savings. The agreement with the MLC also stipulated that if the savings exceed the $3.4 billion minimum, the first $365 million of excess savings will go back to the

[15] Citywide health insurance expenditures include premiums for active and retired city workers, and are net of prepayments.

workforce in a bonus payment. If there are additional savings beyond that, the excess will be split between the city and the workforce. Over the course of the financial plan, the city projects that healthcare savings of $1.3 billion in each year beyond FY 2018 will be achieved.

In the OTPS budget area, the largest source of growth over the financial plan period is in debt service (net of prepayments). As shown in Table 5 on page 22, the city projects debt service will increase by 27.6 percent from $6.5 billion in FY 2018 to $8.3 billion in FY 2021. For a more detailed discussion of debt service, see "The Capital Program Profile and Associated Debt," starting on page 25.

Turning to city-funded expenditures, projected growth between FYs 2018 and 2021 is presented in Table 6. The city projects city-funded expenditures of $61.5 billion in FY 2018 to grow to $71.9 billion by FY 2021, which includes the prepayment of $4.2 billion in debt service, Health + Hospitals, and retiree health benefits expenses for FY 2018. The financial plan assumes expected growth of 16.9 percent, or $10.4 billion. Based on this projection, average annual growth is 5.3 percent.

TABLE 6

PROJECTED CITY-FUNDED EXPENDITURE GROWTH IN FYs 2018-2021

(FY to FY percent change, $ in millions)

	FYs 2018-19	FYs 2019-20	FYs 2020-21	FYs 2018-21	Level in FY 2018	Level in FY 2021
Service Categories	**(0.1%)**	**1.2%**	**0.6%**	**1.8%**	**$40,323**	**$41,050**
Uniformed Services	0.3%	0.5%	(0.2%)	0.6%	10,072	10,127
Health and Welfare	(2.1%)	1.0%	0.4%	(0.8%)	10,247	10,166
Mayoral	(9.0%)	0.2%	(0.5%)	(9.3%)	6,103	5,533
Covered Organizations	5.5%	2.4%	1.9%	10.1%	13,263	14,604
Elected Officials	(2.3%)	(0.6%)	0.0%	(3.0%)	639	620
Expense Categories	**10.4%**	**6.2%**	**5.7%**	**23.9%**	**$23,854**	**$29,558**
Miscellaneous	18.0%	9.5%	10.0%	42.2%	8,162	11,610
Debt Service	11.2%	9.2%	6.3%	29.1%	6,264	8,087
Pensions	3.2%	0.7%	0.6%	4.6%	9,427	9,861
Subtotal	**3.8%**	**3.2%**	**2.7%**	**10.0%**	**$64,177**	**$70,608**
Other Adjustments	**--**	**--**	**--**	**--**	**$1,450**	**$1,250**
General Reserve	--	--	--	--	1,200	1,000
Capital Stabilization	--	--	--	--	250	250
Total Net of Prepayments	**3.4%**	**3.1%**	**2.7%**	**9.5%**	**$65,627**	**$71,858**
FY 2017 Prepayment	--	--	--	--	**(4,169)**	**$0**
Total City Funds	**10.4%**	**3.1%**	**2.7%**	**16.9%**	**$61,458**	**$71,858**

Includes intracity and interfund expenses. Debt service is net of prepayments. Miscellaneous expense includes energy, lease, and OTPS inflators and adjustments for capital stabilization reserve and citywide savings initiatives. FY 2017 prepayment includes prepaid expenses for debt service, retiree health benefits and Health + Hospitals.
Numbers may not add due to rounding.

City-funded expenditures are categorized as Service, Expense and Other Adjustments. The Service category is comprised of Uniformed Services, Health and Welfare, Mayoral, Covered Organizations and Elected Officials. The five categories in this budget area are expected to grow by a combined 1.8 percent, or $727 million, between FYs 2018 and 2021. Health and Welfare, Mayoral, and Elected Officials are all expected to decrease spending during this period, while Uniformed Services and Covered Organizations are expected to increase. As shown in Table 6, the most salient growth between these two budget areas is projected in Covered Organizations. This area, including the Department of Education (DOE), the City University of New York (CUNY), and Health + Hospitals, is expected to increase by 10.1 percent, or $1.3 billion, between FYs 2018 and 2021. Over the course of the financial plan, the city estimates the DOE's budget, the main source of expenditure growth in this category, will grow by 11.2 percent, or about $1.3 billion. The spending supports program expansions in early childhood education and upgrades in technology. The city's support for CUNY and Health + Hospitals increases for each by about 2.5 percent, or around $20 million.[16]

Uniformed Services (Police, Fire, Correction, and Sanitation) are anticipated to grow only modestly at 0.6 percent. A source of risk, however, is overtime spending with attention paid to the Police Department. The Police Department is allocated about $5.2 billion a year for total city-funded expenditures. Of that amount, the city projects overtime costs of about $525 million (uniformed personnel), or around 10 percent of the city-funded Police budget. However, based on current spending levels of $516 million through May 2017, we believe that the Department is likely to spend $563 million, exceeding the projected budget by $25 million in FY 2018 and increasing to $38 million in FY 2019. In each of FYs 2020-21, we estimate that the risk will be slightly higher at $44 million and $47 million, respectively. As shown in Table 3 on page 5, when Fire, Correction, and Sanitation are included for uniformed personnel, the risk for overtime spending increases to $133 million in FY 2018, $191 million in FY 2019, $195 million in FY 2020, and $199 million in FY 2021.

As shown in Table 6 on page 23, Expense categories, including miscellaneous, debt service and pension expenditures, are projected to increase by a combined 23.9 percent, or $5.7 billion, between FYs 2018 and 2021. The greatest source of this growth is miscellaneous spending, which is estimated to increase by 42.2 percent, or $3.4 billion, due primarily to the shifting of funds to the labor reserve to cover contract settlements and projected higher healthcare costs.[17] Debt service cost is also expected to increase substantially over FYs 2018-21 by 29.1 percent, or $1.8 billion. For a more detailed discussion of debt service growth, see "The Capital Program Profile and Associated Debt," starting on page 25.

Also in the Expense category, the city projects pension costs to grow by 4.6 percent, or $433 million, between FYs 2018 and 2021. The financial plan reflects annual pension cost based on estimates made by the City Actuary. The estimates include the phase-in of investment losses realized in FY 2016. Pension fund investments in FY 2016 returned just 1.46 percent, after earning only 3.3 percent in FY 2015 but are required to return seven

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[16] Health + Hospitals is net of $300 million in prepaid FY 2018 expenses.

[17] Miscellaneous expenditures encompass labor reserve funding, spending related to personal services (health insurance, payroll taxes, Supplemental Welfare Benefits, workers' compensation, contributions to the Retiree Health Benefits Trust) and Other Than Personal Services (i.e., judgment and claims, Transit Authority, contractual obligations, water and sewer, etc.) Also included in miscellaneous spending are: energy, lease and OTPS inflator adjustments, and citywide savings initiatives. This budget area is net of $400 million in prepaid FY 2018 expenses to retiree health benefits.

percent to meet actuarial funding needs. The loss is phased in over a six-year period starting two years after the loss is incurred.

The investment returns this fiscal year improve substantially over the past two fiscal years. U.S. and global stock markets have experienced record growth with the Dow Jones Industrial Average, among other indices, setting an all-time high. Based on our estimates, we believe the weighed return to be about 13 percent for the five actuarial systems that make up the city's pension fund, which is an actuarial investment gain of six percent for FY 2017. Like investment losses, gains are phased in over a six-year period. The gain in FY 2017 will start to phase in beginning FY 2019. The phase-in will somewhat offset investment losses from previous years and reduce the projected budget gaps by $141 million in FY 2019, $282 million in FY 2020 and by $423 million in FY 2021, as shown in Table 3 on page 5.

In addition, an independent actuarial audit of the pension system is currently being prepared. The biennial audit and experience study, as mandated by city charter, could recommend changes to actuarial assumptions and methods. Any recommendation adopted by the City Actuary could impact pension costs. The audit prepared by Bolton Partners Inc. is expected to be released in the fall 2017.

THE CAPITAL PROGRAM PROFILE AND ASSOCIATED DEBT

The city has finalized its Ten-Year Capital Strategy for FYs 2018-27 at a level of $95.8 billion of capital commitments. It did so in accordance with its charter, which requires the biennial presentation of a strategy that identifies the capital goals and anticipated sources of financing for the ensuing ten-year period. The strategy incorporates the city's four-year authorized capital commitments in the initial years, and extends the forecast for an additional six years. Over the past ten years, the strategies have varied considerably in size to reflect the city's fiscal circumstances and priorities. The strategies shrank steadily from $83.7 billion for FYs 2008-17 to $53.7 billion for FYs 2014-23, then reverted to $83.8 billion for FYs 2016-25 and now a record high $95.8 billion for FYs 2018-27. It is expected that the scope of projects entered into may vary somewhat from the strategy, and that the actual costs, timing and funding sources may differ. At the current level, the new strategy is expected to produce mounting debt from general obligation (g.o.) bonds sold by the city and Future Tax Secured (FTS) bonds sold by the New York City Transitional Finance Authority (NYCTFA), the repayment of which the city has deemed affordable given projected levels of tax revenues.

Profile of the FYs 2018-27 Capital Strategy

The FY 2018 Ten-Year Capital Strategy calls for a total investment of $95.8 billion in the city's capital stock over the period of FYs 2018-27. The investments are allocated for commitments classified into three main categories: state of good repair, which represents essential repair work needed largely because of deferred maintenance; programmatic replacement, which represents replacement of equipment and asset components at regular intervals at the end of their life cycle; and program expansion, which represents the addition of assets. There are more than two dozen functional areas within the city's capital strategy, but 73 percent of planned commitments are in six areas:

education, environmental protection, housing, bridges, highways, and technology. With the substantial amount of commitments allocated to these areas, their distribution among the three categories has a considerable impact on the profile of the entire strategy, as illustrated in Table 7 on page 26.

PROGRAM CLASSIFICATION OF MAJOR CAPITAL COMMITMENTS IN THE STRATEGY

TABLE 7 ($ in millions)

	State of Good Repair	Program Expansion	Programmatic Replacement	Total
TOTAL	**$ 51,277**	**$24,873**	**$19,695**	**$ 95,845**
Percent of Total Program	**53%**	**26%**	**21%**	**100%**
Department of Education	**12,448**	**8,080**	**0**	**20,528**
Department of Environmental Protection[a]	**1,217**	**7,739**	**9,117**	**18,073**
Water Pollution Control	0	1,218	5,512	6,730
Water Mains	165	1,431	2,519	4,116
Sewers	1,038	2,719	550	4,307
Water Supply	10	2,370	0	2,381
Equipment	4	0	536	540
Department of Transportation	**14,776**	**0**	**436**	**15,212**
Bridges	8,206	0	25	8,231
Highways	5,896	0	0	5,896
Traffic	656	0	0	656
Ferries	18	0	301	319
Transportation Equipment	0	0	110	110
Housing	**5,825**	**5,119**	**0**	**10,944**
Technology & Small Business Services	**3,916**	**3,203**	**2,039**	**9,159**
Energy Efficiency & Citywide Equipment	3,916	0	2,039	5,955
Small Business Services	0	3,203	0	3,203
All Others[b]	**13,094**	**732**	**8,103**	**21,930**

[a]These categories are funded by Water Authority revenue bonds.

[b]All Others include Sanitation, Correction, Parks, Public Buildings, Police, Transit Authority, Health and Hospitals Corporation, Fire, Courts, Cultural Affairs, Health, Human Resources, Administration for Children's Services, Libraries, Homeless Service, CUNY, Real Estate, Aging.

Numbers may not add due to rounding.

The largest portion of commitments in the capital strategy, at $51.3 billion or 53 percent, is classified as state of good repair projects.[18] In this category, education projects

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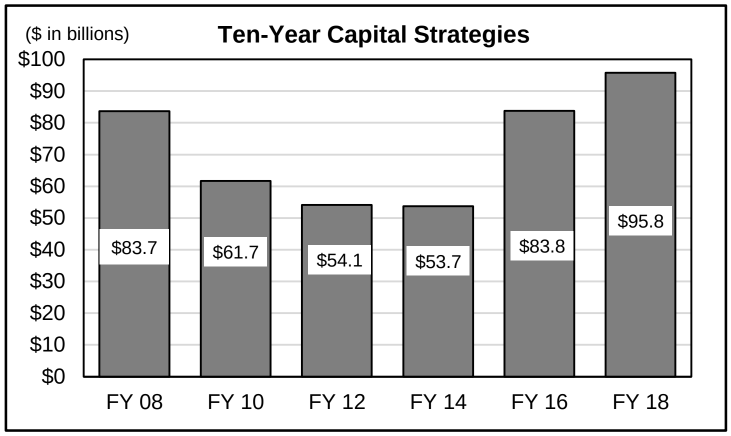
[18] The city in its FY 2017 Asset Information Management System Report recommends an investment of $8 billion during FYs 2018-21 to bring certain physical assets up to a state of good repair. It also identified 74 percent, or $5.9 billion, of the recommendations as being funded in the capital program for FYs 2018-21. Comparatively, this funding proportion is the highest over the past ten years. The city is required by charter to produce an annual maintenance report each October that details the recommended amounts of funding over the ensuing four fiscal years to maintain assets and asset systems with a replacement cost of $10 million or greater and a useful life in excess of ten years. Additionally, the city produces a separate document, usually

total $12.4 billion, bridges $8.2 billion, highways $5.9 billion, housing $5.8 billion and technology $3.9 billion. Meanwhile, commitments classified as program expansion aggregate to $24.9 billion or 26 percent, with the largest allocations at $8.1 billion for education, $7.7 billion for environmental protection, $5.1 billion for housing, and $3.2 billion for small business services. Commitments for programmatic replacement projects amount to $19.7 billion or 21 percent, with sizeable distributions for environmental protection at $9.1 billion and technology at $2 billion.



The size of the FY 2018 strategy is enabled by the city's strong financial outlook. Funding levels for the city's long-range capital priorities change from strategy to strategy in response to the existing financial forecasts. The figure to the right places the size of the current strategy into historical context. At a total $95.8 billion, the FY 2018 strategy is the most expansive ever, exceeding the next largest strategy by $12 billion. The city enlarged the capital program incrementally since the FY 2014 strategy, facilitated by its improved fiscal capability. Since the FY 2014 strategy, interest rates on debt financing have remained low and tax revenues available for debt repayment are substantial.

The overall size of the current capital strategy is consistent with what the city has experienced in recent years. As illustrated in Chart 1 on page 28, over the ten-year period of FYs 2008-17, the city entered into roughly $90 billion of capital commitments, which is $6 billion more than was outlined in the FY 2008 strategy for FYs 2008-17.[19] The net upward variance in commitments reflects changes in the actual cost, scope, and timing of the projects undertaken, as well as the inclusion of different projects. In particular, traditionally smaller project areas, such as technology, small business services, cultural affairs and parks, realized actual growth in their capital programs. The current strategy, at $95.8 billion, is roughly $6 billion more than total commitments undertaken during the prior ten-year period.[20] However, the current capital strategy departs substantially from the recent experience in that it assumes a funding distribution that relies heavily on city tax-supported debt.

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published around the time the executive budget is released, that reconciles the funding needs to the planned funding for each agency.

[19] The capital commitment total for FY 2017 is based on preliminary data provided by the city.

[20] When inflation is accounted for by adjusting to FY 2018 dollars, the FY 2018 strategy is lower at $89 billion than the FY 2008 strategy at $93 billion and the actual commitments for FYs 2008-17 at $98 billion.

Ten years ago, the city's capital investment strategy was centered around a diversified funding distribution, with $45.8 billion (55 percent) of the commitments funded by bonds that are backed by city tax revenues; $19.4 billion (23 percent) by bonds sold by the New York City Water Finance Authority and secured by water and sewer user fees; and $18.5 billion (22 percent) by noncity sources, led by the state with $15 billion for school construction projects.[21] Over the actual ten years of FYs 2008-17, the capital program grew beyond the initial projection, with an infusion of tax-supported bond financing increasing the share to 59 percent of the total. Meanwhile, in the current strategy for FYs 2018-27, a hefty $71 billion (74 percent) of the commitments are ascribed as funded by bonds that are backed by city tax revenues, a lesser $17.9 billion (19 percent) by bonds that are backed by water and sewer fees, and only $6.9 billion (seven percent) by noncity sources.

CHART 1

FUNDING FOR CAPITAL COMMITMENTS HAS BECOME LESS DIVERSIFIED

($ in billions)

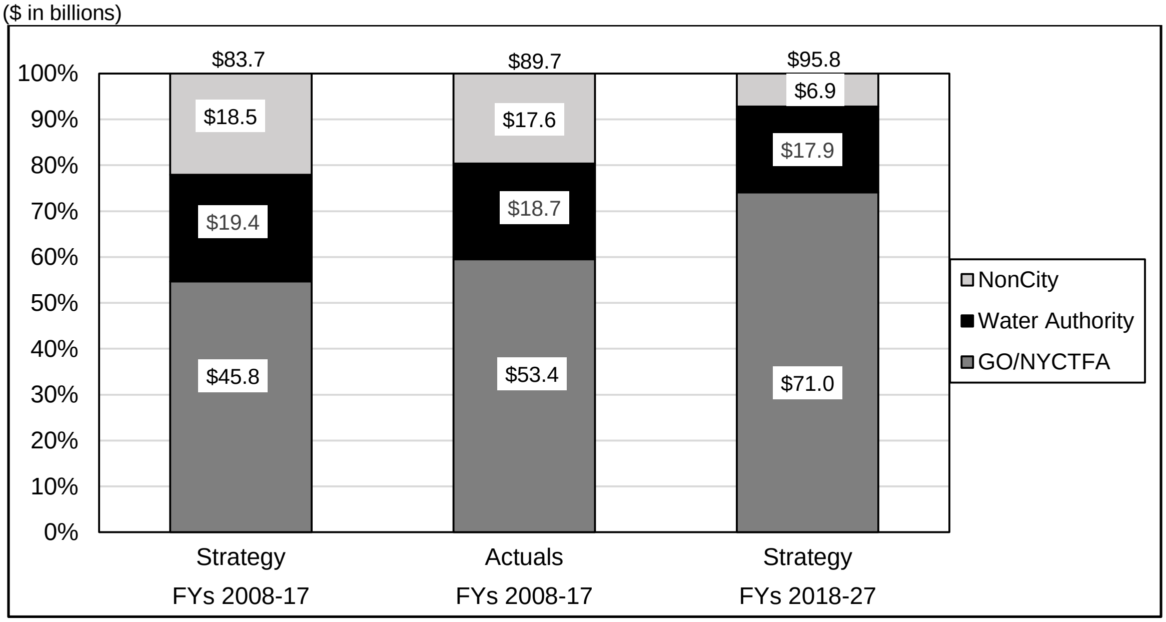

Table 8 on page 29 provides the funding distribution of the ten-year strategy by project areas. While the strategy presents the capital program as being financed primarily through tax-supported debt, it should be noted that for the Department of Education (DOE), the largest project area, the city receives building aid from the state in the form of reimbursements for school construction, some of which is explicitly applied to offsetting tax-supported debt service costs. Historically, state building aid has covered, on average, 50 percent of the debt service on all bonds sold for the city's education capital projects that are reimbursable by the state. The strategy assumes the NYCTFA will sell Building Aid Revenue Bonds (BARBs), with an allocation of $2.2 billion of state-supported commitments for which the debt service is directly backed by state building aid and is not

[21] The FY 2008 strategy assumed parity between city and state funding for city education projects.

an obligation of the city.[22] Separately, the strategy reflects explicitly assigned excess annual state building aid, the amount remaining after the BARB debt service payment and an allotment to the DOE, to offset debt service costs on the NYCTFA tax-supported bond issuances. While the debt service on the tax-supported bonds is the obligation of the NYCTFA, given the upfront assignment of building aid as an offset for the official debt service projections, the funding distribution does not fully represent state support for the city's capital program. Depending on the amount of education capital projects in the ten-year strategy that is reimbursable by the state, in theory as much as half of the $18.4 billion of tax-supported commitments designated for education could be state supported.

[22] The NYCTFA has been authorized by the state to sell bonds in an amount outstanding of up to $9.4 billion to support school construction, with the debt service being backed by state building aid. Between FYs 2007 and 2016, the NYCTFA sold $8.7 billion of BARBs, of which $7.9 billion is outstanding. The current ten-year strategy assumes limited sales of state-funded BARBs.

FUNDING FOR MAJOR CAPITAL COMMITMENTS IN THE STRATEGY IS HEAVILY TAX-SUPPORTED

TABLE 8 ($ in millions)

	Total-Funded	Tax-Supported	Water Authority-Funded	Noncity-Funded
TOTAL	**$ 95,845**	**$ 71,060**	**$ 17,864**	**$ 6,921**
Percent of Total Program	**100%**	**74%**	**19%**	**7%**
Department of Education	**20,528**	**18,355**	**--**	**2,173**
Department of Environmental Protection[a]	**18,073**	**--**	**17,864**	**210**
Water Pollution Control	6,730	--	6,550	180
Water Mains	4,116	--	4,113	3
Sewers	4,307	--	4,280	27
Water Supply	2,381	--	2,381	--
Equipment	540	--	540	--
Department of Transportation	**15,212**	**13,356**	**--**	**1,855**
Bridges	8,231	7,544	--	687
Highways	5,896	5,139	--	756
Traffic	656	345	--	311
Ferries	319	221	--	98
Transportation Equipment	110	107	--	3
Housing	**10,944**	**10,617**	**--**	**327**
Technology & Small Business Services	**9,159**	**8,570**	**--**	**588**
Energy Efficiency & Citywide Equipment	5,955	5,520	--	435
Small Business Services	3,203	3,050	--	153
All Others[b]	**21,930**	**20,162**	**--**	**1,768**

[a]These categories are funded by revenue bonds sold by the NYC Water Finance Authority.

[b]All Others include Sanitation, Correction, Parks, Public Buildings, Police, Transit Authority, Health and Hospitals Corporation, Fire, Courts, Cultural Affairs, Health, Human Resources, Administration for Children's Services, Libraries, Homeless Service, CUNY, Real Estate, Aging.

Numbers may not add due to rounding.

Debt Profile

Debt service cost in the operating budget is driven by the portion of the city's capital program that is financed by tax-supported debt. With $71 billion of the $95.8 billion capital commitments in the FYs 2018-27 strategy slated to be financed by g.o. bonds to be sold by the city and FTS bonds to be sold by the NYCTFA, debt service costs are forecasted to climb from $6.5 billion in FY 2018 to $8.4 billion in FY 2021 and $10.6 billion in FY 2027. This translates to an 8.8 percent average annual growth rate for the financial plan period of FYs 2018-21 and a slower rate of 3.9 percent for FYs 2021-27, for an average annual rate of 5.5 percent over the full period of FYs 2018-27.[23]

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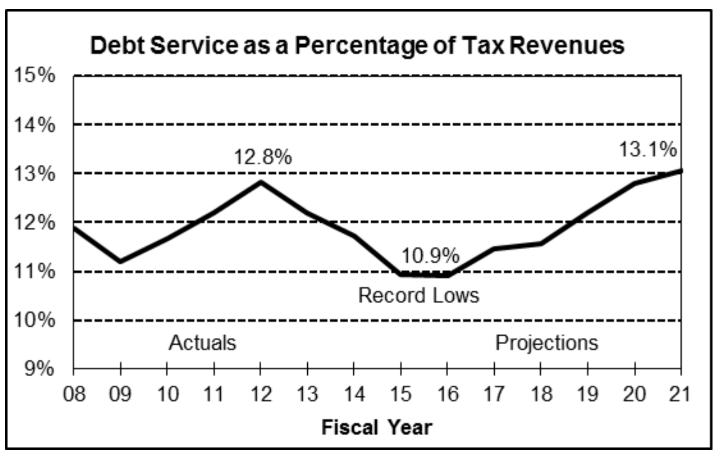
[23] Debt service projections are based on long-term financing assumptions in the executive budget and are net of prepayments. Debt service estimates based on assumptions in the adopted budget amount to

The projected debt service growth rate starts out being steep and fluctuating widely in FYs 2018-21, reflecting the prudent application of conservative interest rate assumptions and the relatively large $324 million of excess building aid used as an offset in FY 2018 for the costs of FTS bonds sold by the NYCTFA. To expound, debt service costs were reduced using residual state building aid for education capital projects by fluctuating amounts ranging from $95 million to $324 million in FYs 2018-21, and $165 million in each of FYs 2022-26. The relatively large amount of the offset in FY 2018 increases the growth rate, as FY 2018 is the base year from which growth is measured. The actual amount of state building aid used as a debt service offset could be higher in later years and thus change the growth rates. Meanwhile, the tapered debt service growth rate from FY 2021 is predicated on the capital program contracting in the latter years of the ten-year strategy, as the distribution of commitments is heavily front-loaded.

The city views the projected growth in debt service costs to be affordable. The primary means by which the city gauges the affordability of the debt service is by evaluating the burden it places on tax revenues. As a management tool, the city uses 15 percent as the threshold of affordability for this debt service burden. In association with the new ten-year strategy, the forecasted debt service costs will absorb an increasing share of tax revenues, climbing from 11.6 percent in FY 2018 to 13.1 percent in FY 2021 and peaking at 13.5 percent in FY 2023, beyond which the burden begins declining to 12.4 percent in FY 2027. As such, the debt service burden projected through FY 2027 remains below the 15 percent threshold of affordability.



Moreover, projected debt service relative to tax revenues is near the historical norm, as illustrated in the figure to the right, with the actual burden over the most recent ten-year period ranging from 10.9 percent to 12.8 percent, where some years benefited from refunding and defeasance savings. There is the likelihood that debt service will be less than forecasted, as it is calculated using conservative interest rate assumptions. The plan recognizes that the current low interest rate climate could change quickly and materially, and applies assumptions that conform to the longer-term norm. To the extent that interest rates remain low, the burden could lighten.

We provide additional measures of the debt resulting from the city's capital program for a more comprehensive profile. Specifically, we use the framework of the annual Statement of Debt Affordability that was released by the city at the time of the

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$6.528 billion in FY 2018, $7.225 billion in FY 2019, $7.861 billion in FY 2020 and $8.331 billion in FY 2021, for an average annual growth rate of 8.5 percent.

executive budget. The Statement of Debt Affordability presents the aggregate debt and debt service levels for only the years covered by the financial plan for all bonds backed by tax revenues sold to support the city's capital program, including city and NYCTFA, as well as city lease agreements. Table 9 displays measures used in the Statement of Debt Affordability.

TABLE 9

DEBT AFFORDABILITY MEASURES

($ in millions, except per capita)

	FY 2018	FY 2019	FY 2020	FY 2021	Average Annual Growth
City & NYCTFA Debt Service	$ 6,528	$ 7,225	$ 7,908	$ 8,396	8.8%
Debt Service Per Capita	763	845	925	982	
Debt Service as Percentage of:					
Tax Revenues	11.6%	12.2%	12.8%	13.1%	
Total Revenues	7.7%	8.3%	8.7%	9.0%	
Local Personal Income	1.1%	1.2%	1.2%	1.3%	
City, NYCTFA & Conduit Outstanding Debt	$ 74,344	$ 79,774	$ 85,451	$ 90,747	6.9%
Outstanding Debt Per Capita	8,695	9,330	9,994	10,613	
Outstanding Debt as Percentage of:					
Local Personal Income	12.6%	13.0%	13.4%	13.7%	
Tax Revenues	$ 56,468	$ 59,250	$ 61,792	$ 64,335	4.4%
Total Revenue	84,860	87,519	90,594	93,451	3.3%
Local Personal Income	588,190	611,800	638,100	663,540	4.1%

Note: For the Per Capita calculations, the city applied the population number from FY 2015 of 8,550,405 to each of FYs 2018-21.

Table 9 augments debt service as a percentage of tax revenues with other indicators, which paint a similar picture of an increasing burden. Debt service costs per capita based on the FY 2018 strategy are projected to rise from $763 in FY 2018 to $982 in FY 2021. Furthermore, debt service payments are forecasted to consume a larger share of total revenues and local personal income. Debt service climbs from 7.7 percent in FY 2018 to 9.0 percent in FY 2021 as a percentage of total revenues, and from 1.1 percent in FY 2018 to 1.3 percent in FY 2021 as a percentage of local personal income. At 8.8 percent, the projected average annual rate of growth for debt service is outstripping the rates for tax revenues at 4.4 percent, total revenues at 3.3 percent, and local personal income at 4.1 percent.

Another product of the enlarged tax-supported capital program is separately exhibited in Table 9 on page 31, with the amount of projected city and NYCTFA outstanding debt mounting from the already high base of $74.3 billion at the end of FY 2018 to $90.7 billion at the end of FY 2021, for an average annual growth rate of 6.9

percent.[24] This growth rate is notable when it is compared to the projected growth rates for outstanding debt associated with the FY 2014 and FY 2016 ten-year capital strategies at 2.2 percent and 4.4 percent, respectively. The outstanding debt per capita burden is forecasted to rise from $8,695 in FY 2018 to $10,613 in FY 2021. Additionally, the debt to income burden is estimated to increase from 12.6 percent in FY 2018 to 13.7 percent in FY 2021, as the growth rate for outstanding debt is anticipated to outpace that of personal income. The high debt load is repeatedly cited by credit rating agencies as a challenge despite the management of debt service payments at affordable levels. In consideration of the high debt load, the city has funded the capital stabilization reserve with operating funds of $250 million in each of FYs 2018-21 that, among the various potential uses, could be a source of capital financing.

24 Based on the assumptions in Ten-Year Capital Strategy for FYs 2018-27, we calculated that outstanding debt will reach $104 billion in FY 2027.

IV. Glossary of Acronyms

BARBs	Building Aid Revenue Bonds
BEA	Bureau of Economic Analysis
CUNY	City University of New York
CY	Calendar Year
DOE	Department of Education
FCB	Financial Control Board
FDIC	Federal Deposit Insurance Corporation
FICA	Federal Insurance Contribution Act
FTS	Future Tax Secured
FY	Fiscal Year
GDP	Gross Domestic Product
G.O. Bonds	General Obligation Bonds
HHC	Health and Hospitals Corporation
HYIC	Hudson Yards Infrastructure Corporation
MLC	Municipal Labor Committee
NYCTFA	New York City Transitional Finance Authority
NYSE	New York Stock Exchange
OPEB	Other Postemployment Benefits
OTPS	Other Than Personal Service
PILOTs	Payment in Lieu of Taxes
PS	Personal Service
RHBT	Retiree Health Benefits Trust
SFY	State Fiscal Year
STAR	School Tax Relief program
STARC	Sales Tax Asset Receivable Corporation
TLC	Taxi and Limousine Commission
UBT	Unincorporated Business Tax

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