State of New York
Financial Control Board

FOR IMMEDIATE RELEASE:
August 1, 2019

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

PRESS RELEASE

A review of the city's FYs 2020-23 Financial Plan shows that, over the course of FY 2019, the operating budget increased by $4.3 billion to $93.4 billion. At the midyear point, there was concern that taxpayer reaction to federal tax reform could cause a revenue shortfall in the city's financial plan. However, despite the federal government shutdown, uncertainty over the direction of interest rates, and trade frictions, consumers remained confident. City-fund revenue rose by almost $2.5 billion, mostly from increased nonproperty taxes and largely one-time miscellaneous revenues. The city was able to use the higher revenues, together with agency and debt service savings, and the drawdown of reserves to build a surplus of a little over $4.2 billion and add $100 million to the Retiree Health Benefits Trust. The entire surplus was used to prepay FY 2020 expenses and help balance that year's budget.

Compared to the executive budget, the FY 2020 adopted budget added almost $1 billion in spending, including one-time City Council initiatives and new agency needs, as well as adding $150 million to the general reserve. The new spending was offset by increasing the city's tax revenue forecast by $296 million and using the FY 2019 surplus roll. The FYs 2020-23 Financial Plan makes only minor changes to the outyears of the plan. While the FY 2020 budget is balanced, the outyear gaps are relatively unchanged at $3.5 billion in FY 2021, almost $2.9 billion in FY 2022, and $3.1 billion in FY 2023. FY 2020 has a general reserve of $1.15 billion and a capital stabilization reserve of $250 million. Each outyear of the plan has a combined $1.25 billion from these reserves.

The outyear gaps exist because recurring expenditures continue to outpace recurring revenues. Over the plan, expenditure growth is attributed to higher costs for wages and fringe benefits. The wage increases reflect the recent collective bargaining agreements reached with several major unions and the financial plan assuming the remaining unions will agree to the pattern set by those contracts. Fringe benefits grow largely due to rising health benefit costs for current and retired employees, even though the city has reached agreements with the Municipal Labor Committee for recurring healthcare savings. In addition, debt service costs continue to be a main driver of expenditure growth. The city's recently announced ten-year capital strategy is a record $116.9 billion, with 78 percent funded from city tax revenues. While the large capital plan will increase city debt service at an average annual rate of 7.8 percent over FYs 2020-23, it appears to be affordable, under current economic conditions, as debt service as a percent of tax revenues remains well under the 15 percent established threshold.

This increased spending is affordable in the short term, but may not be sustainable in the long term. The city continues to maintain a conservative revenue forecast, given current economic conditions. It has been surprising how resilient the city's economy has been over the last several years despite events such as a national recession and federal tax reform. Currently, tax and miscellaneous revenues are supported by sustained growth in jobs, income, and consumer spending despite abrupt changes in interest rate policy, trade tensions, and periods of low volatility in the stock market that put pressure on bank earnings. Over the long term, however, the city could be faced with an economic downturn. It is uncertain how long the slowdown in global growth will persist, if consumer spending will weaken when the effect of tariffs becomes more pronounced, where interest rates are headed, and if federal budget cuts will occur. Federal actions could have a direct impact on the New York City Housing Authority and Health + Hospitals, as well as how much the city's subsidy may have to increase. Given these unknowns, the city is wise to continue to have high levels of reserves, maintain conservative revenue projections, control the increase in agency spending, and develop and implement agency savings programs throughout the financial plan period.

###