New York City Independent Budget Office

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Analysis of the Mayor's Preliminary Budget for 2017

IBO's Re-estimate Of the Mayor's Preliminary Budget For 2017 and Financial Plan Through 2020

IBO

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Preface

This volume is a compilation of more than a dozen individual briefs IBO issued beginning on February 29 on the Mayor's Preliminary Budget for 2017 and Financial Plan Through 2020. These previous releases included a 6-page summary released on March 1 that presented our revenue, spending, and budget gap and surplus estimates; discussion of our key findings about the Mayor's plan; and issues in the Governor's budget that could have a substantial effect on the city.

In addition to compiling these previously released briefs, this volume also presents several new sections. The new sections include a more thorough presentation of IBO's latest economic forecast and tax revenue projections than what was presented in the summary and examines a number of other elements of the Mayor's budget plan. These additional reviews include looks at the Mayor's proposals for budget savings, spending changes related to Hurricane Sandy recovery funds, and capital budget financing and spending.

The previously released briefs along with the new sections compiled in this volume are the product of the thorough and impartial work of IBO's staff. A list of staff members who contributed to the report can be seen on the adjacent page. The reports comprising this volume are produced under the direction of Deputy Directors George Sweeting and Frank Posillico along with Supervising Analysts Elizabeth Brown, Ray Domanico, Paul Lopatto, and Michael Jacobs. Tara Swanson coordinated the production and distribution of each previously released section along with this volume.

Ronnie Lowenstein

Director

Contents

Overview

When Mayor Bill de Blasio released his Preliminary Budget for 2017 and Financial Plan through 2020 in January, he described it as a "boring" budget. Some observers noted the lack of a signature initiative such as the expansion of pre-k or the affordable housing plan that were the hallmarks of budget presentations during his first two years in office.

But the Mayor's latest budget plan is not devoid of new spending. Although the Mayor peppered the presentation of his budget plan with warnings that the city was overdue for an economic downturn that would crimp tax revenues, his plan includes a number of new initiatives—for example, a $15 minimum wage for municipal employees and workers in programs under contract with the city—and funding to support components of previously introduced programs such as ThriveNYC and Vision Zero. Despite these new or expanded spending plans, the Mayor's budget retains substantial reserves in case of an economic slowdown. These reserves could be quickly depleted, even without a downturn, if some or all of Governor Cuomo's proposals requiring additional spending by the city are approved by the state Legislature.

This overview presents highlights of IBO's examination of the Mayor's preliminary budget and four-year financial plan. It includes key points from our latest economic forecast and tax revenue projections as well as our re-estimate of spending under the contours of the Mayor's budget proposals. Based on our latest revenue and spending projections, IBO expects the city will end the current fiscal year with a surplus of $2.5 billion, $216 million more than the de Blasio Administration's estimate. We project the city will end 2017 with a surplus of $490 million; our projections for the subsequent years of the financial plan find relatively modest shortfalls of less than $2 billion a year, budget gaps that are very small relative to city–generated revenues and could be substantially offset with funds currently held as general reserves. Among other key findings from our economic forecast, revenue projections, and expenditure re-estimates:

- IBO estimates the city will add 77,500 jobs this year, down from the extraordinary gains of more than 100,000 jobs in each of the last two calendar years.
- Of the nearly $2.0 billion in growth we project in tax revenues in fiscal year 2017, $1.6 billion is expected to come from increased property tax collections. By 2020, we estimate that property taxes will account for 46 percent of the city's tax revenues—in 2008, when income and property transfer taxes peaked, the property tax comprised 35 percent of city tax revenues.

Total Revenue and Expenditure Projections
Dollars in millions

	2016	2017	2018	2019	2020	Average Change
Total Revenue	**$82,011**	**$83,171**	**$85,638**	**$88,642**	**$91,949**	**2.9%**
Total Taxes	52,889	54,858	57,350	60,070	63,000	4.5%
Total Expenditures	**82,011**	**82,682**	**87,412**	**90,621**	**93,134**	**3.2%**
IBO Surplus/(Gap) Projections	**$0**	**$490**	**($1,774)**	**($1,980)**	**($1,185)**	
Adjusted for Prepayments and Debt Defeasances:						
Total Expenditures	$83,127	$85,193	$87,412	$90,621	$93,134	2.9%
City-Funded Expenditures	$59,724	$62,510	$64,812	$67,866	$70,110	4.1%

NOTES: IBO projects a surplus of $2.511 billion for 2016, $216 million above the de Blasio's Administration's forecast. The surplus is used to prepay some 2017 expenditures, leaving 2016 with a balanced budget. Figures may not add due to rounding.
New York City Independent Budget Office

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

	2016	2017	2018	2019	2020
Gaps as Estimated by the Mayor	**$0**	**$0**	**($2,279)**	**($2,937)**	**($2,741)**
Revenue					
Taxes					
Property	$44	$293	$632	$881	$1,378
Personal Income	85	319	302	266	320
General Sales	(76)	(86)	(118)	(113)	(95)
General Corporation	68	(3)	(54)	48	55
Unincorporated Business	65	17	17	21	17
Real Property Transfer	57	5	22	18	(3)
Mortgage Recording	86	53	79	60	38
Utility	(3)	3	11	13	13
Hotel Occupancy	(0)	(5)	1	19	17
Commercial Rent	16	9	5	(12)	(29)
Cigarette	(1)	(2)	(3)	(5)	(6)
Other Taxes and Audits	6	-	-	-	-
Subtotal	**$346**	**$603**	**$894**	**$1,197**	**$1,705**
STaR Reimbursement	2	6	14	19	26
TOTAL REVENUE	**$348**	**$609**	**$908**	**$1,216**	**$1,732**
Expenditures					
Debt Service	$0	$75	$75	$75	$75
Health Insurance	21	33	52	180	221
Education	(146)	(204)	(236)	(281)	(255)
Homeless Services	-	(101)	(92)	(78)	(63)
Police	-	(50)	(50)	(50)	(50)
Fire	-	(25)	(25)	(25)	(25)
Correction	-	(15)	(15)	(15)	(15)
Board of Elections	-	(25)	(40)	(25)	(25)
Public Assistance	(7)	(23)	(23)	(23)	(23)
Campaign Finance Board	-	-	(40)	-	-
Small Business Services	-	-	(8)	(16)	(16)
TOTAL EXPENDITURES	**($132)**	**($335)**	**($403)**	**($258)**	**($176)**
TOTAL IBO PRICING DIFFERENCES	**$216**	**$274**	**$505**	**$958**	**$1,555**
IBO Prepayment Adjustment 2016/2017	(216)	216	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**$0**	**$490**	**($1,774)**	**($1,980)**	**($1,185)**

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

New York City Independent Budget Office

- Over the 2016-2020 period, projected growth in tax revenues will continue to modestly outpace increases in spending as city-funded expenditures will grow at an average annual rate of 4.1 percent but tax revenues will grow at a rate of 4.5 percent.
- In 2017, city-funded spending to shelter homeless families and adults will cost $101 million more than currently budgeted under the de Blasio Administration's plan.

We will be releasing additional sections of our review of the Mayor's budget proposals in the weeks ahead, including more detailed looks at our economic forecast and revenue projections and closer scrutiny of some specific spending plans.

Economic & Tax Revenue Forecast

IBO's latest economic forecast assumes the nation's unusually long expansion continues, with moderate growth in gross domestic product and employment. Our forecast anticipates continued economic expansion in the city as well, although job growth is expected to slow considerably from the very high level of the past two years. Although in calendar years 2014 and 2015 the city added more than 100,000 jobs annually, IBO projects the job gain will dip to about 77,500 this year. The number of new jobs is expected to fall even further in 2017 through 2020, averaging about 50,000 annually.

Jobs in professional and business services and in health care services are expected to together account for about half the new jobs created in the city during the forecast period. Despite the strong dollar and overseas economic turbulence, we still anticipate tourism will remain an important driver of the local economy. As in the recent past, Wall Street's role in fueling the city's economy will continue to be diminished. While broker-dealer profits are projected to average about $15 billion annually in 2016-2020, they reach this level in large part because of the expectation of continued low borrowing costs as the Federal Reserve raises interest rates in very small increments.

Based on our economic forecast, tax revenues are projected to increase by $2.0 billion in fiscal year 2017 to reach $54.9 billion, $603 million more than the de Blasio Administration's estimate. Over the 2016-2020 forecast period, we project tax revenues will increase at an average annual rate of 4.5 percent, rising from $52.9 billion in 2016 to $63.0 billion in 2020. Much of this growth results from anticipated increases in property tax collections. With a combination of previous assessment growth that has yet to be phased into tax bills *plus* projections of increases in property values in the coming years, we estimate that property tax revenue will increase by $6.5 billion over the forecast period, rising from $22.6 billion this year to $29.1 billion in 2020—an average annual rate of 6.5 percent. By 2020, we project that the property tax will account for 46 percent of the city's tax revenues, which would slightly eclipse the previous highest property tax share for the period since the current property tax system was established in 1981.

Spending

Under IBO's re-estimate of the Mayor's preliminary budget for 2017 and financial plan, projected growth in tax revenues will continue to modestly outpace increases in spending. We estimate that spending will grow at an average annual rate of 3.2 percent, rising from just over $82 billion this year to $93.1 billion in 2020 (crossing the $90 billion threshold in 2019). Looking just at city-funded expenditures and after adjusting for the use of surpluses to make prepayments, we project city spending will rise at an average annual rate of 4.1 percent, increasing from nearly $60 billion this year to $70.1 billion in 2020.

What's Driving New Spending? The increase in projected city spending is largely driven by just a few factors. One factor is the de Blasio Administration's decision to aid the city's fiscally ailing public hospitals, now known as NYC Health + Hospitals. The Mayor is forgiving the hospital system $337 million it owes the city this year. But he has also decided to maintain the city's $204 million annual match of a federal funding stream even though the federal dollars are expected to decline because of changes in the health care payment system. The de Blasio Administration's plan for addressing the public hospital system's ongoing budget problems is scheduled to accompany the release of the Mayor's Executive Budget in April.

Another new expenditure is the need to increase the city's pension contribution by about $600 million annually beginning this year and through 2020. The additional city contribution results from actuarial changes such as estimates that retired city employees are living longer and therefore receiving pension payments for more years than in past projections. Spending on pensions for the municipal workforce is now expected to increase by a total of about $800 million over the financial plan period, growing from $9.3 billion in 2016 to $10.1 billion in 2020, an average annual increase of 2.0 percent.

Also pushing spending higher is debt service on the money the city borrows for capital expenditures such as buying police cars or building and repairing schools. Under the Mayor's plan, debt service is expected to grow from $6.3 billion this year to $8.1 billion in 2020, an annual average increase of 6.5 percent after adjusting for the use of budget surpluses to make prepayments. (For details on the Mayor's school construction plan, which increases the number of new seats under the five-year plan to 44,000, see page 54.)

A number of other measures, some new, some expanding or fully funding previously budgeted initiatives, are also contributing to the spending increase. Prior to the release of the preliminary budget the Mayor announced his intention of phasing in a $15 an hour minimum wage for city employees as well as agencies under contract with the city. This will increase spending by $5 million in 2017 and grows to a cost of $115 million in 2020, according to the de Blasio Administration's estimate. The Mayor has also budgeted additional funds to ramp up previously announced school curriculum and student services initiatives such as Algebra for All, Advanced Placement for All, College Visits, Single Shepherd, and Universal Literacy. The plan, which is partly dependent upon the expectation of more education aid from Albany (an expectation that went unmet in the Governor's budget), anticipates spending on these programs to rise from $4.7 million this year to $164 million in 2020 (see page 49).

The Mayor has also added funds to the budget plan for ThriveNYC. Prior to the 2017 preliminary budget, the de Blasio Administration had budgeted $485 million for ThriveNYC-related initiatives. Another $333 million through fiscal year 2020 has now been added, almost entirely city funds (see page 40). The new plan also includes operating funds for the 15,000 supportive housing units the Mayor intends to build over 15 years. The financial plan budgets $13.2 million in 2017 for running the first of the units to become available, and as more units are completed, operating costs grow to $108.3 million in 2020.

Additionally, the plan commits a total of about $250 million from this year through 2020 to make changes on Rikers Island as a result of the settlement of the *Nunez vs New York City* lawsuit. The settlement includes provisions such as finding a new site to house inmates under the age of 18 and the increased use of handheld and other cameras to help reduce violence in the jail complex. The financial plan budgets nearly $40 million this year, $58 million next year, and about $50 million in each of the following three years for these efforts.

Some Spending Is Under-Budgeted. Despite the overall growth in spending, IBO's review of the Mayor's financial plan finds that in a number of areas the budget comes up short of expected funding needs. As in past years, we find that the biggest shortfall in dollar terms is in the Department of Education, which we estimate will need $204 million more in city funds than currently budgeted for 2017 and $255 million more by 2020. The reason is twofold. The biggest shortfall results from under-funding expected charter school enrollment increases—we estimate the city will need to spend nearly $135 million more than now planned to cover charter school growth next year and $185 million in 2020. The remainder of the shortfall, about $70 million annually, results from our expectation that problems will persist with the information system the education department uses to seek reimbursements from Medicaid for a variety of special education services—leaving revenue below budgeted projections.

IBO also estimates additional funding will be needed for operating the city's homeless shelters. While Mayor de Blasio's budget adds funds for the current year, no additional support has been included for subsequent years. With the numbers of homeless in the city remaining high and the Mayor's rental subsidy program helping fewer people than expected to leave the shelters, IBO estimates that in 2017 it will cost just over $100 million more in city funds than now budgeted for sheltering families and single adults. Our projection of the need for additional city funds falls to about $63 million in 2020 as the rental subsidy programs and increased efforts to prevent homelessness reduce the shelter census (see page 36 for more details).

Overtime in the police, fire, and correction departments will together total $90 million more than budgeted annually from 2017 through 2020. The police department accounts for more than half, or $50 million, of this annual additional cost. We also project that because of changes in city policies on work requirements, city-funded spending on public assistance will be about $23 million annually more than now budgeted for each year of the financial plan.

Spending Cuts, Funds in Reserve. Twenty-five Council Members sent a letter to the Mayor a few weeks before the preliminary budget was released urging that the plan include agency savings totaling 5 percent of the city-funded budget. Although the Mayor did not adopt that suggestion, the financial plan does include savings as well as substantial funds in reserve.

The budget for 2017 incorporates $1.5 billion in reserve funds, dollars that are not assigned for any specific purpose and can be used to fill gaps if new spending needs arise or tax revenues come in below expectations. There are two components of this reserve: a general reserve of $1 billion is included in each year of the financial plan, and another $500 million is included just for 2017. In addition to these two budgeted reserves, the Retiree Health Benefits Trust fund contains about $2.5 billion that can provide budget relief by using the trust to meet the city's health insurance spending obligations for current municipal retirees rather than allowing funds in the trust to accumulate to pay future retirees.

Although the Mayor did not propose the kind of savings measure promoted by the Council Members, his financial plan does contain savings totaling $804 million this year and $270 million in 2017 (and amounts under $300 million in each of the next three years). About $400 million of the 2016 savings derives from reduced spending on debt service—mostly because interest rates remained substantially below the levels assumed in prior budget plans. By budgeting on the assumption that interest rates are about to rise steeply, despite little evidence a spike is imminent, the de Blasio Administration (as the Bloomberg Administration also did) "manufactures" debt service savings and creates another budget reserve. Other savings in 2016 include $137 million due to the state and federal governments picking up a larger share of fringe benefit costs for certain municipal workers, $39 million in one-time state funding of some child health Medicaid expenditures, and $30 million in delayed Fresh Kills landfill closure costs (see page 57 for more details).

Pressure Points. There are two factors that loom most immediately over the Mayor's spending plan: The Governor's budget contains several measures that, if adopted, would have a considerable impact on the city's fiscal resources; and the City Council has a number of priorities that are not addressed in the Mayor's budget proposals.

The Governor's executive budget would, just for the city, lift a statewide cap on New York City's local share of annual increases in Medicaid costs as well as recapture the savings the city had from the cap over the past five years. This change would cost the city nearly $300 million in 2017, more than $500 million in 2018, more than $630 million in 2019, and grow by an additional $130 million annually in the subsequent years.

The Governor's budget also proposes shifting $485 million of the state's annual subsidy for the City University of New York—from the state's ledger to the city's tab. Another proposal by the Governor would tap into the city's sales tax revenue to recapture for the state nearly $650 million in savings the city garnered by refinancing Sales Tax Asset Receivable Corporation bonds.

An additional proposal by the Governor would change the allocation and approval process for the use of private-activity bonds across the state. This last measure would not necessarily have a direct effect on the city budget, but these bonds have been an integral part of financing affordable housing construction in the city, and if the availability of the bonds becomes less certain it could undercut the de Blasio Administration's affordable housing strategy.

The Mayor's financial plan does not recognize the potential effects of these proposals on city funds. After initially pinning the motivation for some of these measures on the city's generally strong fiscal outlook, the Governor has more recently said the Medicaid and city university proposals would be revenue neutral for the city and are really aimed at leveraging efficiency savings. But Albany already controls decisions about Medicaid spending (within the parameters of federal regulations) and has a majority of seats on the city university board, so why the threat of shifting costs to the city is necessary to garner efficiency savings—rather than simply shifting burdens to the city—remains an unanswered question.

Also unanswered is whether there will be room in the budget for spending priorities outlined by some members of the City Council, including the chair of the Council's finance committee. One concern is the Mayor's decision not to continue funding the School's Out New York City program for middle school students as well as slots in several other summer programs for youth. Restoring 34,000 summer slots would cost about $28 million. Moreover, some Council Members have expressed the desire to see the Summer Youth

Employment Program expanded to a universal, year-round initiative. A recent estimate by the Community Service Society pegged the cost of an all-year program at about $160 million. Another priority raised by Council Members is to maintain six-day service at the city's library systems. The Mayor included in the preliminary budget about half the funding needed to do this—roughly $21 million more is still needed.

Also needed is funding to cover three new city offices created through Council legislation: the Department of Veterans' Services, the Office of Civil Justice, and the Office of Labor Standards. The size and cost of these divisions have not yet been finalized but funding is expected to be included in the Mayor's executive budget in April.

Will the Good Times Roll On?

Based on IBO's economic and tax revenue forecast and our re-estimate of spending under the Mayor's 2017 preliminary budget and financial plan, New York City's fiscal outlook looks reasonably strong. We project a comparatively small surplus for 2017 and our projections for budget gaps in the subsequent years are modest by historical standards—3 percent or less of city-generated revenue each year. The general reserve carried in each year of the budget plan would eliminate half or more of each year's budget shortfall.

But a number of factors could quickly darken this fiscal picture. One such factor is the risk of a U.S. recession spurred by continuing problems in China and its effect on other nations that rely heavily on China as a trading partner. Whenever the next recession finally occurs, the city's economy may not fare as well as it did during the downturn in 2008-2009.

Among other factors that could sap the city's fiscal strength, one stands out as particularly debilitating. Despite his more recent assertions that the state budget will not cost the city overall, if the Governor's budget proposals are enacted they would burden the city with large and currently unfunded expenditures. If both the Medicaid and City University of New York measures pass, the city would be facing a combined $785 million in new expenditures for next year, a figure that grows to nearly $1 billion in 2018.

The city budget also continues to carry about $730 million in expected revenue from the sale of taxi medallions over several years, though the timing of the sales continues to be delayed. Given the turmoil in the industry, prospects for receiving this revenue seem increasingly unlikely.

Still, even as this medallion revenue seems less likely to materialize and the Governor's budget could squeeze city resources, the de Blasio Administration faces ongoing pressures to help the city's fiscally troubled public hospitals and public housing. And a federal Equal Employment Opportunities Commission ruling could leave the city on the hook for nearly $250 million in back wages and damages for administrative managers.

While the Mayor and City Council have maintained budget reserves that could absorb the cost of some of these factors, a multiplicity of these issues occurring simultaneously could quickly bring a halt to the city's relatively good fiscal times.

Economic Outlook

IBO's general outlook for the U.S. economy is little changed from our forecast in December. Barring major shocks to the economy, we expect moderate inflation-adjusted (real) gross domestic product (GDP) growth of less than 3 percent annually to continue throughout the forecast period, while the Federal Reserve (the Fed) gradually transitions to a tighter monetary policy. But slower-than-expected growth in the fourth quarter of 2015, financial market instability, and energy prices that have fallen to well below last year's levels, have led us to lower our expectations of near-term growth; IBO now projects real GDP growth of 2.3 percent in 2016—down 0.5 percentage points from our December forecast. (In the economic outlook section, years refer to calendar years and monthly and quarterly data are seasonally adjusted.) Consumer spending and labor markets remain strong, however, and we expect the pace of the economy to pick up later this year, with real GDP growth of 2.9 percent forecast for 2017.

The outlook for New York City economy is also little changed since our December forecast. The unprecedented pace of employment growth in the last five years, during which the city has added an average of 103,000 jobs a year, is not expected to continue. IBO forecasts the addition of 74,300 jobs in 2016 and an average of 51,000 new jobs in the four subsequent years. Professional and business services and health care and social assistance are expected to continue to account for about half of total job gains, though at a slower pace than in recent years. The financial industry's disproportionately large share of output and income in the city is now considerably smaller than before the last recession, constraining average wage growth in the future.

U.S. Economy

The U.S economy has grown steadily, if modestly, in the past two years, with real GDP growth of 2.4 percent in both 2014 and 2015. Despite the somewhat slower growth in output and employment in recent months, consumer spending has been strong, the unemployment rate has fallen to an eight-year low, and for the first time since the 2008-2009 recession there is evidence of widespread real wage gains. But recent financial market turmoil, the risk of further declines in oil prices, and continued appreciation of the U.S. dollar are expected to constrain near-term economic growth. IBO has reduced its forecast of real GDP growth in 2016 to 2.3 percent. The difficulties are expected to abate, however, toward the end of the year and we expect real GDP growth to accelerate to 2.9 percent in 2017—the fastest rate of growth since the recession, though far short of growth during the two previous expansions.

Real GDP growth in the fourth quarter of 2015 was 1.0 percent, lower than expected by most forecasters, limiting growth for the year as a whole to 2.4 percent. But other data indicate that the momentum that was finally established in the U.S. economy in 2014 has continued. Personal income growth rose to 4.5 percent in 2015, fueling spending to meet pent-up demand for consumer durables and housing. The Federal Reserve's highly accommodative policy of low interest rates combined with shrinking household debt burdens, especially mortgage debt, have been critical in stimulating consumption.

Personal income and consumer spending have also been bolstered by employment growth. In the last 12 months the U.S. economy added an average of 223,000 jobs each month and the current unemployment rate—4.9 percent in February 2016—is the lowest it has been in 8 years. Average weekly claims for unemployment insurance in 2015 were as low they have been in the last 15 years.

After years of stagnant wage growth, labor markets have tightened enough to generate increases in real wages in many industries. The latest Bureau of Labor Statistics data show a 2.2 percent increase in average weekly real earnings for full-time wage and salaried employees for 2015. The number of job openings

IBO versus Mayor's Office of Management and Budget Economic Forecasts

	2015	2016	2017	2018	2019	2020
National Economy						
Real GDP Growth						
IBO	2.4	2.3	2.9	2.6	2.1	1.7
OMB	2.5	2.7	2.9	2.8	2.6	2.5
Inflation Rate						
IBO	0.1	1.3	3.1	3.0	2.8	2.5
OMB	0.1	1.5	2.8	2.4	2.4	2.5
Personal Income Growth						
IBO	4.5	5.0	6.3	6.4	4.7	3.8
OMB	4.5	4.4	5.4	5.4	5.1	5.0
Unemployment Rate						
IBO	5.3	4.9	4.7	4.7	4.7	4.9
OMB	5.3	4.9	4.8	4.8	4.8	4.7
10-Year Treasury Bond Rate						
IBO	2.1	2.6	3.8	4.0	4.0	4.0
OMB	2.1	2.8	3.0	3.5	3.8	3.8
Federal Funds Rate						
IBO	0.1	0.7	2.1	3.7	3.7	3.6
OMB	0.1	0.9	1.9	2.9	3.3	3.3
New York City Economy						
Annual Average Employment Change (thousands)						
IBO	119.1	74.3	56.3	52.9	48.8	44.6
OMB	99.0	61.0	50.0	49.0	51.0	51.0
Annual Average Employment Growth						
IBO	2.9	1.8	1.3	1.2	1.1	1.0
OMB	2.4	1.4	1.2	1.1	1.2	1.2
Inflation Rate (CPI-U-NY)						
IBO	0.1	2.0	2.9	3.2	3.0	2.6
OMB	0.2	1.7	2.9	2.6	2.5	2.6
Personal Income ($ billions)						
IBO	538.1	568.1	601.1	635.1	662.1	686.9
OMB	527.2	546.4	573.0	602.9	631.3	661.4
Personal Income Growth (percentage)						
IBO	6.4	5.6	5.8	5.6	4.3	3.8
OMB	3.9	3.6	4.9	5.2	4.7	4.8
Manhattan Office Rents ($/sq.ft)						
IBO	77.1	79.6	81.1	82.5	83.7	84.8
OMB	77.2	81.4	82.4	82.3	83.0	83.5

SOURCE: Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal. OMB's estimate of 2015 New York City employment predates the Bureau of Labor Statistic's annual revision.

New York City Independent Budget Office

as a share of total employment plus the number of workers voluntarily quitting their jobs have reached new highs, providing further evidence of a return to more routine labor market behavior. In December, when the unemployment rate fell to the Federal Reserve's target rate of 5.0 percent, the Fed took the first step towards tighter monetary policy by raising the federal funds rate 0.25 percentage points. Although the Fed has indicated it still expects to execute additional rate increases in the near future, further tightening in 2016 is now expected to be limited, due to such economic headwinds as the slowing world economy, financial market turmoil, and the continued appreciation of the dollar. Given these headwinds, IBO forecasts a dip in the real GDP growth rate from 2.4 percent in 2015 to 2.3 percent this year.

Financial markets have been troubled by concerns over China's slowing economy (the second largest in the world) and by falling energy prices. While China has become a major trading partner with the U.S., its slowdown has had a greater impact in other countries. Chinese firms have reduced imports of raw materials, depressing the prices for oil and other commodities and reducing economic growth in many emerging countries that trade with the U.S. In turn, exports to these countries have suffered, and the strong dollar against major world currencies—up 20 percent in the last year and a half by one trade-weighted measure—has further discouraged U.S. exports while stimulating U.S. demand for imports. Lower oil prices are also hurting U.S. energy production, offsetting to a large degree the positive impact of cheap oil on consumer spending. The steep plunge in oil prices has had an impact on financial markets, prompting a sell-off of energy companies' securities by investors wary of their previously soaring values. There also has been a sell-off of stocks of multinational companies whose outlook was premised on steady economic growth in China and emerging market countries. In all, the value of U.S. stocks has plunged by roughly $2 trillion since Wall Street's bull market ended last May, eroding household wealth and putting downward pressure on consumption and confidence.

While recessions are usually preceded by major stock market declines, not all bear markets result in recessions. The broader economic context in which the current market uncertainty exists— low interest rates, job growth, real wage increases, and strong if diminished consumer demand—is favorable, so IBO expects that any damage to the economy from the recent market correction will be limited. With low prices already forcing marginal energy producers—particularly shale operators—to cease production, oil prices are expected to begin rising again soon, reaching a still favorable price of about $65 per barrel by the end of 2018.

With modest growth forecast this year, IBO expects the Federal Reserve to proceed very cautiously in its plan to tighten monetary policy. Inflation is projected to remain modest at 1.3 percent, well below the 2.0 percent rate that the Fed considers conducive to stable growth. Economic growth will be strong enough to nudge the unemployment rate down to a projected 4.9 percent and generate an estimated 5.0 percent gain in personal income.

Assuming no external shocks, more stability for energy and commodity prices, and slower appreciation of the dollar, IBO forecasts that real GDP growth will accelerate to 2.9 percent in 2017, accompanied by a modest further decline the unemployment rate to 4.7 percent for the year. Tight labor markets and faster growth will push the inflation rate (as measured by the consumer price index) to a projected 3.1 percent, spurring the Federal Reserve to respond with a more aggressive contractionary monetary policy. IBO projects that a combination of higher interest rates and the constraints of a labor force that cannot grow much faster due to the retirement of the baby boom generation will substantially slow economic growth towards the end of the forecast period.

At 2.9 percent, real GDP growth peaks in 2017 in both IBO's and the Mayor's Office of Management and Budget's (OMB) macroeconomic forecasts. However, for the current year, OMB projects considerably stronger growth than IBO—2.7 percent, compared with 2.3 percent for IBO. Unlike OMB's forecast, IBO's was completed after the extent of the financial market turmoil this year was fully evident. In both forecasts, the outlook for inflation, unemployment, and interest rates for this year and next are very similar, though OMB forecasts slower personal income growth. For the years after 2017, OMB projects a more gradual slowing of economic growth than does IBO, with less inflation and lower interest rates.

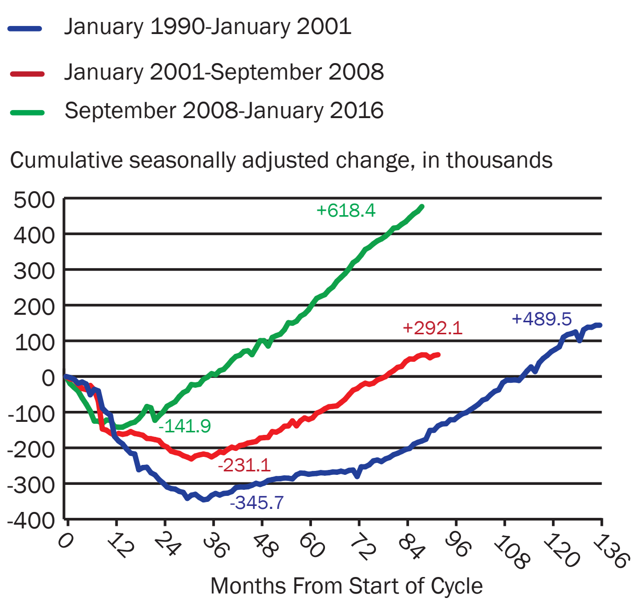
New York City Economy

New York City is in the midst of an unprecedented employment boom, though wages, hours worked, and personal income send a more mixed signal. IBO expects that annual average employment growth will slow in 2016, from a gain of 119,000 in 2015 to an estimated 74,300 this year. (Note: Data on local employment reflects the Bureau of Labor Statistics recently released revisions.) Through the rest of the forecast period, we project employment growth will average about 50,000 jobs per year. Our forecast calls for a decline in personal income growth, from 6.4 percent in 2015 to growth rates in the 5.6 percent to 5.8 percent range in 2016 through 2018.

Employment. New York City's current economic expansion is in its seventh year. From the city's perspective, the 2008-2009 recession was relatively mild, with far fewer job losses than in the preceding two downturns. Since the trough of the recession in November 2009, the city has added 618,400—including 362,000 jobs over the last 36 months alone. This dwarfs the growth over the previous two business cycles, and indeed nothing like it has been seen in the 65 years that city employment numbers have been tracked.

Employment growth in 2015—a gain of 119,100 jobs—was only slightly off the record-setting pace of the previous year. Growth was led by professional and business services (+18,800 jobs), home health care and social assistance (+16,800), food services (+15,500), administrative and support services (+11,200), educational services (+9,300), and construction (+9,100). The securities sector added 4,500 jobs, though there were still some 17,000 fewer jobs in securities as of the end of 2015 than at the end of 2007.

Cumulative Employment Losses and Gains in Recent New York City Cycles



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But there were also pockets of weakness. Retail trade employment tailed off notably in the second half of 2015, and registered almost no growth on an annual average basis—a stark reversal for a sector that had been adding an average of 12,000 jobs per year over the previous five years. Wholesale trade employment also stalled in the second half of the year, and similar patterns were discernable in accommodations and in arts and entertainment. Finally, as has been the case pretty much throughout the expansion, there was little or no employment growth in hospitals and nursing homes.

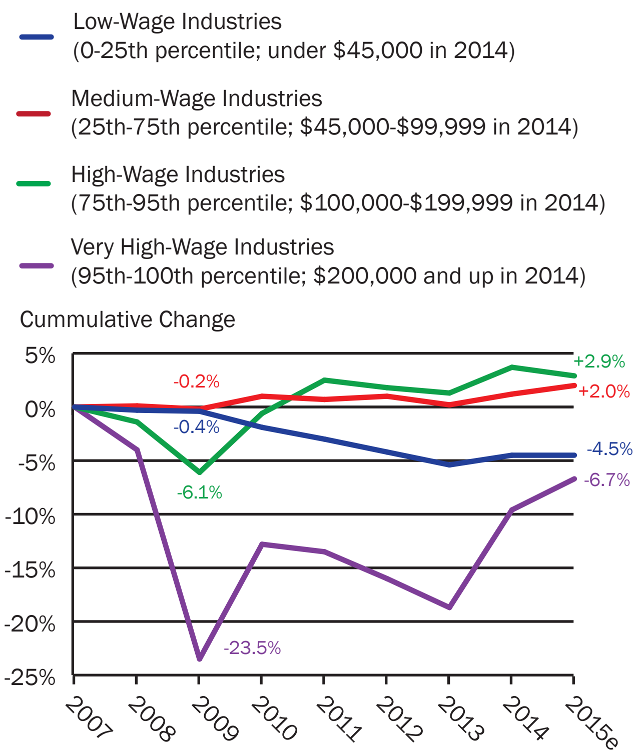
IBO forecasts continued but less torrid employment growth in New York City over the next five years. Measured on an annual average basis, IBO projects growth to slow to 74,300 in 2016, after which jobs will grow at an average pace of 51,000 per year over the rest of the plan period (2017-2020). As in the past, professional and business services and health care and social assistance are expected to lead the pack in jobs growth, accounting for around half of total jobs added.

Wages. While New York City employment has inscribed a path of mild contraction followed by record expansion over the current cycle, New York City wages since 2007 tell almost the opposite story: record contraction followed by weak recovery. Indeed, after what appears to have been another year of negligible growth, the overall average wage in 2015 ($86,879) was still nearly 5.0 percent below the peak touched in 2007 ($91,328 in 2015 dollars). We do not yet have complete compensation data for 2015, but New York City income tax withholding was nearly flat in the fourth quarter (and over the first two months of 2016), diminishing the likelihood that there was a burst of wage growth at the end of the year.

A confluence of forces has contributed to wage stagnation including the retrenchment of the high-wage securities sector since the financial crisis—much diminishing its ability to pull up the city's overall average—and the expansion of lower-wage industries.

Cumulative Real Wage Change in New York City Since the Prerecession Peak

In Low-, Medium-, High-, and Very High-Wage Industries



SOURCES: Bureau of Labor Statistics; Bureau of Economic Analysis

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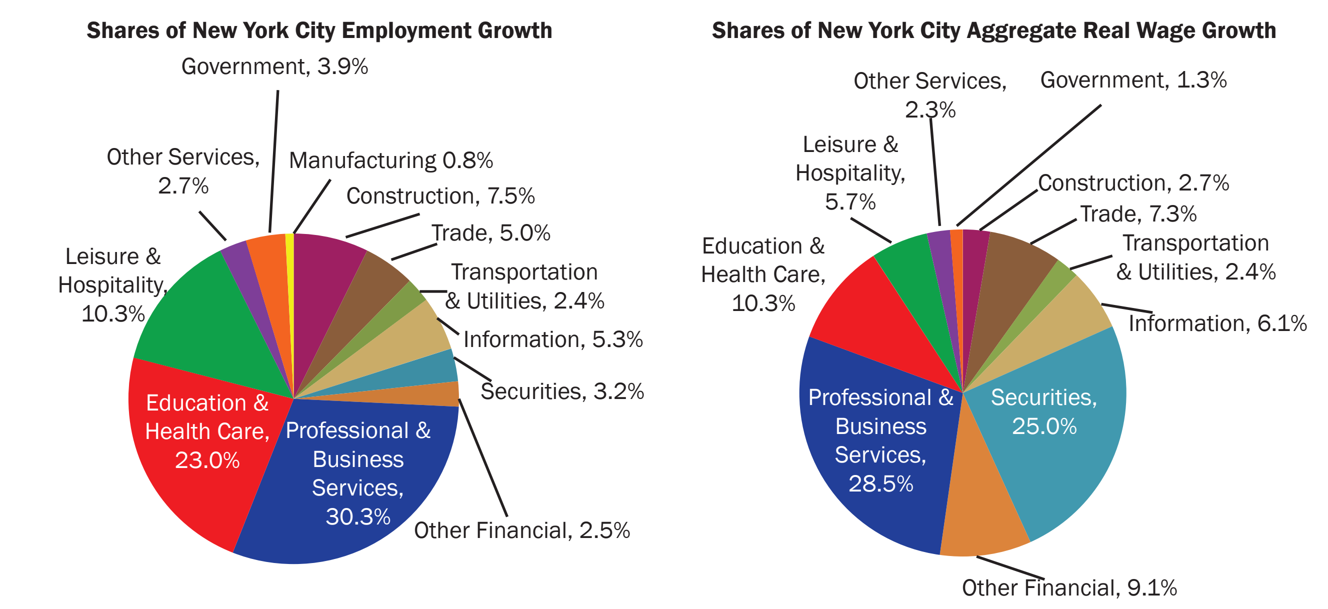
The reasons for average wage declines over the 2007-2015 period vary by industry. In the two highest-wage industries, securities and management of companies, jobs are paying less mostly because bonuses have not recovered to precrisis levels. In health care and social assistance, manufacturing, retail trade, eating and drinking establishments, and arts and entertainment (all medium- or low-wage sectors), lower average wages reflect changes in the within-industry job mix against a backdrop of weak growth in hourly compensation and a drop from precrisis levels of average hours worked.

Adjusted for inflation, IBO projects average wages to grow 2.1 percent per year over the first three years of the forecast period (2016-2018) and 1.1 percent per year over the last two years, an improvement over the 0.2 percent growth averaged since 2010.

Though the securities industry is diminished, it still pays by far the highest wages and is expected to contribute an outsized portion of the city's overall wage growth during the forecast period—25.0 percent of aggregate real wage growth, along with only 3.2 percent of overall employment growth. This largely continues the pattern over the current expansion so far: despite the absence of securities employment growth from 2009-2015, the industry generated 22.3 percent of the city's aggregate wage growth.

To put this in perspective, securities generated 52.5 percent of the city's total aggregate wage growth over the 2003-2008 expansion (along with 9.9

Shares of Forecast New York City Employment and Aggregate Wage Growth, 2015-2020



NOTE: Sums to >100%. Manufacturing contributes -0.6% to 2015.

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percent of the employment growth), and 39.1 percent of aggregate wage growth (with 6.9 percent of the employment growth) over the 1994-2001 expansion.

Moreover, during the last two recessions, the securities industry accounted for even larger shares of overall city wage declines: 66.7 percent of the city's aggregate wage losses (along with 16.7 percent of the employment losses) during the 2001-2003 recession and 64.9 percent of the wage losses (with 17.5 percent of the employment losses) in the 2008-2009 recession. It remains to be seen if the city will be less exposed to a Wall Street shock when the next recession arrives—either because the securities sector will not have as far to fall or because any drop in that sector will not be as consequential for the overall city economy.

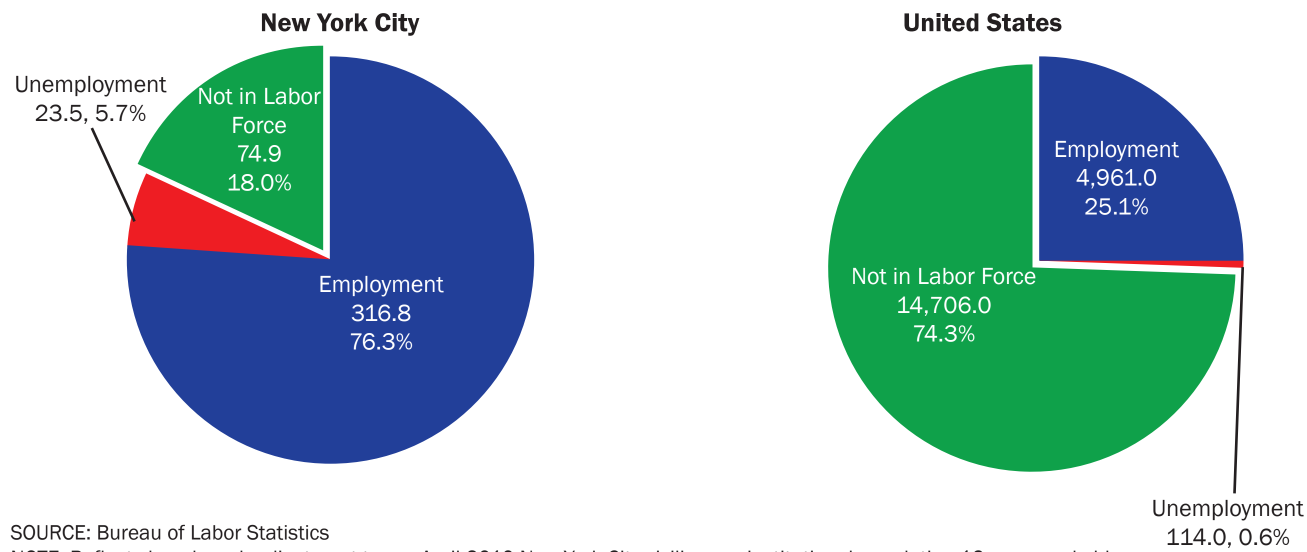
Labor Force. Early on in the recovery New York City's unemployment rate remained elevated despite large increases in payroll jobs; the rate was still stuck at 8.7 percent as late as August 2013. But beginning in the fall of 2013, the number of unemployed city residents began to decline rapidly, and as of this January the city's unemployment rate was 5.3 percent, not much above its precrisis low. Moreover, this decline has been driven entirely by robust growth in the number of employed—and not, as has been the case until recently in the rest of the nation, mostly by people dropping out of the labor force entirely.

Indeed, increases in employment have absorbed more than three-quarters of the residents added to New York City's adult population over the last eight years—despite the fact that retired and retiring baby boomers are a growing share of resident adults. This has lifted the city's labor force participation rate to 61.3 percent, an all-time high. In the nation overall, on the other hand, employment growth has absorbed only one-quarter of the increase in the adult population since 2008, and labor force participation remains substantially below precrisis levels.

IBO forecasts a slight uptick in the city's unemployment rate, to about 5.4 percent at the end of 2016 and 5.5 percent at the end of 2020, due to slower employment growth over the plan period. Labor force participation is expected to recede slightly starting in 2017 as the adult population ages, but will still be close to 61 percent at the end of the plan period.

Personal Income. In current dollars, city resident personal income grew by an estimated 6.4 percent in 2015, the best pace since before the recession. IBO expects personal income growth to range between 5.6 percent and 5.8 percent per year over the each of the next three years (2016 through 2018) and then weaken over the remainder of the plan period. Accounting for inflation and population growth the outlook is a little less rosy. Real per capita personal income growth is projected to slip from 4.5 percent in 2015 (still the best

Change in the Number Employed, Unemployed, and Not in the Labor Force Since January 2008
In thousands



SOURCE: Bureau of Labor Statistics
NOTE: Reflects benchmark adjustment to pre-April 2010 New York City civilian noninstitutional population 16 years and older.
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mark since 2007) to 3.4 percent in 2016, 2.5 percent in 2018, and 1.0 percent in 2020.

Employee compensation (resident wages plus benefits net of payroll taxes) accounted for half of city personal income in 2015. The remainder consisted of asset income (dividends, interest, and rental income), 20.6 percent; transfers (Social Security benefits, medical benefits, income maintenance, unemployment insurance), 17.3 percent; and proprietor and partnership income, 12.2 percent. Employee and proprietors' income are expected to account for nearly three-quarters of the projected personal income growth over the next five years, with slower growth and diminished contributions to overall personal income coming from assets and transfers.

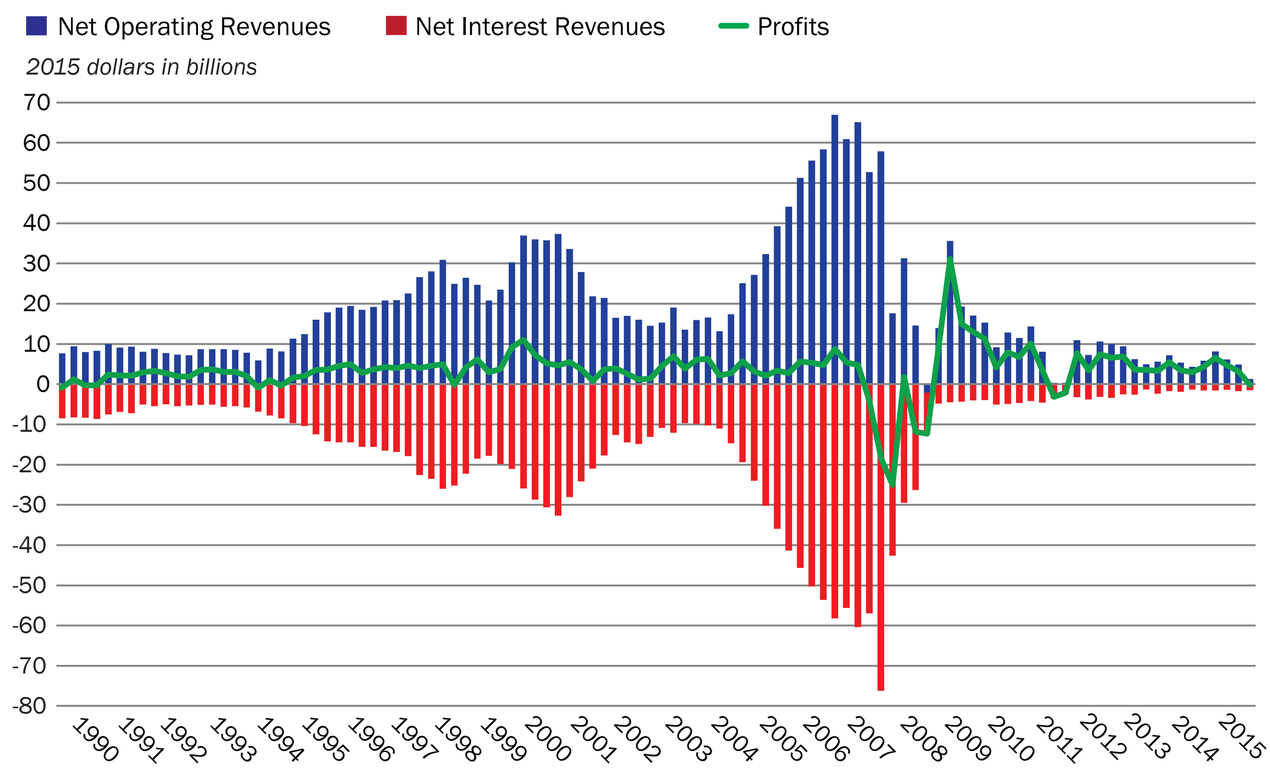
Wall Street. Profits of New York Stock Exchange (NYSE) member firm brokers and dealers fell into negative territory in the last quarter of 2015, and for the year profits fell for the third straight year, to $14.3 billion—40.1 percent less than 2011 profits of $23.9 billion. Consonant with this performance the securities industry bonus pool shrank in 2014 and withholding data indicate that it contracted again in 2015, despite the growth in securities employment.

Net operating revenue (noninterest revenue less noninterest expenses) has also been trending downward, and in 2015 fell to less than a tenth of its 2007 peak—and indeed, to its lowest level (adjusted for inflation) in more than three decades. Wall Street remains profitable only because net interest expenses (interest income less interest costs) have dwindled even further.

Another portent of the change in Wall Street is the shrinking value of NYSE member firm assets, which consist mostly of owned or borrowed securities. Real asset values have declined for 7 consecutive quarters (and in 12 of the last 13) and at $3.4 trillion are now nearly 50 percent below their 2007 peak.

In line with anticipated increases in the federal funds rate, IBO forecasts a moderate rise in broker-dealer net interest expenses over the next five years. We project

Quarterly Net Operating Revenues, Net Interest Expenses, And Profits of New York Stock Exchange Member Firms



SOURCE: Mondo Visione

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a matching upswing in net operating revenues, allowing member firms to maintain profits in the range of $14 billion to $16 billion.

Tourism. A record 58.3 million visitors came to New York City in 2015. This is up 12.7 million from the recession year 2009 (the last year tourism dipped) and is 22.1 million more than visited in 2000. The growth in international visitors has slowed since 2011, a reflection of the strong U.S. dollar and economic weakness overseas. Barring a significant shock, it appears that the city can meet its goals for further tourism growth over the rest of the decade, but we do not expect this to fuel increases in hospitality and retail employment as strong as the increases seen in recent years.

Real Estate. The total value of real estate sales recorded in 2015—those subject to the real property transfer tax (RPTT) as well as those that were exempt—was $132.9 billion, the second-highest on record in nominal terms but still 8.0 percent below the 2007 peak after adjusting for inflation.

The overall strength of real estate sales in recent years is mostly a function of growth in the commercial market, which declined much more sharply than the residential market in the aftermath of the financial crisis but also rebounded more sharply. Adjusted for inflation, commercial sales in 2015 were 6.0 percent below their 2007 peak while residential sales were 11.3 percent below. However, commercial sales growth tailed off in 2015, while residential sales growth was substantially higher than the year before.

IBO projects that commercial real estate sales will decline slightly in 2016, as the deceleration that began in 2015 intensifies. Higher interest rates are projected toward the end of 2016, further cooling the market. IBO projects growth in commercial sales to resume beginning in 2017, but at a slower pace than during the growth years of 2010 through 2015.

In contrast to the decline in the commercial market, IBO expects that the value of residential sales will continue to experience modest growth in 2016. This growth will continue through 2020, despite higher interest rates. As in recent years, sales growth will be more a function of rising prices than of increased numbers of sales transactions.

Revenue Projections

Taxes and Other Revenues

IBO's forecast of revenues from taxes and other sources including fines, fees, and state and federal aid totals $82.0 billion for 2016—an increase of 4.4 percent ($3.4 billion) over last year (all years in this section refer to fiscal years unless otherwise noted). Much of this increase is due to a $2.9 billion increase (15.4 percent) this year in state and federal grants—with federal aid for Sandy relief efforts contributing about $1 billion to the growth since last year ($240 million was added with the preliminary budget). By contrast, more moderate growth is forecast for tax revenue this year, an increase of $1.8 billion (3.5 percent) over 2015. Revenue from all sources is expected to total $83.2 billion for 2017, an increase of only 1.4 percent as an 11.8 percent decline in federal grants, particularly those related to Sandy, drags down the overall revenue growth.

While the estimate for total revenue growth from 2016 to 2017 is lackluster, IBO expects the tax revenue portion of that total to slightly outpace this year's tax revenue growth, rising by 3.7 percent ($2.0 billion) to $54.9 billion in 2017. The city's own nontax revenues (primarily fees, fines, and sales) for 2017 are projected to fall slightly (-1.5 percent) from their current year total to $5.6 billion. Noncity revenues in 2017 are expected to be 3.1 percent lower than in 2016, thanks to the big drop in federal grants.

In the remaining years of the financial plan, IBO projects that growth of total revenues accelerates, increasing to $85.6 billion in 2018, $88.6 billion in 2019, and $91.9 billion in 2020. Annual revenue growth will average 3.4 percent in these years, driven by city taxes, which are forecast to increase at an average annual rate of 4.7 percent. Grants and other noncity revenue sources are expected to be largely unchanged over the three years (2018 through 2020).

The first part of this section presents IBO's tax revenue forecast, followed by a detailed discussion of each of the city's major tax sources and a brief overview of the outlook for nontax revenues.

Tax Revenue Overview

IBO's forecast for tax revenue in the current fiscal year is $52.9 billion, an increase of 3.5 percent from 2015. Tax revenue growth this year is less than half the rate in 2015 as several of the city's major taxes, most notably the real property transfer tax (RPTT) and the mortgage recording tax (MRT), which each saw double-digit increases in 2015 but are expected to contract by a combined -6.2 percent this year. Another tax with double digit growth last year—the personal income tax (PIT)—is expected to grow this year, but a little more than half last year's rate. With slowing job growth, still sluggish wage growth, stagnant or declining bonus payments, and expectations of little change in Wall Street profits in the next four years IBO's forecast of tax revenues includes relatively mild growth averaging 4.5 percent annually from 2016 through 2020.

For 2017, IBO projects tax revenue of $54.9 billion, growth of 3.7 percent, which is only slightly faster than in the current year. Revenue in 2017 is expected to get a particularly strong boost from the real property tax because January's tentative assessment roll was much stronger than anticipated. Property tax revenue is now expected to increase by $1.6 billion (a gain of 6.9 percent from 2016) to $24.2 billion. For 2017, IBO expects two other sources of strength to be the sales tax (growth of 3.9 percent) and the combination of general corporation and bank corporation taxes (2.9 percent). Meanwhile, the transfer and mortgage taxes are expected to experience a second year of declines.

In 2018 through 2020, IBO expects continued tax revenue growth averaging 4.7 percent annually. Tax revenues are forecast to reach $63.0 billion by 2020. The property tax is expected to continue to be the most robust among the city's major tax sources, with annual growth averaging 6.4 percent over the three years, just slightly below the 6.9 percent projected for 2017. Both sales tax and personal

IBO Revenue Projections
Dollars in millions

	2016	2017	2018	2019	2020	Average Change
Tax Revenue						
Property	$22,600	$24,166	$25,777	$27,355	$29,100	6.5%
Personal Income	11,118	11,392	11,706	12,130	12,703	3.4%
General Sales	6,994	7,265	7,543	7,869	8,213	4.1%
General Corporation	4,039	4,157	4,212	4,393	4,496	2.7%
Unincorporated Business	2,072	2,089	2,181	2,277	2,374	3.5%
Real Property Transfer	1,626	1,611	1,647	1,701	1,731	1.6%
Mortgage Recording	1,114	1,108	1,144	1,155	1,160	1.0%
Utility	387	397	418	429	438	2.4%
Hotel Occupancy	548	545	564	588	597	2.4%
Commercial Rent	786	814	845	863	881	2.9%
Cigarette	47	45	43	40	38	-5.0%
Other Taxes and Audits	1,558	1,269	1,269	1,269	1,269	-4.9%
Total Taxes	**$52,889**	**$54,858**	**$57,350**	**$60,070**	**$63,000**	**4.5%**
Other Revenue						
STaR Reimbursement	$814	$803	$814	$823	$834	0.6%
Miscellaneous Revenue	4,916	4,843	4,890	5,008	5,105	0.9%
Unrestricted Intergovernmental Aid	4	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,719**	**$5,631**	**$5,689**	**$5,816**	**$5,924**	**0.9%**
TOTAL CITY-FUNDED REVENUE	**$58,608**	**$60,489**	**$63,039**	**$65,886**	**$68,924**	**4.1%**
State Categorical Grants	$13,384	$13,575	$13,986	$14,349	$14,632	2.3%
Federal Categorical Grants	8,638	7,616	7,177	6,971	6,963	-5.2%
Other Categorical Aid	775	861	864	861	858	2.6%
Interfund Revenue	606	631	573	573	572	-1.4%
TOTAL REVENUE	**$82,011**	**$83,171**	**$85,638**	**$88,642**	**$91,949**	**2.9%**

NOTES: Remaining banking corporation tax revenue reported with general corporation tax. Figures may not add due to rounding.
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income tax growth is projected to accelerate after 2017 although still lag the property tax, with annual average growth of 4.2 percent and 3.7 percent, respectively.

IBO's forecast does not include double-digit overall tax revenue growth for any year of the forecast, something that did occur each of the boom years from 2004 through 2007. Nor does IBO's forecast assume an acceleration of growth over the recent past. Indeed, the average annual growth projected for 2016 through 2020—4.5 percent—is about two-thirds the 6.6 percent annual average rate that occurred over the preceding six years of the expansion (2010 through 2015).

Compared with the city's tax revenue forecast when the 2016 budget was adopted last spring, IBO's new forecast is $1.4 billion (2.7 percent) higher for this year and our outlook for 2017 is also $1.4 billion (2.6 percent) above the adopted budget estimate. These upward revisions are somewhat smaller than the differences IBO typically finds at this point in the budget process, suggesting that unanticipated tax revenue will be a smaller contributor to the city's budget surplus this spring than it has been in recent years.

IBO's latest tax revenue forecast for 2016 is $346 million (0.7 percent) higher than the Mayor's Office of Management and Budget's (OMB) preliminary budget forecast. The gap between the two forecasts widens moderately next year to $605 million and then grows steadily each year, from $894 million in 2018 to

$1.7 billion in 2020, when IBO's forecast of total tax revenues exceeds OMB's by 2.8 percent.

Real Property Tax

IBO projects the city will collect $22.6 billion in real property tax revenue in 2016, an estimate that has not changed since our December outlook report.[1] Through February the city has collected 93.5 percent of OMB's forecast of property tax revenue for 2016. At this rate, IBO expects year-end collections to exceed OMB's forecast by $341 million.

Relative to our December forecast, IBO has increased its revenue projections for each year during the forecast period to reflect stronger than anticipated growth in taxable value based on the tentative 2017 assessment roll. For 2017, IBO now anticipates collections will be $24.2 billion, $206 million more than our outlook in December. By comparison, OMB predicts revenue in 2017 will be $23.9 billion, $339 million over their previous forecast.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market value), and the applicable tax rate.[2] Under property tax law, there are four classes of property: Class 1 consists of one-, two-, and three-family homes; Class 2 comprises apartment buildings, including cooperatives and condominiums; Class 3 is exclusively real property owned by utility companies; and Class 4 consists of all other commercial and industrial property. Each class' share of the levy is determined under a state law designed to allow only small shifts in the share of the overall property tax borne by each class. The city then divides the apportioned citywide levy by the taxable assessed value of property for each class, resulting in a class-specific tax rate, or how much a taxpayer owes per $100 of their property's taxable value.

The taxable assessed value of a property for tax purposes is established by the Department of Finance. The department estimates each property's fair market value and then applies an assessment ratio, which reduces the amount of the property's value subject to the property tax. For Class 1 property, no more than 6.0 percent of fair market value is taxable while for all other property, 45.0 percent is taxable. A property's resulting assessed value is then further reduced by any property tax exemptions in order to reach taxable assessed value.

In 2016, Class 1 Properties Comprised the Largest Share of the City's Fair Market Value But the Smallest Share of the City's Taxable Assessed Value

	Taxable Assessed Value as a Percent of		
Property Class	Citywide Taxable Fair Market Value	Citywide Taxable Assessed Value	Property Class Fair Market Value
Class 1	45.6%	9.1%	4.0%
Class 2	24.2%	34.8%	29.0%
Class 3	3.2%	6.9%	43.9%
Class 4	27.0%	49.2%	36.7%

NOTE: Assessed value and fair market value for tax purposes.

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Because of differences in assessment ratios, exemptions, and assessment practices across property types, the share of taxable assessed value borne by each class is not proportional to its share of market value. Class 1 properties account for a much smaller share of total assessed value than their share of market value—9.1 percent of assessed value on the 2016 roll compared with 45.6 percent of the finance department's estimate of total market value in the city. The other classes, especially Classes 3 and 4, bear a disproportionately large share of the property tax burden because their shares of assessed value are much bigger than their shares of market value.

Tentative Assessment Roll for 2017. The Department of Finance released the tentative assessment roll for 2017 in January. For the first time in the city's history, market value for tax purposes eclipsed $1 trillion ($1.07 trillion), representing an increase of 10.6 percent over 2016. Much of the growth was driven by appreciation in Class 1 and Class 2 properties where market value increased by 12.3 percent and 10.7 percent, respectively. However, tentative taxable assessments only grew 8.1 percent overall compared with 2016—from $195.2 billion to $211.0 billion. The relatively smaller increase is due to state law limiting the growth of Class 1 taxable values to no more than 6.0 percent a year. Whereas Class 2 properties' taxable value increased 10.8 percent over 2016, Class 1 properties only did so by 3.8 percent.

Taxable assessed value on the tentative roll is $3.3 billion more than IBO anticipated in its December forecast. The majority of the difference was due to Class 2 properties, which had a total taxable value of $75.3 billion, $3.9 billion (5.5 percent) higher than we had forecast. Much of the difference was due to unanticipated growth in the value of Brooklyn rentals where the tentative roll reflected almost $1 billion more in taxable value than we projected. In addition, the city's tax base benefits from a pipeline of assessed value from Class 2 and Class 4 properties that continues to grow to record levels due to the city's strong real estate market. Based on the tentative roll, IBO estimates the pipeline currently contains $21.5 billion in taxable value that will be phased-in over the next four years.

After a period for appeals and review, a final roll for 2017 will be released in May. Based on historical trends, IBO anticipates the final roll to show $208.0 billion in total taxable value with Class 4 property making up nearly half of the city's property tax base and Class 2 composing another one-third. Class 1 properties, despite making up an expected 45.0 percent of the city's market value, are anticipated to only account for 9.2 percent of the valuation used for calculating taxes. Said differently, 96.0 percent of Class 1 properties' market value is left out of the tax base compared with 66.8 percent and 58.1 percent for Class 2 and Class 4, respectively.

Revenue Outlook. IBO anticipates property tax revenue will total $22.6 billion in the current year and $24.2 billion in 2017—an increase of 6.9 percent. Growth is expected to average 6.5 percent over the forecast period with revenue reaching $29.1 billion in 2020. In contrast, OMB forecasts 2016 revenues of $22.6 billion and average annual growth of 5.3 percent through 2020 when they project property tax revenue will total $27.7 billion.

IBO's forecast is stronger than OMB's largely due to our assumption that refunds and cancelled taxes will be less than OMB expects. The effect of this difference is that IBO projects greater revenue later in the forecast period, and as a consequence the large increases shown on the January 2016 tentative assessment roll resulted in smaller adjustments to our forecast than for OMB. For example, IBO anticipates collections for 2017 will be $24.2 billion, a $206.4 million increase from our December forecast, and for 2018, $25.8 billion, a $396.0 million increase. OMB, though, projects revenue in 2017 will be $23.9 billion, $339.4 million over their November forecast, and $25.1 billion in 2018, a $612.9 million increase.

IBO's forecast does not factor in the potential impact of a property tax levy growth limit currently under consideration in the state Legislature. If the cap in effect elsewhere in the state were adopted for the city, IBO estimates the property tax cap would cut the citywide levy by about $1.0 billion compared with what it would be without a cap.[3]

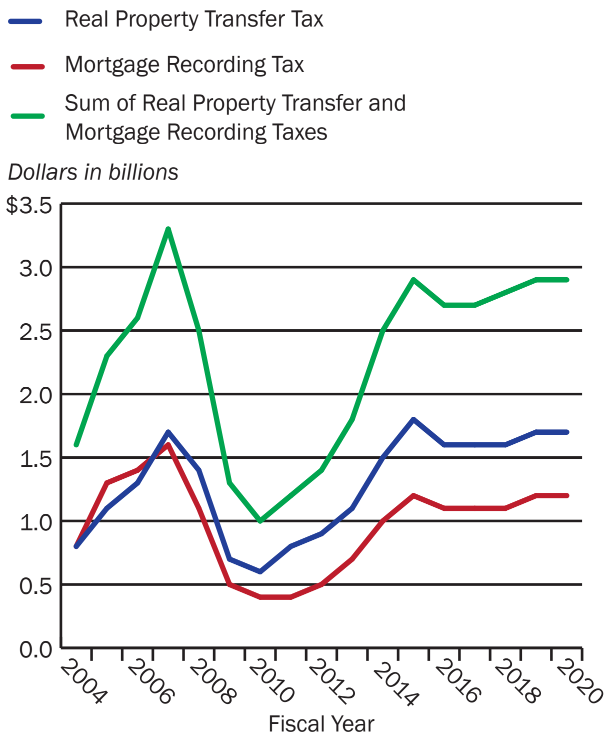
Our forecast also does not take into consideration the Governor's proposal to switch the STAR exemption to a refundable New York State personal income tax credit. Since rates for the real property tax are determined using assessed value before the STAR exemptions are applied, and because the city is already reimbursed for property tax revenue lost to STAR, the proposal should not impact city tax rates or revenue.

Property Transfer Taxes

IBO's current year forecasts of revenues from the real property transfer tax and the mortgage recording tax—collectively referred to as the transfer taxes—have been revised upward in response to a surge in collections in December 2015, and a relatively strong performance in January 2016. Nevertheless, the projected sum of the two taxes for 2016, $2.7 billion, is still about 6.2 percent below 2015 collections of $2.9 billion. IBO projects a slight further decline in 2017, followed by average annual growth of around 2.1 percent from 2018 through 2020. By 2020 the sum of the two taxes is projected to be $2.9 billion, 12.2 percent below the 2007 peak in nominal terms, and 34.4 percent lower in inflation-adjusted dollars.

RPTT collections reached almost $1.8 billion in 2015, breaking the previous record of $1.7 billion set in 2007, although in inflation-adjusted terms, 2015 collections were 14.2 percent lower than in 2007. Based on the strength of collections in recent months, IBO has raised its projection of 2016 revenues by $92 million over our December forecast. However, the new forecast of just over $1.6 billion is still 7.9 percent below 2015's record level. IBO projects a small decline (around 1 percent) in RPTT revenue in 2017, with modest growth resuming in 2018. By 2020, RPTT revenue is projected to reach $1.7 billion, still below the 2015 peak.

Transfer Tax Revenue Projected to Dip Slightly in 2016 and 2017, and Remain Relatively Flat Through 2020



SOURCE: IBO analysis of Department of Finance data
NOTE: Values through 2015 are actuals. Values for 2016 through 2020 are IBO's projections.

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The trends in RPTT revenues during the past decade have been driven largely by commercial property markets, which have experienced much greater fluctuation in sales than residential properties. In addition, commercial buildings are subject to higher RPTT rates than residential properties, and thus have an outsized influence on the overall level of RPTT revenue.

There were 68 taxable commercial sales valued at over $100 million during the first seven months of this fiscal year, compared with 82 such sales during the same period of 2015. The downward trend is consistent with IBO's forecast of a decline in commercial sales for this year and next. Rising interest rates and the availability of new office and retail space at the World Trade Center, Hudson Yards, and other sites will put a damper on sales of existing properties and therefore RPTT revenue.

IBO forecasts that the value of residential sales will grow at a modest pace from 2017 through 2020. As has been the case since the financial crisis, growth will come through an increase in the value per transaction, rather than an increase in the number of transactions. The number of taxable residential sales in New York City was just over 50,000 in 2015, down about 6.2 percent from 2014, and far below the almost 78,000 sales reported in 2006. The (nominal) median price of residential properties sold in 2015 was almost $523,000, just 14 percent higher than in 2006. However, the mean price of residential properties sold increased almost 52 percent over the same period, exceeding $884,000 in 2015. The sharp increase in the average sales price is due to the influence of the high-end market, in particular new luxury construction. In 2006, there were 67 residential sales over $10 million. By 2015, the number had risen to 243, even as the overall number of sales declined sharply.

With the supply of residential properties available for sale expected to remain relatively low, IBO projects that upward pressure on prices in the luxury market will continue, even as mortgage rates increase. Overall appreciation in the rest of the housing market, however, will be modest. IBO projects growth of just 8.2 percent in the price of one-family houses outside Manhattan from 2015 through 2020.

Mortgage recording tax revenue reached unprecedented levels during the housing bubble years of 2005-2007, and then fell more sharply than RPTT collections in the wake of the financial crisis. From a high of almost $1.6 billion in 2007, MRT revenue plunged to just $366 million in 2010. MRT revenue of $1.2 billion in 2015 was the highest since 2007, but still 26.4 percent below 2007 in nominal terms, and 38.4 percent lower in real terms.

The MRT does not follow the value of real estate sales as closely as does the RPTT because not all sales are financed using a mortgage, and not all mortgage activity involves a sale. Loans to purchase coop apartments are not considered mortgages under current New York State law because technically the buyer is purchasing shares in a corporation. Sales of luxury residences typically involve a large cash component and/or financing from overseas, meaning that most, or all, of the sale price will not be subject to the mortgage tax. Finally, mortgage refinancings, which may or may not be subject to the MRT, do not involve the purchase of property.

The Federal Reserve's monetary policy has kept interest rates low for much longer than most economic forecasters ever anticipated. This has provided an incentive for borrowing to finance real estate purchases, as well as opportunities for refinancing of existing mortgages. On the other hand, stricter lending standards have acted as a check on mortgage activity. While credit availability has improved in recent years, many potential borrowers still encounter difficulties in borrowing.

Based on the strength of MRT collections in December and January, and the expectation of one last wave of refinancing in the coming months, IBO has increased its 2016 MRT forecast to just over $1.1 billion. This is $80 million above our November 2015 forecast, but still $41 million below 2015 collections. MRT revenues are forecast to decline slightly in 2017, and then increase very slowly through 2020. By 2020, MRT revenue is projected to be barely above the 2015 level.

With one exception, IBO's projections for both RPTT and MRT are above OMB's in each year of the financial plan. The largest differences are for 2016, with IBO 3.6 percent above OMB in the case of RPTT, and 8.4 percent higher for MRT. As noted above, IBO has revised its forecasts for 2016 upward in light of strong revenue collections in recent months. IBO projects higher employment and personal income growth than OMB in 2016 through 2018, and this contributes to our slightly higher forecasts in those years. In 2020, IBO's RPTT forecast is slightly below OMB's, while our MRT forecast is 3.4 percent higher.

Commercial Rent Tax

IBO's forecast for 2016 commercial rent tax (CRT) revenue is $786 million, 6.9 percent higher than the total collected in 2015. The intense activity in commercial real estate markets that has caused a surge in RPTT and MRT revenues is also a reflection of strong underlying demand for retail and—especially—office space that is leading to higher rents. For 2017, IBO projects slower CRT revenue growth of 3.6 percent to $814 million, as growth in office-using employment and average rents slows. IBO projects 3.8 percent growth in 2018, followed by 2.1 percent growth in 2019 and 2020. By 2020, revenue is forecast to reach $881 million, 19.9 percent more than in 2015.

The CRT is a tax imposed on tenants renting space for business, professional, or commercial purposes in much of Manhattan below 96th Street. Not-for-profit organizations, subtenants, tenants located in the World Trade Center area, and tenants located in the Commercial Revitalization Program abatement zone are all exempt from the tax, as are most retail tenants south of Chambers Street. Over time both the tax rate and the geographic area subject to the tax have been reduced. Currently, tenants whose annual gross rents are less than $250,000 are exempt from the tax, and a sliding tax credit is applied to tenants with annual or annualized rents between $250,000 and $300,000. For those tenants who are subject to the tax and whose annual or annualized rent is over $300,000, the effective tax rate is 3.9 percent of gross rent.

Annual CRT collections depend on the tax rate, rent levels, and the amount of rental space subject to the tax. Unlike the transfer taxes, CRT revenue has not experienced significant year-to-year fluctuations. Since the last rate reduction in 1999, CRT revenue has risen continuously, increasing slightly even in the aftermath of the financial crisis. Revenue growth of 7.0 percent in 2014 was the strongest since 2007. The projected slowdown in CRT growth after 2016 coincides with IBO's expectation of slower growth in rents, due to slower growth in office-using employment as well as considerable amounts of new office space becoming available. Much of this space is in areas of Manhattan that are exempt from the tax, such as the World Trade Center site. In addition, by expanding the overall supply of office space, these new developments will exert downward pressure on rents in areas that are subject to the CRT.

IBO's CRT forecast for 2016 is $16 million higher than OMB's, a difference of around 2.1 percent. IBO's 2017 and 2018 forecasts are 1.1 percent and 0.6 percent above OMB's, respectively, while our 2019 and 2020 forecasts are slightly lower.

Personal Income Tax

IBO forecasts $11.1 billion in personal income tax revenues this fiscal year (4.6 percent growth) and $11.4 billion in 2017 (2.5 percent). After 2017, PIT revenue growth is expected to pick up from the slower 2017 rate but remain modest, averaging 3.7 percent annually through 2020 when PIT revenue reaches $12.7 billion.

IBO has increased its forecast for 2016 revenue by $280 million from our December estimate. The upward revision largely reflects stronger-than-expected collections of quarterly estimated payments so far this year; these payments are made by taxpayers who are self-employed or anticipate realizing capital gains from the sale of financial and property assets. Projections of state/city offsets—an accounting adjustment that reconciles cash flows between the city and the state, which administers the city's PIT—and revenue from state-initiated audits also have increased. On the other hand, the forecast for withholding in 2016, which accounts for the majority of gross collections, has changed little, with IBO projecting 6.0 percent growth based on collections so far this year and the continuation of strong employment growth into 2016. One factor constraining PIT revenue growth this year is the minimal increase in collections during of the first three months of the bonus-paying season (December 2015 through February 2016) compared with the same period a year ago. This suggests that Wall Street bonuses, which are linked to firms' calendar year 2015 revenue, are somewhat lower than they were a year ago.

IBO has also raised its PIT forecast for 2017 since December, an increase of $245 million. Withholding collections are projected to grow by 7.8 percent based on our expectations of an uptick in average wages resulting from a tighter labor market and slower but still strong employment growth. However, withholding from bonus compensation is to remain flat, as rising interest rates cut into Wall Street profits and, as a result, next year's bonus pool. Overall growth in the 2017 PIT forecast will be further constrained by a projected 7.1 percent decline in quarterly estimated payments, based on our expectation of decreases in income from capital gains. Moreover, extension payments made by filers to delay the deadline for final returns past April 15th are projected to decline in 2017.

Estimated payments, which next to withholding are the second largest component of PIT receipts, are expected to resume growing in 2018, at an average annual rate of 2.8 percent through 2020. Projected withholding growth in this period averages 4.6 percent annually, though the rate of growth is expected to diminish each year as job growth tapers off. On balance, IBO forecasts PIT revenue of $11.7 billion, $12.1 billion, and $12.7 billion for 2018, 2019, and 2020, respectively—3.7 percent average annual growth over the three years.

IBO projects faster city income and employment growth than OMB during the forecast period, particularly in calendar year 2016. As a result, IBO's PIT forecast exceeds OMB's each year through 2020—by $85 million (0.8 percent) in the current year and $319 million (2.9 percent) in 2017, with similar differences in subsequent years. IBO's forecast of total PIT revenue in 2018 through 2020 is 2.5 percent higher than OMB's.

Business Income Taxes

In 2015, revenue from the city's business income taxes grew at 2.9 percent to exceed $6.0 billion for the first time since 2007. For 2016, IBO forecasts revenue growth at a relatively slower rate of 1.0 percent generating $62 million in additional revenue. Revenue growth is expected to accelerate to 3.3 percent in 2017, and then continue at an annual average rate of 3.2 percent in the subsequent years.

The city business tax reforms enacted in Albany last year essentially merged the current banking corporation tax (BCT) into the general corporation tax (GCT), effective retroactive to January 1, 2015. For liability year 2015 (for most taxpayers this corresponds to calendar year 2015) and beyond, banks' tax payments will be reported as GCT revenue. Thus, for the city's current fiscal year, IBO expects that most of the $1.2 billion revenue from banking corporations will be from liability years beginning in January 2015, and therefore would be included in the GCT; only a fraction—$316 million— is expected to accrue as BCT revenue as banks settle pre-reform liabilities for calendar years 2014 and earlier.

BCT and GCT receipts together totaled $4.1 billion in 2015, and IBO forecasts virtually the same level of collections for 2016, almost all of which will accrue as GCT revenue. The essentially flat revenue forecast reflects modest employment and earnings growth in calendar year 2015 across most business sectors and stagnant corporate profits compared with the prior year. Market turmoil due to the devaluation of the Chinese currency, uncertainty regarding the Federal Reserve's interest rate policy during much of 2015, the steep fall in oil and energy prices, and an overall global slowdown in the past calendar year, have all adversely affected both corporate profits and corporate investment.

IBO expects aggregate earnings to grow at a higher rate of 4.9 percent in 2016 as the labor market continues to tighten and unemployment remains low. Corporate profits are expected to expand at 6.3 percent in the current calendar year as markets stabilize and growth rates in global markets improve. IBO projects that in the upcoming fiscal year, GCT collections plus residual BCT receipts will grow 2.9 percent, reflecting the increase in expected earnings and market conditions that are more conducive for businesses. After 2017, IBO expects annual growth to average 2.7 percent through 2020.

Unincorporated business tax (UBT) revenue grew at 4.2 percent in 2015. IBO expects UBT revenue to grow 5.6 percent and exceed $2.0 billion for the first time in 2016. While improved earnings in the professional and business services sector continues to fuel the expansion in UBT in 2016, anticipation of weaker profits accruing to firms is expected to slow the pace of UBT expansion in 2017 to 1.0 percent. IBO expects UBT revenue to pick up starting in 2018 and grow at an average annual rate of 4.4 percent through 2020.

IBO's forecast for combined business income tax revenue is $133 million (2.2 percent) higher than OMB's in the current year—GCT accounts for $68 million of the difference and UBT accounts for $65 million. For 2017, IBO's forecast for the two taxes together is only $13 million higher than OMB's. For 2018, IBO's forecast of combined business tax revenue is $36 million less than OMB's, a difference of 0.6 percent. In 2019 and 2020, IBO's forecast of business tax revenue once again exceeds OMB's forecast by just over 1.0 percent each year ($69 million and $72 million, respectively).

General Sales Tax

Sales tax collections were strong in the first quarter of the fiscal year (July-September 2015), but have since become weaker. December through February net collections (excluding audit revenue) were up only 1.1 percent over the year before, pulling fiscal year-to-date growth down to 3.7 percent. IBO is forecasting 3.9 percent growth for the fiscal year as a whole, a pace that will bring total sales tax revenue to just under $7 billion for 2016. The slippage in sales tax collections growth over the last few months is consonant with the marked drop-off in retail trade employment in the latter half—and especially the last quarter—of calendar 2015.

IBO forecasts continued moderate sales tax revenue growth in 2017 (again 3.9 percent) and over the last three years of the financial plan (4.2 percent per year). However, we also project moderately rising inflation over much of the forecast period, enough so that in real dollar terms sales tax revenue growth slows after 2016. Adjusted for inflation, forecast sales tax revenue growth drops from 2.6 percent in 2016 to 2.0 percent in 2017 and averages 1.9 percent per year over 2018-2020. This is consistent with the tapering growth in New York City personal income and employment in IBO's economic forecast.

Revenue from sales tax audits is an unprecedented $245 million so far this year; more typically audits bring in $15 million to $20 million per year. This is due to a $239 million prior period adjustment stemming from a single, very large firm that had for five years mistakenly remitted all its payments as state sales taxes instead of splitting its payment between the state and the city.

Hotel Occupancy Tax

Hotel occupancy tax collections are up 1.2 percent through January, but our forecast calls for a decline of 1.6 percent, to $547 million, by the end of the fiscal year. Increases in international tourism have moderated, likely due to the strength of the dollar and weakness in the global economy. The supply of accommodations has also grown apace with the increase in visitors, with an growing share of new accommodations sited outside Manhattan. This has helped hold down room rates and dampen growth in hotel tax revenues.

IBO projects that hotel tax revenues will slip by another 1.5 percent in 2017, but then grow at an average of 3.4 percent per year over the remainder of the financial plan as the expected continuing growth in tourism catches up to the city's supply of accommodations.

Utility Tax

After falling 5.2 percent in 2015, utility tax collections in the current fiscal year are up 1.7 percent through January and we expect collections to end the year 0.7

percent higher ($387 million) for 2016 overall. The mild winter and sharp decline in gas and oil prices have been a boon for consumers but not for tax coffers. With oil prices stabilizing and expected to moderately recover over the next few years, IBO projects slightly stronger utility tax revenue growth in 2017 (2.6 percent) and over the remainder of the financial plan (an average of 3.4 percent per year in 2018-2020).

Other Revenues

The city's nontax revenues combine a variety of fees, fines, charges, asset sales, interest income, and other miscellaneous revenue, which are expected to total $5.7 billion this year, a drop of $1.2 billion from 2015. The primary explanation for the drop is that the 2015 total includes a one-time $1.0 billion transfer from the Health Insurance Stabilization fund, which was a product of the agreement between the city and the municipal labor committee on ways to help fund the current round of collective bargaining agreements. In February—after the budget was released—the Mayor's office announced that an additional $120 million would be transferred from the fund in order to help achieve planned health insurance savings targets. For 2017, the preliminary budget anticipates that the nontax city revenue sources will decrease slightly to $5.6 billion. Beginning in 2018 these revenue sources will resume growing, increasing by an average of 1.8 percent, annually, and reach $5.9 billion in 2020.

State, federal, and other categorical aid and interfund revenues are the remaining sources among nontax revenues. They are expected to total $23.4 billion this year, which includes $1.4 billion in anticipated Hurricane Sandy assistance from the federal government. The bulk of that money has been allocated through the federal government's Community Development Block Grant—Disaster Recovery process to help in the recovery and is scheduled to be spent this year, which largely accounts for the decline in this revenue category to $22.7 billion in 2017. After 2017, state, federal, and other categorical and interfund revenues are expected to resume growing, but at a very slow pace; annual growth is expected to average 0.5 percent in 2018 through 2020. By the last year of the financial plan, these grants are expected to total $23.0 billion.

Endnotes

[1]IBO's forecasts for individual taxes are reported net of refunds. For tax sources that generate audit revenue, our revenue forecasts exclude audit revenue for the individual taxes; instead total audits from all taxes are reported as a separate tax revenue source.

[2]For additional information about the structure of the city's real property tax, see IBO's *Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City.* The report provides an analysis of the increasing inequities and inefficiencies the city's property tax system has created over time. Through a historical lens, readers obtain a deeper appreciation and understanding of the arguments in favor and against property tax reform, which lawmakers frequently call for but rarely carry through.

[3]Based on empirical research, implementing a property tax levy limit could (1) reduce the city's fiscal autonomy by increasing reliance on intergovernmental aid; (2) prompt the city to increase user fees and other miscellaneous sources of nontax revenue; (3) increase existing tax rates for other tax revenue streams; and/or (4) result in the city facing greater borrowing costs. See for example: Augustine, N. Y., Bell, M. E., Brunori, D., & Youngman, J. M. (Eds.). (2009). *Erosion of the Property Tax Base: Trends, Causes, and Consequences*. Cambridge: Lincoln Institute of Land Policy; Johnson, C. L., & Kriz, K. A. (2005). "Fiscal institutions, credit ratings, and borrowing costs." *Public Budgeting & Finance*, 25(1), 84-103; Kousser, T., McCubbins, M. D., & Moule, E. (2008). "For whom the TEL tolls: can state tax and expenditure limits effectively reduce spending?" *State Politics & Policy Quarterly*, 8(4), 331-361; Sun, R. (2014). "Reevaluating the Effect of Tax and Expenditure Limitations: An Instrumental Variable Approach." *Public Finance Review*, 42(1), 92-116.

Expenditure Projections

IBO projects that total city spending—including spending funded by city, state, and federal revenue—will increase by $2.1 billion, from $83.1 billion this year to nearly $85.2 bill in fiscal year 2017 (all years in the Expenditure Projection section of this report refer to fiscal years unless otherwise noted). This projection is based on our re-estimate of the Mayor's budget and adjusts for the use of prior budget surpluses to prepay some 2017 expenditures. We estimate that spending will grow by an additional $2.2 billion in 2018 under the Mayor's financial plan and total $87.4 billion. In 2019, IBO anticipates spending will exceed $90 billion for the first time and then reach $93.1 billion in 2020. Over the five years of the financial plan, we estimate that total spending will grow at an average annual rate of 2.9 percent.

Looking just at city-funded expenditures and again adjusting for the use of prior surpluses, we project spending will grow from $59.7 billion in 2016 to $62.5 billion in 2017, an increase of $2.8 billion under the contours of the Mayor's budget plan. In 2018, we expect city-funded expenses will rise to $64.8 billion, an increase of an additional $2.3 billion. IBO anticipates that spending will reach $70.1 billion by 2020, an increase of $10.4 billion since 2016 and an average annual increase of 4.1 percent.

Just a few factors play a large role in driving the spending increases. One factor is the decision to add $600 million each year to the city's pension contribution for municipal employees, driven by actuarial changes such as estimates that retired city employees are living longer and therefore receiving pension payments for more years than previously assumed. Another key factor is the growing cost of debt service, which is expected to increase from $6.1 billion this to $8.1 billion in 2020 after adjusting for the use of prior surpluses to make prepayments. A third factor is the de Blasio Administration's decision to aid the public hospital system, including allowing the hospitals to forgo $337 million in payments it owes the city this year.

The following sections of this part of the report discuss some of the key spending issues in the preliminary budget and financial plan.

IBO Expenditure Projections
Dollars in millions

	2016	2017	2018	2019	2020	Average Change
Agency Expenditures	**$56,826**	**$56,524**	**$57,137**	**$57,767**	**$58,076**	**0.5%**
Fringe Benefits	9,297	9,805	10,346	11,014	11,762	6.1%
Labor Reserve	996	537	1,320	2,388	2,758	n/a
Total Agency Expenditures	**$67,119**	**$66,866**	**$68,803**	**$71,168**	**$72,596**	**2.0%**
Other Expenditures						
Debt Service	$4,994	$4,132	$7,098	$7,603	$8,149	7.5%*
Pensions	9,343	9,399	9,554	9,734	10,107	2.0%
Judgments and Claims	695	746	782	817	855	5.3%
General Reserve	300	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	500	-	-	-	n/a
Expenditure Adjustments	(440)	38	175	299	428	n/a
TOTAL EXPENDITURES	**$82,011**	**$82,682**	**$87,412**	**$90,621**	**$93,134**	**3.2%**

NOTES: *Represents the annual average change after adjusting for prepayments and debt defeasances. Expenditure adjustments include prior-year-payable, energy, lease, and nonlabor inflation adjustments. Figures may not add due to rounding.

New York City Independent Budget Office

Increase in Funding for Organics Program
Dollars in millions

	2014	2015	2016	2017	2018	2019	2020
Funds Added in Preliminary Budget	n.a.	n.a.	$7.5	$3.4	$1.2	$1.0	$1.0
Total Organics Program	**$6.0**	**$13.1**	**$16.9**	**$17.7**	**$17.2**	**$22.6**	**$23.0**

SOURCE: Fiscal Year 2017 Preliminary Budget and Financial Plan Through 2020
NOTES: Actual spending for 2014 and 2015, other years are projected.
New York City Independent Budget Office

Organics Recycling Pilot Program to Expand With Additional Funds

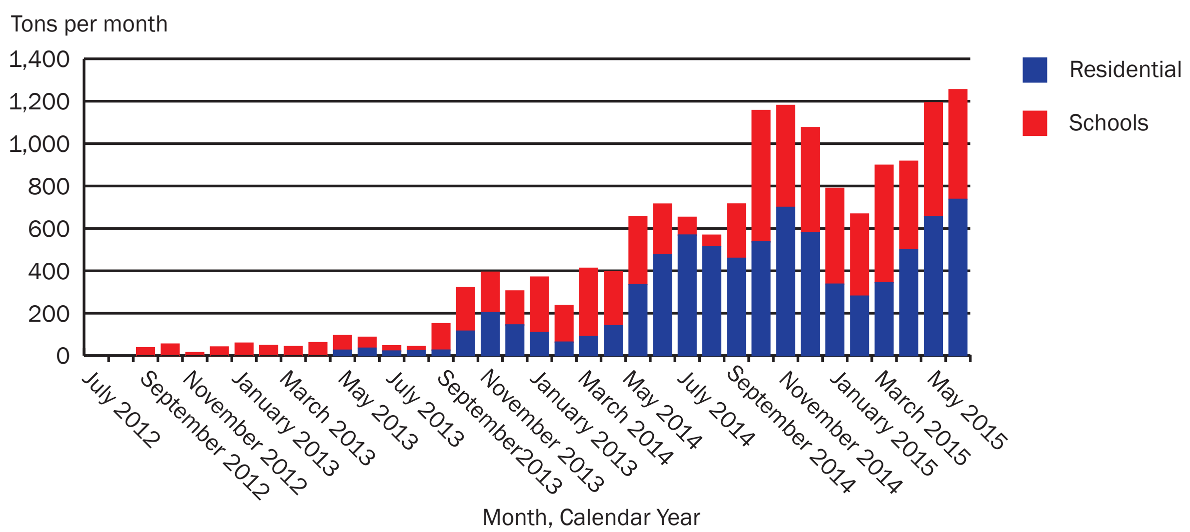
The de Blasio Administration's preliminary budget adds more than $14 million over the next five years to expand the city's organics curbside collection and continue the school organics program at its current level in future years. The additional funds follow another recent expansion of the curbside program announced last fall. The new funds bring the total amount budgeted for the pilot program to nearly $17 million in 2016, rising to $23 million in 2020.

With the new funding, the program is expected to serve a total of 600,000 households by the end of 2017 and continue to provide organics pickup at more than 40 percent of the city's public schools. The expansion of the organics program is part of the Department of Sanitation's (DSNY) effort to meet the de Blasio Administration's goal of offering curbside organics collection or convenient neighborhood drop-off to all residents by the end of 2018 and sending zero waste to landfills by 2030.

Organic waste comprises the largest share of New York City's total waste stream, at 1.3 million tons per year, or 44 percent of annual waste, according to the city's 2013 Waste Characterization Study. It is by far the largest category of waste that is currently ineligible for curbside recycling in much of the city. Other large material categories, such as paper, glass, and plastic, are partially diverted from landfills by existing recycling programs. In fact, organic waste currently comprises over half the refuse stream, which is entirely exported to landfills or waste-to-energy plants.

Household & School Composting Increases. In order to increase the city's diversion rates, in May 2013 the Department of Sanitation initiated a voluntary, residential curbside organics program in certain sanitation districts to collect and compost the two largest components of organic waste, food and yard waste, which together make up about 24 percent of the city's total waste stream. The residential collection pilot program began with 3,500 households in Staten Island and expanded to approximately 150,000 households in neighborhoods in all boroughs except Manhattan by the end of 2015.

Growth of the New York City Organics Collection Program, Fiscal Years 2013-2015



SOURCES: IBO analysis of Department of Sanitation data
New York City Independent Budget Office

This fall, DSNY further expanded the program, adding more than 50,000 new households from Brooklyn Community District 6 and Queens Community District 10, bringing the total number of households in the program to over 200,000. With the funds added in the preliminary budget, DSNY plans to reach an additional 380,000 households by the end of 2017, making the program available to over 600,000 households or about 1 million New Yorkers. It is not yet clear to which districts the program will expand, but the program will continue to be voluntary and will build on education and outreach initiatives from previous expansions.

In addition to the residential collection program, in 2011 and 2012 parent/teacher associations started organics recycling programs in four public schools, which expanded to 90 in 2013. Following their lead, DSNY partnered with the Department of Education to expand schools organics collection. The schools program now serves 40 percent of the city's traditional public schools, plus 28 charter schools and 69 private schools, with the goal of making organics recycling standard at all schools across the city. Included in the funds added to the preliminary budget are allocations to continue additional truck shifts to pick up school organic waste: $351,000 in 2017, rising to $478,000 in 2020. Additional shifts had previously been budgeted for 2016, but had not yet been added in the out-years of the financial plan.

The tonnage of organic waste collected has grown significantly over the past two years as the program has expanded. In 2014, the first full year of operation, DSNY collected a total of 4,046 tons of organic waste (1,750 tons residential and 2,296 tons school waste), which grew to a total of 11,066 tons in 2015 (6,212 tons of residential and 4,854 tons of school waste). In general, tonnage collected has increased steadily since the program launched; but there is some seasonality in the data with dips in residential curbside collection in the winter months when there is less yard waste, and declines in school collection in the summer months.

Contamination Rates & Processing Capacity. Despite the growth of the pilot organics program, DSNY still faces challenges before a mandatory program can be rolled out citywide. Because the program is currently operating on a voluntary basis and only households that want to recycle participate, contamination rates—the extent to which non-organics such as plastic bags are included in the collections—have been quite low, at around 5 percent, according to DSNY. If all households in the city were required to participate, the contamination rate would likely be higher, making it difficult to efficiently process the organic material.

As part of the pilot, DSNY plans to continue to work on educating residents and schools on properly separating organics and is studying alternatives such as compostable bags to hold the waste. Additionally, processing capacity will need to be significantly expanded to handle the waste organic material that a mandatory, citywide program could potentially generate. Currently, there is insufficient processing capacity near New York City, but DSNY has proposed expanding its Staten Island Compost Facility and is cooperating with the city's Department of Environmental Protection on a pilot program at the Newtown Creek Wastewater Treatment Plant in Brooklyn to add food waste to the plant's anaerobic digesters. The program currently accepts a few tons of food waste per day, but the Department of Environmental Protection plans to expand the program with a goal of accepting 250 tons per day by 2018.

Funding Pledges Made by the City and State to the Metropolitan Transportation Authority, but Uncertainties Persist

Legislation included with the Governor's executive budget commits the state and city to fund the Metropolitan Transportation Authority's (MTA) 2015-2019 capital program at unprecedented levels compared with past programs: $10.8 billion in total, of which $8.3 billion would come from the state and $2.5 billion from the city. The legislation would codify an agreement the city and state made last October to fill a funding gap in the MTA's still unapproved $26.1 billion capital program, although so far only $1 billion of the state's promised contribution and $657 million of the city's promised contribution have actually been budgeted. These amounts were added to the state and city spending plans last year, before the October agreement.

Instead of appropriating the remaining funds, the MTA Capital Financing Act of 2016, included with the Governor's executive budget in January, commits the state to provide the remaining $7.3 billion of its share only after the MTA's own capital resources are exhausted, *or at the latest by state fiscal year 2025-*

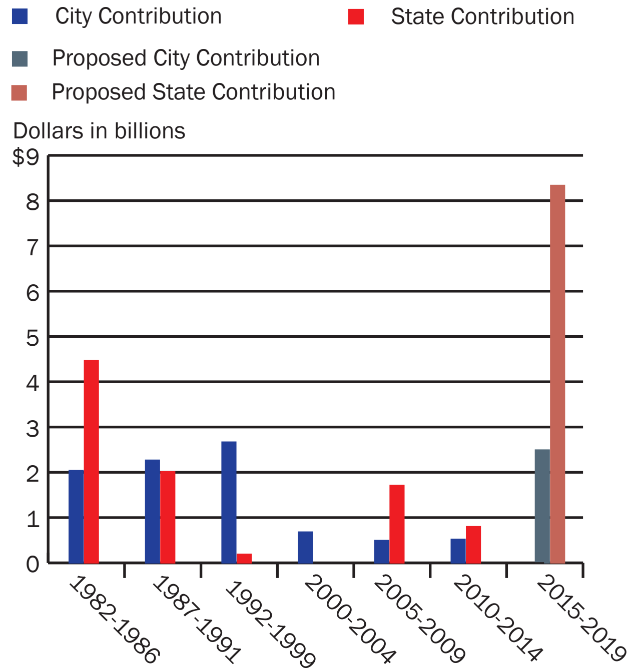
2026, or "by the completion of the capital program," which could conceivably be even later. (As IBO has documented, MTA capital spending often extends far beyond the end of the formal program period). The de Blasio Administration's preliminary budget, released a week after the Governor's proposed budget, did not include the city's $1.8 billion remaining contribution. However, when the city and state agreed to fill the MTA's funding gap in October, one of the terms was that they would provide funds on the same schedule, making it likely that the city's contribution will also be pushed out in conjunction with the state's piece.[1] In addition to the still ambiguous spending timeline, both the city and the state have yet to specify exactly how they will actually pay for the remaining $9.1 billion contributions they have committed to.

A Record Level of Commitments. In October the Mayor and the Governor reached an agreement to fill a more than $10 billion hole in the MTA's 2015-2019 capital program. The agreement, which came 10 months after the program was scheduled to begin, contained record commitments by both the state and the city, particularly by the state. The $8.3 billion total in direct aid from the state proposed for the 2015-2019 program exceeds the state's inflation-adjusted contribution to any prior MTA capital program. In constant 2015 dollars, the state gave just under $4.5 billion in direct support to the 1982-1986 program, the MTA's first five-year capital program. Direct state contributions were much lower for subsequent programs, including less than $200 million total for 1992-1999, no funding for 2000-2004, and around $800 million for the most recent 2010-2014 program.[2]

The proposed $2.5 billion city contribution to the MTA's 2015-2019 capital program is also considerably higher than the levels of support the city has provided in recent years: measured in 2015 dollars, city support was about $680 million for the 2000-2004 program, and roughly $500 million for 2005-2009 and 2010-2014. However, the amount proposed for 2015-2019 is similar to contributions the city made to the 1982-1986 program ($2.0 billion in constant 2015 dollars), the 1987-1991 program ($2.3 billion), and the significantly longer 1992-1999 program ($2.7 billion).

According to the deal reached between the city and state in October, each agreed to fund the MTA's capital plan on "the same schedule on a proportionate basis" with the expectation that the schedule, along with the sources of funds for the city and state's contributions, would be outlined in the Mayor's and Governor's respective budgets. But both the Governor's and Mayor's budget largely lack these specifics.

Proposed State Aid to the 2015-2019 Capital Plan Is Much Higher than in Past Plans. Proposed City Aid is Similar to the 1982-1986, 1987-1991, and 1992-1992 Plans.



SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Values for the capital plans through 2014 are in constant 2015 dollars. Proposed contributions for the 2015-2019 are in nominal dollars (i.e., not adjusted for inflation).
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Proposed State Budget. According to the Governor's proposed budget legislation, $7.3 billion in state aid for the MTA 2015-2019 capital program will be made available only after all of MTA's other capital resources are exhausted or are otherwise unavailable. (The first $1 billion of the state's $8.3 billion contribution was appropriated as part of the Fiscal Year 2015-2016 New York State Budget.) Given the MTA's other resources such as revenue-backed bonds and federal aid, plus the fact that MTA capital spending associated with a particular capital program usually extends well beyond the formal plan period, the state would not have to appropriate additional money for several years, quite possibly not until after a new capital program period begins in 2020. According to the legislation, however, the state must provide the MTA with the total $7.3 billion no later than state fiscal year 2025-2026 *or* by the completion of the capital program. While most of the work from the 2015-2019 capital plan will likely have been completed by state fiscal year 2025-2026, some projects may still be underway. This could give the state a justification for delaying some aid payments even further into the future.

The legislation "anticipates," but does not require, that specific amounts of state aid be disbursed over a multiyear period after the MTA's resources are exhausted: $1.5 billion in the first year, $2.6 billion in the second, $1.8 billion in the third, and $1.4 billion in the fourth year. At the same time, the legislation leaves it up to the state budget director to annually determine the level of funding required to meet the state's commitment and recommend such amounts for inclusion in the executive budget. In the event the state's disbursements are not enough for the MTA to meet its capital expenses in any given year, the MTA may, with the approval of the state budget director, issue revenue anticipation notes or other obligations secured by future state aid.

The budget legislation does not specify the sources the state will use to provide this financing. In the recent past the state has funded its direct contribution to the MTA capital plan through proceeds from general revenue bonds, including bonds authorized under the Transportation Bond Act of 2005. Going forward, the MTA could use a combination of bond proceeds and direct cash appropriations ("pay as you go") to provide this support. Alternatively, according to the budget legislation, the state may fund the capital costs "through financing mechanisms undertaken by the MTA." In other words, the MTA would issue debt, and the state would pay it off. New York State could use a mechanism similar to the so-called "service contract" it employed with the MTA until the early 2000s. Under this arrangement, the MTA issued bonds whose debt service was paid through annual appropriations by the state. The requirement that the state give "additional funds sufficient for MTA to pay" $7.3 billion in capital costs implies that any use of debt financing would obligate the state to provide $7.3 billion to the MTA and pay any additional interest costs.

City Funds Outstanding. No additional funds were added in the Mayor's January 2016 preliminary budget to pay for the city's contribution to the MTA's 2015-2019 capital program. Of the $2.5 billion the city has agreed to finance, $657 million was included in the city's capital budget last May. The de Blasio Administration maintains that it is committed to providing the additional $1.8 billion in funding, but has yet to budget the funds because the state board that oversees the MTA has yet to approve the capital program and because it is waiting on the details of the state's contribution. As previously mentioned, according to the city and state's agreement, the city and state payments are to be made on the same schedule. Given the state budget language, it seems likely then that city's contribution would also then be delayed until after the MTA's other resources are exhausted.

Without the additional funds budgeted, it is still unclear exactly how the city will pay for the remaining $1.8 billion. According to the city and state's agreement, the city is contributing $1.2 billion from direct city sources—presumably the city's capital budget, which has historically been the source for the city's MTA capital contributions. The remaining $600 million would be funded through sources other than city tax revenues. These alternative sources might include the sales and/or redevelopment of property used by the MTA but owned by the city.

Possible Implications. It is still unclear what, if any, impact the timing of the state and city contributions and the current lack of information on funding sources for those contributions will have on the MTA's ability to complete its capital program. While there is agreement on the total amount of funding, the requirement that the MTA first exhaust other resources, plus the fact that once those resources are exhausted the disbursement schedule for the state aid is suggested rather than legally mandated, means that the MTA could experience delays in obtaining needed funds. In the case that state aid were not forthcoming in a timely manner and the MTA were forced to issue revenue anticipation notes, obtaining approval from the state budget director and formally issuing the notes would add to the delays. Some federal capital aid for transit carries with it a local matching component. In the case of the MTA, part of the match is typically covered by New York State. Delays in state aid could affect the timing and progress of specific capital projects subject to this matching requirement, although other MTA revenues, including proceeds from the revenue anticipation notes, potentially could be used to meet the match requirement.

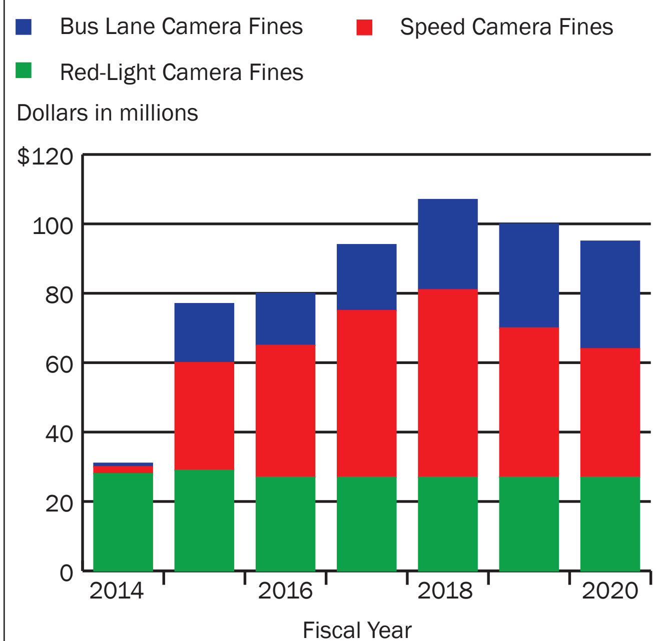
While the legislation establishes a level of city and state aid considerably above the historical average, it then stipulates at the outset that the payments will be delayed, most likely until after the 2015-2019 plan period is over. This maneuver almost certainly guarantees that difficult decisions regarding how to increase city and state funding to the MTA in the context of other budget priorities will be postponed until after the mayoral election of 2017 and the state elections of 2018. In addition, if the MTA receives the bulk of the promised aid after the new plan period begins in 2020, there is a danger that the city and state might forgo making a contribution to the 2020-2024 program, with the argument that they are already providing substantial—albeit delayed—support to the MTA.

Transportation Funds Added for Vision Zero, Traffic Enforcement Cameras

The de Blasio Administration added more than $150 million to the Department of Transportation's (DOT) preliminary capital and expense budgets for traffic safety projects over the next several years as part of its Vision Zero initiative, the Mayor's program to eliminate traffic deaths on city streets. The funds are budgeted to pay for various street reconstruction projects ($115 million), as well as new speed and red-light enforcement cameras ($35 million). Although not part of the Vision Zero program, an additional $27 million (including both capital and expense funds) was added to pay for new bus lane enforcement cameras.

The Mayor added $115 million in new capital funds over the next four years to pay for street redesign and reconstruction projects as part of his Vision Zero program. (All years refer to fiscal unless otherwise noted.) The new funds are to be split among several initiatives. The largest portion ($59 million) is expected to pay for the expansion of the Safe Routes to Schools program, which provides safety improvements such as curb realignment, the installation of raised medians, and speed bumps, to 37 schools around the city. Another $30 million is planned for street improvements in Long Island City. Just over $4 million was added for the Brooklyn Waterfront Greenway project, a 14-mile pedestrian walkway to connect Greenpoint to Bay Ridge. The remaining $22 million in new funds will be split between projects on Tillary Street in Downtown Brooklyn, 25th Street Plaza in Manhattan, Allen and Pike Street Pedestrian Malls in Manhattan, Mott Avenue in Far Rockaway, and North Flatbush Avenue in Brooklyn.

Increased Fine Revenue From Traffic Enforcement Cameras Expected to Gradually Abate



SOURCE: Fiscal Year 2017 Preliminary Budget and Financial Plan Through 2020
NOTE: All years are as budgeted except for 2014 and 2015, which are actuals.
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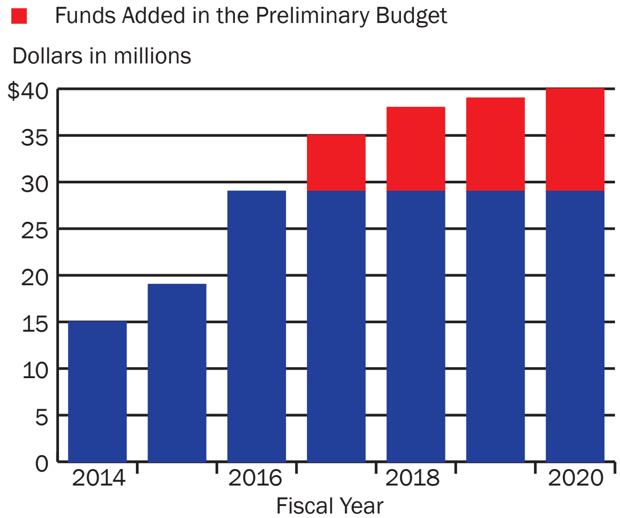
Along with the increased funds budgeted for street reconstruction, the de Blasio Administration has added a total of $62 million to phase in the installation and operation of 215 new traffic enforcement cameras over the next five years. This includes both $26 million in capital financing to pay for the hardware and $36 million in expense budget funds to pay for operation and maintenance. Of the total funds added for 2016 through 2020, $33 million are budgeted for 100 new speed cameras and $2 million for 15 new red-light cameras, both of which are key aspects of the Vision Zero program. The remaining $27 million has been budgeted for 100 new bus-lane cameras.

The 100 new speed cameras will nearly double the number of speed cameras currently in place, bringing the total to 240. State legislation passed in June 2013 first allowed the city to place speed cameras in 20 school zones. In May 2014, the state approved the addition of another 120 zones. While no additional *locations* have been approved, the city's new 100 cameras will face in the opposite direction of existing cameras in school zones. Of

Mayor Increases Expense Budget Funding For Traffic Enforcement Cameras



SOURCE: Fiscal Year 2017 Preliminary Budget and Financial Plan Through 2020
NOTES: All years are as budgeted except 2014 and 2015, which are actuals. Totals include funds for speed, red-light, and bus lane cameras.
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the $33 million added for speed cameras, $11 million are capital funds for equipment purchases in 2016. Operating and maintenance costs, which are paid out of the city's expense budget, will begin at $400,000 in 2016 and grow to $5.8 million in 2018 after all the speed cameras are added. The $2 million in funds added for red-light cameras are all in the city's capital budget, with no new funds added for operation and maintenance.

The 100 new bus cameras, which are meant to keep other vehicles out of exclusive bus lanes, are in addition to the 43 currently in place. The new bus lane cameras, whose numbers are also controlled by the state, will be added along 10 routes which DOT has yet to determine. Of the $27 million cost, nearly $13 million is budgeted for equipment purchases, with $5.1 million planned for 2016 and $7.6 million in 2017. The rollout of the bus cameras is expected to be slower than for the speed cameras, with just $84,000 budgeted for operation and maintenance in 2016 increasing to $5.2 million by 2020.

Overall, operation and maintenance expenses for traffic enforcement cameras (including speed, red-light, and bus cameras) has grown dramatically since the Mayor launched Vision Zero, rising from $15 million in 2014 to a budgeted $30 million in 2016 and projected to reach $40 million in 2020, with most of the increase in 2016 due to the 140 speed cameras added in previous financial plans.

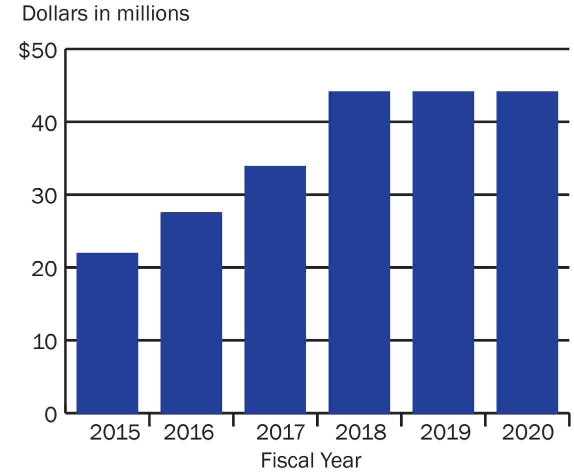
While the primary policy purpose of traffic cameras is to discourage dangerous and illegal behavior, they also provide the city with revenue through fines. As the new speed and bus cameras are phased in, the de Blasio Administration expects revenue from tickets to increase each year through 2018. De Blasio Administration officials hope and expect that drivers will gradually change their behavior in response to the fines, and as a result the additional city revenue is expected to slowly decline. The Mayor now projects the city will receive $80 million in revenue from traffic enforcement cameras in 2016, $2.8 million more than previously budgeted. At its peak in 2018, the Mayor's budget office expects to receive just under $107 million in revenue from traffic enforcement cameras, nearly $44 million more than previously planned. This is a significant increase over the $31 million in revenue received in 2014 before the prior rounds of bus lane and speed cameras were fully implemented.

Housing and Buildings Departments Coordinate to Provide Elevator Repairs In Buildings With Repeat Violations

Elevators are a feature of everyday life for many city residents, but until the passage of Local Law 101 this past October, the city was limited in its ability to step in and make repairs in buildings with repeated, serious elevator violations. Local Law 101 allows for coordination between the Department of Buildings (DOB), which oversees elevator inspections, and the Department of Housing Preservation and Development (HPD), which makes emergency repairs to correct the city's most serious housing code violations. To pay for the changes made by the law, $7 million was added to the Mayor's preliminary budget for HPD to make emergency repairs on residential elevators.

DOB oversees the inspection of elevators in city buildings, including residential buildings. It issues notices of violation and imposes fines on building owners when violations are found. If repairs are not made after multiple inspections, however, the only recourse available to DOB has been to issue further violations and increase fines, which for immediately hazardous elevator issues start at $1,000 and rise as

Total Spending on Emergency Repair Program Increases Through 2018



SOURCE: Fiscal Year 2017 Preliminary Budget and Financial Plan Through 2020
NOTE: Costs reflect the projected amount except for 2015, which is actual cost.
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high as $25,000 for repeat violations. Issues such as elevator doors not closing properly or inadequate safety mechanisms are considered immediately hazardous.

While DOB has been limited in its ability to ensure elevator repairs are made in a timely manner, the city is able to use its Emergency Repair Program, administered through HPD, to rectify other emergency situations in privately owned, residential housing that are deemed "dangerous to human life and safety or detrimental to health." Through the program, if a landlord fails to correct these housing code violations, the city will make the repairs (or contract out the work) and bill the owner for the cost of the repair and administrative fees. Emergency situations traditionally have been issues such as lead paint hazards, water leaks, or no hot water.

Local Law 101 allows DOB to refer buildings with repeat immediately hazardous elevator violations that are not being corrected by the building owner to HPD to be remedied through the Emergency Repair Program. The specific circumstances that merit such a referral, such as the scope of the repair, the age of the elevator, and the amount of time a violation remains unaddressed, are left to DOB's discretion. Referrals are limited to residential buildings with three or more units where residents are not served by another elevator in the building, and Local Law 101 provides exemptions for convents and rectories, and elevators that only service an owner-occupied unit.

Local Law 101 will take effect at the start of fiscal year 2017. The Mayor added $7 million in new funds to HPD's 2017 budget for five staff positions, including elevator inspectors and construction project managers, and to cover the cost of elevator repairs. The increase in funds brings the total Emergency Repair Program budget to $34 million in 2017. No additional funds for elevator repairs were added to HPD's budget beyond 2017, but beginning in 2018 the budget for the entire repair program is already scheduled to rise to $44 million a year. Given uncertainty over how many referrals HPD will receive for elevator repairs and variation from one year to the next in the volume and the type of emergency repairs that are required, the current budget for the repair program in 2018 and beyond may be sufficient to cover the additional expense of adding elevator repairs to the program.

While the changes made in Local Law 101 may help ensure that serious elevator problems are rectified, it does not guarantee that the city will necessarily be repaid for its work. The charge and any interest that accrues while the bill is outstanding becomes a lien placed against the property. Despite the liens, the city does not immediately collect on the cost of its emergency repairs. As of February 2016, the city has collected a total of only 37 percent of the amount billed to building owners in 2015 (including interest) for emergency repairs. Eventually most delinquent emergency repair charges are ultimately paid in subsequent years; for example as of February 2016, 87 percent of the charges issued for 2011 emergency repairs have been collected.

More Officers as Planned, But Promised Civilianization of Police Force Has Stalled

The budget for this fiscal year, adopted last June, included funding to allow the New York Police Department (NYPD) to hire an additional 1,297 police officers as well as 415 full-time civilian personnel (not police officers) over the course of the year. Hiring 415 additional civilians in fiscal year 2016—an increase of 2.8 percent—would enable the department to redeploy an equal number of police officers who have been performing administrative or support functions to direct law enforcement activities.

Although the policy is frequently questioned, the NYPD has long assigned full-duty police officers to positions that the department itself concedes are civilianizable,

More Police Officers, Fewer Civilians					
	June 2013	June 2014	June 2015	December 2015	Change (June-December 2015)
NYPD Full-Time Staffing					
Uniformed Personnel	34,804	34,440	34,618	35,410	+792
Civilian Personnel	14,204	14,512	14,535	14,486	-49
Full-Duty Uniformed Personnel in Civilianizable Positions	665	739	600	593	-7

SOURCES: Mayor's Office of Managment and Budget; New York City Police Department
NOTES: Staffing figures reflect actual staffing as of last day of given month. Uniformed personnel includes police officers and all other police personnel of higher rank.

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meaning the work does not require a trained police officer but could instead be performed by a civilian. Over the course of the 2015 fiscal year, the NYPD made progress in reducing the number of full-duty officers in civilianizable positions from 739 to 600. Aside from these full-duty police officers working in support positions rather than direct law enforcement, the NYPD also uses officers who are on restricted, limited, or modified duty to perform administrative and support tasks. The initiative in last spring's budget was not aimed at these other categories of officers.

During the first half of the current fiscal year NYPD police officer staffing increased as planned with the hiring of new classes of recruits to the Police Academy, but progress along the civilianization front seems to have stalled. While the number of police officers on the force increased by about 800 from June through December of 2015, the number of full-time civilian staff actually declined by 49 (0.3 percent).

With a net loss in full-time civilian staffing, the NYPD—not surprisingly—reported very little change (from 600 to 593) over the same six-month period in the number of full-duty police officers working in positions that could instead be performed by civilian personnel. (The NYPD is required to report quarterly on civilianizable positions under legislation enacted in 2001.)

With civilian hiring stalled, expenditures for full-time civilian staffing are on pace to be significantly less than budgeted for the current year. More specifically, spending on salaries for full-time civilian personnel averaged $51 million per month over the course of the first seven months of the current fiscal year (July 2015 through January 2016). This rate of spending projected over the course of the entire year would translate into total spending of about $612 million, or $76 million less than the $688 million budgeted as of January 2016.

Funding Added to Increase Security at Close to Home Juvenile Placement Facilities

The preliminary budget added funding to the Administration for Children's Services' (ACS) budget for monitoring of the Close to Home (CTH) juvenile justice initiative, with most of the new resources used to hire 35 new staffers as the program added facilities for youth who pose a somewhat greater risk to public safety. Under the CTH initiative, which launched in 2013, most New York City youth who are adjudicated as juvenile delinquents and found to require confinement under ACS's custody are placed in group residential facilities in or right outside the city. Prior to the launch of CTH, juvenile delinquents needing placement were housed upstate under the custody of the state Office of Children and Family Services (OCFS).

Under CTH, new nonsecure facilities for juveniles deemed to pose the lowest risk to public safety opened in and around the city beginning in September 2012. These facilities accepted both youth newly adjudicated as juvenile delinquents and youth who had previously been assigned to nonsecure facilities upstate who were now transferred to facilities closer to home; these transfers were completed in spring 2013.

Close to Home also includes youth who had been found to pose a somewhat higher risk and therefore require more secure residences known as "limited-secure facilities." New limited-secure facilities were originally scheduled to open in the city a few months after the nonsecure facilities, but they did not actually begin accepting juveniles until December 2015. Juvenile offenders, who have committed more serious offenses than juvenile delinquents, and juvenile delinquents who pose the greatest risk to public safety are still placed in secure settings in state custody and are not part of the Close to Home population.

Administration for Children's Services Spending on Juvenile Residential Placements
Dollars in thousands

	Contracted Organizations								
	Nonsecure Placement*	Limited-Secure Placement*	Total	Personal Services	Other	Close to Home Subtotal	Payments to Office of Children and Family Services**	Aftercare†	Total Spending on Placements
2012	-	-	-	-	-	**-**	$69,989‡	$257	**$70,246**
2013	$44,007	-	$44,007	$2,276	$17	**$46,301**	61,537	257	**$108,096**
2014	48,042	$3,615	51,656	4,955	4	**56,615**	64,246	-	**$120,861**
2015	50,485	29,351	79,836	5,059	3,804	**88,700**	51,062	-	**$139,762**
2016	49,418	23,936	73,355	7,300	6,784	**87,438**	37,458	-	**$124,896**
2017	49,419	27,340	76,759	8,890	4,962	**90,611**	40,768	-	**$131,379**

SOURCES: Mayor's Office of Management and Budget; Financial Management System; Administration for Children's Services
NOTES: *Includes aftercare. **Estimated accruals pending receipt of final bills from the Office of Children and Family Services. †Close to Home aftercare services began in 2014. These figures are for aftercare provided to youth returning from placement with the Office of Children and Family Services. ‡Excludes a $29 million retroactive charge from the state for 2002-2007 placements.
Actual spending through 2015 and projected spending in 2016 and 2017. This table includes only the direct costs of placements and excludes spending on overhead administrative costs that may also support other ACS program areas. The "other" category includes intra-city payments, supplies, equipment, payments to special education facilities ($1 million in 2015 only), and other miscellaneous spending.
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The added funding in the preliminary budget for CTH—$4.0 million in 2017 and $3.6 million in later years—primarily provides for 35 new staff members, who will conduct or support more frequent site visits to the placement facilities. The main goal of these site visits is to monitor operation of the facilities, emphasizing actions to prevent juveniles from leaving the facilities without permission.[3]

Although the number of youth in nonsecure placement has been declining ever since CTH began, reported costs for this type of placement have risen from $44 million in 2013 to nearly $51 million in 2015. The combination of rising costs for nonsecure placements and the recent introduction of limited-secure placements have driven increases in total ACS spending on juvenile residential placements. However, it is unclear exactly how much actual costs have risen. The amounts that ACS has currently budgeted for payments to OCFS for New York City youth still in state custody since 2012 are only estimates that do not reflect the shift of many youth to facilities in the city, and therefore will likely change when the city receives final bills from OCFS.

Placements and Aftercare. Close to Home sites are run by nonprofit organizations that contract with ACS to provide placements, which include oversight of the youth as well as services such as coordination of education and medical treatment, arts and cultural activities, and social work and case management.[4]

Once they exit placement, youth enter aftercare programs, also run by nonprofit contractors. Aftercare provides the youths and their families intensive supports designed to foster a successful transition back into the community.

Admissions of juvenile delinquents to placement facilities had been decreasing for several years before the CTH initiative began, due both to declines in juvenile arrests and to increases in the use of alternative-to-placement programs by the city, trends that have continued in the years since. During the first year of the program, from September 2012 through June 2013, a total of 456 juveniles were admitted into CTH nonsecure placement, including 147 youth who were transferred from state custody. Placements decreased to 348 in 2014 and 258 in 2015. So far in the current fiscal year, intakes are on track to be even lower: by December 2015, only 103 juveniles had been admitted, compared with 137 by December 2014 during the prior fiscal year.

As a result of the decline in intakes, the average daily population in placement for each year has also been decreasing. In 2014, the first full year of nonsecure placement, the average daily population was 195. In 2015, it was 176, and thus far in 2016, the daily average population has been 150.

In contrast, the average daily population in nonsecure aftercare rose from 93 in 2014 to 122 in 2015 and 130 thus far in 2016. The average daily population may be on track to decrease soon, however, as there were only 67 releases to aftercare in the first four months of this fiscal year, compared with 87 releases in the first four months of 2015. This decline in releases to aftercare is to be expected considering the decline in youth in placement.

Since limited-secure placement under CTH just began in December 2015, it is too soon to look at placement and aftercare trends for this group of youth. The population of youth in limited-secure placements is considerably smaller than the nonsecure population; as of September 2015, there were only 37 New York City youth in limited-secure state custody.

Spending Expected to Double. The bulk of CTH spending is on services provided by the contracted placement facilities and aftercare organizations and on construction, maintenance, and repair of facilities. For placement services, ACS pays each contracted organization a set allocation per year based on its capacity, rather than paying based on actual use. Therefore, spending on placement services does not decrease as the number of youth in placement declines.

Spending on nonsecure placement and aftercare increased from $44 million in 2013 to $48 million in 2014. An increase was to be expected, since nonsecure placement did not begin until part way through fiscal year 2013. Additionally, Close to Home nonsecure aftercare did not begin until 2014. Spending then increased to roughly $51 million in 2015, possibly reflecting the increase in the aftercare population. Spending on nonsecure placement and aftercare is currently projected to decrease by a little over $1 million to $49 million in 2016 and remain at that level in 2017.

Even though limited-secure placement facilities did not open until December 2015, ACS still spent $3.6 million on this type of placement in 2014 and $29 million in 2015, due to startup and construction costs.[5] Since limited-secure placement requires more restrictive settings, these facilities needed more work before opening than nonsecure facilities did. With the facilities completed, 2016 spending is projected to drop to $24 million. Spending is then projected to increase to $27 million in 2017 because this will be the first full year of limited-secure placement and aftercare services.

When ACS administrative and other miscellaneous costs are included, overall spending on Close to Home is projected to nearly double between 2013 and 2017, from $46 million to $91 million. However, the increase in spending on Close to Home could be offset somewhat by decreasing payments to the state as the number of city youth in OCFS facilities decreases.

The state determines the per diem rate for each locality by dividing the cost of operating all juvenile placement facilities throughout New York by the number of care days used by that locality. The locality pays 50 percent of this rate. Because the rate is based on total system costs, the city's payments to OCFS remained flat or increased even as placements fell for several years before the start of the Close to Home program. This happened because placements from other localities were also declining. Payments to the state would decrease only if New York City reduced its proportional representation of juveniles in placement or if OCFS reduced its system costs. Many observers expected Close to Home to accomplish both goals, since New York City would be the only locality removing its nonsecure and limited-secure populations from state custody, and the initiative would also allow the state to close several facilities that had been housing New York City youth, thus reducing OCFS's costs.

Unfortunately, it is not yet clear how much the city's payments to OCFS will decrease as a result of the CTH initiative. The most recent calendar year for which the state has set a final per diem rate for the city is 2011. From 2012 onward the city budget has included accruals based on estimates of what OCFS will ultimately charge for using their facilities. Since OCFS's rate is based on statewide factors that are not in the city's control, the city has chosen to make conservative estimates. Based on these estimates, city payments to OCFS will decrease from $70 million in 2012, the year before Close to Home, to $41 million in 2017, a decline of about $29 million. If these estimates turn out to be accurate, the reduction in payments would offset only about a third of the cost of Close to Home in 2017.

Funding Sources and Future Changes. While it is likely that the Close to Home initiative has increased city spending for juvenile placements, some of the new costs have been offset by state and federal funding. In 2013 and 2014, the state provided $11 million and $12 million, respectively, in CTH block grants, and since 2015 about $30 million per year. The federal government's share of CTH funding has risen from $4.6 million in 2013 to just under $8 million in 2017.

Governor Cuomo's Executive Budget for 2016-2017 included a proposal to raise the age of juvenile jurisdiction for all but the most serious offenses from 16 to 18 by 2019. If the legislation passes, many 16- and 17-year olds who were previously tried in adult criminal court would enter the juvenile justice system. It is unclear to what extent this proposal would affect ACS's placement costs and whether the funding provided in the state's executive budget for costs associated with the proposal would be sufficient. It is also unclear what its chances of passage are, since the Governor included the same proposal in last year's budget but the legislation did not pass.

In addition, the state legislation authorizing Close to Home expires in 2018, giving the state, which oversees ACS's administration of the initiative, a potential opportunity to revisit the program's funding and structure.

Homeless Shelter Spending Increased to Record High This Year, Yet Next Year Remains Underfunded

Given the record high homeless shelter census, the de Blasio Administration increased spending for the Department of Homeless Services (DHS) in the preliminary budget, adding funds for adult shelter capacity in 2016, as well as a number of new, multiyear initiatives aimed at improving shelter programming, living conditions, and safety.

While the de Blasio Administration added funds for shelter capacity this year, it cut funding for DHS shelter beds beginning in 2017—which were already budgeted well below current levels—under the assumption that expanded access to rental subsidies and new supportive housing units would reduce the shelter census next year. IBO estimates that despite these initiatives, the shelter population in 2017 will be higher than the city projects and that additional funding will be necessary to cover the cost of operating homeless shelters in 2017 and beyond.

Shelter Costs Grow, Population Remains High. The homeless shelter population remains stubbornly high. In February, an average of 27,500 households, 14,500 families and 13,000 single adults, were in shelter each night. While the number of families in shelter hovers around the same level as last year, the single adult shelter population has increased by 11 percent compared with a year ago—its highest level yet. This is despite the de Blasio Administration's efforts to reduce the adult and family shelter populations by expanding rental subsidies to both prevent households from entering shelter and to help households in shelter exit to permanent housing. Most notably, the de Blasio Administration created the six Living in Communities (LINC) programs to help homeless households living in the city's shelters move into permanent housing.

Fewer Households Assisted Through LINC than Initial Program Goals

Rental Assistance Program	Target Population	Projected Placements September 2014-June 2016	Households Assisted Through LINC as of December 2015
LINC I	Working Families	2,202	832
LINC II	Repeat and Long-term Shelter Residents	1,620	471
LINC III	Domestic Violence Survivors	1,900	814
LINC IV	Senior and Disabled Adults	1,100	962
LINC V	Working Adults	1,000	681
LINC VI	Families that Can Reunite with Friends or Relatives	500	35
Total Placements		**8,322**	**3,795**

SOURCES: Department of Homeless Services; Human Resources Administration

New York City Independent Budget Office

As of December 2015, however, LINC has assisted only about half as many households as was planned when the programs got underway in September 2014. Only 3,795 households had been placed into permanent housing through LINC, making it unlikely that the program will meet its goal of 8,322 placements by the end of this fiscal year.[6]

For most of the LINC programs, rental vouchers are capped at a rent level of $1,268 or $1,515 depending on household size, which has been criticized as too low for voucher holders to secure housing in many city neighborhoods. Reluctance by landlords to rent to voucher holders may also be preventing some households from using LINC vouchers.

Because the adult shelter population has grown more than anticipated, the city added over $32 million (all city funds) in the preliminary budget to pay for increased adult shelter capacity in 2016; this comes after the Mayor increased the adult shelter budget by $59 million (again, all city funds) in the November financial plan. The total adult shelter budget is now $445 million for 2016, $70 million more than the city spent last year. While the city did not increase funding for family shelter capacity in the preliminary budget, it did add $79 million ($29 million in city funds) for 2016 in the November financial plan, bringing this year's total budget for family shelters to $625 million, $19 million more than DHS spent last year. In total, DHS has budgeted a record $1.1 billion to cover adult and family shelter in 2016, which IBO estimates is sufficient funding to cover costs this year.

Shelter Savings or Higher Costs in 2017? While the Mayor has added a total of $170 million since the budget was adopted last June to increase shelter capacity for 2016, no new funds for shelter capacity have been added for 2017 or future years. The adult shelter budget for 2017 is $325 million, $120 million less than the city anticipates spending in the current year, while the 2017 family shelter budget is $553 million, $72 million less than planned for this year.

In fact, instead of increasing shelter funding to reflect the current shelter population, the Mayor's preliminary budget reduced planned spending for shelter capacity by $27 million beginning next year, with the reduction growing to $57 million in 2020. The reductions are due to savings from an anticipated decline in the shelter population stemming from two Mayoral initiatives.

One source of savings is through the Mayor's new commitment to create 15,000 units of supportive housing over the next 10 years, with units evenly split between converting scattered site apartments into supportive housing and building new units. The second source of savings stems from the expansion of the eligibility criteria to include asymptomatic HIV-positive clients among those who can receive cash assistance and other services through the HIV/AIDS Services Administration (HASA). With a wider population eligible to access cash assistance through HASA, the de Blasio Administration assumes that this will help shelter residents living with HIV/AIDS exit shelters and reduce the number of individuals entering shelter. The Mayor estimates that these two initiatives, supportive housing and the eligibility expansion for HASA programs, will reduce the shelter census by 1,400 households by 2020.

Despite these programs, IBO estimates the city will still need to budget $131 million more to meet next year's shelter costs, $101 million of which is city funds. This estimate takes into account the slower-than-anticipated placements through the LINC rental assistance programs, our expectation that the new supportive housing and HASA programs will have a more limited near-term impact on the shelter population than the Mayor projects, and the already comparatively low baseline level of funding. Of IBO's estimate of the additional funds that will be needed, $84 million (all city funds) is expected to be used to fund adult shelters, and $47 million ($17 million in city funds) would go to fund family shelters.

New Funding to Improve Shelters. While the Mayor's financial plan has not increased the DHS budget in 2017 or future years in line with recent census levels, it has put new money in place to improve programming, shelter conditions, and safety beginning this year and continuing through 2020. Job-training programs will be offered at 40 adult shelters during the day, a departure from past policy when adult shelter residents had generally been told to exit the shelter and return at night. The day programming is funded at $8.8 million this year and $17 million annually beginning in 2017 (all city funds).

The preliminary budget also adds $10 million this year and $7.4 million going forward to the DHS budget for increased shelter security and to fund the NYC SAFE program, which was announced last August. NYC SAFE is a collaborative, multiagency program intended to provide additional clinical support for the homeless with mental illness and a history of violence; an additional $14 million in NYC SAFE funds are budgeted annually for the Department of Health and Mental Hygiene starting in 2017. NYC SAFE is one component of a broader effort to increase access to behavioral health services for all city residents known as ThriveNYC (see page 40 for information on the ThriveNYC initiative). A January murder at a shelter in East Harlem by a shelter resident who was not tracked as part of the NYC SAFE program highlights the difficulty of identifying those in the homeless population who pose a danger to themselves and others.

With ongoing concerns over the physical conditions in shelters, DHS has added $6.5 million for 2016 and $7.6 million in future years to fund repairs and maintenance efforts. This is part of the "Shelter Repair Squad," a multiagency initiative to identify and correct deficiencies in shelter buildings. The Department of Housing Preservation and Development, the Department of Buildings, and the Fire Department of New York, which enforce housing maintenance, building, and fire codes respectively, will complete building inspections. Related to the Shelter Repair Squad efforts, the health department has added $400,000 to its budget to perform pest control inspections, baiting, and integrated pest management at shelters and the Department of Housing Preservation and Development has $500,000 budgeted within its Emergency Repair Program to correct housing code violations found in shelters.

Changing Course on Cash Assistance

In October 2014, the city's Human Resources Administration (HRA) announced a new employment plan for cash assistance recipients. The plan, which was already being phased in before the formal announcement, makes the agency's employment programs less punitive and puts more emphasis on education and training. HRA officials warned that implementation of the new work plan could lead to a temporary increase in the public assistance caseload, as individuals remain on the rolls for longer periods of time while receiving improved job preparation and placement services.

The de Blasio Administration expects that over time, however, the new policies will result in reduced recidivism rates and a decreasing caseload. While it is too soon to evaluate the ultimate success of the new plan, it has already had a notable impact on both work program assignments and the cash assistance caseload and expenditures.

Work Program Changes. In a sharp break with recent administrations, Mayor de Blasio's new plan deemphasizes the use of sanctions for violations of employment requirements, preferring to keep as many heads of public assistance households as possible on a path to eventual job placement. From December 2013, the last month of the Bloomberg Administration, through December 2015 the number of cash assistance recipients under sanction or facing sanctions fell from 19,632 (19.6 percent of all cases excluding those classified as indefinitely unengageable due to disability, age, or family status) to 11,341 (9.9 percent). Similarly, the number of participants in the Work Experience Program (WEP), which has often been criticized by advocates for its lack of job skills training, decreased from 10,661 (10.6 percent) to 7,120 (6.2 percent). HRA officials plan to gradually phase out the WEP program and replace it with programs they believe will provide better preparation for long-term employment.

In contrast, the number of cases with the household head in an education, training, or job search program

Cash Assistance Cases by Work Status

	December 2013		December 2015	
	Number	Percent	Number	Percent
Private Employment	22,937	22.9%	25,656	22.5%
Work Experience Program	10,661	10.6%	7,120	6.2%
Education/ Training/Job Search	3,347	3.3%	8,010	7.0%
Substance Abuse Treatment	6,322	6.3%	6,984	6.1%
WeCARE	8,121	8.1%	7,245	6.4%
Other Activity	6,910	6.9%	6,739	5.9%
In Engagement Process	13,178	13.1%	12,216	10.7%
Sanctioned or in Sanction Process	19,632	19.6%	11,341	9.9%
Temporarily Unengageable	9,119	9.1%	28,764	25.2%
TOTAL	**100,227**	**100.0%**	**114,075**	**100.0%**

SOURCE: Human Resources Administration
NOTES: The numbers exclude cases categorized as indefinitely unengageable (including child-only cases, and those in which the household head is receiving Supplemental Security Income, is age 60 or over, or is receiving services from the HIV/AIDS Services Administration). They also exclude a small number of cases categorized as unengaged. Cases are classified by the primary activity of the household head.

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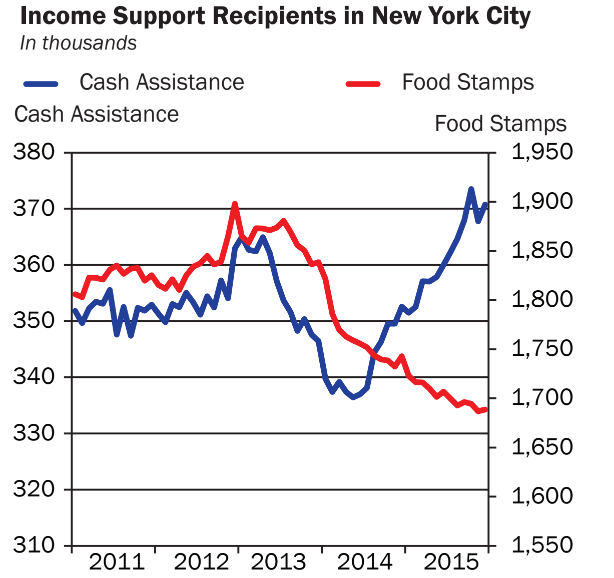

SOURCE: Human Resources Administration
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increased from 3,347 (3.3 percent) to 8,010 (7.0 percent). Within this category, the number of participants in education or training more than tripled from 1,235 to 4,090. The new employment plan allows recipients up to age 24 to take part in full-time basic education, makes it easier to pursue college degrees while participating in internships and work study, and increases the use of job training vouchers. The number of recipients in long-term job search (more than 12 weeks) doubled from 1,468 to 2,861, which could reflect the new emphasis on encouraging higher quality job placements.

The other notable change is in the number of cases classified as temporarily unengageable, which jumped from 9,119 (9.1 percent) to 28,764 (25.2 percent). Within this category, the number of individuals in the process of applying for Supplemental Security Income or appealing an initial rejection increased from 4,963 to 6,828, as HRA has increased its efforts to help individuals believed eligible for this federal benefit to get enrolled in this program. In addition, as a result of the agency's initiative to provide more comprehensive assessments in order to expand access to programs for clients with work limitations due to disabilities, the number of cases being evaluated for WeCARE, a program designed to help individuals overcome medical and/or mental health barriers to employment, increased from 554 to 16,902.

An Increasing Caseload. The implementation of HRA's new employment plan has coincided with an increase in the overall number of cash assistance recipients. After a period of declining caseloads, the number of individuals receiving cash assistance grants bottomed out at 336,403 in May 2014. Since then the caseload has grown steadily reaching 370,742 in December 2015, an increase of 34,339 recipients, or 10.2 percent. The fact that the number of food stamp (now known as the Supplemental Nutrition Assistance Program) recipients actually fell by 70,419 (4.0 percent) over the same period suggests that the rise in the cash assistance caseload is attributable to the new employment policy rather than to weaker local economic conditions.

The drop in the city's food stamp caseload is especially notable considering that the additional cash assistance recipients were also enrolled in the food stamp program as part of their application process. Thus, the number of food stamp recipients would likely have fallen more steeply if not for the uptick in cash assistance, and probably reflects continued improvement in the local labor market. The impact of the improving economy on income support programs can also be seen in the nationwide caseload numbers. Over this same time period there were decreases in both the number of Americans enrolled in the food stamp program and the number receiving Temporary Assistance for Needy Families grants.

Information provided by HRA indicates that the recent increase in the city's cash assistance caseload is primarily the result of recipients remaining longer on the welfare rolls, rather than an increase in new applicants and recipients. The total number of unduplicated recipients receiving assistance in the prior 12 months was 597,347 as of December 2015, up only slightly (1.0 percent) from 591,544 in May 2014. Moreover all of the increase can be attributed to a rise in the number of recipients receiving one-time benefits such as payments for overdue rent, utilities, or broker's fees, a trend that can be largely attributed to recent efforts to prevent homelessness and reduce the shelter population.

It is unclear how long the cash assistance caseload will continue to rise or how high it will reach. HRA assumes that at some point improvements in job placements and reduced recidivism will cause the number of recipients to level off and then decline. While some critics have warned of a return to the huge caseloads that occurred prior to the welfare reforms of the mid 1990s, the current number of recipients remains roughly a third of the nearly 1.2 million peak reached in March 1995.

Impact on the Budget. Whatever the ultimate outcome of the new employment plan, the recent caseload increase has led to increasing cash assistance grant expenditures. In December 2015, there were 34,339 more grant recipients than in May 2014. On an annual basis, this translates into about $133 million in additional grant outlays, including $60 million in city funds. If the upward trend in the caseload continues, there will be a corresponding rise in grant expenditures.

In its most recent cash assistance re-estimate, which dates from last spring's 2016 executive budget, the Mayor's office anticipated a brief caseload increase; the current budget includes enough funds to cover the increases that have already occurred through December 2015. IBO projects that the cash assistance caseload will continue to increase through the remainder of the fiscal year, requiring an additional $15 million in total funds ($6.5 million in city funds) in 2016 and $42 million in total funds ($23.3 million in city funds) in 2017 compared with the preliminary budget.

Mayor Increases Budget for ThriveNYC Initiatives, Promoting Access to Care & Expanding Current Programs

In November 2015 the de Blasio Administration published "ThriveNYC," a plan to increase access to behavioral health care in New York City.[7] The four-year budget (2016 through 2019) for ThriveNYC totals $818 million, $485 million of which was included in last June's 2016 adopted budget and $333 million of which was added in the preliminary budget for 2017.[8] The funding supports 54 initiatives spread among 11 agencies. Three-quarters ($633 million) of the $818 million commitment is funded with city funds.

The ThriveNYC budget both increases funding in areas that the city has previously supported and adds new categories of spending. The plan also includes policy-based initiatives that are not connected to funding—such as obtaining commitments from hospitals to screen for maternal depression—and initiatives that will receive funding that does not flow through the city budget.[9]

The ThriveNYC plan would increase funding for the provision of behavioral health services for targeted populations that the city has previously funded such as: school children, foster care children and families, the homeless, and those involved with the criminal justice system. The new categories of spending introduced in the preliminary budget aim to increase access to behavioral health care for the general public by supporting and adding to the therapeutic workforce and by increasing the public's awareness of the availability of these services. The plan would fund more social workers, train peer specialists, and provide guidance to community-based organizations on behavioral health issues impacting their clients.

Existing City Support for Behavioral Health Care. Behavioral health care encompasses a range of services including treatment (psychotherapy, medication, hospitalization); support services (case management, clubhouses, vocational training); and permanent and temporary housing programs for people with mental illness and substance use disorders (SUD). These services are provided in health centers, hospitals, private practices, community-based organizations, schools, and other spaces. Both public and private health insurers have historically provided limited reimbursement for mental health and SUD treatment and support. Governments typically provide additional direct funding to behavioral health providers that serve vulnerable and low-income populations because reimbursements for these providers are especially low.[10]

New York City government has historically supported the behavioral health care system by both contracting with organizations that provide behavioral health services to the general public and by funding the delivery of services to targeted populations served by public entities, including public schools, the foster care system, the criminal justice system, senior centers, and homeless shelters.[11]

The Department of Health and Mental Hygiene (DOHMH) administers the contracts for behavioral health services and directly provides a small amount of behavioral health services for the general public and targeted populations. Historically DOHMH has also funded some small programs that promote behavioral health care treatment services—including those that connect seriously mentally ill patients with providers and violence prevention programs, but these make up a minor share of the department's budget. The Department of Education, Administration for Children's

What Programs Does ThriveNYC Fund?
Dollars in thousands

Programs	Baseline 2015 Funding	ThriveNYC Initiatives: Additional Funding 2015-2016	2017	2018	2019	Total New Funding (4 Years)
Behavioral Health Care Contracts for General Population	$166,036	$0	$0	$0	$0	$0
Direct and Contracted Provision of Behavioral Health Care & Provider Support for Specific Populations	576,915	150,796	160,309	164,327	166,213	641,645
Court-involved	49,160	88,061	44,137	41,388	42,570	216,156
Crime & Domestic Violence Victims	2,535	7,061	13,179	18,038	18,038	56,316
Elderly	1,930	2,810	3,200	3,200	3,200	12,410
Foster Care Children & Families	64,666	253	4,399	3,605	3,605	11,862
Homeless	8,895	31,310	53,405	53,192	53,442	191,349
School Children	449,729	21,301	41,429	44,344	44,798	151,872
Veterans	0	0	560	560	560	1,680
Supportive Housing	42,575	3,000	3,000	3,000	3,000	12,000
SUD Treatment & Workforce Support	124,165	2,442	2,629	2,719	2,719	10,509
Administrative Support for the Behavioral Health Care System & Assistance with Locating Care	20,475	1,583	6,944	5,566	5,446	19,539
Workforce Training & Expansion	0	2,107	22,164	37,237	49,824	111,332
Media Campaigns	0	5,590	3,075	3,075	3,075	14,815
Research	861	1,311	2,013	2,294	2,294	7,912
All Programs	**$931,027**	**$166,829**	**$200,134**	**$218,218**	**$232,571**	**$817,752**

SOURCE: Mayor's Office of Management and Budget
NOTES: Agencies funded are the Department of Health and Mental Hygiene, Department of Education, Department of Homeless Services, Department of Correction, Human Resources Administration, New York Police Department, Department for the Aging, Department of Probation, and the Mayor's Office of Criminal Justice. All 2019 funding will continue in 2020.
New York City Independent Budget Office

Services, Department of Homeless Services, and Human Resources Administration provide behavioral health services to the students, foster care families, homeless shelter residents, and public assistance beneficiaries they respectively serve. The city's total behavioral health services budget has been largely funded by state and federal funds and has remained relatively constant over the last decade.

The ThriveNYC Budget. The ThriveNYC initiatives would both increase funding for behavioral health services for targeted populations and fund new programs to increase access to behavioral health services for the general public. As mentioned above, $333 million of the ThriveNYC budget is newly included in the 2017 preliminary budget; this money funds some of the increased spending on behavioral health services in schools, homeless shelters, the foster care system, and all of the initiatives to increase access to behavioral health care for the general public. The ThriveNYC plan does not significantly affect the city's existing—largely state and federally funded—contracts with behavioral health providers, which advocates for behavioral health services and health care providers have noted in critiquing the new plan.

Funding Increases for Behavioral Health Care. The majority of the ThriveNYC budget ($642 million through 2019) would fund behavioral health services for targeted populations, most of which received some support in the past; over three-quarters of these funds are city dollars. The plan vastly increases funding for behavioral health services for people involved with the criminal justice system ($216 million), for the homeless within shelters and on the street ($191 million), and for public school students ($152 million).[12]

The plan also provides funding increases for behavioral health services for the elderly ($12 million) and families involved with the foster care system ($12 million).

How Are the ThriveNYC Initiatives Funded?
Dollars in thousands

	2015	2016	2017	2018	2019	All Years
Total Funding	$34,890	$131,939	$200,134	$218,218	$232,571	$817,752
City Funding	21,166	83,506	156,509	175,302	196,545	633,028
Percent City	60.7%	63.3%	78.2%	80.3%	84.5%	77.4%

SOURCE: Mayor's Office of Management and Budget

New York City Independent Budget Office

The majority of this portion of the ThriveNYC budget simply funds more behavioral health professionals in these existing settings and expands support programs already in place such as visiting mothers of newborns ($4 million) and visiting the elderly in senior centers ($5 million). However, the budget also includes some completely new programs for these populations like art therapy and other programs for incarcerated youth ($13 million) and social-emotional learning for children in universal pre-k ($26 million) and the foster care system ($7 million).

New Funding to Increase Access to Behavioral Health Care. In addition, ThriveNYC funds would target behavioral health services for two populations that have not received attention in the past: veterans and crime victims. While the city has previously provided some support services for domestic violence victims, ThriveNYC funds advocates for victims of all crimes—including domestic violence—to provide immediate care after crimes occur ($56 million). The plan also provides modest funding to expand behavioral health services for veterans ($1.7 million).

The remaining ThriveNYC budget ($176 million through 2019) consists of new categories of spending, virtually all of which are funded with city dollars, designed to increase the public's access to behavioral health care. These initiatives would expand and train the behavioral health care workforce ($111 million through 2019), connect the public with this workforce ($20 million), and coordinate media campaigns to increase awareness of mental illness and SUD and to decrease the stigma associated with these conditions ($15 million). Specifically, the plan aims to hire 390 masters-level social work graduates to do their training in areas of high need around the city, train 250,000 people in mental health first aid, create a hotline and an online platform for people to find behavioral health care professionals, and provide information to community-based organizations on behavioral health.

To inform these and future efforts the plan also funds research on mental illness and substance use disorder prevalence and treatment practices ($8 million). The plan also funds efforts to increase the use of SUD treatment medications (naloxone and buprenorphine) by directly paying for them and training professionals on their use ($11 million).

Stopgap Measures Aid NYC Health + Hospitals

The city's public hospital system—newly rebranded as NYC Health + Hospitals—has long relied on public health insurance payments (Medicaid and Medicare) and other government funding streams, with relatively little revenue from private insurance. H+H revenue from public sources is projected to decline because of changes in the health care system, government policy shifts, and reductions in patient visits.

In response to these shifts, H+H and the de Blasio Administration have promised a new plan, scheduled to accompany the release of the executive budget, to improve H+H's finances, which presumably will include initiatives to increase revenue, decrease expenses, or both. In the meantime, the 2017 preliminary budget included two immediate actions to assist H+H's finances: forgiveness of $337 million in payments H+H had been scheduled to make the city for 2016 and maintaining its budgeted payments to H+H, even though the potential to use some of these payments to trigger federal matching funds for supplemental Medicaid payments ($204 million annually) is anticipated to decline. Although the city could have withdrawn its share of these payments, it will now instead use these funds to increase the general subsidy to H+H.

History of City Subsidy to H+H. NYC Health + Hospitals operates 11 hospitals, over 30 clinics, and 5 long-term care facilities that provide care for a disproportionate share of patients who are publicly insured or without insurance. In 2014, 24 percent of New York City

Net City Subsidy to Health + Hospitals, 2009-2016
Dollars in millions

	2009	2010	2011	2012	2013	2014	2015	2016†
NYC Payments to H+H	**$580**	**$986**	**$886**	**$1,057**	**$1,293**	**$1,149**	**$1,458**	**1,426**
Unrestricted City Subsidy	130.6	2.6	60.0	83.4	81.6	130.8	100.9	267.2
Employee Health Insurance	13.1	24.9	17.7	18.3	19.3	20.9	21.1	24.9
Debt Service	126.7	181.2	167.4	210.3	219.0	217.0	212.5	225.9
Supplemental Medicaid (DSH + UPL)*	136.7	587.1	480.6	608.6	651.0	636.5	898.0	612.5‡
Medical Malpractice Claims	137.5	189.9	142.6	118.7	121.6	126.9	123.4	140.0
Medical Malpractice Repayment	35.7	0	17.3	17.3	17.3	17.3	17.3	17.3
Collective Bargaining	$0.0	0	0.0	0.0	183.0	0.0	85.0	138.0
H+H Payments to NYC**	**($222)**	**$0**	**($279)**	**($292)**	**($304)**	**($309)**	**($301***)**	**0**
Debt Service	(71.1)	0	(118.5)	(154.7)	(162.9)	(161.6)	(156.4)	0
Medical Malpractice Claims	(137.5)	0	(142.6)	(118.7)	(121.6)	(126.9)	(123.4)	0
Employee Health Insurance	(13.1)	0	(17.7)	(18.3)	(19.3)	(20.9)	(21.1)	0
Net H+H Subsidy	**$359**	**$986**	**$607**	**$765**	**$989**	**$840**	**$1,157**	**$1,426**

SOURCES: NYC Health + Hospitals, Mayor's Office of Management and Budget
NOTES: *City share of supplemental Medicaid is an approximation; calculation assumes the state contributes $50 million annually to the nonfederal share of Disproportionate Share Hospital payments and that the city funds the remainder; the nonfederal share is 50 percent of total receipts, except for the Upper Payment Limit receipts in 2009-2011, when the federal share was increased to 61.6 percent (American Recovery Act). **H+H's payments to New York City reimburse the city for some of its subsidy to H+H so they are shown as negatives as they decrease the net subsidy. ***H+H has not yet made these payments; the city often allows H+H to delay payments to the city to accommodate delayed payments to H+H from federal or state sources. †2016 reflects budgeted values. ‡This value reflects H+H's receipts through February 2016 and may increase.

New York City Independent Budget Office

adults were enrolled in Medicaid and 14 percent were uninsured, but Medicaid beneficiaries made up 45 percent of outpatient visits at H+H facilities with the uninsured accounting for another 28 percent. H+H revenues often fall short of its expenses in part because Medicaid reimbursement rates are the lowest of any health insurance and uninsured patients often provide little—if any—payment for their care. Supplemental Medicaid payments (detailed below) aim to address these gaps for providers like H+H that treat many Medicaid and uninsured patients, but the compensation may be insufficient to cover the full cost of providing care.

H+H's on-going state of financial distress has prompted a number of city actions over the years, some of them stopgap, to avoid further damage to the system. As a result, H+H has become increasingly dependent on the city's fiscal support. The city gives H+H an annual unrestricted subsidy that has varied from almost nothing to over $250 million, depending on the city's fiscal condition and the other aid streams it provides. The city also subsidizes health insurance for H+H employees and legal services and settlement payments for H+H medical malpractice suits.

Prior to 2003, H+H did not reimburse the city for its medical malpractice costs, but it did pay debt service on its city-issued bonds ($154 million in 2002). In 2003, the city and H+H decided to swap these payments, expecting that if H+H was responsible for its malpractice claims, the corporation would have greater incentive to reduce them. This strategy was effective; H+H medical malpractice claims dropped from $172 million in 2003 to $127 million in 2014. Since 2007, the city has given H+H back a small amount of this payment ($17 million a year since 2011) for keeping the number of suits low. Most recently the city has taken on some of the increased personnel costs from H+H's collective bargaining agreements. The city also pays H+H for providing specific free and low-cost services to city schools, clinics, and jails, as well as health services for some city agencies, which are not included in the subsidy.[13]

In 2006, the city substantially increased its supplemental Medicaid payments to H+H and the hospital system began once again to reimburse the city for its debt service expenses and its employees' health insurance premiums, while continuing to pay for its medical malpractice claims (note that H+H often delays making these payments to the city and the

NYC Health + Hospitals Financial Plan
Dollars in millions

Adopted Budget: Projected	2016	2017	2018	2019
Operating Revenues	$8,743	$8,646	$8,807	$8,511
Operating Expenses	9,728	10,086	10,220	10,344
Interest	(122)	(122)	(123)	(123)
Total Before Corrective Actions	**($1,106)**	**($1,562)**	**($1,536)**	**($1,956)**
Corrective Actions	$437	$1,167	$1,332	$1,458
Total After Corrective Actions	**($669)**	**($395)**	**($204)**	**($499)**
Accrual to Cash Adjustment	$221	$311	$401	$314
Prior Year Cash Balance	552	104	20	217
Closing Cash Balance	**$104**	**$20**	**$217**	**$32**

SOURCE: NYC Health + Hospitals
New York City Independent Budget Office

city forgave the payments entirely in 2010). The city moved to subsidize H+H mainly through supplemental Medicaid because the federal government matches these payments, doubling the fiscal boost for H+H. The federal Medicaid program allows states to make supplemental Medicaid payments to health care facilities that provide care to substantial numbers of Medicaid and uninsured patients to make up for the low payments from these patients. They consist largely of Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) payments.

Both DSH and UPL payments leverage federal funds for safety net hospitals with city funds, but through different processes involving the city, state, and federal government. The federal government funds half of DSH and UPL payments and the local government (the city in the case of H+H) provides almost the entire other half, with a small state contribution for DSH payments.

Disproportionate Share Hospital payments are block subsidies for hospitals that see high rates of uninsured and Medicaid patients; the state determines the value of these subsidies for each hospital based on a complex methodology. UPL payments are increases in the Medicaid reimbursement rates for providers who see a lot of Medicaid patients. The city or state can decide to provide UPL payments to almost any provider (as long as they pay for half of this increase) and then must negotiate with the federal government to determine the higher rates.

In the case of H+H, New York State determines the value of its DSH payments and the city determines its UPL payments through the rates it is willing to pay and able to negotiate with the federal government. The city's annual combined DSH and UPL payments to H+H increased from an average of $75 million in 2003 through 2006, to $370 million in 2007 through 2010, and $594 million in 2011 through 2014, all matched by federal payments.[14] Total DSH and UPL payments increased from 3 percent of H+H's total Medicaid revenue in 2003 to 33 percent in 2015.

Actions in the 2017 Preliminary Budget. While this strategy of boosting federal payments by increasing the city's contribution has been benefiting H+H for the last decade, both major sources of supplemental Medicaid are poised to decline. Federal policy requires UPL payments to be determined only by fee for service Medicaid receipts, which are declining for H+H because the New York State Medicaid program has been shifting from a fee for service system to a predominately managed care system over the last two decades. This shift is designed to increase coordination of and access to care, along with predictability of costs for the state, but it also limits the opportunity to claim UPL payments.[15] The Mayor's preliminary budget estimates that beginning in 2016, annual federal supplemental Medicaid payments will be $204 million lower than previously budgeted. The de Blasio Administration chose to apply the $204 million it would have used to trigger federal matching payments in 2016 and future years towards the city's unrestricted subsidy instead. This shift is budget neutral for the city.

By repurposing the $204 million from supplemental Medicaid payments to an increase in the city's direct subsidy payment, the fiscal impact on H+H from the federal changes is held to $204 million, rather than what could have potentially been a $408 million cut. In addition, the Affordable Care Act is set to decrease federal DSH payments in line with the projected decrease in the uninsured population beginning in 2018. These reductions are not included in the budget because the magnitude of these cuts for H+H is unknown.

The preliminary budget also forgives H+H's 2016 payments to the city for medical malpractice claim expenses, debt service on city bonds, and employee health insurance, totaling $337 million in forgone city revenue. This forgiveness aims to mitigate H+H's immediate financial stress while the city and H+H develop a longer-term plan to put the health system on a more stable fiscal path.

Major Budgetary Challenges Remain. Prior year cash balances (unlike the city, H+H uses cash-based accounting) are expected to leave H+H with $104.1 million cash on hand to end 2016—less than needed for a week of operation. Cash balances in 2017 and 2019 are projected to be even smaller.

The most recent H+H budget projects declining revenue and increasing expenses, driven by the declines in Medicaid payments, declines in overall patient visits, and persistently high operating expenses.[16] The budget assumes that these losses will be partially offset by corrective actions including a $519 million net benefit over four years from the state's Delivery System Reform Incentive Payment program, $309 million annually in H+H internal cost containment initiatives and, starting in 2017, $700 million annually in unspecified revenue from state and federal actions. Even with these measures, the budget projects that H+H revenue will fall short of its expenses by $669 million in 2016 and by $395 million, $204 million, and $499 million, respectively, in 2017 through 2019.

Over the last year H+H's strategies to steady the corporation's finances have included efforts to increase patient volume by improving patient satisfaction and decreasing wait times and to increase the number of enrollees in the system's own insurance plan, Metro Plus. H+H's internal cost-containment strategies include efforts to reduce supply costs with better procurement arrangements, expand primary care services, and reduce workforce expenses.[17] H+H believes it can achieve workforce spending reductions of $100 million annually with less overtime expenses, not filling all positions that become vacant, and other efforts. H+H reports modest progress in those efforts but so far this year, total disbursements have yet to decline. Reducing workforce expenses on a larger scale could require reducing the services H+H provides or eliminating facilities, strategies that are politically fraught and that H+H has typically avoided.

Data Problems Plague City's Effort to Claim Medicaid Reimbursement for Services To Students With Special Needs

Some of the special education services provided by the Department of Education (DOE) are covered by Medicaid if the student is eligible for Medicaid. In those cases, DOE is entitled to reimbursement from the federal government for Washington's share (in most cases 50 percent) of the standard Medicaid payment for covered services. Claiming for the reimbursement requires submitting documentation of the delivery of services, and certification that the services were administered by a licensed and approved provider. The preliminary budget continues the de Blasio Administration's recent practice of anticipating $97 million of Medicaid reimbursement each year from 2016 through 2020, despite actual revenue of only $27 million in 2015.

For more than three decades, the Department of Education has operated under a legal mandate to screen students for disabilities and provide appropriate services in a timely manner for those students who have been determined to require them. But since 2011 the city's ability to track, report on, and claim federal reimbursement for the delivery of special education services has been limited as the DOE struggled to build and roll out a new software system. Those struggles are still continuing—and compromising the education department's ability to ensure students are getting necessary services.

Lost Medicaid Reimbursement. In the early 1980s, the DOE developed a data system to track special education referrals and the specific services students were supposed to receive. This system was known as the Child Assistance Program (CAP) and was used until 2013. One limitation of CAP was the inability to track and document the actual delivery of services, a failure that became critical as the federal government began to require stronger documentation of the services delivered to students in order to claim reimbursement. However, scrutiny of the program dates at least as far back as 2001, when the federal government began to review state and city practices in documenting speech and physical therapy sessions and related transportation claims. A federal audit was not settled until 2009 and the problems it uncovered were so severe that the city received no Medicaid reimbursement for services to students with special needs in 2009. By way of comparison, the city had been receiving around $100 million a year in Medicaid reimbursements through 2005.

The audit's findings prompted the federal government to order the state to return roughly $450 million in Medicaid reimbursements plus additional payments that had been made for associated transportation services. While the state was responsible for most of the cost, the city also had to forfeit $100 million in revenue. (Under Medicaid, the federal government deals with the states rather than localities, which in most states outside New York have no fiscal responsibility for Medicaid costs.) The audit settlement also required the state to create a new Medicaid claim filing system. During 2009, the federal reimbursement process for New York was temporarily stopped and during that period no claims were paid. As a result, the city did not receive any Medicaid revenue at all during the 2008-2009 school year.

Ultimately, new billing and claiming guidance was established by the state. To qualify for reimbursement, services such as speech or physical therapy have to be medically necessary, documented in the student's Individual Education Plan (IEP), and ordered by an appropriate physician. Services also have to be delivered by a qualified provider or under the direction or supervision of a qualified provider. Each time services are provided, the encounter must be documented with the type of service, the location where the service was provided, a description of the student's progress, and the provider's credentials and signatures.

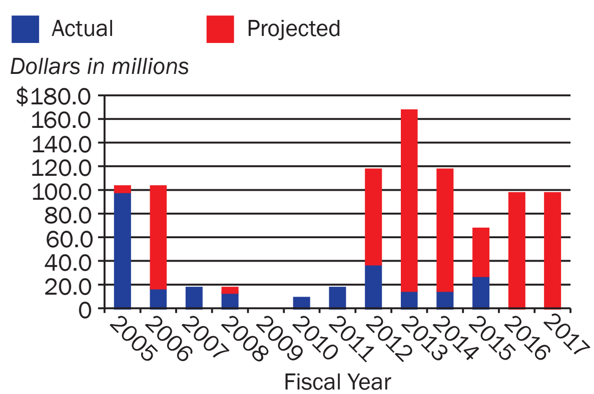
Faced with a need for much more robust documentation of service provision and a need to improve the planning and delivery of special education services more generally, the DOE began to develop a new computer system known as the Special Education Student Information System (SESIS) in 2009. SESIS, which was activated in 2011, is a web-based system that was expected to enhance the evaluation, placement, and case management of students with disabilities, and enable the DOE to prepare reimbursement claims that met the federal and state governments' documentation requirements. At the end of the 2012-2013 school year, the DOE shifted from the legacy CAP system and began to rely entirely on SESIS.

SESIS and the Budget. The DOE has invested over $130 million in developing SESIS and while SESIS was expected to offer important improvements in the delivery of special education services, there was a strong budgetary motivation as well. When the DOE is unable to successfully claim Medicaid reimbursements, the forgone revenue must be made up with other resources from the city's budget. In recent years the city has needed to fund roughly $50 million or more each year to make up for the lost Medicaid dollars. To date, however, the investment in SESIS has not brought the DOE a return to the reimbursement levels experienced before 2005.

The chart below compares projected and actual Medicaid revenue from 2005 through 2015, and the current budgeted amounts for 2016 and 2017. In 2005, actual revenue met expectations at more than $102 million. In 2006, although the adopted budget assumed that revenue would remain at the 2005 level, actual revenue declined steeply to only $17 million as the DOE and state government, with the federal audit underway, limited their claims to those that fully complied with the federal rules. For the next five years the city sharply reduced its expectations of Medicaid revenues, with a low point in 2009 when no claims for revenue were submitted and no federal reimbursements were projected.

Banking on the promise of the new data system, in 2012 the city began projecting Medicaid reimbursement levels on a par with and then exceeding the levels seen

Medicaid Reimbursements for Services to Students With Special Needs Way Below City's Projections



SOURCES: New York City Comprehensive Annual Financial Reports of the Comptroller; New York City Financial Management System

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Expense Budget Spending on the Special Education Information System, 2011-2015
Dollars in millions

	2011	2012	2013	2014	2015	5-Year Totals
SESIS Support	$3.0	$1.8	$18.3	$8.9	$8.9	$40.9
SESIS-MAXIMUS Contract	3.4	3.4		10.1		16.9
SESIS Arbitration Payments			10.4	0.2	0.3	10.8
SESIS Consultants					0.3	0.3
Total	**$6.4**	**$5.2**	**$28.7**	**$19.1**	**$9.2**	**$68.9**

SOURCE: Department of Education Central Budget Data
NOTE: Numbers may not add due to rounding.
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prior to 2005. Unfortunately, in 2012 through 2015, actual reimbursements have fallen short of the city's initial projections by a total of $373 million, as technical obstacles and other implementation problems have stymied efforts to claim more than a small fraction of potential Medicaid reimbursements for services provided to eligible students. Many claims could not meet federal requirements with the documentation provided by SESIS.

The city is again projecting higher levels of Medicaid revenue, $97 a million year in 2016 and 2017. Expectations have been buoyed by implementation of a new "EZ trac" system to collect Medicaid data from nonpublic schools. To date, however, no Medicaid revenue has been realized for this fiscal year. IBO's re-estimate of Medicaid revenue assumes that the DOE will experience shortfalls of $70 million in both 2016 and 2017, with revenue remaining at the roughly $27 million level actually received in 2015.

SESIS continues to have ongoing technical difficulties that prevent the DOE from producing accurate student-level data—data the department is legally required to provide to IBO, other offices and elected officials. Last month, in response to recent legislation enacted by the City Council, the DOE did produce summarized statistics on the characteristics of students with special needs and the services, if any, that they were receiving. Although the DOE warned that given problems with the underlying data the reported figures might not be accurate, they showed that over 30 percent of students with IEPs were not receiving all of the services they were supposed to be getting and another 5 percent were not receiving any of the services required under their IEPs.

Investments in SESIS. The DOE invested $63 million in capital funds for SESIS development from 2009 through 2012. In addition to this capital spending, much of the development cost has been funded through the expense budget. The table (on this page) shows actual SESIS-related expenditures by DOE's central office. Together, support expenditures and a contract with Maximus Inc. totaled roughly $69 million from 2011 through 2015. Maximus Inc. was hired to develop and implement SESIS to facilitate information flow for the administrative requirements for delivery of special education services to students. Maximus also has data center locations that are responsible for storage of student data in remote sites outside the city.

Other costs associated with SESIS stemmed from how cumbersome the system was to use, at least initially, and early technical glitches that resulted in lost data that needed to be re-entered. After a complaint brought by the teacher's union, an arbitrator ruled in favor of union members who sought compensation because the new system was so slow and log-jammed that additional time before or after hours and on weekends was needed to log service encounter data. The payments ordered by the arbitrator cost nearly $11 million through 2015.

In addition to the funds described in the table on the left, another $2.3 million will be spent in 2016 through 2019 to fund DOE staff managing SESIS support in-house.

The Importance of State Education Aid to The Department of Education's Budget

State Education Aid Expected to Grow. The preliminary budget estimates that state education aid—which supports 45 percent of the Department of Education's budget—will total $9.7 billion in the current year. This represents a $481 million increase over the $9.2 billion in state aid received for 2015. The Mayor's 2017 preliminary budget projects that state aid will grow by 5 percent to total $10.2 billion in 2017.

By far the largest share of state aid (at 70 percent of total state aid expected for 2017) comes to the city in the form of foundation aid, which has relatively few restrictions on how the funds are used. In contrast, general support aids (at 16 percent of 2017 state aid) tend to be based on approved operating expenditures for items such as transportation, building aid, career education, and computer administration. Restricted categorical aids (at 14 percent of 2017 state aid) have more prescriptive funding requirements designed to ensure funds are spent for specific purposes, such as pre-kindergarten, special education, or school lunch.

For 2017, the Mayor's budget projects that the city will receive a $422 million year-over-year increase in foundation aid. The Governor's executive budget proposal for 2017 would provide $171 million less than what the city' preliminary budget is anticipating in foundation aid for the year. However, the two houses of the Legislature have each indicated their support for greater increases in state foundation aid than the Governor has proposed. Going forward, the Mayor's plan anticipates increases of $169 million annually for the out-years, which would raise foundation aid to $7.4 billion, $7.6 billion, and $7.8 billion in 2018, 2019, and 2020, respectively.

The City's Plan for the Increased Foundation Aid. The preliminary budget anticipates using the increases in foundation aid to bring all schools up to their full fair student funding (FSF) formula amount. The FSF method was introduced by the DOE in 2008 and is designed to allocate dollars to schools for classroom instruction based on the characteristics of their students, with

State Aid
Dollars in millions

	Fiscal Year		
	2015 Actual	**2016 Projected**	**2017 Projected**
Foundation Aid	$6,210.0	$6,670.2	$7,092.2
All Other General Support Aids[1]	1,585.0	1,584.9	1,607.6
Restricted Categorical Aids[2]	1,448.5	1,469.8	1,470.6
Total State Aid	**$9,243.5**	**$9,724.9**	**$10,170.4**

SOURCES: New York City Comprehensive Annual Financial Report of the Comptroller, Mayor's Office of Management and Budget Financial Management System Revenue Reporting
NOTES: [1]General support aids tend to be expenditure based and reflect approved operating expenditures. These aids include transportation, high cost, private excess cost, building aid, career education, computer administration, education grants, and aid for academic achievement.
[2]Restricted categorical aids have more prescriptive funding requirements that are meant to ensure funds are spent for a specific purpose.

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more money allocated for students with academic challenges. When FSF was introduced, the city did not have sufficient resources to fund the full amount due each school under the formula. At the time the city was expecting to receive additional state aid under terms of the settlement of the Campaign for Fiscal Equity lawsuit. It was assumed that the settlement would provide the city with sufficient resources to be able to meet the formula amounts within a few years.

But the state has failed to abide by the 2007 legislation that settled the lawsuit, with scheduled increases in foundation aid frozen or scaled back in the intervening years. As a result, the city has never been able to provide every school with its full share of fair student funding. The preliminary budget assumes that the increase in foundation aid expected by the city would allow the DOE to bring each school up to at least 87 percent of its FSF formula amount.

Just over half of DOE's expense budget ($11.3 billion) is allocated to classroom instruction and about two-thirds of foundation aid ($4.6 billion) is used within the classroom. The largest single source of funding for the classroom is foundation aid, which funds 39 percent of all classroom instruction in 2017. Other state aid pays for an additional 12 percent of classroom instruction expenditures, leaving roughly half paid from city and federal sources.

What about the remaining $2.5 billion in foundation aid for 2017 that is not allocated to classroom instruction?

- More than $934 million in foundation aid is used to fund fringe benefit costs (11 percent of all foundation aid). Fringe benefits consume 14 percent of the DOE's budget and more than $2.2 billion of fringe is supported by tax-levy dollars. All fringe costs include not only that for classroom teachers but also fringe for the other 25,000 nonpedagogical employees.

- Payments to contract schools and providers of pre-kindergarten special education services outside of DOE facilities—called pass-through payments because the money is passed through to outside organizations—are the next largest category. Together these types of expenditures account for $672 million (10 percent) of foundation aid. Pass-through payments are 7 percent of the DOE's expense budget. Foundation aid provides

How State Foundation Aid Is Used
Dollars in billions

Budget Category	Fiscal Year 2016	Fiscal Year 2017	Foundation Aid Support	Share of Budget Category Supported with Foundation Aid	Share of Total Foundation Aid
Classroom					
Classroom Instruction	$11.3	$12.0	$4.6	39%	67%
Nonclassroom					
Agencywide Fringe	3.0	3.2	0.934	29	11
Pass-Through Payments	1.6	1.6	0.672	42	10
Instructional Support	2.1	2.1	0.351	16	5
Noninstructional Services	3.3	3.2	0.361	11	5
Instructional Administration	0.294	0.309	0.101	33	2
Central Administration	0.354	0.362	0.038	10	6
TOTAL	**$22.0**	**$22.8**	**$7.0**	**30%**	**100%**

SOURCES: IBO analysis of Financial Management System data

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42 percent of the cost of these services with the rest of the cost supported by other state aid (41 percent) and tax-levy dollars (17 percent).

- Instructional support and noninstructional services each received about a 5 percent share of available foundation aid for a combined total of over $712 million. Although instructional support is budgeted separately from classroom instruction, many services in this category are in fact provided within the classroom. These include items such as special education assessment, related services, and categorical programs that supplement existing instructional services. Instructional support services have a total budget of $2.1 billion, with $351 million coming from foundation aid. However, federal funds supply the lion's share of support for this category (57 percent).

- Noninstructional support services for transportation, food, and school safety, along with facility-related expenses all facilitate the learning process for students, although they are not direct instructional services. Taken altogether these services are partially supported by about $360 million in foundation aid revenue. Over $1 billion in state aid supports noninstructional expenditures of which 11 percent is foundation aid.

- The final budget categories—instructional and central administration—do not receive much foundation aid. This is expected since neither category includes costs of classroom teaching but rather administrative operations that sustain the educational system as a whole. Together these two budget categories are supported by an 8 percent share of foundation aid ($139 million). The central administration budget is $362 million for 2017, with 73 percent provided by city funds and only 10 percent funded with foundation aid. The remaining 10 percent is funded with a combination of federal and other categorical funds.

Preliminary Budget Directs Over $76 Million in 2017 to Enhancing Educational Program Offerings

The Mayor's preliminary budget and financial plan provides over $76 million in 2017 and $543 million over 5 years in new funding for a number of Department of Education (DOE) initiatives outlined in the de Blasio Administration's "Equity and Excellence" plan, announced in September 2015. Most of the components funded in the preliminary budget seek to increase access to college and improve college admission outcomes for DOE students by making a greater number of higher level course offerings available and adding supports to help students prepare for college admissions. Other new initiatives would fund efforts to deliver universal literacy by the end of second grade and to foster collaborations between district and charter schools.

Universal Literacy. This initiative is designed to provide access to a literacy specialist for every second grade student. These reading specialists would be hired to boost literacy, with the objective of eventually having all students reading on grade level before they reach

Curriculum and Guidance Initiatives in Preliminary Budget
Dollars in millions

	Fiscal Year				
Initiative	**2016**	**2017**	**2018**	**2019**	**2020**
Universal Literacy	$1.4	$16.4	$42.0	$59.2	$54.0
AP for All	1.3	12.6	25.1	38.8	50.9
Algebra for All	0.8	20.8	27.9	23.8	22.6
College Visits	0.8	8.8	13.7	20.0	20.0
Single Shepherd	0.5	15.2	15.7	16.3	16.3
District-Charter Collaboration	1.0	3.0	5.0	5.0	5.0
TOTALS	**$5.7**	**$76.7**	**$129.2**	**$163.1**	**$168.7**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report

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third grade. More specifically, the goal is to have two-thirds of students reading by the end of second grade by 2022 and all second grade students reading proficiently by 2026, 10 years from now.

New York State test results indicate that only 30 percent of third graders are currently reading proficiently. More than 100 reading specialists at a cost of about $8.6 million will be funded next year under field-based support staff to help implement the program as well as develop curriculum, growing to 298 positions ($24 million) in 2018 and 473 positions ($37 million) in 2019. Ten positions will be funded under centrally managed school support this year ($532,000) and going forward (roughly $1.2 million annually). Other than personal services (OTPS) costs will decline in the out-years as the programmatic needs for supplies will decrease once demand has been met.

AP for All. This initiative is designed to ensure that students in all 400 high schools have access to at least 5 advanced placement (AP) courses, thereby reducing the disparities in access to these courses across the city. A 2013 IBO report found that the average black or Hispanic high school student was in a school that offered half as many AP courses than schools attended by the average Asian or white high school student, based on data from the 2011-2012 school year.

In presenting his "Equity and Excellence" plan, the Mayor stated that over 100 high schools currently do not have AP courses and only 44 percent of black and Hispanic

Universal Literacy
Dollars in millions

	Fiscal Year				
	2016	**2017**	**2018**	**2019**	**2020**
Reading Specialists	$0.2	$8.6	$24.0	$36.9	$36.1
Fringe	0.2	2.4	6.2	9.5	9.5
OTPS	0.5	4.2	10.5	11.5	7.0
Centrally Managed School Support	0.5	1.2	1.2	1.3	1.3
TOTAL	**$1.4**	**$16.4**	**$42.0**	**$59.2**	**$54.0**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report

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students have the necessary prerequisite courses for AP courses compared with 66 percent of white and Asian students. The DOE also reports that 40,000 high school students 15 percent of all students in high school—are in schools that do not have an AP course.

The new funding for the expansion of AP course offerings will grow from $1.3 million this year to $12.6 million next year and $50.9 million in 2020. High schools will see an increase in instructional headcount of 134 positions in 2017, followed by an additional 134 positions each year through 2020, for a total of 536 new positions associated with AP for All. Beginning next year, the curriculum office will also add three positions with a total annual cost of about $420,000. Although it is known that new teachers will be added, the exact service model for these teachers is still being finalized. Pending those developments, support to strengthen student and teacher preparation for higher level coursework will begin at targeted high schools that can demonstrate their readiness to offer additional advanced placement classes.

AP for All
Dollars in millions

	Fiscal Year				
	2016	**2017**	**2018**	**2019**	**2020**
Instructional Positions	$0	$7.3	$15.2	$24.0	$32.0
Fringe	0.1	3.3	6.7	10.5	14.0
Instructional OTPS	0.5	1.5	2.7	3.9	4.6
Curriculum Office	0.2	0.4	0.4	0.4	0.4
Recruitment Office	0.5	0	0	0	0
TOTAL	**$1.3**	**$12.6**	**$25.0**	**$38.8**	**$50.9**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report

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Algebra for All. This initiative provides professional development for algebra teachers, support for students struggling with algebra, and expands the number of middle schools offering courses in algebra. The goal of this initiative is to help students reach more complex levels of math in high school. The program is intended to allow every student to have access to algebra in the 8th grade by 2022. Algebra will still not be mandatory but the hope is that increased access will lead to increased participation. Although additional funding begins in this fiscal year, the first new algebra classes and prep programs will start in school year 2016-2017.

The funding for this program ramps up quickly, from $800,000 in the current year to close to $21 million next year. Ninety percent of the new money this year will fund roughly 10 positions (partial year) under centrally managed school support for planning and program development along with associated costs of fringe benefits. The balance will support other than personal services expenditures, such as instructional supplies and contracts for professional development. Next year, a little more than half ($11 million) will fund an unspecified number of positions and fringe while about $9.8 million is budgeted for instructional supplies and materials to equip both teachers and students.

The DOE reports that 60 percent of middle schools currently offer algebra coursework in 8th grade, although fewer than 30 percent of 8th graders take the algebra Regents. The department estimates that over 15,000 (about 25 percent) of 8th grade students currently do not have access to algebra classes.

College Visits. This program intends to increase student awareness and access to college by providing for college visits for every middle school student along with tailored support for each student at the high school level. In order to best meet the needs of their particular students, high schools will be able to choose from a variety of services, including assistance with college applications, college student mentors, or strategic support and information about financial aid and college affordability. This program will launch in the fall of 2016. The DOE currently has a separate college bound initiative in place, administered by the office of school and youth development, which already provides money to support full-time, school-based college counselors.

College Visits
Dollars in millions

	Fiscal Year				
	2016	**2017**	**2018**	**2019**	**2020**
Instructional OTPS Support	$0.3	$4.8	$9.0	$14.9	$14.9
School Youth Office*	0.3	2.5	2.5	2.5	2.5
Transportation	0.0	0.6	1.3	1.7	1.7
Teaching & Learning	0.1	0.2	0.2	0.2	0.2
Fringe	0.1	0.7	0.7	0.7	0.7
TOTAL	**$0.1**	**$8.8**	**$13.7**	**$20.0**	**$20.0**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report
NOTE: *These amounts include other than personal services.
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The current budget plan includes almost $15 million in new spending by 2020, which is allotted for supplies under instructional support to help create a college-ready environment in all high schools but could be repurposed for other spending as the initiative gets underway and actual spending patterns emerge. The de Blasio Administration's new college access initiative will increase the budget of the existing office by $282,000 this year and $2.5 million a year thereafter to fund up to 9 positions for the remainder of 2016 and 24 new positions in 2017 and beyond. There is also funding for another eight administrative positions under the teaching and learning division (roughly $200,000 annually). The budget will also add $600,000 in 2017 for the cost of transportation to support college campus visits, with this support growing to $1.7 million by 2020.

Algebra for All
Dollars in millions

	Fiscal Year				
	2016	**2017**	**2018**	**2019**	**2020**
Instructional Supplies and Contracts	$0.1	$9.7	$17.8	$12.9	$11.6
Centrally Managed School Support	0.6	10.1	9.2	10.0	10.0
Fringe	0.1	0.9	0.9	0.9	0.9
TOTAL	**$0.8**	**$20.8**	**$27.9**	**$23.8**	**$22.6**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report
New York CIty Independent Budget Office

Single Shepherd. The Single Shepherd initiative provides for a dedicated counselor for every child in grades 6 through 12 in two school districts, 7 and 23.

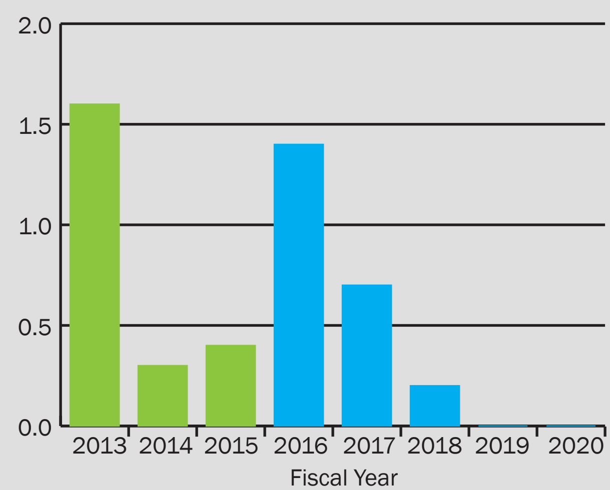
Federal Aid for Sandy Response Added in Preliminary Budget

The Mayor's Preliminary Budget for 2017 and Financial Plan through 2020 added a total of $470 million in Sandy-related federal operating assistance, about half of which were funds that the city had previously planned would be paid with capital funds. About $240 million of the five-year total in federal operating support for Hurricane Sandy response was added to the budget for the current fiscal year. In addition, $20 million in federal aid was added to the city's capital budget. The funding brings the total federal aid planned for Sandy-relief reflected in the city's budget up to nearly $5.1 billion over the five years beginning with 2016, including both operating and capital support. The de Blasio Administration expects roughly $850 million in federal funds to be added in future financial plans.

Sandy Aid Added to the City's Operating Budget. With the addition of nearly $470 million in aid, the federal funding for Sandy response flowing through the city's operating budget is now planned to total nearly $2.3 billion from 2016 through 2020. Another $91 million in Sandy-recovery costs are expected to be paid for with city funds over the same period. This is on top of the $2.5 billion the city has already spent on Sandy expenses in 2013 through 2015, including $2.3 billion in federal aid. The vast majority of funds added in the financial plan ($410 million) are part of the city's Community Development Block Grant Disaster Relief award (CDBG-DR), while $58 million is expected in payments from the Federal Emergency Management Agency (FEMA), which reimburses the city for eligible recovery-related expenses. The remaining $1 million added to the plan comes from the federal Hurricane Sandy Coastal Resiliency Grant.

Federal Sandy Operating Aid Totals
$4.6 Billion Through 2020

Dollars in billions



SOURCE: 2017 Preliminary Budget and Financial Plan Through 2020
NOTE: Years are budgeted with the exception of 2013 through 2015, which are actual commitments.

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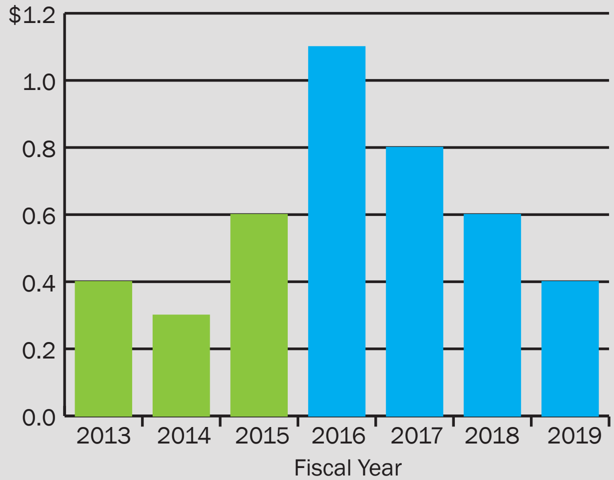
Slightly over half of the federal aid added to the city's operating budget ($247 million) is funding to support Sandy-related repair and resiliency work at the New York City Housing Authority. These CDBG-DR funds serve as a local match to the housing authority's FEMA grant award that had previously been included in the city's capital budget but were moved to the operating budget due to capital eligibility issues. Another $160 million was added for the city's Housing Recovery Office and Build it Back programs to reconstruct and repair housing damaged by the storm. Of that, the majority of funds ($110 million) are budgeted for costs relating to the reconstruction of one- to four-family homes. Finally, $15 million was added for the NYC Acquisition for Redevelopment program, which offers homeowners of properties destroyed or severely damaged by the storm the opportunity to sell their property to New York State. The properties will then be demolished and can be left as open space or redeveloped in a resilient manner. All of the Housing Recovery and Build it Back funding added is part of the city's CDBG-DR award.

Of the $58 million in FEMA funds added, $39 million is to cover Sandy-related administrative costs that had previously been budgeted to be paid with city funds. Similarly, $16 million was added to the Department of Education's budget for school transportation expenses the city incurred during the storm that had initially been deemed ineligible by FEMA. The remaining $3 million is split between a variety of agencies, with about half budgeted for equipment for the Department of Transportation.

Sandy Aid for Capital Projects Increased. Along with the funds added to the city's operating budget, nearly $20 million in federal aid was added to the city's

Federal Sandy Capital Aid Totals
$4.1 Billion Through 2019

Dollars in billions



SOURCE: 2017 Preliminary Capital Commitment Plan
NOTE: Years are budgeted with the exception of 2013 through 2015, which are actual commitments.

New York City Independent Budget Office

capital commitment plan for 2016 through 2019. This brings total federal funding for Sandy-related capital projects planned over the next four years to $2.9 billion. Another $110 million in Sandy-recovery costs is expected to be paid for with city capital funds over the same period, for a total of $3.0 billion in planned Sandy-related capital commitments over the next four years. This is in addition to $1.5 billion the city already committed ($1.3 billion in federal funds) for Sandy capital projects in 2013 through 2015. The majority of Sandy-related capital funds currently budgeted are expected to be received as FEMA reimbursements, while only $329 million is part of the city's CDBG-DR award.

The $20 million added in the Mayor's latest budget plan is a net increase that reflects the funding for some projects being reduced and others increased. A total of $80 million was added for a variety of projects, while funding for reconstruction of city hospitals damaged by Sandy was reduced by $60 million. Of the increased funding, $24 million was added for parks department projects, $22 million to the Department of Environmental Protection's budget to repair wastewater pollution control plants and pumping stations damaged by Sandy, $15 million for Department of Transportation projects in Far Rockaway, $13 million for a wetland mitigation bank for the Saw Mill Creek, and $5 million for repairs to Department of Corrections facilities.

More CDBG-DR Funds Expected. Roughly $850 million in additional Sandy aid is expected to be allocated to city agencies in upcoming financial plans through the federal CDBG-DR program. In total, the city was awarded just over $4.2 billion in CDBG-DR funding for Sandy recovery through three rounds of awards. Of that, the city recorded close to $851 million in revenue in 2013 through 2015 and nearly $2.5 billion is budgeted from 2016 through 2020. While the federal Department of Housing and Urban Development, which administers the grant, has approved the city's planned uses for all the funds, the city has yet to draw down the remaining $850 million of the award. It is anticipated that most of these funds will flow through the city's capital budget for large resiliency projects, such as the East Side Coastal Resiliency project, for which planning studies are being undertaken before the funding is budgeted.

These districts were selected based on their having the lowest graduation and college attainment rates of the 32 city school districts. The counselors to be funded by this program will provide academic, social, and emotional assistance to students from middle school through graduation and college enrollment. The program would halve the student to counselor ratio in the targeted grades in these districts from the current ratio of 197:1 to 100:1.

In the schools, 130 positions will be funded at a cost of roughly $8 million every year. The budget also includes about $2.6 million annually for OTPS expenditures to support professional development. If the program were

Single Shepherd
Dollars in millions

	Fiscal Year				
	2016	**2017**	**2018**	**2019**	**2020**
Counselors	$0.0	$7.7	$8.1	$8.5	$8.5
Fringe	0.0	3.3	3.5	3.7	3.7
OTPS	0.0	2.6	2.6	2.6	2.6
School Youth Office	0.5	1.0	1.0	1.0	1.0
Field Support	0.0	0.5	0.5	0.5	0.5
TOTAL	**$0.5**	**$15.2**	**$15.7**	**$16.3**	**$16.3**

SOURCE: Mayor's Office of Management and Budget Detail Initiatives Report

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eventually expanded to all districts in the city, using the same 100:1 ratio of students to counselors, the system would have to hire an additional 2,857 counselors to serve the city's 500,000 middle and high school students. This year the central office of school and youth development will have $500,000 added to its OTPS budget (increasing to $1.0 million in subsequent years of the plan) to support this initiative; next year, four positions will also be funded under field-based supervision and support ($500,000.)

District-Charter Partnerships. The plan provides close to $3.0 million next year, and $5.0 million in each of the subsequent three years to support partnership and the sharing of effective practices within as many as 50 pairings of charter and DOE schools.

School Construction: Mayor Adds $1.4 Billion, More Than 11,700 New Seats to Revised Five-Year Capital Plan

In January, the School Construction Authority released an amendment to the five-year capital plan for fiscal years 2015 through 2019 that adds $1.4 billion in new capital spending and brings the planned five-year spending total to $14.9 billion. With a 10.4 percent increase over the plan released last May (and adopted in June), the latest amendment adds considerable funds to build or lease space for new schools and improve conditions in existing schools. Among the communities gaining the most new seats under the revised plan are Community School Districts 30 in Queens and 13 and 15 in Brooklyn. District 19 in Brooklyn, which includes East New York, will get an additional 1,000 seat school in conjunction with the proposed rezoning of the neighborhood.

Projects in the capital plan are split into three main categories: capacity, capital investment, and mandated programs. Overall, almost $820 million was added to capacity (a 17.0 percent increase) and more than $600 million was added to capital investment (a rise of 12.3 percent). Total spending for mandated programs edged down by $32 million (-0.9 percent).

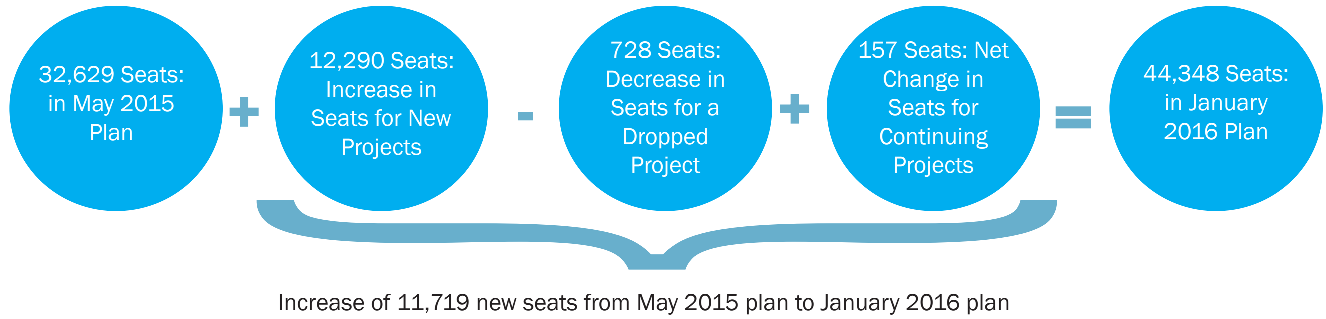
Within the capacity category, increases for new capacity ($956 million or 27.7 percent higher) and the pre-kindergarten initiative ($150 million, a 28.8 percent increase) are partly offset by a steep $288 million (82.3 percent) decline in the facility replacement program.

Within the category of capital investment, more than 60 percent of the new funding is added for projects dedicated to improving the interior or exterior components of existing school buildings. Despite the increase in total capital investment funding, there are cuts in funding for upgrades to gyms, auditoriums, and libraries; nearly all funding for library upgrades was eliminated. Almost $170 million of the new funding was allocated by elected officials for capital improvement projects in schools in their districts or boroughs, bringing the total for those projects up to $488 million over the five years.

New Capacity. With the additional $956 million dedicated to new capacity, there is a net increase of 11,719 seats in the five-year plan. There were 32,629 seats in the May 2015 plan, and that increased by 35.9 percent, for a new total of 44,348 in the January 2016 plan.

The net increase in seats can be broken down into three parts: projects added to the January 2016 plan, projects dropped from the January plan, and changes to continuing projects from the May 2015 plan. All of the 12,290 seats added in the January plan are designated for elementary and middle school use—there are a total of 41,201 such seats in the plan (92.9 percent of all new seats). The number of high school seats remains at 3,147 in both plans; though one 728-seat project was dropped, its seats were shifted to other high school projects. Finally, there was a modest net increase of 157 seats for continuing projects contained in both the May and January plans.

Not all seats identified in the plan are scheduled to begin construction by the end of the five years; some are only scheduled for design during the 2015-2019 period, with construction and funding to pay for the work expected to occur in the next five-year plan (2020-2024). The number of seats funded for design only in the current five-year plan increased from 806 (2.5 percent of seats) in the May plan to 2,641 (6.0 percent of seats) in January. In the May 2015 plan there was one design-only project—in Manhattan's district 2 (Chelsea/Midtown West). Three other projects have now been pushed back to design-only in this plan. One is in the Bronx's district 12 (Tremont/West Farms); one is in Brooklyn's district 14 (Williamsburg/Greenpoint); and one is in Queens' district 30 (Astoria/Steinway). In the May plan, these three projects were expected to begin design in 2016; the start of design for all three is now pushed back to 2018. In addition to those seats that will



SOURCE: IBO analysis of School Construction Authority Five-Year Capital Plans

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begin construction in the next plan, there are also 2,641 seats (another 6.0 percent) in the January plan that are expected to begin construction in June 2019—the final month of the current five-year plan. In the May plan, there were 1,563 such seats (4.8 percent).

New Elementary and Middle School Seats by District. The four districts in Queens and Brooklyn that will gain the most seats in the new January plan are: districts 30, 15, 13, and 19. District 30—covering northwestern Queens including East Elmhurst, Jackson Heights, Woodside, Sunnyside, Long Island City, Ravenswood, Astoria, and Steinway—will get an additional 2,600 seats, bringing the total number of new seats to more than 4,500. District 15 in Brooklyn, which includes Sunset Park, Park Slope, Carroll Gardens, Gowanus, and Red Hook, will get almost 1,650 more new seats bringing the total to more than 3,800. The number of new seats for District 13 in Brooklyn, covering northern Park Slope, Prospect Heights, DUMBO, the Navy Yard, and Fort Greene, has grown by more than 1,500 seats and now totals almost 2,600. Finally, district 19, covering Cypress Hills and East New York in Brooklyn, is now expected to get an additional 1,000 seat school as part of the Mayor's East New York Community Plan.[18]

Districts 30 and 15 are also among the districts with the most total seats in the plan. Only districts 20 in Brooklyn (covering Bay Ridge, Dyker Heights, Borough Park, Kensington, and Bensonhurst) and 24 in Queens (covering North Corona, South Corona, Lefrak City, Elmhurst, Maspeth, Woodside, Middle Village, Glendale, and Ridgewood) are expected to get more seats—4,869 each.

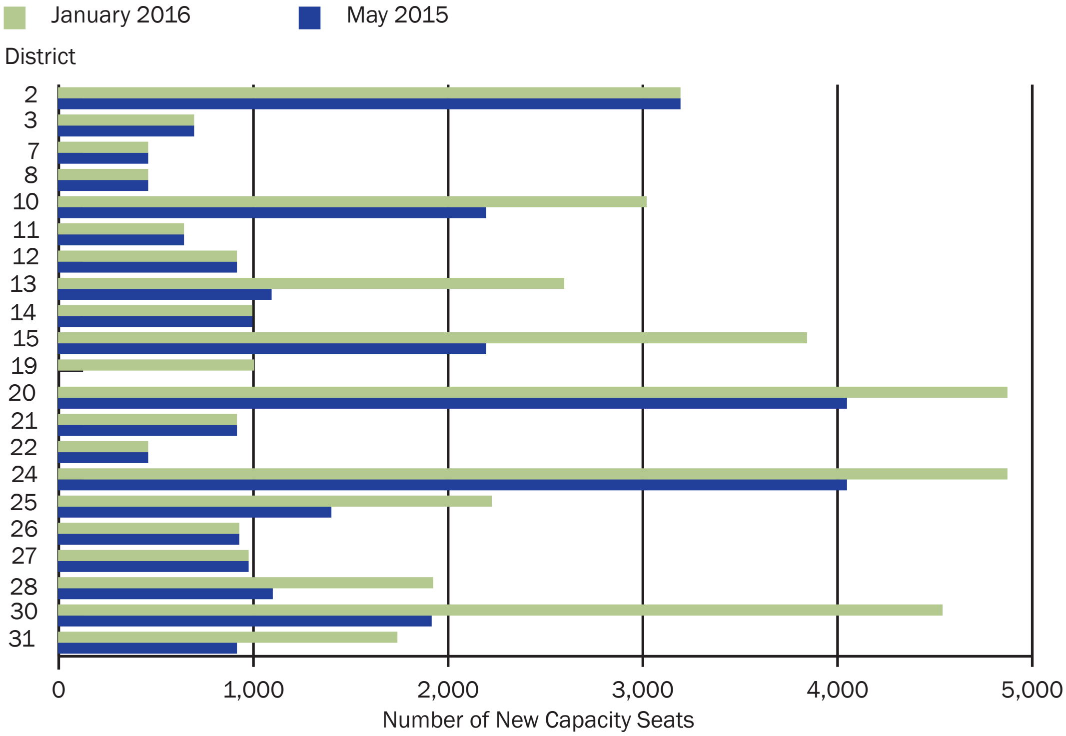
Six other districts gained additional seats in the January plan. They are: the Kingsbridge, Norwood, and Bedford Park section of district 10 in the Bronx; the Bay Ridge section of district 20 in southwest Brooklyn; 3 districts in central and northern Queens—the North Corona, South Corona, Lefrak City, and Elmhurst section of district 24, the Beechhurst, College Point, and Whitestone section of district 25, and the Rego Park, Forest Hills, Kew Gardens, and Jamaica section of district 28; and the North Shore section of district 31 in Staten Island. Each district will gain an additional 824-seat project.

Districts Facing Severe Overcrowding Conditions. In general, the districts with the largest gain in new elementary and middle school seats or for which the most seats are planned in the January plan are also the districts that face the most severe overcrowding. Two exceptions are district 26 in eastern Queens and district 22 in south Brooklyn, which are slated for relatively few new seats despite considerable overcrowding.

Using the 2014-2015 *Enrollment, Capacity & Utilization Report* (the "Blue Book"), IBO calculated the number of seats needed to alleviate overcrowding, which we define as the number of additional seats a building would require to accommodate all of its students and still maintain a utilization rate below 102.5 percent.[19] On this basis, the districts needing the greatest number of seats are: district 20 (almost 9,700 seats); district 24 (more than 8,600 seats); district 26 (more than 6,900 seats); district 25 (more than 6,100 seats); district 10 (almost 5,800 seats); district 28 (almost 5,600 seats); district 31 (almost 5,600 seats); and district 22 (almost 5,100 seats).

Among these eight districts with the greatest need, districts 26 and 22 have far fewer seats planned than are needed to alleviate current overcrowding. In district 26 in Queens, which covers Oakland Gardens,

Number of New Elementary and Middle School Seats by District



SOURCE: IBO analysis of School Construction Authority Five-Year Capital Plans
NOTE: The difference between the two bars is equal to the number of seats added in the January 2016 plan.

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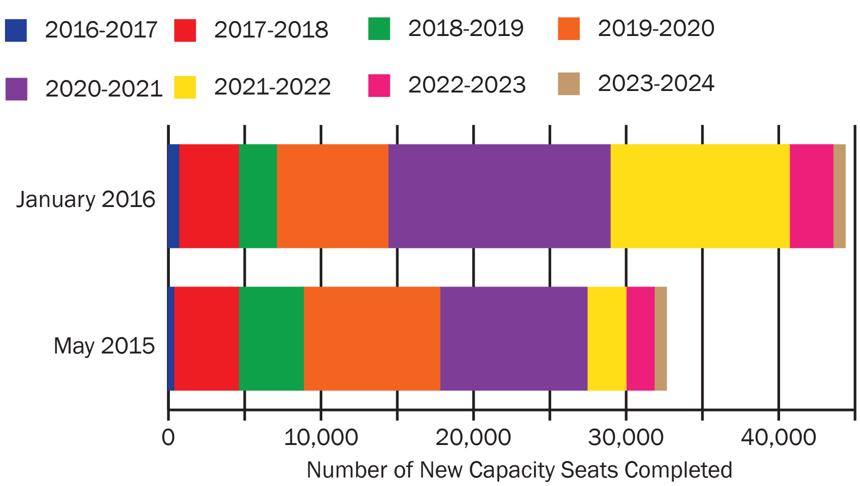
Fresh Meadows, Bayside, and Auburndale, it is worth noting that the School Construction Authority had tried to apportion some of the 2,802 new high school seats planned for Queens to a project that was to be sited in district 26. However, that project, which had been in the May plan, was cancelled due to objections from Bayside residents to a new high school that was proposed at the site of the Bayside Jewish Center.[20] District 22 in Brooklyn, covering Flatlands, Midwood, and Mill Basin, also faces a considerable shortage that will remain largely unmet.

Timeline for Expected New Capacity Seats by School Year: Comparing May 2015 and January 2016 Plans



SOURCE: IBO analysis of School Construction Authority Five-Year Capital Plans
NOTE: Chart shows the school year for which seats will be completed and ready to come online.

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Timeline for When New Seats are Expected. Seats are expected to be completed a little slower in the January plan compared with the May plan. If all target dates are met, however, the new plan catches up and actually surpasses the number of seats expected to be ready in the May plan by the beginning of the 2020-2021 school year. By then, almost 29,000 of the January plan's new seats (65.3 percent) will have become available. An additional 11,700 seats will be added in time for the following school year (2021-2022), meaning over 91 percent of the capital plan's new seats would be completed. The last of the new seats will be completed in time for 2023-2024 school year.

For the projects newly added in the January plan, those seats will be completed in time for the 2019-2020, 2020-2021, and 2021-2022 school years. The majority of those seats (almost 60 percent) are to be completed by the beginning of the 2021-2022 school year—accounting for more than 62 percent of all new seats in that year. Another third are to be completed by 2020-2021, about 28 percent of all new seats in that year. Finally, 7 percent of the newly added seats will be ready in time for the 2019-2020 school year, 12.5 percent of all new seats in that year.

City Savings Program

The Mayor's Preliminary Budget for 2017 and Financial Plan Through 2020 includes efficiencies within agencies and citywide savings totaling $804 million in 2016, but the savings are much smaller after this year, falling to less than $300 million in each year from 2017 through 2020. The total savings program represents less than 1 percent of total city-funded expenditures over the five-year financial plan period. The program includes replacing city funds with state or federal categorical aid, efficiencies in the procurement of goods and services, and administrative actions to better manage programmatic services.

Nearly 72 percent ($576 million) of the total savings program for 2016 would come from citywide debt service and fringe benefits cost re-estimates. Debt service savings alone account for $399 million, including $247 million in savings attributable to actual variable interest rates falling well below the rates the Mayor's budget office had assumed when the budget was adopted. Another $95 million in savings comes from reducing the Transitional Finance Authority debt service estimate for 2016.

Negotiations with state and federal officials to allow the city to claim reimbursement for the cost of fringe benefits for city employees working on grant-funded social service programs resulted in savings of $137 million this year. The city will save another $40 million this year as a result of re-estimates in Social Security and Supplemental Welfare Benefit costs. Looking beyond 2016, the de Blasio Administration is expecting to generate citywide savings of $119 million in 2017 and growing to $165 million by 2020, with most of the savings coming from fringe benefits and procurement savings; the Mayor's budget office is assuming that debt service savings will be much smaller in 2017 through 2020 than in 2016.

Program initiatives from city agencies with recurring and nonrecurring savings are expected to generate $228 million in 2016, declining to $151 million in 2017, $92 million in 2018, and then increasing to $103

Budget Savings Program, January 2016 Financial Plan
Dollars in thousands

	2016	2017	2018	2019	2020
Citywide Savings					
Debt Service	$398,682	$8,029	$22,918	$27,290	$24,379
Fringe Benefits	177,280	55,000	65,000	75,000	85,000
Procurement	-	55,519	55,519	55,519	55,519
Total Citywide Actions	**$575,962**	**$118,548**	**$143,437**	**$157,809**	**$164,898**
Percent Share	71.6%	43.9%	60.9%	60.5%	59.2%
Agency Savings	$228,088	$151,388	$91,989	$102,934	$113,811
Percent Share	28.4%	56.1%	39.1%	39.5%	40.8%
Total City Savings Program	**$804,050**	**$269,936**	**$235,426**	**$260,743**	**$278,709**

SOURCE: Preliminary Budget for 2017 and Financial Plan Through 2020

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million in 2019 and $114 million by 2020. Agency initiatives with recurring savings account for a little over half of total agency savings in 2017 and all of the savings in each year from 2018 through 2020. For example, the Administration for Children's Services is expecting to save $21 million in 2016 and $30 million in each year through 2020 as a result of increased state funding for preventive child welfare services. The Department of Homeless Services anticipates saving $20 million in 2017, growing to $27 million by 2020, through the expansion of the Human Resources Administration's HIV/AIDS cash assistance program to include individuals who are homeless or at risk of homelessness. By placing single adult shelter residents in new supportive housing units, the Department of Homeless Services expects to save $4 million in shelter costs in 2017, growing to $28 million by 2020.

Other agency initiatives provide savings that are nonrecurring. For example, in 2016 the Department of Education will save of $18 million from prior year claims in pre-kindergarten special education state funding and $16 million from additional federal funds related to Hurricane Sandy expenses. The Department of Education will also save $16 million in 2016 and $45 million in 2017 as a result of a prior-year prepayment made to the MTA for student transportation expenses. Similarly, the Department of Health and Mental Hygiene anticipates saving $39 million in 2016 from one-time state funding for child health Medicaid expenditures and the Department of Sanitation expects to save $10 million in 2016 from lower-than-projected waste export costs and $30 million in Fresh Kills landfill closure costs as a result of delayed permit renewals and modifications.

Endnotes

[1] Governor Cuomo, Mayor de Blasio and Chairman Prendergast Announce Agreement on Funding for MTA Capital Program

[2] All historical amounts are in constant 2015 dollars. Dedicated state taxes used to pay MTA operating budget expenses, including debt service on MTA bonds that support the capital program, are excluded from these calculations. The amount of state and city dedicated tax revenue flowing to the MTA has grown dramatically over time, reaching almost $3.8 billion in 2015.

[3] The first year of Close to Home saw especially high numbers of youth leaving without permission ("going AWOL"), but this rate has since declined, which ACS attributes to closer monitoring of facilities with high AWOL rates. In addition, three organizations have lost their contracts since the initiative began; two because youth under their care allegedly committed serious crimes while AWOL and the third because of chronically high rates of AWOL and staff turnover.

[4] Youth in nonsecure placement attend New York City Department of Education schools specifically for students in the juvenile justice system, and those in limited-secure placement receive instruction from education department teachers within their placement facilities. Credits earned in placement are easily transferable to the students' home schools once they leave placement. In contrast, juveniles in OCFS custody are often not able to transfer credits earned in placement back to their home schools. Addressing this issue for youth in Close to Home placement was one of the initiative's goals.

[5] Construction costs came out of ACS's expense budget because the placement facilities are not owned by the city and therefore are not generally eligible to have costs covered by the capital budget.

[6] On March 8 the de Blasio Administration reported the city assisted 10,242 households through its rental subsidy programs to prevent evictions and help those in shelter exit into permanent housing. The Human Resources Administration did not respond to IBO's request for a breakout of this total by rental assistance program or for the share of households that exited shelter versus those who received eviction prevention assistance and avoided entering the shelter system.

[7] Behavioral health care here is defined as treatment and support services for people with mental illness and substance use disorders and services to prevent these illnesses.

[8] All budget totals are four-year totals (2016 through 2019) and all years are New York City fiscal years, unless otherwise noted.

[9] IBO's four-year budget total of $818 million reflects only those funds that flow through the city budget, which is why this total differs from the $850 million figure published in the de Blasio Administration's ThriveNYC report. Initiatives funded outside of the city budget include: the $24 million Connections to Care program, which is funded by federal grants and private donations to the Mayor's Fund; and some treatment for the homeless in shelters and by mobile treatment teams, which will be funded by Medicaid reimbursements. Note that Medicaid reimbursement is dependent on successful enrollment of these individuals in Medicaid, if they are not already enrolled.

[10] Low reimbursement can be attributed to a lack of health insurance coverage for these services, low reimbursement rates for those services that are covered, the tendency of patients to choose not to use health insurance to pay for stigmatized behavioral health issues, as well as a number of other factors.

[11] Again, the behavioral health care system here is defined as providers of treatment and support for people with mental illness and substance use disorders. Support for people with developmental disabilities (including the Early Intervention program) is not included because the ThriveNYC plan does not significantly impact such programs.

[12] Note that the $216 million figure includes initiatives coming out of the Mayor's Task Force on Behavioral Health and the Criminal Justice System that were initially funded in 2015. The initiatives are funded with all city dollars except for $2.9 million in state funds and $40 million in asset forfeiture funds from the Manhattan District Attorney.

[13] Prior to 2003, H+H provided all health care services to people involved with the criminal justice system, but in 2003 the city opted to contract out most of these services. (H+H still provided hospital-based care and some mental health care). In June 2015, the city announced that H+H would be taking over all correctional health services, increasing payments to H+H by roughly $150 million annually.

[14] Four year averages are used because payments are often delayed and received in bulk in later years, making some single year payments misleading. There is also a small state contribution to DSH payments.

[15] Since payments are routinely delayed (for example, some payments received in 2015 are for services performed in 2011), the impact of the shift to managed care will be seen in future years.

[16] Published in August 2015 as a supplement to the city's 2016 adopted budget.

[17] The city has an initiative (Caring Neighborhoods) to increase the number of primary care centers in New York City and H+H is projecting revenue gains from taking part in this project.

[18] East New York Community Planning

[19] Please refer to IBO's testimony at last year's City Council hearing on overcrowding for more details on our calculations.

[20] Edmonds, Lynn. "School Plans Cancelled at Bayside Jewish Center." Queens Tribune: November 25, 2015.

Capital Spending, Financing & Debt Service

Four-Year Capital Commitment Plan

The January 2016 Capital Commitment Plan, which accompanied the Mayor's preliminary budget, provides a total of $52.3 billion for the city's capital program, covering fiscal years 2016 through 2019 (all years in this section refer to fiscal years). Most of the four-year capital plan, $45.8 billion, is city-financed, with the remaining $6.5 billion expected to come from state, federal, and private grants. Planned commitments for 2016 total $16.4 billion for agency capital programs. As is typical for the city's capital budgeting process, after the first year of the plan, planned commitments decline in each subsequent year, falling to $14.4 billion in 2017, and then to $11.6 billion and $9.9 billion in 2018 and 2019, respectively.

Included in the January 2016 plan is $3.0 billion for Hurricane Sandy capital projects, of which $1.2 billion is planned for 2016 and $812 million in 2017, followed by $621 million and $380 million in 2018 and 2019, respectively (for more information on Hurricane Sandy capital projects see page 52).

The city has revised its projected spending for agency capital programs since the adopted plan, which was released last September. Approximately $2.8 billion in planned commitments were added over the period 2016 through 2019, with over 60 percent of the increased capital funding slated for environmental protection projects and close to 25 percent for transportation projects. Planned commitments for Hurricane Sandy capital projects increased by only $32 million over the plan period. However, the plan includes a shift in commitments, decreasing Sandy capital funds in 2016 by $227 million and increasing 2017 by $269 million.

Education, Environmental Protection, and Transportation. Capital commitments are largely concentrated in three areas of the plan: education, environmental protection, and transportation. Together

Changes in Capital Commitment Plan Since Adoption
Authorized commitments, dollars in millions

	2016	2017	2018	2019	Total
January 2016 Plan					
City Funds	$14,422	$12,517	$9,755	$9,092	$45,786
Noncity Funds	1,985	1,897	1,832	822	6,536
Total	**$16,407**	**$14,414**	**$11,587**	**$9,914**	**$52,322**
September 2015 Plan					
City Funds	$13,970	$11,063	$9,508	$8,635	$43,176
Noncity Funds	2,179	1,602	1,810	786	6,377
Total	**$16,149**	**$12,665**	**$11,318**	**$9,421**	**$49,553**
Change					
City Funds	$452	$1,454	$247	$457	$2,610
Noncity Funds	(194)	295	22	36	159
Total	**$258**	**$1,749**	**$269**	**$493**	**$2,769**
Percent Change					
City Funds	3.2%	13.1%	2.6%	5.3%	6.0%
Noncity Funds	-8.9%	18.4%	1.2%	4.6%	2.5%
Total	**1.6%**	**13.8%**	**2.4%**	**5.2%**	**5.6%**

NOTE: Plan figures exclude interfund agreements and contingency amounts.

New York City Independent Budget Office

these three areas total $29.5 billion, or close to 60 percent of the overall capital plan.

Department of Education projects total $11.0 billion, which is the largest share (21.1 percent) of total planned commitments over the 2016 through 2019 period. The city's January 2016 Capital Commitment Plan does not include recent changes proposed by the School Construction Authority for the schools' five-year (2015-2019) capital plan. For information on the Department of Education's 2015-2019 Capital Plan see page 54).

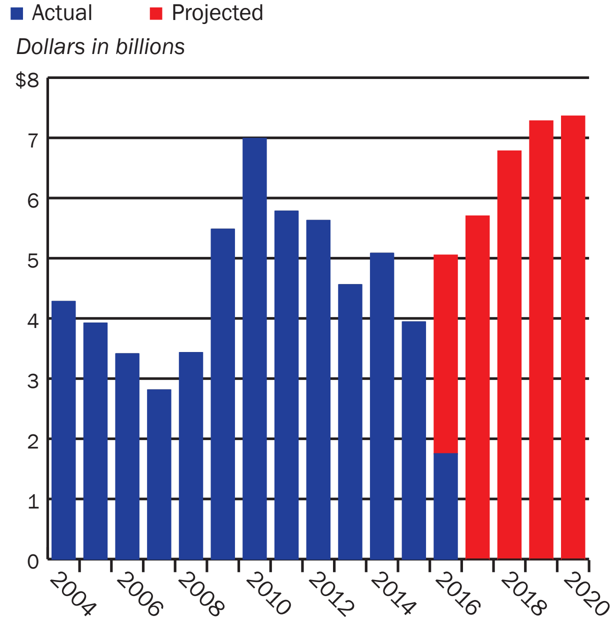
Department of Environmental Protection projects account for the second largest share, $10.0 billion or 19.1 percent, of all planned commitments from 2016 through 2019. The January 2016 plan reflects a net increase of $1.7 billion for environmental protection, with the majority ($1.1 billion) directed towards water pollution control projects, such as $510 million for retention tanks to control discharges of solids into the Gowanus Canal and $155 million for capital improvements to the Hunts Point Wastewater Treatment Plant. Planned commitments were also increased by $376 million for water treatment projects, and by $235 million for sewer projects (for example, storm sewer construction in southeast Queens).

Transportation projects are the third largest share of total planned commitments at $8.5 billion (16.2 percent of the total). The January 2016 plan increases capital funding for transportation projects by a total of $646 million (8.3 percent of the total increase). The largest project increases include $213 million to improve highways, $123 million for Select Bus Service on Woodhaven Boulevard, and $104 million for the purchase of new ferry boats.

Borrowing

To finance the January 2016 Capital Commitment Plan, the city will borrow money by issuing three types of debt: general obligation (GO), Transitional Finance Authority (TFA), and Municipal Water Finance Authority (often referred to as New York Water or NYW). General obligation debt is backed primarily by the city's property tax. TFA debt is backed by the personal income tax. NYW debt is backed by fees and charges levied on users of the New York City water and sewer systems. The proceeds of water authority debt are pledged exclusively to capital improvements for the city's water and sewer system. GO and TFA debt proceeds fund the remainder of the city-funded capital program.

Bond Issues Financed From City's General Fund



SOURCE: Mayor's Office of Management and Budget
NOTE: Includes GO and TFA new money bond issues. Excludes refunding bonds,TFA Recovery Bonds, TFA Building Aid Revenue Bonds and Muncipal Water FInance Authority Bonds.

New York City Independent Budget Office

Annual borrowing is based on the city's cash needs for capital projects. Cash needs are roughly correlated with city capital expenditures in each year. There is a much weaker relationship between either cash needs or capital expenditures and capital commitments in a given year. This is because a capital commitment (when the city registers a contract for the project) in one year can result in capital expenditures in that year, in a later year, or spread out over a few years.

City Debt Issuance Trends. The Mayor's budget office projects that the city will issue $5.1 billion in new debt in 2016, a 28 percent increase over the $3.9 billion issued in 2015. New debt issuance is expected to grow throughout the financial plan, reaching $7.4 billion in 2020. While some of this growth reflects new planned capital commitments for mayoral priorities such as Vision Zero and Select Bus Service, most of the increase compared with 2015 is due to a funding shift made last spring for school construction.

The city is now financing a greater share of education projects through GO or TFA borrowing instead of

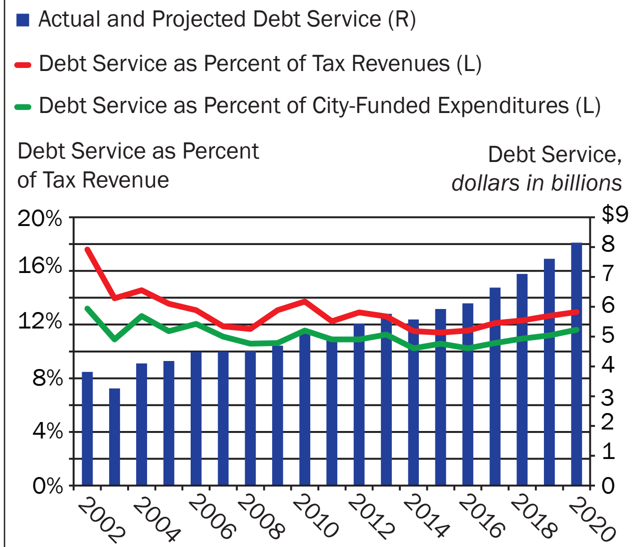
Building Aid Revenue Bonds (BARBS). In prior years, the city assigned state building aid to the TFA, which is authorized to issue BARBs to finance a portion of the city's school construction needs. Because the TFA is approaching its limit of $9.2 billion in BARBs that can be outstanding under the state legislation, this funding was shifted to city sources. The shift is effectively budget neutral because school building aid from the state will still be used to pay the bonds' debt service and it does not affect the total amount the city will borrow for school construction projects. Swapping city-funded debt for state-funded debt, however, means that a greater share of education spending qualifies as city obligations, and therefore counts against the city's debt limit. While there is currently capacity under the debt limit, this swap could ultimately leave city leaders facing difficult choices

Debt service—the cost of repaying principal and/or interest on outstanding bonds—is a function of the amount of outstanding debt and the terms that were obtained when the debt was issued. Debt service in the city budget reflects both GO and TFA borrowing, as well as several smaller obligations. Debt service for NYW borrowing is not an item in the city budget as it is paid directly by the water authority—a self-financing public benefit corporation.

Debt service, adjusted for prepayments and defeasances—which involve the use of current surplus funds to prepay future interest and principal on existing debt—is expected to total $6.1 billion in 2016, according to the Mayor's budget office. This is a 3 percent *increase* from debt service the city paid in 2015, but a 3 percent ($399 million) *decrease* from the amount forecast by the de Blasio Administration in the November 2015 Financial Plan. The Mayor's budget office now projects that the 2016 rate of interest on the city's variable rate debt will be lower than they had expected in November, saving the city $247 million this year. The Mayor's budget office lowered its assumption for the rate on variable rate tax-exempt debt from 4.25 percent to 1.0 percent, while the rate on variable rate taxable debt was reduced from 6.0 percent to 1.0 percent. Revisions to TFA debt service estimates for 2016 generate an additional $95 million in savings compared with what the city forecast in November.

Savings were recognized for 2016 in the preliminary budget, but annual debt service costs (again adjusted for prepayments) are still projected to rise over the

Debt Service and Debt Service as Shares of Tax Revenues and Expenditures



SOURCE: Mayor's Office of Management and Budget
NOTES: Figures for fiscal years 2016 to 2020 are projected. Debt service is adjusted for prepayments. Projections based on IBO tax revenue and expenditure forecasts.
New York City Independent Budget Office

next few years to nearly $8.2 billion by 2020, according to the Mayor's budget office. This is because while the city has lowered its interest rate assumptions for 2016, the de Blasio Administration's forecast for interest rates on variable rate debt in 2017 and beyond remains unchanged. It is likely that the city will continue to realize savings in the future if interest rates remain below historical norms, as IBO projects. In addition to the variable rate debt savings, in recent years the city has taken advantage of the low interest rates to refinance outstanding debt and to sell bonds at lower than forecasted rates; IBO would expect that these conditions will continue in the near term as the long-expected rise in interest rates spurred by the Federal Reserve occurs very gradually over the next two years.

The current debt service budget includes $75 million in annual debt service for short-term borrowing in 2017 through 2020, even though the city has not issued short-term notes since 2004. IBO assumes that the city will not issue the short-term debt. Reducing the debt service budget by this amount brings our estimate of debt service in 2020 down to just over $8.1 billion.

Debt service as a share of tax revenue (as forecast by IBO) is projected to total 11.6 percent in 2016, up only slightly from 11.4 percent in 2015. Measured as a share of city-funded expenditures, debt service is expected to equal 10.2 percent in 2016, down slightly from 10.6 percent last year. These ratios are both projected to grow through 2020, to 12.9 percent and 11.6 percent, respectively. Given the conservative assumptions underlying the city's debt service estimates, however, it is possible that future ratios will settle in closer to recent levels.

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