March 2017

Analysis of the Mayor's 2018 Preliminary Budget and Financial Plan Through 2021: An Overview

In November 2016 the de Blasio Administration released its first quarter modification to the city's financial plan. At the time IBO described the financial plan as a placeholder, noting that it recognized some new expenditure needs and new revenues and found some additional savings, but did not account for any potential changes that could be brought about by the new administration in Washington nor by the potential for changes in Albany. The Preliminary Budget for Fiscal Year 2018 and Financial Plan Through 2021 released in January largely maintains this holding pattern, waiting for greater clarity on federal fiscal and regulatory policy changes that could bring major disruptions to the city. With relatively modest spending increases peppered throughout various agencies, a recognition of slightly more revenue, primarily from the state and federal governments, and an additional savings program that actually lowers planned expenditures in the current year even adjusting for the effect of prepayment of other year expenses in the current year, the preliminary budget still leaves the city's budget plans very much in wait and see mode.

The following overview presents highlights from IBO's analysis of the de Blasio Administration's preliminary budget for 2018 and the financial plan for the current year through 2021.

IBO Estimates Moderately Smaller Out-Year Gaps. IBO projects an additional $133 million of resources in 2017 (all years are fiscal years unless otherwise noted), as a result of our re-estimates of expenditure projections in the January plan. These reductions in projected expenditures, coupled with IBO's estimate of $118 million more tax revenue than the Mayor's financial plan assumes, yield a total of $250 million in additional resources in 2017. These additional resources would increase the budget surplus for 2017 from $3.06 billion to $3.31 billion; barring a new need emerging in the remaining months of the fiscal year, the increased surplus estimated by IBO would be used to reduce future year budget gaps.

While the 2018 budget as presented in the January financial plan is balanced, IBO estimates that planned expenditures will exceed revenues for 2018 by $47 million.

Total Revenue and Expenditure Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Total Revenue	**$85,024**	**$85,306**	**$88,557**	**$92,037**	**$95,258**	**2.9%**
Total Taxes	54,445	56,761	59,517	62,480	65,420	4.7%
Total Expenditures	**$84,774**	**$85,306**	**$91,823**	**$94,476**	**$96,483**	**3.3%**
IBO Surplus/(Gap) Projections	**$250**	**$0**	**($3,266)**	**($2,439)**	**($1,225)**	
Adjusted for Prepayments and Debt Defeasances						
Total Expenditures	$85,757	$88,361	$91,823	$94,476	$96,483	3.0%
City-Funded Expenditures	$60,786	$64,959	$68,324	$70,452	$72,179	4.4%

NOTES: IBO projects a surplus of $3.305 billion for 2017, $250 million above the de Blasio Administration's forecast. The surplus is used to prepay some 2018 expenditures, leaving 2017 with a balanced budget. Figures may not add due to rounding.

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

	2017	2018	2019	2020	2021
Gaps as Estimated by the Mayor	**-**	**-**	**($3,313)**	**($2,510)**	**($1,793)**
Revenue					
Taxes					
Property	$71	$479	$499	$813	$1,117
Personal Income	29	33	87	45	192
General Sales	(99)	(389)	(395)	(334)	(342)
General Corporation	(15)	6	40	94	61
Unincorporated Business	(12)	(28)	(64)	(119)	(106)
Real Property Transfer	61	50	41	32	71
Mortgage Recording	52	65	67	14	43
Utility	9	8	13	17	15
Hotel Occupancy	19	36	47	56	61
Commercial Rent	4	3	(8)	(20)	(16)
Cigarette	(2)	(2)	(3)	(4)	(4)
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$118**	**$262**	**$324**	**$593**	**$1,091**
TOTAL REVENUE	**$118**	**$262**	**$324**	**$593**	**$1,091**
Expenditures					
Debt Service	$83	$113	$0	$0	$0
Miscellaneous	40	-	-	-	-
Education	(25)	(101)	(128)	(159)	(191)
Homeless Services	-	(165)	(175)	(186)	(186)
Social Services	33	26	27	26	26
Police	(25)	(50)	(50)	(50)	(50)
Fire	-	(25)	(50)	(50)	(50)
Board of Elections	-	(25)	(25)	(25)	(25)
Housing	52	(3)	(41)	(41)	(11)
Small Business Services	(15)	(27)	(27)	(27)	(27)
Correction	(10)	-	-	-	-
Parks	-	(11)	(11)	(11)	(11)
Campaign Finance Board	-	(40)	-	-	-
TOTAL EXPENDITURES	**$133**	**($308)**	**($480)**	**($523)**	**($525)**
TOTAL IBO PRICING DIFFERENCES	**$250**	**($47)**	**($156)**	**$71**	**$568**
IBO Prepayment Adjustment 2017/2018	(250)	47	203	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**$-**	**$-**	**($3,266)**	**($2,439)**	**($1,225)**

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

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IBO estimates $308 million in additional expenditure needs, primarily in education and homeless services. The additional spending is partially offset by IBO's projection that tax revenues will be $262 million greater than the de Blasio Administration is forecasting. This difference would be easily covered if the city followed standard practice and used the $250 million additional surplus that IBO estimates for 2017 to prepay 2018 expenses.

In 2019, IBO's expenditure re-estimates add $480 million to the city-funded budget, which is offset by $324 million in additional tax revenue and the use of the remainder of the 2017 surplus, $203 million, to pay for 2019 expenses. The net result of these actions is a relatively small, $47 million reduction of the 2019 gap as presented in the January financial plan, from $3.31 billion to $3.27 billion.

IBO's re-estimates of agency expenditures increase the planned expenditures by $523 million and $525 million in 2020 and 2021, respectively. These additional expenditures are offset by IBO's increased revenue forecasts of $593 million and $1.1 billion for 2020 and 2021. As a result, IBO estimates another relatively small, $71 million reduction in the 2020 gap and a slightly larger $568 million reduction in the gap for 2021. The additional resources IBO estimates would reduce the gaps stated in the January financial plan from $2.5 billion to $2.4 billion in 2020 and from $1.8 billion to $1.2 billion in 2021.

The Ecomomy and Tax Revenue

IBO's general outlook for the U.S. economy is little changed from our forecast in December. Economic growth is expected to accelerate from the 1.6 percent real GDP growth in calendar year 2016—the slowest in five years—to 2.4 percent in 2017 and 2.6 percent in 2018, sustained by consumer spending and growth in real wages as unemployment remains below 5 percent. Our forecast also assumes that the Federal Reserve successfully navigates the monetary policy challenge of gradually raising interest rates without cutting off the current expansion which is now in its eighth year. For now we have made few adjustments to our forecasts to account for potential adjustments to fiscal and monetary policy that may result from changes enacted by President Trump and the Republican-led Congress. There is little clarity on the timing and specifics of potential changes to tax policy, health care, trade, immigration, infrastructure investment, and other federal spending priorities. We have assumed that some combination of tax policy and new spending initiatives will provide a fiscal stimulus beginning later this year and continuing into 2018. But policy uncertainties and potential missteps, such as over-heating the economy through the stimulus or large reductions in trade resulting from renouncing or reworking trade agreements, make the forecast for 2018 and beyond even more tentative than usual.

The local economy is also expected to continue expanding, although job growth has slowed from its torrid pace of a few years ago, and is not expected to rebound during the forecast period. After adding 136,500 jobs in calendar year 2014, measured by gains over the 12 months, job growth slowed to 94,200 in 2015, and shrank again to an estimated 70,100 in 2016. IBO forecasts continued slowing of local job growth through 2021 when it is expected to total 41,300. As job growth has slowed, real average wages have been flat or falling, continuing a downward trend underway since 2008. Our forecast calls for modest wage gains in 2017 through 2021. The policy uncertainty emanating from Washington creates significant downside risks for our outlook, particularly in the areas of health care, trade, and immigration. But there are also some potential upsides for the local economy, depending on the choices made regarding regulation of financial markets and firms (Dodd-Frank) and tax policy, which could boost earnings and profits for securities and investment firms, and tax revenue for the city.

IBO's Forecast of Tax Revenues Exceeds OMB's. IBO's lower estimates for the budget gaps than those projected by the Mayor's Office of Management (OMB) are primarily the result of our somewhat more robust outlook for tax revenues. Overall, IBO's tax revenue forecasts exceed the Mayor's by just 0.2 percent in 2017, 0.5 percent in 2018, 0.6 percent in 2019, 1.0 percent in 2020, and 1.7 percent in 2021. While IBO's forecast is higher in each year, the differences are now notably smaller than they have been in previous IBO preliminary budget analyses. While IBO's tax revenue forecast for 2017 is now $507 million over what OMB had planned when the budget was adopted, much of the growth in expected tax revenue for the current year is the product of increased estimates in revenue from tax audits, which increased by $300 million. Revenue from tax audits, unlike traditional tax revenue, is not easily forecast and is often not correlated with current economic conditions.

In particular, IBO sees more vigorous growth in property tax collections than forecast by OMB. IBO estimates that the city will see higher property tax revenue each year, with the difference growing from $71 million in 2017, to $479 million in 2018, and reaching $1.1 billion in 2021. The higher property tax revenue reflects both IBO's projection of higher taxable values and an assumption of smaller offsets for delinquencies, cancellations, and refunds in the property tax reserve.

IBO sees only slightly higher personal income tax collections above what is currently forecast by OMB in the first years of the financial plan period, with the gap widening modestly in the out-years. Our forecasts exceed OMB's estimates for personal income tax collections by $29 million (0.3 percent) in 2017 and $33 million (0.3 percent) in 2018; the difference reaches $192 million (1.5 percent) in 2021.

IBO's forecast for real-estate related taxes exceeds OMB's forecast by 3.5 percent in both 2017 and 2018, an additional $117 million for 2017 and $118 million for 2018. The differences are slightly smaller in the last years of the plan, declining to $98 million in 2021 (2.6 percent).

IBO's business tax revenue projections are lower than OMB's for each year of the financial plan, although the differences are quite small. IBO is also projecting less sales tax revenue, although in this case the differences are more substantial, ranging from $99 million in 2017 to $395 million in 2019. Some of these differences are due to IBO's assumption that the state will continue with plans to divert a total of $400 million in city sales tax revenue in 2017 through 2019 to recover savings the city reaped by refinancing sales tax-backed bonds.

Spending

In the latest financial plan for 2017, spending totals $84.8 billion, an increase of $1.4 billion over the November plan and $2.7 billion greater than the plan at adoption last June (total citywide expenditures do not include expenses paid by one agency to another). The impression that the current year's budget is actually growing is a misconception, however. Though expenditures for 2017 as presented in the adopted financial plan in June 2016 were dampened by the use of nearly $4 billion of surplus revenues from the prior year to pay for this year's expenditures. Adjusting for the effect of these prepayments gives a more accurate view of the size of the current year's budget. After adjusting for the prepayment, the 2017 expense budget has actually decreased by $313 million since adoption and nearly $1.3 billion since November.

Have Planned Expenditures Increased Since Adoption? The January financial plan includes minimal expenditure increases in the out-years of the financial plan, after adjusting for the effects of prepayments. Since last June, total expenditures for 2018 through 2020 have grown by less than 1 percent. Over the plan period, 2017 through 2021, year-over-year spending increases by an average of 3.0 percent in the financial plan.

For a more appropriate expenditure comparison, though, it is necessary to adjust not only for the prepayment of future-year expenses with current-year revenues (more commonly known as the surplus roll) but also for any funds set aside as reserves and the restatement of expenses and revenues that were accrued in prior years (often referred to as prior-year payables). Adjusting for these items, IBO estimates the average annual growth in expenditures from 2017 through 2021 is 2.6 percent.

Most of the increase in out-year expenditures is attributable to increased recognition of state and federal funding. Each additional dollar of state and federal revenue increases overall budgeted expenditures by a dollar, without affecting the amount of city funds in the budget. Since adoption an additional $1.1 billion of federal and $744 million of state revenue has been recognized for 2017, with another $1.36 billion of federal funding and $523 million in state funding recognized in 2018 through 2020.

Increases in city-funded expenditures (expenditures funded by revenue the city generates from taxes, fees, fines and other local sources) in the January plan are primarily the result of the funding of $250 million in the capital stabilization reserve, a reserve set aside to provide funding for capital projects if interest rates spike or the city encounters other financing challenges, in each of the out-years of the plan. In prior financial plans funding for the capital reserve was budgeted at $500 million, but only for the current year.

Fringe Benefits & Debt Service Drive Spending Growth. Agency expenditures include all costs related to personal services, including salaries, fringe benefits (other than pension costs), funds held in reserve for the costs associated with future labor settlements, and any other than personal service (OTPS) costs related to agency functions. Based on the January financial plan, IBO estimates that agency expenditures will total $70.7 billion in 2017 and rise modestly to $71.9 billion in 2018 before reaching $77.3 billion in 2021. Annual increases in agency expenditures over the plan period will average 2.3 percent. Growth in agency spending is primarily driven by expected increases in the annual cost of fringe benefits, which rise from $9.6 billion in 2017 to $12.7 billion by 2021, an average annual increase of 7.2 percent.

Health insurance costs, the largest component of fringe benefits, are budgeted to increase at an even faster rate, averaging 8.2 percent per year over the plan period. This annual rate of increase in spending on health insurance is 1 percentage point above the rate projected at this time last year.

Non-agency expenditures, driven primarily by the increase in the cost of the city's debt service, are growing at a much faster rate than agency expenditures in the financial plan. From 2017 through 2021, planned debt service expenditures (adjusted for prepayments) grow from $6.3 billion to $8.4 billion, averaging 7.3 percent annual growth. Pension costs, the other major component of non-agency expenditures, are projected to grow somewhat slower than the budget as a whole. Pension costs in 2017 total $9.4 billion and are forecast to increase to $10.2 billion by 2021, average growth of 2.0 percent per year.

Budget Stabilization Account

While 2019 through 2021 are out of balance in the January financial plan as presented by the Mayor, expenditures and revenues for 2017 and 2018 are equal, as the city is required to show the current and subsequent year in balance. In order to bring 2018 into balance, the January plan includes the prepayment of certain 2018 expenses with surplus resources from 2017. OMB expects current-year expenditures to exceed current-year revenues by $3.1 billion. The preliminary budget for 2018 would use $3.1 billion of excess 2017 funds, also known as the Budget Stabilization Account (BSA), to prepay some of 2018's expenses, typically debt service costs. The preliminary budget increased the BSA by $2.6 billion since the November plan. Without the BSA funds available for prepayment of 2018 expenses, next year's budget would be out of balance and the city would be required to find other means of bringing the budget into balance.

How the BSA Has Been Funded. New York ended 2016 with just over $4 billion in surplus funds, which were used to prepay debt service costs, contribute to a reserve to pay for retiree health insurances costs, and provide a subsidy to Health + Hospitals for 2017. The BSA has been an important part of balancing the city's budget for over a decade. While the current BSA of nearly $3.1 billion, as presented in the January financial plan, is comparable in size to prior years, the way in which the city has accrued these funds is different. IBO estimates the current BSA includes just $356 million of greater-than-expected or 'excess' tax revenues, which account for less than 11 percent of the BSA for 2017. The largest share of IBO's estimated 2017 BSA, $1.2 billion, amounting to nearly 36 percent of this year's total, is derived from reserve funds in the current-year budget that are expected to be uneeded. In contrast, in 2013 through 2016, excess tax revenues averaged $2.4 billion a year and accounted for an average of 78 percent of the BSA, while funds released from current-year reserves averaged $720 million, or 23 percent. The savings programs initiated by OMB provide an additional $1.1 billion of resources towards the BSA. The 2017 BSA also includes $400 million of resources from the recognition of funds payable to the city from prior years that were not accounted for in those years. In the previous five years, prior-year payables accounted for an average of $519 million of the BSA.

OMB decided to use a portion of the current year's surplus to fund $405 million of current-year agency expenses. We estimate agency spending will be $49 million less this year, reducing OMB's cost estimate to $356 million. In prior years a portion of the surplus funds were used not only for prepayment and to pay for additional agency costs, but also pension costs and additional funding for the Retiree Health Benefit Trust fund.

While the 2017 BSA is comparable in size to recent years, its reliance on expenditure savings rather than excess revenue could be a troubling sign for future years. If the city were to continue to see little to no growth in taxes and other revenue above what is forecast in the out-years of the financial plan, it would need to rely more heavily on reductions in expenditures to close the budget gaps and bring the budget into balance.

How the Budget Stabilization Account Is Funded, Fiscal Years 2012 through 2017
Dollars in millions

	2012	2013	2014	2015	2016	2017
Tax Revenue	$5	$2,049	$2,979	$3,129	$1,570	$356
Non-Tax Revenue	874	(691)	714	13	599	404
Debt Service Savings	242	97	642	449	198	168
Citywide Savings Program	465	436	-	589	1,550	1,121
Reserve Funds	260	260	410	730	1,480	1,200
Retiree Health Benefits Trust	-	-	(1,864)	(955)	(500)	-
Prior-Year Payables	500	500	$993	100	500	400
Agency Expenses	(382)	144	(1,972)	(752)	(810)	(356)
Pension	454	(124)	(18)	44	(535)	9
Miscellaneous	44	11	125	254	(15)	3
Surplus from Prior Years	-	124	-	-	-	-
Budget Stabilization Account	**$2,462**	**$2,806**	**$2,009**	**$3,601**	**$4,037**	**$3,305**

SOURCE: IBO analysis of Mayor's Office of Managment and Budget data; Comptroller's Comprehensive Annual Financial Reports
NOTE: 2017 Budget Stabilization Account totals include IBO estimates of revenues and expenses, including $118 million in additional tax revenue, $83 million in additional debt service savings, and $49 million in reduced agency expenses.

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Cost & Savings Re-Estimates

IBO's analysis of the January financial plan finds that the de Blasio Administration is over-estimating total expenditures, including state and federal funds, for 2017 by $31 million, but under-estimating expenditures by nearly $685 million in 2018, $858 million in 2019, $901 million in 2020, and $903 million in 2021. While underestimates of noncity-funded expenditures do not increase budget gaps, they can result in service cuts if the missing funds are not replaced.

IBO projects that the de Blasio Administration has overestimated city-funded expenditures in 2017 by $133 million, while it underestimates city-funded expenditures by $308 million in 2018, $480 million in 2019, $523 million in 2020, and $525 million in 2021.

Some highlights of IBO's cost and saving adjustments:

Homeless Services: In the January financial plan $140 million ($71 million of city funds) were added to the Department of Homeless Services' (DHS) 2017 budget for the provision of shelter for homeless individuals and families, in addition to $115 million ($52 million of city funds) added in the November plan. IBO's analysis of current spending and caseload trends indicates that the de Blasio Administration's actions bring the 2017 budget to a level sufficient to accomodate the current shelter population. With the shelter population at an all-time high and few signs of an imminent decline in the census, however, IBO believes that costs related to the provision of shelter in 2018 and beyond are greatly underestimated and that additional city funds of $165 million will be required in 2018, $175 million in 2019, and $186 million in 2020 and 2021. IBO's revised cost estimates assume modest increases in the shelter population through 2018.

Along with the higher city-funded spending, IBO assumes an additional $25 million of federal and state funding in 2018 through 2021 for the increased cost of shelter services.

Department of Education: IBO's estimates of charter school enrollment exceed those assumed by the Department of Education (DOE) for each year of the financial plan. Our projection is based on the current number of charter seats for this year and expected growth as existing charters reach their full complement of authorized grades in future years. Each additional charter school student results in a per student payment from the DOE to the charter school. For the current year, we estimate that greater-than-expected enrollment in charter schools will cost the city an additional $7.4 million. The difference between IBO's and OMB's forecasts of charter school enrollment grow each year, increasing the cost to the city by nearly $45 million in 2018, $72 million in 2019, $103 million in 2020, and $135 million in 2021.

Additionally, IBO projects that DOE's estimates for Medicaid reimbursement from the federal government are overstated in the plan. DOE continues to struggle to implement the new computer system needed to meet federal requirements for processing Medicaid reimbursement claims for certain special education services. The system, which was implemented in 2013 and is currently undergoing extensive re-engineering, is still unable to meet the needs of the DOE. The Mayor's budget office has assumed that the DOE will be able to generate about $41 million in Medicaid reimbursements for 2017, but through January the agency had claimed less than $1 million of expenses for reimbursement. IBO estimates that this revenue will be roughly $18 million lower-than-budgeted in the current year and $56 million lower in each year from 2018 through 2021. In order to avoid cuts in services, lower reimbursements from the federal government will need to be offset by an equal amount of city dollars.

Debt Service: The January financial plan includes an $85 million reduction of debt service costs for 2017, much of which results from lowering the assumed rate of interest on variable rate debt from 3.3 percent (tax-exempt) and 4.6 percent (taxable) to 2.5 percent (tax -exempt) and 3.3 percent (taxable). IBO believes, however, that these rate assumptions are still well above what the actual rates will be for the year. Taking into account the relation of the variable interest rates paid by the city to the federal funds rate (the interest rate at which banks lend reserve balances to other banks overnight), IBO projects that the city will pay 1.2 percent interest on its outstanding variable rate tax-exempt debt and 2.1 percent on its outstanding variable rate taxable debt in 2017, even though we expect the Federal Reserve to raise the funds rate later this year. These changes would reduce debt service costs by $83 million in the current year. Similarly, IBO expects variable interest rates of 2.6 percent for tax-exempt debt and 4.5 percent for taxable debt in 2018, well below the rates forecast by the Mayor's Office of Management and Budget. These lower rates would reduce the cost of debt service in 2018 by $113 million.

Police Department: The New York Police Department (NYPD) has historically overspent its budgeted overtime allocation. While the department has made a concerted effort to reduce overtime, IBO expects that the current budgeted amounts will still be inadequate to cover overtime expenses. IBO estimates that the agency will require an additional $25 million in 2017 and $50 million in 2018 through 2021.

IBO's analysis of the department's federally funded budget assumes that the agency will receive additional funding in 2017 through 2021. In 2014 through 2016, the NYPD received an average of nearly $300 million in federal funds per year. Assuming that the city will receive similar levels of federal funding in the coming years, IBO estimates that the NYPD will receive an additional $75 million in federal funds for 2017 and $200 million more in federal funding for each year 2018 through 2021. This estimate does not include any assumption about additional federal funding to cover security costs associated with protecting President Trump's private residence at Trump Tower.

Fire Department: Similar to the NYPD, the fire department historically underbudgets for overtime expenses. IBO estimates that the department will require an additional $25 million in 2018 and $50 million each year from 2019 through 2021.

IBO estimates the department's federal-funds budget will be $50 million greater in 2017 and $100 million greater in each year from 2018 through 2021. These additional funds bring those years more in line with the recent average annual federal-funds expenditure of $171 million.

Human Resources Administration: The January financial plan includes approximately $1.6 billion each year of the plan period for public assistance spending. Based on our forecast of public assistance caseloads, IBO estimates that the agency will spend $48 million less in 2017 and $38 million less in each subsequent year of the financial plan. This would result in lower city-funded spending of $33 million in 2017 and $26 million annually in 2018 through 2021.

Board of Elections: The city typically underbudgets the Board of Elections (BOE) for the out-years of the financial plan. While the agency's 2017 city-funds budget is currently $130 million, its budget for each of the out-years of the plan is below $100 million. Based on average spending levels in previous years, IBO estimates that the agency will require an additional $25 million in each year from 2018 through 2021.

Campaign Finance Board: The agency's budget for 2018 totals $14 million, slightly less than the current budget for the agency. The Campaign Finance Board incurs much larger costs in citywide election years than in other years. With 2018 being a citywide election year, IBO estimates that the board will require an additional $40 million to bring the agency's budget into line with expenditures in 2014, the last citywide election year.

Citywide Savings Program

Over the last few years the de Blasio Administration has begun to formalize an internal budgetary process that invites agencies to present expenditure savings or revenue realization initiatives for inclusion in the recently designated Citywide Savings Program (CSP). The CSP presented in the January financial plan expands upon the savings plan put forward in the November financial plan. The January CSP identifies $515 million of new reductions in expenditures and increased revenue for 2017 and $581 million for 2018. These are in addition to the savings accrued in the CSP that accompanied the November plan. The combined total of the Citywide Savings Program across both the November and January financial plans is $1.2 billion in 2017, $894 million in 2018, $686 million in 2019, $690 million in 2020 and an estimated $671 million in 2021. (OMB did not present savings in 2021 as part of the November CSP. To estimate the combined savings plan for 2021, IBO derived the value of savings in the November CSP for 2021 by projecting from that plan's 2020 savings levels.)

Naturally Occurring Savings. Based on IBO's analysis, much of the savings presented in the CSP would have occurred as part of the typical budget process and did not require any efficiency or productivity improvements by the agencies. IBO estimates that 11 percent of the total savings presented in the CSP for 2017 and 2018 is the result of agency efficiencies or productivity improvements and that share increases to 19 percent for the plan period as a whole. In contrast, 41 percent of the $2.1 billion in savings presented for 2017 and 2018 is the result of modifications to debt service cost estimates or technical accounting adjustments. IBO estimates that an additional 43 percent of the CSP for 2017 and 2018 results from realizing new revenue, funding swaps (replacing city funds with funds from other sources), and spending re-estimates.

While nearly three-quarters of the initiatives presented in the Citywide Savings Program accrue savings through the entire financial plan period, IBO estimates that $546 million—26 percent of the value of the initiatives in 2017 and 2018—produce savings only in the first two years of the plan. Excluding the value of the debt service cost savings that are primarily the product of reductions in interest rate assumptions rather than the result of actions taken by the Mayor, IBO estimates that 61 percent of the estimated $4.1

billion of savings for 2017 through 2021 as presented in the November and January CSPs provide recurring savings.

The current iteration of the Citywide Savings Program differs from previous savings programs aimed at eliminating budget gaps or increasing surpluses. Past savings programs usually included a percentage target for each agency to produce either new revenue or reduce expenditures. In contrast, the current CSP encourages agencies to come up with initiatives but does not assign specific targets. Prior savings programs often included proposals that had effects on the agency's provision of service, created efficiencies, or increased productivity, often through reductions in headcount, or service cutback or elimination. While many of these savings programs were implemented during times of declining revenue and large budget shortfalls, some were done in relatively flush periods as an exercise in trimming city spending. The Mayor has indicated that the executive budget, due in April, will include another CSP with an additional $500 million in newly identified savings.

The single largest category of savings in the CSP, accounting for over $603 million of savings in 2017 and 2018 are reductions in debt service costs. These savings account for nearly 29 percent of the plan in the current and next year and 25 percent of the savings in 2017 through 2021. The assumption of new or increased revenue streams, such as from the sale of city property or from increased reimbursement rates, accounts for the second largest savings category, 19 percent of the savings in 2017 and 2018. Re-estimates of what it would cost for the city to provide certain services accounts for 13 percent of the savings in the current and next fiscal year and nearly 15 percent of the savings through the entire plan period. Other categories of savings in the CSP include $258 million in 2017 for the recognition of revenue from prior years, $53 million of reduced expenditures from accruals (savings from planned expenses that will not be needed, primarily in the current year), over $217 million in savings in 2017 and 2018 from funding swaps, $29 million in savings in the current and next fiscal year through the elimination of budgeted positions that are currently vacant, $15 million in annual savings as a result of a change in the law that allows the city to reduce mandated staffing levels, and $4 million in savings in 2017 and 2018 resulting from a delay in expenditures.

Uncertainty Still Abounds

We are over a month into the Trump presidency and there still is very little clarity on how changes in policies in Washington could affect New York City's budget. OMB is assuming $8.8 billion in revenue from the federal government for 2017. While federal revenue assumptions for the remainder of the plan period are lower than for the current year, the Mayor's budget office is still estimating approximately $7 billion of revenue flowing from Washington in each year of the plan.

President Trump recently issued an executive order that allows federal agencies to withhold grants from municipalities if these cities refuse to cooperate with

Citywide Savings Program, Fiscal Years 2017 through 2021
Dollars in millions

	2017	2018	2019	2020	2021*	Total	Percent of 2017-2018	Percent of 2017-2021
Debt Service Savings	($235.4)	($367.7)	($155.7)	($155.5)	($136.5)	($1,050.7)	28.7%	25.3%
New Revenue	(275.3)	(123.7)	(122.1)	(122.1)	(122.1)	(765.2)	19.0%	18.5%
Spending Re-estimate	(178.0)	(102.7)	(109.8)	(107.5)	(107.5)	(605.5)	13.4%	14.6%
Prior-Year Revenue	(258.4)	-	-	-	-	(258.4)	12.3%	6.2%
Efficiency/Productivity	(48.2)	(171.6)	(179.3)	(186.1)	(186.4)	(771.7)	10.5%	18.6%
Funding Swap	(125.2)	(92.6)	(92.6)	(92.1)	(92.1)	(494.6)	10.4%	11.9%
Accruals	(52.8)	(4.3)	(0.6)	(0.6)	(0.6)	(58.8)	2.7%	1.4%
Law Change	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(75.0)	1.4%	1.8%
Vacancies	(13.2)	(16.0)	(11.0)	(11.0)	(11.0)	(62.1)	1.4%	1.5%
Expenditure Delay	(3.8)	(0.4)	(0.4)	(0.4)	(0.4)	(5.2)	0.2%	0.1%
TOTAL	**($1,205.3)**	**($893.8)**	**($686.4)**	**($690.3)**	**($671.5)**	**($4,147.3)**		

SOURCE: IBO analysis of Mayor's Office of Managment and Budget data
NOTE: *The Mayor's Office of Managment did not present savings in 2021 as part of the November plan savings program. To estimate the combined savings plan for 2021, IBO derived the value of savings initiatives in the November plan for 2021 by projecting from that plan's 2020 savings levels. Figures may not sum due to rounding

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federal immigration authorities' requests to transfer undocumented immigrants held in local custody to federal agencies. While the legality of such an order and how it would be implemented continues to be debated, the threat of any loss of federal funding still looms over the city's budget process. Grants for law enforcement and public safety may be the most at risk as their close connection to immigration enforcement would make it easier for the Trump Administration to argue that the cut in federal funds is related to immigration enforcement. Any decrease in federal funding would result in a decline in service provision or would necessitate additional city funding to continue the provision of services at current levels. While unlikely, if the Trump Administration were to withdraw all federal funds from the city in 2018, maintaining city services at current levels would require an 11 percent increase in total city funds.

Throughout his campaign and into his presidency, President Trump has made a series of policy pronouncements that, if implemented, could jeopardize funding for the city. Trump's support of block grants, his plans for large-scale changes in tax policy (including capping tax deductions), and his goal to eliminate the Affordable Care Act are just a few of the policies that could have major repercussions on New York City's budget. Currently there is very little understanding of how or when such policy changes will affect the city's finances.

Growing Reserves, But Are They Sufficient? The de Blasio Administration has embraced the budget strategy of maintaining robust reserves in the event of declines in revenues or increases in spending. The 2018 budget includes $1 billion of general reserve funds and $250 million of capital reserve funds. These funds are not allocated for specific expenditures and so can be used to cover agency expenses for which revenues may not be available. In addition to these budgeted reserves, the city can tap over $4 billion in funds set aside to cover costs of health benefits for future city retirees. While these funds are only authorized to be spent on costs related to retiree health benefits, their use would free up other resources.

Although these reserve funds would enable the city to weather a small budgetary storm they would not buttress against a much longer budgetary event. Nor could the existing reserve funds replace the loss of all current federal funding.

Financial Pressures Exist Locally as Well. While the primary source of budgetary pressure is likely to come from the federal level, there are also concerns about circumstances closer to home that could threaten budget balance. The continued slowdown in employment growth and weakness in real wage growth could prove to be more severe than IBO forecasts and missteps in fiscal policy could trigger higher-than-expected inflation that could cut off growth in the U.S. economy leading to declines in current tax revenue.

Later this year the Mayor and entire City Council (as well as the Public Advocate, Comptroller, and Borough Presidents) will be up for election. While there has so far been little "election-year" funding of new and enhanced programs, there is the potential for elected officials to push for large-scale funding of such items in the future.

The Mayor and City Council have already announced one new program since the release of the preliminary budget. The proposal, to provide free legal services to low-income tenants facing eviction proceedings in New York City Housing Court, would cost an additional $93 million a year when fully implemented.

Recent appeals by members of the City Council for a subsidy to reduce the cost of the subway and bus fare for low-income riders have received support from many local officials. While Mayor de Blasio believes this subsidy should be paid for by the state, he has been rebuffed at every turn. Transit advocacy groups estimate that this plan would cost approximately $200 million per year.

The de Blasio Administration touts the fact that nearly 100 percent of the city's labor force is currently working under existing contracts. Yet the city will soon need to begin contract negotiations for a new round of collective bargaining. The city's contract with one of its largest unions, District Council 37 (DC 37), which represents over 84,000 municipal employees, will expire in July 2017. In 2018 contracts with many of the other large municipal unions, including the United Federation of Teachers, will expire. Labor negotiations are complicated affairs and this round will likely be no exception. Further complicating matters is the fact that the first negotiations will occur during an election year. A contract settlement with DC 37 would likely set the pattern for the contracts with each of the other city unions. While the de Blasio Administration has stated that any increases in compensation above the raises of 1 percent a year that are currently budgeted in the city's labor reserve would need to be paid for by reductions in the cost of health care, the ability to achieve this goal is uncertain.

Cautious Enough? The preliminary budget and financial plan released by the de Blasio Administration in January 2017 reflects an even greater level of uncertainty than most. The financial plan takes a cautious approach towards dealing with these uncertainties, with conservative estimates of revenue growth, few new expense needs, a citywide savings plan and increased reserve funds. IBO's analysis concludes that in certain areas the plan underestimates the potential cost of service provision while in others the plan underestimates certain revenue streams.

With tax revenue hewing close to projections when the budget was adopted, rather than surplus revenue, the Mayor has been forced to rely primarily on expenditure reductions to balance the budget and reduce out-year gaps.

In the coming months, the lack of confidence in the continuity of federal funding and the potential economic and financial consequences of federal policy changes may compel the city to take a more aggressive approach towards savings programs. Future savings programs may require increased reliance on efficiency and productivity savings allowing the city to avoid actual reductions in service provision or tax increases.

IBO Expenditure Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Agency Expenditures	**60,742**	**60,626**	**61,309**	**61,619**	**61,931**	**0.5%**
Fringe Benefits	9,606	10,258	10,981	11,920	12,701	7.2%
Labor Reserve	343	1,030	1,999	2,358	2,713	n/a
Total Agency Expenditures	**$70,691**	**$71,914**	**$74,289**	**$75,897**	**$77,345**	**2.3%**
Other Expenditures						
Debt Service	$5,723	$3,366	$7,098	$7,960	$8,372	7.3%*
Pensions	9,413	9,819	10,100	10,152	10,170	2.0%
Judgments and Claims	676	692	707	725	725	1.8%
General Reserve	300	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Expenditure Adjustments	10	51	160	279	408	n/a
Subtotal	**$86,813**	**$87,092**	**$93,604**	**$96,263**	**$98,270**	**3.1%**
Less: Intra-City Expenditures	($2,039)	($1,786)	($1,781)	($1,787)	($1,787)	n/a
TOTAL EXPENDITURES	**$84,774**	**$85,306**	**$91,823**	**$94,476**	**$96,483**	**3.3%**

NOTES: *Represents the annual average change after adjusting for prepayments and debt defeasances. Expenditure adjustments include energy, lease, and non-labor inflation adjustments. Expenditure totals are inclusive of intra-city expenses. Figures may not add due to rounding.

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IBO Revenue Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Tax Revenue						
Property	$24,267	$26,108	$27,791	$29,430	$31,046	6.4%
Personal Income	11,184	11,526	11,977	12,541	13,199	4.2%
General Sales	6,945	7,175	7,515	7,955	8,250	4.4%
General Corporation	3,853	3,896	4,022	4,098	4,174	2.0%
Unincorporated Business	2,057	2,127	2,201	2,269	2,377	3.7%
Real Property Transfer	1,505	1,535	1,621	1,717	1,788	4.4%
Mortgage Recording	1,113	1,059	1,130	1,154	1,201	1.9%
Utility	374	385	393	405	413	2.5%
Hotel Occupancy	587	611	634	658	681	3.8%
Commercial Rent	820	851	876	899	939	3.4%
Cigarette	42	40	38	36	35	-4.5%
Other Taxes and Audits	1,696	1,447	1,318	1,318	1,318	-6.1%
Total Taxes	**$54,445**	**$56,761**	**$59,517**	**$62,480**	**$65,420**	**4.7%**
Other Revenue						
STaR Reimbursement	$556	$535	$533	$531	$529	-1.2%
Miscellaneous Revenue	6,835	6,362	6,602	6,804	6,807	-0.1%
Unrestricted Intergovernmental Aid	57	-	-	-	-	n/a
Less: Intra-City Revenue	(2,039)	(1,786)	(1,781)	(1,787)	(1,787)	n/a
Disallowances	200	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,609**	**$5,096**	**$5,339**	**$5,533**	**$5,534**	**-0.3%**
TOTAL CITY-FUNDED REVENUE	**$60,054**	**$61,857**	**$64,856**	**$68,013**	**$70,954**	**4.3%**
State Categorical Grants	$14,369	$14,518	$14,979	$15,376	$15,690	2.2%
Federal Categorical Grants	8,947	7,371	7,171	7,168	7,140	-5.5%
Other Categorical Aid	999	902	893	884	880	-3.1%
Interfund Revenue	655	658	658	596	594	-2.4%
TOTAL REVENUE	**$85,024**	**$85,306**	**$88,557**	**$92,037**	**$95,258**	**2.9%**

NOTES: Remaining banking corporation tax revenues reported with general corporation tax. Figures may not add due to rounding.

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

	2016	2017	2018	2019	2020	2021
National Economy						
Real GDP Growth						
IBO	1.6	2.4	2.6	2.3	1.9	1.7
OMB	1.6	2.3	2.6	2.4	2.1	2.2
Inflation Rate						
IBO	1.3	2.8	2.7	3.1	2.8	2.2
OMB	1.3	2.5	2.4	2.5	2.7	2.6
Personal Income Growth						
IBO	3.5	4.7	5.4	5.3	4.7	3.7
OMB	3.6	4.8	5.2	5.3	4.9	4.7
Unemployment Rate						
IBO	4.9	4.7	4.5	4.3	4.6	5.1
OMB	4.9	4.6	4.3	4.1	4.2	4.3
10-Year Treasury Bond Rate						
IBO	1.8	2.9	3.7	4.3	4.3	4.1
OMB	1.8	2.8	3.4	3.9	4.1	4.1
Federal Funds Rate						
IBO	0.4	1.0	1.9	3.4	3.7	3.3
OMB	0.4	0.9	1.7	2.6	3.0	3.0
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (cumulative)	70.1	61.1	55.0	49.3	45.9	41.3
IBO (annual average)	91.9	54.5	55.5	52.6	44.3	44.0
OMB (annual average)	88.8	55.5	37.5	34.1	32.4	29.6
Nonfarm Employment Growth						
IBO (cumulative)	1.6	1.4	1.3	1.1	1.0	1.0
IBO (annual average)	2.2	1.3	1.3	1.2	1.0	1.0
OMB (annual average)	2.1	1.3	0.9	0.8	0.7	0.7
Inflation Rate (CPI-U-NY)						
IBO	1.1	2.7	2.9	3.2	3.0	2.5
OMB	1.1	2.5	2.4	2.5	2.7	2.6
Personal Income ($ billions)						
IBO	557.8	583.2	605.8	629.0	654.0	680.2
OMB	556.9	578.6	601.4	625.8	650.9	675.7
Personal Income Growth						
IBO	3.2	4.5	3.9	3.8	4.0	4.0
OMB	3.1	3.9	3.9	4.1	4.0	3.8
Manhattan Office Rents ($/sq.ft)						
IBO	78.2	80.7	81.5	82.3	83.1	83.9
OMB	79.6	80.5	79.5	79.8	80.0	80.0

SOURCE: IBO; 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 indexfor urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

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