

# Less Spending, More Saving

## Benchmarks to Assess the NYC Financial Plan

November 13, 2019

New York City will soon publish the first quarter update to the financial plan. The “November modification,” as it is commonly called, usually presents minor adjustments to the City’s revenues and expenses, although last week [First Deputy Mayor Dean Fuleihan](#) indicated the update would also include a savings program. Identifying recurring savings as soon as possible is particularly important this year, in part because the financial plan is also expected to reflect additional expenditures for programs that have been announced since the budget was adopted, such as spending on criminal justice and mental health initiatives.

The City budget has been growing at an accelerating pace in recent years, putting the City’s already high level of expenditure on an unsustainable trajectory. The audited financial statements released on October 31<sup>st</sup> show City-funded expenditures—those supported by City taxes, fees, and fines—grew 6.6 percent in fiscal year 2019, the highest rate since fiscal year 2012, after growing 6.1 percent in fiscal year 2018.<sup>1</sup> With economic uncertainty looming, this rapid growth puts New Yorkers at greater risk of service cuts and tax increases during a recession.

Mayor Bill de Blasio and the City Council should enter the upcoming budget season committing to prudent fiscal management that eliminates, or better yet reverses, the projected growth in the municipal workforce, increases government operational efficiency, generates substantial recurring savings, and builds reserves. Specifically, the upcoming budget and financial plan should:

- Restrain spending by offsetting new expenses with recurring commensurate savings.
  - City-funded spending, excluding reserves, is projected to grow 4.4 percent in fiscal year 2020 and 1.4 percent in fiscal year 2021; budget growth should be held to these rates.
- Keep headcount flat.
  - Fiscal years 2020 and 2021 headcount should not exceed the fiscal year 2019 year-end level of 326,739.
- Substantially increase annual agency savings targets and ensure savings recur.

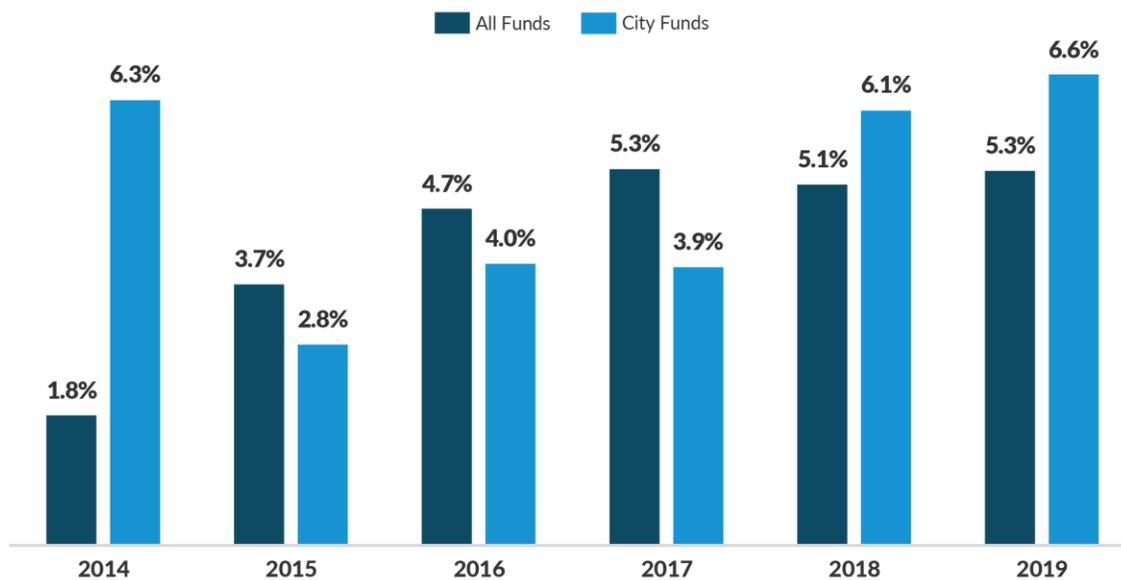
- Recurring efficiency savings should be at least 1 percent of agency budgets, which would produce \$714 million annually. This should be in addition to savings required to offset added programmatic spending.
- Increase budgetary reserves or make deposits to the Retiree Health Benefit Trust (RHBT) using additional resources generated by savings or higher than forecast revenues.

## Budget Growth through Fiscal Year 2019

Total City spending, which includes federal and State funding, reached \$92.0 billion in fiscal year 2019, a 26.4 percent increase from \$72.8 billion in fiscal year 2014, Mayor de Blasio’s first year in office. Total spending growth exceeded 5 percent in each of the last three years. Importantly, the City-funded budget grew 6.6 percent from fiscal years 2018 to 2019, following growth of 6.1 percent from fiscal years 2017 to 2018. (See Figure 1.) City-funded expenditures reached \$68.3 billion in fiscal year 2019, up from \$54.4 billion in fiscal year 2014. (See [CBC’s infographic](#) for more information on the agencies with the largest expenditure increases.)

Headcount has grown rapidly during the de Blasio Administration. (See Figure 2.) At the end of fiscal year 2019, the municipal workforce had 326,739 full-time and full-time equivalent employees, an increase of more than 29,000 since fiscal year 2014. (See CBC’s [interactive](#) feature for more details.)<sup>2</sup>

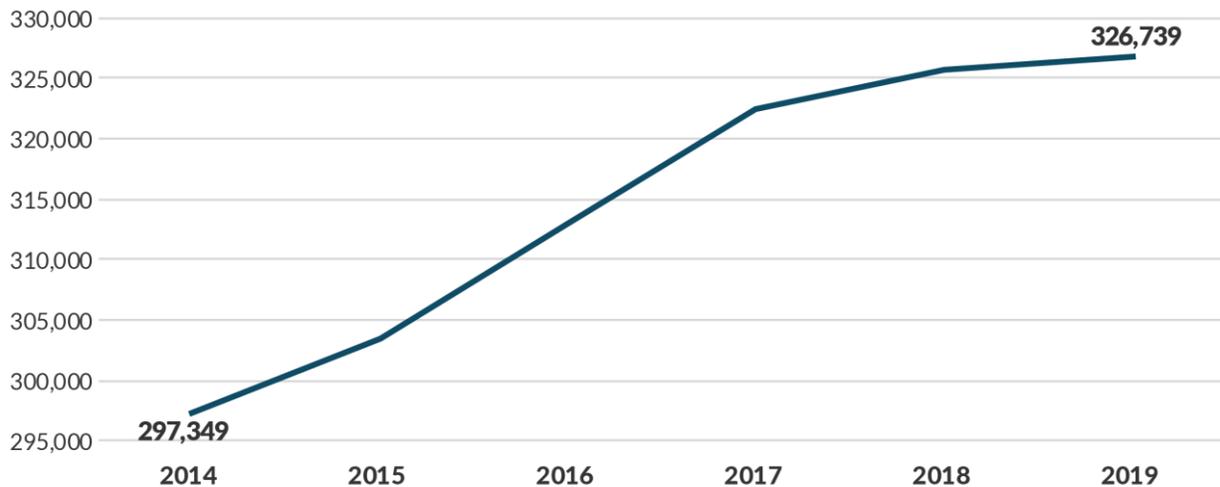
**Figure 1: NYC All Funds and City Funds Budget Growth, FY 2014 to FY 2019**



**Note:** Adjusted to exclude interfund agreements, reserves, and deposits to the Retiree Health Benefit Trust, and to adjust for the surplus roll.

**Source:** Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2019* (October 31, 2019), and fiscal years 2014 to 2018 editions.

**Figure 2: New York City Full Time and Full-Time Equivalent Year End Actual Headcount, FY 2014 to FY 2019**



**Source:** City of New York, Office of Management and Budget, emails to Citizens Budget Commission Staff (December 3, 2014, August 5, 2015, October 13, 2016, August 29, 2017, August 13, 2018, and August 30, 2019).

### Fiscal Year 2020 Budget Cycle

The fiscal year 2020 budget was adopted in June. There will be four quarterly updates to that budget and financial plan: the November 2019 modification, the Preliminary Fiscal Year 2021 Budget in January 2020, the Executive Fiscal Year 2021 Budget in April, and the Adopted Fiscal Year 2021 Budget in June. Typically spending is added to the financial plan with each budget modification.

Between June 2018 and June 2019, the fiscal year 2020 budget increased by \$2.3 billion, including \$2.1 billion in additional City-funded expenditures, much of which reflected programs identified in the City Council’s Response to the Preliminary Fiscal Year 2020 Budget.<sup>3</sup> The Administration added funds for Council initiatives in the April 2019 Executive Budget and the June 2019 Adopted Budget.<sup>4</sup> Expenditure increases included \$40 million in funding for Census 2020 outreach, \$14 million to provide support to students living in homeless shelters, \$33 million for libraries, and \$43 million for parks maintenance.

The Adopted Budget shows fiscal year 2020 spending is projected to be 4.6 percent higher than fiscal year 2019; the City-funded portion is projected to increase 4.4 percent. Total spending growth is expected to slow to 1.2 percent in fiscal year 2021, with the total budget projected to reach \$96.0 billion dollars. City funds are expected to reach \$72.4 billion in fiscal year 2021, growth of 1.4 percent.



However, the fiscal year 2020 budget and accompanying financial plan promise to be even larger than enacted in June 2019, since they do not fully reflect some agreements between the Mayor and the City Council, including programs announced after the fiscal year 2020 budget adoption. Most notably:

1. The Administration and the Council agreed to fund pay parity for pre-k teachers, district attorneys, and public defenders, and increase the indirect cost reimbursement for non-profit social service providers. The cost of those items was not included in the financial plan adopted in June and will be added in subsequent plans, once the City has determined the cost.<sup>5</sup>
2. Mayor de Blasio and the City Council have announced more than \$175 million in new programs since the adoption of the fiscal year 2020 budget, including \$146 million for criminal justice reforms, \$9 million for mental health interventions, \$19 million for the Jails to Jobs programs, and \$3.2 million to support the Brownsville community. Many of these initiatives include commitments for new municipal employees.<sup>6</sup>

### **Budget Characterized by High Spending and Insufficient Saving and Reserves**

The City's operating budget contains high spending levels and an inadequate commitment to building a budget cushion. In the event of revenue shortfalls due to a recession, the City may need to cut vital services or increase taxes to balance its budget; based on CBC analysis of the prior two recessions, tax revenues could be as much as [\\$20 billion below financial plan projections over three years](#).<sup>7</sup>

#### *Spending in Fiscal Year 2019 Exceeded Revenues*

The City's 6.6 percent fiscal year 2019 growth was bolstered by the use of fiscal year 2018 revenues. The City used these prior year revenues—courtesy of the “surplus roll”—to spend \$255 million more in fiscal year 2019 than that year's [revenues](#). This roll is accepted practice and allowed the City to balance its budget under generally accepted accounting principles in accordance with law, but the \$4.2 billion surplus rolled into fiscal year 2020 to prepay expenses was smaller than the \$4.6 billion surplus the City rolled in at the beginning of the year.<sup>8</sup> This is concerning. The surplus roll has typically grown during economic expansions as a way to bolster the City's fiscal cushion.<sup>9</sup>

#### *Efforts to Reduce Costs Inadequate*

The City's savings efforts have been inadequate in two ways: first, they have not generated enough savings to offset new spending; and second; they have done little to increase operational efficiency. Since the Executive Fiscal Year 2016 Budget, savings plans (both Citywide Savings Programs and later Programs to Eliminate the Gap) have saved between 0.97 percent and 1.86 percent of City-funded spending. CBC estimates efficiencies were just 15.5 percent of all of savings announced between the Executive Fiscal Year 2016 Budget and the Executive Fiscal Year 2020 Budget.<sup>10</sup> As a share of City-funded expenditures, savings from the efficiency initiative have been between 0.19 percent and 0.25 percent of City-funded expenditures.<sup>11</sup> (See Table 1.)

**Table 1: Savings Plan and Efficiency Initiative Savings as a Share of City-Funded Expenditures**  
(dollars in millions)

Financial Year Budget Cycle	Cumulative Five-Year City Funded Spending	Cumulative Five-Year Total Savings	Total Savings as a Percent of City- Funded Expenditures	Cumulative Five-Year Efficiency Savings	Efficiency Savings as a Percent of City- Funded Expenditures	Efficiency Savings as a Share of Total Savings
FY 2016	\$300,150	\$2,906	0.97%	\$721.6	0.24%	24.8%
FY 2017	\$318,618	\$5,411.6	1.70%	\$805.6	0.25%	14.9%
FY 2018	\$329,658	\$6,133.4	1.86%	\$791.5	0.24%	12.9%
FY 2019	\$344,277	\$4,669.9	1.36%	\$770.9	0.22%	16.5%
FY 2020	\$360,864	\$3,151.5	0.87%	\$685.7	0.19%	21.8%

**Sources:** City of New York, Mayor’s Office of Management and Budget, *Citywide Savings Program: Fiscal Year 2020 Executive Budget* (May 9, 2019), and Fiscal Years 2016 to 2019 *Executive Budget: Citywide Savings Program*.

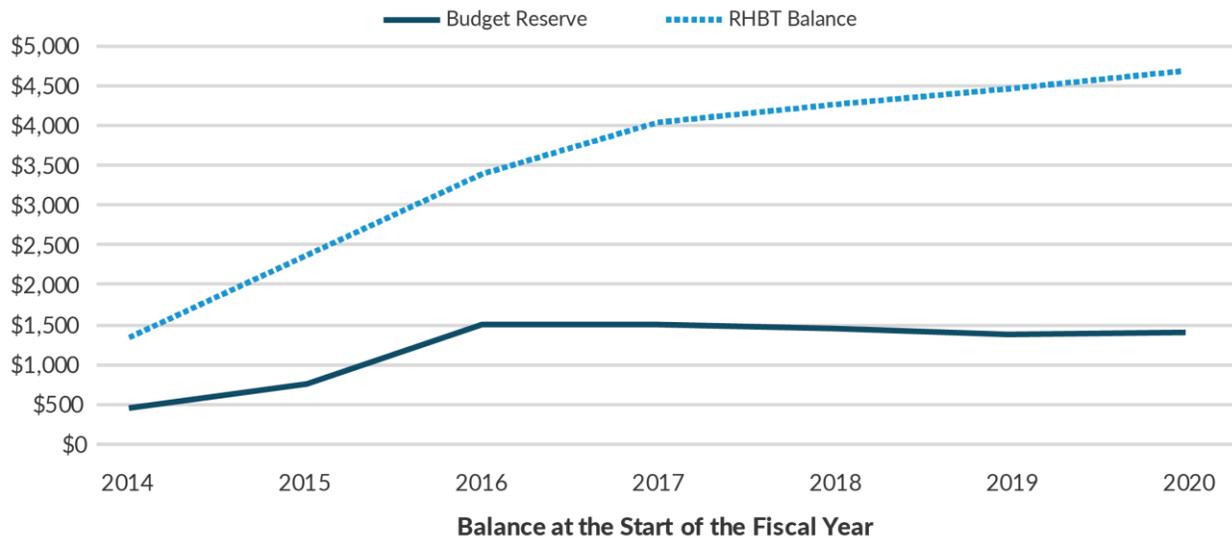
*Waning Commitment to Increase Reserves and Assets*

The City has increased the amount it has set aside in annual budget reserves and in the Retiree Health Benefits Trust (RHBT), but savings rates have leveled as spending has accelerated. The Administration increased the reserves in each year’s budget from \$300 million when it came into office to \$1.4 billion in fiscal year 2020. While this increase is positive, these annual reserves are not like a savings account that accumulates a balance over time. They are spent down during the course of each fiscal year.

The RHBT has grown to a record \$4.7 billion; however, after significant increases to RHBT balances in fiscal years 2015 to 2017, subsequent annual deposits have been smaller. (See Figure 3.) The Administration includes these funds when it discusses resources it has to ameliorate the impact of a possible recession; but, the RHBT was set up to accumulate funds to pay retiree health benefit costs.

**Figure 3: New York City Budget Reserve and Retiree Health Benefit Trust Fund Balance at the Beginning of the Fiscal Year**

(dollars in millions)



**Sources:** City of New York, Mayor's Office of Management and Budget, *Financial Plan: Fiscal Year 2020 Adopted Budget*, and fiscal year 2014 to 2019 adopted budgets; and Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2019* (October 31, 2019), and fiscal years 2014 to 2018 editions.

## What the Mayor and City Council Should Do

The current economic expansion is the longest of the post-World War II period. The Administration and the City Council should take actions to better position the City for a likely economic downturn by: restraining spending growth, maintaining or decreasing headcount, setting ambitious savings targets for agencies, and dedicating revenue above the current forecast amount to bolstering the reserves.

- Restrain city-funded spending growth by offsetting new expenses with recurring savings elsewhere in the budget.** City-funded spending, excluding reserves, is projected to grow 4.4 percent in fiscal year 2020 and 1.4 percent in fiscal year 2021. Initiatives that have been announced but not yet funded will drive those figures higher, as will “new needs” and other items customarily added to the financial plan through the budget cycle. Spending growth should be held to these levels through restraint in adding expenses and more rigorous savings program.
- Keep headcount flat.** Fiscal year 2019 ended with a workforce of 326,739—29,390 more positions than at the end of fiscal year 2014. Instead of further increases—current projections show an additional 11,085 positions by fiscal year 2022—total city headcount should be held flat, if not reduced.<sup>12</sup>

- **Set ambitious savings targets for agencies to generate recurring savings.** The Mayor should require all agencies to improve operations continually and generate savings. Ambitious savings targets should be established, and all agencies should be required to identify and implement budget savings from improved operational efficiency equal to at least 1 percent of an agency's city-funded budget. This would be four to five times the typical level of efficiency savings identified during the de Blasio Administration and would translate to \$714 million in recurring savings.
- **Bolster savings.** Any additional City revenue above the current financial plan should be used to increase the surplus roll, which can then increase the budgetary reserves. While the RHBT is not a reserve, the City should continue to increase the fund's balance; further deposits would be an appropriate use of City resources.

By Ana Champeny

## FOOTNOTES

1. All budget and budget growth calculations in this blog are based on CBC-adjusted figures, which adjust reported expenditures to exclude interfund agreements, reserves, deposits to the Retiree Health Benefit Trust, and to adjust for the annual impact of the surplus roll.
2. Headcount under Mayor de Blasio is higher than under Mayor Michael Bloomberg, as well. The fiscal year 2019 level is nearly 16,000 positions higher than the previous peak, reached in fiscal year 2008 prior to the most recent recession.
3. New York City Council, *The New York City Council's Response to the Fiscal 2020 Preliminary Budget and Fiscal 2019 Preliminary Mayor's Management Report* (April 9, 2019), [https://council.nyc.gov/budget/wp-content/uploads/sites/54/2019/04/Fiscal-2020-Preliminary-Budget-Response\\_FINAL-1.pdf](https://council.nyc.gov/budget/wp-content/uploads/sites/54/2019/04/Fiscal-2020-Preliminary-Budget-Response_FINAL-1.pdf).
4. Adjusted City-funded expenditures increased by \$1.5 billion between the Preliminary Fiscal Year 2020 Budget and the Adopted Fiscal Year 2020 Budget; headcount increased by 743 positions. See: City of New York, Mayor's Office of Management and Budget, *Financial Plan: Adopted Fiscal Year 2020* (June 19, 2019), *Mayor's Message: Executive Fiscal Year 2020* (April 25, 2019), <https://www1.nyc.gov/assets/omb/downloads/pdf/mm4-19.pdf>, *Financial Plan Detail: Preliminary Fiscal Year 2020* (February 7, 2019), <https://www1.nyc.gov/assets/omb/downloads/pdf/tech2-19.pdf>, *Full-Time and Full-Time Equivalent Staff Levels: Adopted Fiscal Year 2020* (June 19, 2019), <https://www1.nyc.gov/assets/omb/downloads/pdf/adopt19-stafflevels.pdf>, and *Full-Time and Full-Time Equivalent Staff Levels: Preliminary Fiscal Year 2020* (February 7, 2019), <https://www1.nyc.gov/assets/omb/downloads/pdf/feb19-stafflevels.pdf>.
5. Two deals on pay parity for pre-k teachers in District Council 37 Locals 205 and 95 were announced in recent months; however, the full budgetary implications of the commitments are not yet available. The City has also not yet provided detailed estimates for the cost of extending the pre-k pay parity deal to the remaining pre-k teachers, the cost to achieve pay parity for public defenders and district attorneys, and the cost of higher indirect rate reimbursement. The New York City Comptroller estimates the fiscal year 2020 cost of pay parity for pre-k teachers, if extended to the full workforce, would be \$29.3 million (though some of this may already be reflected in the City's labor reserve.) See: Office of the New York City Comptroller, *Comments on New York City's Fiscal Year 2020 Adopted Budget* (August 7, 2019), <https://comptroller.nyc.gov/reports/comments-on-new-york-citys-fiscal-year-2020-adopted-budget/>.

6. Some additional funding will not be reflected in fiscal year 2020 and will increase expenditures in fiscal year 2021 or later. City of New York, Office of the Mayor, “City Invests \$391 Million in Communities and Comprehensive Reforms to the Criminal Justice System” (press release, October 17, 2019), <https://www1.nyc.gov/office-of-the-mayor/news/491-19/city-invests-391-million-communities-comprehensive-reforms-the-criminal-justice-system>, “Mayor de Blasio, First Lady McCray and City Council Members Announce \$37 Million Annual Investment in New Strategies to Address Serious Mental Illness” (press release, October 21, 2019), <https://www1.nyc.gov/office-of-the-mayor/news/496-19/mayor-de-blasio-first-lady-mccray-city-council-members-37-million-annual-investment>, “Jails to Jobs: City Expands Re-Entry Services and Training for Justice-Impacted Individuals” (press release, October 15, 2019), <https://www1.nyc.gov/office-of-the-mayor/news/486-19/jails-jobs-city-expands-re-entry-services-training-justice-impacted-individuals>, and “Mayor de Blasio Announces Nearly \$9 Million in Funding to Support Brownsville Following Mass Shooting” (press release, August 6, 2019), <https://www1.nyc.gov/office-of-the-mayor/news/381-19/mayor-de-blasio-nearly-9-million-funding-support-brownsville-following-mass>; and Dean Fuleihan, City of New York, Office of the Mayor, letter to Speaker Johnson and Council Member Ayala, Chin, Levin and Koslowitz (October 18, 2019), [http://council.nyc.gov/data/wp-content/uploads/sites/73/2019/10/BBJ\\_Points\\_of\\_Agreement\\_Rikers.pdf](http://council.nyc.gov/data/wp-content/uploads/sites/73/2019/10/BBJ_Points_of_Agreement_Rikers.pdf).
7. Ana Champeny, “NYC Revenues in a Recession: Quantifying the Potential Shortfall,” *Citizens Budget Commission Blog* (February 26, 2019), <https://cbcny.org/research/nyc-revenues-recession>.
8. Ana Champeny, Andrew Rein, and Maria Doulis, “When the Smoke Clears: Despite Continued Strong Growth, NYC Spent More than in Received in 2019,” *Citizens Budget Commission Blog* (June 30, 2019) <https://cbcny.org/research/when-smoke-clears>.
9. Using the surplus roll during economic expansions is a deficiency in the City’s current approach to building reserves. See: Charles Brecher, Thad Calabrese, and Ana Champeny, *To Weather a Storm: Create an NYC Rainy Day Fund* (Citizens Budget Commission, April 18, 2019), <https://cbcny.org/research/weather-storm>.
10. This analysis relies on CBC’s categorization of initiatives; the City considers a broader range of initiatives as efficiency programs and therefore reports a higher share of the savings programs come from efficiency initiatives.
11. Since the ability to achieve efficiency savings in the current year is limited, another way to look at efficiencies is as a share of city-funded expenditures for only the four future years in the financial plan. Under that approach, efficiencies as a share of City-funded expenditures increases modestly to 0.28 percent in fiscal year 2016 budget cycle, 0.29 percent in the fiscal year 2017 budget cycle, 0.29 percent in the fiscal year 2018 budget cycle, 0.25 in the fiscal year 2019 budget cycle, and 0.23 percent in the fiscal year 2020 budget cycle.
12. City of New York, Mayor’s Office of Management and Budget, *Full-Time and Full-Time Equivalent Staff Levels: Adopted Fiscal Year 2020* (June 19, 2019), <https://www1.nyc.gov/assets/omb/downloads/pdf/adopt19-stafflevels.pdf>