THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER

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COMPTROLLER

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TO THE PEOPLE OF THE CITY OF NEW YORK

I am pleased to present The City of New York's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2017. This report, the fourth issued under my administration, shows that The City of New York (City) completed its fiscal year with a General Fund surplus, as determined by Generally Accepted Accounting Principles (GAAP), for the 37th consecutive year.

The General Fund remains a primary indicator of the financial activity and legal compliance for the City within the financial reporting model promulgated by the Governmental Accounting Standards Board (GASB). The General Fund had revenues and other financing sources in Fiscal Year 2017 of $83.468 billion and expenditures and other financing uses of $83.463 billion, resulting in a surplus of $5 million. These expenditures and other financing uses include transfers and subsidy payments of $4.180 billion to help eliminate the projected budget gap for Fiscal Year 2018. Fiscal year expenditures and other financing uses were $3.482 billion more than in Fiscal Year 2016, an increase of 4%. Excluding the transfers and subsidy payments to eliminate future fiscal year projected gaps, expenditures and other financing uses increased by $3.340 billion or 4.4%. A detailed analysis of the City's fund and government-wide financial statements is provided in Management's Discussion and Analysis (MD&A), which immediately precedes the basic financial statements contained in this report.

ECONOMIC CONDITIONS IN FISCAL YEAR 2017 AND OUTLOOK FOR FISCAL YEAR 2018

The City's Economy in Fiscal Year 2017

The City's economy continued to grow in Fiscal Year 2017, registering a 2.1% increase in real gross city product (GCP). While this was the slowest growth since 2012, the City has outperformed national GDP growth for the fifth consecutive year. Consistent with GCP growth, jobs in the City, household employment (City residents who are working), and hourly earnings also continued to grow. The City's private sector added 69,600 jobs in Fiscal Year 2017, a gain of 1.9%, down somewhat from Fiscal Year 2016's 2.9% gain.

Of the 69,600 new jobs, 54.5% were in low wage industries (such as bars and restaurants) paying less than $60,000 on average; 23.4% were in higher wage industries (such as financial services), which pay more than $119,000; and 22.1% were in the middle (such as construction). Export sector employment (jobs providing goods and services to people and firms outside of the City proper, including finance, legal services, and information) added 33,100 (47%) of the new jobs. This is good news as export sector jobs generally spur growth in local sector employment, which provides support and services for the export sector and the local population. The City's position as a service industry and headquarters city was buoyed by the addition of 28,600 new office jobs.

More City residents are employed (nearly 58%) than in any other time since such statistics have been recorded. The unemployment rate fell to 4.8% in Fiscal Year 2017, the lowest rate since Fiscal Year 2007. The City's labor force grew by 37,427, bringing it to a record level of almost 4.2 million New Yorkers in the labor force. As a result, the labor-force participation rate rose to a record high of 60.6%. The unemployment rate improved in all five boroughs in Fiscal Year 2017, reaching their lowest levels in at least a decade. It fell to 4.2% in Queens and Manhattan, 4.8% in Staten Island, 4.9% in Brooklyn, and 6.5% in the Bronx.

As might be expected in a tighter labor market, earnings and wages increased in Fiscal Year 2017. Average hourly earnings of all private New York City employees rose 2.7%, considerably higher than the 1.4% growth in Fiscal Year 2016.

Other indicators of the City's economic wellbeing in 2017 included:

- Strong growth in pre-tax profits of New York Stock Exchange member firms, which, at $20.3 billion in Fiscal Year 2017, were 65.6% higher than the $12.3 billion in Fiscal Year 2016.
- Robust commercial and residential real estate markets in Fiscal Year 2017. New commercial leasing activity in Manhattan approached 1.6 million square feet (msf), 6.0% higher than Fiscal Year 2016. Manhattan's overall office vacancy rate, including sublease space, rose to 9.3% in Fiscal Year 2017 from 8.8% in Fiscal Year 2016, but this was due to new space coming on the market. Total inventory in Manhattan increased by about 2.8 msf and total available space increased by 2.0 msf.
- Housing markets in the City also showed strength. Median sales prices rose 15% and the number of sales increased by 23.1% in the fourth quarter of Fiscal Year 2017, on a year-over-year basis. Over the same period, on a year-over-year basis, median prices grew 12.9% in the Bronx, 20.6% in Brooklyn, 5.4% in Manhattan, 9.7% in Queens, and 15.2% in Staten Island. Rents fell slightly in Manhattan and Brooklyn, but edged slightly higher in Queens in June, on a year-over-year basis.
- Venture capital investment in the New York metropolitan area increased to 13.6% of total U.S. venture capital investment in Fiscal Year 2017, the highest level since Fiscal Year 2005. The New York metro area ranks third after San Francisco and Silicon Valley in dollars of venture capital invested.

The Outlook for the City's Economy

Economic growth is expected to continue in both the City and the U.S. at a moderate pace in Fiscal Year 2018.

National economic factors that support a moderate pace of growth are strong consumer demand and increases in private investment and government expenditures. Consumer demand should remain strong because of personal income growth caused by tightening labor markets, low inflation, increasing wealth from strong housing and stock markets, and high consumer confidence.

Private investment is expected to increase because of strong corporate profit growth. Corporate profits rose 4.1% in Fiscal Year 2017 after declining 7.1% in Fiscal Year 2016. This should provide an incentive for corporations to invest more. Government expenditures are expected to increase partly because of expected increases in defense spending and emergency and recovery aid in the wake of hurricanes Harvey, Irma, and Maria.

Finally, the international economy is bouncing back. The European Central Bank and the Bank of Japan are continuing their highly accommodative monetary policies. There are still uncertainties regarding Brexit and there is a small chance of a hard landing for the Chinese economy, but in general the economies of the United States' main trading partners are performing well.

Despite the cautious optimism suggested by most economic indicators, there are some downside risks that bear mention.

Throughout the expansion the Federal Reserve Board ("the Fed") has maintained accommodative monetary policy in the form of low interest rates and through asset purchases for its balance sheet. Despite a relatively tepid growth rate—averaging just 1.9% since the recovery began in 2010—the Fed's policies have brought the U.S. economy back into full employment territory. At the same time, despite the low headline unemployment rate, there is little sign of accelerating inflation. The tradeoff between full employment and price stability, embodied in the Phillips Curve, thus appears to be weaker than expected. The Fed's view of this relationship will determine its policy responses, which in turn can either help to sustain continued moderate growth, or, if overly hawkish, choke it off. At the time of this writing, indications are that the Fed is inclined to take a slow and cautious approach to contractionary monetary policy.

Downside risks to the economy are the uncertainty associated with the timing and the size of the Fed's contractionary monetary policy (increasing interest rates too much or too fast), a political stalemate in Washington, and geopolitical risks.

In general, however, these risks so far appear modest, and the risk of a recession remains low in the short term. This should allow the City to maintain reasonable growth in the coming year.

REPORTS FROM THE DIVISIONS AND BUREAUS OF THE COMPTROLLER'S OFFICE

BUREAU OF BUDGET

Division of Fiscal and Budget Studies

The Division of Fiscal and Budget Studies in the Comptroller's Bureau of Budget monitors the City's finances, capital spending, and economy. In analyzing the City's budget and financial plan, the division focuses on the City's debt capacity and economic outlook. After each budget modification, the division conducts an in-depth analysis of the Mayor's budget proposal and shortly thereafter releases a report to the general public that highlights the major findings. The report reviews the main components of the City's budget, analyzing the soundness of the City's budgetary and economic assumptions, changes in expense and capital budget priorities, and financial and economic conditions and developments affecting the City's fiscal outlook and budget. Modification of the City's current year budget and four-year financial plan occurs quarterly during the fiscal year. Coinciding with the release of quarterly modifications, the budget review and preparation generally adheres to the following cycle: (1) the Mayor's submission of a preliminary budget for the ensuing fiscal year in January, (2) the Mayor's presentation of the Executive Budget to the City Council in April, (3) budget adoption prior to July 1, the beginning of the new fiscal year, and (4) the first quarterly modification to the Adopted Budget, which is typically released in November. As part of the budget process, the division prepares a number of reports and letter statements as mandated by the New York City Charter:

- An annual report to the City Council on the state of the City's economy and finances by December 15, including an evaluation of the City's updated financial plan.
- An annual report on the City's capital debt and obligations including the maximum amount of debt the City may soundly incur in subsequent fiscal years and the indebtedness against the General Obligation debt limit in the current and subsequent three fiscal years as stipulated by the New York State Constitution.
- A certified statement of debt service submitted by the Comptroller to the Mayor and the City Council by March 1. The statement, which is published in The City Record, contains a schedule of the appropriations for debt service for the subsequent fiscal year.
- A letter statement certifying the Adopted Budget Resolutions and filed with the City Clerk.

Fiscal Year 2017 Analysis

The City adopted a Fiscal Year 2017 (July 1-June 30) budget totaling $81.47 billion (less Interfund Agreements) on June 14, 2016. Actual Fiscal Year 2017 tax revenues were $19 million more than projected in the Fiscal Year 2017 Adopted Budget. Non-tax City-funds revenues were $1.19 billion more than projected in the Fiscal Year 2017 Adopted Budget, aided by a $573 million reduction in the reserve for disallowances of Federal, State and other aid. The elimination of a $1 billion General Reserve and $500 million Capital Stabilization Reserve for Fiscal Year 2017, debt service savings of $518 million, and a net decrease of $1.05 billion in all other City-funds expenditures, along with the aforementioned revenue increases provided the City with $4.28 billion in additional resources above the Adopted Budget projections.

The additional resources cited above allowed the City to prepay $1.909 billion of Fiscal Year 2018 New York City Transitional Finance Authority debt service, $1.56 billion of Fiscal Year 2018 General Obligation debt service, $400 million of Fiscal Year 2018 pay-as-you-go retiree health benefits, and $300 million of Fiscal Year 2018 subsidies to NYC Health and Hospitals Corporation (HHC). The remaining resources were used to deposit an additional $100 million into the Retiree Health Benefits Trust above the required retiree pay-as-you-go health benefits for Fiscal Year 2017 and support $11 million in net equity contribution in bond refunding.

Division of Financial Analysis

The Division of Financial Analysis (DFA) within the Bureau of Budget monitors the daily cash balance in the City's Central Treasury to ensure adequate levels of cash-on-hand throughout the fiscal year. DFA forecasts daily cash balances to determine the potential need and timing for seasonal borrowing. The Comptroller issues a Cash Letter with these projections and regularly updates it throughout the year. DFA also prepares the Quarterly Cash Report, which provides an overview of the City's cash position and highlights major changes during the quarter. The City's Central Treasury carried an average daily unrestricted cash balance of $9.51 billion during Fiscal Year 2017, with a fiscal year-end balance of $9.34 billion. For the thirteenth consecutive year, the City did not need to issue short-term notes.

BUREAU OF LAW AND ADJUSTMENT

The Bureau of Law & Adjustment (BLA) is responsible for carrying out the Comptroller's Charter-mandated responsibility of adjusting claims for and against the City.

Claims against the City arise out of the vast undertakings of City agencies and HHC. The City is generally uninsured with respect to risks, including, but not limited to, property damage and personal injury claims. Typically, the cost of claims is paid out of the City's General Fund.

The City spent $750 million on judgments and claims in Fiscal Year 2017, an increase of $30 million from the prior year. The Comptroller's Office also approved approximately $9.3 million in affirmative settlements—that is monies paid to the City based on its claims against others—in Fiscal Year 2017.

In Fiscal Year 2017, the Comptroller's Office collected $8.2 million from claimants who received settlements from the City and who had outstanding obligations to the City for public assistance and child support. This achievement was made possible by partnering with other City agencies, particularly with the Human Resources Administration/Department of Social Services, to improve the automated City systems.

The Comptroller's Office continues to expand efforts to collect compensation from those who have damaged City property. In Fiscal Year 2017, the Comptroller's Office collected $1.93 million in property damage affirmative claims.

The Comptroller's Office has been successfully working with the New York State Office of Victims Services and the New York State Attorney General's Office to identify settlements reached with convicted persons from which victims can recover money (Son of Sam Law-New York State Executive Law § 632-a). BLA collected a total of $658,355 in settlements for victims of crime by the end of Fiscal Year 2017. As of the end of the fiscal year, the Comptroller was withholding $1.12 million pending the outcome of crime victims' civil actions against the convicted persons' settlements.

BUREAU OF LABOR LAW

The Bureau of Labor Law (BLL) sets and enforces prevailing wage and supplement rates for workers performing:

1. Construction, alteration and repair of City public works projects under New York State Labor Law (Labor Law) Article 8;
2. Building services on City contracts under Labor Law Article 9 and at properties receiving tax exemption benefits under New York State Real Property Tax Law (RPTL) § 421-a;
3. Street excavations by utilities under New York City Administrative Code (NYC Admin. Code) § 19-142; and
4. Food services and temporary office services on City contracts under NYC Admin. Code § 6-109.

BLL also enforces living wage and supplement rates for employees performing Homecare, Day Care, Head Start and Cerebral Palsy services on City contracts under NYC Admin. Code § 6-109, enforces minimum average hourly wages for construction workers on properties receiving tax exemption benefits under RPTL § 421-a (16)(c) and investigates alleged violations of prevailing wage and living wage laws for building service and other employees of entities receiving financial assistance from the City under NYC Admin Code. §§ 6-130 and 6-134.

In Fiscal Year 2017, BLL assessed over $4.3 million in underpayments and interest against City contractors. In addition, BLL assessed over $770,000 in civil penalties against those City contractors. During the same fiscal year, BLL opened up 70 new cases and resolved 84 cases. In that same time period, BLL debarred 9 contractors from New York State and City public works for egregious conduct.

During Fiscal Year 2017, BLL also:

- Appealed and successfully overturned a state court judgment vacating prevailing wage rates set for concrete and asphalt paving in fiscal years 2011 through 2014 on the basis that the Comptroller failed to prove that the required 30 percent of workers performing this work in New York City earned those rates. The appellate court found that the Comptroller had justifiably relied upon a bona fide collective bargaining agreement for the work in question, and that the burden of proof was on the industry trade association challenging the Comptroller's prevailing wage rates to prove that less than 30 percent of the trade earned those collectively bargained rates.
- Won a judgment in state court upholding the Comptroller's methodology and interpretation of data in setting prevailing wage rates for elevator repair and maintenance work after conducting an investigation which included review of payroll, annuity and license records to determine which of two unions had more members performing the relevant work in New York City.

- Assisted the New York City Department of Housing Preservation and Development (HPD) in promulgating new regulations in the Rules of the City of New York concerning enforcement of prevailing wages for building service employees at properties receiving tax exemption benefits under RPTL § 421-a.

In addition, in May 2017 the Comptroller issued an order after a four-day trial at the New York City Office of Administrative Trials and Hearings assessing over $3.2 million in unpaid prevailing wages with interest and penalties against K.S. Contracting Corp. and its owner, and debarring them from New York City and State public works contracts for five years. The multi-year investigation included subpoenas to banks and check-cashing facilities, video evidence, review of City agency records and union records, discovery of a dual set of company books and persistent outreach to the immigrant workers to uncover a kickback scheme that preyed on immigrant workers.

BUREAU OF PUBLIC FINANCE

The Comptroller's Bureau of Public Finance is charged with issuing debt to finance the City's capital program and managing the City's portfolio of outstanding bonds, in conjunction with the Mayor's Office of Management and Budget. The City borrows for capital projects in accordance with its capital plan and budget and Comptroller's Directive #10, which allows for borrowing on projects with a useful life of five years or longer and costing $35,000 or more.

In Fiscal Year 2017, the City and the New York City Transitional Finance Authority, which is a blended component unit, issued $8.37 billion of long-term debt to finance the City's capital needs. The New York City Municipal Water Finance Authority (Water Authority), a discretely presented component unit, issued $2.83 billion of long-term debt to finance the City's water- and sewer-related capital needs. Also, the New York City Tax Lien Trust, NYCTLT 2016-A, sold $64.98 million of bonds to monetize delinquent taxes and other liens.

The City and its related issuers enjoyed a continued low interest rate environment in Fiscal Year 2017. In addition to financing its new money capital money needs mentioned above at attractive rates, the City was able to refinance outstanding high-coupon bonds to provide direct budget relief to City taxpayers and to water and sewer ratepayers. A total of $2.80 billion of refunding bonds were issued through the General Obligation (GO), New York City Transitional Finance Authority (TFA), and Water Authority credits. This accounted for 25% of the total issuance for these credits and generated a total of $437.15 million in budgetary savings over the life of the bonds. In addition, TSASC, Inc. and the Hudson Yards Infrastructure Corporation issued $1.10 billion and $2.14 billion of refunding bonds, respectively.

The City and its related issuers file required continuing disclosure relevant to their respective bondholders with the Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA). These disclosures are available at emma.msrb.org.

General Obligation (GO)

New York City GO bonds have been issued for over 200 years and are backed by the City's faith and credit. All real property subject to taxation by the City is subject to the levy of ad valorem taxes, without limitation as to rate or amount, to pay the principal of and interest on GO bonds.

- As of June 30, 2017, the City's outstanding GO debt totaled $37.89 billion, consisting of $30.84 billion of fixed rate bonds and $7.05 billion of variable rate bonds.
- The City issued both refunding and new money GO bonds in Fiscal Year 2017. The City issued $2.28 billion of new money bonds and a total of $900.07 million to refund a portion of its outstanding bonds at lower interest rates. In Fiscal Year 2017, the City also converted $209.83 million of outstanding bonds from variable rate mode to fixed rate mode.
- The City's refunding strategy of focusing on currently-callable bonds allowed for an efficient, high-value refunding. The GO refunding will generate $133.68 million in budgetary savings over the life of the bonds and approximately $118.81 million of savings on a net present value basis.

New York City Transitional Finance Authority (TFA)

Future Tax Secured Bonds (FTS)

The TFA, a bankruptcy-remote separate legal entity, is authorized to issue debt secured by the City's collections of personal income tax and, if necessary, sales tax. TFA is authorized to have $13.50 billion of FTS debt outstanding, without limitation. In addition, State law provides that further FTS Bonds outstanding over the $13.50 billion limit, together with the amount of indebtedness contracted by the City, cannot exceed the debt limit of the City.

In September 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs relating to or arising from the events of September 11, 2001 (Recovery Bonds). The TFA has issued $2 billion in Recovery Bonds. TFA Recovery Bonds do not count against the debt limits described above.

- As of June 30, 2017, the total debt outstanding of TFA FTS Bonds was $32.81 billion, consisting of $989.78 million of Senior Bonds and $31.82 billion of Subordinate Bonds, which includes $800.17 million of Recovery Bonds.
- Of the $5.19 billion of TFA bonds issued in Fiscal Year 2017, a total of $4.40 billion was issued for new money capital purposes and $794.56 million was issued to refund a portion of its outstanding bonds at lower interest rates. The refundings will generate $99.17 million in budgetary savings over the life of the bonds and approximately $85 million of savings on a net present value basis. In Fiscal Year 2017, the TFA also converted approximately $39.04 million of bonds from variable rate mode to fixed rate mode.

Building Aid Revenue Bonds (BARBs)

In Fiscal Year 2006, the New York State Legislature authorized the TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.40 billion to finance a portion of the City's educational facilities capital plan. The legislation further authorized the City to assign to the TFA all or any portion of the state aid payable to the City or the Department of Education pursuant to Section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the TFA BARBs credit was created. TFA BARBs are not secured by personal income tax or sales tax revenues and do not count against the TFA Future Tax Secured Bond debt limits.

- The TFA did not issue any BARBs in Fiscal Year 2017. As of June 30, 2017, the TFA BARBs outstanding totaled $7.88 billion, all of which is fixed rate.

TSASC, Inc.

TSASC, Inc. is a special purpose, bankruptcy-remote local development corporation created under the Not-for-Profit Corporation Law of the State of New York. TSASC issues debt secured by tobacco settlement revenues (TSRs), which are paid by cigarette companies as part of a Master Settlement Agreement (MSA) with 46 states, including the State of New York, and other U.S. Territories.

- TSASC issued $1.10 billion of refunding bonds in Fiscal Year 2017, retiring all prior TSASC debt. As of June 30, 2017, TSASC had approximately $1.09 billion of bonds outstanding.

Sales Tax Asset Receivable Corporation (STAR)

STAR is a local development corporation created to issue bonds to retire the outstanding bonds of the Municipal Assistance Corporation of the City of New York ("MAC") and the outstanding bonds of the City held by MAC. STAR bonds are secured by $170 million paid annually through June 30, 2034 to the Corporation from the New York State Local Government Assistance Corporation.

- STAR did not have any financing activity in Fiscal Year 2017. As of June 30, 2017, STAR had $1.88 billion of debt outstanding.

Fiscal Year 2005 Securitization Corporation (FSC)

FSC is a local development corporation that issued bonds in order to facilitate the restructuring of an escrow account used to pay debt service on refunded City bonds.

- FSC had no financing activity in Fiscal Year 2017. As of June 30, 2017, FSC had $131.71 million of debt outstanding.

Hudson Yards Infrastructure Corporation (HYIC)

HYIC is a local development corporation established by the City in 2005 to provide financing for infrastructure improvements to promote economic development and growth on Manhattan's far West Side, including the extension of the No. 7 subway line. Principal and interest on HYIC bonds is payable from revenues generated by the new development in the Hudson Yards District. To the extent that such revenues are not sufficient to cover interest payments, the City has agreed, subject to appropriation, to make interest support payments to HYIC. The interest support payments do not cover principal repayment of the bonds.

- HYIC issued $2.14 billion of refunding bonds in Fiscal Year 2017 to refund a portion of its outstanding bonds at lower interest rates and begin amortizing HYIC debt. As of June 30, 2017, HYIC had $2.75 billion of bonds outstanding.

New York City Educational Construction Fund (ECF)

ECF is a public benefit corporation established to facilitate the construction of new school facilities and improvements to existing City elementary and secondary school buildings, thereby increasing the number of seats for the New York City Department of Education. ECF also encourages comprehensive neighborhood development by enabling mixed-use real estate projects which feature new school facilities. The City is required to make rental payments on the school portions of the ECF projects sufficient to make debt service payments as they come due on ECF Bonds, less the revenue received by the ECF from the non-school portions of the ECF projects.

- ECF had no financings in Fiscal Year 2017. As of June 30, 2017, ECF had $235.88 million of bonds outstanding.

New York City Tax Lien Trusts

The New York City Tax Lien Trusts (NYCTLTs) are Delaware statutory trusts which were created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other payables to the City and the New York City Water Board in exchange for the proceeds from bonds issued by the NYCTLTs, net of reserves funded by the bond proceeds and bond issuance costs. The City is the sole beneficiary of the NYCTLTs and is entitled to receive distributions from the NYCTLTs after payments to the bondholders and certain reserve requirements have been satisfied.

- In Fiscal Year 2017, the New York City Tax Lien Trust, NYCTLT 2016-A, sold $64.98 million of bonds. As of June 30, 2017, the New York City Tax Lien Trusts had in aggregate $37.42 million bonds outstanding.

New York City Municipal Water Finance Authority

The New York City Municipal Water Finance Authority (Water Authority), a bankruptcy-remote separate legal entity established in Fiscal Year 1986, has the power to issue bonds to finance the renovation and improvement of the City's water and sewer facilities. The Water Authority, together with the New York City Water Board (Water Board) and the New York City Department of Environmental Protection (DEP), administers the City's water and wastewater system. DEP operates and maintains the system, while the Water Board has the primary responsibility to levy and collect water and wastewater rates and charges, and the Water Authority finances the systems' capital needs.

- As of June 30, 2017, the amount of long-term, fixed rate Water Authority debt outstanding was $24.4 billion, including $876.7 million of First Resolution and $23.6 billion of Second Resolution bonds, and the variable rate debt outstanding was $5.2 billion.
- In fiscal year 2017, the Water Authority issued bonds directly to the public and also to the New York State Environmental Facilities Corporation (EFC). EFC issues Clean Water and Drinking Water Revolving Funds Revenue Bonds for eligible City projects, and the Water Authority bonds placed with EFC are an element of security for these EFC bonds.
- During Fiscal Year 2017, the Water Authority issued $2.83 billion in revenue bonds. Of this total, $1.72 billion was issued for new money capital purposes and $1.11 billion was issued to refund outstanding bonds for interest savings. The Water Authority also changed the interest rate mode on $210.50 million outstanding bonds.
- The refundings will generate $204.30 million of savings for ratepayers over the life of the bonds and $158.20 million in net present value savings.
- The Water Authority relies on its $600 million commercial paper program and from time to time issues bond anticipation notes to EFC to access the short-term market. As of June 30, 2017, the Water Authority had $359.4 million of bond anticipation notes outstanding. It had no commercial paper outstanding.

Interest Rate Exchange Agreements

To lower borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has, from time to time, entered into interest rate exchange agreements (swaps) and sold options to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. No new swaps were initiated in Fiscal Year 2017 and one outstanding swap was terminated. As of June 30, 2017, the outstanding notional amount on the City's swap agreements in connection with General Obligation debt and City-related debt of the Dormitory Authority of the State of New York was $1.41 billion and the mark to market value was approximately negative $118.89 million.

The Water Authority has also entered into interest rate exchange agreements from time to time in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In Fiscal Year 2017, the Authority did not initiate or terminate any swaps. As of June 30, 2017, the outstanding notional amount on the Water Authority's various swap agreements was $401 million and the mark to market value was approximately negative $142.80 million.

BUREAU OF ASSET MANAGEMENT

About the Bureau of Asset Management

The Comptroller is by law the custodian of City-held trust funds and the assets of the New York City Public Pension Funds, and serves as Trustee on four of the five funds. Further, the Comptroller is delegated to serve as investment advisor by all five pension boards. The Comptroller's Bureau of Asset Management oversees the investment portfolio for each system and related defined contribution funds. In this role, the Comptroller provides investment advice, implements Board decisions, and reports on investment performance. The Bureau of Asset Management advises the Boards on all investment-related topics, including investment policy and strategy, asset allocation, manager structure, manager selection and financial and economic developments that may affect the systems. The systems' portfolios are managed predominantly by external investment managers, and are largely invested in publicly traded securities, with additional allocations to private equity, real estate, infrastructure, hedge funds, and opportunistic fixed income investments.

Investment Policy

City Treasury

The Comptroller's Office, through the Bureau of Asset Management, invests the City's cash reserves subject to conservative investment guidelines. City Treasury and fiduciary funds' assets were invested in obligations of the U.S. Treasury, various federal agencies, high grade commercial paper, and medium term notes. The maturities of the investments range from one day to five years with an average of 186 days. Despite the Federal Reserve Bank rising interest rate environment, the City earned an average of 0.63%, which compares with the average return of 0.49% on three month Treasury bills, and 0.50% for a representative institutional money market fund index. The City earned $173 million in its short-term accounts during Fiscal Year 2017.

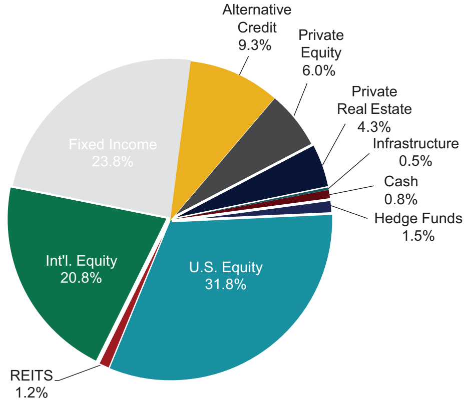
Pension Funds

The Comptroller's Office, through the Bureau of Asset Management, serves as the financial advisor to the City pension funds. The City's primary pension trust funds are New York City Employees' Retirement System (NYCERS), Teachers' Retirement System of The City of New York (TRS), New York City Police Pension Fund (Police), New York City Fire Pension Fund (Fire), and the New York City Board of Education Retirement System (BERS). Each of these pension systems provides pension benefits through its Qualified Pension Plan (QPP) as well as certain other retirement benefits that vary by plan and retiree status. As of June 30, 2017, the Bureau of Asset Management had responsibility for $182.3 billion of City pension systems investment assets. These assets include funds invested by certain employee investment plans and exclude cash from the settlement of pending purchases and sales. This represented an increase of $17.1 billion from the June 30, 2016 value of $165.2 billion. During the fiscal year, the market value of the assets ranged from a low of $169.7 billion to a high of $182.3 billion. The time weighted return (net of all fees) of the aggregate portfolio was 13.0% in Fiscal Year 2017, and 1.5% in Fiscal Year 2016.

Assets are managed in accordance with investment policy statements adopted periodically by each of the City pension funds' Board of Trustees in consultation with the Comptroller's Office and the City pension funds' independent consultants. The allocation to each asset class is based in part on an analytical study indicating the expected rates of return and levels of risk and correlations for various asset allocations. The policy mix ranged from 67% equity to 72% equity among funds, and each fund permits the mix to float within a narrow range to limit portfolio turnover and to accommodate tactical shifts.

Collectively as of June 2017, the City pension funds utilize 18 domestic equity managers, 18 international equity managers, 18 hedge fund managers, 28 fixed income managers, 27 opportunistic fixed income managers, 116 private equity managers, 48 private real estate managers, 8 infrastructure managers and 6 real estate equity securities managers. The City pension funds' assets are invested for the benefit of the plan participants and their beneficiaries. With the exception of certain private equity, real estate, infrastructure and opportunistic fixed income investments where registration is not required, all fund assets are managed by registered investment advisers pursuant to guidelines issued by the Comptroller's Office.

The chart below summarizes the City pension funds' investment asset allocation (in millions) as of June 30, 2017. (Cash includes all short term securities with terms of less than five years.)



	(In Millions)
U.S. Equity	$ 57,978
REITS	2,152
Int'l. Equity	37,851
Fixed Income	43,342
Alternative Credit	17,012
Private Equity	11,028
Private Real Estate	7,926
Infrastructure	832
Hedge Funds	2,798
Cash	1,406
Total	$182,325

U.S. Equity

For Fiscal Year 2017, the broad U.S. equity market, as measured by the Russell 3000 Index, returned 18.51% as compared to 2.14% for Fiscal Year 2016. The total U.S. equity return for the City pension funds' investment assets for Fiscal Year 2017 was 18.38% as compared to 1.59% for Fiscal Year 2016. Overall, approximately 13% of the City pension funds invested in U.S. equity are actively managed versus 87% passively managed by index managers, which compares to 15.6% and 84.4%, respectively during Fiscal Year 2016. The returns of the U.S. equity market during Fiscal Year 2017 occurred as the U.S. economy experienced continued low growth levels, oil prices rebounded from the lows of early 2016 and interest rates were higher across the yield curve but remained relatively low. In the broader economy, unemployment rates approached cyclical lows and inflation remained subdued.

Three of the five New York City pension funds have invested in Real Estate Investment Trusts (REITs) to temporarily invest a portion of its Real Estate's unfunded commitments. The City pension funds' REITs returned .28% for Fiscal Year 2017 compared to 15.9% for Fiscal Year 2016. The one year returns for the program benchmark, DJ US Select Real Estate Securities Index, for Fiscal Years 2017 and 2016 were -2.43% and 22.7%, respectively.

International Equity

The City pension funds' assets invested in total international equity returned 22.99% for Fiscal Year 2017 as compared to -8.86% for Fiscal Year 2016.

For Fiscal Year 2017, the Morgan Stanley Capital International Europe, Australasia, Far East Investable Market Index (MSCI EAFE IMI) returned 20.67% as compared to -9.33% for Fiscal Year 2016. The City's developed markets managers returned 22.15% for Fiscal Year 2017 as compared to -8.32% for Fiscal Year 2016. At the end of Fiscal Year 2017, developed markets ex-U.S. and emerging markets assets as a percent of total fund assets were 12.1% and 8.2%, respectively, versus 9.2% and 7.2% in Fiscal Year 2016.

For the Fiscal Year 2017, the MSCI Emerging Markets Index returned 23.75% as compared to -12.05% for Fiscal Year 2016. The City's emerging markets managers returned 23.73% for Fiscal Year 2017 as compared to -10.42% for Fiscal Year 2016. International markets' high returns were aided by positive economic signs in Europe.

Fixed Income

As of June 30, 2017, the public markets fixed income program, which excludes the high yield and bank loan program, represented 23.77% of the City pension funds' investment assets with a market value of $43.342 billion across the systems. The Citigroup Core+5 Investment Grade Index returned -0.21% for Fiscal Year 2017 while the Barclays Aggregate Index returned -0.31%. The total overall Public U.S. fixed income return for Fiscal Year 2017 was 0.52% (net) as compared to 5.94% (net) in Fiscal Year 2016. Investment grade bonds saw positive returns for the fiscal year: 1.9% for the Citigroup Investment Grade Credit Index, -0.08% for the Citigroup Mortgage Index, and -4.6% for the Citigroup Treasury/Agency+5 Index. Treasury Inflation-Protected Securities (TIPS) also saw negative returns, returning -0.63% for Fiscal Year 2017 as measured by the Barclays Capital U.S. TIPS Index. For Fiscal Year 2017, the convertible bonds sector returned 19.86% as measured by the Bank of America All U.S. Convertibles ex- Mandatory Index.

Alternative Credit

The Alternative Credit program comprises three portfolios: High Yield Bonds, Bank Loans, and Opportunistic Fixed Income (OFI).

The High Yield portfolio represents 4.7% of City pension funds' investment assets as of Fiscal Year 2017, with a market value of $8.7 billion invested across eight investment managers. High Yield returned 11.48% (net) over this period, while the portfolio benchmark (Citigroup BB/B Index) returned 11.47%.

The Bank Loan portfolio represents 2.0% of City pension funds' investment assets as of Fiscal Year 2017, with a market value of $3.7 billion invested across 6 investment managers. The Bank Loan portfolio returned 6.52% (net) over this period, while its benchmark (Credit Suisse US Leveraged Loan Index) generated 7.49%.

The OFI portfolio represents 2.6% of City pension funds' investment assets as of Fiscal Year 2017. The portfolio's market value of $4.7 billion is invested across 13 investment managers and total commitments are $6.3 billion. The strategies pursued within this portfolio include distressed debt, non-performing loans, direct corporate loans, commercial real estate loans and mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralized loan obligations (CLOs), and other private and public exposures in domestic and global credit markets. In Fiscal Year 2017, City pension funds committed $350 million to new OFI investment mandates. The program returned 11.81% (net) in Fiscal Year 2017, compared to its overall benchmark (a 50/50 blend of the JP Morgan Global High Yield and Credit Suisse US Leveraged Loan Index, plus 300 basis points), which produced 13.71%. Since its inception, the program has returned 7.90% (net).

Private Equity

As of June 30, 2017, the private equity program represented 6.0% of the City pension funds' investment assets with a market value of $11.0 billion (cash flow adjusted) and unfunded capital commitments of $7.6 billion, resulting in a total exposure of $18.6 billion across 208 funds and 116 managers. As of June 30, 2017, the private equity program generated a since inception 9.9% net Internal Rate of Return (IRR), compared to its public market equivalent (PME) benchmark (Russell 3000 + 300 basis points) of 13.0%. The private equity portfolio remains diversified, based on total exposure (cash flow adjusted), with 62% allocated to buyouts, 10% special situations, 9% secondaries, 8% growth equity, 4% co-investment, 2% energy, and 5% other, which includes venture capital, mezzanine, and funds-of-funds. The City pension funds received distributions of $2.8 billion and funded $1.9 billion for new and existing investments during Fiscal Year 2017 as compared to $1.9 billion and $2.0 billion in Fiscal Year 2016, respectively.

During Fiscal Year 2017, City pension funds made $1.6 billion of new commitments to four funds across four managers versus $3.0 billion to 11 funds across nine managers during the prior fiscal year. This includes the City pension funds' $500 million in-house Private Equity Emerging Manager Program which committed $60 million during Fiscal Year 2017. Overall, the private equity program continues to strategically seek geographically diversified investment opportunities across most sub-asset classes with an aim to maintain a consistent investment pace.

The private equity industry continues to experience a strong fundraising environment, after an exceptionally strong year in 2016. This has been due to robust investor demand and meaningful liquidity as investors recycle distributions received from managers and seek to maintain or increase their allocations to private equity. While energy commodity markets have not fully recovered, the general equity and debt capital markets are active, with increased lending activity and an up-tick in initial public offerings. Despite geopolitical concerns and signs of strain to global economic growth, asset prices continue to remain at record levels. High valuations have moderated deal activity as managers face increasing valuations due to competition for assets from both private equity managers and strategic buyers. Managers have continued to focus on exit activity, given the strong M&A-driven valuations and this has been a key driver of distributions and liquidity to investors. The industry has also witnessed a series of manager-led liquidity opportunities, fund restructurings and extensions, as managers and investors pursue solutions for funds that are approaching the end of their terms or managers seek capital for new funds, products or growth initiatives.

Real Estate

As of June 30, 2017, the real estate program had approximately $11.4 billion in commitments to 76 current investments and 46 managers. This compares to $10.4 billion in commitments at the end of Fiscal Year 2016. During Fiscal Year 2017, the City pension funds made $1.6 billion in new commitments (including co-investments) to seven funds versus $1.3 billion to eight funds in the prior fiscal year. The City pension funds invest in real estate primarily through commingled funds, and these new additions enhance the diversification of this global portfolio by geography, property type, investment strategy, vintage and manager. Six of the seven investments represent additional capital allocation to proven existing investment partners which enables the City to expand its relationships with managers that deliver strong performance over market cycles.

As of June 30, 2017, the real estate program represents 4.4% of the City pension funds' investment assets. The City pension funds' net invested capital of $4.7 billion in real estate programs had a market value of $7.9 billion (cash flow adjusted) and unfunded capital commitments of $3.3 billion. The portfolio is well diversified by geographic region and property type with allocations to all the major sectors including residential (27.0%), office (28.5%), industrial (14.5%), retail (13.9%), hotel (4.5%), and other commercial real estate investments (11.5%).

The consensus of market research reports indicate that the U.S. real estate industry is entering the later stages of the recovery cycle pushing prices higher. Though demand remains strong, in some markets, supply has increased causing downward pressure on rent growth, property valuations and leading to yield compression. Positioning the real estate portfolio to weather a downturn has been a key tenet of the commitments made during fiscal year 2017. The real estate program focused on themes with lower risk and meaningful downside protection characteristics, such as lower leveraged investments, more defensive sectors and income producing assets, such as core-plus investments, industrial properties and debt strategies. As of June 30, 2017, the real estate program has generated a since inception 8.6% net IRR compared to its PME benchmark (50% Russell 3000 and 50% Barclays U.S. Aggregate Index) of 8.7%. Considering the peak pricing surfacing in certain major real estate markets, the real estate program will continue to selectively identify opportunities that will complement the existing portfolio.

Hedge Funds

Certain City pension funds invest in hedge funds, and they continued to build out their hedge fund portfolio in Fiscal Year 2017. The City pension funds continue to increase their investments in direct hedge funds which are now 90% of the portfolio. The remainder of the portfolio is held in a fund of funds structure.

The total hedge fund return for the City pension funds for the fiscal year ended June 30, 2017 was 7.9% net of all fees. The hedge fund benchmark return was 7.54% (HFRI Fund of Hedge funds index +1%). The NYCERS hedge fund portfolio, which is in liquidation, returned 2.8% net of all fees.

Infrastructure

The infrastructure program seeks to gain exposure to capital-intensive assets that underpin the global economy. These assets typically have a low volatility return profile with a high percentage of returns coming in the form of current yield. Targeted investments within the infrastructure program seek to lower correlation with public equities and fixed income and to hedge against inflation.

As of the end of Fiscal Year 2017, the infrastructure program represented 0.5% of the City pension funds' assets with a market value of $900 million (cash-adjusted basis) and total exposure of $2.3 billion. During Fiscal Year 2017, the City pension funds made $560 million of new commitments to three funds across three managers through the infrastructure program. At the end of Fiscal Year 2017, the infrastructure program was diversified across nine funds and eight managers. The infrastructure program generated a since inception net Internal Rate of Return (IRR) of 13.6% compared to its PME benchmark (50% Russell 3000 Index and 50% Barclays U.S. Aggregate Index) of 6.6%.

Corporate Governance and Responsible Investment

The City pension funds, through the Corporate Governance and Responsible Investment group within the Bureau of Asset Management, actively monitor their investments and promote corporate governance and responsible business practices that seek to protect and create long-term shareowner value. These activities include actively voting proxies and pro-actively engaging with companies and regulators to improve corporate governance, enhance corporate disclosure and strengthen shareowner rights.

During Fiscal Year 2017, the Comptroller's Office voted on 32,456 individual ballot items at 3,846 annual and special meetings for domestic portfolio companies, as well as for select international holdings. Of all votes cast, 77.6% were for the management-recommended vote. Major proxy voting issues included: (a) the election of directors, (b) management proposals to ratify auditors, approve executive compensation, and approve mergers and acquisitions, and (c) shareowner proposals on a wide range of environmental, social and governance (ESG) policies and practices.

In addition to proxy voting, the City pension funds also seek to protect and create long-term shareowner value by proactively advancing company-specific and regulatory reforms to strengthen investor rights, improve corporate governance, align executive pay with long-term performance and promote sustainable business practices. The City pension funds are among the most active institutional investors in terms of filing shareowner proposals and also engage with portfolio companies through letters and dialogue, often in collaboration with other institutional investors.

During Fiscal Year 2017, the Comptroller’s Office, on behalf of the City pension funds, submitted 92 shareowner proposals to a total of 88 portfolio companies. Overall, approximately two-thirds of the proposals (60 of 92) were withdrawn after the companies agreed to take steps to implement the request.

In a continuation of the Boardroom Accountability Project launched by the City pension funds in Fiscal Year 2015, most of the proposals (71 out of 92) requested a "proxy access" bylaw that would require the company to include shareowner-nominated director candidates in the company proxy materials, and on the company ballot, that is furnished to all shareowners. The Boardroom Accountability Project is an ambitious effort to enact proxy access, which many investors view as a fundamental investor right, across the U.S. market on a company-by-company basis following years of thwarted attempts by investors to obtain proxy access through federal regulation.

Consistent with the methodologies used in Fiscal Years 2015 and 2016, the 71 proxy access focus companies included those that failed to align executive compensation with business performance, companies with little or no apparent gender or racial diversity on their board, and carbon-intensive energy companies that are among the most vulnerable to long-term business risks related to climate change. They also included, for the first time, companies that lacked gender or racial diversity among their top five executives and companies that failed to disclose their greenhouse gas emissions, the latter being a red flag for a board that is not sufficiently focused on overseeing risks related to climate change.

Fifty-one companies agreed to enact, or to take the steps necessary to enact, a meaningful proxy access bylaw with terms substantially similar to those requested by the shareowner proposal, prompting the Comptroller’s Office to withdraw the proposal. Support for the 16 proposals that went to a vote during the Fiscal Year averaged 68%, with 14 proposals receiving majority support.

In addition to proxy access proposals, the City pension funds submitted shareowner proposals for the first time requesting that companies report to shareowners on their policies and practices to ensure gender pay equity, reaching agreements with seven major healthcare and insurance companies, as well as proposals requesting that companies (a) disclose data on the race and gender of their workforce by job category, (b) publish an annual assessment of the long-term impacts on their carbon assets and business under a scenario consistent with the globally agreed upon 2-degree target defined in the Paris Agreement, and (c) disclose their direct and indirect political expenditures.

The Postseason Report, available on the Comptroller’s website, provides additional information covering the City pension funds' shareowner initiatives and includes detailed results for all Fiscal Year 2017 shareowner proposals.

BUREAU OF CONTRACT ADMINISTRATION

The Bureau of Contract Administration (BCA) fulfills the Comptroller’s Charter-mandated role of registering all contracts and agreements for goods, services and construction executed pursuant to the Charter, including all agreements memorializing the terms of franchises, revocable consents or concessions that are paid out of the City Treasury or paid out of money under the control of the City. The Comptroller has 30 calendar days from the date a contract action is fully submitted by the respective agency to register or object to the registration of the contract. The process is designed to ensure that sufficient funds exist to make payments for that contract, that all appropriate certifications and documentation have been obtained and collected, that the contractor is not debarred or involved in corrupt activity, and that there was no corruption in the letting of the contract. Contracts for the provision of goods, services or construction that are not to be paid for out of the City Treasury or out of moneys under the control of the City do not have to be registered by the Comptroller, and emergency procurements may be registered after the contract commences, rather than before.

In Fiscal Year 2017, BCA received 19,813 contract actions for registration. Of those, approximately 93% were ultimately registered while around 7% were returned to or withdrawn by the submitting agency.

In addition to its Charter-mandated registration function, the Bureau also satisfies the Comptroller’s obligation under the New York City Administrative Code to publish a summary report no later than January 30 following the close of each fiscal year. This report includes certain data for registered franchises, concessions and contracts for goods or services including, but not limited to, contract type, award method and aggregate dollar values of registered contract actions. The data that forms the basis of this report is generated from a computerized database jointly maintained by the Comptroller and the Mayor and contains detailed information on contracts, agreements, franchises and concessions reflecting the City’s financial commitment assumed through registered agreements. The Annual Report on Contracts for Fiscal Year 2017 will be released by January 30, 2018.

BUREAU OF ECONOMIC DEVELOPMENT

The Bureau of Economic Development leverages the authority and responsibilities of the Office of the Comptroller to create new and sustainable opportunities for the economic growth and development of the City of New York and its people. The Bureau's mission includes diligently executing the Comptroller's statutory obligation to oversee City agencies and related entities that are responsible for economic development, conducting rigorous economic research that will form the basis of future economic development policy, and actively managing and making investment recommendations to the New York City Retirement Systems (NYCRS) for its Economically Targeted Investment (ETI) program.

Economically Targeted Investments are prudent investments that provide risk-adjusted market rates-of-return to NYCRS. ETIs seek to fill capital gaps and provide collateral benefits, such as affordable housing and job creation, to the geographic target area. The geographic target area includes the five boroughs of the City and the six New York State counties in close proximity to New York City where City employees are permitted to live (Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties). NYCRS have successfully invested in ETIs since 1981. ETIs have an allocation of 2% of the total assets of NYCRS. The market value of the ETI Program at the end of Fiscal Year 2017 is $1.84 billion (1.01% of total assets) with an additional $421.3 million committed to specific ETI investments. In addition, the Real Assets ETI investments have a market value of $699.57 million, and together with the other ETI investments and commitments constitute 1.62% of total assets.

As of June 30, 2017, the ten-year overall performance of ETIs was 5.77% net of fees as compared to the benchmark performance of 4.48% (Barclays Capital U.S. Aggregate Bond Index).

During Fiscal Year 2017, the ETI program made cumulative investments of $104.6 million in individual multifamily projects through its Public/Private Apartment Rehabilitation (PPAR) program. These investments financed the rehabilitation or new construction of 1,688 units of affordable housing. The PPAR program also issued additional commitments for $91.1 million for new loans financing 1,091 units during Fiscal Year 2017. NYCRS's commitments to provide permanent financing ensures that construction will go forward on these projects. Since the inception of the PPAR program in 1982, more than $1.25 billion has been invested.

NYCRS maintained their investment in the AFL-CIO Housing Investment Trust (HIT). The June 30, 2017 cumulative market value of HIT investments is $814.9 million. Since 2002, the HIT has invested $1.17 billion to preserve 34,174 units of the geographic target area's affordable housing stock, which generated jobs and provided for the long-term affordability of the units.

Access Capital Strategies (Access), a division of the Royal Bank of Canada, invests in mortgage-backed securities comprised of loans issued to single family homeowners making up to 200% of the Area Medium Income. All loans are screened for compliance with anti-predatory lending practices. Access Investments can also include securities backed by first mortgage loans issued to developers of multifamily rental housing, and other types of community development loans in New York City. In Fiscal Year 2017, NYCRS committed an additional $150 million to the Access portfolio. As of June 30, 2017, Access invested $576.2 million for 1,887 single family units, 33,390 multifamily units, including Mitchell-Lama buildings, and 17 small business loans.

NYCRS committed a combined $155 million in a separate account managed by Vanbarton Group LLC. The NYC Vanbarton Interborough Fund LLC equity fund (Vanbarton Fund) invests in a variety of real property sectors including revitalized multifamily housing and commercial retail and office space in low- and moderate- income neighborhoods in the five boroughs. As of June 30, 2017, the Vanbarton Fund invested $146.2 million creating or preserving over 432,000 square feet of commercial space and 63 units of affordable housing. In addition to the Vanbarton investment, NYCRS has committed $500 million to rehabilitating and creating work-force housing as part of the City's response to Superstorm Sandy.

In Fiscal Year 2015, NYCRS committed $40 million to the Community Preservation Corporation's construction loan facility. The facility finances short-term construction loans originated by the Community Preservation Corporation. The construction loans are for housing and commercial spaces in low- and moderate- income City neighborhoods, generating jobs and promoting neighborhood revitalization. In Fiscal Year 2016, NYCRS exited the construction loan facility while negotiating a new agreement with the Community Preservation Corporation. NYCRS re-entered the construction facility in Fiscal Year 2017.

NYCRS continually seek proposals for new ETI investments. The ETI Request for Proposal (RFP) is available on the Comptroller's website and investment proposals may be submitted for any approved asset class, including real estate and private equity.

BUREAU OF AUDIT

The City Charter requires that the Comptroller's Office audit some aspect of every City agency at least once every four years. The City Charter also requires that these audits be conducted in accordance with generally accepted government auditing standards (GAGAS) promulgated by the Comptroller General of the United States.

In Fiscal Year 2017, the Bureau of Audit issued 76 audits and special reports focused on the effectiveness and service quality of City programs and on financial issues. The audit reports identified approximately $66.2 million in actual and potential revenue and savings. Reviews of claims filed against the City identified another $1.5 million in potential cost avoidance.

Below is a brief synopsis of some of the audits that had a significant impact on City finances and quality of service delivery.

Revenue and Cost Savings

- An audit was conducted of the Department of Finance's (DOF's) administration of tax benefits granted to property owners under the Senior Citizen Homeowners' Exemption program (SCHE), which provides a partial property tax exemption for senior citizens who own one, two, or three family homes, condominiums, or cooperative apartments in New York City. The SCHE appears as a reduction of the assessed value of the property, which is used to determine the property tax. The assessment value of the property can be reduced by a maximum of 50% depending on the owners' income. Homeowners who receive a SCHE also automatically qualify for and receive an Enhanced School Tax Relief (Enhanced STAR) exemption based on their income and homeownership status. The audit found that DOF improperly credited the SCHE to 3,890 properties that were not eligible, resulting in a loss to the City of at least $48,529,687. Specifically, DOF failed to remove the SCHE from at least 3,246 properties after the homeowners had died, resulting in a loss of property tax revenue of at least $35,976,029 from Fiscal Years 2012 through 2017. In addition, DOF failed to correctly prorate the exemption amounts granted to 573 properties that contain four or more units. These properties received 3,219 excessive exemption amounts to which they were not entitled, which resulted in a loss of property tax revenue of at least $11,176,036 from Fiscal Years 2011 through 2016. DOF also allowed corporate owners of at least 71 properties to receive 307 exemptions for which they were not eligible, resulting in a loss of property tax revenue of at least $1,377,622 from Fiscal Years 2011 through 2016. Additionally, DOF improperly credited properties of deceased homeowners and corporate-owned properties with Enhanced STAR exemptions totaling $10,647,896. Thus, this audit identified $59.2 million in lost tax revenue to the City. Finally, DOF failed to enforce the requirement that homeowners reapply for the SCHE every two years as required by Section 467 of the New York State Real Property Tax Law. The lack of a reapplication process may have allowed properties to continue getting the SCHE and the Enhanced STAR exemptions for many years after they were no longer eligible.

- Another audit of DOF reviewed tax benefits granted to property owners under the Veterans' Exemption Programs, which provide a partial property tax exemption for veterans, the spouse or widow/widower of a veteran who has not remarried, or parents of a soldier killed in action. The Veterans' Exemption appears as a reduction of the assessed value of the property, which is used to determine the property tax. Two categories of Veterans' Exemptions are in effect in New York City: (1) the Eligible Funds Exemption, which was issued to eligible homeowners prior to 1984; and (2) the Alternative Veterans' Exemption, which has been in effect since 1984. The audit found that DOF improperly credited Veterans' Exemptions to 1,503 properties, which resulted in a loss to the City of at least $3,770,350 in forgone property tax revenue. Specifically, the audit found that DOF: failed to remove Veterans' Exemptions from 740 ineligible properties that were transferred to owners who were not authorized recipients of the exemptions, which resulted in the loss of at least $1,654,869; failed to remove Veterans' Exemptions from at least 341 properties after the eligible homeowners died, which resulted in the loss of at least $798,346; failed to correctly prorate the Veterans' Exemptions for 200 properties that contain four or more units, which resulted in the loss of at least $915,173; allowed at least 60 properties owned by ineligible corporations or limited liability companies (LLCs) to receive inappropriate Veterans' Exemptions, which resulted in the loss of at least $165,219; and allowed 162 homeowners to receive multiple Veterans' Exemptions simultaneously, which is not allowed and resulted in the loss of $236,743. DOF also inappropriately approved School Tax Relief Program (STAR) exemptions for properties of deceased homeowners and ineligible corporations and LLCs, which resulted in the loss of $449,758. Thus, the audit identified $4,220,108 in lost tax revenue to the City.

  In addition, the audit questioned whether it was appropriate for DOF to apply Veterans' Exemptions and resulting tax reductions totaling $1,804,979 to 456 cooperative properties and 115 other properties after the eligible veteran's death where no other eligible owner was identified in DOF's records. In those cases, no deeds or other secondary documents were available in DOF's records that could be reviewed to determine whether the subsequent owners of the property were eligible for the continuing exemptions.

- A follow-up review determined whether DOF removed STAR and Enhanced STAR exemptions from ineligible properties identified in the "Audit Report on the New York City Department of Finance's Administration of the School Tax Relief Program" (Audit #FM15-070A), issued on June 17, 2015. As discussed in that audit report, DOF allowed owners of 1,509 properties to receive STAR or Enhanced STAR exemptions for which they were not eligible. As a result, $422,520 in property tax revenue was not collected during Fiscal Year 2015. The follow-up review found that DOF had removed the STAR or Enhanced STAR exemption from 246 of the 1,355 properties that the audit identified as ineligible due to corporate or LLC ownership. The review also found that an additional 294 properties are currently owned by individuals, and as a result, now appear to meet the ownership eligibility requirement for the exemption. However, the review found that DOF did not remove the STAR or Enhanced STAR exemptions from 807 properties that, according to the current deeds in DOF's Automated City

Register Information System (ACRIS), are still owned by corporations or LLCs. Further, DOF did not remove the STAR or Enhanced STAR exemptions from 8 additional properties with no deeds on file in ACRIS that DOF's June 2015 and June 2016 quarterly tax bills show are owned by corporate or LLC entities. These 815 properties received a total of $713,454 in STAR or Enhanced STAR exemptions in Fiscal Years 2016 and 2017.

Asset Management and Internal Controls

- An audit of the Department of Buildings (DOB) and the Department of City Planning (DCP) determined that the City is not adequately overseeing Privately Owned Public Space (POPS) agreements with building developers and owners. POPS are outdoor or indoor spaces, open for public use that are built and are maintained by the developers and owners of private buildings, in exchange for the City allowing them to construct buildings at greater heights and densities (and as a result, with greater floor area) than would otherwise be allowed by applicable zoning regulations. POPS may be required to include designated amenities within or outside their buildings. Auditors inspected all 333 of the POPS locations and found that more than half (182 of the 333) failed to provide required public amenities. In some cases, the required amenities simply did not exist; in others, they were non-functioning. Auditors found cases where the general public was excluded from POPS because restaurants were allowed to use supposedly public spaces for restaurant seating and had cordoned off portions of the POPS to restrict public use. There were also cases where public access was otherwise impermissibly limited or denied entirely. In some instances, these violations had existed for years without any discernable enforcement actions taken by the City.
- An audit was conducted to determine whether the Department of Citywide Administrative Services (DCAS) had adequate oversight of the contract agreement between Genuine Parts Company (GPC) and the City of New York, and whether the Department of Sanitation (DSNY) had adequate oversight over and fulfilled its responsibilities regarding inventory received from GPC. On January 9, 2013, the City entered into a five-year requirements contract with GPC, through its subsidiary National Auto Parts Association (NAPA), to operate on-site storerooms, supply parts for light/medium- and heavy-duty vehicles, and provide inventory management services for six City agencies, including DSNY. In May 2013, GPC/NAPA established a storeroom, staffed by a GPC/NAPA manager and counter person, at DSNY's Central Repair Shop in Woodside, Queens to provide parts for light-duty vehicles, such as passenger cars and pickup trucks. The audit found that DCAS needs to strengthen its monitoring of the timeliness of GPC/NAPA delivery of requested items. The audit also found that GPC/NAPA's delivery times consistently fell short of its contractual performance obligations and that DCAS does not ensure that parts are adequately categorized in accordance with the contract. The audit found limited evidence to show that DCAS audited GPC/NAPA invoices to ensure that the City paid no more than the allowed mark-up for parts. In addition, the audit found that DCAS granted GPC/NAPA inappropriate access to DSNY's inventory information in M5, and that parts which DSNY received from GPC/NAPA were not consistently recorded in M5, as required. Finally, the audit determined that DSNY generally had adequate oversight over and fulfilled its responsibilities related to GPC/NAPA's performance of the contract.
- An audit was conducted to determine whether the New York City Housing Authority (NYCHA) effectively monitors construction contracts involving building envelope work to ensure that required work is being performed appropriately, on time and in accordance with contract terms and industry standards. From January 2013 through November 2015, NYCHA performed building envelope rehabilitation work on 43 projects utilizing 51 unique contracts awarded. The audit determined that although there appears to be adequate field staffing and inspection of construction work, and sufficient information flow from the construction sites back to the central office and upper management, NYCHA needs to improve its controls and utilize its operational resources effectively to ensure that it delivers quality improvements for its residents that will last their expected useful life. In particular, the audit found: deficiencies in the finished work product observed at several locations during field inspections of a sample of the projects; construction work was completed late at three of five sampled developments undertaken by the Special Projects unit; inadequate project scoping at one of three sampled developments overseen by the Construction unit led to the questionable use of a change order to procure substantial additional work to address conditions that appear to have existed at the time the original contract was let; recordkeeping weaknesses in Primavera, NYCHA's construction project management software; unreliable data in the Mod database, NYCHA's auxiliary management information system that integrates information from various NYCHA systems; and a failure to update NYCHA's Capital Projects Division procedural manual to reflect its current construction management project delivery method. The audit identified $138,955 in potential monetary effect, which includes: $95,200 for liquidated damages for projects completed late; $38,200 for sub-standard base flashing installation; $5,000 for defective roof work; and $555 for minor deficiencies in completed construction.
- An audit evaluated whether Success Academy Charter Schools-NYC (Success Academy) exercised adequate oversight over its schools' fiscal affairs and maintained a system of internal controls sufficient to ensure that expenses were reasonable, appropriate, adequately supported, and authorized; that transactions were accurately recorded and reported; and that potential conflict of interest and related party transactions were monitored and prevented where necessary. During the audit scope period of Fiscal Years 2013 through 2015, Success Academy retained an educational service provider, Success Academy Charter Schools, Inc. (the Network), to manage the operations of Success Academy's multiple schools. In Fiscal Year 2015,

Success Academy served 8,715 students at 24 different schools. Success Academy's Harlem three charter school was chosen for certain detailed testing.

The audit found that Success Academy made duplicative payments to the Network totaling $624,342. Further, Success Academy incorrectly classified the management fee it paid to the Network in its Fiscal Year 2015 certified financial statements and in the Harlem three annual charter school report card. Consequently, Success Academy significantly understated its administrative expenses and overstated its program services expenses, which made it appear that a much greater percentage of Success Academy's expenses went towards program services. In addition, the audit found that Success Academy billed the Department of Education (DOE) $50,825 for special education services for six out of 21 sampled Harlem three students (28.6 percent) that were not documented as having been provided. Further, Success Academy did not maintain adequate controls over $24.8 million in inventory. The audit also found that Success Academy's records did not show that it consistently met the following standards: that expenses were reasonable, appropriate, adequately supported, and properly authorized; that it obtained appropriate proof of residency for students; that its employees always had required fingerprints and background checks completed and cleared before they began working in schools; and that it properly documented and obtained approval for $8.5 million in loans from a related party. Finally, the Success Academy Board of Trustees failed to adequately monitor some aspects of Success Academy's financial affairs and did not consistently follow procedures required by its bylaws.

Service Delivery and Program Performance

- An audit was conducted to determine whether New York City Transit (NYCT) performed required preventive maintenance (PM) services and inspections on its elevators and escalators and made associated repairs in a timely manner. NYCT's Division of Elevators and Escalators (E&E) is responsible for the maintenance, repair, and inspection of the elevators and escalators located throughout the subway system. In addition to PM service, elevators and escalators are subject to American Society of Mechanical Engineers (ASME) inspections, which are conducted by E&E's ASME teams. E&E has set an aggregate goal of 96.5% availability on average for each of its elevators and 95.2% availability on average for each of its escalators. The audit identified multiple deficiencies in NYCT's PM efforts. The audit found that only approximately one-fifth of the machines in the audit sample received all of their scheduled PM services assignments; in the instances where PM service assignments for the sampled machines were cancelled, the basis for cancellation was either not supported or not in compliance with E&E's policy. In addition, maintainers and supervisors did not complete nearly a quarter of the sampled checklists for PM service and ASME inspections as required, and required work orders were not created on average in one out of four instances where new defects were noted during PM service assignments and ASME inspections. Further, E&E does not have a system for tracking when or whether the defects that result in the creation of work orders are repaired.

- An audit was conducted to determine whether the Department for the Aging (DFTA) adequately monitors the senior centers with which it contracts to ensure that they are in a safe and clean condition in accordance with DFTA's procedures and guidelines. During Fiscal Year 2016, DFTA contracted with 249 senior centers and, among many other services, provided 7.6 million meals (breakfast, lunch and dinner) to clients at those senior centers. During that same period, DFTA employed 16 program officers and 10 nutritionists to oversee the senior centers. The audit found that although DFTA has standards, procedures and personnel in place to monitor its senior centers, during the audit scope, it did not adequately track identified deficiencies found in the centers or the implementation of corrective action plans established to remediate them. Those oversight failures result, in part, from a lack of continuity in DFTA's monitoring efforts from year to year. Based on the findings of this and previous audits, it appears that DFTA's monitoring shortcomings have allowed some City-funded senior centers to operate with chronic unaddressed deficiencies. Further, the audit found that DFTA has not established performance or productivity benchmarks for its staff, some of whom expressed concerns to auditors about their workload levels. Finally, DFTA lacks an effective complaint tracking system that would assist management in identifying problem areas needing corrective action.

- An audit reviewed whether the Department of Correction (DOC) and DOE offered and provided educational services to young inmates at the Rikers Island (Rikers) facility, particularly to those with special educational needs. DOE provides educational services on Rikers to eligible inmates through its East River Academy (ERA). Under New York State regulations, DOC must advise eligible inmates 16-21 years of age, within 10 days of their admission to Rikers, of the availability of educational services. In addition, according to a DOC Directive, new admission inmates under 22 years old are required to complete and sign a Rikers Island Schools Request for Educational Services form.

  The evidence reviewed during the audit indicated that all 16-17 year olds admitted to Rikers during Fiscal Year 2015 were provided educational services as mandated by law. However, DOC provided insufficient evidence to demonstrate that inmates 18-21 years of age admitted to Rikers during Fiscal Year 2015 were consistently informed of the opportunity to request and receive educational services, as required by State regulations. DOC was unable to provide auditors with signed Request for Educational Services forms for 63 (68%) of the 92 18-21 year-old inmates in the audit sample. DOC also does not maintain a log or any other record showing when it provides signed Request for Educational Services forms to DOE. DOE, similarly, provided insufficient evidence to demonstrate that inmates 18-21 years of age were consistently provided educational services by the 11th day following its receipt of requests for educational services. Since DOE neither date-stamps the Request for Educational Services forms it receives from DOC nor maintains a log of their receipt, DOE is unable to demonstrate that it is providing educational services by the 11th day following its receipt of the forms, as required by State regulations. In addition, DOE provided no evidence that it prepared Special Education Plans (SEPs) for nine (36%) of a sample of 25 enrolled inmates with special educational needs during Fiscal Year 2015. Moreover, DOE did not consistently complete those SEPs that were prepared within 30 school days of the students' enrollment in ERA, as required. Of the remaining 16 students in the sample, the SEPs for 3 were prepared more than 30 school days after the students began receiving educational services at ERA. As a result, neither DOC, DOE, nor the auditors could be assured that all eligible individuals were advised of the opportunity to receive educational services or that all who accepted such services received the services in a timely manner or at all.

- An audit found that DOE adequately monitors contracted school bus companies to ensure that the school bus drivers and attendants who they employ have undergone required background checks and meet New York State (NYS) and DOE qualifications. The audit found that all of the sampled school bus drivers' and attendants' personnel files contained the necessary criminal history clearances, licenses, and certifications to qualify the employees to work on DOE school bus routes, and that those school bus employees had also completed certain key annual and biennial requirements needed to maintain certification.

  However, the audit found weaknesses in DOE's follow-up to ensure that the status and eligibility of drivers and attendants is properly updated. Specifically, there was deficiencies in the Office of Pupil Transportation (OPT) Investigation Unit's processing of 10 (23%) of the 43 Department of Motor Vehicle's License Event Notification Service (DMV-LENS) suspension notifications reviewed. In three of those cases, OPT failed to either (1) change the drivers' status in OPT's Driver and Attendant System from "active" to "suspended," or (2) print and file copies of the DMV abstracts showing that DMV had cleared the three drivers' suspensions. In the remaining seven cases, the assigned OPT investigators took and documented the necessary action, but did so late-between three and seven business days after DOE received the DMV suspension notifications-rather than immediately as required. In addition, the audit reviewed 24 Personnel Eligibility Tracking System (PETS) suspension notifications and identified one case where OPT failed to implement a DOE determination to suspend a school bus attendant's eligibility to work on school buses for DOE for over six months. As a result, DOE could not produce a record demonstrating that the attendant's employment was in fact suspended. Finally, the audit found that DOE has no written policies or procedures specifying the responsibilities of OPT investigators in acting upon DMV-LENS and DOE-PETS suspension notifications. These weaknesses increase the risk that drivers might be operating DOE school buses with suspended licenses and attendants may be assisting children while suspended.

- An audit determined whether the Department of Housing Preservation and Development (HPD) has adequate controls to ensure that its housing incentive projects are awarded to responsible property owners and developers that: (1) meet all program requirements; (2) have the requisite ability to create or preserve the required affordable housing units, in accordance with program guidelines; and (3) have the business integrity and reliability, including a satisfactory record of performance, that will assure good faith performance. The audit reviewed a sample of 12 program files for affordable housing incentive projects and found that the property owners and developers generally met program requirements, as outlined in each program's term sheet, and that sufficient and adequate documentation was on file to support HPD's determination. The audit also found general compliance with HPD's sponsor review process, although HPD's Assistant Commissioners did not always sign off on the sponsor review reports prior to closing, as required by HPD's procedures.

  However, the audit also found that none of the 12 sampled files contained evidence of assessments being conducted of the applicants' performance as affordable housing sponsors except where the applicants were previously involved with one of two federally-funded programs—(1) federal Low Income Housing Tax Credits (LIHTC), and (2) the federal HOME funds. The audit found that HPD had no evidence in the 12 sampled files documenting that it systematically reviewed the proposed sponsors' performance records to determine the quality of their performance in any of the many other affordable housing programs HPD administers. Moreover, the audit noted that HPD does not centrally track compliance information for affordable housing sponsors in any programs other than where LIHTC or HOME funds are involved. Thus, the ability of analysts to seek such information is severely limited.

- The Audit Bureau conducted a series of audits of City agencies' compliance with Executive Order 120 (EO 120), which requires City agencies that provide direct services to the public to create a language access implementation plan to ensure meaningful language access to their services, and Local Law 25, which governs the translation of agencies' websites. These laws are intended to make agencies more accessible to residents with limited English proficiency (LEP) by ensuring that they have adequate access to information, benefits and services provided on City websites and materials. Two audits pertaining to EO 120 found that DOF and the Office of Administrative Trials and Hearings (OATH) generally complied with EO 120 requirements. Six audits pertaining to Local Law 25 found that DFTA, DOF, OATH, the Department of Probation, the Department of Youth and Community Development, and the Office of Chief Medical Examiner generally complied with Local Law 25 requirements. A separate audit of senior citizen centers' compliance with LEP agreements found that DFTA did not effectively oversee the centers to ensure that they were in compliance with contract requirements mandating the LEP community's access to services.

Information Technology

- An audit reviewed DOE's implementation of high speed internet connectivity in New York City public middle schools to determine whether it was on schedule and meeting its intended goals. According to DOE, the agency began to upgrade broadband technology in its schools in 2007, in which the agency commenced the process of installing fiber optic cabling, connections, and network components required to support higher data rates. DOE's goal was to provide high speed internet connectivity and install wireless technology in all of the City's public schools and thereby deliver improved connectivity and performance, enhanced access, capacity, and security. The audit found that every New York City public middle school had fiber optic connections to support high speed internet. However, the audit also found that during its broadband upgrade initiative, DOE failed to put adequate controls and oversight in place to ensure that the system-wide upgrade was completed properly, within budget, with appropriate documentation, and with adequate managerial oversight. During the audit, DOE represented that it did not have any project plans, implementation schedules, and progress reports to document the steps taken, rate of progress, and total cost of the upgrade initiative from its inception in 2007 through its completion in 2016. Without such records, the audit was unable to determine whether DOE's implementation of high speed internet connectivity for middle schools was completed on schedule and within budget. In addition to these findings, auditors conducted a User Satisfaction Survey. In response to that survey, 33% of the responding middle school principals and staff reported that they were not satisfied with the current internet service, 45% stated that the speed of the internet service in the middle schools did not meet their instructional needs, and 25% responded that the internet service availability in their schools was inadequate.

- Another IT audit determined whether DCAS has adequate system security and access controls in place to protect information in its computer environment. To meet its varying responsibilities, DCAS maintains a computer network that is used by DCAS employees, consultants and interns for email and to access department files. It also maintains specialized applications that are used by the public, DCAS network users (employees, interns and consultants), and personnel in external City agencies. The audit found that DCAS has established adequate controls for application access, data protection, and sufficient data classification guidelines to protect information in the agency's computerized environment. However, the audit found weaknesses in DCAS' access and security controls. Specifically, user access had not been disabled for inactive users and former City employees, which could increase security risks. In addition, DCAS' list of agency liaisons-designated officials in other City agencies responsible for authenticating those agencies' users and their roles in relation to one of DCAS' mission-critical, multi-agency application-had not been adequately monitored and updated. Further, DCAS did not implement and enforce DoITT's password expiration and complexity rules that are intended to allow only authorized users to gain access to City IT systems. Finally, DCAS lacks a formal agency-wide business continuity plan and a disaster recovery plan for its applications. DCAS is vulnerable to the loss of mission-critical information in the case of a catastrophic event or emergency until the issue is resolved.

Investigations

- The Audit Bureau's Research and Investigations unit investigated a transaction in which the Allure Group paid the City of New York $16.5 million to remove two deed restrictions that limited the use of Rivington House, a Manhattan nursing home, to operation as a not-for-profit health care facility. As part of its purchase of the property from its previous owner, the firm promised local stakeholders that it would establish a healthcare facility on the site. But the purchaser was in fact exploring other luxury uses for the property, and sold it to a luxury condominium developer for $116 million a year after buying the property, pocketing a $72 million profit. As a result, healthcare workers lost their jobs at Rivington House, residents lost their homes, the neighborhood lost a vital community asset and the City lost the power to ensure that the property was used for a public purpose "in perpetuity."

  The investigation revealed that senior City officials required agency commissioners to prepare weekly reports, but did not read them. As a result, they overlooked information that should have alerted them to the pending sale of the City's deed restrictions and the potential loss of the property as a health care facility. The investigation showed that decisions senior City officials may have made concerning Rivington House were not clearly communicated to subordinates. It also found that a breakdown in communication and oversight created a vacuum that allowed the purchaser to secure the removal of deed restrictions at the same time it was working to "flip" the property for millions of dollars in profit. The report revealed that the City failed to take action, even after it was notified by residents that Rivington House was going to be sold to a developer for conversion to luxury condominiums. City officials had a 72-day window of opportunity to intervene before the sale was finalized, but failed to do so.

- The Audit Bureau's Research and Investigation unit, assisted by the Comptroller's Bureau of Public Policy, conducted an investigation of the Department of Homeless Services' (DHS') provision of child care services within the DHS shelter system. Investigators inspected 21 on-site child care centers in City shelters, surveyed all 167 DHS shelters for families with children, and interviewed officials from two City agencies that manage the delivery of services to homeless families and children, DHS and the Administration for Children's Services (ACS). The investigation found that 99 of the 167 shelters for families with children (59%) offered no child care services; another 43 shelters (26%) operated on-site child care centers without any permits from City government. Those centers had been exempted from rigorous health and safety standards in New York City's Public

Health Code. Consequently, 82% of their child care workers did not undergo proper background checks for disqualifying criminal and child abuse histories. Forty-nine percent of these childcare workers lacked valid training in child abuse and maltreatment identification, reporting, and prevention. Moreover, an investigation of the child care rooms in 21 shelters revealed serious health and safety risks: 41% had no sprinklers, 18% had no fire extinguishers, and 9% of the emergency exit doors were locked from the inside, without emergency push bars. The investigation also found that DHS and ACS were not sharing basic data or systematically coordinating services. As a result, the City could not readily identify which children under three in the shelter system were receiving child care and early-education services, and which were not. Finally, DHS' data showed a sharp increase in its placement of families with children in commercial hotels, which offer no child care services.

THE COMPTROLLER'S COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report is required by Section 93(1) of the New York City Charter, and is presented in three sections. This transmittal letter serves as an introduction and summary. The financial section includes the basic financial statements, combining fund financial statements and schedules and other required supplementary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of the Comptroller's Office's leadership's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the City and its various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Amendments Act of 1996 and the United States Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and other related documents. Information related to the Single Audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and auditors' reports on internal controls and compliance with applicable laws and regulations, are issued as a separate report.

Budgetary and Financial Controls

The City is responsible for establishing and maintaining internal controls designed to ensure that municipal assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. These internal controls are subject to continuous evaluation by the City.

Budgetary Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the Annual Appropriated Budget approved by the City's governing body. Activities of the General Fund are included in the Annual Appropriated Budget. The City also makes appropriations in the Capital Budget to authorize the expenditure of funds for various capital projects. A level of budgetary control, i.e., the level at which expenditures cannot legally exceed the appropriated amount, is established within each individual fund. As reported in the schedules to the financial statements, several agencies have expended more than legally appropriated amounts. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control. Encumbrances lapse at the end of each fiscal year.

Financial Controls

The City maintains financial controls through the use of an integrated accounting and budgeting system, referred to as the Financial Management System (FMS). FMS maintains the City's centralized accounting and budgetary controls. FMS is also used by the City to maintain information on City contracts as well as capital projects. FMS provides the ability for the Comptroller's, Mayor's, and individual agencies' financial managers to access, analyze, and utilize the City's financial data. These capabilities are continuously improved to meet new information needs.

Section 93 of the New York City Charter grants the Comptroller broad powers for establishing accounting and internal control policies and procedures for the City. To ensure the adequacy of the City's internal controls, directives and memoranda that outline appropriate policies and procedures for all City agencies and component units are issued and periodically updated. These directives and memoranda establish internal controls and accountability, which safeguard City assets. The Comptroller's Office and agency auditors periodically check City agencies' and component units' adherence to internal control policies and procedures.

Each year, in accordance with the *Comptroller's Directive #1 — Principles of Internal Control,* every City agency is required to prepare a report on its internal controls. Each agency's report must include an "Agency Financial Integrity Compliance Statement" signed by the agency head. The statement must include the agency head's opinion as to whether the agency's internal controls provide reasonable assurance that internal control objectives were achieved during the fiscal year and can continue to be achieved in the future.

The Comptroller's Office Audit Bureau administers the "Agency Financial Integrity Compliance Statement" program that is part of the "Principles of Internal Control" Directive and collects agency responses. In addition, the auditors collate these responses and use the results as part of a risk assessment to identify future audits. This approach helps to ensure that agencies genuinely assess their internal controls, rather than just examine them perfunctorily. The Comptroller's Office also asks agencies to assess the adequacy of their internal audit functions.

Should a control weakness prevent any significant control objective from being achieved, the agency head must describe management's plans for correcting it. Agencies must also explain and describe planned corrective action for any outstanding weakness described in audit reports prepared by the City Comptroller's Office auditors, the City's independent auditors, the State Comptroller, or other oversight or audit bodies.

The Comptroller revised and reissued the following Comptroller's Internal Control and Accountability Directives during Fiscal Year 2017: *Directive #3 — Administration of Imprest Funds, Directive #6 — Travel, Meals, Lodging, and Miscellaneous Expenses,* and *Directive #11 — Cash Accountability and Control.* The Comptroller also established and issued a list of Frequently Asked Questions associated with Directive #6.

Directive #3 governs the operation and control of Imprest Funds and specifies uniform procedures for the establishment of new Imprest Funds and the replenishment of existing funds. Among the changes from the previous version, this revised Directive clarifies the various roles of individuals who administer Imprest Fund functions; further details the appropriate and inappropriate expenditures associated with Imprest Funds; and discusses the Annual Post Audit Review function, which was not previously included.

Directive #6 governs how City agencies spend money on employees' travel, agency-provided meals, and other miscellaneous expenses, in an effort to increase accountability and eliminate unnecessary spending. Among the policy changes, agency heads are wholly responsible for the enforcement of reimbursement policies, and are held accountable when those policies are circumvented. The new directive also changes the methodology for providing reimbursements, tying them to national rates instead of spending caps as done in the previous version. In addition, the new rules make changes to a number of practices governing employee travel.

Directive #11 governs the basic internal controls and accountability requirements for establishing bank accounts; recording receipts and disbursements; and the reconciliation of all cash or cash equivalents, including currency, checks, money orders, credit cards, and electronic fund transfers. These rules must be adhered to for the proper recordkeeping and maintenance of authorized bank accounts used for The City of New York official business. Among the changes from the previous version, this revised directive provides specific guidelines for the reconciliation of various types of accounts; underscores possible risks associated with the safeguarding of assets when adopting new electronic banking services; and describes new banking services offered to all agencies.

In addition to the revised directives, the Comptroller issued two new memoranda in Fiscal Year 2017: *Comptroller's Memorandum (CM) #16-01 — Changes to Responsibilities and Contact Information Referenced in Sections 6 and 8 of Directive #14 — Leave Balance Payments,* and *CM #16-02 — Changes to Section 8.2, Leasehold Betterments, of Directive #10 — Charges to the Capital Project Fund.*

CM #16-01 addresses updates to the responsibilities and contact information detailed in Sections 6 and 8 of the Directive #14.

CM #16-02 clarifies the circumstances under which unexercised lease renewal options or purchase options may be counted in determining the remaining lease term for purposes of ascertaining whether the useful life of a betterment is at least five years.

All Comptroller directives and memoranda may be found on the Comptroller's Office website.

AWARDS

For the 37th consecutive year, the City of New York was awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA). The Certificate signifies that the City's CAFR meets the highest standards of governmental financial reporting. Only 2,844 of some 39,044 governmental counties, municipalities, and townships received the Certificate thus far, and New York City is one of a very select group of 136 to have received the award for 37 or more consecutive years. To be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government must publish an easily readable and efficiently organized CAFR. The CAFR for Fiscal Year 2016 again satisfied these requirements.

ACKNOWLEDGEMENTS

First, I want to thank the hundreds of accounting and financial professionals in every city agency who work every day on behalf of the people of the City of New York, comprising the foundation of our City's financial accountability and transparency. Your hard work in partnership with the staff of the Comptroller's office made this report possible.

I also wish to convey my deep appreciation to my staff who have worked so diligently to prepare the financial statements and the entire CAFR. I offer special thanks to Acting Deputy Comptroller for Accountancy Preston Niblack, Bureau Chief Jacqueline Thompson, and the staff of the Bureau of Accountancy. I am also grateful for the assistance of the Office of the Actuary, the Mayor's Office of Management and Budget and the Financial Information Services Agency.

I want to thank the City's independent auditors, Grant Thornton LLP, as well as the Pension Systems' independent auditors, Marks Paneth, LLP, for their efforts throughout this audit engagement. Finally, I want to acknowledge the work of the City's Audit Committee, and especially the private members who serve a vital role in assuring the integrity of the independent audit process.

Scott M. Stringer
New York City Comptroller