New York City Comptroller
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BUREAU OF FISCAL AND BUDGET STUDIES

Comments on New York City's Preliminary Budget for Fiscal Year 2012 and Financial Plan for Fiscal Years 2011 – 2015

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I. Executive Summary

For much of the last few fiscal years the dominant theme of the budgetary process has been the underlying economic uncertainty prevalent throughout the nation. While the current economic conditions are not idyllic, they are a marked improvement over the situation faced even a year ago. Having just experienced the longest period of national economic contraction since the end of World War II, the 2010 year-end economic data has provided a glimmer of optimism that the economy has strengthened and that this momentum will continue into 2011.

New York City has been able to weather the economic instability which beset much of the nation. The City has shown strong job growth over the last twelve months and has seen its rate of unemployment dip below the national average. One product of the City's economic growth has been stronger than expected revenue collections. FY 2010 was the first year since FY 2007 where the City experienced year-over-year growth in total general revenues. Current revenue estimates for FY 2011 support the premise that the City has emerged from the recession and is in a period of slow but noticeable growth. It is estimated that total FY 2011 revenues will exceed the pre-recession levels. While all indications are that the economic downturn in New York City has passed, disappointing job creation data in the final quarter of 2010 suggest that it may be some time before the city's economy fully recovers and that the economy remains fragile.

Mayor Bloomberg's Preliminary Budget for FY 2012 and the accompanying Five-Year Financial Plan for FYs 2011 to 2015 present a roadmap for closing a \$4.76 billion budget gap in the coming fiscal year. The FY 2012 gap, which stood at \$3.26 billion last July and \$2.4 billion in the City's November 2010 Plan, has been augmented primarily by State actions which added \$1.4 billion. The Financial Plan assumes that the State Legislature will restore only \$400 million of the aid to New York City cut by the Governor in his Executive Budget while providing an additional \$200 million savings through the implementation of changes to supplemental retirement payments.

The Mayor's plan for closing the FY 2012 gap rests largely on actions to be achieved in the current fiscal year. A \$585 million package of gap-closing initiatives coupled with a tax revenue forecast that yields \$1.02 billion in additional revenues and budgetary maneuvering that generates a net of \$1.5 billion creates a FY 2011 surplus of \$3.15 billion. These resources are scheduled to be used to prepay FY 2012 expenses, thus reducing obligations payable in FY 2012. The remainder of the FY 2012 gap is to be closed primarily with \$1.1 billion of additional tax revenues now estimated to be realized in the coming fiscal year, \$1 billion of gap-closing initiatives in FY 2012, and the aforementioned \$600 million in State actions.

The Comptroller's assessment of the Preliminary Budget identifies potential risks to the FY 2012 Budget that could create a \$1.5 billion gap in the coming year. Risks range from \$743 million to over \$1 billion per year for the remainder of the Financial

Plan period, widening projected budget gaps to $5.855 billion in FY 2013, $5.556 billion in FY 2014 and $5.82 billion in FY 2015.

The Comptroller's Office expects that tax collections in FY 2011 will be slightly lower than the Mayor is currently estimating. The exclusion of funding for wage increases for the current round of collective bargaining for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA) poses the single largest risk to the current year's budget, nearly $900 million. As a result of these and a few smaller risks the FY 2011 Budget could be confronted by a net risk of $1.2 billion. However, the large reserve being accumulated to apply to FY 2012 is ample cushion in case these risks materialize.

The Comptroller's evaluation of the FY 2012 budget assumes risks in certain of the Mayor's tax revenue estimates. These risks, however, are offset by a rosier outlook for real-estate-related tax revenues. Ultimately, the Comptroller's total tax revenue estimate for FY 2012 mirrors that of the Mayor. However, as in FY 2011, the Comptroller continues to assume a huge risk to the budget from potential increases in collective bargaining for teachers and school administrators. This action would exacerbate the FY 2012 gap by $800 million growing to $900 million in the three subsequent fiscal years.

Consistent with past practices, the Mayor continues to under-budget overtime spending in the Preliminary Budget and February Financial Plan. Based upon historical data the Comptroller's Office assumes that this action creates a risk of $191 million in FY 2012 and $100 million annually thereafter.

The Comptroller's Office assumes the Mayor's inclusion of $600 million in revenue from State actions as an additional risk to the FY 2012 budget. Reinstatement of $400 million of funds for revenue sharing and school aid that were eliminated from the Governor's Executive Budget as well as the introduction of legislation to modify supplemental retirement payments to members of the City's uniformed services may be unlikely in light of the State's own budgetary difficulties.

For the most part, the City has been able to avoid the devastating budgetary cuts and layoffs that other states and municipalities have faced. The City's accumulation of reserves, built up during the period of unprecedented revenue growth in FYs 2005 through 2007, has created a fiscal cushion for the inevitable economic downturn. The existence of this fiscal cushion masks the City budget's structural imbalance. While FY 2011 is estimated to end with a $3.151 billion surplus, when compared with the $3.646 billion surplus similarly transferred from FY 2010 to FY 2011, it becomes clear that in the current year, the City is drawing on more resources than it is generating.

While the Mayor's Preliminary Budget does not include any new savings as a result of program to eliminate the gap (PEG) actions, the balancing of the FY 2012 budget relies heavily on the accrued benefits of previous PEG programs totaling $585 million in FY 2011 and $1 billion in FY 2012. The Preliminary Budget does not include any new headcount reduction program but still incorporates the 8,264 headcount reduction (5,312 through layoffs and 2,952 through attrition) included in the November Plan. This total includes a headcount reduction of 5,398 of pedagogical employees at the Department of Education (DOE). While the City has provided $853 million in additional funding to the DOE to mitigate the impact from the expiration of Federal ARRA funds at the end of FY 2011, these funds will not be adequate to prevent additional pedagogical layoffs. As a result, the pedagogical headcount in FY 2012 is projected to decrease by over 6,100 heads.

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Table 1. FYs 2011 – 2015 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Changes FYs 2011 – 2015 Dollar	Percent
Revenues							
Taxes:							
General Property Tax	$17,068	$17,857	$18,411	$18,846	$19,276	$2,208	12.9%
Other Taxes	$22,046	$23,417	$24,106	$25,139	$26,464	$4,418	20.0%
Tax Audit Revenues	$868	$645	$644	$651	$651	($217)	(25.0%)
Subtotal: Taxes	$39,982	$41,919	$43,161	$44,636	$46,391	$6,409	16.0%
Miscellaneous Revenues	$6,161	$5,765	$5,814	$5,880	$5,909	($252)	(4.1%)
Unrestricted Intergovernmental Aid	$14	$12	$12	$12	$12	($2)	(14.3%)
Anticipated State Actions	$0	$600	$600	$600	$600	$600	N/A
Less: Intra-City Revenues	($1,871)	($1,515)	($1,512)	($1,512)	($1,512)	$359	(19.2%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$44,271	$46,766	$48,060	$49,601	$51,385	$7,114	16.1%
Other Categorical Grants	$1,315	$1,160	$1,157	$1,154	$1,150	($165)	(12.5%)
Inter-Fund Revenues	$559	$500	$493	$493	$493	($66)	(11.8%)
Total City & Inter-Fund Revenues	$46,145	$48,426	$49,710	$51,248	$53,028	$6,883	14.9%
Federal Categorical Grants	$8,197	$5,937	$5,795	$5,761	$5,761	($2,436)	(29.7%)
State Categorical Grants	$11,565	$11,263	$11,286	$11,330	$11,331	($234)	(2.0%)
Total Revenues	$65,907	$65,626	$66,791	$68,339	$70,120	$4,213	6.4%
Expenditures							
Personal Service							
Salaries and Wages	$22,124	$21,263	$21,371	$21,598	$21,685	($439)	(2.0%)
Pensions	$6,999	$8,419	$8,566	$8,444	$8,721	$1,722	24.6%
Fringe Benefits	$7,664	$7,994	$8,439	$8,959	$9,523	$1,859	24.3%
Retiree Health Benefits Trust	($395)	($672)	$0	$0	$0	$395	(100.0%)
Subtotal-PS	$36,392	$37,004	$38,376	$39,001	$39,929	$3,537	9.7%
Other Than Personal Service							
Medical Assistance	$4,883	$6,141	$6,327	$6,463	$6,643	$1,760	36.0%
Public Assistance	$1,562	$1,526	$1,546	$1,546	$1,546	($16)	(1.0%)
All Other	$20,290	$19,413	$19,934	$20,435	$20,922	$632	3.1%
Subtotal-OTPS	$26,735	$27,080	$27,807	$28,444	$29,111	$2,376	8.9%
Debt Service							
Principal	$1,649	$1,789	$2,037	$2,169	$2,141	$492	29.8%
Interest & Offsets	$2,303	$2,537	$2,766	$2,706	$2,903	$600	26.1%
Subtotal Debt Service	$3,952	$4,326	$4,803	$4,875	$5,044	$1,092	27.6%
FY 2010 BSA and Discretionary Transfers[a]	($3,646)	$0	$0	$0	$0	$3,646	(100.0%)
FY 2011 BSA[b]	$3,151	($3,151)	$0	$0	$0	$0	0.0%
FY 2008 Redemption of Certain NYCTFA Debt	($35)	$0	$0	$0	$0	$35	(100.0%)
NYCTFA							
Principal	$475	$376	$594	$719	$725	$250	52.5%
Interest & Offsets	$654	$1,206	$1,275	$1,325	$1,500	$846	129.5%
Subtotal NYCTFA	$1,129	$1,582	$1,869	$2,044	$2,225	$1,096	97.1%
General Reserve	$100	$300	$300	$300	$300	$200	200.0%
	$67,778	$67,141	$73,155	$74,664	$76,609	$8,831	13.0%
Less: Intra-City Expenses	($1,871)	($1,515)	($1,512)	($1,512)	($1,512)	$359	(19.2%)
Total Expenditures	$65,907	$65,626	$71,643	$73,152	$75,097	$9,190	13.9%
Gap To Be Closed	**$0**	**$0**	**($4,852)**	**($4,813)**	**($4,977)**	**($4,977)**	**N/A**

[a] FY 2010 BSA and Discretionary Transfers include prepayments of $2.888 billion of G.O. debt service, $371 million of NYCTFA debt service, $383 million of subsidies and bond refunding of $4 million.

[b] FY 2011 BSA including prepayments of $2.361 billion of G.O. debt service and $790 million of NYCTFA debt service.

Table 2. Plan-to-Plan Changes
February 2011 Plan vs. July 2010 Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
Revenues				
Taxes:				
General Property Tax	$79	$225	$510	$808
Other Taxes	$751	$860	$303	$144
Tax Audit Revenues	$246	$24	$24	$31
Subtotal: Taxes	$1,076	$1,109	$837	$983
Miscellaneous Revenues	$249	$27	$45	$61
Unrestricted Intergovernmental Aid	$0	($302)	($302)	($302)
Anticipated State Actions	$0	$600	$600	$600
Less: Intra-City Revenues	($255)	($17)	($10)	($10)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,070	$1,417	$1,170	$1,332
Other Categorical Grants	$80	$18	$18	$17
Inter-Fund Revenues	$1	$7	$0	$0
Total City & Inter-Fund Revenues	$1,151	$1,442	$1,188	$1,349
Federal Categorical Grants	$1,384	$190	$121	$94
State Categorical Grants	$213	($1,011)	($1,201)	($1,573)
Total Revenues	$2,748	$621	$108	($130)
Expenditures				
Personal Service				
Salaries and Wages	$548	$252	$42	($277)
Pensions	($613)	$543	$583	$358
Fringe Benefits	($5)	($94)	$30	$42
Retiree Health Benefits Trust	$0	$0	$0	$0
Subtotal-PS	($70)	$701	$655	$123
Other Than Personal Service				
Medical Assistance	($283)	$194	$156	($315)
Public Assistance	($24)	($100)	($68)	($68)
All Other	$875	$123	$102	$58
Subtotal-OTPS	$568	$217	$190	($325)
Debt Service				
Principal	($140)	($363)	($96)	$65
Interest & Offsets	($119)	$10	$134	($30)
Subtotal Debt Service	($259)	($353)	$38	$35
FY 2010 BSA and Discretionary Transfers	($4)	$0	$0	$0
FY 2011 BSA	$3,151	($3,151)	$0	$0
FY 2008 Defeasance of Certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA Debt Service				
Principal	$19	($202)	($91)	$12
Interest & Offsets	($65)	$169	$123	$13
Subtotal NYCTFA	($46)	($33)	$32	$25
General Reserve	($337)	$0	$0	$0
Less: Intra-City Expenses	($255)	($17)	($10)	($10)
Total Expenditures	$2,748	($2,636)	$905	($152)
Gap To Be Closed	**$0**	**$3,257**	**($797)**	**$22**

Table 3. Risks and Offsets to the February 2011 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
City Stated Gap	**$0**	**$0**	**($4,852)**	**($4,813)**	**($4,977)**
Tax Revenues					
Property Tax	($13)	($8)	($39)	($17)	$14
Personal Income Tax	($207)	($63)	$93	$90	($6)
Business Taxes	($132)	($180)	($26)	$110	$257
Sales Tax	$0	$0	$41	$209	$155
Real-Estate-Related Taxes	$105	$272	$425	$461	$424
Subtotal	**($247)**	**$21**	**$494**	**$853**	**$844**
Anticipated State Actions	**$0**	**($600)**	**($600)**	**($600)**	**($600)**
Expenditures					
UFT/CSA Collective Bargaining	($898)	($800)	($897)	($900)	($900)
Overtime	($80)	($191)	($100)	($100)	($100)
Pension Reform	$0	$0	$0	($131)	($252)
Judgments and Claims	$35	$75	$100	$135	$170
Public Assistance	$15	$0	$0	$0	$0
Subtotal	**($928)**	**($916)**	**($897)**	**($996)**	**($1,082)**
Total Risk/Offsets	**($1,175)**	**($1,495)**	**($1,003)**	**($743)**	**($838)**
Restated (Gap)/Surplus	**($1,175)**	**($1,495)**	**($5,855)**	**($5,556)**	**($5,815)**

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II. The State of the City's Economy

After a painful 2009, the U.S. economy continued its recovery in 2010 and actually showed signs of gaining momentum late in the year. That momentum should continue in 2011. However, there are still significant constraints on growth that caution against excessive optimism.

New York City's economy also improved in 2010 and is expected to strengthen further in 2011. The city's financial sector has begun to re-create jobs, real estate markets appear to have stabilized, and tourism has reached new highs. Nevertheless, the disappointing job creation in the final quarter of 2010 serves as a reminder that the city's recovery remains fragile and that boom times are unlikely to return soon.

A. U.S. ECONOMIC OUTLOOK

The U.S. economy grew 2.8 percent in real terms in 2010 after a 2.6 percent decline in 2009; by the fourth quarter of 2010 the nation's economy had finally surpassed its peak pre-crisis output. Nearly half of the growth during 2010, however, was attributable to the replenishment of business inventories in anticipation of a return of consumer and business purchasing. Fortunately, consumer spending picked up as anticipated, with personal consumption expenditures strengthening in each quarter of the year. That growth in final demand indicates that 2011 should witness renewed business investment in productive capacity and more rapid job creation.

Trade reports of a strong holiday season in 2010 have since been confirmed by aggregate economic data. Consumer spending rose at a 4.1 percent annual rate in the fourth quarter of 2010, the biggest quarterly surge since early 2006. That rate of consumption growth can probably not be sustained without a potentially destabilizing run-up of consumer debt. However, consumer debt outstanding increased at a modest 2.6 percent annual rate during the final quarter of 2010 and consumer revolving debt (mostly credit card debt) continued to decline, indicating that the holiday surge was fueled in large part by current income and savings, rather than excessive debt accumulation.

The improving financial position of American households is the most promising indicator for 2011. It has been estimated that the financial crisis and recession inflicted financial distress on approximately 40 percent of American households.[1] However, there are some indications that the distress is abating. Payroll employment has increased and the unemployment rate has decreased, while rates of mortgage and credit card

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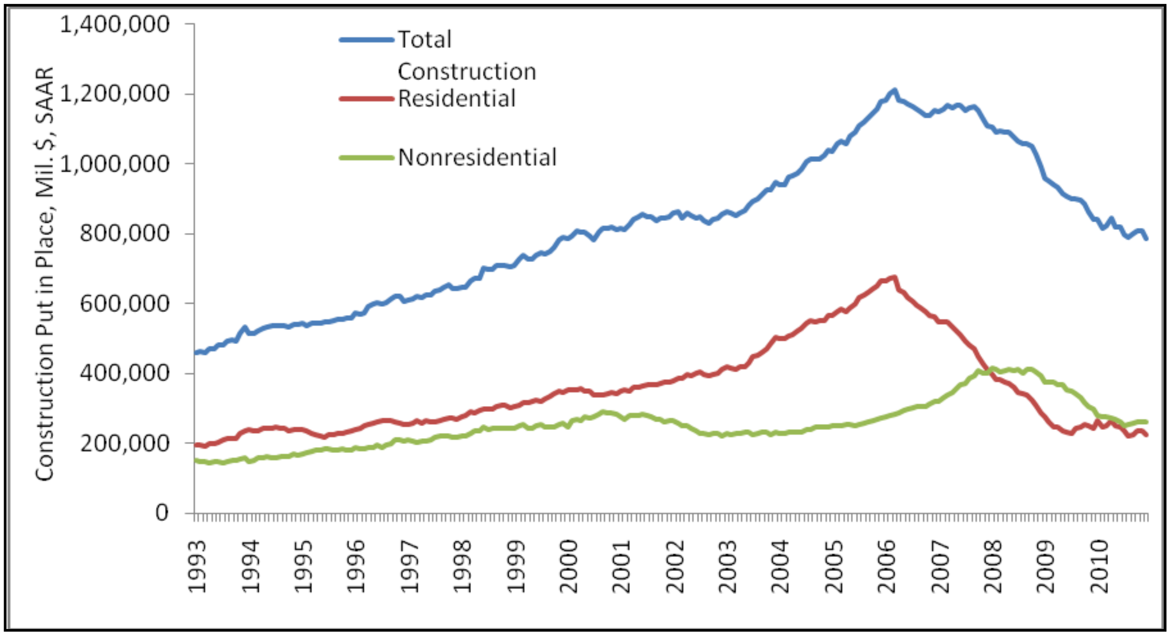
[1] Michael Hurd and Susannn Rohwedder, "Effects of the Financial Crisis and Great Recession on American Households," National Bureau of Economic Research Working Paper 16407, September 2010. "Financial distress" is defined as any of the following: unemployment, negative equity in house, behind more than two months on mortgage, or home in foreclosure.

delinquency have fallen. Moreover, many of the households which did not experience distress reigned in their spending, increased their savings, reduced their credit card debt, and refinanced their mortgages at historically low interest rates. Outstanding consumer revolving credit has decreased by about $141 billion since the end of 2007 and mortgage debt on 1- to 4-family homes has contracted by about $485 billion. These improvements are reflected in the financial obligation ratio, which measures the proportion of household income committed to fixed monthly payments such as rents and mortgages, property taxes, and auto and credit card payments. The ratio has declined by about two percentage points to its lowest level since 1995. Although owners' equity in household real estate has fallen by a staggering $6 trillion since 2006, rising consumer optimism combined with a gradually falling unemployment rate should keep household spending growing at a steady and balanced pace through 2011.

There nevertheless remain drags on the economy that will dampen the recovery's momentum and prevent the unemployment rate from falling as rapidly as might be hoped. One such drag is the budget strain on state and local governments. During 2010 the private sector added 1,137,000 payroll jobs, but those gains were partially offset by a decline of 271,000 in state and local government employment. Given the budget stresses on state and local governments resulting from the recession, as well as the diminishing federal aid to those governments, payroll cutbacks are likely to be even more severe in 2011. Overall, lower state and local government spending is likely to reduce the rate of GDP growth by about 0.3 percentage point.

Another important constraint on economic growth is the moribund condition of the construction industries. Due to the precipitous decline in home prices and the associated foreclosure wave, new housing construction has sunk to historically low levels and has shown few signs of revival. Moreover, higher vacancy rates and continued financing difficulties in commercial real estate have reduced construction of office buildings, retail malls and hotels. Very rapid rates of GDP growth cannot be attained without a flourishing construction industry and a meaningful revival in that sector appears to be still several years away. Chart 1 shows the recent trend in construction spending.

***Chart 1.* U.S. Total, Residential and Nonresidential Construction Put in Place, $ Millions, SAAR, 1993 – 2010**



SOURCE: U.S. Census Bureau.
Note: Total construction is made up of private and public. The residential and nonrersidential shown in this chart are components of the private.

Late in 2010, the tax deal between the President and Congressional Republicans produced a surge of optimism among economic forecasters, in large part because of the additional fiscal stimulus the deal provided. Recent developments in Congress should temper that enthusiasm, as negotiations relating to current-year federal spending, to the national debt limit, and ultimately, to the President's FY 2012 budget are likely to result in reduced federal spending that offsets much of the tax stimulus.

There are several international risks to the domestic economy but none seem likely to derail the recovery. The European debt crisis is far from solved, but with the European community's stabilization program, the threat of another financial panic seems to have receded. A more immediate concern is the political turmoil in the Middle East. The pro-democracy upheaval may eventually prove to be a boon to the world's economy, but in the short run the instability raises concerns about the security of petroleum supplies. Libya, which produces about 2.0 percent of the world's oil, appears to be spiraling into civil war, and it is possible that its petroleum exports will be disrupted for an extended period. Oil prices have increased by $10 to $20 per barrel, and if the higher price persists, real GDP growth in the U.S. could be shaved by .25 to .50 percentage point in 2011.

Given the continued drags on the recovery, the Comptroller anticipates a national economy strengthening only slowly during the next several years. There appears to be a relatively low risk of a relapse into recession but the rate of economic growth is unlikely to be rapid enough to reduce unemployment significantly.

The city's economy rebounded surprisingly rapidly from the recession, but weak job figures late in the year underscored the continued fragility of the recovery. With the national economy picking up speed going into 2011, however, local job creation should revive and improvement should be seen across a broad range of local economic indicators.

Table 4 compares the Comptroller's and the Mayor's forecast of five economic indicators for 2010 to 2015.

Table 4. Selected U.S. Economic Indicators, Annual Averages, Actual 2010 and Comptroller's and Mayor's Forecasts, 2011 – 2015

		2010	2011	2012	2013	2014	2015
Real GDP, (2005 $),	Comptroller	2.8	2.9	3.0	2.9	3.2	3.3
% Change	Mayor	2.9	3.2	2.8	3.2	3.4	3.0
Payroll Jobs,	Comptroller	(1.0)	1.4	2.0	2.2	2.4	2.2
Change in Millions	Mayor	(0.7)	1.8	2.6	2.8	2.9	2.4
Inflation Rate	Comptroller	1.6	1.6	1.7	1.9	2.2	2.6
Percent	Mayor	1.7	1.6	1.9	2.0	2.3	2.2
Fed Funds Rate,	Comptroller	0.2	0.2	1.0	2.6	4.0	4.3
Percent	Mayor	0.2	0.2	1.3	3.4	3.6	4.7
10-Year Treasury Notes,	Comptroller	3.2	3.6	4.4	4.5	5.0	5.4
Percent	Mayor	3.2	3.6	4.2	4.6	4.8	5.6

SOURCE: Actual=preliminary data from Bureau of Labor Statistics, Bureau of Economic Analysis, and Federal Reserve Board of Governors. Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the February 2011 Financial Plan.

B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

The city's private sector lost 139,400 jobs during the recession but managed to recover 68,400, or about half of them through January 2011. The city experienced strong job creation from September 2009 through October 2010, but growth faltered toward the end of 2010. After gaining 70,700 payroll jobs through October, private sector employment decreased 24,200 in the final two months of 2010. Seasonal factors appeared to play a large role, as cautious retailers and food service establishments curtailed their holiday hiring. However, employment declines in the usually steady education and health sectors indicated that reverberations from the recession, including tighter government budgets, were still being felt.

The city's unemployment rate averaged 9.5 percent in 2010, compared with 9.3 percent in 2009. However, the monthly movements of the unemployment rate were much more favorable, as the rate fell to 8.8 percent in December 2010, compared to 10 percent in December 2009. Unfortunately, not all of the improvement was due to a greater availability of jobs; the city's labor-force-participation rate fell to 60.3 percent in 2010 from 60.6 percent in 2009, signaling the withdrawal of discouraged job seekers from the labor market. Most job seekers left the labor market in the nine months of the year, as the city's labor force fell by 47,500 from June to December.

Despite the halting pattern, the city's economy registered overall growth in 2010 after two years of decline. The Comptroller estimates that the city's economy grew 1.6 percent in 2010, compared to a 2.8 percent decrease in 2009.

A positive sign of continued economic growth is the solid recovery of the city's corporate sector. Professional and business services, a crucial component of the city's "export base," added about 21,000 jobs during the course of the year and hiring was particularly strong during the fourth quarter. The computer systems industries, establishments engaged in the management of businesses and enterprises, and advertising industries all added employees during the year. The legal, accounting, and architectural industries, however, continued to struggle, paring payrolls by 2,600 employees from December 2009 to December 2010. With the pick-up in national economy, it is likely that the accounting industry will turn around in the coming year. The prospects are not as hopeful for architectural and engineering firms, as a national recovery in the construction industries may still be some time off.

The financial crisis and recession cost the city's financial sector about 47,000 jobs, but with the help of the U.S. Treasury and the Federal Reserve a much worse disaster was averted. The low point in the industry's employment cycle appears to have been reached in January 2010, but from February 2010 through January 2011 the city's financial industry recovered over 9,000 jobs. Wall Street profits, as measured by the pre-tax net income of the NYSE member firms, remained healthy in 2010, although full-year net income did not approach the record $61.4 billion realized in 2009. Profits were about $27.6 billion in 2010, the second highest on record. With lessening stock market volatility, higher interest rates, and more restrictive financial regulations, it is unlikely that the city's financial sector will soon recapture its pre-crisis luster. However, there is reason to be cautiously optimistic that continued restructuring and a revival of demand for core financial services will provide the city with a more stable, and still lucrative, financial services industry in coming years.

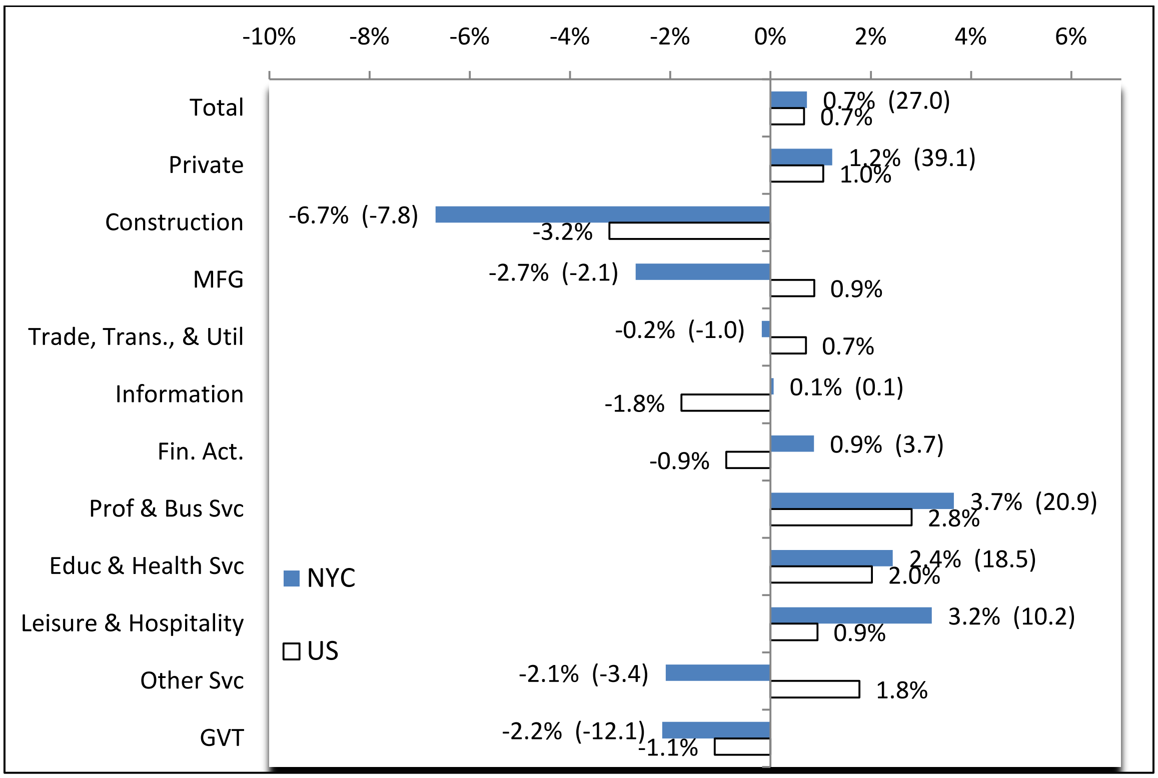
One of the city's key "export" sectors that remains a concern is the information industry, including publishing, broadcasting, music and motion picture production, and telecommunications. That sector expanded during the 1990s but rapid technological change compounded the cyclical downturn and virtually all the employment gains of the previous decade have been lost. The industry provides many well-paying jobs and contributes greatly to the intellectual and creative life of the city, but its short-term prospects and long-term configuration remain uncertain.

Chart 2 on page 10 shows the year-over-year change in jobs for different sectors for the city and the nation in 2010.

Educational and health care services now comprise the city's largest employment "super-sector" and its growth continued in 2010. From December 2009 to December 2010 employment in educational services increased by 8,700 and employment in health care and social assistance grew by 9,800. For the first time, employment in the city's colleges, universities and professional schools exceeded 100,000 in 2010. However, uncertainties regarding the implementation of the Patient Protection and Affordable Care Act, in addition to state Medicaid cutbacks, cloud the employment outlook in the health care industries.

Another contributor to the city's recovery was tourism, which fueled growth in the many industries that cater to visitors or benefit from their spending. According to NYC and Company, a record 48.7 million people traveled to New York in 2010, almost 7.0 percent more than in 2009. According to Colliers PKF Consulting USA, the city's hotels had a daily occupancy rate of 85.4 percent in 2010 compared with 82 percent in 2009. Consequently, employment in food service establishments grew by 11,700 during the course of 2010 while performing arts, spectator sports and related industries regained most of the jobs they had lost to the recession.

***Chart 2.* NYC and U.S. Payroll Jobs, Percent Change, December 2009 to December 2010**



SOURCE: NYS Department of Labor and Bureau of Labor Statistics.
Note: The change in the NYC jobs in the parenthesis are in thousands.

The gradually improving local economy has been reflected in the city's real estate markets, which showed some encouraging signs of recovery in 2010. According to Cushman and Wakefield, in the fourth quarter of 2010, the Manhattan office market registered its strongest quarter for leasing since 2006. New leasing activity totaled 26.3 million square feet (msf) for 2010 as a whole, 61.4 percent more than in 2009. With leasing activity up, the Manhattan office vacancy rate declined to 10.5 percent in 4Q10, from 10.9 percent in the previous quarter. The market also experienced the first year-over-year office vacancy rate decline since the fourth quarter of 2007, and the first year of positive space absorption since 2007. Rental prices have also firmed, with some recent deals in Midtown reportedly exceeding $100 per square foot.

The city's residential markets also showed signs of improvement, although the recovery has been erratic. According to Prudential Douglas Elliman, sales of Manhattan co-ops and condos topped 10,000 units in 2010, representing a 35 percent increase from the prior year. Sales prices of co-operative apartments increased 0.4 percent over the prior year, but prices of condominiums slipped by 6.3 percent, on a square-foot basis. The real estate firm reports that sales of 1- to 3-family homes in Brooklyn increased 9.0 percent compared to the previous year, and in Queens sales volume increased by 15 percent. In both boroughs, sales prices per square foot in the fourth quarter of 2010 were higher than in the same quarter of the preceding year, but the bumpy pattern of quarterly sales and prices indicate that the temporary federal home buyer tax credit altered normal seasonal patterns.

The recent weak job trend does not change our basic outlook that the national and local economies will continue to improve during 2011, but it does temper hopes that the city will significantly out-perform the nation or that jobs will be created in abundance.

Table 5. Selected NYC Economic Indicators, Annual Averages, Actual 2010 and Comptroller's and Mayor's Forecasts, 2011-2015

		2010	2011	2012	2013	2014	2015
Real GCP, (2005 $),	Comptroller	1.6	3.1	3.1	3.1	3.1	3.2
% Change	Mayor	5.3	(0.3)	1.3	1.8	2.3	2.3
Payroll Jobs,	Comptroller	14.5	20.0	43.0	54.0	65.0	60.0
Change in Thousands	Mayor	(10.0)	32.0	39.0	41.0	44.0	43.0
Wage-Rate Growth,	Comptroller	7.9	2.5	3.2	3.5	3.8	3.6
Percent	Mayor	5.0	2.3	1.3	2.2	2.7	2.9
Inflation Rate	Comptroller	1.7	1.8	1.7	2.2	2.3	2.6
Percent	Mayor	1.7	1.7	2.0	2.1	2.4	2.4
Unemployment,	Comptroller	9.6	8.7	7.6	6.8	5.9	5.8
Percent	Mayor	N/A	N/A	N/A	N/A	N/A	N/A

SOURCE: Actual=preliminary data from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors. Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the February 2011 Financial Plan. GCP=Gross City Product. NA=not available.

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III. The FY 2011 Budget

Since the release of the amendment to the FY 2011 Adopted Budget in July 2010 the outlook for the local economy has improved considerably. The city's real Gross City Product (GCP) grew by 5.3 percent in calendar year (CY) 2010 compared to the July estimate of 3.6 percent. For CY 2011, the City has increased its July estimate of real GCP from $558.1 billion to $568.4 billion. Other positive developments include higher than expected Wall Street profits, a strong rebound in the tourism industry with a record number of visitors in CY 2010 after a drop-off in CY 2009, and increased real estate transactions. As a result of these factors, the City has increased its tax revenue forecast for FY 2011 by $1.07 billion. The higher revenue forecasts together with net downward revisions to the July expenditure estimates and agency programs to eliminate the gap (PEGs) result in a projected FY 2011 budget surplus of $3.151 billion. As shown in Table 6, this surplus will fund a FY 2011 Budget Stabilization Account (BSA) to provide budget relief for FY 2012 through the prepayment of a portion of FY 2012 debt service.

Table 6. Changes to the FY 2011 City-Funds Estimates

($ in millions, positive numbers decrease the gap, negative numbers increase the gap)

July 2010 Plan Gap	**$0**
Revenue Changes	
Tax revenues	$1,070
Non-tax revenues	(53)
Total	**$1,017**
Expenditure Changes	
State Budget Impact	($48)
Fund FMAP Shortfall	(43)
Medical Assistance Adjustment	516
General Reserve	200
Prior-Year-Payable	500
HIP Rate Increase	(3)
Judgments and Claims	50
Reserve for Changes in Pension Assumptions and Methods	600
Debt Service	292
Pension	12
Other Expense Changes	(527)
Total Expense	**$1,549**
Surplus/(Gap) to be Closed	**$2,566**
Agency Gap-Closing Program	**$585**
BSA	**($3,151)**
Remaining Gap – February 2011 Modification	**$0**

With the exception of personal income tax revenue, all other tax revenues have been revised upwards from the July estimates, as shown in Table 7. The largest increases in tax revenues are business and sales tax revenues which account for $831 million of the increase. Tax revenues are expected to increase by $2.8 billion in FY 2011 from the FY 2010 level of $37.2 billion. In fact, projected FY 2011 tax revenues of $39.98 billion are \$1.22 billion higher than the pre-recession FY 2008 level of \$38.8 billion. However, after adjusting for post FY 2008 State and City actions, which on net, are expected to generate additional tax revenues of \$2.62 billion in FY 2011, tax revenues in FY 2011 are \$1.4 billion less than FY 2008. Tax revenues adjusted on a common rate and base with FY 2008 are not expected to surpass the FY 2008 level until FY 2012.

Table 7. Changes to the City's FY 2011 Tax Revenue Estimates

($ in millions)

	July Plan Estimate	Change	February Plan Estimate
Property Tax	\$16,988	\$80	\$17,068
Personal Income (PIT)	8,291	(308)	7,983
Business Taxes	4,905	460	5,365
Real-Estate-Related	1,083	129	1,212
Sales	5,138	371	5,509
Tax Audit Revenue	622	240	862
Others	1,879	98	1,977
Total Taxes	**\$38,906**	**\$1,070**	**\$39,976**
Agency PEGs	**\$0**	**\$6**	**\$6**
Total with PEGs	**\$38,906**	**\$1,076**	**\$39,982**

City-funded expenditures in the February Modification, before PEGs and FY 2011 BSA, total \$41.66 billion, a reduction of \$1.55 billion from the July estimates. Nearly all of the decrease in spending estimates is the result of the following actions: reduction to the General Reserve, recognition of prior-year-payable savings, elimination of a reserve to fund actuarial changes in pension assumptions and methodologies, earlier than expected reimbursement for Medical Assistance (MA) and debt service savings. Elimination of the reserve to fund actuarial changes in pension assumptions and methodologies reflects the City's expectation that any changes being considered by the Chief Actuary will now be implemented beginning FY 2012 instead of FY 2011. The MA adjustment represents reimbursements of \$122 million, and \$394 million that were originally projected for FYs 2012, and 2013, respectively, in the July Plan. The City now expects these reimbursements in FY 2011.

In addition to the upward revisions to revenue forecasts and lower expenditure estimates, additional budget relief is provided by agency PEG initiatives that are expected to generate benefits of \$585 million in FY 2011 and recurring benefits of \$1 billion in FY 2012, \$917 million in FY 2013, \$914 million in FY 2014 and \$913 million in FY 2015. The PEGs together with the revisions to the July revenue and expenditure estimates are expected to generate a FY 2011 budget surplus of \$3.151 billion which will be used to reduce FY 2012 spending through the prepayments of \$2.361 billion of general obligations (G.O.) and \$790 million of New York City Transitional Finance Authority (NYCTFA) debt service.

THE FY 2011 OPERATING RESULT

While the City is projecting a budget surplus of $3.151 billion for FY 2011, expenditures incurred in FY 2011 are expected to exceed estimated revenues by $495 million. The City is able to show a FY 2011 budget surplus despite an operating deficit as a result of budget relief in the form of reduced debt service and subsidies to the libraries and Metropolitan Transit Authority through the prepayments of a portion of these expenditures with the surpluses accumulated in previous years.

Table 8 illustrates the accumulation of the projected FY 2011 surplus. At the beginning of FY 2002, the accumulated surpluses from previous years stood at $2.944 billion. This amount was rolled into FY 2002 through the prepayment of a portion of FY 2002 debt service, and subsidies to libraries, Metropolitan Transportation Authority (MTA), and Health and Hospitals Corporation (HHC) at the close of FY 2001. In the aftermath of the terrorist attacks on September 11th, $2.253 billion of the accumulated surplus was needed to balance the FY 2002 budget. Another $5 million was used to record a budget surplus for FY 2002. As a result, only $681 million of the accumulated surplus was left to roll into FY 2003. In each of FYs 2003 through 2008, revenues exceeded budget expenditures. However in the wake of the financial crisis and the recession, the City used $1.755 billion of the accumulated surplus in ending FY 2009 with a reported budget surplus of $5 million. In FY 2010, the City was able to add $706 million to the accumulated surplus despite the fiscal challenge confronting the City. This was possible because of actions taken in FYs 2007 and 2008 which reduced FY 2010 expenditures by $2.7 billion.[2] Without these actions, FY 2010 would have shown a deficit of almost $2 billion. In the absence of any other prior actions besides the FY 2010 surplus roll, the City expects to use $495 million of the accumulated surplus to balance the FY 2011 budget leaving $3.151 billion to prepay some of FY 2012 debt service.

[2] The City defeased $536 million of G.O. bonds and $718 million of NYCTFA bonds in FY 2007 which reduced FYs 2008, 2009, and 2010 debt service by $60 million, $641 million, and $659 million, respectively. In addition, the City prepaid $1.986 billion of FY 2010 debt service in FY 2008, which together with accrued interest reduced FY 2010 debt service by another $2.036 billion.

Table 8. Build-Up of the Year-End Surplus

($ in millions)

	Beginning Accumulated Surplus	Revenues Less Expenditures	Reported Surplus	Ending Accumulated Surplus
FY 2002	$2,944	($2,258)	$5	$681
FY 2003	$681	$741	$5	$1,417
FY 2004	$1,417	$511	$5	$1,923
FY 2005	$1,923	$1,611	$5	$3,529
FY 2006	$3,529	$227	$5	$3,751
FY 2007	$3,751	$919	$5	$4,665
FY 2008	$4,665	$40	$5	$4,700*
FY 2009	$4,700*	($1,750)	$5	$2,945*
FY 2010	$2,945*	$706	$5	$3,646
FY 2011p	$3,646	($495)	$0	$3,151

* Only $4.6 billion of the accumulated surplus at the end of FY 2007 was rolled into FY 2008. The remaining $61 million was rolled into FYs 2009 and 2010 through the prepayments of $34 million and $31 million of lease obligations in FYs 2009 and 2010, respectively. The accumulated surpluses in the table are adjusted for FYs 2009 and 2010 to reflect these prepayments.
p = projected

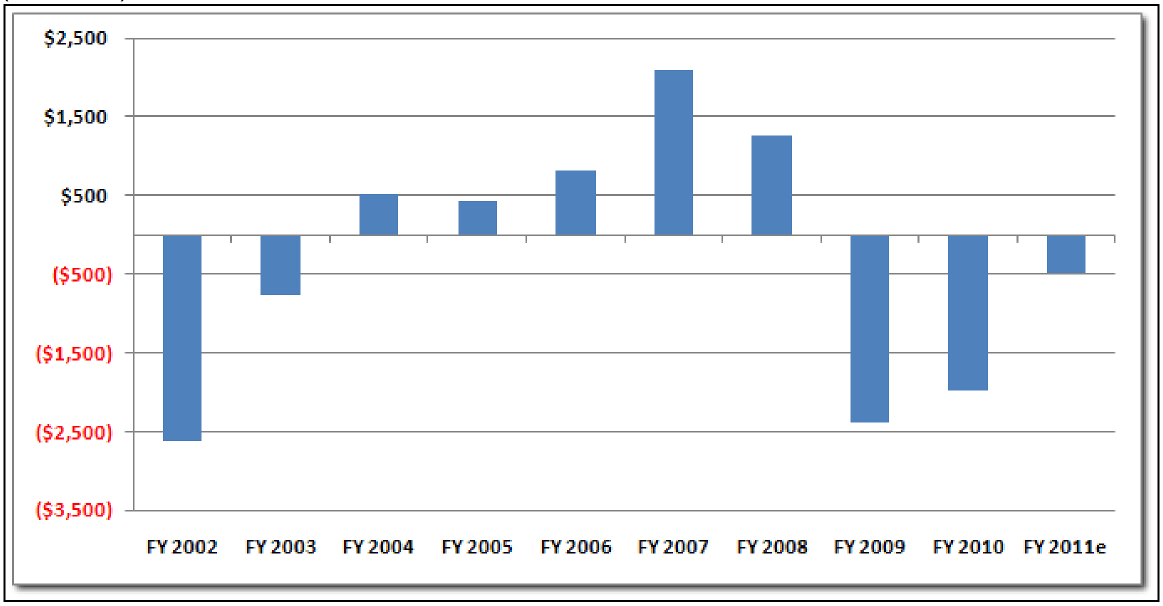
In addition to the accumulated surpluses, other actions taken including the use of non-recurring resources, delayed or accelerated recognition of revenues and early retirement or defeasance of bonds also mask the operating results of the City. Highlights of such actions over the last ten years include:

- The use of $361 million of Disaster Recovery Bonds in the aftermath of September 11th Terrorist attacks to fund operating expenditures in FY 2002.
- A further use of $1.5 billion of Disaster Recovery Bonds to fund operating expenditures in FY 2003.
- The transfer of $200 million in FY 2005 for FY 2007 NYCTFA debt service.
- Non-recurring revenues of $744 million in retroactive airport rent payments from the Port Authority of New York and New Jersey, and $631 million in Municipal Assistance Corporation debt service reimbursement from the State in FY 2005.
- The delayed recognition of $233 million of FY 2006 and $121 million of FY 2007 tobacco settlement residual revenues until FY 2008.
- The FY 2006 defeasance of $350 million of NYCTFA bonds maturing in FY 2008.
- Defeasance of $1.254 billion of G.O. and NYCTFA bonds maturing in FYs 2009 and 2010 in FY 2007.
- Prepayment of $1.986 billion of FY 2010 G.O. debt service in FY 2008.

Chart 3 shows the operating results for FYs 2002 through 2011 after adjusting for all prepayments and non-recurring resources. As the chart illustrates, FY 2011 represents the third consecutive year in which the City is expected to incur an operating deficit.

***Chart 3*. The City's Operating Results Adjusted for Prepayments and Non-Recurring Actions**

($ in millions)



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IV. The Preliminary FY 2012 Budget

The Preliminary FY 2012 Budget closes a $3.257 billion budget gap projected in the July Plan as shown in Table 9. The FY 2012 gap was further exacerbated by proposed State budget actions which eliminated revenue sharing and slashed education and welfare support to the City. These actions combined to widen the gap by almost $1.4 billion. Agency PEGs, a sizeable prepayment of $3.151 billion of FY 2012 debt service, and anticipated State actions help close a restated gap of $4.753 billion. However, as discussed in "Risks and Offsets" beginning on page 20, the anticipated State actions represent a risk to the City's projections.

Table 9. Changes to the FY 2012 City-Funds Estimates

($ in millions, positive numbers decrease the gap, negative numbers increase the gap)

July 2010 Plan Gap	**($3,257)**
Revenue Changes	
Tax revenues	$1,082
Loss of Revenue Sharing	(302)
Non-tax revenues	(73)
Total	**$707**
Expenditure Changes	
State Budget Impact	($1,087)
Replace ARRA Funding for Education	(853)
Fund FMAP Shortfall	(72)
Medical Assistance Adjustment	(122)
HIP Rate Increase	(62)
Judgments and Claims	70
Reserve for Changes in Pension Assumptions and Methods	(400)
Debt Service	680
FY 2010 Asset Gains	45
Investment Fees	(102)
Other Expense Changes	(300)
Total Expense	**($2,203)**
Surplus/Gap to be Closed	**($4,753)**
Agency Gap-Closing Program	**$1,002**
BSA	**$3,151**
State Budget Relief	**$600**
Remaining Gap – February 2011 Modification	**$0**

As discussed in "The FY 2011 Budget" beginning on page 13, the City has increased its revenue projections as a result of the improved economic outlook for the City. Projected tax revenues for FY 2012 are $1.08 billion higher than estimated in July. However, the rosier revenue projection is more than offset by higher expenditure estimates. In addition to the loss of $1.087 billion in State support for education and welfare proposed in the State Executive Budget, FY 2012 expenditures are $1.12 billion higher than estimated in July. The bulk of this increase stems from the City's commitment to offset the expiration of the American Recovery and Reinvestment Act

(ARRA) education funding in the Department of Education with $853 million of City tax levy. Costs associated with potential changes in actuarial assumption and methodologies in pension contribution computation accounts for another $400 million of expenditure increase bringing the total funding for actuarial changes to $1 billion. A reduction of $680 million in City-funds debt service provides a partial offset to the expenditure estimates in the February Plan. Refunding savings, variable rate interest savings, Federal subsidies for Build America Bonds (BABs) and the shift of $220 million in City-funded G.O. debt service to State building aid revenue support account for $625 million of the decrease.

Risks and Offsets

As shown in Table 10, the Comptroller's Office has identified net annual risks to the City's budget ranging from $743 million to $1.495 billion. If the risks were to materialize they would result in gaps of $1.175 billion in FY 2011 and $1.495 billion in FY 2012. In the outyears, the risks would widen budget gaps to $5.855 billion in FY 2013, $5.556 billion in FY 2014, and $5.815 billion in FY 2015.

Table 10. Risks and Offsets to the February 2011 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
City Stated Gap	**$0**	**$0**	**($4,852)**	**($4,813)**	**($4,977)**
Tax Revenues					
Property Tax	($13)	($8)	($39)	($17)	$14
Personal Income Tax	($207)	($63)	$93	$90	($6)
Business Taxes	($132)	($180)	($26)	$110	$257
Sales Tax	$0	$0	$41	$209	$155
Real-Estate-Related Taxes	$105	$272	$425	$461	$424
Subtotal	**($247)**	**$21**	**$494**	**$853**	**$844**
Anticipated State Actions	**$0**	**($600)**	**($600)**	**($600)**	**($600)**
Expenditures					
UFT/CSA Collective Bargaining	($898)	($800)	($897)	($900)	($900)
Overtime	($80)	($191)	($100)	($100)	($100)
Pension Reform	$0	$0	$0	($131)	($252)
Judgments and Claims	$35	$75	$100	$135	$170
Public Assistance	$15	$0	$0	$0	$0
Subtotal	**($928)**	**($916)**	**($897)**	**($996)**	**($1,082)**
Total Risk/Offsets	**($1,175)**	**($1,495)**	**($1,003)**	**($743)**	**($838)**
Restated (Gap)/Surplus	**($1,175)**	**($1,495)**	**($5,855)**	**($5,556)**	**($5,815)**

The greatest risk to the February Plan stems from the exclusion of funding for wage increases for the current round of collective bargaining for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA). All other major municipal unions settled for two annual wage increases of 4.0 percent over comparable periods of their contracts. The Comptroller's Office estimates that excluding funding for wage increases for the UFT and CSA poses budget risks of $898 million in FY 2011, $800 million in FY 2012, $897 million in FY 2013, and $900 million in each of FYs 2014 and 2015.[3]

Another significant risk to the February Plan is the City's assumption of State actions that will provide relief of $600 million annually beginning in FY 2012. The anticipated State actions include bringing equity to the Governor's revenue sharing aid proposals, provision of additional education aid and reform of the Variable Supplements Fund (VSF). Each of these initiatives are expected to generate annual budget relief of $200 million beginning in FY 2012.

Overall, the expenditure and State action risks in FYs 2012 through 2015 are tempered by the Comptroller's Office's higher tax revenue forecast. As discussed in greater detail in "Tax Revenues" the Comptroller's Office expects tax revenues to be above the City's projections by $21 million in FY 2012, $494 million in FY 2013, $853 million in FY 2014, and $844 million in FY 2015.

A. REVENUE OUTLOOK

The February Plan assumes that total revenue will increase from $65.9 billion in FY 2011 to $70.1 billion in FY 2015. Tax revenues are projected to comprise 61 percent of total revenues in FY 2011, growing to 66 percent of total revenues by FY 2015. Property tax revenues are projected to grow by 12.9 percent from $17.1 billion in FY 2011 to $19.3 billion in FY 2015, while non-property tax revenues are expected to grow by 18.3 percent, from $22.9 billion in FY 2011 to $27.1 billion in FY 2015.

Excluding intra-City revenues, miscellaneous revenues are expected to comprise approximately 6.4 percent of total revenues throughout the Plan period. Federal categorical grants are expected to decline sharply, from $8.2 billion in FY 2011 to $5.9 billion in FY 2012, and to remain below $6 billion over the course of the Plan period. The largest component of this decline is a $1.2 billion reduction in education support as a result of expiring ARRA grants. In addition, the City does not assume federal funds in numerous areas until appropriations are finalized.

State categorical grants are expected to reach $11.5 billion in FY 2011 and to hover around $11.3 billion through the remainder of the Plan period. The trend mainly reflects the City's adjustments of education and social service grants due to the expected impact of the 2011 – 2012 State Executive Budget. Consequently, the City now maintains a more conservative stance with regards to State assistance, projecting only marginal increases over the outyears of the Plan.

[3] The FY 2011 risk includes $272 million in wage increases retroactive to FY 2010.

Tax Revenues

The Preliminary Budget and Financial Plan includes $41.9 billion in total tax revenues for FY 2012, an increase of $1.9 billion, or 4.8 percent, from the FY 2011 level. The current forecast also represents a 2.7 percent increase over the forecast for FY 2012 included in the July 2010 Financial Plan. The revision is mainly attributable to increases in the sales tax, business tax, and real property tax revenue forecasts reflecting the City's expectation of a stronger economic recovery and continued strength in Wall Street profits. Total tax revenue is expected to grow at an average annual rate of 3.8 percent between FY 2011 and FY 2015. [4]

Changes to the FY 2012 Tax Revenue Forecast

As Table 11 shows, including PEGs and tax programs, total tax revenue projections for FY 2012 have increased by $1.1 billion since the July Plan. This increase includes the impact of State legislative changes enacted with the 2010 – 2011 New York State Budget which will allow the City to realize an additional $50.7 million for FY 2012 and a number of agency PEGs valued at $27.1 million in FY 2012.

FY 2012 property tax revenue projections increased $225 million from the July 2010 forecast to $17.86 billion. The increase is mainly due to an increase in the levy tempered by growth in both the reserve for uncollectible taxes and refunds.

The Department of Finance released the FY 2012 Tentative Assessment Roll in January 2011. The report showed that citywide property market values increased by 3.75 percent from FY 2011, bringing the total to $823.5 billion. Taxable billable assessed value grew by 6.56 percent, due to the phase-in of the pipeline of assessed value growth accumulated when real estate values surged prior to the recession. Class 1, mostly single- and two-family homes, experienced its first aggregate market value increase, 0.86 percent, since the FY 2008 Final Assessment Roll. Class 2, multi-family buildings and class 4, commercial properties, overwhelmingly contributed to the overall market value growth with increases of 4.01 percent and 9.95 percent, respectively.

The forecast for FY 2012 PIT is $8.77 billion, an increase of $63 million over the July 2010 forecast. The revision includes $30.5 million as a result of legislation enacted in the 2010 – 2011 New York State Budget which reduces itemized deductions for households earning a State Adjusted Gross Income (AGI) above $10 million. Although the City expects employment to continue to grow, wages are not expected to increase significantly. Moreover, a projected decline in Wall Street bonus payouts is expected to negatively affect collections. Installment payments in FY 2012 are projected to grow 8.5 percent due to an expected rise in capital gains realizations in the financial and commercial real estate sectors in CY 2011.

[4] If not indicated specifically, throughout this section, Personal Income Tax (PIT) and Property Tax revenues include School Tax Relief (STAR) reimbursement.

FY 2012 business tax revenues are projected to increase by a combined $238 million to $5.63 billion. The revised forecast reflects the City's expectation of a continued high level of Wall Street profits in CY 2011, and continued business expansion in the non-financial sector. The current general corporation tax (GCT) revenue forecast is $63 million lower than the July 2010 forecast, while the forecasts for the banking corporation tax (BCT) and the unincorporated business tax (UBT) revenues have increased by $203 million and $98 million respectively.

As Table 11 shows, the largest forecast increase from the July 2010 Plan was in the sales tax revenue. The FY 2012 forecast for sales tax revenue is $5.80 billion an increase of $446 million. The revision is due to stronger than expected growth in employment and taxable consumption, and continued strength in the tourism industry. The forecast change also includes $20.2 million in additional sales tax revenues resulting from a number of legislative changes enacted in the 2010 – 2011 State Budget.

The current forecast for FY 2012 real-estate-related tax revenue is slightly higher than the July 2010 forecast. The combined revenue forecast for real property transfer tax and mortgage recording tax increased by only $22 million. The City expects the number of real estate transactions to remain relatively flat in FY 2012 and sales prices to decline further as interest rates are forecast to rise. Collections from residential mortgages are also expected to decline further. In contrast, collections from commercial mortgages are expected to grow 33.8 percent in FY 2012.

The Changes to the City's tax revenue assumptions since July 2010 are illustrated in Table 11.

Table 11. Changes to the City's Tax Revenue Assumptions February 2011 vs. July 2010

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
July 2010 Financial Plan - Total	**$38,906**	**$40,811**	**$42,324**	**$43,653**
Revisions:				
Property	80	225	510	808
Personal Income (PIT)	(309)	63	(11)	61
Business	460	238	(13)	(78)
Sales	370	446	278	112
Real-Estate-Related	129	22	(61)	(86)
All Other	99	91	110	135
Audit	246	24	24	32
Revisions -Total	$1,076	$1,108	$837	$983
February 2011 Financial Plan - Total	**$39,982**	**$41,919**	**$43,161**	**$44,636**

SOURCE: Office of Management and Budget

Tax Revenue Trends

Total tax revenue is projected to increase $6.4 billion from FYs 2011 through 2015, representing an average annual growth rate of 3.8 percent. Tax revenue collections are expected to increase 4.8 percent in FY 2012, 3.0 percent in FY 2013, 3.4 percent in FY 2014 and 3.9 percent in FY 2015, as shown in Table 12. Non-property tax collections are expected to grow at an average annual rate of 4.3 percent increasing from

$22.9 billion in FY 2011 to $27.1 billion in FY 2015, reflecting the City's anticipation of a continuing economic recovery.

It is expected that real property tax revenue will grow by 3.1 percent annually between FYs 2011 and 2015. FY 2012 property tax revenue is projected to be 4.6 percent greater than FY 2011 revenues. The growth rate slows over the Financial Plan period reflecting the reduced pipeline of assessed value growth as market values appreciate slowly. Commercial properties should experience larger price growth, while large residential buildings are expected to show price declines. The City expects that single-family homes will see further price declines as well, dampening revenue growth. Overall, property tax revenue growth is estimated at 3.1 percent, 2.4 percent and 2.3 percent for FYs 2013 through 2015, respectively.

The City shows robust growth in PIT revenue over the Financial Plan period. PIT revenue is expected to experience an annual average increase of 6.3 percent during FYs 2011 – 2015. The February Plan projects PIT revenues to grow by 9.9 percent in FY 2012 and taper off to an increase of 3.8 percent in FY 2013, before rebounding to growth rates of 5.4 percent and 6.2 percent in FYs 2014 and 2015, respectively. The City's outyear assumptions are the result of expectations of a continued recovery in employment levels and wage rates.

Business income tax revenues are expected to increase 4.9 percent in FY 2012, driven mainly by growth in the GCT revenues. Business tax collections are expected to grow by 3.5 percent annually over the Plan period. The projected 12.8 percent GCT growth in FY 2012 results from the City's anticipation of continuing high level of Wall Street profits as well as job growth. After increasing by over 28 percent in FY 2011, thanks in large part to favorable monetary policies and a reduction in loan-loss provisions in CY 2010, BCT revenues are projected to drop 11 percent in FY 2012. Growth in bank tax collections is expected to slow in CY 2011 due to sizable overpayments. In the outyears, rising interest rates will cause BCT tax collections to return to more sustainable levels. BCT revenues are expected to decline on average 4.7 percent annually during FYs 2011 – 2015. UBT revenues are forecast to grow 5.5 percent in FY 2012, averaging 4.6 percent growth over the Plan period.

Sales tax revenues are forecast to grow 5.2 percent in FY 2012 averaging 3.6 percent annual growth from FY 2011 through 2015 in the current Financial Plan. In FY 2013, growth decelerates to 2.4 percent before rising to 4.2 percent in FY 2015. The forecast for sales tax revenues reflects the City's expectation of continued strength in tourism sector as well as continued economic recovery.

The real-estate-related tax revenues, which include the real property transfer tax and mortgage recording tax, are projected to grow 4.9 percent in FY 2012, averaging 8.4 percent growth over the Plan period. Mortgage recording tax revenues are expected to grow 13 percent in FY 2012 while real property transfer tax revenue is expected to be nearly flat. The City expects real estate market conditions to improve but does not anticipate significant growth in the number of residential transactions in FY 2012. In addition, the City expects average sales prices to decline further as interest rates are forecast to rise. In the outyears, the City projects collections from residential transactions to rebound and collections from commercial transactions to continue to grow.

Table 12. City's Tax Revenue Forecast, Growth Rate, FYs 2011 – 2015

	FYs 2011-12	FYs 2012-13	FYs 2013-14	FYs 2014-15	FYs 2011-15
Property	4.6%	3.1%	2.4%	2.3%	3.1%
PIT	9.9%	3.8%	5.4%	6.2%	6.3%
Business	4.9%	2.3%	3.5%	3.3%	3.5%
Sales	5.2%	2.4%	2.5%	4.2%	3.6%
Real Estate Transaction	4.9%	5.1%	9.8%	14.2%	8.4%
All Other	(1.7%)	0.8%	3.2%	3.1%	1.3%
Total Tax W/O Audit	5.5%	3.0%	3.4%	4.0%	4.0%
Tax Audit	(25.7%)	(0.2%)	1.2%	0.0%	(6.9%)
Total With Audit	**4.8%**	**3.0%**	**3.4%**	**3.9%**	**3.8%**

Source: NYC Office of Management and Budget and NYC Comptroller's Office.

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's Office projections of risks and offsets to the City's tax revenue assumptions based on current year collections and economic growth projections are illustrated in Table 13.

Table 13. Risks and Offsets to the City's Revenue Projections

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Property	($13)	($8)	($39)	($17)	$14
PIT	(207)	(63)	93	90	(6)
Business	(132)	(180)	(26)	110	257
Sales	0	0	41	209	155
Real Estate Transaction	105	272	425	461	424
Total	**($247)**	**$21**	**$494**	**$853**	**$844**

Source: NYC Office of Management and Budget and NYC Comptroller's Office.

The Comptroller expects tax collections for FY 2011 to be $247 million below the City's forecast. The risk arises mainly from the Comptroller's lower PIT and business tax revenue forecasts and is partially offset by a higher real-estate-related tax revenue forecast. Business tax collections are estimated to be lower during the first three-years of the Plan period in anticipation of slightly lower corporate profits and constraints on bank profits emanating from unrealized losses on commercial real estate loans and regulatory constraints. The Comptroller's Office forecast for real-estate-related tax revenues in all years of the Plan is significantly higher than the City's. The Comptroller expects a more rapid and vigorous rebound in both commercial and residential sales as confidence in the national and local economies is restored. However, an unusually low ratio of mortgage recording tax collections to transfer tax collections, due to lower loan-to-value ratios in real estate transactions, will keep the FY 2015 total of real-estate-related tax revenues below its level of ten years earlier.

The Comptroller's Office is projecting net offsets growing from $21 million in FY 2012 to $844 million in FY 2015. In FYs 2012 – 2013, the net offsets are mostly due to higher real-estate-related tax forecasts. In the last two years of the Financial Plan period, higher forecasts for business and sales tax revenues provide additional offsets to the City's projections.

Miscellaneous Revenues

The City's FY 2012 Preliminary Budget and Financial Plan includes $4.2 billion of miscellaneous revenues exclusive of intra-City revenues. The FY 2012 estimate is $40 million lower than the forecast for FY 2011. The City's latest FY 2012 miscellaneous revenue forecast reflects a net increase of just $10 million compared to the forecast included in the July 2010 Financial Plan.

As Table 14 shows, the largest change to the FY 2012 miscellaneous revenue budget since the July 2010 Financial Plan is a $71 million decrease in the interest income category. The City lowered its forecast for interest income to reflect lower projections for short-term interest rates. The City also lowered its projections for fines and forfeitures by $24 million, primarily due to a downward revision to its parking fine revenue projection. FY 2012 projections for licenses and franchises, charges for services and "other miscellaneous" categories have all increased by a combined $106 million since the July 2010 Financial Plan.

The largest miscellaneous revenue forecast increase is in charges for services. The $50 million increase is due in large part to $26.3 million in additional revenues from commercial and residential parking rate increases throughout the City and a $12 million increase in projected tuition revenues. The FY 2012 forecast for licenses and franchises increased by $22 million since July 2010, reflecting re-estimates of construction fees and permits, cable franchise revenues, and other fees. Over the same period, the category "other miscellaneous" increased by $34 million, which includes $13.5 million from HHC debt service adjustment, $5 million in projected increases from contractual payments from the New York City Economic Development Corporation (EDC), and $7 million in court reimbursements.

Table 14. Changes in FY 2012 Estimates February 2011 vs. July 2010

($ in millions)

	February 2011	July 2010	Change
Licenses, Franchises, Etc.	$507	$485	$22
Interest Income	34	105	(71)
Charges for Services	798	748	50
Water and Sewer Charges	1,335	1,335	0
Rental Income	250	251	(1)
Fines and Forfeitures	801	825	(24)
Other Miscellaneous	525	491	34
Total	**$4,250**	**$4,240**	**$10**

Source: NYC Office of Management and Budget.

The City's current projection of non-recurring resources in the FY 2012 miscellaneous revenue budget is under $20 million. This is in contrast to the nearly $200 million in one-time revenues included in the FY 2011 miscellaneous revenue budget. During the Financial Plan period, total miscellaneous revenues are expected to remain relatively flat or to increase only slightly.

Federal and State Aid

The February Plan includes projected total Federal and State aid of $17.2 billion for FY 2012, comprising about 26 percent of the City's revenue budget. This is a significant decline from the 30 percent share of overall revenues that Federal and State aid represent in FY 2011. The current Plan shows a decrease of about $821 million in grants for FY 2012 since the July Plan. This reduction is comprised of about $1 billion less in State aid offset by a $190 million increase in Federal assistance.

The declining categorical grants estimates are mainly a result of revisions in the February Plan to account for the FY 2012 State Executive Budget. The February Plan reflects a total impact of $1.39 billion from State budget proposals that reduce the City's categorical grants assumptions by $1.09 billion and unrestricted aid by $302 million. The components of the categorical aid decline are education and social services, which would fall by $1.01 billion and $76 million, respectively.

Under the Governor's proposals, the City has been assigned a gap elimination adjustment of $891 million in formula-based school aids that effectively cuts its Foundation Aid allocation by a corresponding amount. Foundation Aid represents the single largest category of assistance that the State provides for school operations. This type of aid was established as the main vehicle by which the State would fulfill its commitment to additional education support, under the requirements of the Campaign for Fiscal Equity court decision. However, due to repeated cuts in recent years, the City's Foundation Aid estimate for FY 2012 has actually declined by $327 million, or 5.8 percent, since its inception in FY 2008. The remainder of the education aid cut results primarily from the net impact of proposed cost shifts for preschool and summer special education programs. The City also maintains that the proposed State budget would slash funding for social services, health and criminal justice by a total of $403 million across FY 2011 and FY 2012. However, given its fiscal constraints, the City has opted only to make up $76 million of the shortfall for mandated health and social services costs that would no longer be supported by the State in FY 2012. The main components of this reduction include $30 million in adoption subsidies, $35 million in room and board reimbursement at special education schools, $16 million in adult shelter funding and $15 million in juvenile detention support, offset by $18 million in various public assistance savings.[5]

In addition to the reduction in categorical grants, the State is again seeking to eliminate the entire $302 million of revenue sharing aid allocated to the City in FY 2012, after fully eliminating this aid in both FYs 2010 and 2011. In contrast, localities in the

[5] A corresponding loss of $48 million in State support has also been reflected for a certain number of these actions in FY 2011.

rest of the State are only required to absorb an aggregate cut of 2.0 percent from current year levels.

The gap-closing program in the FY 2012 Preliminary Budget assumes $600 million from potential State actions, which include requests for a more equitable cut in revenue sharing aid, partial restoration of education aid and reduced Variable Supplements Fund (VSF) benefits for retired policemen and firefighters. These actions are expected to generate annual savings of $200 million each. While approvals for these actions appear uncertain, the $200 million in education aid restoration seems most promising since the Governor has set aside $500 million for two separate competitive grants based on school performance and administrative efficiency in his budget proposals.

B. EXPENDITURE ANALYSIS

The FY 2011 total-funds expenditures of $65.9 billion are $2.5 billion more than actual FY 2010 spending. After adjusting for prepayments and other prior-year actions, however, adjusted FY 2011 expenditures of $66.4 billion are $1.05 billion higher than adjusted FY 2010 spending. Over the Plan period, expenditures are projected to grow by 13 percent, an annual growth rate of 3.1 percent, as shown in Table 15.

Table 15. FY 2011 – FY 2015 Expenditure Growth Adjusted for Prepayments and Prior-Year Actions

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Growth FYs 11-15	Annual Growth
Pension	$6,875	$8,295	$8,442	$8,451	$8,849	28.7%	6.5%
Debt Service	5,082	5,908	6,672	6,919	7,269	43.0%	9.4%
Health Insurance	4,424	4,739	5,136	5,549	6,061	37.0%	8.2%
J & C	637	675	705	738	774	21.5%	5.0%
Subtotal	**$17,018**	**$19,617**	**$20,955**	**$21,657**	**$22,953**	**34.9%**	**7.8%**
Salaries and Wages	$21,816	$20,971	$21,079	$21,306	$21,393	(1.9%)	(0.5%)
Other Fringe Benefits	3,173	3,183	3,228	3,334	3,387	6.7%	1.6%
Medicaid	5,882	6,340	6,359	6,463	6,643	12.9%	3.1%
Public Assistance	1,562	1,526	1,546	1,546	1,546	(1.0%)	(0.2%)
Other OTPS	18,380	18,010	18,508	18,976	19,427	5.7%	1.4%
Subtotal	**$50,813**	**$50,032**	**$50,720**	**$51,626**	**52,396**	**3.1%**	**0.8%**
MA FMAP Increase	($999)	($199)	($32)	$0	$0	(100.0%)	(100.0%)
Retiree Health Benefit Trust	($395)	($672)	$0	$0	$0	(100%)	(100.0%)
Pension Reform	$0	$0	$0	($131)	($252)	N/A	N/A
Total	**$66,437**	**$68,777**	**$71,643**	**$73,152**	**$75,097**	**13.0%**	**3.1%**

SOURCE: NYC Office of the Comptroller and NYC Office of Management and Budget.

Pension contributions, debt service, health insurance expenditures and judgments and claims (J&C) costs are projected to grow the fastest with a combined growth of

34.9 percent over the Plan period, or an annual growth rate of 7.8 percent. All other spending is projected to average a modest 0.8 percent annual growth.

Pensions

Pension contributions for FY 2012 are expected to total $8.295 billion, an increase of $1.420 billion or 21 percent over FY 2011. A large percentage of the increase is the result of a $1 billion reserve fund set aside to cover potential increased contributions arising from changes to the methods and assumptions used to calculate pension contributions. In the outyears, pension contributions are expected to remain relatively flat with projected contributions of $8.442 billion in FY 2013, $8.320 billion in FY 2014, and $8.597 billion in FY 2015. The projections in the February Plan reflect the impact of actuarial pension investment losses of 5.4 percent in FY 2008, and 18.3 percent in FY 2009 and actuarial pension investment gains of 14.2 percent in FY 2010.[6] However, any changes to the actuarial assumptions and methods used to compute pension contributions could change projections in FY 2012 and the outyears significantly. The Chief Actuary is expected to present his recommendations for changes after the completion of the independent audit of the actuarial pension systems by The Hay Group (Hay). Hay is expected to complete the audit by the Spring of 2011. The Chief Actuary has indicated that any changes he recommends may be effective for FY 2012.

The FYs 2014 and 2015 projections include the City's assumption of lower pension contributions resulting from initiation of proposed pension reform. As part of the programs to eliminate the budget gap, the City reduced pension expenditures in FYs 2014 and 2015 by $131 million and $252 million, respectively, reflecting lower costs associated with proposed changes to pension benefits for new employees. Highlights of the proposal include:

- Requiring civilian and pedagogical employees hired on or after July 1, 2011 to contribute 5.0 percent of their wages towards pensions for their entire working career. Currently, new civilian employees contribute 4.85 percent of their wages for the first ten years and 1.85 percent for the next 20 years. New pedagogical employees contribute 4.85 percent of their salary towards pension for the first 27 years and 1.85 percent thereafter.

- Increasing the retirement age for civilian and pedagogical employees hired on or after July 1, 2011 from 57 years to 65 years for civilian and from 55 years to 65 years for pedagogical employees.

- Bringing retirement benefits for new correction officers and uniformed sanitation employees in line with the benefits for new police officers and

[6] The actuarial asset valuation method used by the City to calculate employer contributions includes an actuarial interest rate assumption (AIRA) of 8.0 percent. Returns above or below the AIRA for a given fiscal year are phased in over a six-year period in conjunction with the One Year Lag Methodology (OYLM) effective FY 2006.

firefighters. Uniformed police officers and firefighters hired beginning July 1, 2009 will receive full pension after 22 years and have to contribute 3.0 percent of their wages to their pension up to 25 years. Calculation of pension benefits for these employees will be based on the average salary of the final three years instead of the final year salary for uniformed employees hired before July 1, 2009.

In addition to the proposals outlined above, the City has included in its proposed State actions a partial reform of the Variable Supplements Funds (VSFs) with targeted annual savings of $200 million. The City has not provided any details on how these savings will be achieved. The VSFs provide supplemental benefit payments to uniformed police, fire and correction retirees who retire with at least 20 years of service. VSF benefits for uniformed police and fire retirees are guaranteed by the City. Benefits to uniformed corrections retirees will be guaranteed beginning in 2019. Currently, police and fire retirees receive a maximum VSF payment of $12,000 annually. Correction service retirees have not been paid since FY 2007 because of insufficient funds in their VSF.

Preliminary pension investment returns from July 1, 2010 through February 28, 2011 were approximately 21 percent. Should pension investment returns remain above the AIRA of 8.0 percent on June 30, 2011, any gains above the AIRA will be phased-in over a six-year period beginning FY 2013. Every percentage point gain above the AIRA will lower pension contributions by approximately $11 million in FY 2013, $23 million in FY 2014, and $34 million in FY 2015.

Health Insurance

Pay-as-you-go health insurance expenses for employees and retirees in the FY 2012 Preliminary Budget total $4.068 billion, an increase of $39 million from projected FY 2011 spending. However, health insurance projections for FYs 2011 and 2012 are reduced by $395 million and $672 million, respectively, as a result of the utilization of Retiree Health Benefits Trust (RHBT) assets to pay a portion of retiree pay-as-you-go health insurance in these fiscal years.[7] After adjusting for these reductions, estimated FY 2012 health insurance expenditures increase to $4.7 billion, $316 million more than FY 2011. These costs are then expected to increase to $5.1 billion in FY 2013, $5.5 billion in FY 2014, and $6.1 billion in FY 2015 as shown in Table 16.

[7] The savings from the use of RHBT assets are earmarked to partially offset additional pension expenditures that resulted from pension investment returns below the Actuarial Investment Rate Assumption (AIRA) in FY 2008 and FY 2009.

Table 16. Pay-As-You-Go Health Expenditures

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Department of Education	$1,720	$1,838	$1,931	$2,012	$2,167
CUNY	50	43	45	46	46
All Other	2,259	2,187	3,160	3,491	3,848
Total Pay-As-You-Go Health Insurance Costs	$4,029	$4,068	$5,136	$5,549	$6,061
Adjustment for RHBT payment	395	672	0	0	0
Adjusted Total	$4,424	$4,740	$5,136	$5,549	$6,061

Underlying the projections are expected rate increases of 9.8 percent for FY 2012 and 9.5 percent annually in FYs 2013 to 2015. The estimated increases for health insurance expenditures are higher than the 8.0 percent rate of increase presented in the July Plan. The upward revisions to the rate increases in the February Plan mainly reflect the impact of the Federal Health Care Reform. The City estimates that this upward revision will add $3 million of additional costs in FY 2011, $62 million in FY 2012, $125 million in FY 2013 and $199 million in FY 2014. In addition, the February Plan includes savings of $10 million in FY 2011 and $37 million in each of FYs 2012 to 2015 as result of lower than anticipated retirement rates.

Overtime

The FY 2012 Preliminary Budget includes $819 million for overtime expenditures. The overtime budget is $225 million or 22 percent lower than the estimated FY 2011 overtime spending of $1.044 billion. Based on current overtime spending patterns, the Comptroller's Office estimates that overtime spending will exceed the City's budgeted amount by $80 million in FY 2011 and $191 million in FY 2012. As shown in Table 17, the Comptroller's Office estimates that overtime spending will total $1.124 billion in FY 2011 and $1.010 billion in FY 2012. Actual overtime expenditures through January 2011 total $688 million for FY 2011.

Since the adoption of the FY 2011 Budget, overtime projections for FY 2011 have increased by $196 million. This includes an upward revision of $144 million in the FY 2012 Preliminary Budget and a previous increase of $52 million in the November Plan. The revisions to overtime projections made during the fiscal year are mainly the result of underfunding of overtime spending in uniformed agencies at the beginning of the fiscal year. The overtime budget for uniformed agencies has increased by $184 million: $78 million in the Police Department (NYPD), $57 million in the Fire Department (FDNY), $46 million in the Department of Sanitation (DSNY), and $3 million in the Department of Correction (DOC). The increase in the overtime budget in DSNY stems from the cost of snow removal due to the severe winter weather. The City's snow removal overtime budget is now $63 million, an increase of $46 million from the July 2010 estimate.

Table 17. Projected Overtime Spending, FY 2011 and FY 2012

($ in millions)

	City Planned Overtime FY 2011	Comptroller's Projected Overtime FY 2011	FY 2011 Risk	City Planned Overtime FY 2012	Comptroller's Projected Overtime FY 2012	FY 2012 Risk
Uniform						
Police	$441	$465	($24)	$324	$465	($141)
Fire	193	200	(7)	143	143	0
Correction	73	100	(27)	69	90	(21)
Sanitation	101	101	0	64	64	0
Total Uniformed	$808	$866	($58)	$600	$762	($162)
Others						
Police-Civilian	$51	$73	($22)	$46	$75	($29)
Admin for Child Svcs	7	7	0	12	12	0
Environmental Protection	22	22	0	22	22	0
Transportation	38	38	0	34	34	0
All Other Agencies	118	118	0	105	105	0
Total Civilians	$236	$258	($22)	$219	$248	($29)
Total City	**$1,044**	**$1,124**	**($80)**	**$819**	**$1,010**	**($191)**

Overtime spending for uniformed employees at the NYPD will continues to pose the largest risk to the overtime budget in FY 2012. Through January FY 2011, average monthly uniformed overtime spending in the Department was $38 million, roughly equal to the average monthly spending in FY 2010. If this trend continues for the remainder of the fiscal year, uniformed overtime spending will be approximately $465 million for the year. The Comptroller's Office expects uniformed overtime spending to remain relatively unchanged for FY 2012.

Through January 31, 2011, the NYPD has spent $42 million on civilian overtime. The Comptroller's Office estimates that NYPD civilian overtime spending will total $73 million for the fiscal year, $22 million more than the City's estimate. For FY 2012, the Comptroller's Office estimates that civilian overtime will remain relatively flat at $75 million, $29 million higher than the City's estimate.

The City continues to be barred by the Federal District Court from hiring new recruits from the list of candidates established by the last firefighter's exam. The court has ruled that the City's FDNY recruitment practice is discriminatory against certain minority candidates. As a result, the FDNY has had to increase its reliance on uniformed employee overtime to make up for reductions in headcount. The FDNY uniformed workforce has declined from 11,643 on June 30, 2006 to 10,871 employees as of January 31, 2011. Although the City has increased the FY 2011 overtime projection to $193 million, the FDNY has spent $116 million through January 2011 and is on track to spend $200 million for the fiscal year. Thus, it is likely that overtime expenditure will exceed the City's estimate by approximately $7 million.

Similarly, fiscal year-to-date overtime expenses for the DOC indicate that overtime spending for uniformed employees in the Department will exceed the overtime budget for FY 2011. The Comptroller's Office estimates that FY 2011 DOC uniformed employees' overtime will total $100 million, $27 million above the City's estimates. Between FYs 2008 and 2010, the City spent an average of $93 million on overtime cost for DOC's uniformed employees. For FY 2012, it is expected that that overtime spending for these employees will be closer to this average.

Public Assistance

Through January 2011, the City's public assistance caseload has averaged 350,429 recipients per month. Compared with the same period in FY 2010, the average monthly caseload has declined by less than one percent, or 1,418 recipients. Meanwhile, monthly grant expenditures have averaged nearly $108 million, reflecting an increase of 2.4 percent from the FY 2010 monthly average of approximately $105 million. The higher grant expenditures in the current year are in part due to the State's plan to increase basic allowances for cash assistance recipients by 10 percent annually over three years. This plan is expected to be fully implemented by July 1, 2011.

In the February Plan, the City maintains the same public assistance caseload and grant projections as in the July Plan. The February Plan still projects a constant caseload of 361,900 over the course of the Plan period. Total baseline grants expenditures are projected at about $1.38 billion for FY 2011. To date, actual caseload in the current fiscal year is running below expectation in the February Plan. Likewise, the City's baseline grant projection for FY 2011 likely contains a cushion that could lead to a surplus of $15 million. Projected baseline grants are expected to fall to $1.34 billion in FY 2012 after factoring in proposed actions from the State Executive Budget. Among these actions, a proposed one-year delay in the implementation of basic allowance increases is expected to reduce projected public assistance spending by $37 million. Further, the State seeks to withhold benefits from public assistance households that fail to comply with work requirements, resulting in a reduction of an additional $24 million.

In a separate action, the State has proposed to take over the City's Family Assistance expenditures in exchange for an increase in the City's contribution, from 50 percent to 70 percent, towards Safety Net Assistance spending. The measure is expected to provide the City with a one-time savings of about $5 million in FY 2012, but would have no impact on overall public assistance spending. However, the City contends that because of the rising proportion of Safety Net Assistance recipients within the public assistance caseload, the continuation of this arrangement beyond FY 2012 could signify a shift of additional costs to the City.

Department of Education

Despite absorbing gap-closing actions totaling $350 million in its baseline assumptions and the prospect of major reductions in State education aid, the Department of Education (DOE) has managed to avoid substantial teacher layoffs because of the City's decision to cover the expected shortfalls in Federal and State support with tax levy funds in FY 2012.

In FY 2012, funding for the Department has actually increased by $631 million compared with the July Plan due to significant additional resources provided by the City in the November and February Plans. In the November Plan, the Department's gap-closing program totaled $350 million, representing a 4.0 percent reduction of the City-funded DOE budget for FY 2012. The gap-closing program would require the Department to trim its pedagogical headcount by more than 6,000 teachers from the current year level, including layoffs of over 4,500 teachers. The City also provided $853 million in additional funding to the DOE to mitigate the impact from the expiration of Federal ARRA funds at the end of FY 2011. Overall, the November Plan reflected a net increase of approximately $600 million in the FY 2012 DOE budget after accounting for transfer for health benefits costs and certain state aid restoration.

The Administration's February Plan includes additional City-funds to cover the entire shortfall in State assistance under the Governor's proposed budget. In the February Plan, the DOE budget reflects a net loss of $1.01 billion in State aid, comprised mainly of a cut in formula-based aids of $891 million and the remainder from special education cost shifts. The City-funds allocated to replace lost State funding has allowed the DOE to avert the need for substantial layoffs. Based on estimates from the City's gap-closing program, a reduction of this magnitude would have led to layoffs of about 16,000 pedagogical positions.

Since July 2010, the City has contributed a net total of $1.5 billion additional funding for education, thus enabling the Department to maintain a budget of $19.12 billion for FY 2012. This represents an increase of $300 million from projected DOE spending of $18.82 billion for FY 2011. On a year-to-year basis, City funding for education increased by $1.69 billion while Federal and State assistance fell by a combined $1.31 billion. The primary effect of these changes is a dramatic shift in the responsibility of funding the City's education expenditures going forward, unless the State resumes its commitment to increase school aid as prescribed by the Campaign for Fiscal Equity court order. The February Plan further demonstrates that, as a result of the State's fiscal problems, the financial burden in support of DOE operations has fallen squarely on the City. State funding for education has decreased annually since FY 2009 when State support for the DOE operating budget reached a peak of 48.3 percent. In the current Plan, State funds make up only 41.3 percent of FY 2012 DOE funding.

The infusion of $2.36 billion in Federal ARRA funding enabled the City to avert any major cuts to education. With the loss of ARRA funding, City support for the DOE budget is expected to rise to 49.2 percent from 40.6 percent in FY 2009. If not for the loss of Federal and State assistance for education, the City would have an additional $1.65 billion in tax levy resources available in FY 2012 by holding City share of DOE funding at the FY 2009 level.

Health and Hospitals Corporation

The City's budget forecast for the Health and Hospitals Corporation (HHC) remains relatively unchanged in the FY 2012 Preliminary Budget. The projected deficit for FY 2012, on an accrual basis, reflects a moderate decline from $503 million in the

July Plan to a current $450 million. The improvement comes mainly from reductions in certain non-personal services costs. The Preliminary Budget projects that the deficit will be further reduced to $285 million through a gap-closing program totaling about $164 million, including $136 million in restructuring savings stemming from actions initiated in FY 2011. The main components of the HHC's restructuring plan include reduction of construction and maintenance staff, outsourcing of laboratory services, streamlining of long-term care services and cutbacks of affiliation contracts.

The Corporation's fiscal outlook remains challenging in the February Plan. The City projects that HHC would retain a year-end cash balance of $581 million in the FY 2012 Preliminary Budget. The FY 2012 estimate represents a decline of about $250 million compared to the expected closing cash balance for the current year. Moreover, the February Plan has yet to account for the potential impact of Medicaid proposals from the State Executive Budget, which contains a savings target of $2.3 billion from these actions. The most recent plan unveiled by the Governor's Medicaid Redesign Team has identified close to $1.7 billion in reform savings and broad-based reductions on a statewide basis. Of this total, about one-third of the savings are targeted at the hospital and nursing home sectors. While the State's plan is still not yet fully developed, HHC indicates a preliminary estimate of over $130 million in revenue loss could result from the implementation of Medicaid cost containment actions.

Over the longer term, the February Plan projects that HHC's financial condition will continue to deteriorate in the outyears. By FY 2013, the Corporation's operating deficit is estimated to rise to $636 million before gap-closing actions. The projected deficits would reach $781 million and $866 million in FY 2014 and FY 2015, respectively. In response to the mounting deficits, HHC's gap-closing program would take on a more aggressive bent in the outyears as it climbs to $285 million in FY 2013, and then doubles to $575 million in FY 2014 before reaching $775 million in FY 2015. The larger gap-closing program for both FY 2014 and FY 2015 also contains greater uncertainty due to the inclusion of unspecified actions of $250 million and $450 million, respectively. Consistent with these projections, the City projects HHC's year-end cash balance will experience sequential declines throughout the Plan, falling to $319 million in FY 2013 and $111 million in FY 2014 before becoming virtually depleted by the end of the Plan.

Debt Service

As shown in Table 18, debt service, after netting out the impact of prepayments, is projected to grow from $5.16 billion in FY 2011 to $7.34 billion in FY 2015, an increase of $2.19 billion, or 42.4 percent.[8] These projections represent decreases from the

[8] Includes debt service on G.O., NYCTFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

July 2010 Financial Plan of $305 million in FY 2011, $386 million in FY 2012, and increases of $70 million in FY 2013 and $60 million in FY 2014.[9]

Table 18. February 2011-2015 Financial Plan Debt Service Estimates

($ in millions)

Debt Service Category	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change from FYs 2011 – 2015
G.O.[a]	$3,732	$4,017	$4,465	$4,543	$4,719	$987
NYCTFA [b]	1,129	1,582	1,869	2,044	2,225	1,096
Lease-Purchase Debt	220	309	338	333	325	105
TSASC, Inc.	74	74	74	74	75	1
Total	**$5,155**	**$5,982**	**$6,746**	**$6,994**	**$7,344**	**$2,189**

SOURCE: February 2011 Financial Plan, February 2011.
NOTE: Debt service is adjusted for prepayments.
[a] Includes long-term G.O. debt service and interest on short-term notes.
[b] Amounts *do not* include NYCTFA building aid bonds.

The $305 million decrease in FY 2011 planned debt service is due primarily to a $198 million downward revision of expected variable rate interest costs of GO bonds reducing budgeted GO variable rate interest costs from $301 million in the July Plan to $103 million in the February Plan. If the interest rates remain at this level for the balance of FY 2011, there would be additional debt service savings of approximately $50 million in FY 2011. NYCTFA FY 2011 debt service has decreased by $47 million since the July Plan, also primarily from variable rate savings. FY 2011 lease-purchase debt service has decreased by $45 million since the July Financial Plan due to lowered estimates for Hudson Yards Infrastructure Corporation (HYIC) interest costs.

The change in the estimate for FY 2012 debt service is the result of three primary actions: 1) $173 million of year-to-date refunding savings; 2) $154 million of projected variable rate interest savings; and 3) a $40 million reduction to estimated interest costs related to the issuance of short-term notes.

The projected increases in FYs 2013 and 2014 debt service costs are due largely to the anticipated HYIC borrowing in late CY 2011 and its related debt service.

The Financial Plan's current interest rate assumption for long-term borrowing costs are 6.0 percent for the second-half of FY 2011, 7.0 percent for the first-half of FY 2012, 7.0 percent for the second-half of FY 2012, and 7.0 percent in FYs 2013 – 2015.[10] Borrowing costs in the first-half of FY 2011 were 3.8 percent for GO and 3.82 percent for NYCTFA debt. The exceptional results for FY 2011 to date are largely the result of the 35 percent interest subsidy from the Build America Bond (BABs) program. The Federally sponsored BAB program ended on December 31, 2010.[11] Thus,

[9] There was no official estimate for FY 2015 in the July or November Plan.

[10] NYCTFA's interest rate plan assumption is 0.20 percentage point less than GO bonds.

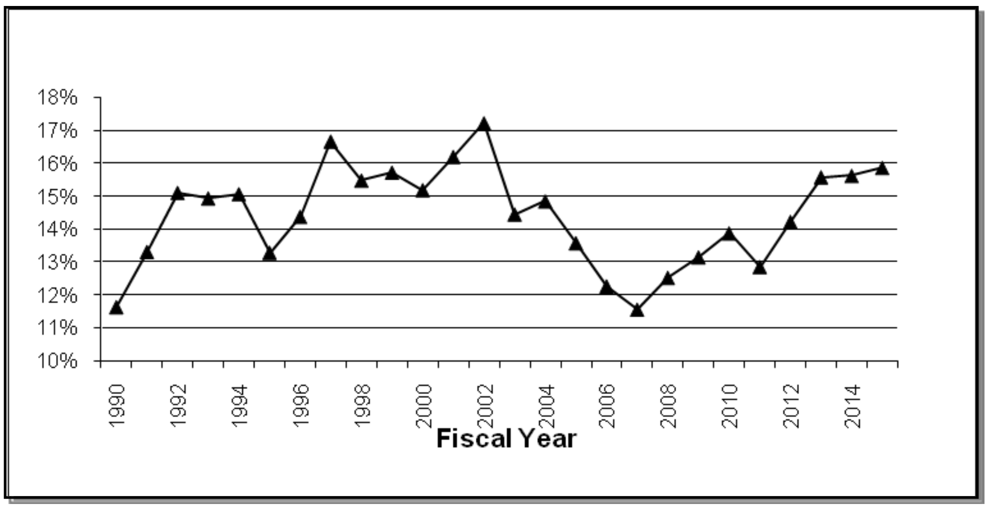
[11] Interest subsidies will continue on BABs bonds issued prior to December 31, 2010.

the increase in borrowing costs in the second-half of FY 2011 and the outyears, reflects the expiration of the interest subsidy benefit of the BABs program. Recent secondary market rates for GO and NYCTFA have been over 5.0 percent.

Debt Affordability

Debt service as a percent of local tax revenues is an accepted measure of debt affordability used by rating agencies and government officials. The February Plan projects that debt service will consume 12.9 percent of local tax revenues in FY 2011, 14.2 percent in FY 2012, 15.6 percent in FY 2013, and FY 2014 and a projected 15.9 percent in FY 2015, as shown in Chart 5. Between FYs 2011 and 2015, the average annual growth of debt service is estimated to be 9.2 percent more than double the estimated annual tax revenue growth of 3.8 percent over the same period, thus causing the increase in the debt service ratio. However, the 15.9 percent ratio in outyears is still below the 20 percent threshold established by the City in FY 2002.[12]

***Chart 4*. Debt Service as a Percent of Tax Revenues, 1990 – 2015**



SOURCE: NYC Office of Management and Budget, February 2011 Financial Plan.

Financing Program

The February 2011 Financial Plan contains $38.19 billion of planned City and State supported borrowing in FYs 2011 through 2015 as shown in Table 19 on page 38. Planned borrowing in FYs 2011 – 2014 is approximately $209 million less than estimated in the July 2010 Financial Plan.[13] This decrease is due primarily to: 1) a decrease of $720 million in GO borrowing; 2) an increase in NYCTFA PIT borrowing of

[12] The FY 2002 Message of the Mayor stated that "…OMB shall monitor trends in the City's capital program in order to ensure that aggregate debt service of the sum of City GO, lease, and MAC debt does not exceed 15 percent of the total City revenues and does not exceed 20 percent of City Tax revenues. Use of statutorily limited debt authority, such as the NYCTFA, will also be noted."

[13] The July 2010 Plan Financing Program included projections for FYs 2011 – 2014 only.

$405 million; 3) an increase of $1.36 billion in planned New York Water Finance Authority bonds; and 4) a decrease of $1.26 billion in TFA BARBs borrowing.

GO and NYCTFA PIT-supported borrowing account for two-thirds of the borrowing over this period. Planned GO bonds total $12.16 billion while NYCTFA borrowing totals $13.28 billion. The use of NYCTFA Building Aid Revenue Bonds (BARBs) to support the DOE capital program is assumed to continue throughout the Financial Plan period with $3.4 billion of NYCTFA BARB issuances planned, accounting for 8.9 percent of capital borrowing over the Plan period. A recent proposal by the State to cap building aid eligible expenses to $2 billion per year, with no more than 50 percent allowed for any one municipality, would hinder the City's ability to issue BARBs in support of the DOE capital program. The February borrowing plan has reduced BARBs support by $1.26 billion over FYs 2011 – 2014 as a result of this proposal.

NYC Municipal Water Finance Authority (NYWFA) borrowing of $9.36 billion also accounts for a significant share of capital resources, at nearly one-quarter of the total. However, unlike other debt that is financed by revenues derived from collections of the property tax and other general fund revenues, NYWFA is funded by water and sewer user fees. The $1 billion increase in projected FY 2011 NYWFA borrowing is a result of the higher than anticipated liquidations of existing contracts. Three major projects, Croton Filtration project, Newtown Creek water pollution control plant, and the Ultraviolet Disinfectant facility are contributing factors to this capital cash need. In May 2010, the Water Board adopted a water and sewer rate increase of 12.9 percent for FY 2011 and projects further rate increases of 9.8 percent in FYs 2012 through 2014. Preliminary reactions from the Water Finance Authority indicate that the accelerated borrowing should not adversely impact the current anticipated water rate increases.

Table 19. February 2011 Plan, FYs 2011 – 2015

($ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2011-2015	Percent of Total
General Obligation Bonds	$12,155	31.8%
NYCTFA – PIT Bonds	13,280	34.8%
NYC Water Finance Authority	9,361	24.5%
NYCTFA – BARBs	3,397	8.9%
Total	**$38,193**	**100.0%**

SOURCE: February 2011 Financial Plan, NYC Office of Management and Budget.

Capital Commitment Plan

The February 2011 Capital Commitment Plan for FYs 2011 – 2014 includes $33.19 billion in authorized all-fund commitments, averaging $8.3 billion per year, as shown in Table 20.[14] This represents a decrease of $1.94 billion, or 5.5 percent, from the September 2010 Commitment Plan. Consistent with prior plans, capital commitments in DOE and CUNY, the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for more than 69 percent of all-fund commitments.[15]

After adjusting for the reserve for unattained commitments, the February 2011 Capital Commitment Plan for FYs 2011 – 2014 reflects $30.57 billion in all-funds commitments and $25.02 billion in City-fund commitments. The Plan is front-loaded with 35 percent of the all-funds commitments scheduled for FY 2011.

All-funds commitments over the FYs 2011 – 2014 period in the February 2011 Capital Commitment are $1.94 billion less than the September 2010 Commitment Plan. This decrease is driven primarily by a decrease in DOE commitments of $2.5 billion offset by an increase in DEP commitments of $1.49 billion, combined with decreases in Parks, DOT, and Administration of Justice totaling $799 million.

Table 20. FYs 2011 – 2014 Capital Commitments, All-Funds

($ in millions)

Project Category	**February FYs 2011 – 2014 Commitment Plan**	**Percent of Total**
Education & CUNY	$7,196	21.7%
Environmental Protection	7,728	23.3
Dept. of Transportation & Mass Transit	4,604	13.9
Housing and Economic Development	3,459	10.4
Administration of Justice	1,703	5.1
Technology and Citywide Equipment	2,128	6.4
Parks Department	1,610	4.8
Hospitals	753	2.3
Other City Operations and Facilities	4,008	12.1
Total	**$33,189**	**100.0%**
Reserve for Unattained Commitments	($2,617)	N/A
Adjusted Total	**$30,572**	**N/A**

SOURCE: NYC Office of Management and Budget, FY 2011 February Capital Commitment Plan, February 2011.

The February 2011 Four-Year Capital Plan includes $27.64 billion of City-funded capital projects as shown in Table 21, $171 million less than allocated in the September 2010 Plan. Over 64 percent of the City-funds plan consists of capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development.

[14] Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded by agency in the Commitment Plan.

[15] This percentage assumes all DOT project types, not just Bridges and Highways.

The DOE's capital budget is 17.5 percent of the City-funded capital plan but 21.7 percent of all-funds capital plan. This variance is attributable to the large amount of State support allocated to DOE projects. State supported commitments for education projects total $2.35 billion for FYs 2011 through 2014. This represents 42.3 percent of the total State and Federal support to the entire commitment plan over that period. However, anticipated State support for the DOE Capital Plan is $2.18 billion lower than in the September 2010 Capital Commitment Plan. This reduction is primarily in response to an anticipated change in the State's building aid reimbursement policy. The proposed change to a statewide building aid cap, would greatly impact the DOE, leading to a 48 percent reduction in non-City-Funds planned commitments for FYs 2011 – 2014.

Table 21. FYs 2011 – 2014 Capital Commitments, City-Funds

($ in millions)

Project Category	**February FYs 2011– 2014 Commitment Plan**	**Percent of Total**
Environmental Protection	$7,381	26.7%
Education & CUNY	4,837	17.5
Dept. of Transportation & Mass Transit	2,929	10.6
Housing and Economic Development	2,719	9.8
Administration of Justice	1,703	6.2
Technology and Citywide Equipment	2,084	7.5
Parks Department	1,403	5.1
Hospitals	750	2.7
Other City Operations and Facilities	3,829	13.9
Total	**$27,635**	**100.0%**
Reserve for Unattained Commitments	($2,617)	N/A
Adjusted Total	**$25,018**	**N/A**

SOURCE: NYC Office of Management and Budget, FY 2011 February Capital Commitment Plan, February 2011.

Ten-Year Capital Strategy

Every odd calendar year, the Mayor is required, in accordance with Section 215 of the City Charter, to publish a Ten-Year Capital Strategy (TYCS) to reflect the administration's long-term capital planning goals by agency. The Preliminary Ten-Year Capital Strategy (PTYCS) for FYs 2012 – 2021 totals $46.98 billion, a decrease of $14.7 billion from the TYCS published in May 2009. City-funds account for $38.4 billion, or 82 percent of the capital strategy. Programmatically, education, environmental protection, transportation, and housing projects account for 81 percent, or $37.95 billion, of the PTYCS.

Table 22 presents the comparison of the current and previous TYCS. Slightly more than $9 billion, or 62 percent of the $14.7 billion decrease in the plans is attributable to reductions in the DOE and DOT's Capital plans.

Table 22. Ten-Year Capital Strategy, FYs 2012 – 2021, February 2011

($ in millions)

	May 2009 City-Funds	May 2009 Total Funds	February 2011 City-Funds	February 2011 Total Funds	Percent of Total Funds February 2011	Change in Total Funds from May 2009
Education	$11,040	$22,000	$10,133	$15,135	32.2%	($6,865)
Dept. of Transportation	6,144	8,850	4,236	6,541	13.9	(2,309)
Environmental Protection	12,839	12,920	11,912	12,141	25.8	(779)
Housing & Economic Development	3,770	4,582	3,193	4,137	8.8	(445)
Administration of Justice	3,141	3,141	1,976	1,976	4.2	(1,165)
Sanitation	2,108	2,108	1,465	1,465	3.1	(643)
Mass Transit	601	601	570	570	1.2	(31)
Other City Services	7,360	7,473	4,925	5,012	10.7	(2,461)
Total	**$47,004**	**$61,675**	**$38,410**	**$46,976**	**100.0%**	**($14,699)**

SOURCE: Ten-Year Capital Strategy, FYs 2012-2021, NYC OMB, February 2011. Numbers may not add due to rounding.

Funding the Ten-Year Capital Strategy

The City-funds portion of the PTYCS will be financed primarily with $26.5 billion of GO and NYCTFA PIT bonds and $11.9 billion of New York Water Finance Authority (NYW) bonds. Together, GO, NYCTFA PIT and NYW borrowing will finance $38.4 billion, or 81.7 percent of the total PTYCS. New York State Funds are expected to finance another $5.5 billion of capital projects while the Federal Government and other non-city sources are anticipated to fund the remaining $3.1 billion.

GO and NYCTFA PIT bonds are projected to finance 56.4 percent, NYW bonds 25.3 percent, the State of New York 11.7 percent, and the Federal Government just 6.0 percent of the PTYCS. More than 55 percent, or $5 billion, of the non-City support is planned to fund capital projects in the DOE. This projection reflects the continued assumed support of State Building Aid to help finance DOE's capital strategy, albeit at a lower level.

Ten-Year Capital Strategy by Type of Work

The February 2011 PTYCS is comprised of three major types of capital projects: 1) State of Good Repair which accounts for 46.2 percent of the Plan ($21.69 billion); 2) Program Expansion which accounts for 26.7 percent of the Plan ($12.56 billion); and 3) Programmatic Replacement which accounts for 27.1 percent of the Plan ($12.73 billion).

State of Good Repair projects include reconstruction and rehabilitation of schools ($9.51 billion), reconstruction of East River and other bridges ($3.36 billion), and the reconstruction and resurfacing of streets and highways citywide ($2.15 billion).

Program Expansion projects include the construction of new schools ($5.54 billion), construction of water conveyance systems, ($2.02 billion), new and special needs housing initiatives ($1.58 billion), and commercial, industrial and cultural development ($621 million).

Programmatic Replacement projects include capital programs for water quality mandates and preservation ($3.04 billion), water pollution control plant upgrades and stabilization ($2.2 billion), and water main replacement and dam safety programs ($1.13 billion).

V. Appendix – Revenue and Expenditure Details

Table A1. *February 2011 Preliminary Budget Revenue Detail*

($ in millions)

						Change FYs 2011-15	
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	*Dollar*	*Percent*
Taxes:							
Real Property	$17,067	$17,857	$18,411	$18,846	$19,275	$2,208	12.9%
Personal Income Tax	$7,982	$8,774	$9,107	$9,596	$10,192	$2,210	27.7%
General Corporation Tax	$2,415	$2,725	$2,879	$2,992	$3,098	$683	3005.0%
Banking Corporation Tax	$1,245	$1,106	$1,010	$1,018	$1,026	($219)	(17.6%)
Unincorporated Business Tax	$1,705	$1,799	$1,873	$1,956	$2,041	$336	19.7%
Sale and Use Tax	$5,509	$5,797	$5,939	$6,086	$6,345	$836	15.2%
Real Property Transfer	$768	$770	$785	$850	$971	$203	26.4%
Mortgage Recording Tax	$444	$502	$552	$618	$705	$261	58.8%
Commercial Rent	$603	$622	$642	$663	$686	$83	13.8%
Utility	$383	$398	$412	$425	$439	$56	14.6%
Hotel	$418	$398	$381	$400	$427	$9	2.2%
Cigarette	$72	$71	$70	$68	$67	($5)	(6.9%)
All Other	$503	$455	$456	$467	$468	($35)	(7.0%)
Tax Audit Revenue	$868	$645	$644	$651	$651	($217)	(25.0%)
Total Taxes	**$39,982**	**$41,919**	**$43,161**	**$44,636**	**$46,391**	**$6,409**	**16.0%**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$498	$507	$507	$510	$511	$13	2.6%
Interest Income	$21	$34	$107	$140	$165	$144	685.7%
Charges for Services	$751	$798	$795	$794	$794	$43	5.7%
Water and Sewer Charges	$1,314	$1,335	$1,332	$1,361	$1,378	$64	4.9%
Rental Income	$239	$250	$256	$264	$267	$28	11.7%
Fines and Forfeitures	$799	$801	$799	$799	$799	$0	0.0%
Miscellaneous	$668	$525	$506	$500	$483	($185)	(27.7%)
Intra-City Revenue	$1,871	$1,515	$1,512	$1,512	$1,512	($359)	(19.2%)
Total Miscellaneous	**$6,161**	**$5,765**	**$5,814**	**$5,880**	**$5,909**	**($252)**	**(4.1%)**
Unrestricted Intergovernmental Aid:							
Other Federal and State Aid	$14	$12	$12	$12	$12	($2)	(14.3%)
Total Unrestricted Intergovernmental Aid	**$14**	**$12**	**$12**	**$12**	**$12**	**($2)**	**(14.3%)**
Anticipated State and Federal Aid:							
Anticipated State Aid	$0	$600	$600	$600	$600	$600	N/A
Total Anticipated Aid	**$0**	**$600**	**$600**	**$600**	**$600**	**$600**	**N/A**
Other Categorical Grants	**$1,315**	**$1,160**	**$1,157**	**$1,154**	**$1,150**	**($165)**	**(12.5%)**
						$0	
Inter-Fund Agreements	**$559**	**$500**	**$493**	**$493**	**$493**	**($66)**	**(11.8%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
Less: Intra-City Revenue	**($1,871)**	**($1,515)**	**($1,512)**	**($1,512)**	**($1,512)**	**$359**	**(19.2%)**
TOTAL CITY-FUNDS	**$46,145**	**$48,426**	**$49,710**	**$51,248**	**$53,028**	**$6,883**	**14.9%**

Table A1 (Con't). *February 2011 Preliminary Budget Revenue Detail*

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Changes FYs 2011-15 Dollar	Changes FYs 2011-15 Percent
Federal Categorical Grants:							
Community Development	$284	$241	$241	$241	$240	($44)	(15.5%)
Welfare	$2,964	$2,743	$2,707	$2,707	$2,707	($257)	(8.7%)
Education	$2,953	$1,724	$1,719	$1,718	$1,718	($1,235)	(41.8%)
Other	$1,996	$1,229	$1,128	$1,095	$1,096	($900)	(45.1%)
Total Federal Grants	**$8,197**	**$5,937**	**$5,795**	**$5,761**	**$5,761**	**($2,436)**	**(29.7%)**
State Categorical Grants							
Social Services	$2,048	$1,932	$1,929	$1,926	$1,926	($122)	(6.0%)
Education	$7,982	$7,909	$7,978	$8,028	$8,028	$46	0.6%
Higher Education	$186	$204	$204	$204	$204	$18	9.7%
Department of Health and Mental Hygiene	$463	$443	$438	$438	$439	($24)	(5.2%)
Other	$886	$775	$737	$734	$734	($152)	(17.2%)
Total State Grants	**$11,565**	**$11,263**	**$11,286**	**$11,330**	**$11,331**	**($234)**	**(2.0%)**
TOTAL REVENUES	**$65,907**	**$65,626**	**$66,791**	**$68,339**	**$70,120**	**$4,213**	**6.4%**

Table A2. February 2011 Preliminary Budget Expenditure Detail

($ in thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011-15	
						Dollars	***Percent***
Mayoralty	$98,045	$90,835	$90,178	$90,002	$89,856	($8,189)	(8.4%)
Board of Elections	$103,333	$69,908	$76,508	$76,508	$76,508	($26,825)	(26.0%)
Campaign Finance Board	$14,510	$13,013	$13,017	$13,017	$13,017	($1,493)	(10.3%)
Office of the Actuary	$5,302	$5,306	$5,310	$5,310	$5,310	$8	0.2%
President, Borough of Manhattan	$4,376	$2,892	$2,902	$2,908	$2,908	($1,468)	(33.5%)
President, Borough of Bronx	$5,204	$3,933	$3,947	$3,955	$3,955	($1,249)	(24.0%)
President, Borough of Brooklyn	$5,551	$3,557	$3,571	$3,579	$3,579	($1,972)	(35.5%)
President, Borough of Queens	$4,739	$3,329	$3,339	$3,346	$3,346	($1,393)	(29.4%)
President, Borough of Staten Island	$3,798	$2,795	$2,806	$2,811	$2,811	($987)	(26.0%)
Office of the Comptroller	$71,101	$71,780	$71,891	$72,039	$72,124	$1,023	1.4%
Dept. of Emergency Management	$55,863	$23,070	$7,055	$7,063	$7,073	($48,790)	(87.3%)
Tax Commission	$3,775	$3,779	$3,783	$3,783	$3,783	$8	0.2%
Law Dept.	$134,118	$133,071	$131,918	$129,539	$129,539	($4,579)	(3.4%)
Dept. of City Planning	$26,404	$22,554	$21,988	$21,988	$21,988	($4,416)	(16.7%)
Dept. of Investigation	$16,435	$15,975	$15,715	$15,715	$15,715	($720)	(4.4%)
NY Public Library - Research	$21,758	$17,452	$17,452	$17,452	$17,452	($4,306)	(19.8%)
New York Public Library	$109,110	$85,182	$84,832	$84,832	$84,832	($24,278)	(22.3%)
Brooklyn Public Library	$81,324	$63,328	$62,978	$62,978	$62,978	($18,346)	(22.6%)
Queens Borough Public Library	$79,648	$61,342	$60,992	$60,992	$60,992	($18,656)	(23.4%)
Dept. of Education	$18,787,744	$19,103,468	$19,416,757	$19,801,939	$20,004,902	$1,217,158	6.5%
City University	$755,120	$707,565	$701,948	$702,976	$702,890	($52,230)	(6.9%)
Civilian Complaint Review Board	$9,970	$9,600	$9,608	$9,611	$9,614	($356)	(3.6%)
Police Dept.	$4,644,559	$4,220,568	$4,186,517	$4,183,390	$4,183,390	($461,169)	(9.9%)
Fire Dept.	$1,773,589	$1,617,590	$1,585,348	$1,563,513	$1,563,068	($210,521)	(11.9%)
Admin. for Children Services	$2,710,334	$2,709,572	$2,683,029	$2,680,389	$2,680,953	($29,381)	(1.1%)
Dept. of Social Services	$8,185,018	$9,330,374	$9,523,246	$9,659,813	$9,839,678	$1,654,660	20.2%
Dept. of Homeless Services	$845,691	$801,095	$794,148	$794,194	$794,184	($51,507)	(6.1%)
Dept. of Correction	$1,036,225	$1,020,797	$1,012,642	$1,012,642	$1,012,642	($23,583)	(2.3%)
Board of Correction	$999	$999	$999	$999	$999	$0	0.0%
Citywide Pension Contribution	$6,875,027	$8,295,108	$8,441,901	$8,320,134	$8,596,943	$1,721,916	25.0%
Miscellaneous	$6,267,940	$6,226,724	$7,645,649	$8,352,383	$9,212,732	$2,944,792	47.0%
Debt Service	$3,952,347	$4,325,666	$4,803,351	$4,875,076	$5,043,386	$1,091,039	27.6%
N.Y.C.T.F.A. Debt Service	$1,129,134	$1,581,950	$1,868,760	$2,043,930	$2,225,430	$1,096,296	97.1%
FY 2010 BSA	($3,646,142)	$0	$0	$0	$0	$3,646,142	(100.0%)
FY 2011 BSA	$3,150,956	($3,150,956)	$0	$0	$0	($3,150,956)	(100.0%)
Redemption of N.Y.C.T.F.A. Debt Service	($35,000)	$0	$0	$0	$0	$35,000	(100.0%)
Public Advocate	$2,256	$1,797	$1,803	$1,807	$1,807	($449)	(19.9%)
City Council	$52,883	$52,883	$52,883	$52,883	$52,883	$0	0.0%
City Clerk	$4,743	$4,602	$4,629	$4,632	$4,635	($108)	(2.3%)
Dept. for the Aging	$268,173	$216,739	$216,162	$216,162	$216,162	($52,011)	(19.4%)
Dept. of Cultural Affairs	$142,018	$101,043	$101,043	$101,043	$101,043	($40,975)	(28.9%)
Financial Info. Serv. Agency	$60,879	$63,452	$61,217	$61,278	$61,331	$452	0.7%
Dept. of Juvenile Justice	$201,600	$0	$0	$0	$0	($201,600)	(100.0%)
Office of Payroll Admin.	$62,580	$65,426	$52,484	$36,427	$36,427	($26,153)	(41.8%)
Independent Budget Office	$4,463	$4,407	$4,407	$4,407	$4,407	($56)	(1.3%)
Equal Employment Practices Comm.	$744	$744	$745	$745	$745	$1	0.1%

Table A2 (Con't). *February 2011 Preliminary Budget Expenditure Detail*

($ in thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011-15 Dollars	Change FYs 2011-15 Percent
Civil Service Commission	$685	$751	$751	$751	$751	$66	9.6%
Landmarks Preservation Comm.	$5,405	$4,800	$4,825	$4,831	$4,831	($574)	(10.6%)
Taxi & Limousine Commission	$31,460	$32,174	$32,174	$32,174	$32,174	$714	2.3%
Commission on Human Rights	$7,308	$7,366	$7,366	$7,366	$7,366	$58	0.8%
Youth & Community Development	$334,249	$232,311	$220,873	$220,873	$220,873	($113,376)	(33.9%)
Conflicts of Interest Board	$2,023	$1,988	$1,988	$1,988	$1,988	($35)	(1.7%)
Office of Collective Bargain	$2,101	$2,102	$2,103	$2,103	$2,103	$2	0.1%
Community Boards (All)	$15,042	$14,570	$14,570	$14,570	$14,570	($472)	(3.1%)
Dept. of Probation	$81,200	$74,763	$71,461	$71,557	$71,663	($9,537)	(11.7%)
Dept. Small Business Services	$142,534	$124,230	$107,188	$98,204	$92,916	($49,618)	(34.8%)
Housing Preservation & Development	$770,480	$564,161	$563,200	$562,815	$562,253	($208,227)	(27.0%)
Dept. of Buildings	$99,718	$89,665	$89,665	$89,683	$89,665	($10,053)	(10.1%)
Dept. of Health & Mental Hygiene	$1,663,726	$1,542,152	$1,532,361	$1,531,192	$1,532,564	($131,162)	(7.9%)
Health and Hospitals Corp.	$68,026	$90,411	$89,742	$89,742	$89,742	$21,716	31.9%
Office of Administrative Trials & Hearings	$26,566	$26,567	$26,566	$26,566	$26,566	$0	0.0%
Dept. of Environmental Protection	$1,034,838	$986,149	$981,892	$981,892	$981,892	($52,946)	(5.1%)
Dept. of Sanitation	$1,398,991	$1,294,670	$1,336,768	$1,420,387	$1,420,469	$21,478	1.5%
Business Integrity Commission	$7,360	$7,305	$7,232	$7,232	$7,232	($128)	(1.7%)
Dept. of Finance	$219,894	$217,537	$216,298	$216,304	$216,054	($3,840)	(1.7%)
Dept. of Transportation	$832,921	$668,575	$678,530	$677,864	$677,864	($155,057)	(18.6%)
Dept. of Parks and Recreation	$315,243	$252,254	$260,341	$260,595	$260,679	($54,564)	(17.3%)
Dept. of Design & Construction	$108,913	$106,115	$106,652	$106,676	$106,676	($2,237)	(2.1%)
Dept. of Citywide Admin. Services	$404,206	$339,301	$343,671	$343,488	$343,305	($60,901)	(15.1%)
D.O.I.T.T.	$297,943	$264,100	$256,139	$253,313	$253,891	($44,052)	(14.8%)
Dept. of Record & Info. Services	$5,361	$4,898	$5,237	$5,237	$5,237	($124)	(2.3%)
Dept. of Consumer Affairs	$21,737	$20,508	$19,362	$19,448	$19,362	($2,375)	(10.9%)
District Attorney - N.Y.	$86,319	$75,304	$75,304	$75,304	$75,304	($11,015)	(12.8%)
District Attorney - Bronx	$50,139	$44,804	$44,473	$44,362	$44,362	($5,777)	(11.5%)
District Attorney - Kings	$81,103	$74,335	$74,335	$74,335	$74,335	($6,768)	(8.3%)
District Attorney - Queens	$48,013	$44,246	$43,786	$43,786	$43,786	($4,227)	(8.8%)
District Attorney - Richmond	$8,335	$7,357	$7,208	$7,208	$7,208	($1,127)	(13.5%)
Office of Prosec. & Spec. Narc.	$18,468	$16,328	$16,328	$16,328	$16,328	($2,140)	(11.6%)
Public Administrator - N.Y.	$1,268	$1,156	$1,156	$1,156	$1,156	($112)	(8.8%)
Public Administrator - Bronx	$499	$425	$425	$425	$425	($74)	(14.8%)
Public Administrator - Brooklyn	$605	$526	$526	$526	$526	($79)	(13.1%)
Public Administrator - Queens	$473	$400	$400	$400	$400	($73)	(15.4%)
Public Administrator - Richmond	$380	$307	$307	$307	$307	($73)	(19.2%)
Prior Payable Adjustment	($500,000)	$0	$0	$0	$0	$500,000	(100.0%)
General Reserve	$100,000	$300,000	$300,000	$300,000	$300,000	$200,000	200.0%
IT Efficiency Savings	($4,407)	($8,294)	($8,794)	($8,794)	($8,794)	($4,387)	99.5%
Energy Adjustment	$29,693	$72,118	$119,904	$143,774	$164,077	$134,384	452.6%
Lease Adjustment	$0	$23,642	$85,344	$136,982	$140,328	$140,328	N/A
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	$166,557	N/A
TOTAL EXPENDITURE	**$65,907,061**	**$65,626,391**	**$71,642,634**	**$73,152,178**	**$75,097,008**	**$9,189,947**	**13.9%**

Glossary of Acronyms

AIG	State Adjusted Gross Income
AIRA	Actuarial Interest Rate Assumption
ARRA	American Recovery and Reinvestment Act
BAB	Build America Bonds
BARB	Building Aid Revenue Bond
BCT	Business Corporation Tax
BSA	Budget Stabilization Account
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
CY	Calendar Year
DEP	Department of Environmental Protection
DOC	Department of Correction
DOE	Department of Education
DOT	Department of Transportation
DSNY	Department of Sanitation
EDC	NYC Economic Development Corporation

FDNY	Fire Department
FMAP	Federal Medical Assistance Percentages
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HYIC	Hudson Yards Infrastructure Corporation
J&C	Judgments and Claims
MA	Medical Assistance
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
NYS	New York State

NYWFA	New York City Municipal Water Finance Authority
OMB	Office of Management and Budget
OTPS	Other than Personal Services
OYLM	One Year Lag Methodology
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Services
PTYCS	Preliminary Ten-Year Capital Strategy
RHBT	Retiree Health Benefit Trust
STAR	School Tax Relief Program
TYCS	Ten-Year Capital Strategy
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers
U.S.	United States
VSF	Variable Supplements Fund