



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 2013 and Financial Plan for Fiscal Years 2012-2016**

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# TABLE OF CONTENTS

<b>I. EXECUTIVE SUMMARY .....</b>	<b>iv</b>
<b>II. THE STATE OF THE CITY'S ECONOMY.....</b>	<b>4</b>
A. U.S. ECONOMIC OUTLOOK .....	5
B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK .....	9
<b>III. THE FY 2012 BUDGET.....</b>	<b>13</b>
<b>IV. THE PRELIMINARY FY 2013 BUDGET .....</b>	<b>17</b>
RISKS AND OFFSETS.....	18
A. REVENUE OUTLOOK .....	19
<i>Tax Revenues .....</i>	<i>19</i>
<i>Miscellaneous Revenues .....</i>	<i>23</i>
<i>Federal and State Aid .....</i>	<i>25</i>
B. EXPENDITURE ANALYSIS .....	26
<i>Pensions.....</i>	<i>27</i>
<i>Health Insurance .....</i>	<i>28</i>
<i>Labor .....</i>	<i>28</i>
<i>Overtime .....</i>	<i>29</i>
<i>Public Assistance .....</i>	<i>31</i>
<i>Department of Education.....</i>	<i>31</i>
<i>Health and Hospitals Corporation .....</i>	<i>32</i>
<i>Debt Service.....</i>	<i>33</i>
<i>Capital Commitment Plan .....</i>	<i>36</i>
<b>V. APPENDIX – REVENUE AND EXPENDITURE DETAILS .....</b>	<b>39</b>
<b>GLOSSARY OF ACRONYMS .....</b>	<b>43</b>

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## LIST OF TABLES

TABLE 1.	FY 2012–FY 2016 FINANCIAL PLAN .....	1
TABLE 2.	PLAN-TO-PLAN CHANGES FEBRUARY 2012 PLAN VS. JUNE 2011 PLAN .....	2
TABLE 3.	RISKS AND OFFSETS TO THE FEBRUARY 2012 FINANCIAL PLAN .....	3
TABLE 4.	SELECTED NYC AND THE U.S. ECONOMIC INDICATORS, ANNUAL AVERAGES, COMPTROLLER AND MAYOR’S FORECASTS, 2012-2016 .....	12
TABLE 5.	CHANGES TO THE FY 2012 CITY-FUNDS ESTIMATES FEBRUARY MODIFICATION VS. ADOPTED BUDGET .....	13
TABLE 6.	RISKS AND OFFSETS TO THE FEBRUARY 2012 FINANCIAL PLAN .....	18
TABLE 7.	REVISIONS TO THE CITY’S TAX REVENUE ASSUMPTION FEBRUARY 2012 VS. JUNE 2011 .....	20
TABLE 8.	CITY’S TAX REVENUE FORECAST, GROWTH RATE, FYS 2012 – 2016 .....	21
TABLE 9.	RISKS AND OFFSETS TO THE CITY’S REVENUE PROJECTIONS .....	23
TABLE 10.	CHANGES IN FY 2013 ESTIMATES FEBRUARY 2012 VS. JUNE 2011 .....	23
TABLE 11.	FY 2012 – FY 2016 EXPENDITURE GROWTH ADJUSTED FOR PREPAYMENTS AND PRIOR-YEAR ACTIONS .....	26
TABLE 12.	PAY-AS-YOU-GO HEALTH EXPENDITURES .....	28
TABLE 13.	PROJECTED OVERTIME SPENDING, FY 2012 AND FY 2013 .....	30
TABLE 14.	FEBRUARY 2012-2016 FINANCIAL PLAN DEBT SERVICE ESTIMATES .....	33
TABLE 15.	ESTIMATED BORROWING BY FUNDING SOURCE FEBRUARY 2012 PLAN, FYS 2012 – 2016 .....	36
TABLE 16.	FYS 2012 – 2015 CAPITAL COMMITMENTS BY PROJECT CATEGORY, ALL-FUNDS .....	37
TABLE 17.	FYS 2012 – 2015 CAPITAL COMMITMENTS BY PROJECT CATEGORY, CITY-FUNDS .....	38
TABLE A1.	FEBRUARY 2012 PRELIMINARY BUDGET REVENUE DETAIL .....	39
TABLE A2.	FEBRUARY 2012 PRELIMINARY BUDGET EXPENDITURE DETAIL .....	41

## LIST OF CHARTS

CHART 1.	NUMBER OF PEOPLE PER NEW HOUSE, U.S., 1968 TO 2011 .....	7
CHART 2.	CHANGE IN REAL GDP, PERCENT, US VS. EU, 1996 TO 2011 .....	8
CHART 3.	NYC AND U.S. PAYROLL JOBS, PERCENT CHANGE, DECEMBER 2011 VS. DECEMBER 2010 .....	11
CHART 4.	CLOSING THE FY 2013 BUDGET GAP .....	17
CHART 5.	DEBT SERVICE AS A PERCENT OF TAX REVENUES, 1990 – 2016 .....	35

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# **I. Executive Summary**

The current year's budget provides evidence that the City may not be able to rely on the materialization of unanticipated revenues to fill budgetary gaps for some time. While New York City's economy continues to show signs of improvement, recent economic gains have been erratic and tenuous. Certain key indicators of the City's economic stability which showed signs of vitality early in 2011 began to lose steam by the end of the year. While the local economy grew by 2.9 percent, up from 2.3 percent in 2010 and unemployment was down from 9.5 percent in 2010 to 8.8 percent in 2011, some of the gains made in 2011 were lost at the end of the year.

The Comptroller's Office continues to point to the uncertainty resulting from the European debt crisis as the primary threat to both the U.S. and local economies. Prolonged worldwide financial volatility will continue to negatively affect Wall Street and New York City's economy. New York City is particularly susceptible to such volatility because of its dependence on revenues derived from financial firms. In addition, many of the European banks with heavy exposures to European sovereign debt have large presences in New York City. While the likelihood of an outright default by a member of the European Union has declined, there still remains many obstacles to overcome before the economies of many European countries can be considered stable. Nearly any scenario for events in Europe will entail adverse consequences for the U.S. and New York City (NYC) economies.

With the release of the February Financial Plan and the Preliminary FY 2013 Budget, the Administration has presented, as per the City Charter, its first representation of a balanced FY 2013 budget. The \$68.73 billion budget is \$2.94 billion less than the June 2011 Financial Plan estimates and represents the final stage in the process of closing a \$4.63 billion budget gap projected in June 2011. While the FY 2013 gap was closed without the need for significant service cuts or tax increases that have been necessitated in prior fiscal years, the gap-closing program does rely on substantial one-time revenue sources and the deferment of expenditures to future years.

In June 2011, the City's FY 2013 budget gap stood at \$4.63 billion. Since that time, the Administration has presented two financial plans which combined present a plan for closing that gap. The November 2011 Plan included agency gap-closing initiatives which generated a total of \$470 million in additional revenue and reduced expenditures for FY 2012 and \$1 billion in FY 2013. In addition, at the time the Administration proposed the use of two one-time revenue enhancers to further mitigate the FY 2013 budget gap. The sale of additional taxi medallions and the use of the funds set aside in the Retiree Health Benefit Trust (RHBT) to fund current year health care costs for retirees further reduced the City's budget gap by \$2 billion. These gap-closing initiatives were partially offset by increased agency spending.

The remainder of the FY 2013 gap has been closed in the February Financial Plan with projected FY 2012 budgetary surplus created primarily through a series of expenditure reductions in the current fiscal year. Current year savings of \$700 million



were achieved through standard accounting adjustments which realized \$500 million of savings from a reduction in prior-year-payables and \$200 million from a reduction of the City's general reserve. Additional FY 2012 savings were achieved as a result of the City's Chief Actuary's recommendations for changes to the assumptions and methods of the City's pension systems. The City had reserved \$1 billion to fund the cost of the Actuary's recommended changes to the pension assumptions. The current estimate of the cost of the final recommendations of the Actuary is only \$575 million in both FY 2012 and FY 2013. The \$425 million of surplus funds earmarked for pension costs along with \$205 million in additional revenues, partially offset by increased agency expenditures, will allow the City to carry forward nearly \$1.3 billion from FY 2012 to FY 2013. The remainder of the FY 2013 gap is closed with increased tax revenue estimates for FY 2013 coupled with the savings realized from the lower than anticipated pension costs.

The Comptroller's review of the February Plan finds certain risks to budgetary assumptions that could create large budget gaps in the current and future fiscal years. The realization of all of the risks to the current plan would leave the City with gaps of \$1.73 billion in FY 2012 and \$1.11 billion in FY 2013, while the gap in FY 2014 could grow to \$3.11 billion.

In FY 2012, the risks include: overtime expenses, which even with the additional funding added in the November Modification is still underfunded and funding of the next round of collective bargaining for City employees represented by the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA). The February Plan does not include any funding for wage increases corresponding to the 2008 – 2010 round of collective bargaining for the UFT and CSA, reflecting the Mayor's decision that any wage increases in these years be funded with offsetting productivity savings. Since other municipal employee unions have settled for two annual wage increases of 4.0 percent over comparable period, excluding funding for these increases represents a significant risk to the Plan. A settlement that mirrors the agreement of the other municipal unions would cost the City \$1.698 billion in FY 2012, including the cost of increases retroactive to FYs 2010 and 2011.

In FY 2013 the risk associated with the potential UFT and CSA contracts declines to \$897 million as the retroactive component of the potential wage increase is only a risk in the current fiscal year. Additional risks to the FY 2013 budget include \$108 million in the tax revenue forecast, \$120 million for understated overtime expenses and \$50 million related to additional revenues the Department of Education forecasts for the fiscal year. These risks are slightly offset by the Comptroller's estimate of lower costs related to judgments and claims (J&C).

**Table 1. FY 2012–FY 2016 Financial Plan**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Changes FYs 2012 – 2016	
						Dollar	Percent
<b>Revenues</b>							
Taxes:							
General Property Tax	\$18,024	\$18,597	\$19,200	\$19,862	\$20,505	\$2,481	13.8%
Other Taxes	\$23,438	\$24,537	\$25,159	\$26,429	\$27,410	\$3,972	16.9%
Tax Audit Revenues	\$700	\$724	\$706	\$706	\$706	\$6	0.9%
Subtotal: Taxes	\$42,162	\$43,858	\$45,065	\$46,997	\$48,621	\$6,459	15.3%
Miscellaneous Revenues	\$6,289	\$7,058	\$6,035	\$6,097	\$6,197	(\$92)	(1.5%)
Unrestricted Intergovernmental Aid	\$25	\$0	\$0	\$0	\$0	(\$25)	(100.0%)
Less: Intra-City Revenues	(\$1,791)	(\$1,531)	(\$1,533)	(\$1,537)	(\$1,542)	\$249	(13.9%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$46,670	\$49,370	\$49,552	\$51,542	\$53,261	\$6,591	14.1%
Other Categorical Grants	\$1,046	\$913	\$909	\$906	\$892	(\$154)	(14.7%)
Inter-Fund Revenues	\$551	\$509	\$504	\$504	\$504	(\$47)	(8.5%)
Total City & Inter-Fund Revenues	\$48,267	\$50,792	\$50,965	\$52,952	\$54,657	\$6,390	13.2%
Federal Categorical Grants	\$7,734	\$6,592	\$6,491	\$6,414	\$6,412	(\$1,322)	(17.1%)
State Categorical Grants	\$11,368	\$11,341	\$11,449	\$11,586	\$11,705	\$337	3.0%
Total Revenues	\$67,369	\$68,725	\$68,905	\$70,952	\$72,774	\$5,405	8.0%
<b>Expenditures</b>							
Personal Service							
Salaries and Wages	\$22,123	\$21,730	\$21,796	\$21,759	\$22,002	(\$121)	(0.5%)
Pensions	\$7,999	\$8,145	\$8,078	\$7,964	\$8,039	\$40	0.5%
Fringe Benefits	\$8,005	\$8,335	\$8,920	\$9,499	\$10,123	\$2,118	26.5%
Retiree Health Benefits Trust	(\$672)	(\$1,000)	(\$1,000)	\$0	\$0	\$672	(100.0%)
Subtotal-PS	\$37,455	\$37,210	\$37,794	\$39,222	\$40,164	\$2,709	7.2%
Other Than Personal Service							
Medical Assistance	\$6,275	\$6,321	\$6,458	\$6,638	\$6,735	\$460	7.3%
Public Assistance	\$1,409	\$1,345	\$1,365	\$1,365	\$1,365	(\$44)	(3.1%)
All Other	\$20,754	\$20,099	\$20,764	\$21,317	\$21,710	\$956	4.6%
Subtotal-OTPS	\$28,438	\$27,765	\$28,587	\$29,320	\$29,810	\$1,372	4.8%
Debt Service							
Principal	\$1,971	\$2,180	\$2,198	\$2,278	\$2,273	\$302	15.3%
Interest & Offsets	\$2,131	\$2,379	\$2,624	\$2,712	\$2,807	\$676	31.7%
Subtotal Debt Service	\$4,102	\$4,559	\$4,822	\$4,990	\$5,080	\$978	23.8%
FY 2011 BSA and Discretionary Transfers <sup>a</sup>	(\$3,742)	\$0	\$0	\$0	\$0	\$3,742	(100.0%)
FY 2012 BSA	\$1,297	(\$1,297)	\$0	\$0	\$0	(\$1,297)	(100.0%)
NYCTFA							
Principal	\$606	\$803	\$757	\$837	\$871	\$265	43.7%
Interest & Offsets	\$904	\$916	\$1,218	\$1,336	\$1,485	\$581	64.3%
Subtotal NYCTFA	\$1,510	\$1,719	\$1,975	\$2,173	\$2,356	\$846	56.0%
General Reserve	\$100	\$300	\$300	\$300	\$300	\$200	200.0%
Less: Intra-City Expenses	(\$1,791)	(\$1,531)	(\$1,533)	(\$1,537)	(\$1,542)	\$249	(13.9%)
Total Expenditures	\$67,369	\$68,725	\$71,945	\$74,468	\$76,168	\$8,799	13.1%
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,040)</b>	<b>(\$3,516)</b>	<b>(\$3,394)</b>	<b>(\$3,394)</b>	<b>N/A</b>

<sup>a</sup> FY 2011 BSA and Discretionary Transfers include prepayments of \$2.784 billion of G.O. debt service, \$790 million of NYCTFA debt service, \$164 million of subsidies and net equity contributions in bond refunding of \$4 million.

**Table 2. Plan-to-Plan Changes  
February 2012 Plan vs. June 2011 Plan**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015
<b><u>Revenues</u></b>				
Taxes:				
General Property Tax	\$185	\$180	\$356	\$588
Other Taxes	(\$100)	\$166	\$52	(\$23)
Tax Audit Revenues	\$40	\$65	\$40	\$40
Subtotal: Taxes	\$125	\$411	\$448	\$605
Miscellaneous Revenues	\$334	\$1,078	(\$5)	\$37
Unrestricted Intergovernmental Aid	(\$12)	(\$12)	(\$12)	(\$12)
Less: Intra-City Revenues	(\$242)	(\$5)	(\$10)	(\$14)
Disallowances Against Categorical Grants	\$0	\$0	\$0	\$0
Subtotal: City Funds	\$205	\$1,472	\$421	\$616
Other Categorical Grants	(\$147)	(\$245)	(\$247)	(\$247)
Inter-Fund Revenues	\$2	\$8	\$3	\$3
Total City & Inter-Fund Revenues	\$60	\$1,235	\$177	\$372
Federal Categorical Grants	\$1,060	\$203	\$176	\$176
State Categorical Grants	\$338	\$251	\$286	\$406
Total Revenues	\$1,458	\$1,689	\$639	\$954
<b><u>Expenditures</u></b>				
Personal Service				
Salaries and Wages	\$621	\$451	\$412	\$382
Pensions	(\$425)	(\$425)	(\$370)	(\$730)
Fringe Benefits	\$20	(\$41)	\$18	\$44
Retiree Health Benefits Trust	\$0	(\$1,000)	(\$1,000)	\$0
Subtotal-PS	\$216	(\$1,015)	(\$940)	(\$304)
Other Than Personal Service				
Medical Assistance	\$58	(\$6)	(\$5)	(\$5)
Public Assistance	\$24	(\$20)	\$0	\$0
All Other	\$510	(\$225)	(\$99)	(\$27)
Subtotal-OTPS	\$592	(\$251)	(\$104)	(\$32)
Debt Service				
Principal	(\$19)	(\$9)	\$37	\$35
Interest & Offsets	(\$127)	(\$214)	(\$73)	(\$75)
Subtotal Debt Service	(\$146)	(\$223)	(\$36)	(\$40)
FY 2011 BSA and Discretionary Transfers	(\$4)	\$0	\$0	\$0
FY 2012 BSA	\$1,297	(\$1,297)	\$0	\$0
NYCTFA Debt Service				
Principal	\$15	\$10	(\$36)	\$21
Interest & Offsets	(\$70)	(\$162)	(\$39)	(\$83)
Subtotal NYCTFA	(\$55)	(\$152)	(\$75)	(\$62)
General Reserve	(\$200)	\$0	\$0	\$0
Less: Intra-City Expenses	(\$242)	(\$5)	(\$10)	(\$14)
Total Expenditures	\$1,458	(\$2,943)	(\$1,165)	(\$452)
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>\$4,632</b>	<b>\$1,804</b>	<b>\$1,406</b>

**Table 3. Risks and Offsets to the February 2012 Financial Plan**

(\$ in millions)

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>City Stated Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,040)</b>	<b>(\$3,516)</b>	<b>(\$3,394)</b>
<b>Tax Revenues</b>					
Property Tax	\$0	(\$79)	\$323	\$560	\$899
Personal Income Tax	\$0	(\$16)	\$370	\$289	\$505
Business Taxes	(\$14)	(\$167)	\$10	\$123	\$192
Sales Tax	(\$23)	\$8	\$84	\$205	\$321
Real-Estate-Related Taxes	<u>\$37</u>	<u>\$146</u>	<u>\$89</u>	<u>\$114</u>	<u>\$175</u>
<b>Subtotal</b>	<b>\$0</b>	<b>(\$108)</b>	<b>\$876</b>	<b>\$1,291</b>	<b>\$2,092</b>
<b>Expenditures</b>					
UFT/CSA Collective Bargaining	(\$1,698)	(\$897)	(\$900)	(\$900)	(\$900)
Overtime	(\$65)	(\$163)	(\$100)	(\$100)	(\$100)
Dept. of Education	\$0	(\$50)	(\$50)	(\$50)	(\$50)
Pension Reform	\$0	\$0	\$0	(\$80)	(\$155)
Judgments and Claims	<u>\$35</u>	<u>\$65</u>	<u>\$100</u>	<u>\$100</u>	<u>\$100</u>
<b>Subtotal</b>	<b>(\$1,728)</b>	<b>(\$1,045)</b>	<b>(\$950)</b>	<b>(\$1,030)</b>	<b>(\$1,105)</b>
<b>Total Risk/Offsets</b>	<b>(\$1,728)</b>	<b>(\$1,153)</b>	<b>(\$74)</b>	<b>\$261</b>	<b>\$987</b>
<b>Restated (Gap)/Surplus</b>	<b>(\$1,728)</b>	<b>(\$1,153)</b>	<b>(\$3,114)</b>	<b>(\$3,255)</b>	<b>(\$2,407)</b>

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## **II. The State of the City's Economy**

During 2011, the U.S. economy continued its slow recovery from the disastrous financial crisis and recession. Although it grew more slowly than it did the previous year, the U.S. economy still managed to create over one million jobs. The coming year promises more of the same: gradual and fitful growth and a slowly improving labor market.

On a year-over-year basis, New York City's economy performed better in 2011 than in 2010. In some respects it also out-performed the national economy. However, the annual data mask an uneven performance through the year. Most of the improvement in the local economy occurred during the first half of 2011, after which its progress seems to have stalled. The weaker performance in the second half is primarily attributable to poor business conditions on Wall Street. Both domestic and foreign financial firms were impacted by the European debt crisis and the financial volatility stemming from it. The European situation remains the major threat to the city's economy in 2012 and, at best, Europe's difficulties will continue to drag on the local economy that should otherwise benefit from improving domestic conditions.

### **A. U.S. ECONOMIC OUTLOOK**

The national economy has grown at a slow rate since it emerged from the 2008-2009 recession and the outlook is that it will continue to do so. Although stronger job creation towards the end of 2011 and the beginning of 2012 has reduced the unemployment rate and restored some consumer and business confidence, the European debt crisis will continue to present obstacles for the U.S. recovery throughout the coming year. Moreover, fiscal policy in the United States will turn sharply contractionary in 2013 as the national focus moves from post-recession stimulus to deficit reduction. Stronger income and spending growth, combined with a reviving housing market, should be enough to keep the domestic economy moving forward but it will nevertheless struggle to return to its historical growth rate.

U.S. gross domestic product (GDP) grew only 1.7 percent in 2011, a deceleration from the 3.0 percent growth rate of 2010. Both figures are below the economy's long-term rate of economic growth and are especially modest for the first two years of a business cycle expansion. During the middle quarters of 2011 growth waned to such an extent that a relapse into recession was widely feared. Fortunately, the pace picked up in the final quarter of the year and a stalling-out of the recovery now appears to be unlikely. Barring a financial calamity in Europe or a political crisis in the Middle East that threatens oil supplies, the domestic economy should see slightly stronger growth in 2012.

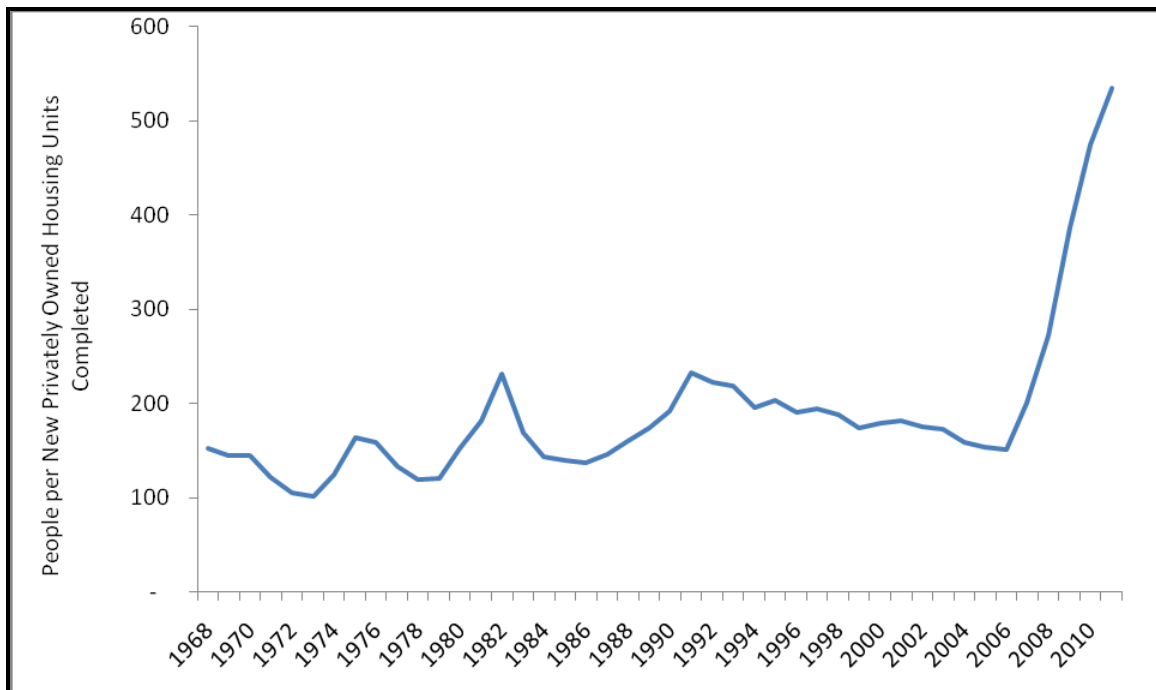
Consumer spending grew 2.2 percent in 2011, the fastest growth since 2007, but still well below the historical rate of increase. The major constraint on consumer spending in 2011 was the very slow rate of growth in incomes. In 2011, real disposable personal income grew by only 0.9 percent, compared to its 3.0 percent rate of growth from 2000 through 2008. To increase personal consumption spending with such a slow

expansion of incomes, households reduced their savings rate and, for the first time since 2008, increased their borrowing. While consumers must spend in order for the economy to grow, spending increases unsupported by proportional income growth can only lead to a repeat of the credit cycle that led to the recent recession. The recently stronger job creation should begin to put consumer spending on a firmer foundation, but improvement in the earnings of employed workers is also necessary; the real median weekly earnings of full-time wage and salary workers has fallen since the fourth quarter of 2009. A reversal of that trend will be critically important for economic growth in 2012.

Business and household investment are the other critical drivers of economic growth. Business investment in the past two years has been on a par with that in the early stages of the two previous recoveries, neither of which generated particularly rapid economic growth or job creation. In 2011, nonresidential private investment grew by 8.7 percent, an acceleration from the 4.4 percent gain of the previous year. Business investment in transportation equipment remained strong and investment in industrial equipment improved, but growth in spending on information processing equipment such as computers and software tapered off. After two consecutive years of decline, business investment in structures began to grow again in 2011. However, the increases were concentrated in energy exploration and production, and communications, activities that generate relatively few new jobs. Investment in commercial, health care, and industrial structures continued to decline. With corporate profits reaching all-time record levels in 2011 and non-financial corporate businesses holding more cash and liquid assets than ever before, the business sector is well-positioned to undertake job-generating investments. However, until consumer demand strengthens, businesses will continue to take a cautious approach toward such investments.

Residential investment declined for a sixth consecutive year in 2011. Investment in residential structures was only \$334.4 billion, compared to \$775 billion at the peak of the housing cycle in 2005. Although there was an increase in housing starts late in the year, the residential construction industry remains nearly dormant as new homebuyers stay on the sidelines and the housing market struggles to absorb millions of foreclosed homes. However, the extraordinarily low levels of new housing construction during the past four years has set the stage for a vigorous revival once the unemployment rate subsides and consumer confidence is restored. As chart 1 shows, the number of people to new houses has increased substantially in recent years. This creates a latent demand for new homes and apartments which the Comptroller's Office believes is one of the primary reasons that the domestic economy will pick up steam in late 2012 and 2013.

**Chart 1. *Number of People per New House, U.S., 1968 to 2011***



SOURCE: Census Bureau

With a firming labor market supporting a resumption of wage growth and accelerated consumer spending, and the business and household sectors both poised to resume investment spending, there are reasons to be optimistic that national economic performance will improve. Unfortunately, several negative factors will be operating to temper the positive effects of improving endogenous variables.

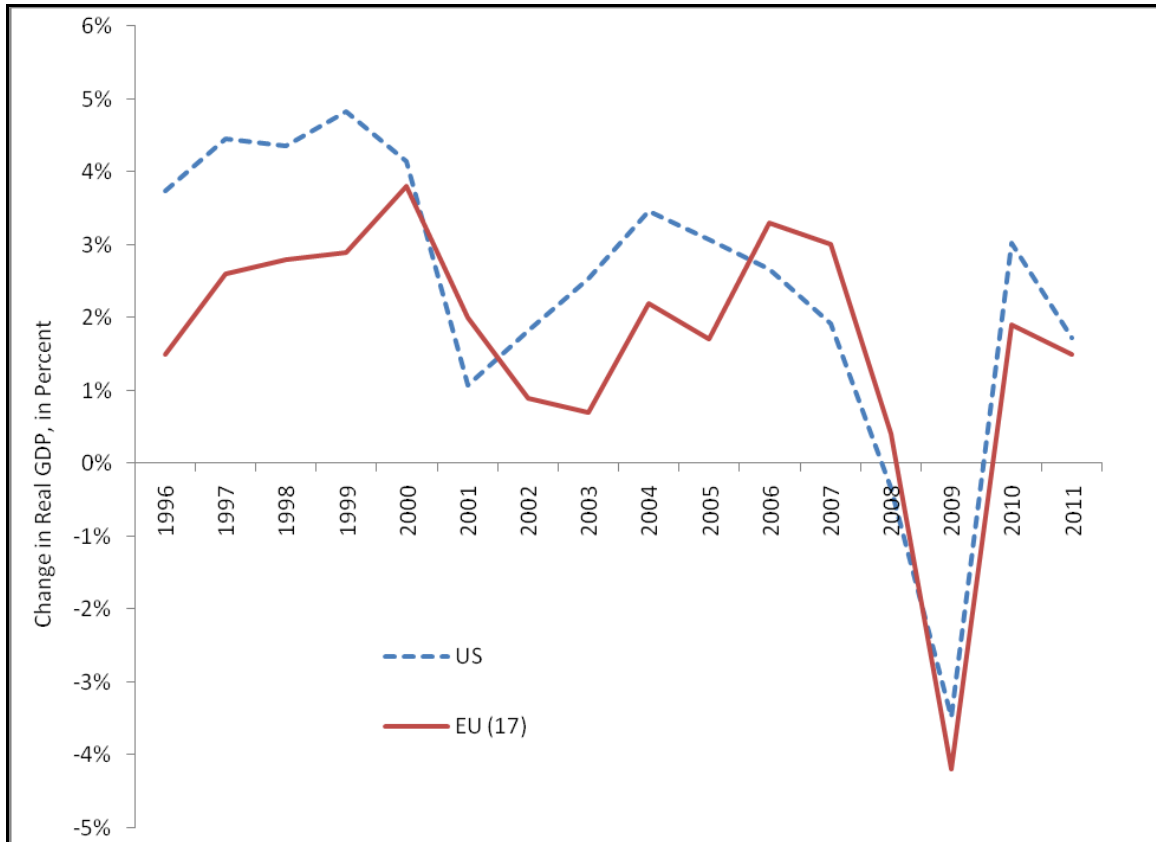
The European debt crisis is currently the most serious threat to domestic growth and to the world's economy. An outright default on sovereign debt by a member of the euro zone, possibly precipitating a breakup of the currency zone itself, would inevitably send shock waves throughout the world's financial system reminiscent of the September 2008 panic. Such an event would probably terminate America's fragile economic recovery and could well plunge the entire world into another recession. More likely, European leaders, along with their counterparts at the European Central Bank (ECB) and the International Monetary Fund (IMF), will continue to manage the crisis on a piecemeal basis for the foreseeable future. The ECB's massive loan programs and the recent agreement to ease Greece's debt burden appear to have helped avert a financial disaster for the time being.

Even a less-severe scenario for European events, however, entails adverse consequences for the American economy. The debt crisis, and the austerity measures adopted to address it, has contributed to a slow-down in the European economy that will probably develop into a full-fledged recession. The economy of the European Union as a whole contracted in the fourth quarter of 2011 and several member countries have already registered longer periods of negative growth. Typically, recessions that originate in the United States are quickly transmitted to Europe because of the high degree of



economic and financial integration between the two areas. While there are no recent historical examples of Europe exporting a recession to the U.S., some dampening of U.S. growth is expected. Chart 2 shows the close historical correspondence of real GDP growth in the U.S. versus the EU.

**Chart 2. Change in Real GDP, Percent, U.S. vs. EU, 1996 to 2011**



SOURCE: Bureau of Economic Analysis, and Eurostat.

A second significant risk to the US recovery emanates from Washington. Although Congress extended the two percent payroll tax reduction through the end of 2012, a tightening of federal fiscal policy in 2013 seems all but inevitable. Already, the Obama Administration has indicated that it will not seek to renew the payroll tax reduction for 2013. Moreover, automatic federal budget cuts arising from the Budget Control Act of 2011 will begin to take effect in January 2013, which according to the Congressional Budget Office will reduce federal outlays by \$55 billion in federal FY 2013. Should the Republicans regain the White House and/or control of the Senate in November's election, the shift away from fiscal stimulus may be even more abrupt.

Regardless of the desirability or urgency of reducing federal budget deficits, the short-term impact on the economy of those changes will be negative. Furthermore, federal fiscal tightening will compound the effects of budget reductions at the state and local levels which has had a contractionary effect. Reductions in state and local government expenditures and investment have suppressed GDP growth each year since 2009.

## **B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK**

New York City's economy continued to improve in 2011, but the gains were erratic and tenuous. Rapid private sector job growth early in the year provided a good jump for annualized figures, but in reality much of the gain evaporated in the second half. By December, there were only 38,900 more private-sector jobs in the city than there were a year earlier, a disappointing increase considering the strong start. Other key indicators also showed signs of sputtering in the second half, raising concerns about the strength of the local economic recovery entering 2012.

New York City's economy grew by an estimated 2.9 percent in 2011, better than the 2.3 percent growth registered in 2010. The city's average unemployment rate fell to 8.8 percent in 2011 from 9.5 percent in 2010. However, the low point for the unemployment rate was from April through July, when the rate hovered at 8.6 percent. Thereafter, it began to rise again, reaching 9.0 percent in December. The falling unemployment rate in the first half of the year was a product of both strong job creation and a shrinking labor force. From January to July, the city's labor force declined by about 26,000 workers. From July through December, it expanded by more than 41,000. The rising unemployment rate in the second half of the year indicates that many job seekers were unsuccessful in finding employment.

Deteriorating business conditions in the financial industry clearly contributed to the city's loss of economic momentum in the second half of 2011. On a year-over-year basis, employment in finance and insurance reached a peak in April, with industry employment about 11,900 above the level of April 2010. However, a falling stock market and increased financial volatility, which created a more difficult trading environment and inhibited corporate bond and stock issuance and mergers and acquisitions activity, began to severely affect industry profitability by the middle of the year. Wall Street firms had a collective \$3 billion loss in the third Quarter and, when final data are in, will probably record their least profitable year since 2008. A number of NYC-based financial firms announced employment cutbacks late in the year, and by December the industry's employment levels were below those of December 2010.

Adverse factors are expected to continue to impact Wall Street in 2012. In particular, the European debt crisis has taken an unpredictable course and will likely continue to do so. Aside from the general volatility the debt crisis has introduced to financial markets, it has put additional pressure on European banks with heavy exposures to European sovereign debt. Many of those banks have a large presence in New York City and there have already been press reports of employee layoffs and office space being offered for sublet by those firms. New controls on financial activities, stemming from the Dodd-Frank Act, the Basel III process and various regulatory bodies may also constrain industry profitability in 2012 and beyond.

Another of New York's signature industry sectors that struggled in 2011 was the Information sector. With the exception of the Motion Pictures and Sound Recording industry, which registered a modest employment gain, each of the key industries within the sector lost jobs. Publishing contracted by 2,000 jobs, bringing the total job loss over

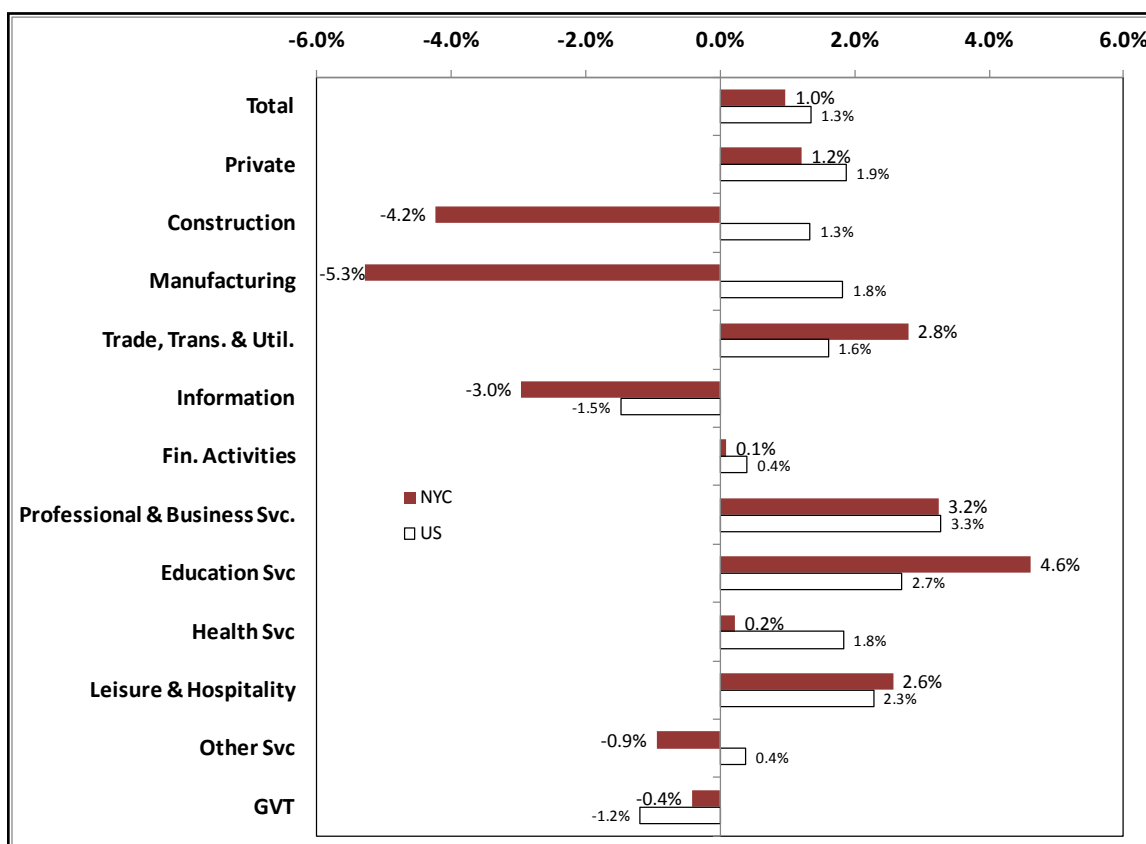
the past eleven years to 16,300, or nearly 27 percent of its peak job base. Broadcasting (-500) and Telecommunications (-800) also lost further ground. Since the contraction in this sector is primarily due to technological change and industry restructuring, it is not likely that a slightly improved national economy will do much to reverse the trend in 2012.

The disappointing performance of the Financial and Information sectors contrasts with the very strong year enjoyed by the city's Professional and Business Services sector. By December 2011 employment in the city's Professional and Business Services sector had increased by 19,200 over the previous December, accounting for approximately half of the city's net job growth for the year. Individual industries within that sector that did particularly well included: Accounting, Bookkeeping and Payroll Services (+5,900), Advertising (+3,900), Management of Companies and Enterprises (+3,200) and Consulting (+2,800). Growth in this sector is particularly good for the city's economy, as average salaries are, next to financial services, the second highest of all sectors in the city's economy.

Also performing well were certain industries that employ larger numbers of less-highly educated and entry-level workers, including many immigrants. Employment in Food Services and Drinking Places was 6,800 higher by year-end than it was in December 2010, and employment in Retail Trade was 13,800 higher, although almost all of the growth in Retail Trade occurred during the holiday shopping season and may not be a permanent increase. Employment in the Accommodations industry continued its steady increase as the city enjoyed another record-breaking year for tourism. According to NYC & Company, 50.5 million visitors came to the city in 2011, 3.5 percent more than in 2010.

Chart 3 shows the year-over-year change in jobs for different sectors for the city and the nation in 2011.

**Chart 3. NYC and U.S. Payroll Jobs, Percent Change, December 2011 vs. December 2010**



SOURCE: NYS Department of Labor and Bureau of Labor Statistics.

Note: Jobs are based on annual average of monthly data.

One surprising development in the city's economy in 2011 was the unusual slow-down in Health Care and Social Services employment growth. The 1,300-job employment increase in that sector (December 2011 over December 2010) was the smallest year-to-year gain since comparable data were collected in 1990. Employment declines occurred in Ambulatory Health Care Services, in Offices of Physicians, and in Nursing Facilities, but were offset by employment gains in Outpatient Care, Hospitals, and Home Health Care. The sudden slowing of employment growth in the Health Care sector may be related to decreases in New York State Medicaid funding in FY 2012, as well as to other changes in the health care financing system.

During 2011, the city's real estate markets reflected the mixed performance of the city's economy as a whole. The commercial sector was relatively strong. According to Cushman & Wakefield, office leasing activity totaled 30 million square feet (msf), the highest since 2000. The overall Manhattan office vacancy rate fell to 9.1 percent in the fourth quarter of the year, the lowest vacancy rate since the fourth quarter of 2008. Also, overall office space absorption was about 5.2 msf in 2011, the highest since 2005. Investment sales were also strong, with Cushman and Wakefield reporting that sales of commercial real estate in Manhattan totaled \$25.8 billion, the third highest transaction volume on record.

However, the residential real estate market remained weak due to continued tight credit conditions, the high unemployment rate, and expectations of financial industry layoffs. According to Prudential Douglas Elliman, Manhattan apartment sales increased 1.0 percent in 2011, but fourth quarter sales declined 12 percent from the fourth quarter of 2010. Similarly, sales of homes in Queens fell 19 percent in the fourth quarter compared to the same quarter of the previous year, although Brooklyn sales managed a 6.0 percent increase. On the other hand, the Manhattan rental market continued to heat up. All the rental price indicators showed gains and the number of new rentals increased 10 percent in the fourth quarter of 2011 over 2010.

There was a revival in new building permits for housing units in 2011, with the total of permitted units growing from 6,727 in 2010 to 8,936 in 2011. Although housing development activity in the city is still low compared to the peak levels of the past decade, the stirrings of new development may help to reverse the trend in construction industry employment, which has declined every year since 2007.

Overall, the outlook for the city's economy is similar to that for the nation as a whole. A gradually improving economy should help to firm the labor market and raise incomes, but the fragile recovery remains vulnerable to financial and energy shocks from Europe and the Middle East.

Table 4 shows the Comptroller's and the Mayor's forecast of five economic indicators for the city from calendar years (CY) 2012 to 2016.

**Table 4. Selected NYC and the U.S. Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, CYs 2012-2016**

<b>Selected NYC Economic Indicators, Annual Averages</b>						
		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Real GCP, (2005 \$), percent Change	Comptroller	2.1	2.4	3.0	3.2	3.2
	Mayor	(0.2)	1.7	2.0	2.3	2.1
Payroll Jobs, Change in Thousands	Comptroller	25	55	65	59	72
	Mayor	27	46	45	54	41
Inflation Rate Percent	Comptroller	2.0	2.1	2.3	2.5	2.7
	Mayor	1.8	1.9	2.3	2.4	2.2
Wage-Rate Growth, Percent	Comptroller	2.6	3.0	3.0	3.0	3.1
	Mayor	0.3	2.2	2.5	2.7	2.9
Unemployment Rate, Percent	Comptroller	8.8	8.4	7.6	6.8	5.9
	Mayor	NA	NA	NA	NA	NA
<b>Selected U.S. Economic Indicators, Annual Averages</b>						
		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Real GDP, (2005 \$), percent Change	Comptroller	2.0	2.4	2.8	3.2	3.4
	Mayor	2.1	2.5	3.4	3.2	2.7
Payroll Jobs, Change in Millions	Comptroller	2.0	2.2	2.4	2.2	2.9
	Mayor	1.7	2.3	2.6	2.6	2.2
Inflation Rate Percent	Comptroller	1.9	2.0	2.1	2.3	2.6
	Mayor	1.5	1.7	2.2	2.2	2.0
Fed Funds Rate, Percent	Comptroller	0.1	0.1	0.9	2.0	2.9
	Mayor	0.1	0.1	1.2	3.3	4.0
10-Year Treasury Notes, Percent	Comptroller	2.2	2.6	3.8	4.1	4.5
	Mayor	2.7	2.9	3.6	4.6	5.0

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the February 2012 Financial Plan. NA=not available.

### III. The FY 2012 Budget

The February Modification to the FY 2012 budget totals \$67.369 billion, an increase of \$1.458 billion over the budget adopted in June 2011. Upward revisions of \$1.06 billion to the Federal and \$338 million to the State categorically funded portion of the budget account for most this increase. The City-funds portion of the budget, which excludes Federal and State categorical funds as well as other categorical and inter-fund agreement funding, was increased by \$205 million as shown in Table 5.

**Table 5. Changes to the FY 2012 City-Funds Estimates  
February Modification vs. Adopted Budget**

(\$ in millions)

REVENUES		EXPENDITURES	
Property Tax	\$185	Agency Increase	\$222
Personal Income Tax	(192)	Reversal of Previous PEGs	207
		Lower than Budgeted Cost of	
Business Tax	(191)	Actuarial Changes	(425)
Sales Tax	70	Prior-Year Payable	(500)
Real-Estate-Related Tax	101	General Reserve	(200)
Tax Audit Revenue	30	PEGs	(396)
Other Taxes	111	<b>Subtotal</b>	<b>(\$1,092)</b>
<b>Subtotal Tax Revenues</b>	<b>\$114</b>		
Non-Tax Revenues	22	<b>BSA</b>	<b>\$1,297</b>
Revenue PEGs	69		
<b>Total</b>	<b>\$205</b>	<b>Total</b>	<b>\$205</b>

Revisions to tax revenue estimates account for more than half the increase in City-funds revenues in the February Modification. Property tax revenues are expected to be \$185 million higher than originally projected in the Adopted Budget while non-property tax revenues are expected to show a net decrease of \$71 million. The City has lowered its personal income tax (PIT) and business tax revenue estimates by a combined \$383 million mainly as result of lower than expected Wall Street profits. While other non-property tax revenues were revised upwards, the increase is less than the reduction in the PIT and business tax revenue estimates as shown in Table 5.

FY 2011 tax revenues grew by 8.5 percent to \$40.35 billion, breaching the pre-recession level of FY 2008. The February Modification projects FY 2012 tax revenues to experience moderate growth of 4.5 percent rising to \$42.162 billion for the fiscal year. The projected FY 2012 tax revenues are 8.8 percent greater than the FY 2008 level. However, FY 2012 projections include revenues derived from tax programs enacted subsequent to FY 2008 that were implemented in response to the recession. Adjusting for the impact of these programs, FY 2012 tax revenues are only 1.5 percent above FY 2008 levels. As seen in

Change in FY 2012 Tax Revenues from FY 2008 Levels After Adjusting for Tax Programs (\$ in millions)	
Property Tax	24.5%
PIT	(13.7%)
Business Taxes	(0.1%)
Sales Tax	0.4%
Real-Estate-Related Tax	(46.0%)
All Other	(5.3%)
<b>Total</b>	<b>1.5%</b>

the figure above, with the exception of property and sales tax revenues, all other tax revenues are still below FY 2008 levels.

FY 2012 property tax collections continue to be robust despite the overall weakness in the real-estate market. A major contributing factor to the strength in property tax collection is the way in which changes in market value are reflected in billable assessed values (BAV). The property tax is based upon a property's assessed value, which is only a portion of its market value. The ratio of assessed values to market value varies depending on the type of property.<sup>1</sup> Class one properties are assessed at 6.0 percent of market value while class two, three and four properties are assessed at 45 percent of market value. Annual increases in the assessed values for class 1 properties and certain class 2 properties are also capped by State law.<sup>2</sup> The BAV is the assessed value of a property after adjusting to comply with the State's cap.<sup>3</sup> During a period, such as the real-estate market boom which stretched from the late 1990's to 2009, when market value growth exceeds the State's cap on assessed value growth, the BAV will fall below the assessed value. Prior to 2009, the BAV of these properties had fallen so far below their assessed values that even during the current market downturn the BAV continues to grow within the limitation imposed on assessed value growth by the State cap while remaining below the assessed value.

Assessed value increase on class four properties are not subjected to the cap. However, the increases in assessed values of these properties and class two properties not subjected to the cap are phased in over five years. Thus, during a boom period in the real estate market a substantial "pipeline" of assessed value can accumulate. To the extent that accumulated assessed value in the pipeline is large enough, BAV for these properties can also continue to grow in a declining market.

In addition to the increase in revenue estimates, the February Modification includes several significant expenditure actions resulting in a net reduction of \$1.092 billion in City-funded expenditures. The net reduction is the product of \$1.521 billion in spending reductions offset by a combined spending increase of \$429 million from increased agency spending and the reversal of prior gap-closing initiatives. The net spending reduction together with the \$205 million of additional

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<sup>1</sup> Every New York City property is assigned to one of four property classes. Class one properties consist of residential properties of up to three units and vacant land zoned for residential use; class two properties consist of all other residential properties including cooperatives and condominiums; class three properties consist of utility properties and class four properties consist of all other properties including office buildings, factories, and stores.

<sup>2</sup> Assessed values of class one properties may increase by 6 percent per year and 20 percent over five years; class two rental units and cooperatives and condominiums with less than 11 units may increase by 8.0 percent per year and 30 percent over five years.

<sup>3</sup> This is a simplified description of the BAV for the purpose of explaining the seeming paradox of increasing property tax revenues in a declining market. The actual computation of the BAV includes various exemptions for qualifying properties as well as increase in property value due to physical improvements which are not subject to caps or phase-ins.

revenue results in a projected budget surplus of \$1.297 billion for the current fiscal year. This surplus will fund a budget stabilization account (BSA) which will prepay a portion of FY 2013 debt service.

The FY 2012 spending reductions realized in the February Modification include the recognition of prior-year-payable savings and a reduction in the General Reserve which together reduce current-year expenditures by \$700 million. In addition, the Chief Actuary's recommended changes to actuarial assumptions and methods used in calculating pension contribution will increase the FY 2012 pension contribution by less than the \$1 billion the City had budgeted to fund such changes. Consequently, the City has reduced its funding for actuarial changes by \$425 million to reflect the revised pension contribution estimate. An additional \$396 million of expenditure reduction in FY 2012 is derived from programs to eliminate the gap (PEGs). Even though the FY 2012 budget is balanced, these PEGs give the City a head start in addressing the FY 2013 gap as these initiatives contribute towards the budget surplus used to reduce FY 2013 expenditures.

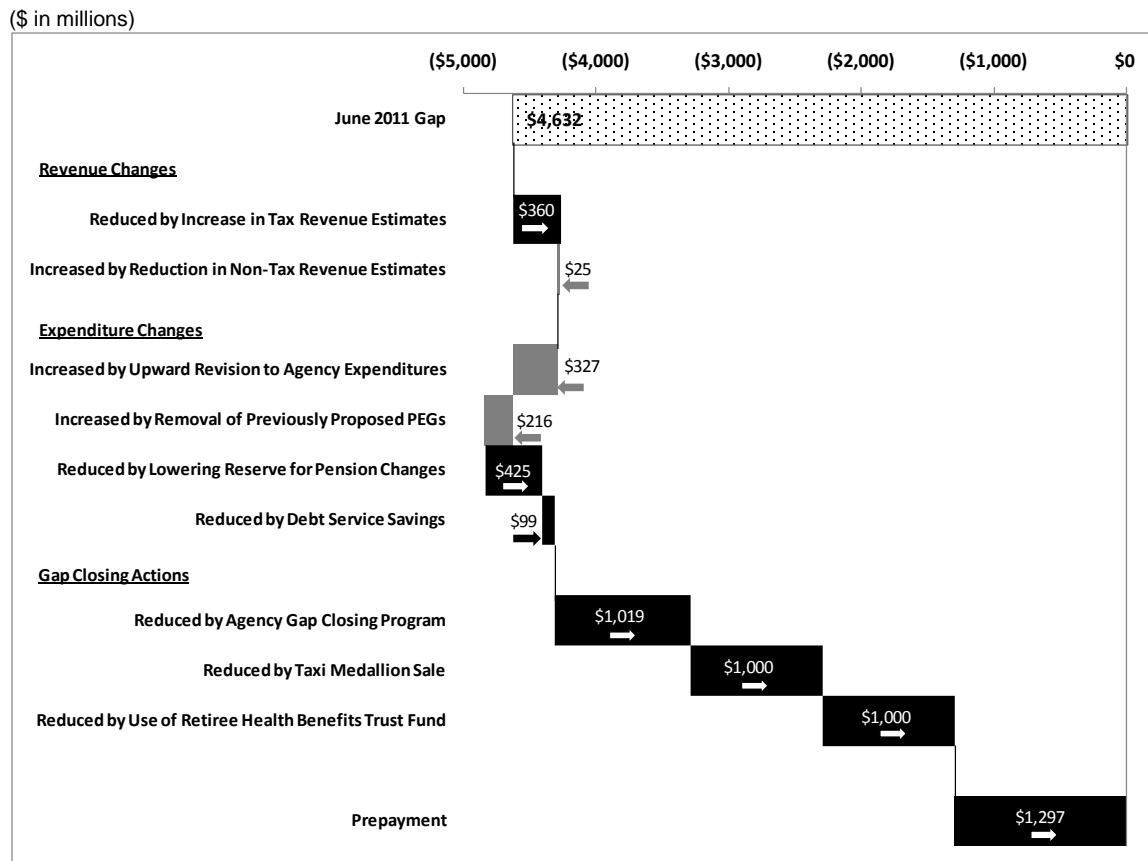


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## IV. The Preliminary FY 2013 Budget

On February 2, 2012 the City released its FY 2013 Preliminary Budget totaling \$68.725 billion, \$2.943 billion less than the June 2011 Financial Plan estimates. The Preliminary Budget presents the final plan for closing the \$4.632 billion FY 2013 gap projected in the June 2011 Financial Plan. As shown in Chart 4, prepayments of a portion of FY 2013 general obligations (G.O.) debt service account for \$1.297 billion of the reduction in gap. As discussed in greater detail in “The FY 2012 Budget” beginning on page 13, this prepayment is made possible by a projected budget surplus for FY 2012.

**Chart 4. Closing the FY 2013 Budget Gap**



In addition to the prepayment, gap-closing actions proposed in the November 2011 Financial Plan narrowed the gap projected in June 2011 by another \$3.019 billion. The gap-closing actions include agency PEGs of \$1.019 billion, the sale of 1,500 taxi medallions for an estimated \$1 billion, and the use of \$1 billion of Retiree Health Benefit Trust funds to defray a portion of retiree pay-as-you-go health insurance cost.

Revisions to baseline revenue and expenditure estimates close the gap remaining after prepayments and gap-closing actions. Upward revisions of \$360 million for tax revenues and a modest decrease of \$25 million in miscellaneous revenue result in a net

increase of \$335 million in the revenue estimates for FY 2013. This revenue increase is partially offset by a net increase of \$19 million in expenditure estimates. The higher spending estimates result from a combined increase of \$543 million from additional agency spending and the removal of previously proposed PEGs from the budget, offset by a decrease of \$99 million from debt service savings, and a reduction of \$425 million from the reserve to fund anticipated pension changes. The June Financial Plan included a reserve of \$1 billion in each of FYs 2012 through 2015 to fund pension contribution increases from anticipated changes in pension assumptions and methods. As discussed in “Pension” beginning on page 27, over the Financial Plan period, the estimated cost of the changes to pension assumptions and methods recommended by the Chief Actuary in January is less than the \$1 billion that was previously budgeted.

## RISKS AND OFFSETS

The first two fiscal years of the February 2012 Financial Plan are balanced while gaps of \$3.04 billion, \$3.516 billion, and \$3.394 billion remain in FYs 2014 through 2016, respectively. However, through an analysis of the Financial Plan the Comptroller’s Office’s has determined that the City could be faced with gaps of \$1.728 billion and \$1.153 billion, in FYs 2012 and 2013 respectively, while the gap in FY 2014 could grow to \$3.114 billion, as shown in Table 6. Conversely, the Comptroller’s Office projects smaller gaps of \$3.255 billion, and \$2.407 billion for FYs 2015, and 2016, respectively.

*Table 6. Risks and Offsets to the February 2012 Financial Plan*

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>City Stated Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,040)</b>	<b>(\$3,516)</b>	<b>(\$3,394)</b>
<b>Tax Revenues</b>					
Property Tax	\$0	(\$79)	\$323	\$560	\$899
Personal Income Tax	\$0	(\$16)	\$370	\$289	\$505
Business Taxes	(\$14)	(\$167)	\$10	\$123	\$192
Sales Tax	(\$23)	\$8	\$84	\$205	\$321
Real-Estate-Related Taxes	<u>\$37</u>	<u>\$146</u>	<u>\$89</u>	<u>\$114</u>	<u>\$175</u>
<b>Subtotal</b>	<b>\$0</b>	<b>(\$108)</b>	<b>\$876</b>	<b>\$1,291</b>	<b>\$2,092</b>
<b>Expenditures</b>					
UFT/CSA Collective Bargaining	(\$1,698)	(\$897)	(\$900)	(\$900)	(\$900)
Overtime	(\$65)	(\$163)	(\$100)	(\$100)	(\$100)
Dept. of Education	\$0	(\$50)	(\$50)	(\$50)	(\$50)
Pension Reform	\$0	\$0	\$0	(\$80)	(\$155)
Judgments and Claims	<u>\$35</u>	<u>\$65</u>	<u>\$100</u>	<u>\$100</u>	<u>\$100</u>
<b>Subtotal</b>	<b>(\$1,728)</b>	<b>(\$1,045)</b>	<b>(\$950)</b>	<b>(\$1,030)</b>	<b>(\$1,105)</b>
<b>Total Risk/Offsets</b>	<b>(\$1,728)</b>	<b>(\$1,153)</b>	<b>(\$74)</b>	<b>\$261</b>	<b>\$987</b>
<b>Restated (Gap)/Surplus</b>	<b>(\$1,728)</b>	<b>(\$1,153)</b>	<b>(\$3,114)</b>	<b>(\$3,255)</b>	<b>(\$2,407)</b>

The Comptroller’s Office’s projected gaps for FYs 2012 and 2013 are driven mainly by the potential cost of settling the FY 2010 – FY 2012 contracts with the United Federation of Teachers (UFT) and the Council for School Supervisors and Administrators and risks to the City’s overtime estimates. As discussed in “Labor” beginning on page 28,

the Comptroller's Office estimates that the cost of settling the UFT and CSA contracts could total \$1.698 billion in FY 2012 and \$897 million in FY 2013.<sup>4</sup> Risks to overtime estimates, mainly from the underestimation of uniformed employee overtime, total \$65 million and \$163 million in FYs 2012, and 2013, respectively. While the risks from UFT and CSA contract settlement and overtime estimates extend throughout the remaining fiscal years of the Plan, the Comptroller's Office projects that tax revenues in FYs 2014 through 2016 would be substantially higher than the City's forecast. As a result of the Comptroller's Office's higher revenue forecast, the net risks to the Plan moderate to \$74 million in FY 2014. In FYs 2015 and 2016, the higher tax revenue projections more than offset the expenditure risks, providing additional resources to narrow the gaps by \$261 million in FY 2015 and \$987 million in FY 2016. Risks and offsets of tax revenue estimates are discussed in greater detail in "Tax Revenues" below.

## **A. REVENUE OUTLOOK**

The City's total revenues are forecast to grow 2.0 percent annually over the Financial Plan period. These projections reflect the City's assumption of gradual expansion in the local economy. Total revenue is projected to increase 8.0 percent, from \$67.4 billion in FY 2012 to \$72.8 billion in FY 2016. Tax revenues are projected to comprise 63 percent of total revenues in FY 2012, increasing to 67 percent of total revenues by FY 2016. Property tax revenues are projected to grow from \$18.0 billion in FY 2012 to \$20.5 billion in FY 2016, while non property tax revenues are expected to grow from \$23.4 billion in FY 2012 to \$27.4 billion in FY 2016.

The City expects miscellaneous revenues, excluding intra-City revenues, to reach \$4.5 billion in FY 2012. With the exception of FY 2013, when a one-time revenue infusion of \$1 billion increases the miscellaneous revenue forecast to \$5.5 billion, growth in miscellaneous revenues is expected to be flat over the Financial Plan period.

Projected Federal and State aid shows a net decline of 5.0 percent from \$19.1 billion in FY 2012 to \$18.1 billion in FY 2016. The decline is mostly due to a \$1.1 billion reduction in Federal aid in FY 2013 reflecting the City's more conservative stance with regards to realization of Federal aid. In the outyears, Federal and State aid are expected to remain relatively stable, showing a moderate increase over the latter years of the Plan that would reach \$18.1 billion by FY 2016.

### **Tax Revenues**

The Preliminary Budget and Financial Plan projects \$43.9 billion in total tax revenue for FY 2013, an increase of \$1.7 billion or 4.0 percent from the FY 2012 projection. The current tax revenue forecast for FY 2013 is \$411 million greater than it was in the June 2011 Financial Plan. The revision is attributable to increases in revenue

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<sup>4</sup> The higher cost in FY 2012 is due to the cost of retroactive wage increases in FYs 2010 and 2011.

projections for the property tax, real-estate-related taxes and sales tax partially offset by lower revenue projections for the business taxes and the personal income tax (PIT).<sup>5</sup>

### Changes to the FY 2013 Tax Revenue Forecast

As Table 7 shows, total tax revenue projections for FY 2013 increased from \$43.45 billion in the June Plan to \$43.86 billion currently. The FY 2013 property tax revenue projection increased by \$180 million to \$18.60 billion. The growth in property tax collection is due to a \$235 million increase in the levy offset by growth in the reserve for uncollectible taxes of \$55 million.

The current forecast for PIT collection in FY 2013 is \$9.18 billion, \$72 million, or 0.8 percent, less than the June 2011 Plan estimate. The adjustment is mostly due to the City's anticipation of a weakening of securities sector bonus payouts which will impact growth in base withholding.

**Table 7. Revisions to the City's Tax Revenue Assumption  
February 2012 vs. June 2011**

(\$ in millions)

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>June 2010 Financial Plan - Total</b>	<b>\$42,037</b>	<b>\$43,447</b>	<b>\$44,617</b>	<b>\$46,392</b>
<b>Revisions:</b>				
Property	186	180	356	589
Personal Income (PIT)	(192)	(72)	(164)	(190)
Business	(191)	(132)	(192)	(231)
Sales	70	82	81	74
Real-Estate-Related	101	172	219	211
All Other	111	116	108	112
Audit	40	65	40	40
<b>Revisions -Total</b>	<b>\$125</b>	<b>\$411</b>	<b>\$448</b>	<b>\$605</b>
<b>February 2012 Financial Plan - Total</b>	<b>\$42,162</b>	<b>\$43,858</b>	<b>\$45,065</b>	<b>\$46,997</b>

SOURCE: Office of Management and Budget.

Projections for business tax revenues were also revised downward. The current FY 2013 business tax revenue projection of \$5.72 billion is \$132 million lower than the June 2011 forecast. Most of the decline is attributed to lower estimates for the general corporation tax (GCT) revenues, reflecting the City's assumption of continued volatility in the financial market and increased market regulations.

Other changes in the FY 2013 tax revenue forecast include an additional \$82 million of estimated sales tax revenue, increasing the FY 2013 total by 1.4 percent to \$6.07 billion and \$172 million of additional real-estate-related tax revenue. The additional real-estate-related tax revenue increase the FY 2013 total by 13 percent to approximately \$1.48 billion. This revision is mostly due to a higher forecast for real property transfer tax revenue.

<sup>5</sup> If not indicated specifically, throughout this section, Personal Income Tax (PIT) and Property Tax revenues include School Tax Relief (STAR) reimbursement.

## Projected Tax Revenue Growth, FYs 2012-2016

The FY 2013 Preliminary Budget and Financial Plan assumes total tax revenue will increase \$6.5 billion between FYs 2012 and 2016, an average annual growth rate of 3.6 percent. The FY 2013 tax revenue forecast of \$43.86 billion represents an increase of \$1.7 billion or 4.0 percent over the FY 2012 tax revenue forecast. As Table 8 shows, total tax revenues are expected to grow 2.8 percent in FY 2014, 4.3 percent in FY 2015, and 3.5 percent in FY 2016. Over the Financial Plan period, non-property tax revenues are expected to grow at an average annual rate of 3.9 percent while real property tax revenues are expected to grow at an average annual rate of 3.3 percent.

**Table 8. City's Tax Revenue Forecast, Growth Rate, FYs 2012 – 2016**

	FYs 2012-13	FYs 2013-14	FYs 2014-15	FYs 2015-16	FYs 2012-16
Property	3.2%	3.2%	3.5%	3.2%	3.3%
PIT	7.2%	0.5%	6.5%	3.9%	4.5%
Business	2.9%	0.9%	2.8%	4.3%	2.7%
Sales	3.4%	4.3%	4.3%	3.6%	3.9%
Real-Estate-Related	7.6%	14.4%	10.1%	2.7%	8.6%
All Other	0.6%	2.5%	3.2%	2.6%	2.2%
Tax Audit	3.4	(2.4%)	0.0%	0.0%	0.2%
<b>Total With Audit</b>	<b>4.0%</b>	<b>2.8%</b>	<b>4.3%</b>	<b>3.5%</b>	<b>3.6%</b>

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

Real property tax revenue is expected to grow steadily over the Financial Plan period as the pipeline of assessed value increases is phased in. According to the FY 2013 Tentative Assessment Roll, released in January 2012, citywide property market value is estimated to increase 3.8 percent in the upcoming fiscal year to \$845.4 billion, driven mainly by growth in Class 4 property market value.

Class 1 properties, which are mostly one-family to three-family homes, experienced a small market value increase of 1.9 percent to \$401.2 billion, with single-family homes responsible for the majority of this increase. Properties in Class 2 (cooperatives, condominiums and rental apartment buildings) showed market value growth of 3.6 percent. Class 3 properties, consisting of utility company facilities, gained 1.2 percent in market value, while Class 4 properties (office and commercial space) exhibited the strongest growth at 7.9 percent. The Department of Finance expects growth in Class 4 properties will be reduced in the final assessment roll once taxable status for these properties is finalized. Citywide total billable assessed value on the FY 2013 tentative roll increased by \$8.8 billion over FY 2012 to \$164 billion. The City expects the FY 2013 final assessment roll to be reduced by \$2.2 billion as a result of Tax Commission actions.

The Financial Plan assumes PIT revenue growth will average 4.5 percent annually from FY 2012 to FY 2016. PIT revenues are forecast to increase 7.2 percent in FY 2013, with nearly no growth in the FY 2014 forecast. In the outyears PIT revenues are expected to grow more robustly, with gains of 6.5 percent and 3.9 percent forecast for FYs 2015 and 2016, respectively. Growth in FY 2013 results from the City's assumption of a continued recovery in employment and wage levels, albeit partially offset by another year

of security sector bonus decline. The City also anticipates that the scheduled expiration of the Bush tax cuts at the end of CY 2012 will cause taxpayers to accelerate capital gains realizations into tax year 2012, resulting in a spike in FY 2013 PIT revenues and a corresponding slowdown in revenue growth in FY 2014.

Business tax revenues are expected to average 2.7 percent annual growth over the Financial Plan period. FY 2013 business tax revenues are forecast to grow 2.9 percent, reflecting steady expansion of the economy and non-finance corporate profits. However, finance sector growth is expected to be hindered by continued financial market volatility and increased financial regulations.

The City expects revenues from sales tax to grow 3.4 percent in FY 2013 and to average 3.9 percent annual growth over the Financial Plan period, the result of the gradual growth of income and employment in the City. The tourism industry continues to contribute significantly to the city's economy, creating jobs and boosting tax revenues. Visitor spending reached an estimated \$32 billion in CY 2011. Although tourist spending is forecast to be more subdued in FY 2013 due to the European debt crisis, the City expects the flow of international visitors to remain strong thanks to a growing share of tourists from emerging markets.

Growth in real-estate-related tax revenue is expected to be robust as the local real estate market continues its gradual recovery. The Plan assumes that real-estate-related taxes will increase by 7.6 percent in FY 2013 and will grow by an average of 8.6 percent annually over the Plan period. In FY 2013, mortgage recording tax revenue is expected to grow 11.5 percent while real property transfer tax revenue is expected to grow 5.3 percent.

### **Risks and Offsets to the City's Tax Revenue Assumptions**

The Comptroller's Office estimates of risks and offsets to the City's tax revenue assumptions are based on current year collections as well as its own economic projections. As illustrated in Table 9, for FY 2012 the Comptroller does not anticipate any significant risks or offsets to the City's overall tax revenue forecast. The Comptroller's projections for both the business tax and the sales tax revenues are slightly lower than the City's, while its estimate for real-estate-related tax revenue is slightly higher.

For FY 2013, the Comptroller believes overall tax collections will be below the City's forecast by \$108 million. This risk is mostly the result of lower revenue estimates for the business taxes, partially offset by higher estimates for the real-estate-related taxes. Continued volatility and other stresses stemming from the European debt crisis will adversely affect financial industry profits during CY 2012. As a result, the Comptroller assumes that FY 2013 revenue collections from the general corporation tax and the banking corporation tax will be lower than the City's current forecast. For FY 2014 through FY 2016, the Comptroller's Office projects tax revenue offsets ranging from \$876 million in FY 2014 to \$2.1 billion in FY 2016. The Comptroller's higher forecasts for all major revenue categories stems from the assumption that growth in the local

economy in the outyears of the Plan period will be more robust than the City anticipates. The Comptroller believes that the European debt crisis will either be resolved, or its spillover effects fully absorbed and discounted, by FY 2014, thereby removing it as a constraint on economic growth and financial industry profits. The Comptroller also anticipates a meaningful recovery in the national housing market by that time, further contributing to financial industry health.

**Table 9. Risks and Offsets to the City's Revenue Projections**

(\$ in millions)

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Property	\$0	(\$79)	\$323	\$560	\$899
PIT	0	(16)	370	289	505
Business	(14)	(167)	10	123	192
Sales	(23)	8	84	205	321
Real-Estate Transaction	37	146	89	114	175
<b>Total</b>	<b>\$0</b>	<b>(\$108)</b>	<b>\$876</b>	<b>\$1,291</b>	<b>\$2,092</b>

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

## Miscellaneous Revenues

The City's FY 2013 Preliminary Budget and Financial Plan includes a projection of \$5.53 billion of miscellaneous revenues for FY 2013.<sup>6</sup> This projection is \$1.03 billion or 23 percent greater than the FY 2012 miscellaneous revenue forecast and \$1.08 billion greater than the FY 2013 forecast included in the June 2011 Plan. Both the increases from the June 2011 forecast as well as the year-over-year increase are due almost entirely to an expected \$1 billion realization in one-time revenues from the sale of taxi medallions in FY 2013, which was first reflected in the November Plan.

**Table 10. Changes in FY 2013 Estimates  
February 2012 vs. June 2011**

(\$ in millions)

	<b>February 2012</b>	<b>June 2011</b>	<b>Change</b>
Licenses, Franchises, Etc.	\$548	\$529	\$19
Interest Income	19	107	(88)
Charges for Services	863	812	51
Water and Sewer Charges	1,415	1,419	(4)
Rental Income	282	256	26
Fines and Forfeitures	805	812	(7)
Other Miscellaneous	1,595	519	1,076
<b>Total</b>	<b>\$5,527</b>	<b>\$4,454</b>	<b>\$1,073</b>

SOURCE: NYC Office of Management and Budget.

Table 10 presents all of the changes in the FY 2013 Miscellaneous revenue estimates since the June 2011 Financial Plan. The change is due primarily to increases in the "other miscellaneous" category which includes the taxi medallion sale. The

<sup>6</sup> Miscellaneous revenue analysis excludes private grants and intra-City revenues.



legislation, which authorizes the City to issue 2,000 new yellow taxi medallions, all of which will be wheelchair accessible, also authorizes the City to issue up to 18,000 livery cab licenses to provide car service to the outer boroughs.<sup>7</sup>

The current FY 2013 revenue estimates for licenses and franchises, charges for services, and rental income are also increased over the June 2011 Plan. The FY 2013 forecast for licenses and franchises increased by a net \$19 million. The revision includes \$13.9 million in additional revenues from livery cab licenses and \$4 million in additional cable franchise revenues. The \$51 million increase in the FY 2013 estimate for revenues from charges for services includes \$20 million in additional revenues associated with a tuition increase at the City University of New York, an additional \$8.4 million in building inspection safety protocol revenues and \$11 million in additional parking meter revenues from a commercial parking meter increase (\$4 million), as well as other parking meter initiatives and efficiencies (\$7 million). Projected rental income increased \$26 million annually in FYs 2013 and beyond to reflect the City's re-estimate of airport revenues.

Partially offsetting the aforementioned increases is an \$88 million decline in projected interest income for FY 2013. Interest income, which the City earns by investing funds from its cash balances, sales tax, and debt service accounts, is expected to total just \$19 million in FY 2013. This forecast reflects the assumption that the federal funds rate will remain near zero until at least late CY 2014.

Projected FY 2013 revenues from fines and forfeitures declined by a net \$7 million since the June 2011 Plan. Although the City increased projected revenues from civil penalties and other fines throughout the Plan period, the City's projection for parking violation fine revenues decreased by nearly \$30 million in FY 2013 and beyond, more than offsetting the upward revisions to other fine revenues. The decrease in anticipated parking fine revenues is due to both a projected decline in the number of tickets written as well as to a change in the mix of parking tickets expected to be issued in the next fiscal year.

Estimated revenues from water and sewer charges decreased by \$4 million since the June 2011 Plan. However, the bulk of these revenues represents reimbursement for operation and maintenance of the water delivery and sewer systems and therefore is not available for general operating purposes.

Other than revenues associated with the yellow taxi medallions sale, the FY 2013 miscellaneous revenue budget contains few non-recurring revenue actions. With the exception of FY 2013, when anticipated miscellaneous revenues spike to \$5.5 billion, the City expects miscellaneous revenue to be relatively flat over the Financial Plan period, averaging \$4.6 billion in FYs 2014-2016.

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<sup>7</sup> The legislation also authorizes a government subsidy fund and a grant program (in an amount up to \$15,000 per vehicle and \$54 million overall) to purchasers of hail licenses restricted to accessible vehicles to be used to purchase the vehicle or retrofit with wheelchair ramps.

## Federal and State Aid

The February Plan projects total Federal and State aid for FY 2013 of \$17.93 billion, this aid will support about 26 percent of the City's expenditure budget. In comparison, in the current fiscal year Federal and State grants support about 28 percent of total spending. This decline is attributable both to the growth in the City's expenditures as well as its more conservative stance with regards to certain Federal aid projections in future years. Overall, about 83 percent of the City's Federal and State aid receipts are in support of education and social services expenditures.

Since the June Plan, the City has increased its FY 2013 intergovernmental aid assumptions by approximately \$454 million – \$203 million in additional Federal funds and \$251 million in State aid. Nearly half of the additional Federal and State grants were incorporated in the November Plan as re-categorized Medicaid reimbursement for early intervention and school health programs. The City's State aid assumptions have been increased by \$156 million in the February Plan stemming mainly from proposals in the State Executive Budget. This increase is primarily the product of an additional \$175 million in expected school aid in FY 2013, including \$135 million in Foundation Aid for general school support and the remainder in categorical education grants. The additional education aid is in line with the two-year appropriations the State enacted in its FY 2012 budget. However, the Governor has proposed to withhold education aid increases from school districts for both the 2012-2013 and 2013-2014 school years unless a new teacher evaluation process is successfully implemented by January 17, 2013. Both the City and State recently struck deals with the teachers unions on teacher evaluations. Barring other obstacles, the distribution of State education aid in FY 2013 will likely be unaffected. The Preliminary Budget also recognizes a \$7 million increase in State support for Metropolitan Transportation Authority buses (MTA) and the Staten Island Ferry. Offsetting these changes are the discontinuation of the MTA mobility tax reimbursement for schools and a modest decline in social services funding.

The State Executive Budget also includes a proposal for the State to phase in a takeover of local Medicaid spending growth over a three-year period beginning in State FY 2014. Under current law, local Medicaid costs are capped at a growth rate of 3.0 percent annually, with any additional costs above the cap assumed by the State. Beginning in April 2013 the Governor's proposal would incrementally reduce the cap by one percent each year during the phase-in period until it reaches zero. While the State indicates this action would save the City \$11 million in FY 2013 growing to \$293 million by FY 2016, the City has not reflected any savings from this action in the February Plan. Aside from the uncertainty of this proposal being approved by the legislature in its current form, there is also doubt that the savings will reach levels indicated by the State because of an accompanying proposal to cap reimbursement to localities for Medicaid administration. It is unclear if the State estimates have fully accounted for the shift of this cost, thus the actual level of Medicaid relief to the City from the Governor's plan could be significantly lower than estimated.

Federal and State aid are projected to remain fairly constant in the outyears of the Plan, ranging from \$17.94 billion to \$18.12 billion. Even with the growth in non-City

funds the level of Federal and State support is expected to decline gradually year over year as a percentage of the City budget. Federal and State assistance are projected to support 25 percent of the expense budget in FY 2014 declining to slightly less than 24 percent by FY 2016.

## B. EXPENDITURE ANALYSIS

The Preliminary FY 2013 budget totals \$68.725 billion, \$1.356 billion more than the FY 2012 budget, an increase of 2.0 percent. However, the FY 2013 budget reflects a reduction of \$1.297 billion in debt service from a planned FY 2012 prepayment. Similarly, prepayments of \$3.742 billion of FY 2012 expenditures in FY 2011 result in a net reduction of \$2.445 billion of FY 2012 spending.<sup>8</sup> After adjusting for the net impact of prepayments, FY 2013 expenditures total \$70.022 billion, a moderate \$208 million increase over the adjusted FY 2012 expenditures. Over the Plan period, expenditures adjusted for prepayments are projected to grow by 9.1 percent, an annual growth rate of 2.2 percent, as shown in Table 11.

**Table 11. FY 2012 – FY 2016 Expenditure Growth  
Adjusted for Prepayments and Prior-Year Actions**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Growth FY 12-16	Annual Growth
Debt Service	\$5,611	\$6,278	\$6,797	\$7,163	\$7,436	32.5%	7.3%
Health Insurance	4,763	5,083	5,548	6,074	6,617	38.9%	8.6%
J & C	655	685	718	754	790	20.6%	4.8%
<b>Subtotal</b>	<b>\$11,029</b>	<b>\$12,046</b>	<b>\$13,063</b>	<b>\$13,991</b>	<b>\$14,843</b>	<b>34.6%</b>	<b>7.7%</b>
Salaries and Wages	\$21,820	\$21,450	\$21,516	\$21,480	\$21,723	(0.4%)	(0.1%)
Pensions	7,875	8,020	7,954	7,920	8,070	2.5%	0.6%
Other Fringe Benefits	3,171	3,177	3,292	3,340	3,415	7.7%	1.9%
Medicaid	6,399	6,353	6,458	6,638	6,735	5.3%	1.3%
Public Assistance	1,409	1,345	1,365	1,365	1,365	(3.1%)	(0.8%)
Other OTPS	18,906	18,662	19,297	19,815	20,172	6.7%	1.6%
<b>Subtotal</b>	<b>\$59,580</b>	<b>\$59,007</b>	<b>\$59,882</b>	<b>\$60,557</b>	<b>\$61,480</b>	<b>3.2%</b>	<b>0.8%</b>
MA FMAP Increase	(\$124)	(\$32)	\$0	\$0	\$0	(100.0%)	(100.0%)
Retiree Health Benefit Trust	(\$672)	(\$1,000)	(\$1,000)	\$0	\$0	(100.0%)	(100.0%)
Pension Reform	\$0	\$0	\$0	(\$80)	(\$155)	N/A	N/A
<b>Total</b>	<b>\$69,814</b>	<b>\$70,022</b>	<b>\$71,945</b>	<b>\$74,468</b>	<b>\$76,167</b>	<b>9.1%</b>	<b>2.2%</b>

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

Debt service, health insurance expenditures, and judgments and claims costs are projected to grow the fastest with a combined growth of 34.6 percent over the Plan

<sup>8</sup> The \$3.742 billion FY 2011 prepayments consists of prepayments of \$2.784 million of G.O. debt service, \$790 million of NYCTFA debt service, library subsidies of \$164 million and \$4 million in net equity contribution in bond refunding.

period, or an annual growth rate of 7.7 percent. All other spending combined is projected to average less than 1.0 percent annual growth.

## **Pensions**

The FY 2013 Preliminary Budget projects pension expenditures of \$8.02 billion for FY 2013, about \$425 million less than projected in the November Plan, but a net increase of \$146 million over expected FY 2012 pension expenditures. The reduction in the FY 2013 pension cost projections results from the lower than assumed cost of the City's Chief Actuary's recommended changes in actuarial assumptions and methods. The City's Chief Actuary recently released recommendations to modify the actuarial assumptions and methods used to calculate employer contributions to the City's five major pension systems. The City created a reserve of \$1 billion annually beginning in FY 2012 in anticipation of these recommendations. However, these changes, which are expected to be adopted by the pension systems Board of Trustees, are now expected to increase the cost of pension expenditures by \$575 million in FY 2012, \$605 million in FY 2013, \$539 million in FY 2014, \$148 million in FY 2015, and \$37 million in FY 2016. In addition, adjustments to pension investment expense will further reduce pension contributions by \$30 million in FY 2013, \$40 million in FY 2014, \$50 million in FY 2015, and \$60 million in FY 2016. As a result, projected pension expenditures in the FY 2013 Preliminary Budget were revised downward by \$425 million in each of FYs 2012 and 2013, \$501 million in FY 2014, \$902 million in FY 2015, and approximately \$1 billion in FY 2016.

Among the changes to actuarial assumptions and methods that the Chief Actuary has proposed are the implementation of a "market value restart" (whereby the actuarial value of assets will be reset to the market value as of June 30, 2011), the reduction of the actuarial interest rate assumption (AIRA) from 8.0 percent, gross of expenses, to 7.0 percent, net of expenses, and replacing the current "frozen initial liability" actuarial cost method with the "entry age" actuarial cost method using a 22-year increasing dollar amortization for the initial unfunded actuarial liability. Subsequent actuarial gains and losses in future years would be amortized over 15 years on a level dollar schedule.

Reductions in FYs 2014 through 2016 pension costs are offset by the removal of savings expected from the Mayor's proposed pension reform (Tier V). The City has removed the assumed savings of \$131 million, \$252 million, and \$373 million, in FY 2014, FY 2015 and FY 2016, respectively, from previously proposed pension reform. Instead, the February Plan reflects estimated savings of \$80 million in FY 2015 and \$155 million in FY 2016 from the Governor's pension reform (Tier VI) proposal.

The Governor's proposed pension reform is currently being discussed by the State Legislature. There is no indication in what shape or form pension reform will be enacted, if at all. Hence, the Comptroller's Office feels that it is premature to estimate any savings from pension reform and any assumed savings represent a risk to the budget.

## Health Insurance

Pay-as-you-go health insurance spending for City employees and retirees is projected to grow from \$4.082 billion in FY 2013 to \$6.617 billion in FY 2016. The FY 2013 projection is relatively unchanged from estimated FY 2012 spending of \$4.091 billion. However, the health insurance spending projections understate the health insurance expenditures in FYs 2012 through 2014. The City's spending on General Fund health insurance in these fiscal years is reduced by the use of Retiree Health Benefits Trust (RHBT) assets. The City plans to use RHBT assets to pay \$672 million in FY 2012 and \$1 billion in each of FY 2013 and FY 2014 for retiree pay-as-you-go health insurance.<sup>9</sup> After adjusting for the use of RHBT funds, the City's health insurance expenditures are projected to be \$4.763 billion in FY 2012, \$5.082 billion in FY 2013, and \$5.548 billion in FY 2014 as shown in Table 12.

**Table 12. Pay-As-You-Go Health Expenditures**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Department of Education	\$1,857	\$1,926	\$2,071	\$2,250	\$2,422
CUNY	32	43	44	44	44
All Other	2,202	2,113	2,433	3,780	4,151
Total Pay-As-You-Go Health Insurance Costs	\$4,091	\$4,082	\$4,548	\$6,074	\$6,617
Adjustment for RHBT payment	672	1,000	1,000	0	0
Adjusted Total	\$4,763	\$5,082	\$5,548	\$6,074	\$6,617

Underlying these projections are projected premium rate increases of 8.5 percent for FY 2013, 9.5 percent in FY 2014, and 9.0 percent annually for FYs 2015 and 2016. Previously, the City had estimated a premium rate increase of 9.5 percent for FY 2013 and 9.0 percent annually in the outyears. As a result, projected spending for health insurance expenditures were reduced in the FY 2013 Preliminary Budget by \$2 million in FY 2012, \$42 million in FY 2013, \$46 million in FY 2014, \$51 million in FY 2015, and \$55 million in FY 2016.

## Labor

There has been little progress in contract negotiations in the current round of collective bargaining. The City began negotiations with District Council 37 (DC37), the largest municipal union, last fall. The City presented an initial offer of a five-year contract similar to recent contracts settled by New York State municipal unions. The highlights of the proposed contract included a freeze on wages for the first three-years and wage increases of 2.0 percent each in the fourth and fifth year. However, there has been no further development or meetings with DC37 beyond the initial offer. No contract

<sup>9</sup> The RHBT assets were reduced by \$82 million in FY 2010, \$395 million in FY 2011, and \$672 million in FY 2012 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. The reductions of \$1 billion in each of FYs 2013 and 2014 will fund general expenditures.

discussion relating to the current round of collective bargaining has been initiated with any of the other major municipal unions.

The current funding in the labor reserve does not fully reflect the City's offer to DC 37, which presumably will set the pattern of all other municipal union contracts. The budget contains funding for annual wage increases of 1.25 percent beyond the three-year period of zero increases proposed for the new round of contracts. Should the City settle contracts with the major municipal unions in line with the proposed DC37 contract, there would be an additional \$16 million cost in FY 2013 which would grow to approximately \$300 million by FY 2016.

The United Federation of Teachers (UFT) and the City are still awaiting the appointment of a fact-finding panel by the New York State Public Employment Relations Board (PERB) to conduct hearings and make recommendations on wage increases for UFT members. The City continues to maintain its position that any wage increases for UFT and the Council of School Supervisors & Administrators (CSA) members will have to be funded with productivity savings and accordingly has not included any funding for wage increases in the labor reserve. However, in the round of collective bargaining corresponding to the UFT contract being arbitrated by PERB, the major municipal unions agreed to contracts which provided for two annual wage increases of 4.0 percent which were not required to be offset with productivity savings. While PERB recommendations are not binding, they have served as a pattern for past contract settlements. If the City reaches contract agreements with the UFT and CSA that mirror that of the other unions, it will cost the City approximately \$1.698 billion in FY 2012<sup>10</sup>, \$897 million in FY 2013, and \$900 million in FY 2014.<sup>11</sup>

## **Overtime**

The FY 2013 Preliminary Budget includes approximately \$1 billion for overtime expenses. This estimate is \$109 million or 10 percent lower than the current FY 2012 overtime projection of \$1.146 billion. Year-to-date overtime spending and spending patterns over the last several fiscal years suggest that the City's FYs 2012 and 2013 projections for uniformed overtime in both the Police Department (NYPD) and Department of Correction (DOC) are below trend. As shown in Table 13, the Comptroller's Office estimates that uniformed overtime spending projections in the NYPD and DOC are likely underestimated by a combined \$65 million in FY 2012 and \$163 million in FY 2013.

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<sup>10</sup> This total includes \$272 million retroactive to FY 2010 and \$898 million retroactive to FY 2011.

<sup>11</sup> The UFT and CSA contracts are one round behind settlements for the other unions.

**Table 13. Projected Overtime Spending, FY 2012 and FY 2013**

(\$ in millions)

	<b>City Planned Overtime FY 2012</b>	<b>Comptroller's Projected Overtime FY 2012</b>	<b>FY 2012 Risk</b>	<b>City Planned Overtime FY 2013</b>	<b>Comptroller's Projected Overtime FY 2013</b>	<b>FY 2013 Risk</b>
Uniform						
Police	\$482	\$510	(\$28)	\$418	\$520	(\$102)
Fire	239	239	0	226	226	0
Correction	88	125	(37)	64	125	(61)
Sanitation	69	69	0	78	78	0
Total Uniformed	\$878	\$943	(\$65)	\$786	\$949	(\$163)
Others						
Police-Civilian	\$80	\$80	\$0	\$78	\$78	\$0
Admin for Child Svcs	13	13	0	13	13	0
Environmental Protection	24	24	0	22	22	0
Transportation	36	36	0	32	32	0
All Other Agencies	115	115	0	106	106	0
Total Civilians	\$268	\$268	(\$0)	\$251	\$251	\$0
<b>Total City</b>	<b>\$1,146</b>	<b>\$1,211</b>	<b>(\$65)</b>	<b>\$1,037</b>	<b>\$1,200</b>	<b>(\$163)</b>

Since the FY 2012 Budget was adopted, the City has increased the overtime projection for FY 2012 by \$303 million. The increase mainly reflects an upward adjustment of about \$289 million to meet overtime expenses at uniformed agencies. NYPD overtime projection was increased by \$186 million, including \$152 million for uniformed overtime spending. Overtime projections were also increased by \$80 million for the Fire Department (of which \$77 million was for uniformed overtime), \$19 million for DOC all of which is for uniformed overtime, and \$4 million for the Department of Sanitation also for uniformed overtime spending.

The Comptroller's Office expects the FY 2012 police uniformed overtime spending to be about \$510 million, including approximately \$6 million in expenses associated with the Occupy Wall Street movement. Through January 2012, the department has spent \$301 million on uniformed overtime. Uniformed police overtime expenses are expected to remain relatively flat for FY 2013 growing to about \$520 million. The Comptroller's Office also expects uniformed overtime spending in the DOC to exceed the City's estimate by \$37 million in FY 2012 and \$61 million in FY 2013. DOC has spent \$71 million on uniformed overtime through January 2012. Although an average of \$95 million has been spent on uniformed overtime at DOC between FYs 2007 and 2011, this spending has increased annually and is estimated to grow to approximately \$125 million in FY 2012. The department is operating at a uniformed headcount level that is below target. At the end of November 2011, the department uniformed headcount was 8,354, 411 positions below the target for June 30, 2012. This will continue to exert upward pressure on overtime spending into FY 2013.

## **Public Assistance**

Through December 2011, the City's public assistance caseload has averaged 350,766 recipients per month in FY 2012. The average monthly public assistance caseload in FY 2012 is 567 recipients higher than during the same period in the prior fiscal year. While the monthly caseload average has seen a modest year-to-year uptick, FY 2012 monthly grant expenditures have been on the decline, averaging slightly over \$103 million, 2.4 percent less than the \$106 million monthly average experienced during FY 2011. This expenditure trend is the continuation of a general decline that began during the latter half of FY 2011. From a historical perspective, the City's public assistance caseload and spending are both ranging well below the peak experienced in 1995, prior to the implementation of Federal welfare reform.

The City's public assistance caseload and grant projections remain unchanged since the June Plan. The February Plan still maintains a constant caseload projection of 361,900 over the course of the Plan period. Total baseline grants expenditures are projected at nearly \$1.31 billion for FY 2012, rising to \$1.35 billion annually in FYs 2013-2016. To date, actual caseload in the current fiscal year is running well below Plan expectations. Likewise, the City's baseline grant projection for FY 2011 contains a cushion that could withstand a reversal in spending trend during the second half of FY 2012.

## **Department of Education**

The FY 2013 Preliminary Budget includes \$19.63 billion of funding for the Department of Education (DOE), \$183 million greater than the Fiscal 2012 estimate of \$19.45 billion. While the DOE budget absorbed sizable cuts as part of the City's gap-closing program last November, the Department's FY 2013 budget has actually increased by \$15 million since the adoption of the June 2011 Plan. This increase is the net result of a decrease of \$223 million in City funds, offset by increases of \$166 million in State grants and \$72 million in Federal and other categorical grants.

The decline in City funding for DOE is mainly attributable to a net reduction of \$201 million from the November Plan gap-closing program. While the Department sustained a smaller cut compared to other agencies, the reductions still represented a greater than 2.0 percent net reduction in City support for the DOE budget. Unlike proposals in prior years, the FY 2013 gap-closing actions will not require layoffs of teachers nor other administrative personnel. Rather, the savings will be achieved primarily through special education and non-personal services reductions. Gap-closing actions include savings of \$54 million from slower growth assumed for special education pre-kindergarten and related services spending, an offset of \$62 million from enhanced State reimbursement for special education pre-kindergarten services and an additional offset of \$50 million stemming from higher Medicaid collections for special education services. Efficiencies in facilities operations and leases are expected to round out the remainder of the PEG program.



The Preliminary Budget's slightly improved outlook for DOE revenues is based mainly on assumptions in the State Executive Budget, which include a significant education aid increase for the following school year. In the February Plan, the City reflects a net increase of \$144 million in State funds for the DOE budget in FY 2013. The increase accounts for the recognition of \$175 million in additional education aid as outlined in the Governor's proposed budget. Of this total, about \$135 million is reflected under Foundation Aid for general school operations. The remainder is comprised of various grants, including special education private excess cost/high cost aids, employment preparation aid and bilingual education aid. The additional aid is partly offset by the discontinuation of the Metropolitan Transportation Authority (MTA) Mobility Tax reimbursement that holds schools harmless for the cost of this payroll tax. A new law was passed in December 2011 that exempts all elementary and secondary schools from the payroll tax. The adjustment is cost-neutral since on the spending side, the Department will no longer bear the cost of the payroll tax.

Even with the more optimistic projections of State education aid, the State share of DOE funding will continue to lag significantly behind City support. For FY 2013, State funds are expected to represent only 42.5 percent of the DOE operating budget, compared to a recent peak of over 48 percent in FY 2009. Meanwhile, City funds would support 47 percent of the DOE budget in FY 2013. The Department's budget is expected to increase to \$20.09 billion in FY 2014 and \$20.31 billion in FY 2015, before reaching \$20.56 billion in FY 2016. The DOE budget growth during these years will be driven predominantly by City funds, further widening the disparity between State and City support for the Department's budget. By the end of the Plan, the City share of total DOE funding is scheduled to be 49 percent while the State share is expected to dip to 41 percent.

## **Health and Hospitals Corporation**

In the January Financial Plan the Health and Hospitals Corporation's (HHC) projected deficit for FY 2013, on an accrual basis, is \$443 million greater than the deficit presented in June 2011. The growing HHC deficit in FY 2013 is mainly attributable to a \$248 million increase in non-cash Other Post-Employment Benefits (OPEB) costs recognized in the November Plan. The HHC financial plan also reflects an increase of \$82 million in other non-personal services costs in FY 2013. The balance of the increased deficit is the product of declining revenues partly offset by lower fringe benefits expenses. However, because a majority of the changes only affect HHC on an accrual basis, the Corporation's projected FY 2013 closing cash balance remains relatively unchanged, declining by only \$4 million since the June Plan to \$471 million.

The Preliminary Budget projects that HHC's deficit will be partly reduced by a \$471 million gap-closing program, including \$197 million in savings from the continuation of restructuring actions initiated in FY 2011. The chief components of the restructuring plan include reduction of construction and maintenance personnel, outsourcing of laboratory services, and streamlining of long term care services. The other initiatives in the gap-closing program include \$250 million of unspecified Federal and State assistance and cost containment actions of \$24 million.

The January Plan forecasts that the Corporation's financial condition will continue to deteriorate in the latter years of the Plan. The City projects HHC's operating deficits rising from \$1.26 billion in FY 2013 to \$1.47 billion in FY 2014 before gap-closing actions. Further out, the Corporation is expected to face budget deficits of \$1.60 billion and \$1.74 billion in FY 2015 and FY 2016, respectively. In response to these mounting deficits, HHC's gap-closing program takes on a more aggressive tone in the outyears, climbing to \$748 million in FY 2014, \$957 million in FY 2015 and \$1.16 billion in FY 2016. The larger gap-closing programs outlined for FYs 2014-2016 contain greater uncertainty caused by an increasing reliance on expected Federal and State support. Between FY 2013 and FY 2016, Federal and State actions are scheduled to grow an average of \$200 million annually from \$250 million to \$850 million. By FY 2016, Federal and State actions would constitute approximately 74 percent of HHC's gap-closing program, compared to 53 percent in FY 2013. Consistent with these projections, the Corporation's year-end cash balance is forecast to decline throughout the Plan, falling to \$288 million in FY 2014 and \$166 million in FY 2015 before reaching \$105 million by the end of the Plan period.

## Debt Service

The February Financial Plan includes \$5.68 billion for debt service costs, net of prepayments in FY 2012. As shown in Table 14, the City's debt service is projected to grow to \$7.51 billion in FY 2016, an increase of \$1.82 billion, or 32.1 percent over the FY 2012 Plan.<sup>12</sup> These projections represent decreases from the June 2011 Financial Plan of \$205 million in FY 2012, \$375 million in FY 2013, \$112 million in FY 2014 and \$103 million in FY 2015.<sup>13</sup>

**Table 14. February 2012-2016 Financial Plan Debt Service Estimates**

(\$ in millions)

Debt Service Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change from FYs 2012 – 2016
G.O. <sup>a</sup>	\$3,857	\$4,243	\$4,501	\$4,677	\$4,761	\$904
NYCTFA <sup>b</sup>	1,510	1,719	1,975	2,173	2,356	846
Lease-Purchase Debt	245	316	321	313	319	74
TSASC, Inc.	74	74	74	74	74	-
<b>Total</b>	<b>\$5,686</b>	<b>\$6,352</b>	<b>\$6,871</b>	<b>\$7,237</b>	<b>\$7,510</b>	<b>\$1,824</b>

SOURCE: February 2012 Financial Plan, February 2012.

NOTE: Debt service is adjusted for prepayments.

<sup>a</sup> Includes long-term G.O. debt service and interest on short-term notes.

<sup>b</sup> Amounts *do not* include NYCTFA building aid bonds.

The \$205 million reduction of FY 2012 debt service expenses is the result of a \$150 million decrease in GO and lease-purchase debt service and \$55 million in

<sup>12</sup> Includes debt service on G.O., NYCTFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

<sup>13</sup> The projections include debt service savings of \$56 million in FY 2012, \$229 million in FY 2013, \$30 million in FY 2014, and \$44 million in FY 2015 that were part of the November Plan PEGs.

estimated NYCTFA savings. The \$150 million in estimated GO debt service savings is derived from 1) \$60 million of projected interest rate swap agreement savings; 2) \$54 million in projected variable rate interest savings; 3) and \$35 million from Dormitory Authority Courts related and Hudson Yards Infrastructure (HYIC) debt service savings.<sup>14</sup> If variable interest rates remain at this low level for the balance of FY 2012, there would be additional debt service savings of approximately \$30 million.

The \$55 million in NYCTFA savings is the result of better than expected interest rates on current year borrowings and variable rate interest savings. The \$375 million decrease in FY 2013 debt service costs is comprised of GO debt service savings of \$201 million along with NYCTFA savings of \$152 million, and a reduction of \$22 million in lease-purchase debt service. The GO savings are primarily the result of \$92 million in lowered variable rate interest assumptions, \$57 million in reduced forecast interest rates on short-term borrowing, and over \$20 million in lower debt-service costs from FY 2012 year-to-date debt issues. The lease-purchase savings of \$22 million are due to lower projected debt-service for Educational Construction Fund (ECF) and HYIC. Reductions in GO debt service estimates for FYs 2014 and FY 2015, \$25 and \$28 million, respectively, are the result of favorable GO borrowings in the first-half of FY 2012 and from the lowering of long-term interest rates in the February Plan.<sup>15</sup> These estimated savings are offset by the conformance of Qualified School Construction Bonds (QSCBs) to current Federal legislative authorization.<sup>16</sup>

The \$152 million of projected NYCTFA savings in FY 2013 is due primarily to lowered expected variable rate interest costs which produce an estimated savings of \$50 million as well as \$50 million in achieved refunding savings, lower borrowing costs on YTD borrowings, and \$80 million less projected borrowing in FY 2012.

NYCTFA debt service savings of \$74 million and \$62 million in FYs 2014 and 2015, respectively, are primarily the result of savings from better than expected interest rates from FY 2012 borrowings to date and the outyear impact of the lower assumed interest rates in FYs 2012 and 2013.

### **Debt Affordability**

Debt service as a percent of local tax revenues is a commonly accepted measure of debt affordability. The February Plan projects that debt service will consume

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<sup>14</sup> The savings from swap payments represent the expenditure side of the budget only. Decreases in swap revenue receipts are projected to be \$65 million in FY 2012, \$56 million in FY 2013, and approximately \$25 million in each of FYs 2014 to 2016.

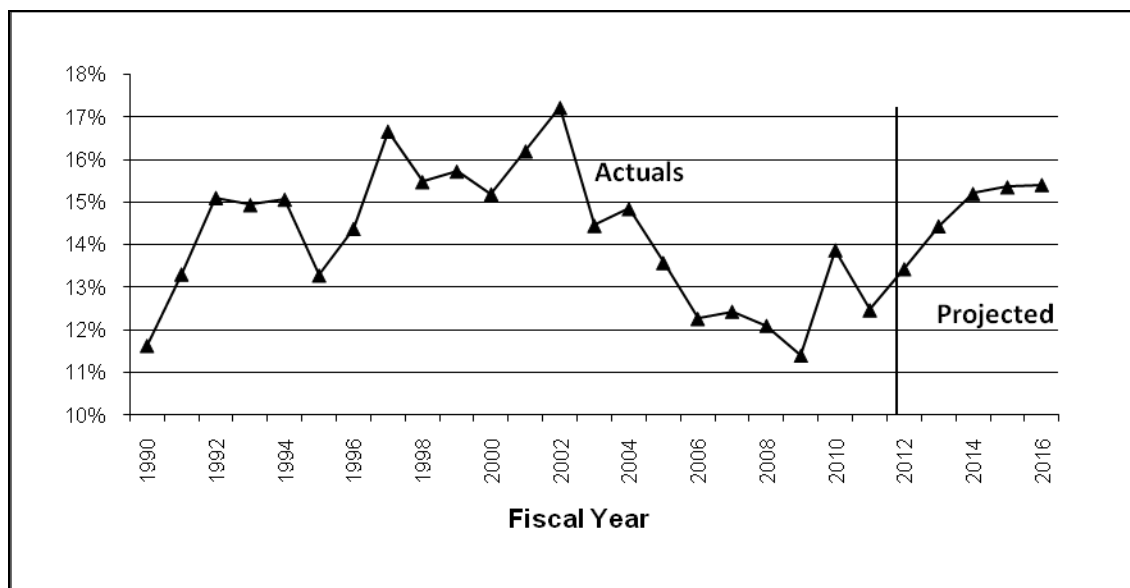
<sup>15</sup> In the February Plan long-term interests rates were reduced from 7.0 percent to 5.0 percent in FY 2012 and from 7.0 percent to 6.25 percent in FY 2013.

<sup>16</sup> Qualified School Construction Bonds (QSCB) are authorized by the federal government through the American Recovery and Reinvestment Act (ARRA) of 2009. The bonds provide federal tax credits for bond holders in lieu of interest in order to significantly reduce an issuer's cost of borrowing for public school Qualified School Construction Bonds.

13.4 percent of local tax revenues in FY 2012, 14.4 percent in FY 2013, 15.2 percent in FY 2014, and 15.4 percent in FYs 2015 and 2016 as shown in Chart 5. This increase in the debt service ratio is the effect of the growth in tax revenues lagging behind the growth in debt service. Between FYs 2012 and 2016, the average annual growth of debt service is estimated to be 7.2 percent, double the estimated annual tax revenue growth of 3.6 percent. However, the 15.4 percent ratio in the outyears is still below the 20 percent threshold established by the City in FY 2002.<sup>17</sup>

Another measure commonly used to gauge debt affordability is the ratio of debt service to City-funded expenditures. This ratio is projected to be 12.2 percent in FY 2012, growing to 12.9 percent in FY 2013, 13.1 percent in FYs 2014-2015, and increasing slightly to 13.3 percent in FY 2016. It is commonly assumed that a ratio over 15 percent is considered high.

**Chart 5. Debt Service as a Percent of Tax Revenues, 1990 – 2016**



SOURCE: NYC Office of Management and Budget, February 2012 Financial Plan.

## Financing Program

The February 2012 Financial Plan assumes \$37.28 billion of City and State supported borrowing in FYs 2012 - 2016 as shown in Table 15 on page 36. Planned borrowing in FYs 2012 – 2015 is \$800 million more than estimated in the June 2011 Financial Plan.<sup>18</sup> This increase is due primarily to: 1) an additional \$335 million of GO

<sup>17</sup> The FY 2002 Message of the Mayor state 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.”

<sup>18</sup> The June 2011 Plan Financing Program included projections for FYs 2012 – 2015 only.

borrowing; 2) an additional \$210 million of NYCTFA PIT borrowing; 3) a \$166 million increase in planned New York Water Finance Authority bonds; and 4) an additional \$89 million of TFA BARBs borrowing.

GO and NYCTFA PIT-supported borrowing totaling \$12.34 billion and \$12.21 billion respectively, account for just below two-thirds of all borrowing during the Plan period. 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 \$5.2 billion of NYCTFA BARB issuances planned. NYCTFA BARBs will account for 14 percent of capital borrowing over the Plan period. The Comptroller's Office estimates that without an increase in the debt limit for NYCTFA BARBs the City would no longer be able to issue such debt by the end of FY 2016. Current estimates suggest that the City would reach the State-legislated limit of \$9.4 billion near the close of FY 2016.

Nearly one-fifth, or \$7.52 billion, of all borrowing during the Plan period will be issued by the NYC Municipal Water Finance Authority (NYWFA). However, unlike other debt that is financed by property taxes or other general fund revenues, NYWFA is funded solely by water and sewer user fees. The \$166 million increase in projected FY 2012-2015 NYWFA borrowing is the result of modest adjustments to anticipated capital cash flow needs over the period.

**Table 15. Estimated Borrowing by Funding Source**  
**February 2012 Plan, FYs 2012 – 2016**

(\$ millions)

Description:	Estimated Borrowing and Funding Sources	
	FYs 2012-2016	Percent of Total
General Obligation Bonds	\$12,335	33.1%
NYCTFA – PIT Bonds	12,210	32.7%
NYC Water Finance Authority	7,522	20.2%
NYCTFA – BARBs	5,212	14.0%
<b>Total</b>	<b>\$37,279</b>	<b>100.0%</b>

SOURCE: February 2012 Financial Plan, NYC Office of Management and Budget.

## Capital Commitment Plan

As shown in Table 16, the February 2012 Capital Commitment Plan for FYs 2012 – 2015 includes \$35.07 billion in authorized all-fund commitments, averaging \$8.77 billion per year.<sup>19</sup> This represents an increase of \$687 million, or 2.0 percent, from the September 2011 Commitment Plan. Nearly two-thirds of the estimated increase is the result of additional funding for citywide equipment purchases of \$194 million, highways and highway bridge related projects of \$169 million, and hospital related projects of \$86 million.

<sup>19</sup> Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded in detail by agency in the Commitment Plan.

Capital commitments for DOE and CUNY, the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for a significant portion of the Plan with more than 70 percent of all-fund commitments.<sup>20</sup>

After adjusting for the reserve for unattained commitments, the February 2012 Capital Commitment Plan for FYs 2012 – 2015 reflects \$32.86 billion in all-funds commitments and \$25.72 billion in City-fund commitments. The Plan is front-loaded with 36 percent of the all-funds commitments (after reserve) scheduled for FY 2012.

**Table 16. FYs 2012 – 2015 Capital Commitments  
by Project Category, All-Funds**

(\$ in millions)

<b>Project Category</b>	<b>February FYs 2012 – 2015 Commitment Plan</b>	<b>Percent of Total</b>
Education & CUNY	\$8,967	25.6%
Environmental Protection	7,781	22.2
Dept. of Transportation & Mass Transit	4,864	13.9
Housing and Economic Development	3,217	9.1
Administration of Justice	1,681	4.8
Technology and Citywide Equipment	1,987	5.7
Parks Department	1,541	4.4
Hospitals	720	2.0
Other City Operations and Facilities	4,313	12.3
<b>Total</b>	<b>\$35,071</b>	<b>100.0%</b>
Reserve for Unattained Commitments	(\$2,211)	N/A
<b>Adjusted Total</b>	<b>\$32,860</b>	<b>N/A</b>

SOURCE: NYC Office of Management and Budget, FY 2012 February Capital Commitment Plan, February 2012.

The February 2012 Four-Year Capital Plan includes \$27.93 billion of City-funded capital projects as shown in Table 17, \$694 million more than allocated in the September 2011 Plan. Over 65 percent of the City-funds plan consists of capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development.

The DOE's capital budget is 17.5 percent of the City-funded capital plan but 25.6 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 \$4.07 billion in FYs 2012 through 2015. This represents 57 percent of the total State and Federal support to the entire commitment plan over that period.

<sup>20</sup> This percentage result assumes all DOT project types, not just Bridges and Highways.

**Table 17. FYs 2012 – 2015 Capital Commitments  
by Project Category, City-Funds**

(\$ in millions)

<b>Project Category</b>	<b>February FYs 2012– 2015 Commitment Plan</b>	<b>Percent of Total</b>
Environmental Protection	\$7,526	27.0%
Education & CUNY	4,898	17.5
Dept. of Transportation & Mass Transit	3,051	10.9
Housing and Economic Development	2,629	9.4
Administration of Justice	1,681	6.0
Technology and Citywide Equipment	1,955	7.0
Parks Department	1,338	4.8
Hospitals	717	2.6
Other City Operations and Facilities	<u>4,138</u>	<u>14.8</u>
<b>Total</b>	<b>\$27,933</b>	<b>100.0%</b>
Reserve for Unattained Commitments	(\$2,211)	N/A
<b>Adjusted Total</b>	<b>\$25,722</b>	<b>N/A</b>

SOURCE: NYC Office of Management and Budget, FY 2012 February Capital Commitment Plan, February 2012.

## V. Appendix – Revenue and Expenditure Details

**Table A1. February 2012 Preliminary Budget Revenue Detail**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change FYs 2012-16	
						Dollar	Percent
<b>Taxes:</b>							
Real Property	\$18,024	\$18,597	\$19,200	\$19,862	\$20,505	\$2,481	13.8%
Personal Income Tax	\$8,557	\$9,176	\$9,221	\$9,819	\$10,200	\$1,643	19.2%
General Corporation Tax	\$2,502	\$2,639	\$2,719	\$2,816	\$2,941	\$439	17.5%
Banking Corporation Tax	\$1,336	\$1,281	\$1,179	\$1,169	\$1,224	(\$112)	(8.4%)
Unincorporated Business Tax	\$1,722	\$1,804	\$1,876	\$1,949	\$2,022	\$300	17.4%
Sale and Use Tax	\$5,867	\$6,066	\$6,327	\$6,600	\$6,839	\$972	16.6%
Real Property Transfer	\$862	\$908	\$1,023	\$1,125	\$1,155	\$293	34.0%
Mortgage Recording Tax	\$513	\$572	\$670	\$739	\$759	\$246	48.0%
Commercial Rent	\$622	\$642	\$663	\$686	\$710	\$88	14.1%
Utility	\$401	\$417	\$432	\$453	\$465	\$64	16.0%
Hotel	\$476	\$464	\$481	\$506	\$529	\$53	11.1%
Cigarette	\$70	\$69	\$67	\$66	\$64	(\$6)	(8.6%)
All Other	\$511	\$500	\$501	\$501	\$502	(\$9)	(1.8%)
Tax Audit Revenue	\$699	\$723	\$706	\$706	\$706	\$7	1.0%
<b>Total Taxes</b>	<b>\$42,162</b>	<b>\$43,858</b>	<b>\$45,065</b>	<b>\$46,997</b>	<b>\$48,621</b>	<b>\$6,459</b>	<b>15.3%</b>
<b>Miscellaneous Revenue:</b>							
Licenses, Franchises, Etc.	\$547	\$548	\$559	\$563	\$574	\$27	4.9%
Interest Income	\$17	\$19	\$20	\$91	\$156	\$139	817.6%
Charges for Services	\$829	\$863	\$860	\$861	\$861	\$32	3.9%
Water and Sewer Charges	\$1,435	\$1,415	\$1,436	\$1,444	\$1,467	\$32	2.2%
Rental Income	\$280	\$282	\$290	\$293	\$293	\$13	4.6%
Fines and Forfeitures	\$790	\$805	\$803	\$802	\$802	\$12	1.5%
Miscellaneous	\$600	\$1,595	\$534	\$506	\$502	(\$98)	(16.3%)
Intra-City Revenue	\$1,791	\$1,531	\$1,533	\$1,537	\$1,542	(\$249)	(13.9%)
<b>Total Miscellaneous</b>	<b>\$6,289</b>	<b>\$7,058</b>	<b>\$6,035</b>	<b>\$6,097</b>	<b>\$6,197</b>	<b>(\$92)</b>	<b>(1.5%)</b>
<b>Unrestricted Intergovernmental Aid:</b>							
Other Federal and State Aid	\$25	\$0	\$0	\$0	\$0	(\$25)	(100.0%)
<b>Total Unrestricted Intergovernmental Aid</b>	<b>\$25</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$25)</b>	<b>(100.0%)</b>
<b>Other Categorical Grants</b>	<b>\$1,046</b>	<b>\$913</b>	<b>\$909</b>	<b>\$906</b>	<b>\$892</b>	<b>(\$154)</b>	<b>(14.7%)</b>
<b>Inter-Fund Agreements</b>	<b>\$551</b>	<b>\$509</b>	<b>\$504</b>	<b>\$504</b>	<b>\$504</b>	<b>(\$47)</b>	<b>(8.5%)</b>
<b>Reserve for Disallowance of Categorical Grants</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>\$0</b>	<b>0.0%</b>
<b>Less: Intra-City Revenue</b>	<b>(\$1,791)</b>	<b>(\$1,531)</b>	<b>(\$1,533)</b>	<b>(\$1,537)</b>	<b>(\$1,542)</b>	<b>\$249</b>	<b>(13.9%)</b>
<b>TOTAL CITY-FUNDS</b>	<b>\$48,267</b>	<b>\$50,792</b>	<b>\$50,965</b>	<b>\$52,952</b>	<b>\$54,657</b>	<b>\$6,390</b>	<b>13.2%</b>



**Table A1 (Con't). February 2012 Preliminary Budget Revenue Detail**

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Changes FYs 2012-16	
						Dollar	Percent
<b>Federal Categorical Grants:</b>							
Community Development	\$251	\$227	\$220	\$220	\$220	(\$31)	(12.4%)
Welfare	\$3,322	\$3,123	\$3,120	\$3,120	\$3,120	(\$202)	(6.1%)
Education	\$2,034	\$1,952	\$1,932	\$1,857	\$1,856	(\$178)	(8.8%)
Other	\$2,127	\$1,290	\$1,219	\$1,217	\$1,216	(\$911)	(42.8%)
<b>Total Federal Grants</b>	<b>\$7,734</b>	<b>\$6,592</b>	<b>\$6,491</b>	<b>\$6,414</b>	<b>\$6,412</b>	<b>(\$1,322)</b>	<b>(17.1%)</b>
<b>State Categorical Grants</b>							
Social Services	\$1,599	\$1,441	\$1,441	\$1,440	\$1,440	(\$159)	(9.9%)
Education	\$8,116	\$8,352	\$8,420	\$8,495	\$8,495	\$379	4.7%
Higher Education	\$213	\$214	\$214	\$213	\$214	\$1	0.5%
Department of Health and Mental Hygiene	\$571	\$534	\$532	\$532	\$532	(\$39)	(6.8%)
Other	\$869	\$800	\$842	\$906	\$1,024	\$155	17.8%
<b>Total State Grants</b>	<b>\$11,368</b>	<b>\$11,341</b>	<b>\$11,449</b>	<b>\$11,586</b>	<b>\$11,705</b>	<b>\$337</b>	<b>3.0%</b>
<b>TOTAL REVENUES</b>	<b>\$67,369</b>	<b>\$68,725</b>	<b>\$68,905</b>	<b>\$70,952</b>	<b>\$72,774</b>	<b>\$5,405</b>	<b>8.0%</b>

**Table A2. February 2012 Preliminary Budget Expenditure Detail**

(\$ in thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change FYs 2012-16	
						Dollars	Percent
Mayoralty	\$95,947	\$89,733	\$87,260	\$87,129	\$87,148	(\$8,799)	(9.2%)
Board of Elections	\$127,348	\$71,888	\$71,888	\$71,888	\$71,888	(\$55,460)	(43.5%)
Campaign Finance Board	\$12,251	\$13,288	\$13,288	\$13,288	\$13,288	\$1,037	8.5%
Office of the Actuary	\$6,850	\$6,301	\$6,254	\$6,256	\$6,258	(\$592)	(8.6%)
President, Borough of Manhattan	\$4,724	\$2,564	\$2,591	\$2,595	\$2,600	(\$2,124)	(45.0%)
President, Borough of Bronx	\$5,248	\$3,420	\$3,428	\$3,428	\$3,428	(\$1,820)	(34.7%)
President, Borough of Brooklyn	\$5,454	\$3,146	\$3,154	\$3,154	\$3,154	(\$2,300)	(42.2%)
President, Borough of Queens	\$4,647	\$2,980	\$2,986	\$2,986	\$2,986	(\$1,661)	(35.7%)
President, Borough of Staten Island	\$3,899	\$2,426	\$2,431	\$2,431	\$2,431	(\$1,468)	(37.7%)
Office of the Comptroller	\$74,033	\$74,893	\$75,229	\$75,478	\$75,889	\$1,856	2.5%
Dept. of Emergency Management	\$53,391	\$14,914	\$6,412	\$6,429	\$6,439	(\$46,952)	(87.9%)
Tax Commission	\$3,998	\$4,100	\$4,100	\$3,865	\$3,865	(\$133)	(3.3%)
Law Dept.	\$136,032	\$138,501	\$129,674	\$129,674	\$129,674	(\$6,358)	(4.7%)
Dept. of City Planning	\$25,859	\$21,951	\$20,247	\$20,143	\$20,152	(\$5,707)	(22.1%)
Dept. of Investigation	\$15,850	\$16,183	\$16,183	\$16,183	\$16,183	\$333	2.1%
NY Public Library - Research	\$22,122	\$15,729	\$15,729	\$15,729	\$15,729	(\$6,393)	(28.9%)
New York Public Library	\$110,840	\$77,072	\$76,722	\$76,722	\$76,722	(\$34,118)	(30.8%)
Brooklyn Public Library	\$82,891	\$57,661	\$57,311	\$57,311	\$57,311	(\$25,580)	(30.9%)
Queens Borough Public Library	\$81,591	\$56,508	\$56,158	\$56,158	\$56,158	(\$25,433)	(31.2%)
Dept. of Education	\$19,411,444	\$19,624,711	\$20,080,042	\$20,306,063	\$20,549,462	\$1,138,018	5.9%
City University	\$779,647	\$774,724	\$752,201	\$750,307	\$739,047	(\$40,600)	(5.2%)
Civilian Complaint Review Board	\$9,342	\$9,750	\$9,781	\$9,785	\$9,785	\$443	4.7%
Police Dept.	\$4,706,465	\$4,383,106	\$4,375,294	\$4,374,064	\$4,373,233	(\$333,232)	(7.1%)
Fire Dept.	\$1,806,464	\$1,698,911	\$1,649,148	\$1,603,818	\$1,603,864	(\$202,600)	(11.2%)
Admin. for Children Services	\$2,858,633	\$2,704,543	\$2,701,530	\$2,702,095	\$2,702,095	(\$156,538)	(5.5%)
Dept. of Social Services	\$9,418,725	\$9,345,690	\$9,469,751	\$9,665,502	\$9,762,983	\$344,258	3.7%
Dept. of Homeless Services	\$830,959	\$764,904	\$756,257	\$756,247	\$756,247	(\$74,712)	(9.0%)
Dept. of Correction	\$1,086,031	\$1,050,681	\$1,059,858	\$1,040,492	\$1,040,311	(\$45,720)	(4.2%)
Board of Correction	\$980	\$940	\$1,000	\$1,000	\$1,000	\$20	2.0%
Citywide Pension Contribution	\$7,874,854	\$8,020,405	\$7,953,954	\$7,839,727	\$7,915,098	\$40,244	0.5%
Miscellaneous	\$6,164,346	\$6,433,906	\$7,205,434	\$9,046,712	\$9,975,691	\$3,811,345	61.8%
Debt Service	\$4,101,727	\$4,559,235	\$4,821,552	\$4,989,610	\$5,080,023	\$978,296	23.9%
N.Y.C.T.F.A. Debt Service	\$1,509,887	\$1,718,820	\$1,975,350	\$2,173,420	\$2,355,560	\$845,673	56.0%
FY 2011 BSA	(\$3,742,031)	\$0	\$0	\$0	\$0	\$3,742,031	(100.0%)
FY 2012 BSA	\$1,296,767	(\$1,296,767)	\$0	\$0	\$0	(\$1,296,767)	(100.0%)
Public Advocate	\$2,255	\$1,603	\$1,606	\$1,606	\$1,606	(\$649)	(28.8%)
City Council	\$52,090	\$49,442	\$49,442	\$49,442	\$49,442	(\$2,648)	(5.1%)
City Clerk	\$4,436	\$4,349	\$4,352	\$4,355	\$4,355	(\$81)	(1.8%)
Dept. for the Aging	\$258,524	\$232,076	\$232,076	\$232,076	\$232,076	(\$26,448)	(10.2%)
Dept. of Cultural Affairs	\$151,749	\$94,474	\$94,474	\$94,474	\$94,474	(\$57,275)	(37.7%)
Financial Info. Serv. Agency	\$88,347	\$92,658	\$89,926	\$88,693	\$89,193	\$846	1.0%
Office of Payroll Admin.	\$57,739	\$45,339	\$30,617	\$30,669	\$30,669	(\$27,070)	(46.9%)
Independent Budget Office	\$4,388	\$4,368	\$4,368	\$4,369	\$4,370	(\$18)	(0.4%)
Equal Employment Practices Comm.	\$789	\$790	\$790	\$790	\$790	\$1	0.1%

**Table A2 (Con't). February 2012 Preliminary Budget Expenditure Detail**

(\$ in thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change FYs 2012-16	
						Dollars	Percent
Civil Service Commission	\$734	\$751	\$751	\$751	\$751	\$17	2.3%
Landmarks Preservation Comm.	\$4,759	\$4,723	\$4,729	\$4,729	\$4,729	(\$30)	(0.6%)
Districting Commission	\$0	\$1,661	\$0	\$0	\$0	\$0	0.0%
Taxi & Limousine Commission	\$40,432	\$60,268	\$56,178	\$51,586	\$38,086	(\$2,346)	(5.8%)
Commission on Human Rights	\$7,141	\$6,501	\$6,501	\$6,501	\$6,501	(\$640)	(9.0%)
Youth & Community Development	\$303,307	\$219,291	\$208,091	\$203,155	\$203,155	(\$100,152)	(33.0%)
Conflicts of Interest Board	\$2,012	\$2,084	\$2,084	\$2,084	\$2,084	\$72	3.6%
Office of Collective Bargain	\$2,254	\$2,157	\$2,159	\$2,160	\$2,162	(\$92)	(4.1%)
Community Boards (All)	\$15,547	\$14,372	\$14,372	\$14,372	\$14,372	(\$1,175)	(7.6%)
Dept. of Probation	\$75,205	\$75,189	\$73,394	\$69,000	\$69,000	(\$6,205)	(8.3%)
Dept. Small Business Services	\$148,949	\$113,013	\$94,696	\$88,563	\$88,568	(\$60,381)	(40.5%)
Housing Preservation & Development	\$781,651	\$559,936	\$553,171	\$551,748	\$551,707	(\$229,944)	(29.4%)
Dept. of Buildings	\$95,915	\$91,624	\$91,641	\$89,624	\$89,624	(\$6,291)	(6.6%)
Dept. of Health & Mental Hygiene	\$1,641,323	\$1,511,249	\$1,502,681	\$1,490,748	\$1,490,707	(\$150,616)	(9.2%)
Health and Hospitals Corp.	\$75,660	\$68,354	\$67,349	\$66,849	\$66,849	(\$8,811)	(11.6%)
Office of Administrative Trials & Hearings	\$33,918	\$35,440	\$35,442	\$35,444	\$35,446	\$1,528	4.5%
Dept. of Environmental Protection	\$1,063,199	\$1,018,438	\$1,018,799	\$1,019,676	\$1,019,676	(\$43,523)	(4.1%)
Dept. of Sanitation	\$1,330,379	\$1,341,163	\$1,460,956	\$1,459,815	\$1,459,615	\$129,236	9.7%
Business Integrity Commission	\$7,315	\$7,119	\$7,119	\$7,119	\$7,119	(\$196)	(2.7%)
Dept. of Finance	\$224,294	\$220,281	\$219,465	\$219,215	\$219,215	(\$5,079)	(2.3%)
Dept. of Transportation	\$815,137	\$683,994	\$687,664	\$687,663	\$687,663	(\$127,474)	(15.6%)
Dept. of Parks and Recreation	\$324,985	\$267,301	\$275,396	\$275,280	\$275,280	(\$49,705)	(15.3%)
Dept. of Design & Construction	\$113,561	\$106,798	\$106,822	\$106,822	\$106,822	(\$6,739)	(5.9%)
Dept. of Citywide Admin. Services	\$394,951	\$351,138	\$350,147	\$349,798	\$349,798	(\$45,153)	(11.4%)
D.O.I.T.T.	\$329,646	\$296,507	\$291,927	\$286,717	\$285,520	(\$44,126)	(13.4%)
Dept. of Record & Info. Services	\$5,426	\$5,092	\$5,095	\$4,959	\$4,963	(\$463)	(8.5%)
Dept. of Consumer Affairs	\$28,425	\$23,636	\$23,406	\$23,320	\$23,320	(\$5,105)	(18.0%)
District Attorney - N.Y.	\$89,710	\$75,915	\$75,963	\$75,963	\$75,963	(\$13,747)	(15.3%)
District Attorney - Bronx	\$49,153	\$46,561	\$46,450	\$46,450	\$46,450	(\$2,703)	(5.5%)
District Attorney - Kings	\$79,352	\$77,043	\$77,043	\$77,043	\$77,043	(\$2,309)	(2.9%)
District Attorney - Queens	\$49,175	\$45,802	\$45,802	\$45,802	\$45,802	(\$3,373)	(6.9%)
District Attorney - Richmond	\$8,033	\$7,488	\$7,488	\$7,488	\$7,488	(\$545)	(6.8%)
Office of Prosec. & Spec. Narc.	\$17,972	\$16,883	\$16,883	\$16,883	\$16,883	(\$1,089)	(6.1%)
Public Administrator - N.Y.	\$1,268	\$1,181	\$1,181	\$1,181	\$1,181	(\$87)	(6.9%)
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	\$311	\$311	\$311	\$311	(\$69)	(18.2%)
General Reserve	\$100,000	\$300,000	\$300,000	\$300,000	\$300,000	\$200,000	200.0%
Energy Adjustment	(\$1,634)	\$47,263	\$100,414	\$136,476	\$160,307	\$161,941	(9910.7%)
Lease Adjustment	\$0	\$24,906	\$86,821	\$114,332	\$142,668	\$142,668	N/A
OTPS Inflation Adjustment	\$0	\$0	\$55,519	\$111,038	\$166,557	\$166,557	N/A
<b>TOTAL EXPENDITURE</b>	<b>\$67,368,642</b>	<b>\$68,724,700</b>	<b>\$71,945,109</b>	<b>\$74,468,179</b>	<b>\$76,167,413</b>	<b>\$8,798,771</b>	<b>13.1%</b>

# **Glossary of Acronyms**

<b>AIRA</b>	Actuarial Interest Rate Assumption
<b>ARRA</b>	American Recovery Reinvestment Act
<b>BARB</b>	Building Aid Revenue Bond
<b>BAV</b>	Billable Assessed Values
<b>BSA</b>	Budget Stabilization Account
<b>CSA</b>	Council of School Supervisors and Administrators
<b>CUNY</b>	City University of New York
<b>CY</b>	Calendar Year
<b>DEP</b>	Department of Environmental Protection
<b>DOC</b>	Department of Correction
<b>DOE</b>	Department of Education
<b>ECB</b>	European Central Bank
<b>FMAP</b>	Federal Medical Assistance Percentage
<b>FY</b>	Fiscal Year
<b>GCP</b>	Gross City Product
<b>GCT</b>	General Corporation Tax

<b>GDP</b>	Gross Domestic Product
<b>GO Debt</b>	General Obligation Debt
<b>HHC</b>	Health and Hospital Corporation
<b>HYIC</b>	Hudson Yards Infrastructure Corporation
<b>IMF</b>	International Monetary Fund
<b>J&amp;C</b>	Judgments and Claims
<b>MTA</b>	Metropolitan Transportation Authority
<b>NYC</b>	New York City
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYPD</b>	New York City Police Department
<b>NYWFA</b>	New York Water Finance Authority
<b>OMB</b>	Office of Management and Budget
<b>OPEB</b>	Other Post Employment Benefits
<b>OTPS</b>	Other than Personal Services
<b>PEG</b>	Program to Eliminate the Gap
<b>PERB</b>	Public Employment Relations Board
<b>PIT</b>	Personal Income Tax

<b>PS</b>	Personal Services
<b>QSCB</b>	Qualified School construction Bonds
<b>RHBT</b>	Retiree Health Benefit Trust
<b>TSASC</b>	Tobacco Settlement Asset Securitization Corporation
<b>UFT</b>	United Federation of Teachers
<b>U.S.</b>	United States