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New York City Comptroller
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BUREAU OF FISCAL AND BUDGET STUDIES

Comments on New York City's Fiscal Year 2011 Executive Budget

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I. Executive Summary

On May 6, 2010, Mayor Bloomberg presented his Executive Budget for FY 2011 and the accompanying Four-Year Financial Plan, covering FY 2011 to FY 2014. The FY 2011 Budget, totaling $66.2 billion after adjustments are made for various prepayments, is balanced with a series of measures that underscore the vulnerability of the City's fiscal condition to actions taken at higher levels of government, and reflects the poor prospects for a vigorous economic recovery. The budget also reflects the Mayor's dependence on the success of his collective bargaining strategy to narrow projected budget gaps while minimizing service reductions. While the Mayor has removed considerable risk from the budget since the release of the Preliminary Budget in January, these two factors continue to pose risks to budget balance over the four-year planning horizon.

The Comptroller has additional concerns about the Plan presented by the Mayor. From FY 2010 to FY 2014, debt service is slated to grow by one-third and to consume a growing portion of tax revenues. While the Capital Plan includes many worthy and necessary projects, the Comptroller has found through his audit and contract registration authority that in some instances the management of these projects is wanting and does not adequately protect the taxpayer, with the significantly over-budget CityTime project a prime example. Furthermore, at a time when a broad range of services are being reduced or eliminated, it is not appropriate for entities such as the NYC Economic Development Corporation to withhold resources that are due to the City's general fund. The City needs to implement more disciplined management across the board to ensure that it is using its increasingly scarce dollars efficiently.

The Evolution of the FY 2011 Budget

In November of 2009, the Mayor projected a $4.1 billion budget gap for FY 2011. In January, the Governor presented his Executive Budget for the State's Fiscal Year 2010 – 2011, slated to begin March 1. That budget proposed significant cuts to State aid to New York City, including the elimination of State revenue sharing and a $493 million reduction in education aid. The Mayor responded by producing a hypothetical "contingency budget" as a supplement to the FY 2011 Preliminary Budget. The contingency budget laid out a plan that would balance the FY 2011 budget given the proposed State reductions by reducing City headcount 19,000, including 8,519 teachers and 3,150 police officers.

Meanwhile, FY 2010 tax collections surpassed expectations due to an improving economy and extraordinary 2009 Wall Street profits. Gap-closing actions by City agencies freed up $489 million in additional resources in FY 2010, current-year debt service costs fell due to unusually low borrowing costs, additional relief from Medicaid costs materialized via the American Recovery and Reinvestment Act (ARRA), and the Mayor announced that no additional collective bargaining increases would be granted in the first two years of the next round of collective bargaining agreements without offsetting cost-cutting measures. This enabled reserves that had been budgeted for collectively-bargained wage increases to be removed from the budget, in addition to other reductions in reserves that normally take place during the year.

Once reserves are no longer earmarked for their initial purpose, the resources are available to pay for other needs.

The resources made available through all these developments will enable the City to avoid headcount reductions in the Police Department, provide aid to the struggling Health and Hospitals Corporation (HHC) and offset the cost of other needs in FY 2010 while producing a surplus of $3.272 billion. The surplus will be used to prepay certain FY 2011 expenses, making considerable progress towards eliminating the initial FY 2011 budget gap projected last autumn.

However, the failure of the leadership in Albany to pass a budget on time has created continued uncertainty about the level of State aid. The Mayor has chosen to assume that almost the entirety of the Governor's proposals will be enacted. Yet, because the projected FY 2010 surplus is larger than had been expected in January and an additional agency gap-closing program is expected to save $175 million in FY 2011, the Mayor's plan avoids many of the headcount reductions itemized at the time of the January Plan.

Impact on the Department of Education and the Mayor's Labor Strategy

Both the Mayor and the Governor propose to reduce funding to the Department of Education (DOE), leaving the Department to face a potential year-to-year reduction in its funding. The Executive Budget proposes that these two funding cuts be absorbed differently: the Mayor's cut through lower contractual salary increases for teachers and administrators than other municipal unions have received, and the Governor's reductions through layoffs and attrition of more than 6,600 teachers and other staff. The Executive Budget assumes that State education aid is reduced on a one-year basis only and headcount has not been reduced by a similar extent in the outyears of the Plan. Given the Mayor's proposed terms, collective bargaining for a new teachers' union contract has been declared at an impasse by the Public Employment Relations Board (PERB) and has been referred to mediation.

Since the Executive Budget, the Mayor has rescinded his plan to layoff teachers and proposed funding these positions with a two year wage freeze. Neither the United Federation of Teachers nor the Council of School Administrators has embraced this proposal.

The composition of the DOE budget has been changing as the constrained fiscal environment has pinched mainly the budget for district instruction and administration but not many other categories within the agency. The Department has less discretion over certain categories of spending, such as pre-K special education, charter school payments, private school tuition reimbursements and pupil transportation, than it does over district and school-based expenses. As a result, gap-closing actions will cause this portion of the budget to shrink from 59 percent in FY 2010 to 57 percent in FY 2011. If assumed State aid in FY 2012 falls below expectations, this trend could worsen.

The gambit to trim DOE spending through smaller wage increases is only one aspect of the Mayor's overall labor strategy. Dating back to the FY 2010 Preliminary Budget, proposed gap-closing actions have itemized savings from changes in employee health insurance and pensions. With the FY 2011 budget, the Mayor has removed these items from the gap closing plan but also removed funding of 1.25 percent annually for the first two years for the next round of collective bargaining agreements, arguing that any wage increases must be paid for by offsetting reductions in the City's costs for fringe benefits or by productivity increases. On net, this approach allows the Mayor to reduce projected spending $896 million over FYs 2010 through 2013.

Risks and Offsets

The Comptroller's Office has identified risks and offsets in the Mayor's budgetary assumptions. Overall, there is a lower level of net risk to this budget than the Comptroller identified in the Preliminary Budget because the Mayor has recognized proposed State aid reductions and funded projected environmental remediation expenses. The Mayor's tax revenue forecasts have also converged to similar overall levels as those generated by the Comptroller's Office, although differences remain regarding the composition of tax collections.

The economy is expected to continue on a path of slow and fragile recovery during the Plan period. A high level of household indebtedness and the overhang of residential real estate constructed during the housing boom will constrain spending growth for some time to come, and the European debt crisis can be expected to produce additional drag on the U.S. economy and local tourism. These factors have led both the Mayor's budget office and the Comptroller's Office to forecast relatively slow revenue growth over the Plan period. However, the Comptroller differs from the Mayor in the expectation that the New York City real estate market will prove more resilient than predicted by the Mayor.

Any additional revenue expected by the Comptroller will not be sufficient to offset several expenditure risks. The Comptroller is skeptical that the current collective bargaining negotiation with the United Federation of Teachers (UFT) and the Council of Supervisors and Administrators (CSA) will result in two consecutive 2.0 percent raises; Congress has to date failed to extend Medicaid cost relief; and the City continues to underestimate overtime costs.

In total, these risks and offsets if realized would result in a gap of $462 million in FY 2011. The FY 2012 gap would widen from the Mayor's projection of $3.783 billion to $4.405 billion, and the FY 2013 gap would expand from $4.628 billion to $5.551 billion. By FY 2014, the City's budget gap could stand at $5.7 billion.

The Capital Commitment Plan and Debt Burden

The Mayor also presented an updated capital commitment plan. For FYs 2010 to 2014, City-funds capital commitments are estimated to reach nearly $34 billion. As is typically the case, this estimate is based on a front-loaded plan, and commitments in the later years of the Plan are likely to grow in subsequent commitment plans. Currently, more than 54 percent of both total and City commitments for FYs 2010 – 2014 are contained in FYs 2010 and 2011.

Outstanding debt generates debt service, payable from the operating budget. The combined effect of past capital commitments, projected incremental commitments and lackluster economic growth is to push the projected cost of servicing debt relative to the City's tax revenues from 13.9 percent in FY 2010 to nearly 16 percent by FY 2014. If actual commitments exceed the City's plan over the next four years, this cost could grow even more.

There is little doubt that the City continues to face fiscal hardship and uncertainty. While the Mayor has incorporated the impacts of potential State actions into his budget assumptions, he is also relying on a labor negotiation strategy that has little precedent in our City's history. In case it is not successful, there must be a "Plan B" to address the challenging period ahead.

Table 1. May 2010 Modification and FYs 2011 – 2014 Financial Plan

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010 – 2014 Dollar	Changes FYs 2010 – 2014 Percent
Revenues							
Taxes:							
General Property Tax	$16,296	$16,969	$17,632	$17,901	$18,038	$1,742	10.7%
Other Taxes	$20,023	$21,301	$22,564	$23,809	$25,001	$4,978	24.9%
Tax Audit Revenues	$890	$622	$621	$620	$620	($270)	(30.3%)
Tax Fairness Program	$0	$0	$0	$0	$0	$0	N/A
Subtotal: Taxes	$37,209	$38,892	$40,817	$42,330	$43,659	$6,450	N/A
Miscellaneous Revenues	$6,526	$5,876	$5,708	$5,737	$5,780	($746)	(11.4%)
Unrestricted Intergovernmental Aid	$171	$14	$12	$12	$12	($159)	(93.0%)
Less: Intra-City Revenues	($1,825)	($1,602)	($1,498)	($1,502)	($1,502)	$323	(17.7%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$42,066	$43,165	$45,024	$46,562	$47,934	$5,868	13.9%
Other Categorical Grants	$1,134	$1,284	$1,142	$1,139	$1,137	$3	0.3%
Inter-Fund Revenues	$583	$558	$493	$492	$492	($91)	(15.6%)
Total City & Inter-Fund Revenues	$43,783	$45,007	$46,659	$48,193	$49,563	$5,780	13.2%
Federal Categorical Grants	$8,193	$6,691	$5,690	$5,640	$5,632	($2,561)	(31.3%)
State Categorical Grants	$11,571	$11,240	$12,200	$12,416	$12,831	$1,260	10.9%
Total Revenues	$63,547	$62,938	$64,549	$66,249	$68,026	$4,479	7.0%
Expenditures							
Personal Service							
Salaries and Wages	$22,415	$21,525	$21,042	$21,335	$21,888	($527)	(2.4%)
Pensions	$6,760	$7,612	$7,920	$8,070	$8,173	$1,413	20.9%
Fringe Benefits	$7,351	$7,533	$7,970	$8,279	$8,783	$1,432	19.5%
Retiree Health Benefits Trust	($82)	($395)	($672)	$0	$0	$82	(100.0%)
Subtotal-PS	$36,444	$36,275	$36,260	$37,684	$38,844	$2,400	6.6%
Other Than Personal Service							
Medical Assistance	$5,146	$5,166	$5,947	$6,171	$6,778	$1,632	31.7%
Public Assistance	$1,580	$1,563	$1,603	$1,591	$1,591	$11	0.7%
All Other	$19,370	$19,046	$19,447	$20,057	$20,601	$1,231	6.4%
Subtotal-OTPS	$26,096	$25,775	$26,997	$27,819	$28,970	$2,874	11.0%
Debt Service							
Principal	$1,649	$1,789	$2,152	$2,133	$2,104	$455	27.6%
Interest & Offsets	$2,264	$2,516	$2,544	$2,643	$2,713	$449	19.8%
Subtotal Debt Service	$3,913	$4,305	$4,696	$4,776	$4,817	$904	23.1%
FY 2007 BSA	($31)	$0	$0	$0	$0	$31	(100.0%)
FY 2009 BSA	($2,268)	$0	$0	$0	$0	$2,268	(100.0%)
FY 2010 BSA	$3,272	($3,272)	$0	$0	$0	($3,272)	(100.0%)
Prepayments	($2,036)	$0	$0	$0	$0	$2,036	(100.0%)
Debt Retirement							
Call 2009/2010 GO Debt	($277)	$0	$0	$0	$0	$277	(100.0%)
Defease NYCTFA Debt	($382)	$0	$0	$0	$0	$382	(100.0%)
Subtotal Debt Retirement	($659)	$0	$0	$0	$0	$659	(100.0%)
Transfer for NYCTFA Debt Service	($646)	$0	$0	$0	$0	$646	(100.0%)
FY 2008 Redemption of Certain NYCTFA Debt	$0	($35)	$0	$0	$0	$0	0.0%
NYCTFA							
Principal	$475	$457	$578	$685	$707	$232	48.7%
Interest & Offsets	$712	$735	$999	$1,115	$1,293	$581	81.7%
Subtotal NYCTFA	$1,187	$1,192	$1,577	$1,800	$2,000	$813	68.5%
General Reserve	$100	$300	$300	$300	$300	$200	200.0%
	$65,372	$64,540	$69,830	$72,379	$74,931	$9,559	14.6%
Less: Intra-City Expenses	($1,825)	($1,602)	($1,498)	($1,502)	($1,502)	$323	(17.7%)
Total Expenditures	$63,547	$62,938	$68,332	$70,877	$73,429	$9,882	15.6%
Gap To Be Closed	**$0**	**$0**	**($3,783)**	**($4,628)**	**($5,403)**	**($5,403)**	**N/A**

Table 2. Plan-to-Plan Changes
May 2010 Modification and FYs 2011 – 2014 Financial Plan vs. January 2010 Plan

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues					
Taxes:					
General Property Tax	$74	($157)	($112)	($54)	($53)
Other Taxes	$147	$242	$147	$10	($48)
Tax Audit Revenues	$0	$10	$10	$10	$10
Tax Fairness Program	$0	($219)	($241)	($262)	($284)
Subtotal: Taxes	$221	($124)	($196)	($296)	($375)
Miscellaneous Revenues	$243	$83	($145)	($160)	($138)
Unrestricted Intergovernmental Aid	($169)	($326)	($328)	($328)	($328)
Less: Intra-City Revenues	($21)	($57)	$49	$50	$50
Disallowances Against Categorical Grants	$0	$0	$0	$0	$0
Subtotal: City Funds	$274	($424)	($620)	($734)	($791)
Other Categorical Grants	($238)	$84	($13)	($13)	($14)
Inter-Fund Revenues	$86	$87	$43	$42	$42
Total City & Inter-Fund Revenues	$122	($253)	($590)	($705)	($763)
Federal Categorical Grants	$250	$77	($30)	($40)	($47)
State Categorical Grants	$95	($526)	($207)	($641)	($364)
Total Revenues	$467	($702)	($827)	($1,386)	($1,174)
Expenditures					
Personal Service					
Salaries and Wages	$105	($170)	($311)	($658)	($280)
Pensions	$0	$344	$226	$229	$224
Fringe Benefits	$44	($89)	$49	$65	$68
Retiree Health Benefits Trust	$0	$0	$0	$0	$0
Subtotal-PS	$149	$85	($36)	($364)	$12
Other Than Personal Service					
Medical Assistance	$195	($478)	($166)	($122)	$300
Public Assistance	$0	$0	$0	$0	$0
All Other	($27)	$211	($38)	$16	$16
Subtotal-OTPS	$168	($267)	($204)	($106)	$316
Debt Service					
Principal	$0	($1)	$13	$16	$16
Interest & Offsets	($150)	$20	$9	$12	($14)
Subtotal Debt Service	($150)	$19	$22	$28	$2
FY 2007 BSA	$0	$0	$0	$0	$0
FY 2009 BSA	$0	$0	$0	$0	$0
FY 2010 BSA	$389	($389)	$0	$0	$0
Prepayments	$0	$0	$0	$0	$0
Debt Retirement					
Call 2009/2010 GO Debt	$0	$0	$0	$0	$0
Defease NYCTFA Debt	$0	$0	$0	$0	$0
Subtotal Debt Retirement	$0	$0	$0	$0	$0
Transfer for NYCTFA Debt Service	$0	$0	$0	$0	$0
NYCTFA Debt Service					
Principal	$0	$0	$19	$19	$19
Interest & Offsets	$32	($93)	($54)	($50)	($19)
Subtotal NYCTFA	$32	($93)	($35)	($31)	$0
General Reserve	($100)	$0	$0	$0	$0
Less: Intra-City Expenses	($21)	($57)	$49	$50	$50
Total Expenditures	$467	($702)	($204)	($423)	$380
Gap To Be Closed	**$0**	**$0**	**($623)**	**($963)**	**($1,554)**

Table 3. Risks and Offsets to the May Modification and FYs 2011 – 2014 Financial Plan

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
City Stated Gap	**$0**	**$0**	**($3,783)**	**($4,628)**	**($5,403)**
Tax Revenues					
Property Tax	$0	($18)	($66)	($98)	($92)
Personal Income Tax	$0	($300)	($305)	($266)	($125)
Business Taxes	$39	$33	($43)	($218)	($102)
Sales Tax	$50	$114	$119	$110	$78
Real-Estate-Related-Taxes	$5	$349	$447	$524	$591
Subtotal	**$94**	**$178**	**$152**	**$52**	**$350**
State Aid	**$0**	**$0**	**($300)**	**($300)**	**($300)**
Expenditures					
UFT/CSA Collective Bargaining	($148)	($350)	($456)	($509)	($512)
FMAP Extension	($0)	($279)	($61)	($269)	($0)
Overtime	$0	($96)	($100)	($100)	($100)
Judgments and Claims	$0	85	143	203	265
Subtotal	**($148)**	**($640)**	**($474)**	**($675)**	**($347)**
Total Risk/Offsets	**($54)**	**($462)**	**($622)**	**($923)**	**($297)**
Restated (Gap)/Surplus	**($54)**	**($462)**	**($4,405)**	**($5,551)**	**($5,700)**

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II. The FY 2010 Budget

The Modified FY 2010 Budget released on May 6th totals \$63.5 billion. However, the budget reflects the impact of prepayments and other prior year actions. Adjusting for these actions, the Modified FY 2010 Budget totals \$65.9 billion, an increase of \$2.7 billion from adjusted FY 2009 spending.

Since budget adoption, both the national and local economies have begun to recover from the worst financial crisis since the 1930s. National economic growth turned positive in the third quarter of 2009 followed by the local economy in the last quarter. Wall Street rebounded faster than anticipated. The City-funds revenue estimates in the May Modification of the FY 2010 Budget reflect the turnaround in the economy and financial market.[1] Revenues in the May Modification show a net increase of \$2.1 billion from the Adopted Budget.

Most of the increase is due to upward revisions of \$1.9 billion to the tax revenue forecasts. Upward revisions to personal income tax (PIT) and business tax revenues account for more than 66 percent of this change. Non-tax revenue estimates are \$521 million more than the Adopted Budget. This increase includes the transfer of \$134 million from the Battery Park City Authority (BPCA) Joint Purpose Fund to the General Fund and a \$255 million increase in anticipated payments from the New York City Water Board for the operation and maintenance (O & M) of the water and sewage system.[2] The payment from the Water Board does not provide any additional budget relief as it funds a corresponding increase in estimated O & M costs. The May Modification also includes gap-closing initiatives that are expected to generate \$76 million in additional revenues in FY 2010. Partially offsetting the increase in revenue estimates is an expected loss of \$178 million in revenues from proposed State Budget actions and a reduction of \$181 million in Health and Hospitals Corporation (HHC) revenues. The reduction in HHC revenues is part of the City's effort to improve the current year cash balance of HHC and help trim its operating deficits in the outyears.

City-funds expenditures in the May Modification show a net decrease of \$1.1 billion from the Adopted Budget. Significant reductions to expenditure estimates include adjustments to prior-year-payments, the labor reserve, and the general reserve which reduced estimated expenditures by a combined \$1.2 billion. Agency gap-closing initiatives further lower spending by \$413 million. Partially offsetting these reductions are expenditure increases totaling approximately \$800 million. The largest increase is an adjustment of \$187 million to reflect the delay of expected benefits in the current fiscal year from the temporary increase in Federal Medical Assistance Percentages (FMAP) from the American Recovery and Reinvestment Act (ARRA). Other significant increases include a \$167 million increase in HHC subsidies to help

[1] City-funds in this discussion is total-funds less Federal, State and other categorical grants and expenditures, and inter-fund agreement revenues and expenditures. Revenues from Federal, State and other categorical grants, and inter-fund agreements fund corresponding Federal, State, other categorical and inter-fund agreement expenditures and have no impact on the budget gap.

[2] The \$134 million is part of an agreement whereby BPCA would transfer \$200 million to the City's General Fund to provide budget relief. The remaining \$66 million is scheduled to be transferred in FY 2011.

reduce HHC's operating deficit and $176 million in agency spending. However, the revision to agency spending includes the increase to water and sewage O & M expenditures funded by Water Board payments. Excluding the O & M cost, agency spending in the May Modification is $79 million less than the Adopted Budget.

The combination of upward revisions to revenues and lower expenditure estimates results in a projected budget surplus of $3.3 billion for FY 2010, as shown in Table 4. The projected surplus will be used to provide budget relief for FY 2011 through the prepayment of $3.1 billion of FY 2011 general obligations (G.O.) debt service and $164 million of FY 2011 library subsidies.

Table 4. Changes Since the Adopted Budget Estimates

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

June 2009 Gap	**$0**
Tax Revenues	$1,890
BPCA Joint Purpose Fund	$134
HHC Revenue Due to City	($181)
State Impact	($178)
Non-Tax Revenues	$387
Agency PEGs	$76
Total Revenues	**$2,128**
Prior-Year-Payable Adjustment	$800
Agency PEGs	$413
Labor Reserve Adjustment	$213
Debt Service	$211
General Reserve	$200
IFA Rate Increase	$74
Remove Funding for 1.25% Wage Increase for 1st 2 years of next round of Collective Bargaining	$35
Pensions	($60)
State Budget Impact	($92)
Restoration of Uniformed Police Attrition PEG	($120)
HHC Deficit Reduction	($167)
Additional FMAP	($187)
All Others	($176)
Total Expenditures	**$1,144**
Net Change to Budget Surplus/(Deficit)	**$3,272**
Prepayment of FY 2011 Expenditures	**($3,272)**
May 2010 Gap	**$0**

III. The City's Economic Outlook

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2010-2014

A year ago at this time, the U.S. economy was in the midst of one of its steepest contractions since WWII and there was little certainty of where the bottom would be found. Since then, however, the outlook has improved considerably, thanks to unprecedented actions by the federal government and the natural resiliency of the American economy. Although a vigorous recovery remains unlikely, three consecutive quarters of economic growth have finally produced renewed job creation and a growing conviction that the recession is behind us.

The 3.3 percent rise in GDP in the first quarter of 2010 confirms that the U.S. economy is recovering. While first-quarter growth was less rapid than the robust 5.6 percent pace in the final quarter of 2009, the underlying dynamic was actually healthier and better balanced. More of the rise in GDP came from domestic demand and less from business inventory adjustments. In the first quarter of 2010, personal consumption expenditures contributed 2.42 percentage points to the growth rate, compared to only 1.16 percentage points in the fourth quarter of 2009. Business fixed investment, especially on equipment and software, has been positive. The contribution of inventory adjustments to GDP growth fell from 3.79 percentage points in the fourth quarter to 1.65 percentage points in the first quarter. Ultimately, economic growth can only be sustained by increasing final demand from households and businesses, not by short-term swings in business inventories.

The most important development in early 2010 has been the long-awaited turn-around in the national labor market. From December 2007 through December 2009, the country lost more than 8.3 million jobs, pushing the unemployment rate to its highest level in 26 years. The job losses were so severe they began to intensify the very problems that caused the economic downturn to begin with: home mortgage defaults, credit card and other consumer loan losses, and plunging household consumption expenditures. Throughout late 2008 and all of 2009, Americans lost their jobs at an alarming rate, and consumer and business confidence continued to sink. Even after economic growth resumed in the third quarter of 2009, another million jobs were lost. Finally, small increases in employment levels were registered in January and February, and the pace of job creation picked up significantly during March and April, when a combined 520,000 jobs were created.

The resumption of significant job growth signals that the economic recovery has taken root and that the risk of a "double-dip" recession is abating. Continued low inflation should allow the Federal Reserve to maintain low interest rates for an extended period, which, coupled with the improving job picture and lower losses on mortgage and other loans, should allow the banking system to gradually improve its balance sheet and resume normal lending to households and businesses. The recent stabilization of home prices will also help to restore consumer confidence and help to stem the loan losses that had disrupted the normal workings of the credit system.

The Comptroller's Office anticipates that the U.S. economy will continue to recover during 2010 and will expand throughout the forecast period. However, for reasons that will be explained in more detail below, the expansion is expected to be unusually slow and fragile, and it will remain vulnerable to unexpected shocks that could derail it entirely. The coming year will be the period of maximum vulnerability, as the stimulatory effects of the American Recovery and Reinvestment Act of 2009 gradually dissipate. Private spending and investment will be needed to maintain the momentum of the recovery.

During calendar year 2010, the Comptroller's Office projects real U.S. gross domestic product to increase by 2.9 percent over 2009, a rate of growth that appears relatively strong only because of the arithmetic effects of calculating off a recessionary base. In reality, we expect that the pace of growth in 2010 will be unusually slow for a recovery year and that the economy will only gradually pick up steam in the outyears of the Financial Plan. That forecast implies a somewhat weaker national economy than that expected by the Mayor for most of the Plan period.

The city's economy appears to have weathered the recession better than most analysts anticipated a year and a half ago, when Wall Street—or more accurately, Seventh Avenue—appeared to be the epicenter of the world financial crisis. Although the city lost 184,700 payroll jobs from the employment cycle peak in August 2008 through the end of 2009, proportionally the job losses were milder than in many other parts of the country. Whereas the nation as a whole lost about 6.1 percent of its job base during the recession, the city's job losses amounted to only about 4.9 percent of its peak payroll job base. The city's relatively better performance was due primarily to its industry mix, in which manufacturing, construction and transportation—among the industries hit hardest by the downturn—are relatively under-represented.

The loss of approximately 45,000 jobs in the high-wage financial services sector, however, contributed to a sharp drop in local personal income. During the four quarters ending in 3Q09, total wages paid to wage and salary workers in New York City were $265 billion, a decrease of 10.3 percent from the total paid in the four quarters ending in 3Q08. Some 77 percent of the $30 billion reduction in wages paid occurred in the finance and insurance industry. The total wage reduction excluding finance and insurance was $7 billion, or 3.5 percent. The wage decline in the finance and insurance sector was comprised of a 7.0 percent decrease in industry employment and a nearly 20 percent decline in average wages per employee. Data is not yet available for the 2009 – 2010 bonus season, but other evidence suggests that cash bonuses paid to industry employees bounced back, although not to the levels of the 2007 - 2008 bonus season.

Due to job losses and continued labor force growth, the number of unemployed city residents soared from 179,400 in February 2008 to 418,100 in December 2009. The city's unemployment rate consequently rose to 10.5 percent in late 2009. Since that time there has been some improvement in local labor market conditions, with the job base growing by 54,100 between December 2009 and April 2010, and the unemployment rate falling back to 9.8 percent. Since local employment figures tend to be more volatile than the national figures, it may still be too early to proclaim the period of job attrition entirely over.

Nevertheless, there are many positive signs. We estimate that the city's economy posted its second quarter of growth in 1Q10, after seven quarters of decline. Real gross city product (GCP) grew an estimated 2.4 percent in 1Q10 after growing 0.9 percent in the 4Q09. Personal income taxes withheld during the first quarter of 2010 were up by 7.1 percent over the same period of 2009, reflecting the improvement in the job market and the strong rebound of Wall Street.

The city's real estate markets are also signaling improved economic conditions. The Manhattan office vacancy rate, including sublease space, rose to 11.6 percent in 1Q10, according to Cushman & Wakefield. However, the real estate firm reports that leasing activity in the first quarter totaled over 5.6 million square feet, making it the most active quarter since 2Q08, and a number of firms are reportedly scouring the market for large blocks of space.

Recent home sales data also indicate a return to normalcy after the financial traumas of late 2008 sent the residential property market into a deep freeze. According to Prudential Douglas Elliman, the number of home sales in Manhattan, Brooklyn and Queens (including condos and co-ops) rose 76 percent in the first quarter of 2010. Home sales are both an indicator of household confidence in the local economy and a generator of local economic activity.

Overall, the Comptroller expects a somewhat weaker local economy during 2010 but a more buoyant one in 2011 through 2014.

Table 5 compares the Comptroller's and Mayor's forecasts for the city.

Table 5. Selected U.S. Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2010-2014

		2010	2011	2012	2013	2014
Real GDP, (2005 $),	Comptroller	2.9	2.7	3.1	2.9	3.1
% Change	Mayor	2.9	3.1	3.7	3.1	2.8
Payroll Jobs,	Comptroller	(0.3)	1.9	2.1	2.5	2.8
Change in Millions	Mayor	(0.9)	2.2	3.8	3.1	2.1
Inflation Rate	Comptroller	2.1	2.3	2.6	2.7	2.8
Percent	Mayor	2.0	1.9	2.2	2.2	2.1
Fed Funds Rate,	Comptroller	0.3	1.5	3.2	4.1	4.2
Percent	Mayor	0.2	1.7	3.3	3.6	4.6
10-Year Treasury Notes,	Comptroller	4.0	4.6	5.2	5.9	5.8
Percent	Mayor	4.0	4.9	5.5	5.7	6.0

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the Executive Budget Fiscal Year 2011 Message of the Mayor.

B. UNDERLYING FACTORS AFFECTING THE FORECAST

The average rate of national economic growth in the calendar year following Post-War recessions has been approximately 5.0 percent, and in the second year following those recessions, about 3.6 percent. Those figures define the classic V-shaped recession that was characteristic of business cycles at a time when manufacturing and construction represented bigger shares of the national economy, and when inventory movements and temporary layoffs were a bigger source of macroeconomic instability. The recovery from more recent recessions, such as those following the recessions of 1990-91 and 2001, were far less vigorous.

There are some persuasive reasons to believe that structural changes in the economy have changed the nature of recessions and altered the character of the recoveries that follow them. In

1957, for example, a half-century before the most recent recession, the U.S. also experienced a particularly sharp downturn. From May 1957 through June 1958, national employment plunged by over 2.2 million, representing more than 4.0 percent of the pre-recession job base. Yet, the recession lasted only eight months and within a year employment exceeded its pre-recession levels. In 1959, real GDP soared by 7.2 percent. At that time, about 37 percent of the non-agricultural workforce was engaged in goods producing activities, about 33 percent of the non-farm workforce was unionized, and only 10 percent of adult men and 6.0 percent of women held college degrees. About 22 percent of the workforce were managerial, professional and technical workers.

The character of the economy and of business cycles have changed dramatically since that time. Now, only 16 percent of the non-agricultural workforce is engaged in goods production, 30 percent of adult males and 29 percent of females are college graduates, and only 12 percent of the workforce is unionized. About 34 percent of the workforce is managerial, professional and technical workers. Firms are less subject to rapid swings in demand for interest-sensitive durable goods, less prone to unanticipated accumulation of product inventories, and hesitant to lay-off an educated and skilled workforce when demand softens. However, when business conditions warrant, they are more likely to restructure operations and permanently eliminate jobs. In the recent recession, permanent job losers outnumbered those on temporary layoff by almost three to one.

While the long-term shift towards a more educated, skilled and service-producing workforce has probably contributed to macroeconomic stability, with less frequent and generally milder recessions, it has also produced recoveries that are more gradual and sometimes "jobless." Employers are cautious about expanding their payrolls, as the hiring of skilled and educated service workers often entails significant search, screening and training costs. After the 1990 – 91 recession, it took nearly two years for employment to regain its pre-recession peak and GDP growth in 1992 was only 3.4 percent. After the relatively mild 2001 recession, it took employment more than three years to return to its pre-recession level and GDP growth in 2002 was only 1.8 percent.

Unfortunately, we expect the current recovery to look much like those of 1992 and 2002, rather than that of 1959. In addition to the structural considerations mentioned above, there are conditions unique to this business cycle that suggest the recovery will be particularly slow and sometimes sputtering.

Personal Consumption Spending

Consumer spending accounts for about 70 percent of Gross Domestic Product, so the economy cannot grow for long without an equivalent expansion in consumer purchasing. During the second half of 2008, real personal consumption expenditures fell at a steep 3.3 percent annual rate, and declined on a year-over-year basis in both 2008 and 2009. Only in 2010 did consumer spending revive to a level consistent with a healthy recovery, expanding at a 3.5 percent rate in the first quarter. While that pace of spending growth will provide immediate benefits to the economy, it reflected a pent-up demand for goods and services that households deferred purchasing during the previous two years. It was not supported by a corresponding increase in real personal income, which did not increase at all during the quarter.

During the years preceding the recession, households also increased spending faster than their incomes warranted. From 2002 through 2007, real personal consumption expenditures rose at a 3.0 percent annual rate while real disposable income increased at only a 2.7 percent rate. This was accomplished through a decrease in the personal savings rate and an increase in household borrowing. Household debt outstanding increased by more than $5.2 trillion from 2002 to 2007, raising the ratio of household debt to annual income from 1.09 to 1.35. The excess of spending growth over income growth helped the economy expand faster than it otherwise would have for a time, but starting with subprime mortgages and eventually spreading to all forms of consumer credit, the debt levels proved unsustainable. The resulting credit losses were the primary cause of the financial crisis and the ensuing recession.

American households have begun the process of reducing their debt burdens. Unfortunately, the process has been traumatic for many families, with deleveraging having come in the form of mortgage defaults and home foreclosures. Others saw their autos repossessed or their credit cards deactivated. Even many of those consumers who remained current on their loans cut back on spending and borrowing as a precautionary measure. The result was that inflation-adjusted household debt outstanding decreased in 2008 for the first time since 1981, and then decreased even more dramatically in 2009.

Despite the painful deleveraging that has occurred during the past two years, American households have a long way to go to bring debt burdens back to what they were as recently as 2002. Assuming a plausible rate of disposable personal income growth over the next five years, household debt outstanding would have to grow at an average annual rate of just 1.5 percent to return the debt/income ratio to 1.09 by 2014. In contrast, household debt grew at a 10.1 percent rate from 2002 to 2007. While there is nothing to suggest that the 1.09 ratio is the “correct” one, it is a benchmark useful to gauge the degree of correction that would be needed to undo the excesses of the “credit bubble.”

Judging by press reports as well as official data (consumer revolving loan debt has contracted by more than $100 billion since the end of 2008), many consumers have been chastened by the experience of the past few years and have intentionally reduced their borrowing. However, even if consumers do not desire to exercise restraint, banks and credit markets will impose it. Having experienced disastrous losses on mortgage, credit card and other consumer loans, banks have tightened lending standards dramatically. Secondary markets for these loan portfolios have also become newly attentive to credit quality, and will impose stricter underwriting standards on loan originators. Moreover, Congress is likely to create a new federal consumer protection agency for financial products, which will further inhibit excessive consumer lending. For all of these reasons, household debt is likely to grow much more slowly during this recovery than it has in previous expansions.

With household borrowing both voluntarily and institutionally constrained, growth in consumption spending will have to be generated primarily by growth in household income. This constraint will limit the rate of consumption growth and, in turn, suppress the rate of GDP growth.

Construction Spending

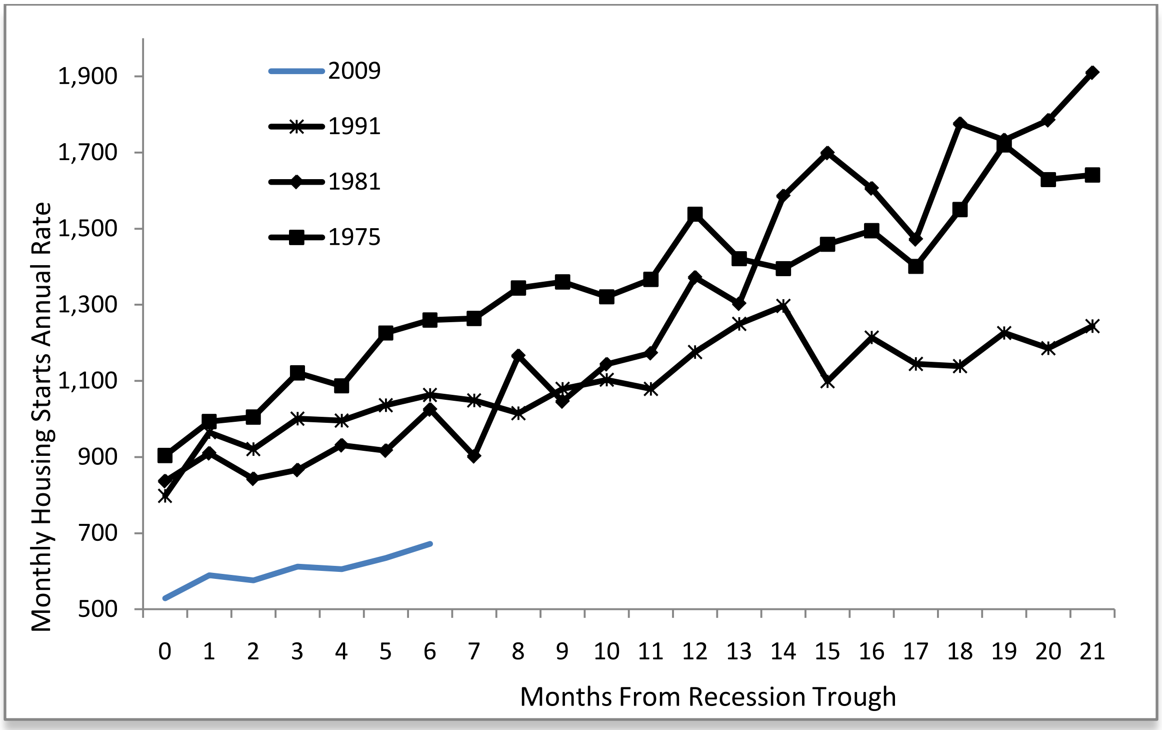
Construction activity has played an important role in past recoveries. Because real estate investment is extremely sensitive to interest rate movements it usually responds vigorously to countercyclical Federal Reserve policies and acts as one of the engines that pull the economy out of slumps. On occasion, however, imbalances within the real estate market, such as those that existed in the early 1930s or, to a less severe extent, in the early 1990s, prevent the sector from effectively transforming easier credit conditions into growth in the real economy. Given the serious imbalances in real estate markets that led to the recent recession, it is highly unlikely that the real estate sector will play its traditional role during the present recovery.

The implosion of the housing market was the signature event and principal cause of the recent recession. Once house prices stopped growing, and then began to decline, millions of homeowners with subprime mortgages began to default, leading to the near meltdown of the entire financial system. The damage to the residential real estate market was severe. Home prices, as measured by the Case-Schiller 20-city index, fell 32 percent from May 2006 through May 2009, and in some cities by more than 50 percent. The price declines caused even more homeowners to default and lenders to foreclose on millions of homes. By the end of 2009, according to the Mortgage Bankers Association, 9.6 percent of all mortgages on 1- to 4-unit properties were delinquent and an additional 4.6 percent were in the foreclosure process. Regardless of whether homes in foreclosure are ultimately repossessed by lenders or become distress sales, they constitute a “shadow inventory” on the housing market, squeezing out new home sales and depressing prices. According to RealtyTrac, over 6.3 million homes entered this shadow inventory during 2007, 2008 and 2009 and another three million are likely in 2010.

Combined with the effects of the recession itself, the price decreases and competition from the shadow inventory have severely depressed home building activity. From a cyclical peak of 2.068 million housing starts in 2005, the number of starts plunged to just 554,000 in 2009—the lowest level on record. During the first four months of 2010, housing starts were still running at the extremely low annualized rate of 631,000. While sales of existing homes have revived somewhat—in part because of the large number of foreclosure and distress sales—the new home market remains moribund. Based on the continued flow of distressed properties into the market, the tightened mortgage underwriting standards and fragile market for mortgage securities, and the wariness of banks to extend construction loans to housing developers, it is likely that home construction will remain at unusually low levels for several more years.

Chart 1 shows the pattern of housing starts, at a seasonally adjusted annual rate, during the first two years of four recent economic recoveries. The dramatically lower level of housing construction activity from which this recovery is beginning is readily apparent. Even if the rate of change keeps pace with those of other recoveries, there is likely to be a huge amount of underutilized resources and labor in the residential construction sector for a long period of time.

***Chart 1*. U.S. Housing Starts During Early Stages of Four Economic Recoveries**



SOURCE: U.S. Department of Census.

The extraordinarily low level of new housing construction can be seen as a good thing for both the housing market and for the broader economy, as the lack of new supply will allow time for the shadow inventory to be absorbed and for housing prices to recover. However, in the meantime it will keep the unemployment rate at elevated levels and constrain the rate of economic growth.

There is a similar situation in the commercial real estate market. In the years prior to the recession, commercial real estate prices had spiked to unprecedented levels, propelled by relatively new techniques for securitizing commercial real estate loans (CMBS). Although default rates on commercial real estate loans have remained well below those on residential loans, recent vintages of commercial loans in many ways resemble sub-prime home loans. They were often underwritten at very high loan-to-value ratios and were structured to require refinancing in a short period of time. According to Bloomberg News, by 2006 nearly 60 percent of the CMBS transactions were interest-only loans which did not require the borrower to pay down any loan principal.

Since the financial crisis of 2007 – 2008, the market for new CMBS transactions has virtually disappeared and banks have found themselves holding growing portfolios of non-performing commercial real estate loans (construction loans are generally included in this category). Lenders are extremely hesitant to extend new commercial real estate loans of any type, but especially to finance new development. Moreover, many of the loans previously underwritten are maturing and, given falling building cash flows and valuation, cannot be refinanced at their original terms. According to Foresight Analytics LLP, more than $1.4 trillion of commercial real estate loans are due to mature from 2010 to 2014.

Because of the long lead times associated with the development of commercial real estate projects, the market is still in the early stages of its declining cycle. The value of private non-residential construction put in place did not peak until 2008, then declined 26 percent in 2009. During the first three months of 2010, the value of private non-residential construction fell 24 percent from the same period a year earlier. The deteriorated market fundamentals for commercial real estate, the impaired credit environment for financing such real estate, and the pressing need to refinance existing commercial mortgages, combine to make a strong revival in commercial construction extremely unlikely in the short run.

European Debt Crisis

During early 2010 another significant credit risk began to rattle global financial markets. The crisis began with growing concerns that the Greek government would not be able to service its sovereign debt of approximately $400 billion. The concern quickly spread to other European Union (EU) countries considered to have weak economies and/or high debt levels, notably Spain and Portugal. Despite an EU plan to provide up to $1 trillion of financing to member states that were in danger of experiencing debt repayment problems, international investors remained wary. Yields on Greek and other European government debt continued to rise, while from April 14 to May 18, the Euro declined in value by more than 10 percent against the dollar.

The European debt crisis poses several risks to the U.S. economic recovery. While U.S. banks hold only about 4.0 percent of the $1.6 trillion of foreign bank exposure to the sovereign debt of Greece, Portugal and Spain, much of the debt is held by foreign banks that have extensive interconnections with American banks. As the initial subprime mortgage crisis of 2007 – 2008 dramatized, the linkages among global financial institutions are intricate and opaque. The very fact that the linkages and counterparty risks are not transparent, in fact, can add to the systemic risks. While we do not believe that the American financial system is as vulnerable to the European debt crisis as it was to the domestic subprime crisis, there will almost certainly be adverse effects on American banking liquidity should the debt crisis intensify further.

Another concern is that the European Union is America's largest trading partner. In 2008, the EU accounted for $275 billion, or 21 percent of total U.S. exports. The decline in the value of the Euro relative to the dollar has already made American exports more expensive in Europe (and European imports less expensive relative to domestic goods in the United States). A further, significant decline in the value of the Euro could harm the U.S. trade balance and suppress the rate of economic growth in coming years. Moreover, European Union nationals represent about 45 percent of the foreign visitors to New York City, so a depreciation in their currency could reduce the number of European tourists in the city and constrain their spending when they are here.

Table 6 compares the Comptroller's and Mayor's forecasts for the nation.

Table 6. Selected NYC Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2010-2014

		2010	2011	2012	2013	2014
Real GCP, (2005 $),	Comptroller	1.4	2.8	2.9	3.0	3.0
% Change	Mayor	3.6	0.2	2.4	2.3	2.1
Payroll Jobs,	Comptroller	(19.0)	34.0	36.0	43.0	58.0
Change in Thousands	Mayor	(58.0)	12.0	40.0	41.0	31.0
Inflation Rate	Comptroller	1.9	2.3	2.6	2.8	2.9
Percent	Mayor	2.0	2.1	2.4	2.4	2.3
Wage-Rate Growth,	Comptroller	0.9	2.3	3.2	3.5	3.8
Percent	Mayor	3.8	4.0	0.9	3.5	3.7
Unemployment Rate,	Comptroller	10.1	9.1	8.4	7.6	6.8
Percent	Mayor	NA	NA	NA	NA	NA

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the Executive Budget Fiscal Year 2011 Message of the Mayor. GCP=Gross City Product. NA=not available.

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IV. Balancing the FY 2011 Budget

The Preliminary FY 2011 budget, released in January 2010, was balanced without considering any impact from proposed State Executive Budget actions. However, along with the Preliminary FY 2011 Budget, the City released a contingency plan that would have required shrinking the workforce by more than 19,000 to absorb the combined $1.3 billion cut to the City's FYs 2010 and 2011 budgets from proposed actions in the State Executive Budget. The City's Executive Budget includes the impact of the State Executive Budget actions but has largely avoided the drastic cuts proposed in the Contingency Plan, with the exception of cuts in the Department of Education should the State not restore cuts to education aid proposed in its Executive Budget. [3]

As Table 7 shows, the Mayor is addressing $388 million of the $487 million FY 2011 State Budget impact through an expected increase in FY 2010 prepayments of FY 2011 expenditures, made possible by upward revisions to revenues and expenditure reductions in the current fiscal year. The Mayor is also relying on an increase of $175 million in agency gap-closing initiatives.

Under the Mayor's plan, the impact of cuts to education aid would be borne entirely by the Department of Education. The anticipated $493 million cut will result in a reduction of 6,414 teachers and 279 non-pedagogical staff.[4] Of the 6,414 reduction in teachers, 4,419 are expected to be achieved through layoffs while all the targeted 279 non-pedagogical employees will be laid off.

The greatest change in the revenue forecast is the removal of the assumed tax fairness program proposed in the Preliminary Budget. The City had proposed taxing sales of aviation fuel to airlines and extending the mortgage recording tax to co-op purchases, which were expected to generate additional revenues of $169 million and $50 million, respectively, in FY 2011.

[3] The Executive Budget assumes that the impact on the City from the State Executive Budget would result in revenue loss of $340 million, additional expenditures of $147 million and loss of education aid of $493 million. Combined with expected revenue losses of $178 million and additional expenditures of $92 million in FY 2010, the impact of State Executive Budget actions totals $1.25 billion over FYs 2010 and 2011.

[4] Since the release of the Executive Budget, the Mayor has rescinded his plan to layoff teachers and has proposed funding these positions by eliminating planned funding for salary increases in the current round of collective bargaining for teachers.

Table 7. Changes to the FY 2011 Estimates
FY 2011 Executive Budget vs FY 2011 Preliminary Budget

($ in millions)

Preliminary Budget Gap	**$0**
Tax Revenue	$97
Eliminate Tax Fairness Program	($219)
BPCA Joint Purpose Funds	$66
Non-Tax Revenue	($25)
Total Revenue Changes	**($81)**
Labor Reserve	$268
Debt Service	$97
Additional FMAP	$561
HHC Deficit Reduction	($83)
Reserve of Pension Assumptions	($400)
GASB 49	($150)
IFA Rate Increase	$61
Pension	$16
Others	($365)
Total Expenditure Changes	**$5**
Agency PEGs	**$175**
Change in Prepayments of FY 2011 Expenditures	**$388**
Total Change	**$487**
State Budget Impact	**($487)**
State School Aid Loss	**($493)**
DOE Headcount Reduction	**$493**
Executive Budget Gap	**$0**

One notable change to the City's expenditure estimates is the inclusion of funding for the estimated cost of pollution remediation. The recognition of the cost of pollution remediation in the Financial Plan removes a significant source of risk to the expenditure estimates. Other significant changes include a $400 million increase to the pension reserve to fund potential changes in actuarial assumptions and methodology, offset by additional FMAP benefits of $561 million from an adjustment in the timing of the benefits as discussed in "Federal and State Aid" beginning on page 26, and a $268 million decrease in the labor reserve to reflect the actual value of contracts settled in the current round as well as better estimates of the remaining contracts to be settled.

Program to Eliminate the Gap (PEGs)

In the Executive Budget, the City has restored approximately $139 million in funding for cuts proposed in the Preliminary Budget, and proposed additional gap-closing initiatives of $314 million. This results in a net increase of $175 million in the agency program to eliminate the gap (PEG). The Police Department accounts for $105 million of the restored funding. The Department is delaying its proposed implementation of overtime management initiative until FY 2012, and hence will not realize estimated FY 2011 savings of $50 million. In addition, the

Police Department has scaled down its uniformed headcount reduction initiative. In the FY 2011 Preliminary Budget, the Department had proposed maintaining peak uniformed headcount beginning FY 2011 and beyond at the budgeted peak of 34,771 for FY 2010. In the Executive Budget, the Department will maintain a peak headcount of 35,767 in FY 2011 and maintain peak headcount in FY 2012 and beyond at an adjusted FY 2011 peak headcount of 35,367.[5] As a result, the Department will not realize the $55 million FY 2011 savings anticipated in the Preliminary Budget while projected savings in the outyears are reduced by approximately $57 million in each of FYs 2012 through 2014.

In total, the City is proposing $1.3 billion in PEGs for FY 2011 comprised of 412 initiatives. Of these, only $544 million are benefits from PEGs to be implemented in FY 2011. The remaining $747 million in benefits are from recurring PEGs initiated in FY 2010. PEG initiatives valued at $5 million or more, commonly referred to as core PEGS, make up $937 million of the total PEG value. There are a total of 59 core initiatives. While they make up only 14 percent of the total number of initiatives, they account for more than 72 percent of the PEG benefits. The core PEGs initiatives are shown in Appendix Table A3.

Risks and Offsets

The Comptroller's Office has identified net risks of $54 million, $462 million, $622 million, $923 million, and $297 million in FYs 2010 through 2014, respectively. As a result, FYs 2010 and 2011 could face modest budget gaps of $54 million and $462 million, respectively, while outyear gaps could grow to $4.4 billion in FY 2012, $5.6 billion in FY 2013, and $5.7 billion in FY 2014.

Risks to the May Modification and the FYs 2011 – 2014 Financial Plan stem from risks to certain expenditure estimates and assumptions, and the impact of proposed State actions. These risks are offset by the Comptroller's expectation of higher tax revenues in each year of the May Modification and FYs 2011 – 2014 Financial Plan. The Comptroller projects that tax revenues will exceed the City's forecast by $94 million in FY 2010, $178 million in FY 2011, $152 million in FY 2012, $52 million in FY 2013, and $350 million in FY 2014. The Comptroller's tax revenue forecasts are discussed in greater detail in "Tax Revenues" beginning on page 21.

The greatest risks to the City's expenditure projections are the impact of proposed State actions and collective bargaining costs for the United Federation of Teachers (UFT) and Council of School Supervisors and Administrators. As discussed in "Federal and State Aid" beginning on page 26, the Comptroller's Office estimates that the risk to the City budget from proposed State actions may reduce State Aid by $300 million annually, beginning FY 2012.

The reduction of funding for wage increases for the current round of collective bargaining for employees represented by the United Federation of Teachers (UFT) and Council of School Supervisors and Administrators (CSA) also poses a significant risk to the Financial

[5] FY 2011 PEGs in the Police Department include an initiative to civilianize 400 uniformed positions. The Department expects to complete the civilianization at the end of the year. Peak headcount for FY 2012 and beyond are based on FY 2011 peak adjusted for civilianization.

Plan. The City had previously budgeted for wage increases of 4.0 percent in each of the first two years beyond the previous round of collective bargaining, patterned after the settlement with the other major municipal unions. However, in the January Plan, the City reduced funding to reflect two annual wage increases of 2.0 percent with a cap of $2,828 for employees earning more than $70,000 annually, patterned after managerial wage increases awarded to Department of Education managers in December 2009.[6] As discussed in "Labor" beginning on page 35, the negotiation between the City and UFT is currently being mediated by the Public Employment Relations Board. Based on past experience, contracts with other major municipal employee unions are likely to form a basis for PERB actions.

Another significant risk to the City's expenditure projections is the assumption of additional offsets to Medicaid spending from an extension to enhanced FMAP by two quarters. However, as discussed in "Federal and State Aid" beginning on page 26, the Jobs bill approved by Congress on May 28th did not include the FMAP extension. As a result, it is uncertain if the City will achieve the assumed offsets to Medicaid spending of $279 million in FY 2011, $61 million in FY 2012, and $269 million in FY 2013.

[6] Since the Executive Budget was released, the Mayor has rescinded his plan to layoff teachers and proposed funding these positions with a two-year wage freeze.

V. Revenue Assumption

Total revenue projections for FY 2011 have decreased $702 million since the Preliminary Budget to $62.9 billion in the Executive Budget. The decrease is primarily driven by a $526 million decline in anticipated State categorical grants. Most of the decrease is due to a $493 million cuts in State education aid. City-funds revenues, which excludes Federal, State and other categorical grants, total $43.2 billion and is expected to be below FY 2008 level until FY 2012.

Tax Revenues

In the FY 2011 Executive Budget the City projects total tax revenues of $38.9 billion. This forecast reflects a year-over-year increase of 4.5 percent but a $124 million decrease from the Preliminary Budget forecast.[7] The main reason for the overall decrease from the previous forecast is the removal of the "tax fairness" proposals included in the January Plan, estimated to be worth $219 million in FY 2011. The proposals, which required State legislative approval, included an extension of the sales tax on aviation fuel sold to airlines and an extension of the Mortgage Recording Tax (MRT) to co-op apartment purchases. Without the tax program adjustment, the FY 2011 tax revenue forecast would be $95 million above the January Plan forecast. Reflecting the expectation of continued economic recovery, the City anticipates total tax revenue to grow on average 4.1 percent annually from FY 2010 to FY 2014.

Changes from Preliminary Plan

Total tax revenue projections have increased $221 million for FY 2010 and decreased $124 million for FY 2011. The City also lowered its forecast for total tax revenues $196 million, $297 million, and $375 million for FYs 2012, 2013, and 2014 respectively. In addition to the removal of the "tax fairness program" for FY 2011 and beyond, the City lowered its FY 2011 forecast for property tax, business tax and real-estate-related tax revenues and increased its forecast for Personal Income Tax (PIT) and sales tax revenues.

The largest change in the revenue forecast for FY 2011 comes from the PIT. The City has increased its PIT forecast $237 million, or 3.0 percent, compared to the forecast included in the January Plan. Both PIT withholding and installments forecasts are up compared to the previous plan, reflecting the City's improved expectations for employment gains as well as continued strength in the finance sector. PIT forecasts for FYs 2012 – 2014 have also increased $108 million, $21 million and $22 million respectively.

Excluding PEGs, the FY 2011 forecast for property tax revenue declined $158 million from the January Plan. The revision reflects changes in the forecast for the levy, refunds, lien sale proceeds and the reserve for uncollectible taxes. Forecasts for FYs 2012 to 2014 have also

[7] If not indicated specifically, throughout this section, the definition of tax revenue for each single tax includes the impact of NYS Budget proposals where applicable. Personal income tax (PIT) and Property tax revenues include School Tax Relief (STAR) reimbursement.

declined by $113 million, $53 million, and $53 million, respectively. The levy forecast declined $54 million in each year from FYs 2011 to 2014.

Excluding the impact of the removal of the "tax fairness" proposal and the NYS Executive Budget proposal to increase the cigarette tax, the sales tax revenue forecast increased $23 million in FY 2011. The City believes job gains and consumer confidence will continue to improve in the second half of FY 2011. In addition, the City anticipates sales tax revenues will continue to benefit from tourism-related consumption. However, growth in the outyears is expected to be modest. The forecast for FY 2012 is $4 million lower than projected in the January Plan. For FYs 2013 and 2014, the forecast is respectively, $7 million and $5 million above the previous Plan.

The City lowered the business tax revenue forecast by $44 million in FY 2011. This decrease is driven by lower estimates for both the General Corporation Tax (GCT) and the Unincorporated Business Tax (UBT), which were revised downward by $162 and $72 million, respectively, from the Preliminary Budget. The Banking Corporation Tax (BCT) forecast increased by $190 million, partially offsetting the decrease in the GCT and UBT forecasts. BCT revenues are benefiting from higher bank profits resulting from the wide interest rate margins that currently prevail. The overall business tax revenue forecast for the outyears is $12 million above the January Plan forecast in FY 2012, and $16 million and $59 million below the previous Plan forecast in FYs 2013 and 2014, respectively.

The real-estate-related tax revenue forecast declined $22 million in FY 2011 from the Preliminary Budget forecast. Projections for both the mortgage recording tax and the real property transfer tax declined by $10 million and $12 million respectively. The City anticipates revenues from residential MRT and real estate transfer tax will decline in FY 2011 reflecting depressed residential real estate prices, before rebounding in FY 2012. In contrast, the City anticipates commercial MRT revenues to exhibit growth in FY 2011 reflecting an improved refinancing environment. In addition, the City expects revenues from transfer taxes on commercial properties to stabilize. In the outyears, the City increased the real-estate-related tax forecast by $21 million for FY 2012 and decreased the forecast for FYs 2013 – 2014 by $18 million and $39 million respectively.

Table 8. Changes to the City's Tax Revenue Assumptions, FYs 2010 – 2014

($ in millions)

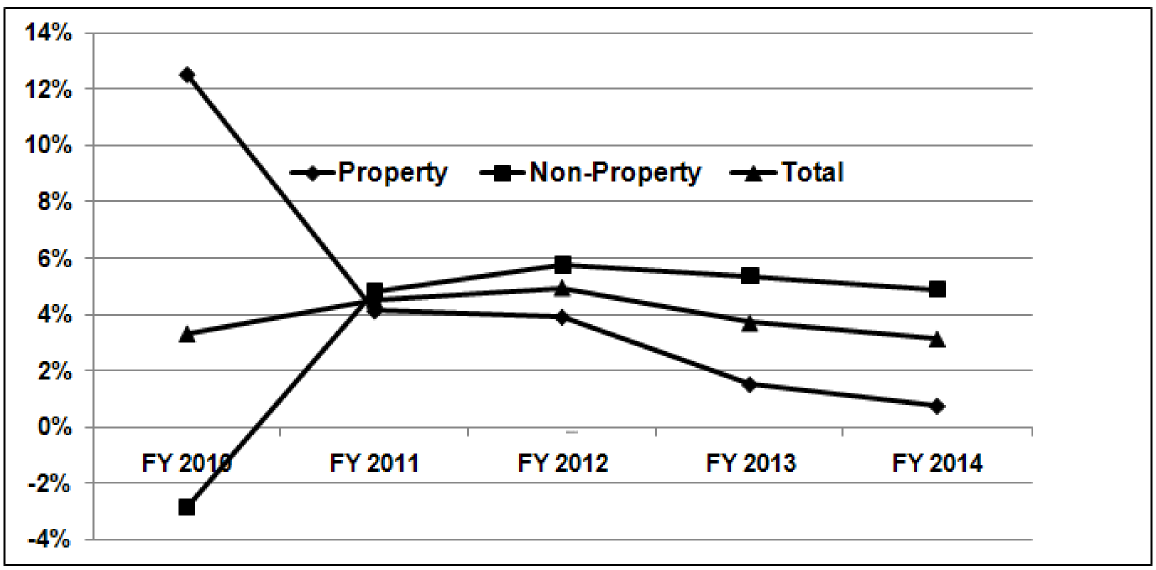
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Property	$74	($158)	($113)	($53)	($53)
PIT	42	237	108	21	22
Business	(93)	(44)	12	(16)	(59)
Sales	111	23	(4)	7	5
Real-Estate-Related	43	(22)	21	(18)	(39)
All Other	45	61	23	26	35
Total W/O PEGs & Tax Programs	**$222**	**$97**	**$47**	**($33)**	**($89)**
Tax Fairness Proposals	0	(219)	(241)	(262)	(284)
Audit PEGs	0	10	10	10	10
NYS Budget Proposal	(1)	(12)	(12)	(12)	(12)
Total	**$221**	**($124)**	**($196)**	**($297)**	**($375)**

SOURCE: Office of Management and Budget

Tax Revenue Trends

Total tax revenue is projected to increase $1.7 billion in FY 2011 and $6.5 billion from FY 2010 to FY 2014, representing an average annual growth rate of 4.1 percent. Over the Financial Plan period non-property tax revenues are forecast to grow on average 5.2 percent annually while property tax revenues are projected to grow at an average annual rate of 2.6 percent. Chart 2 shows the projected year-over-year growth rates of property, non-property and total tax revenues throughout the Plan period. Property tax revenue growth moderates considerably in FY 2011 and continues to taper off over the Plan period. Non-property tax revenue growth is expected to rebound in FY 2011 and to continue to grow in the outyears, albeit at a slower rate, mirroring the City's anticipation of a slow economic recovery.

Chart 2. Tax Revenue Growth



As Table 9 shows, the City's revenue forecasts reflects a slow economic recovery with the more cyclically sensitive taxes exhibiting a rebound from the recession early in the Plan period and growth rates moderating afterwards. Because of the expectation that the recovery will not be robust, non-property tax revenues do not regain their FY 2008 level until FY 2014.

After decreasing 0.6 percent in FY 2010, PIT growth rebounds to grow at a 9.4 percent pace in FY 2011. Nonetheless, projected PIT collections for FY 2014 are expected still to be below the FY 2008 level. Similarly, the BCT will continue to swoon by 15.4 percent in FY 2011 before rebounding in FY 2012, but it is expected to exhibit net negative growth of 1.7 percent over the Plan period. In aggregate, business tax collections are slated to grow more robustly as average annual growth of 13 percent for GCT and 5.3 percent for UBT revenues reflect healthy financial sector profitability and a recovery in non-finance firms.

Real property tax revenues are estimated to grow at an average annual rate of 2.6 percent for the Plan period despite posting a robust 12.5 percent growth rate in FY 2010. However, by FY 2014 collections growth slows to only 0.8 percent. The property tax growth rate decelerates because of the diminishing pipeline of assessed value growth accumulated when real estate values surged**.**

Not quite conforming to the pattern of robust recovery followed by diminishing growth are the sales tax and real-estate-related taxes. After falling back from FY 2010's strong growth rate, sales tax revenues are expected to grow moderately but gain steam throughout the Plan period. Revenues from real-estate-related taxes are forecast to grow faster than any other tax revenue, reflecting the anticipated recovery in the real estate market. Real-estate-related tax revenues are forecast to grow 6.9 percent in FY 2011 after declining 19.4 percent in FY 2010. Over the Financial Plan period, real-estate-related tax revenues are forecast to average 11.3 percent annually.

Table 9. Tax Revenue Forecast, Growth Rate, FYs 2010 – 2014

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Average Annual Growth
Property	12.5%	4.1%	3.9%	1.5%	0.8%	2.6%
PIT	(0.6%)	9.4%	5.1%	4.7%	4.6%	5.9%
Business	(13.4%)	8.8%	9.9%	7.1%	4.7%	7.6%
Sales	8.7%	3.0%	4.1%	5.8%	5.5%	4.6%
Real-Estate Related	(19.4%)	6.9%	15.4%	11.8%	11.2%	11.3%
All Other	3.5%	(2.1%)	(1.3%)	(0.1%)	2.0%	(0.4%)
Total	**3.3%**	**4.5%**	**4.9%**	**3.7%**	**3.1%**	**4.0%**

SOURCE: Office of Management and Budget

Risks and Offsets to Tax Revenues

The Comptroller's Office projects the risks and offsets to the City's tax revenue assumptions based on current year collections and economic growth projections. For FY 2010, the Comptroller's Office expects tax revenues to be $94 million above the City's estimate, as shown in Table 10. The current fiscal year offset is due to slightly greater forecast for business, sales, and real-estate-related tax revenues. For FY 2011, the Comptroller forecasts total revenues to be $178 million higher than the City. The offset stems from higher forecasts for sales, real-estate-related and business tax revenues, reduced somewhat by lower forecasts for PIT and property tax revenues. The Comptroller believes that there remains strong domestic and international demand for New York City real estate and that transaction volume and pricing will strengthen during FY 2011. The Comptroller's lower projections for PIT revenues are attributable, in part, to the expectation that Wall Street cash bonuses will not return to the levels seen prior to the financial crisis and that interest income of high net worth taxpayers will remain relatively flat for an extended period.

The Comptrollers' Office forecast for property tax revenue is slightly below the City's forecast over the Financial Plan period. The Comptroller anticipates that market values will rise in the outyears but remain well below the peak prices reached prior to the financial crisis. The forecast for sales tax is slightly above the City's forecast with offsets of more than $100 million in FYs 2011 – 2013 and $78 million in FY 2014. The business tax revenue forecast is above the City's forecast for FYs 2010 – 2011 and below the City's forecast for the remainder of the Plan period. The Comptroller's Office anticipates that new regulatory constraints will limit the profitability of finance and banking firms and thereby have a more negative impact on GCT and BCT growth than the City projects for the last two years of the Plan period.

Table 10. Risks and Offset to the City's Tax Revenue Projections

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Property	$0	($18)	($66)	($98)	($92)
PIT	0	(300)	(305)	(266)	(125)
Business	39	33	($43)	(218)	(102)
Sales	50	114	119	110	78
Real-Estate-Related	5	349	447	524	591
Total	**$94**	**$178**	**$152**	**$52**	**$350**

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

Miscellaneous Revenues

Miscellaneous revenues are non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, water and sewer revenues, interest income and nonrecurring revenues deriving from asset sales and other one-time resources. In the FY 2011 Executive Budget, the City projects miscellaneous revenues to decrease $427 million to $4.3 billion (exclusive of private grants and intra – City revenues) over the prior year's estimate.

As Table 11 shows, the FY 2011 Executive Budget raises the miscellaneous revenue forecast by just $26 million above the Preliminary Budget estimate. The categories with the largest forecast changes are an increase in "other miscellaneous" of $100 million and a decline in fines and forfeitures of $50 million. The City lowered its estimate for "block the box" violation revenues by nearly $55 million, due to an anticipated drop in the number of summonses issued. This revision was partially offset by small forecast increases in building fines, consumer protection enforcement and other fines. In the "other miscellaneous" category, the forecast increase is mainly due to a non-recurring payment of $66 million from the Battery Park City Authority (BPCA) as part of the $200 million distribution the Authority agreed to make to help close the City's budget gap.[8] In addition, the City expects to receive non-recurring revenues of nearly $30 million in litigation settlements and restitutions.

Overall, miscellaneous revenues are expected to remain flat at approximately $4.3 billion annually over the Financial Plan period.

[8] According to an agreement made between the BPCA, the Mayor and the City Comptroller, the BPCA will distribute $200 million to the City and $200 million to the State to help minimize budget gaps. The City is scheduled to receive $133.8 million in the current fiscal year and $66.2 million in FY 2011.

Table 11. Changes in FY 2011 Estimates
FY 2011 Preliminary Budget vs. FY 2011 Executive Budget

($ in millions)

	Preliminary	Executive	Change
Licenses, Franchises, Etc.	$493	$481	($12)
Interest Income	44	48	4
Charges for Services	755	753	(2)
Water and Sewer Charges	1,345	1,331	(14)
Rental Income	223	223	0
Fines and Forfeitures	896	846	(50)
Other Miscellaneous	492	592	100
Total	**$4,248**	**$4,274**	**$26**

SOURCE: NYC Office of Management and Budget.

Federal and State Aid

The FY 2011 Executive Budget reflects total Federal and State aid of $17.93 billion, comprising about 29 percent of the City's overall revenue budget of $62.94 billion. Baseline Federal and State grants are expected to total $6.69 billion and $11.24 billion respectively, with about 85 percent of these funding sources supporting the major areas of education and welfare services.

A significant portion of the Federal grants assumption in FY 2011 represents stimulus funding that the City expects to receive under the ARRA of 2009. As detailed in Table 12, Federal stimulus funds would provide nearly $1.07 billion in baseline support to the City's budget in FY 2011. Moving forward, however, the baseline ARRA support would all but disappear by FY 2012 mainly due to the termination of funding for education and, to a lesser extent, health and social services programs. In addition to this support, the ARRA also grants budgetary relief through enhanced matching funds from a temporary increase in the Federal Medicaid Assistance Percentage (FMAP) formula, which appears in the City's budget as Medicaid savings rather than baseline grants. The Executive Budget has recognized an additional $561 million in FMAP relief for FY 2011 that brings the revised estimate to $856 million for the year. Over the Plan period, the May Plan reflects an increase of about $1.2 billion in FMAP offsets, raising the total FMAP benefit to almost $2.8 billion. The more optimistic assumptions are attributable to both an amendment in the finalized Health Care Reform Act requiring the State to share a significantly greater portion of its FMAP savings with localities and the expected approval of pending legislation in Congress that would extend the enhanced FMAP funding by two additional quarters.

In the latest development, the FMAP extension was excluded from the Jobs bill that Congress approved on May 28th, dealing a setback to the assumption of additional relief from this measure in the Plan. While Congress may revisit the issue as part of a separate legislation or the President's Budget, it poses significant uncertainty to the City's assumption that a total of $609 million in Medicaid expenditures will be offset by the FMAP extension in FYs 2011 – 2013.

The State, grappling with a projected budget deficit of $9.2 billion in the current fiscal year, has been operating with a series of temporary budget extensions since its FY 2010 ended on March 31st. The ongoing budget impasse has already placed the current year as the third longest delay in State budget adoption over the past decade. The lack of a State budget creates a great deal of uncertainty regarding the level of State assistance that the City will receive in the upcoming fiscal year. In the Executive Budget, the City has opted to take actions to minimize the eventual risks from the State budget by reflecting most of the Governor's budget proposals within its baseline assumptions. Compared with the Preliminary Budget, the Executive Budget has recognized a decline of $526 million in its State aid assumptions. The change mainly reflects the potential loss of $493 million in State education aid under the Governor's proposed budget. This estimate is comprised of a $442 million reduction in formula-based school aids and a $51 million shift in cost to the City for summer special education services, to be absorbed directly by the Department of Education's operating budget.

Table 12. ARRA Federal Stimulus Funds Projections, FYs 2009 – 2013

($ in millions)

Function Area	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Cumulative Total
Community Development	$0	$48	$0	$0	$0	$48
Education	0	1,194	853	0	0	2,047
Health and Social Services	28	207	39	0	0	274
Neighborhood Stabilization	47	72	21	5	0	145
Economic/Workforce Development	1	60	4	0	0	65
Build America/NYCTFA Bonds	0	16	62	64	64	205
Other	0	68	90	25	7	191
Total Expense Budget Support	**$75**	**$1,665**	**$1,070**	**$94**	**$71**	**$2,976**
FMAP Medicaid Relief	$459	$663	$856	$395	$422	$2,795
Total ARRA Support	**$534**	**$2,328**	**$1,926**	**$489**	**$493**	**$5,771**

The projected education aid loss is a major component of the overall $1.25 billion in potential State budget impact that the City has incorporated into its Financial Plan across FYs 2010 and 2011. The Department is expected to reduce its headcount by 6,693 positions to offset the loss of State support, including the layoffs of 4,419 teaching personnel.[9] In addition to the school aid reductions, the Financial Plan also depicts a loss of $506 million in revenue sharing aid—$178 million in FY 2010 and a complete elimination of $328 million in annual aid beginning in FY 2011. The current year impact stems from a lag in which the City recognizes this revenue. The other major components of the State budget impact include a loss of $146 million from the proposed reimbursement cap for adult shelter services, increased charges of $27 million for City juveniles placed in State facilities, additional pension costs of $16 million resulting from a State cap on accidental death benefit reimbursement, and a revenue loss of $12 million from the proposed increase of the State's cigarette tax.

[9] Since the release of the Executive Budget, the Mayor has rescinded his plan to layoff teachers and has proposed funding these positions by eliminating planned funding for salary increases in the current round of collective bargaining for teachers.

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VI. Expenditure Analysis

After adjusting for net prepayments, FY 2011 expenditure in the May FYs 2011 – 2014 Financial Plan totals $66.2 billion.[10] This is an increase of $328 million, or one-half of one percent, from adjusted estimated FY 2010 spending. From FYs 2011 to FY 2014, expenditures, after adjusting for pre-payments, are projected to grow by 10.8 percent, or 3.5 percent annually, outpacing the 2.6 percent projected annual growth of revenues by almost a full percentage point. As a result, projected budget gaps grow from $3.8 billion in FY 2012 to $5.4 billion in FY 2014.

As Table 13 shows, projected spending increases in FY 2011 and the outyears of the Financial Plan are dominated by growth in debt service, health insurance costs, and judgments and claims (J&C) settlements.[11] The combined spending in these areas is projected to grow 24.1 percent between FYs 2011 and 2014. While spending in these areas comprises approximately 16 percent of adjusted FY 2011 spending, they account for almost 36 percent of the spending increase over the Plan period. All other expenditures are projected to grow 5.9 percent over the Plan period, averaging 1.9 percent growth annually. In a significant reversal, pension cost is projected to grow at an annual rate of 2.4 percent in contrast to annual growth of 17 percent from FYs 2006 to 2009.

Table 13. FY 2011 – FY 2014 Expenditure Growth

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	Growth FYs 11-14	Annual Growth
Debt Service	$5,497	$6,273	$6,576	$6,817	24.0%	7.4%
Health Insurance	4,375	4,674	5,030	5,425	24.0%	7.4%
J & C	716	774	834	897	25.3%	7.8%
Subtotal	**$10,587**	**$11,721**	**$12,440**	**$13,139**	**24.1%**	**7.5%**
Salaries and Wages	$21,167	$20,680	$20,969	$21,522	1.7%	0.6%
Pension	7,488	7,795	7,946	8,049	7.5%	2.4%
Other Fringe Benefits	3,158	3,297	3,249	3,359	6.3%	2.1%
Medicaid	6,022	6,342	6,593	6,778	12.6%	4.0%
Public Assistance	1,563	1,603	1,591	1,591	1.8%	0.6%
Other OTPS	17,511	17,962	18,511	18,992	8.5%	2.7%
Subtotal	**$56,908**	**$57,678**	**$58,859**	**$60,291**	**5.9%**	**1.9%**
MA FMAP Increase	($856)	($395)	($422)	$0	(100.0%)	(100.0%)
Retiree Health Benefit Trust	($395)	($672)	$0	$0	(100.0%)	(100.0%)
Total	**$66,244**	**$68,332**	**$70,877**	**$73,430**	**10.8%**	**3.5%**

[10] Net prepayment for a given fiscal year is the prepayment of that fiscal year's expenditures minus the prepayment for the following year's expenditures.

[11] The portion of retiree health insurance that is paid out of the Retiree Health Benefit Trust for FYs 2010 through 2012 is added back to health insurance cost in the analysis of growth rates because these payments will artificially lower health insurance in these years and hence distort the growth rates.

Overtime

The FY 2011 overtime budget totals $844 million, an increase of $56 million from the preliminary budget and $176 million lower than the current estimate of $1.02 billion for FY 2010. The FY 2011 upward revision stems mainly from the City's decision to delay the implementation of overtime reduction initiatives until FY 2012 at the Police Department (NYPD). This results in an increase to the uniformed police department's FY 2011 overtime projection from $318 million to $368 million. Overtime spending patterns indicate that the City's overtime projections for FY 2011 are under-budgeted. As shown in Table 14, the Comptroller's office estimates that overtime spending could be higher than budgeted by at least $96 million in FY 2011.

Table 14. Projected Overtime Spending, FY 2011

($ in millions)

	City Planned Overtime FY 2011	Comptroller's Projected Overtime FY 2011	FY 2011 Risk
Uniform			
Police	$368	$440	($72)
Fire	132	132	0
Correction	70	80	(10)
Sanitation	55	55	0
Total Uniformed	$625	$707	($82)
Others			
Police-Civilian	$46	$60	($14)
Admin for Child Svcs.	9	9	0
Environmental Protection	22	22	0
Transportation	30	30	0
All Other Agencies	112	112	0
Total Civilians	$219	$233	($14)
Total City	**$844**	**$940**	**($96)**

Uniformed police officers incurred overtime expenditures of $431 million in FY 2009 and are on track to earn overtime wages of approximately $437 million for FY 2010. Although the department's spending for uniformed overtime between FYs 2005 to 2009 grew at an average annual rate of just above 5.0 percent, it is likely that overtime spending could remain relatively flat for FY 2011. Overtime spending for uniformed police officers is affected by staffing levels. Uniformed police headcount, which averaged about 35,900 for FYs 2007 through 2009 is expected to average 34,875 in FY 2011. As a result, the Comptroller's Office estimates that police officers overtime will be $440 million in FY 2011, $72 million higher than the City's estimate.

The Department of Correction (DOC) has been pursuing operational and management initiatives which have had positive effects on costs including uniformed overtime expenditures. For FYs 2007 through 2009, the department's monthly overtime cost for correction officers averaged about $8 million. During the last three months, February to April of FY 2010, the monthly average cost has declined to $5.7 million, approximating the monthly average prior to

FY 2007. Through April 2010, correction officers earned $77 million for overtime and will likely incur overtime cost of approximately $80 million for FY 2010. It is likely that in FY 2011, overtime spending will be close to the FY 2010 estimate and $10 million higher than budgeted by the City.

Headcount

Planned FY 2011 year-end City-funded headcount shows a net reduction of 2,998 from the FY 2011 Preliminary Budget. The headcount plan reflects the impact of proposed cuts in education aid to the Department of Education. In anticipation of these cuts, the City plans on reducing pedagogical staff by 6,414 teachers (4,419 through layoffs and 1,995 through attrition) and laying off 279 non-pedagogical staff.[12] As a result of the reductions, City-funded pedagogical headcount on June 30, 2011 will fall to 90,096 from planned headcount of 96,525 in June 30, 2010, a drop of almost 6.7 percent.

With the exception of staffing cuts in the DOE, the City was able to avoid the drastic reduction in headcount proposed in the January "Contingency Plan for Proposed State Budget Reductions." In addition to cuts in the Department of Education, the City had anticipated reducing headcount in other City agencies by 14,767. In the Executive Budget, excluding proposed cuts in DOE, Citywide headcount plan shows a net increase of 3,695.

The greatest increase in planned headcount is in the Police Department where planned FY 2011 uniformed police headcount is 1,492 higher than the Preliminary Budget. As discussed in "Programs to Eliminate the Gap" beginning on page 18, the City's January PEGs include a proposal to maintain peak uniformed police headcount at 34,771 for FY 2011 and beyond. In the Executive Budget, the Department will maintain a peak headcount of 35,767 in FY 2011. This results in an increase of FY 2011 year-end uniformed police headcount of 892 officers. Technical adjustments to the Preliminary Budget estimates account for the remaining increase of 600 officers.

The Department of Juvenile Justice (DJJ) will be merged with the Administration for Children Services (ACS) in FY 2011. As a result, planned City-funded full-time ACS headcount will jump from 6,073 in FY 2010 to 6,423 in FY 2011. This increase reflects the transfer of 500 staff from the DJJ to ACS.

Overall, year-end full-time headcount is expected to be 229,247 for FY 2011, a decrease of 8,832 from the planned FY 2010 headcount of 238,079. During FY 2012, headcount is expected to decline significantly from the FY 2011 projection, falling to 219,454 positions, the lowest level in the May 2010 Financial Plan. This decline reflects the expiration of the Federal Stimulus Package, which places nearly 14,000 teaching jobs at risk in FY 2012, partially offset by the assumption in the Financial Plan of a one-year hit to the FY 2011 budget from education aid cuts. Consequently, headcount reductions in response to the cuts are restored in the outyears of the Plan. Headcount in FYs 2013 and 2014 is expected to increase to 221,703 and 226,941,

[12] Since the release of the Executive Budget, the Mayor has rescinded his plan to layoff teachers and has proposed funding these positions by eliminating planned funding for salary increases in the current round of collective bargaining for teachers.

respectively, reflecting a rebound in DOE pedagogical positions. Headcount in all other agencies is expected to remain relatively flat.

Table 15. City-Funded Full-Time Year-End Headcount Projections

	FY 2011	FY 2012	FY 2013	FY 2014
Pedagogical				
Dept. of Education	90,096	80,041	81,966	87,207
City University	3,173	3,173	3,173	3,173
Sub-total	**93,269**	**83,214**	**85,139**	**90,380**
Uniformed				
Police	34,309	34,309	34,309	34,309
Fire	10,374	10,299	10,299	10,299
Corrections	8,576	8,555	8,555	8,555
Sanitation	7,075	7,047	7,292	7,292
Sub-total	**60,334**	**60,210**	**60,455**	**60,455**
Civilian				
Dept. of Education	7,628	7,904	7,904	7,904
City University	1,580	1,580	1,580	1,580
Police	14,378	14,378	14,378	14,378
Fire	4,803	4,850	4,847	4,844
Corrections	1,638	1,638	1,638	1,638
Sanitation	1,861	1,861	1,919	1,919
Admin for Children's Services	6,423	6,421	6,421	6,421
Social Services	10,350	10,352	10,352	10,352
Homeless Services	2,044	1,974	1,975	1,975
Health and Mental Hygiene	3,695	3,684	3,684	3,684
Finance	2,041	2,023	2,023	2,023
Transportation	2,117	2,110	2,130	2,130
Parks and Recreation	2,532	2,722	2,723	2,723
All Other Civilians	14,554	14,533	14,535	14,535
Sub-total	**75,644**	**76,030**	**76,109**	**76,106**
Total	**229,247**	**219,454**	**221,703**	**226,941**

As shown in Table 16, City-funded full-time equivalent (FTE) headcount is expected to total 25,248 in FY 2011. FTE headcount is projected to increase by 75 in FY 2012 and then remain relatively flat for the remainder of the Plan period.

Table 16. City-Funded FTE Year-End Headcount Projections

	FY 2011	FY 2012	FY 2013	FY 2014
Pedagogical				
Dept. of Education	1,053	1,053	1,053	1,053
City University	2,176	2,176	2,176	2,176
Sub-total	**3,229**	**3,229**	**3,229**	**3,229**
Civilian				
Dept. of Education	14,641	14,641	14,641	14,641
City University	658	658	658	658
Police	1,508	1,576	1,576	1,576
Health and Mental Hygiene	1,185	1,174	1,174	1,175
Parks and Recreation	2,297	2,322	2,326	2,326
All Other Civilians	1,730	1,723	1,724	1,722
Sub-total	**22,019**	**22,094**	**22,099**	**22,098**
Total	**25,248**	**25,323**	**25,328**	**25,327**

Health Insurance

Spending for employee and retiree health insurance is projected to be $4.375 billion in FY 2011, $356 million or about 9.0 percent higher than the adjusted FY 2010 estimate of $4.019 billion as shown in Table 17. The FY 2010 cost is adjusted to reflect a prepayment in FY 2009 of $225 million for FY 2010 pay-as-you-go retiree health expenses. Also, the City is using $82 million previously accumulated in the Retiree Health Benefits Trust Fund (RHBT) for FY 2010 retiree pay-as-you-go health insurance to offset additional pension expenditures from FY 2008 pension investment returns below the Actuarial Interest Rate Assumption (AIRA).

Table 17. Pay-As-You-Go Health Expenditures

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Department of Education	$1,525	$1,630	$1,693	$1,779	$1,885
CUNY	45	41	45	45	45
All Other	2,142	2,309	2,264	3,205	3,494
Total Pay-As-You-Go Health Insurance Costs	$3,712	$3,980	$4,002	$5,029	$5,424
Adjustment for RHBT payment	82	395	672	0	0
FY 2010 prepayment	225	0	0	0	0
Total Adjusted for prepayments	$4,019	$4,375	$4,674	$5,029	$5,424

Except for FYs 1996 through 1998 when Health Insurance Providers (HIP) agreed to freeze health insurance premiums for three years, health insurance premiums for employees and retirees have increased annually. Health insurance rates between FYs 2000 and 2010 have increased at an average annual rate of approximately 9.6 percent, reflecting the continued growth in health care costs and recent increase in New York State assessments on health insurance carriers. The FY 2011 projection assumes an increase in health insurance rates of about 11.2 percent in FY 2011 and annual increases of 8.0 percent in the outyears.

Since the FY 2011 Preliminary Budget, the City has adjusted its initial funding for increases in health insurance rates to include the impact of the recent enactment of the Federal Mental Health Parity Act. This law requires employers to offer the same level of coverage for mental health and substance use disorder services as that offered for medical and surgical services. The Federal Mental Health Parity Act supersedes the State's law, which was enacted in 2006, and offers more comprehensive benefits. This results in additional funding of $3 million in FY 2010, $50 million in FY 2011, $53 million in FY 2012, $57 million in FY 2013, and $63 million in FY 2014. Further revisions to health insurance projections stem mainly from re-estimates of headcount levels resulting in a higher cost of $12 million in FY 2010, a reduction of $31 million in FY 2011, and increases of $22 million in FY 2012, $21 million in FY 2013, and $18 million in FY 2014.

The health insurance projections include projected savings of about $44 million annually stemming from a June 2009 agreement between the City and the municipal unions to restructure some health care benefits. The savings will be achieved mainly through cost savings initiatives and co-payments for in-patient facility admissions, ambulatory surgery facility treatments, and hospital emergency room visits if patients are not admitted.

The City has removed its proposal to have active and retired members contribute 10 percent toward the cost of their health insurance coverage from the Financial Plan along with its removal of funding of 1.25 percent wage increases for the first two years beyond the last round of collective bargaining. The proposal was expected to reduce the City's share of health insurance costs by approximately $357 million in FY 2011, $386 million in FY 2012, $418 million in FY 2013, and $451 million in FY 2014. The City believes that this proposal remains a viable option in reducing health insurance cost as it has taken the position that any wage increase in the first two years beyond the last round of collective bargaining has to be funded by productivity initiatives or cost savings.

Pensions

The City projects that pension expenditures will grow from $7.488 billion in FY 2011 to $8.049 billion in FY 2014. The projections include the impact of FYs 2008 and 2009 investment losses and reserves of $600 million annually beginning in FY 2011 to fund potential changes in actuarial assumptions and methods that may result after the completion of the current audit of the five actuarial systems.

When compared to the FY 2011 Preliminary Budget, there was a net increase in the projection of pension contributions of $344 million in FY 2011 and an average of $226 million in each of FYs 2012 to 2014. The increases result primarily from the City's decision to increase the amount held in reserve to fund potential changes in actuarial assumptions by $400 million in FY 2011 and $150 million annually beginning in FY 2012. Additionally, the City increased the projections for investment fees and administrative funding for the systems by $3 million in FY 2011, $18 million in FY 2012, $23 million in FY 2013, and $25 million in FY 2014. Net adjustments resulting from other changes such as revised actuarial projections, headcount changes and funding for collective bargaining decrease projected contributions by $59 million in FY 2011, and increase contributions by $75 million in FY 2012, $89 million in FY 2013, and $98 million in FY 2014. The City has also reduced projected contributions by $18 million in FY 2012, $33 million in FY 2013, and $49 million in FY 2014 to reflect expected pension investments gains of 12 percent for the current fiscal year.[13] Preliminary returns of the pension funds through April are a combined 23 percent on market values. FY 2010 investment returns above or below the expected Actuarial Investment Return Assumption (AIRA) of 8.0 percent will affect employer contributions beginning in FY 2012.

Pursuant to Chapter 96 of the New York City Charter, the Comptroller's Office has engaged The Hay Group ("Hay") to conduct two consecutive biennial independent actuarial audits. Hay has recently completed their first audit and issued the following reports.

The Independent Actuary's Statement certifies that the City's pension systems are being funded appropriately and accurately, on sound actuarial principles, and in accordance with applicable statutes.

The Audit Report on Employer Pension Contribution Calculations for FY 2008 verifies the accuracy of the pension systems' assets, liabilities and employer pension contribution calculations.

The Administrative Review Report validates the quality and completeness of the actuarial data used in valuations by reviewing the actuarial data gathering, transmission, and maintenance processes.

The Experience Study Report reviews actual experience from June 30, 1988 through June 30, 2007 and comments "upon the financial soundness and probity of the actuarial assumptions employed by the city to calculate contributions to the city pension funds," as required by Section 96 of the New York City Charter.

Overall, Hay has indicated that valuations performed by the Office of the Actuary are accurate. Hay has identified certain trends that may result in recommendations to modify the underlying assumptions after the completion of the second audit. These areas include mortality improvements, increased active member withdrawals, increased merit salary increase assumptions, and the AIRA. As discussed above the City has reserved $600 million annually to fund potential costs that may eventually arise from the Chief Actuary's recommendations to change any of the methods and assumptions used in calculating pension contributions.

Labor

The City has yet to reach labor agreements with the United Federation of Teachers (UFT) and the Council of School Supervisors & Administrators (CSA) for the current round of collective bargaining.[14] Little progress has been made in these negotiations, due mainly to the City's current position to fund wage increases for employees represented by UFT and CSA at a

[13] The Chief Actuary calculates pension return based on the actuarial asset values. Returns above or below the AIRA are phased in over a six-year period. As of June 30, 2009, the actuarial asset values were higher than the market values. Our analysis indicates that a 12 percent gain on market values is approximately 9.1 percent gain on the actuarial asset values.

[14] The UFT's previous labor contract expired on October 31, 2009 and the CSA's contract has recently expired on March 3, 2010.

substantially lower rate than that awarded to other major unions that had settled with the City. The City proposed granting wage increases of 2.0 percent on the first day of the contract and another 2.0 percent on the first day of the thirteenth month of the contract for employees earning up to $70,000 a year.[15] Employees earning more than $70,000 annually will have wage increases capped at $2,828. This proposal is patterned after recent wage increases granted to managers at the Department of Education. Employees of major municipal unions that had settled with the City were awarded increases of 4.0 percent, effective the first day of the contract, and another 4.0 percent, effective the first day of the thirteenth month of the contract. The DOE's budget includes funding of $211 million in FY 2010, $302 million in FY 2011, and about $362 million in each of FY 2012, FY 2013 and FY 2014 for the proposed wage increases.

In January, the New York State Public Employment Relations Board (PERB) ruled that an impasse existed in the City/UFT negotiations and has appointed a mediator to work with the City and UFT towards a settlement. If mediation fails, a fact-finding panel will be appointed to hold hearings and make recommendations. Although any recommendations made by PERB's fact-finding panel are not binding, these recommendations have formed the basis for labor agreements between the City and UFT in the past, with the most recent being the contract that covered the period from June 2003 to October 2007.

Reflecting the settlement of most contracts under the current collective bargaining round and a better estimate for the few contracts still to be negotiated, mainly for employees paid according to prevailing wages, the City has reduced the labor reserve by $213 million in FY 2010, $268 million in FY 2011, $336 million in FY 2012, $268 million in FY 2013, and $164 million in FY 2014. As a result, the FY 2011 Executive Budget contains funding in the labor reserve of $46 million in FY 2010, $60 million in FY 2011, $111 million in FY 2012, $275 million in FY 2013, and $533 million in FY 2014. Additionally, the reserve contains funding for future annual wage increases of approximately 1.25 percent beginning two years after the end of the current round of contracts for all employees.

The City had previously funded annual wage increases of 1.25 percent for all employees beyond 2008 – 2010 round of collective bargaining. However, funding for the first two 1.25 percent annual wages increases were eliminated in the FY 2011 Preliminary Budget. Municipal unions are expected to implement productivity actions to fund any wage increases for the first two years beyond the last round of collective bargaining. Including pension cost, a 1.0 percent wage increase for all employees would cost approximately $300 million annually.

Public Assistance

Through April, the City's public assistance caseload has increased by less than one-half percent, or 1,359 recipients, to 347,465 since the end of FY 2009. This modest increase belies the fluctuations experienced thus far in FY 2010, which saw caseload rise to a high of 358,190 in December 2009 before scaling back to the April level. More importantly, though, monthly cash assistance grants have not subsided in such a significant manner. Average monthly grants for

[15] Since the release of the Executive Budget, the Mayor had proposed eliminating wage increase of teachers to fund the rescindment of teacher layoff.

public assistance still average nearly $106 million, similar to the year-to-date average in January, and reflect growth of 6.6 percent from the FY 2009 average of about $99 million.

The City's caseload projections remain unchanged in the Preliminary Budget. The Plan still contains a June 2010 caseload assumption of 361,900 that is held constant in FY 2011. The Executive Budget also holds baseline grants at a similar level of $1.38 billion for FY 2011. Compared with the monthly average in FY 2010, the FY 2011 budget provides an increase of 8.5 percent in baseline grants. While this estimate includes the second installment of increased basic allowances under the State's plan to phase-in the enhancement over a three-year period spanning FYs 2010 – 2012, it still contains sufficient growth to cushion against a significant rise in public assistance grants spending. In FY 2012, funding for baseline grants is expected to rise to $1.41 billion, reflecting the final portion of the basic allowance increases. The State's plan does not require City contribution towards the additional costs until the basic allowance increases are fully phased-in by FY 2013. However, a proposal in the current State Executive Budget has called for an extension of the phase-in period by two additional years. Under the proposal, the City would not take on the increased costs until FY 2015.

Department of Education

Under the Executive Budget, the Department of Education (DOE) is expected to begin FY 2011 with a budget of $18.45 billion, showing a small decline of $10 million compared with projected spending for FY 2010. For the first time since FY 2004, the Department faces the distinct possibility that it will start the new school year with a year-to-year decline in its operating budget.

Compared with the Preliminary Budget, the Department's budget reflects a net decrease of $374 million for FY 2011. The major development in the Executive Budget is the recognition of the State budget impact on the City's education aid receipts. Though the State still has not achieved an approved budget for its current fiscal year, the City has removed this layer of uncertainty in the Executive Budget by fully accounting for the level of education aid cuts set forth in the Governor's budget proposals. The reduction includes a cut of $442 million for formula-based school aids and a cost shift of $51 million for summer special education programs. This is partly offset by increases in City funds totaling $74 million, mainly comprised of $30 million for health insurance rate and energy cost adjustments and the roll of a $41 million school budget surplus from FY 2010. The City estimates the education aid loss will lead to personnel reductions totaling 6,693 positions at the Department, including layoffs of 4,419 pedagogues.[16] The City, however, has not assumed a similar cut in State education aid beyond FY 2011, thus a corresponding reduction in headcount is not reflected in FYs 2012 – 2014.

Since the June 2009 Plan, the Department's FY 2011 budget has sustained an aggregate reduction of about $920 million in total funds. Including the latest installment of State aid cuts reflected in the Executive budget, State support for the DOE budget has fallen by $635 million

[16] Since the release of the Executive Budget, the Mayor has rescinded his plan to layoff teachers and has proposed funding these positions by eliminating planned funding for salary increases in the current round of collective bargaining for teachers.

during this period. The drop in Federal funding of $203 million can also be viewed indirectly as declining State assistance, because ARRA funds originally earmarked for FY 2011 were advanced to FY 2010 to offset the impact of the State's deficit reduction program during that year. This averted a mid-year reduction that would have caused significant disruptions to school budgets. However, such disruption appears unavoidable in the upcoming year if the Governor's education aid proposals are adopted. Thus, about $838 million, or 91 percent of the funding decrease is attributable to the State's growing deficits and the resultant fiscal measures to close budget gaps. Meanwhile, City support for the DOE budget has declined by $114 million over the same span. Moreover, the City will remain well within compliance of the State maintenance-of-effort funding requirement in the Executive Budget, as City funds are projected to rise by $520 million from FY 2010 to FY 2011.

For the Executive Budget, the City maintains a gap-closing program of $317 million that is predicated on agreements to reduce collective bargaining increases by teachers and principals. The proposals call for annual salary increases of 2.0 percent for teachers and principals, covering periods of November 2009 through October 2011 and March 6, 2010 through March 5, 2012, respectively. The maximum annual salary increase would be capped at $2,828. In comparison, the pattern established by other municipal unions provides annual increases of 4.0 percent over two years. Both the teachers' and the principals' unions have voiced objections to the City's plan. In fact, as discussed in "Labor" beginning on page 35, the teachers' union has presented their case before the PERB, which declared an impasse in the City's negotiation with the UFT. A mediator has been appointed to help both parties reach a settlement. Thus, it is unclear if the elements of the gap-closing program will remain the same if the City fails to reach agreements with the unions. The City has indicated that, under such a scenario, the Department will need to find alternative savings that could have significant headcount implications, including the possibility of further teacher layoffs.

Based on the DOE view of the budget, only a certain portion of its spending is available for budget reductions. This group of expenditures includes general and special education instruction, fringe benefits, school facilities, central administration, and district administration. The remainder of the budget is committed to expenditures that are either not eligible or have limited availability for reductions due to their mandated or non-discretionary nature. The main components of this segment are citywide special education instruction, special education programs provided outside of DOE facilities, transportation and food services, charter schools, and categorical programs.

After absorbing the impact of State and City actions, the portion available for reductions would shrink to about 57 percent, or $10.44 billion of projected overall DOE spending in the Executive budget, compared with 59 percent or $10.78 billion in the FY 2010 estimates. The difference is even more stark compared to FY 2009 actual expenditures, when this segment constituted about 63 percent of the DOE expenditures. Conversely, the portion of DOE funding devoted to mandated and non-discretionary spending has escalated from 37 percent in FY 2009 to a projected 41 percent in FY 2010. In the Executive Budget, this ratio is expected to reach 43 percent or about $8 billion, reflecting expenditure growth of about 19 percent since FY 2009. This rapid growth underscores the limited reductions that have been taken against this category even in an environment of declining resources for the Department.

The Department's spending for payments to non-public schools, comprised mainly of non-DOE based special education programs and charter schools, has nearly doubled over the last five years, from $840 million in FY 2005 to an estimate of $1.67 billion in FY 2010.[17] The total of these payments is expected to reach about $1.94 billion in FY 2011 under the Executive Budget. The dramatic rise in these expenditures is due to significant increases in charter school enrollment, pre-kindergarten special education population and tuition rates, and special education Carter cases.[18] Pupil transportation also ranks among the categories that have experienced significant cost growth in recent years. These expenditures represent contractual costs negotiated between the Department and its vendors for the provision of student busing services. The Executive Budget reflects spending of nearly $1.06 billion for student busing contracts, including special pre-kindergarten programs. This estimate represents growth of 52 percent since FY 2005. The main factor driving this growth is spending for transportation of special education students, which has grown from $516 million to $825 million over this span, or almost 60 percent. The growth is attributable to both fuel and inflation costs as well as a surge in the aggregate population of special education students that are being served.

Health and Hospitals Corporation

In response to the deteriorating fiscal outlook of the Health and Hospitals Corporation (HHC), the City has provided about $1.26 billion in assistance to strengthen the Corporation's budget projections over the course of the May Plan. Beginning with FY 2010, the Financial Plan reflects $348 million in additional support by forgoing payments from HHC that reimburse the City for costs incurred on behalf of the Corporation. The estimate consists of reimbursements of $181 for debt service costs, $145 million for judgments and claims expenditures and $22 million for fringe benefits. For FY 2011, the additional assistance appears as City Medicaid spending in support of HHC actions to maximize Disproportionate Share (DSH) and other supplemental Medicaid revenues. Together, these initiatives would provide $83 million to HHC in the first year and grow to $229 million in FY 2012 before reaching $300 million annually in FYs 2013 and 2014.

The current year support helps HHC solidify its gap-closing program to offset its projected growing deficits. The FY 2010 deficit, on an accrual basis, has grown by $295 million to $1.09 billion, compared with $796 million in the January Plan. Even with the additional assistance the City has provided in the May Plan, HHC's expected year-end cash balance would fall to $668 million from an estimated $805 million in the January Plan.

The Executive Budget projects the Corporation will face a gap of $1.2 billion in FY 2011. To address this deficit, the Corporation is contemplating a gap-closing program of $587 million that includes the following major components: $226 million from supplemental Medicaid revenue and DSH maximization, $273 million in cost containment actions, $45 million in medical malpractice claims savings and $43 million in restructuring savings recently unveiled

[17] Excludes pupil transportation costs.

[18] Carter cases stem from a 1993 U.S. Supreme Court ruling requiring the Department to reimburse parents who placed their handicapped children in non-approved private schools if the Court determines that the DOE failed to provide a suitable education to such students.

by HHC. The chief objective of the restructuring plan, developed jointly with Deloitte Consulting, is to identify options for consolidation and streamlining of HHC operations. The Plan includes reduction of construction and maintenance staff, outsourcing of laboratory services, realignment of long term care through downsizing and revenue optimization, cutbacks of affiliation contract costs, and administrative efficiencies. These initiatives, along with existing cost containment actions, would enable the Corporation to reach its headcount reduction target of 2,300 through attrition and layoffs in FY 2011. In terms of service impact, the Plan includes closures of several underutilized clinics and reduction of the Corporation's long term care bed capacity, though HHC claims that such measures will not significantly compromise the provision of its core patient services. The Executive Budget projects that the gap-closing actions would help stabilize HHC's finances and lead to a year-end cash balance of $492 million.

In the outyears, the May Plan projects the Corporation will face budget deficits ranging from $1.35 billion to $1.52 billion in FYs 2012 – 2014. As a result, HHC would need to achieve revenues and savings actions totaling $966 million to $1.28 billion in order to reach cash balances of $203 million in FY 2012, $127 million in FY 2013 and $16 million in FY 2014. Aside from providing a more concrete look into HHC's fiscal strategy, the restructuring plan would also become a more crucial component going forward as proposed savings rise in value to $136 million in FY 2012 and $261 million in FY 2013. According to HHC, once fully implemented, the restructuring plan would generate annual savings of $304 million by FY 2014 and help reduce headcount by 3,700 positions, or about 10 percent of its current workforce. Combined with cost containment actions, the savings are expected to total between $442 million to $610 million in each of FYs 2012 – 2014. However, even with these levels of internal savings, the gap-closing program will still rely significantly on Federal and State actions in the outyears. These are expected to constitute about 50 percent of the correction actions shown in the Plan, although the City has reduced the exposure from these assumptions by recognizing its share of Medicaid obligations as part of the additional support reflected in the May Plan.

Debt Service

As shown in Table 18, debt service, after adjusting for prepayments, is projected to grow from $5.17 billion in FY 2010 to $6.89 billion in FY 2014. Over the FYs 2010 – 2014 period, total debt service is expected to grow $1.72 billion, or 33 percent. This represents decreases of $119 million in FY 2010, $74 million in FY 2011, $12 million in FY 2012, $4 million in FY 2013, and a $2 million increase in FY 2014 from the January Plan.

The decrease of $119 million in FY 2010 from the January Plan is due primarily to estimated G.O. variable rate demand bond (VRDB) savings of $130 million, lease-purchase debt savings of $24 million, offset by increased NYCTFA costs of $35 million. Savings of $74 million in FY 2011 is mainly attributable to $68 million in lower than anticipated NYCTFA borrowing costs, along with $18 million of GO savings from lower than anticipated borrowing costs, offset by $12 million of additional lease-purchase debt service costs. NYCTFA savings in FY 2011 are primarily the result of the use of remaining NYCTFA grant money to redeem variable rate maturities in the amount of $57 million. Modest savings of $12 million and $4 million in FYs 2012 and 2013, respectively, are primarily due to lower than anticipated borrowing costs from FY 2010 borrowing activity impacting those years. The $2 million increase in FY 2014 is primarily from lease-purchase debt re-estimates.

Table 18. Debt Service FYs 2010 – 2014, May 2010

($ in millions)

Debt Service Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Change FYs 2010 – 2014
G.O.[a]	$3,727	$4,010	$4,401	$4,482	$4,556	$829
NYCTFA[b]	1,190	1,216	1,602	1,1825	1,999	809
Lease-Purchase Debt	183	271	270	268	263	80
TSASC,Inc.	72	74	74	74	75	3
Total	**$5,172**	**$5,571**	**$6,347**	**$6,649**	**$6,893**	**$1,721**

SOURCE: FY 2011 Executive Budget, May 2010, Office of Management & Budget.
NOTE: Debt service is adjusted for prepayments.
[a] – Included long-term GO debt service and interest on short-term notes.
[b] – Amounts do not include NYCTFA Building Aid Revenue Bonds (BARBs).

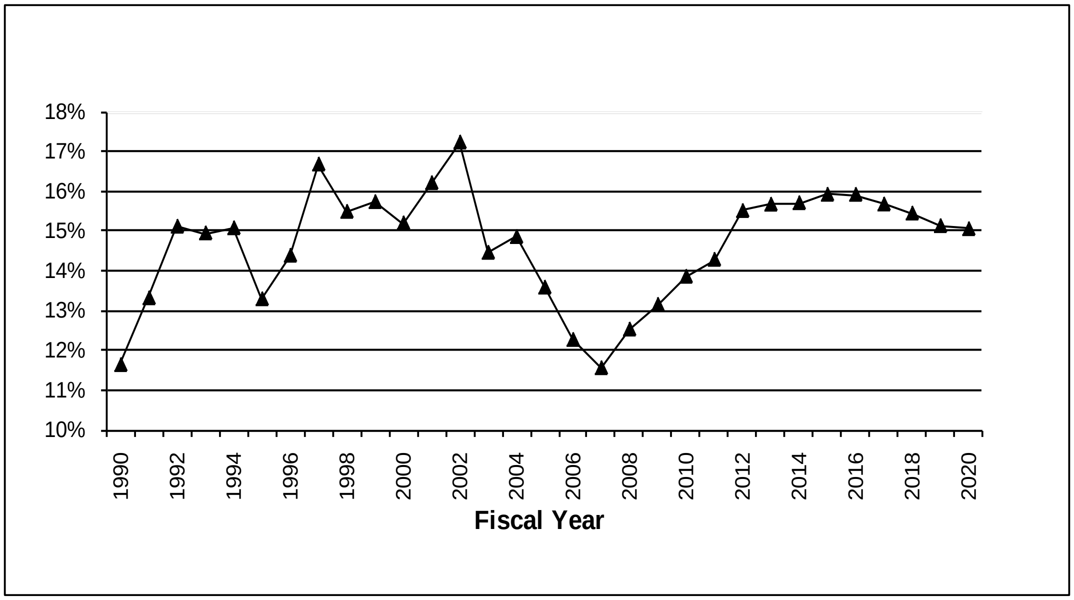
Debt Burden

An accepted measure of debt burden and affordability is debt service as a percent of local tax revenues.[19] As shown in Chart 3, adjusted for prepayments, debt service as a percent of tax revenues is projected to be 13.9 percent in FY 2010, increasing to 14.3 percent in FY 2011, 15.5 percent in FY 2012, and stabilizing at 15.7 percent in FYs 2013 – 2014.[20] Debt service is projected to grow at an average rate of 7.4 percent per year from FYs 2010 to 2014, outpacing tax revenue growth of 4.1 percent per year over the same period. Over the longer term, debt service growth is expected to slow during FYs 2015 – 2020 reflecting the decline in the City's capital cash need forecast. The slower growth helps stabilize the ratio at about 15 percent by FY 2020. Given capital project delays and cost overruns, however, capital cash need projections in the latter years might be understated.

[19] Debt service in this analysis is comprised of G.O., lease purchase, PIT-supported NYCTFA, and TSASC debt service.

[20] Debt service is adjusted for prepayments. Prior-year prepayments are added back to the total and current year planned prepayments are subtracted from the total.

***Chart* 3. Debt Service as a Percent of Tax Revenues, FYs 1990 – 2020, FY 2011 Executive Budget**



SOURCE: FY 2011 Executive Budget and Financial Plan, NYC Office of Management and Budget, May 2010.

Financing Program

The Financing Program for FYs 2010 – 2014 totals $41.22 billion, a decrease of $54 million from the January 2010 Financial Plan. As shown in Table 19, G.O. bonds, payable from property tax retention, constitute $13.98 billion, or 33.9 percent of the total expected financing during FYs 2010 – 2014. The NYCTFA is scheduled to borrow $14.04 billion or 34.1 percent of the total. Combined over the five-year period, the current plan is virtually unchanged from January. Included in the City's borrowing plan are Qualified School Construction Bonds (QSCBs) that are expected to receive a 100 percent interest subsidy. The City expects to issue its $1.4 billion allocation through the use of GO and NYCTFA debt issuance.

The New York Water Finance Authority (NYWFA) borrowing comprises $9.16 billion, or 22.2 percent of the Plan. These bonds, which are supported with water and sewer revenues, are used to fund the capital improvement program of the City's Department of Environmental Protection. Projected borrowing for NYWFA has declined by $65 million from the January Plan.

NYCTFA Building Aid Revenue Bonds (BARBs) total $4.04 billion, or 9.8 percent of the financing program, over the period. This borrowing remains virtually unchanged from the January Plan.

Table 19. FYs 2010 – 2014 Financing Program, May 2010

($ in millions)

Type of Debt	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total
GO	$3,318	$3,025	$2,720	$2,480	$2,440	$13,983
NYCTFA PIT Bonds	3,375	3,025	2,720	2,480	2,440	14,040
Water Authority Bonds	2,392	2,005	1,811	1,543	1,406	9,157
NYCTFA BARBs	282	711	883	1,016	1,147	4,039
Total	$9,367	$8,766	$8,134	$7,519	$7,433	$41,219

SOURCE: FY 2011 Executive Budget, May 2010, Office of Management and Budget.
Note: NYCTFA BARBs are supported by State Building Aid and its debt service is not included in the debt service budget.

Capital Plan

The FY 2011 Executive Capital Commitment Plan for FYs 2010 – 2014 totals $46.07 billion in total funds and $36.38 billion in City funds.[21] After subtracting the reserve for unattained commitments of $2.59 billion over the period, total capital commitments are expected to be $43.49 billion and City-funds commitments are estimated to be $33.79 billion over FYs 2010 – 2014. The Plan continues to be front-loaded with more than 54 percent of both total and City commitments for FYs 2010 – 2014 contained in FYs 2010 and 2011.

Consistent with prior plans, capital commitments in DOE and the City University of New York (CUNY), the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for the majority of all-fund commitments with 68 percent of the total projected commitments over the period, as shown in Table 20.

Table 20. FYs 2010 – 2014 Capital Commitments, All-Funds

($ in millions)

Project Category	May 2010-2014 Commitment Plan	Percent of Total
Education & CUNY	$11,839	25.7%
Environmental Protection	8,838	19.2
Dept. of Transportation & Mass Transit*	6,563	14.2
Housing and Economic Development	4,241	9.2
Administration of Justice	3,153	6.8
Technology and Citywide Equipment	3,186	6.8
Department of Parks and Recreation	2,245	4.9
Hospitals	562	1.2
Other City Operations and Facilities	5,445	11.8
Total	**$46,072**	**100.0%**
Reserve for Unattained Commitments	($2,586)	N/A
Adjusted Total	**$43,486**	**N/A**
***- Includes all DOT project types**		

SOURCE: Office of Management and Budget, Capital Commitment Plan Executive Budget FY 2011, May 2010.

[21] City-funds exclude NYCTFA BARBs.

As in total-funds commitments, capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development constitute more than 61 percent of the City-funds plan. The significant difference between the DOE's 16.9 percent share of the City-funds capital plan and its 25.7 percent share of the all-funds capital plan reflects the State-supported commitments of $5.67 billion over FYs 2010 through 2014. This $5.67 billion in State support for the education portion of the commitment plan comprises 58 percent of the total State and Federal support in the entire commitment plan over FYs 2010 through 2014.

Table 21. FYs 2010 – 2014 Capital Commitment, City-Funds

($ in millions)

Project Category	**May 2010-2014 Commitment Plan**	**Percent of Total**
Environmental Protection	$8,469	23.3%
Education & CUNY	6,161	16.9
Dept. of Transportation & Mass Transit	4,314	11.9
Housing and Economic Development	3,342	9.2
Administration of Justice	3,153	8.7
Technology and Citywide Equipment	3,143	8.6
Department of Parks and Recreation	2,023	5.6
Hospitals	558	1.5
Other City Operations and Facilities	5,216	14.3
Total	**$36,380**	**100.0%**
Reserve for Unattained Commitments	(2,586)	N/A
Adjusted Total	**$33,794**	**N/A**

SOURCE: Office of Management and Budget, Capital Commitment Plan Executive Budget FY 2011, May 2010.

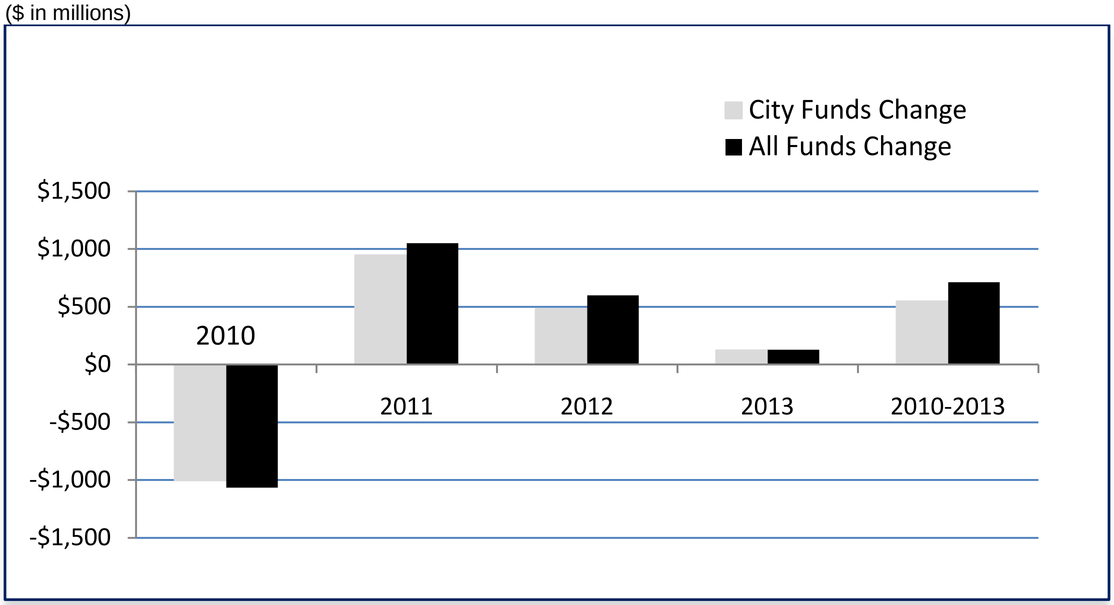
Programmatic Review of Capital Plan

The May 2010 Executive Capital Commitment Plan for FYs 2010 – 2014 grew by $712 million from the January 2010 Plan.[22] The changes over the period come primarily from an increase in Parks Department commitments of $282 million and for Water Pollution Control projects in the amount of $203 million. Approximately $1 billion of commitments are expected to be rolled from 2010 to FY 2011 as shown on Chart 4 on page 45.

[22] The January 2010 Commitment reflected commitments in FYs 2010-2013. Changes noted are after the reserve for unattained commitments over FYs 2010-2013 only.

***Chart 4*. FYs 2010 – 2013 Capital Commitments Change from January 2010 Plan**

($ in millions)



SOURCE: Capital Commitment Plan, Executive Budget FY 2011, NYC Office of Management and Budget, May 2010.

Environmental Protection

Capital commitments in the Department of Environmental Protection (DEP) continue to comprise a large part of the Plan. At $8.84 billion over FYs 2010 – 2014, DEP capital commitments account for 19.2 percent of the May Commitment Plan, as shown in Chart 5 on page 46. Significant DEP projects in the Commitment Plan include $986 million for the extension and reconstruction of 150 miles of sewers citywide, $498 million for the replacement of over 650 miles of trunk and distribution water mains, $298 million for the reconstruction of the Gilboa Dam in the Catskill watershed region, over $600 million for the Newtown Creek Water Pollution Control Plant, and $553 million for combined sewer overflow abatement facilities.

Education

Capital commitments for Education total $11.84 billion from FYs 2010 – 2014, or 25.7 percent of total citywide estimated commitments, as shown in Chart 5 on page 46. The current May Plan contains $11.52 billion of commitments for the DOE, and $319 million for the City University of New York (CUNY). Highlights of the current DOE capital plan include planned contract registrations for the construction of approximately 39,000 seats across 56 buildings in a combination of new facilities, expansions or leases.

The CUNY capital plan is primarily the upgrade and maintenance of the community college physical facilities. This includes such projects as the rehabilitation and replacement of roofs, windows, and doors and the purchase and installation of electronic data processing equipment.

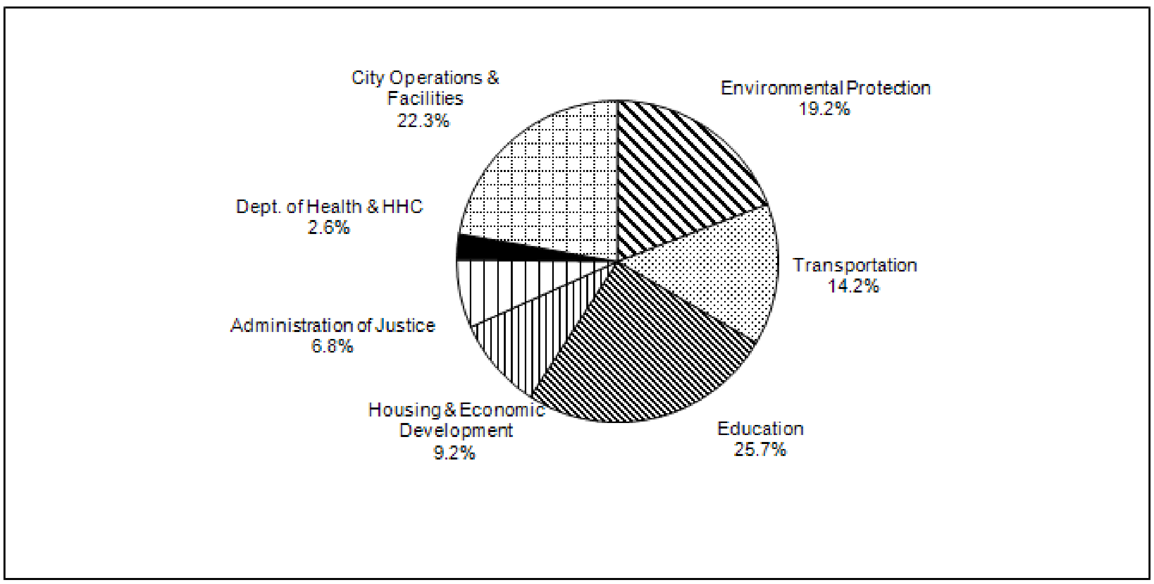
Transportation

Transportation projects are composed of two distinct elements: projects for mass transit administered by the Metropolitan Transportation Authority (MTA) on behalf of New York City Transit; and the Highways and Bridges program, which is administered by the Department of Transportation (DOT).

The May Plan for FYs 2010 – 2014 contains $507 million in capital commitments for mass transit projects, and $6.05 billion for DOT programs. This program area makes up 14.2 percent of the May Commitment Plan, as shown in Chart 5.

Mass transit commitments of $507 million are highly concentrated in FY 2010, when commitments total $243 million, or 48 percent of the five-year total. This contrasts with a total of $237 million over the entire FYs 2006 – 2009 period. City support to the MTA for capital work at New York City Transit (NYCT) constitutes a small portion of the NYCT's overall capital program, which exceeds $13 billion. MTA bonds and other federal grants support a significant portion of its capital needs. City support for NYCTA capital has dropped in recent years, as projected commitments average $101 million annually versus the nearly $280 million per year average over FYs 1989 – 2005.

***Chart 5.* May 2010 Capital Plan Total Funds, FYs 2010 – 2014, Shares of $46.072 Billion**



SOURCE: Capital Commitment Plan Executive Budget FY 2011, NYC Office of Management and Budget, May 2010.

The May Plan for 2010 – 2014 contains $6.05 billion, or 13.1 percent, for street resurfacing, highway reconstruction, and bridge rehabilitation projects managed by the City's DOT. Highlights of the DOT plan include $223 million for the Mill Basin Bridge in Brooklyn, and $561 million for street and arterial resurfacing of 939 linear miles, and $767 million for 248 lane miles of street reconstruction, along with $332 million for the reconstruction/rehabilitation of six poorly rated bridges, $824 million for the reconstruction of

18 bridges, and $156 million for signal and streetlight work associated with the highway and bridge reconstruction programs.

Housing and Economic Development

Housing and economic development account for $4.24 billion of capital commitments from FY 2010 to FY 2014, or 9.2 percent of total commitments, with housing accounting for $2.35 billion in capital commitments, or 5.1 percent of total commitments.[23] The City plans to invest $492 million to preserve existing affordable housing through assistance to private owners to avoid abandonment. Other program areas in housing are low-income rental programs and supportive housing, and a variety of loan programs which allow owners of private properties to renovate buildings through the use of low-interest loan programs.

Capital commitments for economic development total $1.89 billion, or 4.1 percent of total capital commitments over the Plan period. Major elements of the Plan include $1.13 billion for site acquisition and development citywide, along with $128 million for the Brooklyn Navy yard industrial park, $137 million for the Coney Island Strategic Plan, and $92 million for the development of East River Waterfront esplanades and piers.

Administration of Justice

Commitments under the category of administration of justice include capital projects in the Department of Correction, the Police Department, and Courts administration. This category totals $3.15 billion in the May 2010 Commitment Plan, or 6.8 percent of the total plan over the five-year period. Estimated commitments in the Police Department total $1.36 billion, with $910 billion scheduled to be committed in FY 2010. Major projects for the Police Department include $709 million in FY 2010 for a new police academy and training facility along with $57 million for a new precinct in Staten Island.

Capital commitments in the Department of Correction total $1.27 billion over FYs 2010 – 2014. Major projects are capacity replacement initiatives including $409 million for the 720 bed addition at the Brooklyn Detention Center, $417 million for a new detention center in the Bronx, and $83 million for the James A. Thomas center on Rikers Island.

Court facilities projects total $517 million over FYs 2010 – 2014. Highlights of the Plan include $153 million for a new court facility in Staten Island, and $76 million for improvements to the court facility at 215 E. 161 Street in the Bronx.

Other City Operations and Facilities

The category of City Operations contains over 15 City agencies and quasi-governmental entities, including the Department of Sanitation, the Fire Department, the Department of Parks, public buildings, the Dept. of Information, Telecommunications, and Technology (DOITT), public libraries and cultural institutions, and hospitals. The May Commitment Plan contains

[23] Housing capital commitments are comprised of Commitments for HPD and NYCHA projects.

estimated commitments of $10.25 billion for City Operations, or 22.3 percent of total capital commitments.

In the May Plan, the Department of Parks and Recreation comprises 4.9 percent of total capital commitments in FYs 2010 – 2014. The Parks capital plan is heavily front-loaded with $1.38 billion, or 62 percent of the Parks plan, scheduled for FY 2010. Major projects include $112 million in park and street tree planting citywide, $88 million for the Brooklyn Bridge Park, and $76 million for Fresh Kills Park in Staten Island.

At $1.861 billion, computer equipment purchases and installation related to DOITT comprise 4.1 percent of the Plan over FYs 2010 – 2014. Highlights of the Plan include $596 million related to the new public safety answering center facility and approximately $725 million for emergency communications systems and facilities.

The capital program for the Department of Sanitation comprises 3.5 percent of total commitments and amounts to a projected $1.63 billion over FYs 2010 – 2014. Major components of the Sanitation plan include $749 million for the reconstruction of marine transfer stations citywide, $414 million for the construction of sanitation garages and other facilities, and $225 million for vehicle replacement.

The May 2010 commitment plan contains $1.29 billion for public libraries and cultural affairs, or 2.8 percent of total citywide commitments combined. Highlights for libraries include $157 million in funding for the New York Public Library, $129 million for the Queens Public Library, $65 million for the Brooklyn Public Library, and $15.7 million for the Research Libraries over FYs 2010 – 2014.

The Department of Cultural Affairs (DCA) capital plan totals $931 million between FYs 2010 – 2014, or 2.0 percent of total commitments. Projects include $51 million for the Whitney Museum of American Art, $38 million for the shark exhibit at the New York Aquarium, and $35 million for Carnegie Hall mechanical systems and music education spaces.

Citywide equipment purchases, administered by DCAS, contain estimated capital commitments of $1.32 billion over FYs 2010 – 2014, or 2.9 percent of the Plan. This includes $407 million for energy efficiency projects and building retrofits.

Public works projects, also administered primarily by DCAS, typically involve the rehabilitation of City-owned office space, the renovation of leased space, fulfilling legal mandates and correction of unsafe conditions. The May Plan over FYs 2010 – 2014 contains $822 million for this work; including $344 million in improvements to public buildings citywide, $78 million for the Board of Elections modernization project, and $52 million for the improvement, reconstruction, or modernization of long-term leased facilities citywide.

The May commitment plan for HHC in FYs 2010 – 2014 totals $562 million, or 1.2 percent of total estimated capital commitments. Two major projects include approximately $123 million for the Harlem Hospital modernization and rehabilitation and $56 million for the Gouverneur Hospital modernization.

Borough Presidents' Proposed Reallocations

In accordance with Section 245 of the New York City Charter, the Borough Presidents may propose changes to the Preliminary Expense Budget during the Executive Budget process. Only the Manhattan and Queens Borough Presidents submitted proposals for inclusion in the Message of the Mayor. Other borough presidents did not submit proposals in time for inclusion in the Message of the Mayor.

The Manhattan Borough President (MBP) made allocation change proposals totaling $91 million. Of this amount, the MBP proposes restoration of $43 million for the Department for the Aging, $33 million to the New York Public Library, and $15 million for the Department of Youth and Community Development. All proposals would help restore proposed budget cuts to each of the cited agencies and assist them in better achieving their agency mission.

The MBP proposes the use of uncollected Environmental Control Board (ECB) fines in the amount of $60 million along with unspecified Department of Buildings' violation revenue. The MBP did not propose sufficient appropriations to cover suggested spending restorations.

The Queens Borough President (QBP) proposed re-allocations of $769 million through eliminating target reductions, spending increases and program funds restored by the City Council in the FY 2010 budget. Of the proposed amount, $357 million would be for the Department of Education, $105 million for the Police Department, $23 million for the Fire Department. Programmatically, the QBP recommends funding restoration for direct school services and that Fire companies remain open. Additional funding restoration proposals by the QBP are $46 million to youth programs, $43 million to Parks, $29.6 million to the Queens Public Library, $36.5 million to seniors, $34.8 million for CUNY, $29 million for health and mental health programs, $4 million for housing programs, $1.4 million for the QBP, and $1.3 million for community boards.

The proposed funding sources are from procurement efficiencies, expansion of the bottle bill in New York City for increased revenues, energy conservation at City agencies, eliminating school year jury duty for teachers, eliminating the Madison Square Garden tax exemption, taxing sugared beverages, converting the multiple dwelling flat fee to per unit fee, and extending the general corporation tax to insurance company business income.

The QBP did not tally the funding sources, thus it is unclear if they provided sufficient resources to cover suggested restorations.

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VII. Appendix – Revenue and Expenditure Details

Table A1. FY 2011 Executive Budget Revenue Detail

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010 – 14 Dollar	Changes FYs 2010 – 14 Percent
Taxes:							
Real Property	$16,296	$16,969	$17,632	$17,901	$18,038	$1,742	10.7%
Personal Income Tax	$7,582	$8,291	$8,712	$9,118	$9,535	$1,953	25.8%
General Corporation Tax	$1,980	$2,478	$2,788	$3,055	$3,228	$1,248	63.0%
Banking Corporation Tax	$991	$839	$903	$931	$924	($67)	(6.8%)
Unincorporated Business Tax	$1,536	$1,588	$1,701	$1,789	$1,891	$355	23.1%
Sale and Use	$4,992	$5,144	$5,356	$5,666	$5,979	$987	19.8%
Real Property Transfer	$628	$628	$703	$765	$828	$200	31.8%
Mortgage Recording Tax	$385	$455	$547	$633	$726	$341	88.6%
Commercial Rent	$593	$566	$563	$572	$583	($10)	(1.7%)
Utility	$378	$383	$398	$412	$425	$47	12.4%
Cigarette	$365	$373	$373	$348	$352	($13)	(3.6%)
Hotel	$93	$80	$77	$77	$75	($18)	(19.4%)
All Other	$500	$477	$442	$443	$455	($45)	(9.0%)
Tax Audit Revenue	$890	$622	$621	$620	$620	($270)	(30.3%)
Total Taxes	**$37,209**	**$38,893**	**$40,816**	**$42,330**	**$43,659**	**$6,450**	**17.3%**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$474	$481	$485	$486	$488	$14	3.0%
Interest Income	$22	$48	$105	$139	$159	$137	622.7%
Charges for Services	$731	$753	$750	$750	$749	$18	2.5%
Water and Sewer Charges	$1,624	$1,331	$1,335	$1,329	$1,356	($268)	(16.5%)
Rental Income	$226	$223	$223	$223	$223	($3)	(1.3%)
Fines and Forfeitures	$841	$846	$823	$822	$822	($19)	(2.3%)
Miscellaneous	$783	$592	$489	$486	$481	($302)	(38.6%)
Intra-City Revenue	$1,825	$1,602	$1,498	$1,502	$1,502	($323)	(17.7%)
Total Miscellaneous	**$6,526**	**$5,876**	**$5,708**	**$5,737**	**$5,780**	**($746)**	**(11.4%)**
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	$150	$0	$0	$0	$0	($150)	(100.0%)
Other Federal and State Aid	$21	$14	$12	$12	$12	($9)	(42.9%)
Total Unrestricted Intergovernmental Aid	**$171**	**$14**	**$12**	**$12**	**$12**	**($159)**	**(93.0%)**
Other Categorical Grants	**$1,134**	**$1,284**	**$1,142**	**$1,139**	**$1,137**	**$3**	**0.3%**
Inter Fund Agreements	**$583**	**$558**	**$493**	**$492**	**$492**	**($91)**	**(15.6%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
						$0	**0.0%**
Less: Intra-City Revenue	**($1,825)**	**($1,602)**	**($1,498)**	**($1,502)**	**($1,502)**	**$323**	**(17.7%)**
TOTAL CITY FUNDS	**$43,783**	**$45,008**	**$46,658**	**$48,193**	**$49,563**	**$5,780**	**13.2%**

Table A1 (Con't.). ***FY 2011 Executive Budget Revenue Detail***

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010 – 14	
						Dollar	Percent
Federal Categorical Grants:							
Community Development	$308	$247	$240	$240	$240	($68)	(22.1%)
Welfare	$3,060	$2,744	$2,713	$2,684	$2,683	($377)	(12.3%)
Education	$2,949	$2,568	$1,723	$1,723	$1,723	($1,226)	(41.6%)
Other	$1,876	$1,132	$1,014	$993	$986	($890)	(47.4%)
Total Federal Grants	**$8,193**	**$6,691**	**$5,690**	**$5,640**	**$5,632**	**($2,561)**	**(31.3%)**
State Categorical Grants							
Social Services	$2,098	$1,973	$2,010	$1,983	$1,979	($119)	(5.7%)
Education	$8,081	$7,979	$8,803	$8,957	$9,285	$1,204	14.9%
Higher Education	$206	$220	$220	$220	$220	$14	6.8%
Department of Health and Mental Hygiene	$474	$434	$435	$434	$435	($39)	(8.2%)
Other	$712	$634	$732	$822	$912	$200	28.1%
Total State Grants	$11,571	$11,240	$12,200	$12,416	$12,831	$1,260	10.9%
TOTAL REVENUES	**$63,547**	**$62,939**	**$64,548**	**$66,249**	**$68,026**	**$4,479**	**7.0%**

Table A2. FY 2011 Executive Budget Expenditure Detail

($ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010 – 14 Dollar	Changes FYs 2010 – 14 Percent
Mayoralty	$96,699	$93,413	$90,910	$90,931	$90,943	($5,756)	(6.0%)
Board of Elections	$96,634	$88,372	$76,494	$76,509	$76,509	($20,125)	(20.8%)
Campaign Finance Board	$47,040	$14,510	$13,013	$13,017	$13,017	($34,023)	(72.3%)
Office of the Actuary	$5,244	$5,302	$5,306	$5,310	$5,310	$66	1.3%
President, Borough of Manhattan	$4,639	$2,995	$2,892	$2,902	$2,908	($1,731)	(37.3%)
President, Borough of Bronx	$5,380	$4,048	$3,933	$3,947	$3,955	($1,425)	(26.5%)
President, Borough of Brooklyn	$5,479	$3,798	$3,557	$3,571	$3,579	($1,900)	(34.7%)
President, Borough of Queens	$4,617	$3,637	$3,329	$3,339	$3,346	($1,271)	(27.5%)
President, Borough of Staten Island	$3,871	$2,842	$2,795	$2,806	$2,811	($1,060)	(27.4%)
Office of the Comptroller	$71,312	$69,829	$69,546	$69,565	$69,586	($1,726)	(2.4%)
Dept. of Emergency Management	$82,950	$9,834	$7,495	$7,503	$7,507	($75,443)	(90.9%)
Tax Commission	$3,713	$3,775	$3,779	$3,783	$3,783	$70	1.9%
Law Dept.	$142,452	$130,591	$128,269	$127,964	$127,814	($14,638)	(10.3%)
Dept. of City Planning	$29,879	$24,651	$23,002	$22,665	$22,665	($7,214)	(24.1%)
Dept. of Investigation	$17,896	$15,781	$15,745	$15,745	$15,745	($2,151)	(12.0%)
NY Public Library - Research	$26,930	$18,970	$18,970	$18,970	$18,970	($7,960)	(29.6%)
New York Public Library	$114,505	$92,480	$92,216	$92,216	$92,216	($22,289)	(19.5%)
Brooklyn Public Library	$85,509	$68,726	$68,461	$68,461	$68,461	($17,048)	(19.9%)
Queens Borough Public Library	$83,455	$66,566	$66,301	$66,301	$66,301	($17,154)	(20.6%)
Dept. of Education	$18,433,317	$18,438,257	$18,420,240	$18,760,024	$19,394,279	$960,962	5.2%
City University	$747,753	$726,894	$719,323	$719,537	$719,649	($28,104)	(3.8%)
Civilian Complaint Review Board	$10,072	$10,270	$9,711	$9,716	$9,716	($356)	(3.5%)
Police Dept.	$4,534,297	$4,239,265	$4,243,720	$4,214,785	$4,211,658	($322,639)	(7.1%)
Fire Dept.	$1,748,866	$1,592,788	$1,579,198	$1,575,573	$1,573,960	($174,906)	(10.0%)
Admin. for Children Services	$2,800,459	$2,694,719	$2,705,317	$2,707,008	$2,707,008	($93,451)	(3.3%)
Dept. of Social Services	$8,465,645	$8,370,546	$9,175,080	$9,386,010	$9,993,219	$1,527,574	18.0%
Dept. of Homeless Services	$816,282	$738,902	$714,972	$712,286	$712,343	($103,939)	(12.7%)
Dept. of Correction	$1,023,494	$1,011,056	$1,023,007	$1,019,795	$1,019,795	($3,699)	(0.4%)
Board of Correction	$951	$999	$999	$999	$999	$48	5.0%
Citywide Pension Contribution	$6,636,056	$7,487,681	$7,795,377	$7,945,641	$8,048,818	$1,412,762	21.3%
Miscellaneous	$6,134,557	$6,372,028	$6,697,036	$8,111,113	$8,921,428	$2,786,871	45.4%
Debt Service	$3,913,247	$4,304,918	$4,696,337	$4,775,910	$4,844,346	$931,099	23.8%
N.Y.C.T.F.A. Debt Service	$1,186,367	$1,191,870	$1,576,880	$1,799,590	$1,973,120	$786,753	66.3%
Pre-payments	($2,036,374)	$0	$0	$0	$0	$2,036,374	(100.0%)
FY 2007 BSA	($30,865)	$0	$0	$0	$0	$30,865	(100.0%)
FY 2009 BSA	($2,267,652)	$0	$0	$0	$0	$2,267,652	(100.0%)
FY 2010 BSA	$3,271,619	($3,271,619)	$0	$0	$0	($3,271,619)	(100.0%)
Transfer for N.Y.C.T.F.A. Debt Service	($545,747)	$0	$0	$0	$0	$545,747	(100.0%)
Additional Transfer Assumed in NYCTFA Debt Service	($100,000)	$0	$0	$0	$0	$100,000	(100.0%)
Defeasance of N.Y.C.T.F.A. Debt Service	($382,000)	($35,000)	$0	$0	$0	$382,000	(100.0%)
Call 2009/2010 Go Debt	($276,634)	$0	$0	$0	$0	$276,634	(100.0%)
Public Advocate	$2,799	$1,754	$1,797	$1,803	$1,807	($992)	(35.4%)
City Council	$52,883	$52,883	$52,883	$52,883	$52,883	$0	0.0%
City Clerk	$5,227	$5,066	$5,066	$5,066	$5,066	($161)	(3.1%)
Dept. for the Aging	$287,349	$225,876	$225,554	$224,977	$224,977	($62,372)	(21.7%)
Dept. of Cultural Affairs	$145,260	$109,880	$109,880	$109,880	$109,880	($35,380)	(24.4%)
Financial Info. Serv. Agency	$59,923	$62,948	$60,296	$59,935	$59,945	$22	0.0%
Dept. of Juvenile Justice	$138,258	$2,752	$0	$0	$0	($138,258)	(100.0%)
Office of Payroll Admin.	$24,854	$71,217	$65,759	$52,784	$36,727	$11,873	47.8%
Independent Budget Office	$4,416	$4,455	$4,407	$4,407	$4,407	($9)	(0.2%)
Equal Employment Practices Comm.	$745	$744	$744	$745	$745	$0	0.0%

Table A2 (Con't). *FY 2011 Executive Budget Expenditure Detail*

($ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010 – 14	
						Dollar	**Percent**
Civil Service Commission	$650	$652	$653	$653	$653	$3	0.5%
Landmarks Preservation Comm.	$5,051	$5,230	$4,627	$4,663	$4,669	($382)	(7.6%)
Districting Commission	$0	$0	$0	$0	$0	$0	0.0%
Taxi & Limousine Commission	$31,277	$31,260	$30,716	$30,716	$30,716	($561)	(1.8%)
Commission on Human Rights	$7,214	$7,269	$7,366	$7,366	$7,366	$152	2.1%
Youth & Community Development	$390,324	$268,000	$236,734	$236,750	$236,750	($153,574)	(39.3%)
Conflicts of Interest Board	$1,915	$2,023	$1,988	$1,988	$1,988	$73	3.8%
Office of Collective Bargain	$2,049	$2,101	$2,102	$2,103	$2,103	$54	2.6%
Community Boards (All)	$15,343	$14,628	$14,569	$14,569	$14,569	($774)	(5.0%)
Dept. of Probation	$86,889	$80,411	$75,340	$74,843	$74,843	($12,046)	(13.9%)
Dept. Small Business Services	$169,660	$120,056	$108,130	$105,077	$99,165	($70,495)	(41.6%)
Housing Preservation & Development	$817,203	$570,349	$564,754	$563,701	$563,456	($253,747)	(31.1%)
Dept. of Buildings	$103,194	$97,968	$92,448	$92,448	$92,466	($10,728)	(10.4%)
Dept. of Health & Mental Hygiene	$1,694,873	$1,549,674	$1,561,361	$1,556,901	$1,558,061	($136,812)	(8.1%)
Health and Hospitals Corp.	$98,202	$92,860	$118,707	$118,778	$118,778	$20,576	21.0%
Office of Administrative Trials & Hearings	$0	$26,566	$26,566	$26,566	$26,566	$26,566	0.0%
Dept. of Environmental Protection	$1,292,829	$1,077,756	$984,451	$980,194	$980,194	($312,635)	(24.2%)
Dept. of Sanitation	$1,316,920	$1,343,867	$1,361,746	$1,385,537	$1,441,856	$124,936	9.5%
Business Integrity Commission	$7,098	$7,285	$7,230	$7,230	$7,230	$132	1.9%
Dept. of Finance	$224,661	$217,879	$216,545	$215,656	$215,662	($8,999)	(4.0%)
Dept. of Transportation	$842,644	$682,414	$670,390	$679,764	$679,764	($162,880)	(19.3%)
Dept. of Parks and Recreation	$323,940	$267,589	$266,078	$266,621	$266,781	($57,159)	(17.6%)
Dept. of Design & Construction	$106,439	$106,592	$106,496	$106,547	$106,571	$132	0.1%
Dept. of Citywide Admin. Services	$382,539	$393,615	$342,768	$349,037	$349,037	($33,502)	(8.8%)
D.O.I.T.T.	$254,560	$246,632	$231,306	$230,590	$230,590	($23,970)	(9.4%)
Dept. of Record & Info. Services	$5,477	$4,898	$4,901	$5,240	$5,240	($237)	(4.3%)
Dept. of Consumer Affairs	$22,792	$19,430	$19,430	$19,430	$19,430	($3,362)	(14.8%)
District Attorney - N.Y.	$93,492	$76,395	$75,379	$75,379	$75,379	($18,113)	(19.4%)
District Attorney - Bronx	$51,300	$45,375	$44,745	$44,414	$44,303	($6,997)	(13.6%)
District Attorney - Kings	$84,724	$75,918	$74,120	$74,120	$74,120	($10,604)	(12.5%)
District Attorney - Queens	$50,256	$44,742	$44,323	$43,863	$43,863	($6,393)	(12.7%)
District Attorney - Richmond	$8,505	$7,491	$7,348	$7,199	$7,199	($1,306)	(15.4%)
Office of Prosec. & Spec. Narc.	$18,505	$16,748	$16,351	$16,351	$16,351	($2,154)	(11.6%)
Public Administrator - N.Y.	$1,268	$1,156	$1,156	$1,156	$1,156	($112)	(8.8%)
Public Administrator - Bronx	$499	$425	$425	$425	$425	($74)	(14.8%)
Public Administrator - Brooklyn	$605	$526	$526	$526	$526	($79)	(13.1%)
Public Administrator - Queens	$473	$400	$400	$400	$400	($73)	(15.4%)
Public Administrator - Richmond	$376	$307	$307	$307	$307	($69)	(18.4%)
Prior Payable Adjustment	($800,000)	$0	$0	$0	$0	$800,000	(100.0%)
General Reserve	$100,000	$300,000	$300,000	$300,000	$300,000	$200,000	200.0%
Energy Adjustment	$0	$0	$51,108	$87,056	$105,704	$105,704	0.0%
Lease Adjustment	$0	$0	$23,642	$85,344	$136,982	$136,982	**N/A**
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	$166,557	**N/A**
TOTAL EXPENDITURE	**$63,547,375**	**$62,937,756**	**$68,332,347**	**$70,876,518**	**$73,429,977**	**$9,882,602**	**15.6%**

Table A3. CORE PEGS

($ in thousands)

Agency	Initiative	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenue PEGs						
Dept. of Finance	Targeted Program to Increase Audit Revenue	$6,200	$18,100	$18,100	$18,100	$18,100
	Form a New Tax Shelter Audit Group; $5 Million	$0	$5,000	$5,000	$5,000	$5,000
Subtotal Dept. of Finance		**$6,200**	**$23,100**	**$23,100**	**$23,100**	**$23,100**
DOT	Increase Manhattan Passenger Parking Rates	$600	$9,450	$9,450	$9,450	$9,450
DCAS	Additional Commercial Rent Revenue	$3,717	$8,603	$8,603	$8,603	$8,603
HHC	Reimbursement for Debt Service	$3,437	$8,209	$8,216	$8,222	$2,880
Law Dept.	Disposition of City Property	$0	$6,500	$0	$0	$0
Dept. of Buildings	Records Management Fees	$1,000	$5,700	$5,700	$5,700	$5,700
DOITT	Cable television franchise revenue	$5,000	$5,500	$5,500	$5,500	$5,500
Total Revenue PEGs		**$19,954**	**$67,062**	**$60,569**	**$60,575**	**$55,233**
Expenditure PEGs						
DOE	UFT CB Recalculation - City	$145,338	$327,839	$408,871	$456,588	$458,699
	Reduce Managerial Raises	$12,000	$6,231	$6,231	$6,231	$6,231
	CSA CB Recalculation - City	$2,272	$22,599	$46,663	$52,680	$52,875
Subtotal DOE		**$159,660**	**$356,669**	**$461,765**	**$515,499**	**$517,805**
Dept. of Sanitation	Delay in Staffing the new Marine Transfer Stations	$0	$27,598	$27,870	$12,047	$0
	Waste Export Funding Surplus	$15,896	$26,234	$34,858	$45,000	$0
	Waste Export Funding Reduction	$0	$14,807	$24,860	$0	$0
	State DEC Grant for Edgemere Landfill	$0	$10,053	$0	$0	$0
	Uniform Overtime	$6,923	$5,263	$0	$0	$0
Subtotal Dept. of Sanitation		**$22,819**	**$83,955**	**$87,588**	**$16,547**	**$0**
Administration for Children Services	Improved State and Federal Reimbursement of Administration	$0	$21,224	$21,224	$21,224	$21,224
	Federal Reimbursement for Foster Care and Adoption (ARRA)	$0	$10,083	$0	$0	$0
	"One Year Home" Foster Care Permanency Campaign	$0	$9,929	$13,704	$13,704	$13,704
	Day Care Center Consolidation	$0	$9,000	$16,286	$16,286	$16,286
	Prior Year Revenue	$29,362	$8,848	$0	$0	$0
	Foster Boarding Home Rate Delay	$0	$6,993	$1,556	$0	$0
	Child Protective Staffing Re-estimate	$0	$5,896	$5,991	$6,075	$6,181
Subtotal Administration for Children Services		**$29,362**	**$71,973**	**$58,761**	**$57,289**	**$57,395**
NYPD	UN Reimbursement	$0	$18,000	$0	$0	$0
	Revised Recruit Class Schedule	$0	$11,333	$0	$0	$0
	Fleet Lifecycle Maintenance Reduction	$0	$10,583	$0	$0	$0
Subtotal NYPD		**$0**	**$39,916**	**$0**	**$0**	**$0**

Table A3 (Con't). CORE PEGS

($ in thousands)

Agency	Initiative	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Dept. of Correction	Jail, Court, and Support Command Post Reduction	$8,064	$16,251	$16,409	$16,550	$16,726
	Leasing Beds to Other Jurisdictions	$3,595	$13,237	$13,237	$13,237	$13,237
	Overtime Realignment and Cost Savings	$0	$12,000	$12,000	$12,000	$12,000
	Inmate Housing Efficiencies	$0	$10,618	$10,722	$10,814	$10,929
	DOC Headcount Reduction	$0	$6,291	$6,381	$6,483	$6,596
Subtotal Dept. of Correction		**$11,659**	**$58,397**	**$58,749**	**$59,084**	**$59,488**
Dept. of Transportation	Signal Maintenance Contract Savings	$6,221	$11,427	$11,427	$0	$0
	Planning and Sustainability OTPS Reduction	$1,094	$5,086	$5,086	$5,086	$5,086
	NYCWiN Modem funding Switch	$0	$5,032	$0	$0	$0
Subtotal Dept. of Transportation		**$7,135**	**$21,545**	**$16,513**	**$5,086**	**$5,086**
Dept. of Social Services	Revenue Maximization	$12,476	$10,772	$10,776	$10,780	$10,785
	Prior Year Revenue	$4,641	$7,405	$1,896	$876	$876
	Employment Restructuring	$1,186	$7,149	$9,957	$9,957	$9,957
	Reimbursement for Prisoner Care	$9,127	$9,127	$9,127	$9,127	$9,127
Subtotal Dept. of Social Services		**$27,430**	**$34,453**	**$31,756**	**$30,740**	**$30,745**
Dept. of Parks & Recreation	Headcount Reduction	$1,000	$10,652	$12,687	$12,826	$12,998
	Restructure Parks Job Training Participant Program	$4,596	$10,428	$10,428	$10,428	$10,428
Subtotal Dept. of Social Services		**$5,596**	**$21,080**	**$23,115**	**$23,254**	**$23,426**
Dept. of Cultural Affairs	11.3% Funding Reduction	$6,367	$10,512	$10,512	$10,512	$10,512
Dept. for the Aging	Homecare Reorganization	$5,100	$10,274	$10,274	$10,274	$10,274
CUNY	Institutional & Dep. Research	$3,778	$7,062	$7,062	$7,062	$7,062
	Institutional & Departmental Research	$0	$6,359	$6,359	$6,359	$6,359
Subtotal CUNY		**$3,778**	**$13,421**	**$13,421**	**$13,421**	**$13,421**
Fire Dept.	Attrition Savings (Eliminate 5th Firefighter Post on 60 Engine Companies)	$0	$7,858	$16,660	$18,935	$20,631
	Attrition Savings (Eliminate Staffing at 4 Engine Companies)	$0	$5,586	$6,729	$6,633	$6,733
Subtotal Fire Dept.		**$0**	**$13,444**	**$23,389**	**$25,568**	**$27,364**
NYPL	11.3% Funding Reduction	$4,743	$8,203	$8,203	$8,203	$8,203
Dept. of Homeless Services	Rapid Rehousing Initiative	$0	$7,599	$7,599	$7,599	$7,599
Youth & Community Development	Out of School Time Program Reduction	$1,983	$7,488	$7,488	$7,488	$7,488
District Attorney - NY	Budget Reduction	$0	$6,716	$6,716	$6,716	$6,716
Dept. of Health & Mental Hygiene	Mental Hygiene Contracts - Delegate Agencies	$2,187	$6,360	$6,360	$6,360	$6,360
DOITT	NYCWiN - Capital Funding for Trafffic Signals	$6,240	$6,240	$2,490	$2,490	$2,490
Dept. of Juvenile Justice	Additional OCFS Revenue Fringe Benefits	$5,985	$6,216	$6,236	$6,255	$6,255
Brooklyn Public Library	11.3% Funding Reduction	$3,561	$6,161	$6,161	$6,161	$6,161
Queens Borough Public Library	11.3% Funding Reduction	$3,489	$6,010	$6,010	$6,010	$6,010
Office Of the Comptroller	Generate Savings through Audits	$0	$6,000	$6,000	$6,000	$6,000

Table A3 (Con't). CORE PEGS

($ in thousands)

Agency	Initiative	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Dept. of Finance	Insource IT Positions	$1,003	$5,945	$5,945	$5,945	$5,945
District Attorney - Kings	Budget Reduction	$0	$5,899	$5,899	$5,899	$5,899
OTPS Inflation Adjustm't	OTPS Inflator	$0	$55,519	$55,519	$55,519	$55,519
Total Expenditure PEGs		**$308,227**	**$869,995**	**$926,469**	**$938,419**	**$886,161**
Total PEGs		**$328,181**	**$937,057**	**$987,038**	**$998,994**	**$941,394**

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Glossary of Acronyms

ACS	Administration for Children's Services
AIRA	Actuarial Interest Rate Assumption
ARRA	American Recovery and Reinvestment Act
BARB	Building Aid Revenue Bond
BCT	Business Corporation Tax
BPCA	Battery Park City Authority
BSA	Budget Stabilization Account
CMBS	Commercial Mortgage-Backed Securities
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
DCA	Department of Cultural Affairs
DEP	Department of Environmental Protection
DJJ	Department of Juvenile Justice
DOC	Department of Correction
DOE	Department of Education
DOITT	Dept. of Information Technology &Telecommunications

DOT	Department of Transportation
ECB	Environmental Control Board
EU	European Union
FMAP	Federal Medical Assistance Percentages
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
J&C	Judgments and Claims
MBP	Manhattan Borough President
MRT	Mortgage Recording Tax
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCT	New York City Transit

NYCTFA	New York City Transitional Finance Authority
NYWFA	New York City Municipal Water Finance Authority
O&M	Operation and Maintenance
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PEG	Program to Eliminate the Gap
PERB	Public Employment Relations Board
PIT	Personal Income Tax
PS	Personal Services
QSCB	Qualified School Construction Bonds
QBP	Queens Borough President
RHBT	Retiree Health Benefit Trust
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers
U.S.	United States