Office of the
New York City Comptroller
John C. Liu

BUREAU OF FISCAL AND BUDGET STUDIES

Comments on New York City's Preliminary Budget for Fiscal Year 2011 and Financial Plan for Fiscal Years 2010 – 2014

March 4, 2010

Prepared by the Office of the New York City Comptroller - Bureau of Fiscal and Budget Studies
www.comptroller.nyc.gov or call (212) 669-2507.

JOHN C. LIU
Comptroller

First Deputy Comptroller
Eric Eve

Assistant Comptroller for Budget
Marcia J. Van Wagner

Bureau Chief
Eng-Kai Tan

Project Coordinator
Manny Kwan

Bureau Chief
Tina Lubin

Deputy Comptroller of Accountancy & Budget
Simcha Felder

Executive Director of Accountancy & Budget
Ari Hoffnung

Chief Economist
Frank Braconi

Principal Economist
Farid Heydarpour

Assistant Director
Robert DeLaurentis

Staff
Kettly Bastien
Rosa Charles
Carmen Cruz
Basil Duncan
Peter E. Flynn
Michele Griffin
Michael Hecht
Dahong Huang
Marcia Murphy
Paula Murrien
Albert Ng
Andrew Rosenthal
Michael Zhang
Orlando Vasquez

This page intentionally left blank.

TABLE OF CONTENTS

This page intentionally left blank.

LIST OF TABLES

LIST OF CHARTS

This page intentionally left blank.

I. Executive Summary

Economic uncertainty has cast its shadow over budget and Financial Plan modifications for much of the past two years. This uncertainty has diminished as the nation's economy appears to be settling into a slow but relatively steady recovery, but it has been replaced by political uncertainty as the State's budget adoption process unfolds and Congress debates additional actions to address the nation's persistently high jobless rates.

Mayor Michael Bloomberg's Preliminary Budget for FY 2011 and the accompanying Five-Year Financial Plan for FYs 2010 to 2014 outlines a template for actions to be taken to close a $4.1 billion budget gap in the coming fiscal year. The formal Financial Plan submission assumes that the State Legislature will not enact any of the reductions to aid to New York City proposed by the Governor in his Executive Budget. However, the Mayor acknowledged these proposals by issuing a "contingency plan" that lays out actions the City would take if the Governor's proposals were enacted.

The FY 2011 Budget as adopted this June will likely reflect a level of resources somewhere in the middle of the two scenarios presented by the Mayor. The Comptroller's assessment of the Preliminary Budget identifies potential risks to the FY 2011 Budget that could create a $1.191 billion gap in the coming year. Risks substantially exceed $1 billion per year for the remainder of the Financial Plan period, widening projected budget gaps to $4.578 billion in FY 2012, $5.136 billion in FY 2013 and $5.168 billion in FY 2014. It should be emphasized that these are risks to budget balance and understate the impacts on services that several rounds of budget cutting by the State and City have had and will continue to have for the foreseeable future.

The Mayor's plan for closing the FY 2011 gap rests largely on actions to be achieved in the current fiscal year. A $484 million package of gap-closing initiatives coupled with a tax revenue forecast that yields $984 million in additional revenue is expected to increase the projected FY 2010 surplus by $2.34 billion to $2.883 billion. These resources are scheduled to be used to prepay FY 2011 debt service expenses, thus reducing obligations payable in FY 2011. The gap-closing initiatives are slated to grow in value to $1.1 billion in FY 2011. Overall, the FY 2011 Budget Gap is closed with $1.202 billion in additional revenues and $2.941 billion in lower expenditures, compared to the Plan presented in November 2009.

The Comptroller's Office expects that tax collections in FY 2010 could be better than the Mayor is expecting. However, the Comptroller also expects that the City will not emerge unscathed as the State Legislature struggles to address the State's considerable, and growing, budget problems. The FY 2010 Budget could face a risk of $300 million from the likely reduction or elimination of State revenue sharing payments to New York City. On net, the Comptroller is anticipating a small overall risk of $49 million to the FY 2010 Budget. The large reserve being applied to FY 2011 is ample cushion, however.

Starting in FY 2011, the Comptroller's evaluation of the risks to the budget turns decidedly more pessimistic. The Comptroller and the Mayor agree that the national and local economies are headed into an economic recovery that will be much slower than the historical average. However, the Comptroller's Office's economic projections paint a slightly more dour picture of growth in the outyears of the Financial Plan period, resulting in more sluggish overall revenue growth. The tax revenue risk includes a tax program that would require State legislative approval. The Comptroller expects tax collections to fall short of the Mayor's projections by $127 million in FY 2011 and as much as $576 million by FY 2013. Furthermore, the Comptroller's Office believes that the risk to State aid payments will grow to $800 million per year from FY 2011 onward.

The Mayor's budget assumes that the City will be allowed to address Governmental Accounting Standards Board (GASB) Statement 49 in a way that does not impact its expense budget. GASB 49 requires governments to count environmental remediation costs as operating, rather than capital, expenses. Since the City is prohibited by law from borrowing for operating purposes, it would have to fund these costs from its operating budget unless action is taken by the Financial Control Board (FCB) or the State Legislature. The FCB granted the City an implementation delay, which expires at the end of FY 2010. These costs are estimated at $200 million per year.

Consistent with past practices, the Mayor continues to under-budget overtime spending in the Preliminary Budget and January Financial Plan. This creates a risk of $151 million in FY 2011 and $100 million annually thereafter.

The City has benefited from its foresight in creating reserves and taking other actions during the period of unprecedented revenue growth in FYs 2005 through 2007 to create a fiscal cushion during the inevitable economic downturn. Once the $2.883 billion surplus projected to be used to benefit FY 2011 is compared with the $2.914 billion surplus similarly transferred from FY 2009 to FY 2010, it becomes clear that in the current year, the City is drawing on more resources than it is generating. The red ink is even more clear when accounting for all the previous actions that reduced expenses, including an early debt retirement program and an FY 2008 action that prepaid nearly $2 billion of FY 2010 debt. Adjusting for all these actions, FY 2009 showed an operating deficit of $2.396 billion, while FYs 2010 and 2011 are expected to incur operating deficits of $2.757 billion and $2.883 billion, respectively.

The Mayor's program to eliminate the gap (PEG) has emphasized actions that create recurring savings. Because of the recurring value of the FY 2010 PEG, less than one-third of the FY 2011 PEG will need to be generated by new initiatives. Furthermore, personal services savings, which account for more than half the agency gap-closing actions, are expected to be achieved mostly by attrition. Layoffs account for 200 of the projected 3,600 full-time positions to be eliminated in FY 2011.

However, the layoff tally will rise if the State Legislature acts to reduce school aid. Between the State budget impact and the January Plan reductions, the Department of Education (DOE) faces a potential loss of more than $1 billion in budgeted resources for the upcoming school year. Following that, the expiration of Federal stimulus funds will lead to a projected year-to-year decline in funding for the Department in FY 2012, which the Mayor proposes to address by a reduction of nearly 14,000 in teacher headcount, which will in all likelihood involve substantial layoffs. The Financial Plan shows a resumption of funding growth in FY 2013, allowing the restoration of 10,000 pedagogical positions. The suggestion that the reduced aid flow would be temporary is comforting but difficult to support. Progress toward adequate funding of our City's schools has been halted by constrained resources and political choices, and is unlikely to be realized for most of the students who are currently in the system.

In the Preliminary Budget scenario, the bulk of DOE PEG savings relies on achieving controversial compensation agreements with its main labor unions, the United Federation of Teachers (UFT) and the Council of Supervisors and Administrators (CSA). The DOE proposes that the unions agree to abandon the pattern set in the current round of collective bargaining that provided a 4.0 percent increase in each of two years covered by the contract. Instead, the UFT and CSA are being asked to accept two 2.0 percent increases. The alternative would be headcount reductions within the Department.

The Mayor has made additional demands on the municipal unions for the next round of collective bargaining. He proposes that all wage increases for the next round be funded through “productivity” increases, by which is meant greater employee contributions toward health insurance costs, acceptance of a new pension tier or other similar measures. Should the City fail to realize productivity initiatives sufficient to fund the wage increases in these two years, every percentage increase in wages would cost the City approximately $220 million in the first year. These costs would grow within two years to $300 million annually, reflecting additional pension obligations caused by wage increases.

Looming in the background is the deteriorating fiscal position of the Health and Hospitals Corporation (HHC). Rising expenses are depleting the Corporation’s cash balances and will push its deficit to nearly $1.5 billion on an accrual basis in the upcoming year. To reach its projected cash balance in FY 2011, the January Plan contains a sizable gap-closing program that relies heavily on Federal and State actions and corporate savings initiatives. Further, Medicaid proposals in the Governor’s budget pose added uncertainty to the Corporation’s revenue outlook as the State seeks to generate major savings through tax assessment and reduced reimbursement for hospitals and skilled nursing facilities. While the City is under no obligation to provide assistance to the Corporation, it has frequently done so and the pressure to prevent HHC facilities from meeting the fate of other local hospitals that serve primarily indigent patients will be significant.

This page intentionally left blank.

Table 1. FY 2010–FY 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	$16,222	$17,126	$17,744	$17,955	$18,091	$1,869	11.5%
Other Taxes	$19,876	$21,059	$22,417	$23,799	$25,049	$5,173	26.0%
Tax Audit Revenues	$890	$612	$611	$610	$610	($280)	(31.5%)
Tax Fairness Program	$0	$219	$241	$262	$284	$284	N/A
Subtotal: Taxes	$36,988	$39,016	$41,013	$42,626	$44,034	$7,046	19.0%
Miscellaneous Revenues	$6,283	$5,793	$5,853	$5,897	$5,918	($365)	(5.8%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$340	$0	0.0%
Less: Intra-City Revenues	($1,804)	($1,545)	($1,547)	($1,552)	($1,552)	$252	(14.0%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$41,792	$43,589	$45,644	$47,296	$48,725	$6,933	16.6%
Other Categorical Grants	$1,372	$1,200	$1,155	$1,152	$1,151	($221)	(16.1%)
Inter-Fund Revenues	$497	$471	$450	$450	$450	($47)	(9.5%)
Total City & Inter-Fund Revenues	$43,661	$45,260	$47,249	$48,898	$50,326	$6,665	15.3%
Federal Categorical Grants	$7,943	$6,614	$5,720	$5,680	$5,679	($2,264)	(28.5%)
State Categorical Grants	$11,476	$11,766	$12,407	$13,057	$13,195	$1,719	15.0%
Total Revenues	$63,080	$63,640	$65,376	$67,635	$69,200	$6,120	9.7%
Expenditures							
Personal Service							
Salaries and Wages	$22,310	$21,695	$21,353	$21,993	$22,168	($142)	(0.6%)
Pensions	$6,760	$7,268	$7,694	$7,841	$7,949	$1,189	17.6%
Fringe Benefits	$7,307	$7,622	$7,921	$8,214	$8,715	$1,408	19.3%
Retiree Health Benefits Trust	($82)	($395)	($672)	$0	$0	$82	(100.0%)
Subtotal-PS	$36,295	$36,190	$36,296	$38,048	$38,832	$2,537	7.0%
Other Than Personal Service							
Medical Assistance	$4,951	$5,644	$6,113	$6,293	$6,478	$1,527	30.8%
Public Assistance	$1,580	$1,563	$1,603	$1,591	$1,591	$11	0.7%
All Other	$19,397	$18,835	$19,485	$20,041	$20,585	$1,188	6.1%
Subtotal-OTPS	$25,928	$26,042	$27,201	$27,925	$28,654	$2,726	10.5%
Debt Service							
Principal	$1,649	$1,790	$2,139	$2,117	$2,088	$439	26.6%
Interest & Offsets	$2,414	$2,496	$2,535	$2,631	$2,727	$313	13.0%
Subtotal Debt Service	$4,063	$4,286	$4,674	$4,748	$4,815	$752	18.5%
FY 2007 BSA & Discretionary Transfers	($31)	$0	$0	$0	$0	$31	(100.0%)
FY 2009 BSA & Discretionary Transfers	($2,268)	$0	$0	$0	$0	$2,268	(100.0%)
FY 2010 BSA	$2,883	($2,883)	$0	$0	$0	($2,883)	(100.0%)
Prepayments	($2,036)	$0	$0	$0	$0	$2,036	(100.0%)
Debt Retirement							
Call 2009/2010 G.O. 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	$559	$666	$688	$213	44.7%
Interest & Offsets	$680	$828	$1,053	$1,165	$1,312	$632	93.0%
Subtotal NYCTFA	$1,155	$1,285	$1,612	$1,831	$2,000	$845	73.2%
General Reserve	$200	$300	$300	$300	$300	$100	50.0%
	$64,884	$65,185	$70,083	$72,852	$74,601	$9,717	15.0%
Less: Intra-City Expenses	($1,804)	($1,545)	($1,547)	($1,552)	($1,552)	$252	(14.0%)
Total Expenditures	$63,080	$63,640	$68,536	$71,300	$73,049	$9,969	15.8%
Gap To Be Closed	**$0**	**$0**	**($3,160)**	**($3,665)**	**($3,849)**	**($3,849)**	**N/A**

Table 2. Plan-to-Plan Changes
January 2010 Plan vs. November 2009 Plan

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Revenues				
Taxes:				
General Property Tax	($29)	($201)	($173)	($350)
Other Taxes	$880	$930	$813	$895
Tax Audit Revenues	$144	$16	$16	$16
Tax Fairness Program	$0	$219	$241	$262
Subtotal: Taxes	$995	$964	$897	$823
Miscellaneous Revenues	$148	$33	$57	$60
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Less: Intra-City Revenues	($36)	$20	$21	$20
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,107	$1,017	$975	$903
Other Categorical Grants	$209	$167	$118	$117
Inter-Fund Revenues	$11	$18	$7	$7
Total City & Inter-Fund Revenues	$1,327	$1,202	$1,100	$1,027
Federal Categorical Grants	$687	$160	$338	$310
State Categorical Grants	($42)	($160)	$21	($2)
Total Revenues	$1,972	$1,202	$1,459	$1,335
Expenditures				
Personal Service				
Salaries and Wages	($570)	($1,640)	($1,542)	($1,748)
Pensions	$60	$259	$383	$279
Fringe Benefits	$253	$917	$1,147	$506
Retiree Health Benefits Trust	($82)	($395)	($672)	$0
Subtotal-PS	($339)	($859)	($684)	($963)
Other Than Personal Service				
Medical Assistance	$35	$22	$22	$22
Public Assistance	$181	$264	$304	$292
All Other	$3	($4)	($8)	$34
Subtotal-OTPS	$219	$282	$318	$348
Debt Service				
Principal	($0)	($102)	$15	$16
Interest & Offsets	($93)	$78	$24	$3
Subtotal Debt Service	($93)	($24)	$39	$19
FY 2007 BSA & Discretionary Transfers	$0	$0	$0	$0
FY 2009 BSA & Discretionary Transfers	($1)	$0	$0	$0
FY 2010 BSA	$2,344	($2,344)	$0	$0
Prepayments	$0	$0	$0	$0
Debt Retirement				
Call 2009/2010 G.O. Debt	$0	$0	$0	$0
Defease NYCTFA Debt	$0	$0	$0	$0
Subtotal Debt Retirement	$0	$0	$0	$0
Transfer for NYCTFA Debt Service	$0	$0	$0	$0
FY 2008 Redemption of Certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA Debt Service				
Principal	$17	($6)	($24)	$3
Interest & Offsets	($39)	($10)	$46	$16
Subtotal NYCTFA	($22)	($16)	$22	$19
General Reserve	($100)	$0	$0	$0
	$2,008	($2,961)	($305)	($577)
Less: Intra-City Expenses	($36)	$20	$21	$20
Total Expenditures	$1,972	($2,941)	($284)	($557)
Gap To Be Closed	**$0**	**$4,143**	**$1,743**	**$1,892**

Table 3. Risks and Offsets to the FYs 2010 – 2014 Financial Plan

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
City Stated Gap	**$0**	**$0**	**($3,160)**	**($3,665)**	**($3,849)**
Tax Revenues					
Property Tax	$0	($70)	($120)	($150)	($145)
Personal Income Tax	$125	($60)	($265)	($200)	($140)
Business Taxes	$130	($5)	($185)	($335)	($370)
Sales Tax	($60)	($100)	($120)	($135)	($100)
Real-Estate-Related Taxes	$48	$327	$468	$506	$552
Tax Fairness Program	$0	($219)	($241)	($262)	($284)
Subtotal	**$243**	**($127)**	**($463)**	**($576)**	**($487)**
State Aid	**($300)**	**($800)**	**($800)**	**($800)**	**($800)**
Expenditures					
Overtime	($25)	($151)	($100)	($100)	($100)
Judgments and Claims	33	87	145	205	268
GASB 49	0	(200)	(200)	(200)	(200)
Subtotal	**$8**	**($264)**	**($155)**	**($95)**	**($32)**
Total Risk/Offsets	**($49)**	**($1,191)**	**($1,418)**	**($1,471)**	**($1,319)**
Restated (Gap)/Surplus	**($49)**	**($1,191)**	**($4,578)**	**($5,136)**	**($5,168)**

This page intentionally left blank.

II. The State of the City’s Economy

Evidence is accumulating that the national economy has begun its recovery from the worst financial crisis since the 1930s. Economic performance, as measured by the change in the real Gross Domestic Product (GDP), bounced back in the second half of 2009, financial market indicators are returning to normal, and the decline in house prices seems to have abated.

The City’s economy also seems to be pulling out of its recession. The financial industry has rebounded more quickly than anticipated, with aggregate profits for 2009 estimated to be the highest on record. Tourism has also revived, and there are signs of improvement in a number of other critical business sectors.

Until labor markets improve, however, the recovery will be neither convincing nor satisfying. Nationwide job losses have clearly slowed and, if historical patterns repeat, employment growth should resume during the first half of this year. New York City, which has not experienced job losses as severe as many other cities, nevertheless continues to suffer moderate but steady monthly job attrition. In the past, the city’s job market has lagged the nation’s in recovery, so it is reasonable to expect local job losses to continue well into 2010.

Unfortunately, with 8.5 million private sector jobs lost nationally since the beginning of the recession, high unemployment rates are likely to persist far into the future. With the American labor force growing at about 90,000 per month it will take nearly four years of 300,000-per-month job growth to bring the unemployment rate down to pre-recession levels. New York City faces a similar unemployment challenge: the number of unemployed residents has already swelled by about 250,000 while, during the last expansion, average job growth was about 5,000 per month.

Although the national and local economies are gradually turning around, neither seems poised to create jobs at the pace necessary to quickly alleviate the unemployment crisis. The legacy of pre-recession excesses will continue to suppress bank lending, consumer spending and construction activity, causing the present recovery to be unusually slow and fragile. The Comptroller does not expect either the national or local economies to return to their long-term trend rate of growth until 2013.

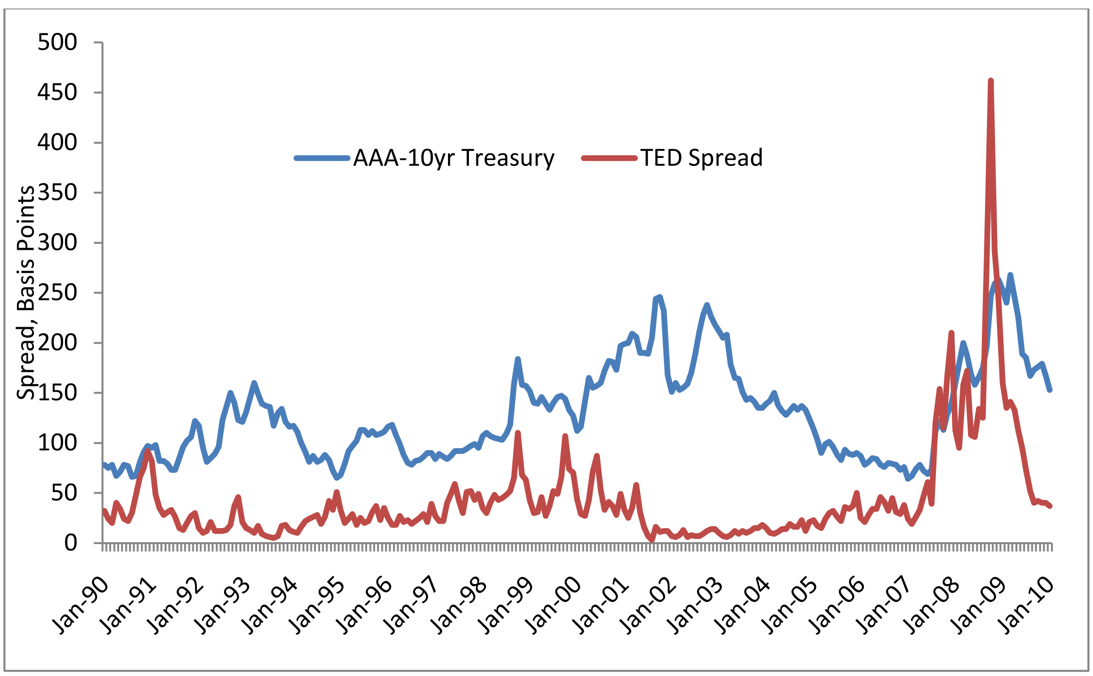
A. U.S. ECONOMIC OUTLOOK

U.S. real gross domestic product declined by 2.4 percent in 2009, easily the worst year-over-year result of the post-war era. The only gains to the economy came from net exports and government expenditure. Nonetheless, the U.S. economy ended 2009 on an upward trajectory. The American economy grew 2.2 percent in the third quarter and 5.9 percent in the fourth quarter, although the latter figure was inflated by inventory adjustments rather than rapid growth in final demand.

Aside from the return of positive GDP growth, there were some encouraging developments during 2009. Most importantly, the financial sector's condition improved dramatically after its near collapse in 2008. Government capital injections through the Troubled Asset Relief Program (TARP), highly favorable interest rate spreads, and Financial Accounting Standards Board (FASB) modifications to its Fair Value Accounting guidelines allowed banks to rapidly repair their balance sheets. By mid-2009 many banks were able to raise new private capital and even repay their TARP obligations.

Most statistical metrics indicate that financial market stress has subsided and that capital markets are gradually normalizing. High-grade bond yields have fallen and their spread relative to Treasury bonds has narrowed considerably. The spread between AAA bond yields and 10-year Treasury bonds, for example, which was at a record high of 268 basis points in March of 2009, had declined to 153 basis points by January of 2010. Similarly mortgage rates have stayed low, as the spread between 30-year fixed rate conventional mortgage and 10-year Treasury notes (mortgage spread) fell to 130 basis points in January 2010, from 291 basis points in December 2008. The widely-watched "TED spread," which measures the difference between the 3-month LIBOR rates and 3-month Treasury bill yields, fell to 37 basis points in January 2010, from 462 basis points in October 2008.

Chart 1. Short-Term and Long-Term Interest Rate Spreads



Source: Federal Reserve Board of Governors.

One of the most important indicators of national economic health, and a direct contributor to economic activity, is the stock market. Improving stock prices allow companies to raise capital for investment, boost consumer wealth and confidence, and facilitate Wall Street revenue growth and trading gains. During 2008, while concerns about the stability of the financial system mounted, the S&P 500 Index fell 37 percent. In 2009, as fear of systemic failure abated, the Index rebounded by nearly 20 percent. That gain represented the recovery of approximately $2 trillion in household wealth, contributing to the improving confidence of businesses and households.

In late 2008 and early 2009, with consumers rattled by panic in the financial markets and the failure of Lehman Brothers, consumer spending plunged. As the panic abated during 2009 consumers slowly reopened their wallets. Personal consumption expenditures increased at a 2.8 percent and 1.7 percent seasonally-adjusted annual rate in the third and fourth quarters of 2009, respectively. Although still well below the long-term average rate of increase of 3.4 percent per year, the resumption of consumer spending growth was a pre-requisite for recovery, as consumer spending is the biggest component of GDP.

Investment spending is another important component of GDP, without which a recovery cannot gain traction. As 2009 progressed business investment spending began to pick up momentum. By the fourth quarter investment spending on equipment and software was increasing at an 18.2 percent annual rate. However, financing problems in commercial real estate continue to suppress business investment in new structures, which normally accounts for over one-quarter of investment spending.

Home prices were at the heart of the financial crisis. When home prices stopped increasing, subprime borrowers, unable to refinance mortgages, began defaulting on their payments and a financial domino effect was set in motion. Eventually, home prices nationally declined by more than 30 percent and the value of Americans' equity in their homes plunged by almost $7 trillion. On that front, too, 2009 finally brought some relief. After nearly three years of relentless price declines, home prices (as measured by the S&P/Case-Shiller Home Price Index) appeared to bottom out in May 2009, and then rose by 3.6 percent over the next seven months. Although it is still not certain that home prices have reached their ultimate trough, their recent stability has helped to restore consumer confidence and to stabilize bank balance sheets.

The positive economic developments during the past year make the outlook at the beginning of 2010 far more optimistic than that of a year ago. Although the Comptroller's Office does not expect the recovery to be a vigorous one, we do believe that it has gained enough momentum to be sustainable without another Federal stimulus package. Stubbornly high unemployment rates, however, may compel Congress to take further actions to encourage job creation, as the President has already urged.

The continued disarray in real estate markets is one of the primary reasons the Comptroller does not anticipate a strong recovery. New construction, especially residential construction, has historically provided a boost during the early stages of economic expansions because of its responsiveness to low interest rates and easy credit conditions. Although mortgage rates are historically low at present, credit conditions are nevertheless tight, as banks are reluctant to underwrite any mortgages that don't conform to Fannie Mae and Freddie Mac standards. Moreover, the unprecedented number of home foreclosures has swamped the housing market with foreclosed homes, many of which were only recently built. As a consequence, new homebuilding has remained at depressed levels even as sales of existing homes have revived. These conditions are likely to persist for several more years.

Commercial real estate conditions are even worse. The complete shut-down of the market for commercial mortgage-backed securities (CMBS) has left even profitable properties unable to refinance interest-only or partial interest-only mortgages that are coming due. Moreover, the recession has raised vacancy rates in commercial properties and lowered rental rates, while stalling many construction projects in their tracks.[1] These conditions jeopardize the performance of real estate loans held by banks, and impair the ability of banks, especially smaller regional and community banks, to extend new real estate, small business, and consumer loans. Even if the commercial real estate financing crisis does not directly threaten the stability of the financial sector, it will suppress construction activity for the foreseeable future, and deprive the country of the jobs and economic activity it normally creates.

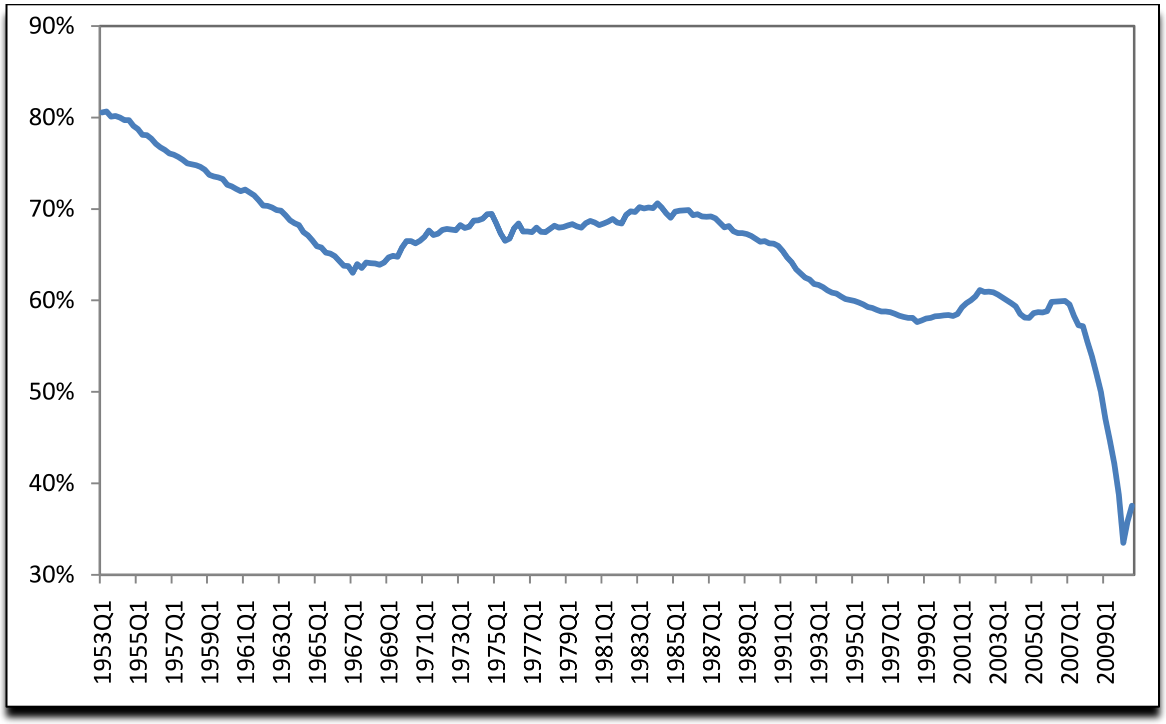
Another fundamental constraint on economic growth is the high debt burden of American households. When home prices were soaring, homeowners could extract home equity by refinancing mortgages or taking out home equity loans. The increased debt allowed them to increase consumption spending faster than their incomes rose, yet still maintain a high equity share in their homes. As Chart 2 shows, once house prices began declining, much of their equity evaporated. The plunge in the home equity ratio, combined with tighter lending standards, has shut off the credit valve that fueled consumer spending throughout the last expansion. For the foreseeable future, consumer spending growth will have to be driven by income gains, rather than by borrowing, limiting the amount of momentum the consumer can provide to overall economic activity.

Policy variables are always relevant to economic forecasts, but after the unprecedented government interventions of the past two years, they have taken on extraordinary importance. During 2010, both Congress and the Federal Reserve will face critical decisions of economic policy that may improve or dampen the short-term economic outlook.

Although many economists believe that further government stimulus is necessary to support the recovery and bring down the unemployment rate, we do not anticipate that, absent a significant relapse in economic growth, another federal stimulus package on the scale of the American Recovery and Reinvestment Act (ARRA) will be implemented during 2010. More likely, we anticipate that Congress will authorize a modest jobs program.

[1] Construction loans, including those for residential projects, are considered commercial real estate loans.

Chart 2. Owner's Equity As Percentage Of Household, Percent, 1953-2009



Source: Federal Reserve Board of Governors.

The decisions facing the Federal Reserve are even more complex. The Fed must unwind its massive liquidity programs before they become inflationary, yet execute its disengagement at a pace that does not jeopardize the recovery. Especially sensitive will be its retreat from the mortgage market, as the Fed has been the primary supporter of the housing market through its massive purchases of agency mortgage securities. While the central bank has enormous expertise and unparalleled market information, the markets' sensitivity to its unwinding process is untested.

Considering all the various positives, constraints, and risks facing the American economy in 2010, the Comptroller's Office anticipates continued recovery during the year, albeit at a slow pace and punctuated by numerous setbacks and disappointments. Relative to the Mayor's forecast, the Comptroller anticipates a somewhat slower return to the trend rate of economic growth.

Table 4 shows the Comptroller's and the Mayor's forecast of five economic indicators for 2010 to 2014.

Table 4. Selected U.S. Economic Indicators, Annual Averages, Actual 2009 and Comptroller and Mayor's Forecasts, 2010-2014

		2009	2010	2011	2012	2013	2014
Real GDP, (2005 $), % Change	Comptroller	(2.4)	2.6	2.7	2.9	3.1	3.1
	Mayor	(2.5)	2.3	2.8	3.7	3.2	2.8
Payroll Jobs, Change in Millions	Comptroller	(5.9)	(1.7)	1.7	2.1	2.5	2.8
	Mayor	(5.1)	(1.0)	2.2	3.6	3.3	2.5
Inflation Rate Percent	Comptroller	(0.4)	1.7	2.2	2.6	2.6	2.7
	Mayor	(0.3)	2.2	1.9	1.9	1.7	1.9
Fed Funds Rate, Percent	Comptroller	0.2	0.3	1.5	3.2	4.0	4.3
	Mayor	0.2	0.3	1.7	3.4	3.6	4.7
10-Year Treasury Notes, Percent	Comptroller	3.3	4.0	4.6	5.2	5.9	5.8
	Mayor	3.2	4.2	4.9	5.5	5.8	6.5

SOURCE: Actual=preliminary. Data from NYS Department of Labor, Bureau of Labor Statistics, Bureau of Economic Analysis, and Federal Reserve Board of Governors. Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the January 2010 Financial Plan.

B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

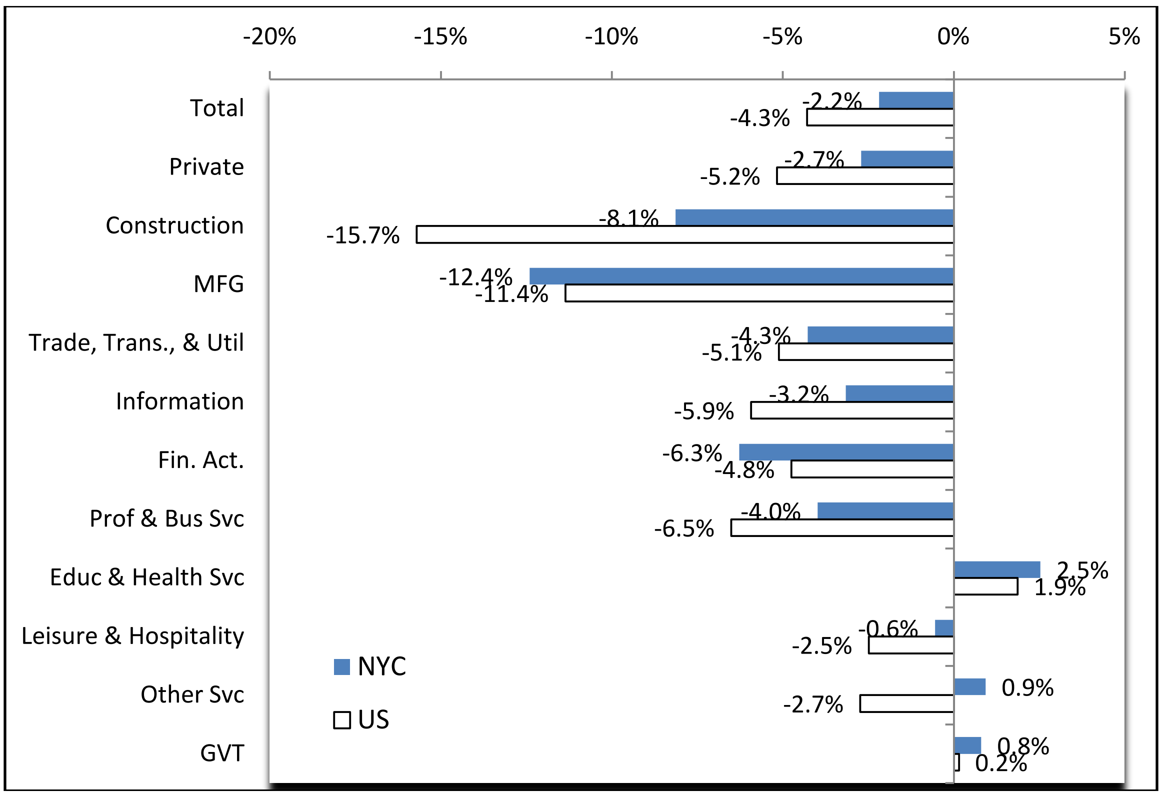
Although New York City's economy was battered by the national recession and shocked by the near collapse of its leading industry, it nevertheless displayed an encouraging resilience in 2009. Overall job losses were less severe than in other parts of the country, its housing market proved less susceptible to price deflation, and remarkable progress was made toward the reorganization and recovery of its financial industry. With the national economy beginning to recover, there is reason to expect that the city's economy will begin to benefit from growing national demand for its information and cultural output, its business and professional services, and of course its financial expertise. Historically, however, the city's economy has trailed the nation's economy when emerging from slumps, so a turnaround in its labor market is unlikely to occur until the latter half of 2010.

The city's overall economic performance, measured by the change in real Gross City Product (GCP), fell 3.0 percent in 2009, a somewhat steeper percentage decrease than the national output decline. However, the Comptroller's Office estimates that GCP grew 1.4 percent in the fourth quarter, an earlier resumption of economic growth than we had anticipated. Unfortunately, the labor market remains soft. The City lost 83,000, or 2.2 percent, of its total payroll jobs and 87,500 of its private sector jobs in 2009. This was the first time that the city's economy posted an employment loss since 2003. From the city's employment peak in August 2008, through the end of 2009, the city lost 143,400 payroll jobs, or 3.8 percent of its payroll job base. During 2009 private-sector job losses averaged about 5,500 per month, and there is no evidence that the rate of job attrition has yet abated.

The city's unemployment rate, which reached a low of 4.4 percent in February 2008, rose to 10.6 percent by the end of 2009, averaging 9.2 percent for the full year. The number of unemployed city residents rose by 254,800 from February 2008 to December 2009, reaching 424,500. About 60 percent of the increase in the number of unemployed was due to the job contraction, while about 40 percent was due to an expansion of the city's labor force. As usually happens during or shortly after a recession, the labor force began to shrink in the second half of the year, as discouraged job seekers stop actively looking for work. The decrease in the national labor force set in much earlier, which accounts for the city's higher unemployment rate in the second half of 2009.

Still, the city's job losses were proportionally less than the nation's. Chart 3 shows the year-over-year change in jobs for the City and the nation in 2009. Only in manufacturing and financial activities were the city's job declines more severe than the national declines. In nearly every other sector the city's job losses were proportionally lighter, and in health and educational services, the only super-sector that has continued to grow nationally, the city's gains outpaced the nation's.

Chart 3. NYC and U.S. Job Growth, Percent Change, 2009 vs. 2008



SOURCE: NYS Department of Labor and Bureau of Labor Statistics.
NOTE: Jobs are based on annual averages of monthly data.

In addition to imperiling the nation's financial system, the precipitous decline in housing prices has caused widespread hardship from coast to coast. RealtyTrac, Inc. estimates that foreclosure filings were made against 2.8 million homes in 2009 and on 6.4 million homes during the past three years. Whether through a forced sale or bank repossession, millions of families have already lost their homes and millions more are likely to. In some of the hardest-hit areas of the country, entire neighborhoods have come to resemble "ghost towns" with homes abandoned, vandalized and dilapidated. Fortunately, New York City has escaped the worst of such problems. According to

RealtyTrac, one in one hundred fifty-eight housing units in New York State had a foreclosure filing against it in 2009, compared to one in forty-five nationally and one in sixteen in Arizona. However, as research by the Furman Center of New York University has shown, there are communities within the city in which home foreclosures are concentrated at potentially damaging levels. Overall, according to data compiled by the Federal Reserve Bank of New York, as of the third quarter of 2009, 8.5 percent of mortgages in the Bronx and 7.8 percent of mortgages in Queens were ninety days or more delinquent, compared to a national rate of 5.0 percent.

One reason home foreclosures in the city have not reached the crisis proportions they have elsewhere is that local home prices have not declined as severely. A comparison of the Case-Shiller Home Price Index for the major metropolitan areas shows a decline of 20.8 percent in New York between May 2006 and December 2009, compared to 37.4 percent in Los Angeles, 47.2 percent in Miami, and 51 percent in Phoenix. Data compiled by Miller Samuel Inc. show price declines within the boroughs similar to those in the metro area as a whole, with average sales prices of 1- to 3-family homes dropping by 19.8 percent in Queens and 14.2 percent in Brooklyn from the fourth quarter of 2007 to the fourth quarter of 2009.

Although Miller Samuel reports an 11.2 percent decrease in Manhattan apartment sales prices (square foot basis) from the fourth quarter of 2008 to the fourth quarter of 2009, the firm also reports an 8.4 percent increase in the number of sales. Trade reports suggest that market activity has continued to increase as financial industry conditions improved and bonuses rebounded from 2008, but disruptions in the “jumbo” mortgage market continue to be a significant constraint on the city’s housing market.

Like its residential market, the city’s commercial real estate industry is down but not out. According to Cushman & Wakefield, the overall vacancy rate (including sublet) in Manhattan office space rose to 11.1 percent in the fourth quarter of 2009 from 8.0 percent in the fourth quarter of 2008. However, the firm also reported that the year ended on the upswing, with leasing activity for the last six months up 56 percent from the first six months and the vacancy rate declining in November and December. Although asking rents have come down considerably from their peak, they remain higher than they were just a few years ago, and commercial rent tax collections data indicate that the cash flows of commercial buildings are holding up.

Since New York City is already intensively developed, new construction activity does not play as large a role in its economy as it does in many newer Sunbelt areas. This has worked in its favor during the recession, as the real estate crash has not had as large a ripple effect on its local economy. From December 2006 to December 2009, the city lost only 2,900 construction jobs, compared to construction job losses of 77,700 in the Phoenix metro area, 67,900 in Los Angeles, and 65,000 in Miami. Nevertheless, the city’s real estate market is still digesting a large amount of new residential construction begun during the real estate boom years, so construction activity is unlikely to spur the city’s economic growth in coming years.

Over the past decade tourism has emerged as one of the city's key growth industries, with leisure and hospitality employment growing at an annual rate of 2.3 percent. The global recession had an adverse effect on the tourism sector, but here again, the city proved somewhat more resilient to the downturn than other tourism destinations, surpassing Orlando as the country's most-visited city. NYC & Company estimates that the number of visitors declined by 3.9 percent in 2009 while the number of hotel room nights sold increased slightly. Tourism should rebound in 2010, although the recent fiscal and currency adjustment problems within the European Union could adversely affect the lucrative European segment of the city's international tourist business.

With a recovering financial sector and improving domestic and international demand for the city's information, business, and professional services, the local economy should show renewed growth during 2010. It may be later in the year, however, when that growth begins to translate into new job creation, but the long-term picture is sobering. As in many cities around the country, job creation was sluggish even before the recession set in and regaining the jobs that have since been lost promises to be a long and difficult challenge.

Table 5. Selected NYC Economic Indicators, Annual Averages, Actual 2009 and Comptroller and Mayor's Forecasts, 2010-2014

		2009	2010	2011	2012	2013	2014
Real GCP, (2005 $),	Comptroller	(3.0)	1.1	2.5	2.9	3.0	3.0
% Change	Mayor	(3.5)	2.2	0.1	2.8	2.5	2.1
Payroll Jobs,	Comptroller	(83.0)	(78.0)	6.5	44.0	57.0	68.0
Change in Thousands	Mayor	(85.0)	(102.0)	22.0	50.0	49.0	36.0
Inflation Rate	Comptroller	0.4	1.9	2.3	2.6	2.6	2.7
Percent	Mayor	0.4	2.3	2.2	2.1	1.9	2.2
Wage-Rate Growth,	Comptroller	(4.4)	1.4	2.4	3.2	3.5	3.8
Percent	Mayor	(8.2)	5.1	3.9	0.6	3.5	3.7
Unemployment,	Comptroller	9.2	10.2	9.1	8.4	7.6	6.8
Percent	Mayor	NA	NA	NA	NA	NA	NA

SOURCE: Actual=preliminary. Data from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors. Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the January 2010 Financial Plan. GCP=Gross City Product. NA=not available.

This page intentionally left blank.

III. The FY 2010 Budget

The City expects to end FY 2010 with a balanced budget of $63 billion. The City-funds portion of the budget, which excludes Federal and State categorical grants and expenditures, is expected to total $43.7 billion.[2] The fiscal outlook for the City has improved since the November Modification. Tax revenue projections for FY 2010 are $984 million more than the November estimates, now totaling $36.98 billion before including the impact of program to eliminate the gap (PEG) initiatives (Table 6). The economically sensitive tax revenues account for most of the increase, with upward revisions of $538 million, $236 million and $92 million to personal income tax (PIT), business tax, and sales tax revenue estimates, respectively.

Table 6. Changes to the FY 2010 City-Funds Estimates

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

November 2009 Gap	**$0**
REVENUES	
Tax Revenues	$984
Non-Tax Revenues	$47
Other Categorical Grant	$209
Inter-Fund Revenues	$11
Total Revenues	**$1,251**
EXPENDITURES	
Prior-Year-Payable Adjustment	$500
General Reserve	$100
Remove Funding for 1.25% Wage Increase for next 2 years	$35
Debt Service	$123
Pension	($60)
Other Categorical Expenditures	($209)
Inter-Fund Expenditures	($11)
Others	$131
Total Expenditures	**$609**
Net Change	**$1,860**
PEGs	**$484**
Tax Programs	**$0**
FY 2010 BSA	**($2,344)**
January 2010 Gap	**$0**

SOURCE: New York City Office of Management and Budget.

In addition to the upward revision in revenue estimates, the City has reduced its FY 2010 expenditure estimates by $609 million. Reduction to the General Reserve and recognition of prior-year-payable savings, adjustments typically made at this point in the budget cycle, account for $600 million of the reduction. The City has also removed funding for 1.25 percent wage increases from the labor reserve in each of the first two years of the next round of collective bargaining, resulting in a $35 million savings in

[2] Federal and State categorical grants are used to support Federal and State categorical expenditures and as such, have no impact on budget balance.

FY 2010. The City expects any wage increases in the next round of collective bargaining to be funded with productivity savings. Debt service savings and agency spending reductions are expected to reduce FY 2010 spending by another $123 million and $131 million, respectively. These reductions to spending are partially offset by adjustments to pension contributions and increases in other categorical and inter-fund expenditures.[3] The increase in revenue and reduction in expenditure estimates coupled with $484 million of FY 2010 PEG initiatives are expected to generate a budget surplus of $2.34 billion in FY 2010. This surplus will be used to fund the FY 2010 Budget Stabilization Account (BSA) that was established in the November Modification, bringing the total balance in the BSA to $2.88 billion. The BSA is earmarked to prepay FY 2011 General Obligation (G.O.) debt service.

However, the Comptroller's Office expects the FY 2010 surplus to be $49 million less than the City's estimate. The Comptroller's Office analysis of the State Executive Budget indicates that the City could lose approximately $300 million in State aid in FY 2010. Partially offsetting the Comptroller's risk from the estimated shortfall in State aid is the Comptroller's higher revenue tax estimate. The Comptroller's Office expects tax revenues to be $243 million more than the City's forecast.

Budget Surplus

The January Modification shows that the City anticipates ending FY 2010 with a budget surplus of $2.883 billion.[4] However, the $2.883 billion budget surplus is the result of the net accumulation of prior-year budget surpluses available for prepayments rather than the excess of FY 2010 revenues over expenditures. In fact, without the benefit of FY 2009 prepayments, FY 2010 expenditures would be $62 million greater than anticipated FY 2010 tax revenues. Table 7 shows the accumulation of the budget surpluses available for prepayments.[5]

[3] Other categorical and inter-fund expenditures are funded with other categorical grants and inter-fund revenues. As such, increases in other-categorical and inter-fund expenditures do not affect the budget gap as these increases are matched with corresponding increases in other-categorical grants and inter-fund revenues.

[4] Budget surplus in this report is defined as revenues accounted for in a fiscal year general fund less expenditures accounted for in that fiscal year, before prepayments and discretionary transfers for subsequent year expenditures. Expenditures accounted for in the Financial Plan, before prepayments and subsequent year expenditures, are expenditures incurred in a fiscal year reduced by the surplus roll-in and other prior-year prepayments of that fiscal year expenditures.

[5] Since FY 1981, when the City first had a budget surplus, it has retained a small portion of the surplus as a recorded surplus for the fiscal year while using the remainder of the budget surplus for prepayments and discretionary transfers. Since FY 1991, the recorded surplus each year had been $5 million. Table 7 shows changes in the portion of budget surplus used for prepayments.

Table 7. Accumulation of Year-End Budget Surpluses

($ in millions)

	Roll-In of Budget Surplus	Addition to/(Use of) Budget Surplus	Budget Surplus Available for Prepayments
FY 2001	$3,187	($238)	$2,944
FY 2002	$2,944	($2,258)	$681
FY 2003[a]	$681	$741	$1,417
FY 2004	$1,417	$511	$1,923
FY 2005	$1,923	$1,611	$3,529
FY 2006	$3,529	$227	$3,751
FY 2007	$3,751	$919	$4,665
FY 2008	$4,600[b]	$40	$4,635
FY 2009	$4,669[c]	($1,755)	$2,914
FY 2010	$2,945[d]	($62)	$2,883[d]

[a] FY 2003 revenues are distorted by the use of $1.5 billion of NYCTFA Recovery Bond revenues for operating purposes. Without the $1.5 billion NYCTFA bond revenues, expenditures would have exceeded revenues by $759 million.

[b] $65 million of the FY 2007 prepayments were used to prepay $34 million of FY 2009 lease purchase debt and $31 million of FY 2010 lease purchase debt.

[c] Includes FY 2007 prepayment of $34 million of lease purchase debt.

[d] Includes FY 2007 prepayment of $31 million of lease purchase debt.

At the close of FY 2001, the City prepaid $2.944 billion of FY 2002 expenditures. As Table 7 shows, the prepayment effectively rolled the FY 2001 surplus into FY 2002. At the close of FY 2002, the City prepaid $681 million of FY 2003 expenditures, a $2.258 billion decline in prepayments from FY 2001. This decline reflects the use of $2.258 billion of the $2.944 billion that was rolled into FY 2002 towards budget balance in the aftermath of the terrorist attacks on the World Trade Center.

From FY 2003 to FY 2008, the City's revenues exceeded expenditures in each fiscal year, creating annual growth in the amount available to be rolled into each subsequent year. Over this period, the surplus available for prepayments grew from $1.417 billion in FY 2003 to $4.635 billion in FY 2008.

In the wake of the financial crisis that erupted in the fall of 2008, City revenues plummeted and the City had to use $1.755 billion of the surplus roll to balance the FY 2009 Budget, leaving $2.914 billion available to prepay FY 2010 expenditures. In the January 2010 Financial Plan, the City anticipates using $62 million of the surplus roll to balance FY 2010 and the remaining $2.883 billion to balance FY 2011.

Operating Results

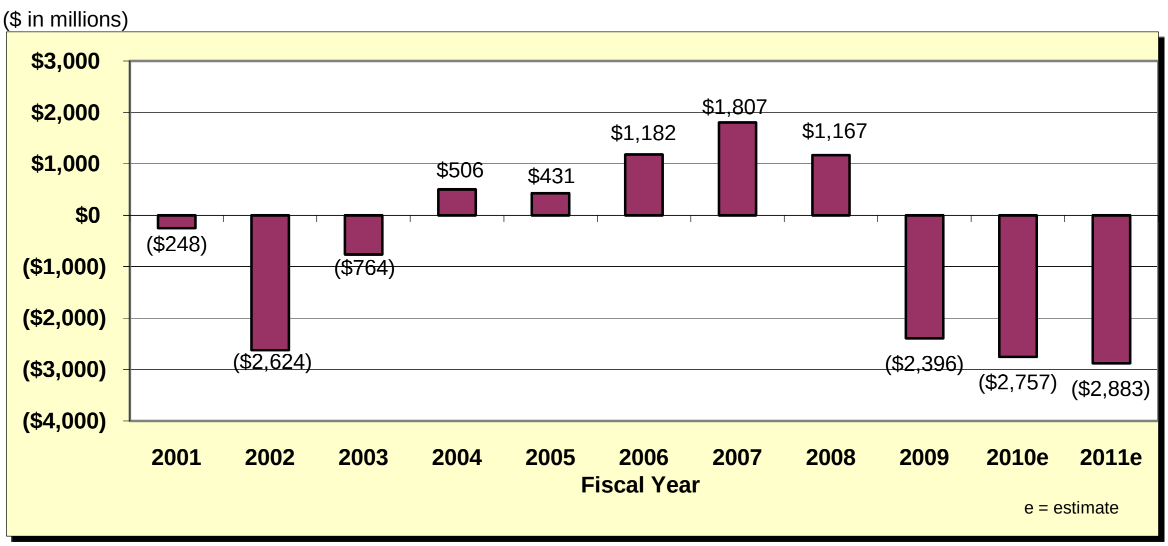
The City's operating results are not reflected in the budget and Financial Plan projections.[6] This is because operating expenditures presented in the Financial Plan are distorted by the surplus roll and other actions that use prior-year resources to reduce future year expenses. Prior-year actions which impact spending in the January Financial Plan but are not reflected in the surplus roll include:

- An early debt retirement program in FY 2007 which reduces FY 2010 General Obligation (G.O.) and New York City Transitional Finance Authority (NYCTFA) debt service by $277 million and $382 million, respectively.

- The prepayment of $1.986 billion of FY 2010 G.O. debt service in FY 2008, which including interest savings, reduced FY 2010 debt service by $2.036 billion.

After adjusting for prior-year actions and surplus roll, FY 2009 showed an operating deficit of $2.396 billion and FYs 2010 and 2011 are expected to incur operating deficits of $2.757 billion and $2.883 billion respectively, as shown in Chart 4.

Chart 4. The City's Operating Results



[6] Operating result in this report is defined as the difference between revenues generated in a given fiscal year (operating revenues) and expenditures incurred in a given fiscal year (operating expenditures). An operating surplus is generated when operating revenues exceed operating expenditures. Conversely, an operating deficit occurs when operating expenditures exceed operating revenues.

IV. The FY 2011 Preliminary Budget

The City's $63.64 billion FY 2011 Preliminary Budget shows a reduction in spending of $2.94 billion compared with the November Financial Plan. The City-funds portion of the budget, which excludes Federal and State categorical grants and expenditures, is estimated to total $45.26 billion. This is also $2.94 billion less than the City-funds spending estimate in the November Plan indicating that there is no change in combined Federal and State categorical grant projections since November.

As Table 8 shows, the City has closed the $4.143 billion FY 2011 gap projected in the November Plan through a combination of a net upward revision of $1.202 billion in revenue estimates and a net reduction of $2.941 billion in expenditure estimates. The City raised its baseline tax revenues by $727 million, reflecting the improved outlook for the local economy and the rebound of Wall Street from the financial crisis. In addition, the City is proposing a tax fairness program that includes the State Executive Budget proposal to extend the mortgage recording tax to co-op purchases, which is projected to generate $50 million in FY 2011 and grow to $78 million by FY 2014. The program would also introduce a tax on sales of aviation fuel to airlines, which is expected to generate $169 million in FY 2011 and grow to $206 million by FY 2014. Other revenue changes include revenue PEGs, which consist mainly of initiatives to enhance collection, and revisions to other-categorical grants and non-tax and inter-fund revenues.

Table 8. Changes to the FY 2011 City-Funds Estimates

($ in millions)

November 2009 Gap	**($4,143)**
REVENUES	
Baseline Tax Revenues	$727
Non-Tax Revenues	(18)
Other Categorical Grant	167
Inter-Fund Revenues	18
Revenue PEG	90
Tax Fairness Program	219
Subtotal Revenues	**$1,202**
EXPENDITURES	
Eliminate Tier V Assumption	($200)
Eliminate Health Insurance Savings	(357)
Remove Funding for 1.25% Wage Increase for next 2 years	190
Debt Service	68
Pension	(259)
Other Categorical Expenditures	(167)
Inter-Fund Expenditures	(18)
Expenditure PEGs	1,026
FY 2010 BSA	2,344
Others	314
Subtotal Expenditures	**$2,941**
Total Change	**$4,143**
January 2010 Gap	**$0**

NOTE: positive numbers decrease the gap while negative numbers increase the gap.

The reduction in spending in the Preliminary Budget stems mainly from agency PEGs of $1.026 billion and an increase of $2.344 billion in the FY 2010 BSA to prepay FY 2011 G.O. debt service. These FY 2011 spending reductions are partially offset by the removal of previously assumed savings from pension and health insurance restructuring. The November 2009 Financial Plan spending projections had included FY 2011 savings of $200 million from assumed restructuring of pension benefits for new hires, and $357 million from employee contributions of 10 percent of health insurance premiums.[7] Along with the removal of the assumed savings from these proposals, the City has removed funding for a 1.25 percent wage increase in each of the first two years beyond the current round of collective bargaining. The City expects any wage increases in these years to be funded with labor productivity initiatives or other savings, including pension and health insurance reform.

Program to Eliminate the Gap

The January 2010 Financial Plan contains numerous gap-closing initiatives that are expected to provide budget relief totaling $484 million in FY 2010, and more than $1.1 billion in each of FYs 2011 to 2014 as shown in Table 9. These initiatives include revenue enhancements (revenue PEGs) and spending reductions (expenditure PEGs) with expenditure PEGs accounting for 84 percent to 93 percent of the total budget relief over the Plan period.

Most of the PEGs are initiatives that have recurring benefits. The FY 2010 PEGs comprise 239 initiatives of which 182 are expected to generate $381 million of budget relief in FY 2010 and recurring benefits of $773 million in FY 2011, $695 million in FY 2012, $641 million in FY 2013, and $590 million in FY 2014. As a result of the recurring benefits from the FY 2010 initiatives, only $343 million, or less than one third, of the $1.12 billion FY 2011 PEG benefits need to be generated by new FY 2011 initiatives. The FY 2011 PEGs consist of 104 initiatives across different agencies, of which 92 initiatives are expected to generate recurring benefits of $314 million in FY 2011, $399 million in FY 2012, $420 million in FY 2013, and $414 million in FY 2014.

[7] The savings from pension restructuring were assumed to stay at $200 million in each of the outyears of the Plan while savings from the 10 percent premium contribution were projected to increase to $386 million in FY 2012 and $418 million in FY 2013.

Table 9. January 2010 Financial Plan PEGs

($ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
REVENUE PEGS					
Recurring					
FY 2010 Agency PEGs	$35,041	$74,196	$67,978	$68,451	$63,108
FY 2011 Agency PEGs	0	14,320	15,210	15,064	15,236
Total Recurring	$35,041	$88,516	$83,188	$83,515	$78,344
Non-Recurring					
FY 2010 Agency PEGs	40,465	$0	$0	$0	$0
FY 2011 Agency PEGs	0	1,010	0	0	0
Total Non-Recurring	$40,465	$1,010	$0	$0	$0
Total Revenue PEGs	**$75,506**	**$89,526**	**$83,188**	**$83,515**	**$78,344**
EXPENDITURE PEGs					
Recurring					
FY 2010 Agency PEGs	$346,369	$698,815	$626,975	$572,768	$527,008
FY 2011 Agency PEGs	0	299,300	383,996	404,646	399,069
FY 2012 Agency PEGs	0	0	58,353	111,073	113,948
FY 2013 Agency PEGs	0	0	0	19,390	30,226
Total Non-Recurring	$346,369	$998,115	$1,069,324	$1,107,877	$1,070,251
Non-Recurring					
FY 2010 Agency PEGs	$62,547	$0	$0	$0	$0
FY 2011 Agency PEGs	0	28,189	0	0	0
FY 2012 Agency PEGs	0	0	2,000	0	0
Total Non-Recurring	$62,547	$28,189	$2,000	$0	$0
Total Expenditure PEGs	**$408,916**	**$1,026,304**	**$1,071,324**	**$1,107,877**	**$1,070,251**
Total PEGs	**$484,422**	**$1,115,830**	**$1,154,512**	**$1,191,392**	**$1,148,595**

More than 57 percent of the FY 2010 PEG benefits are from 17 initiatives that produce savings or generate revenues of $5 million or more. These initiatives account for budget relief of $276 million in FY 2010, $490 million in FY 2011, $484 million in FY 2012, $483 million in FY 2013, and $438 million in FY 2014. The DOE accounts for about $113 million, or 41 percent, of the PEGs with a minimum value of $5 million in FY 2010, as shown in Table 10. The DOE is proposing to reduce funding for wage increases in the current round for collective bargaining for the UFT and the CSA from 4.0 percent compounded over two years to 2.0 percent, patterned after the recent reduced wage increases granted to managers in the Department. The Department will use the savings from these initiatives to meet its PEG target, thereby eliminating the need for other reductions. Between these two initiatives, the Department expects to realize savings of $113 million in FY 2010, $317 million in each of FYs 2011 through 2014.[8]

[8] These savings are net of the increase in cost for students with disabilities which the Department plans to fund with surplus savings from these collective bargaining initiatives.

Table 10. FY 2010 PEGs with a Minimum Value of $5 million

($ in thousands)

Agency	Initiative	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
DOE	UFT and CSA Collective Bargaining Recalculation	$100,938	$310,590	$310,587	$310,590	$310,589
DOE	Reduce Managerial Raises	12,000	6,231	6,231	6,231	6,231
ACS	Prior Year Revenue	29,362	8,848	0	0	0
NYPD	Uniformed OT Reduction	25,000	50,000	50,000	50,000	50,000
Dept. of Sanitation	Waste Export Funding Surplus	15,896	26,234	34,858	45,000	0
Dept. of Sanitation	Uniform Overtime	6,923	5,263	0	0	0
Campaign Finance Bd.	Return of Unspent 2009 Election Matching Funds	20,000	0	0	0	0
Dept. of Social Services	Reimbursement for Prisoner Care	9,127	9,127	9,127	9,127	9,127
DOC	Jail, Court, and Support Command Post Reduction	8,064	16,251	16,409	16,550	16,726
Law Dept.	Disposition of City Property	8,037	0	0	0	0
Dept. of Finance	Targeted Program to Increase Audit Revenue	6,200	13,100	13,100	13,100	13,100
Dept. of Cultural Affairs	PEGs	6,367	10,512	10,512	10,512	10,512
DOT	Signal Maintenance Contract Savings	6,221	11,427	11,427	0	0
Dept. of Juvenile Justice	Additional OCFS Revenue Fringe Benefits	5,985	6,216	6,236	6,255	6,255
DCAS	Court Reimbursement	5,645	0	0	0	0
Dept. for the Aging	Homecare Reorganization	5,100	10,274	10,274	10,274	10,274
DOITT	Cable Television Franchise Revenue	5,000	5,500	5,500	5,500	5,500
Total		**$275,865**	**$489,573**	**$484,261**	**$483,139**	**$438,314**

Similarly, a small number of initiatives account for a significant portion of the PEG benefits in FY 2011. Of the $343 million in benefits from PEGs initiated in FY 2011, almost 70 percent, or $238 million are due to 15 initiatives which are expected to generate $5 million or more of budget relief. Table 11 shows that most of the savings are from personal services (PS) related savings.

Table 11. FY 2011 PEGs with a Minimum Value of $5 million

($ in thousands)

Agency	Initiative	FY 2011	FY 2012	FY 2013	FY 2014
NYPD	Uniformed HC Reduction - Attrition	$55,443	$112,555	$131,990	$134,057
NYPD	UN Reimbursement	18,000	0	0	0
OTPS Inflation Adjustment	OTPS Inflator	55,519	55,519	55,519	55,519
ACS	"One Year Home" Foster Care Permanency Campaign	9,929	13,704	13,704	13,704
ACS	Day Care Center Consolidation	9,000	16,286	16,286	16,286
ACS	Foster Boarding Home Rate Delay	6,993	1,556	0	0
ACS	Child Protective Staffing Reduction through Increased Productivity	5,896	5,991	6,075	6,181
Dept. of Sanitation	Delay in Staffing the New Marine Transfer Stations	27,598	27,870	12,047	0
Fire Dept.	Attrition Savings (Eliminate 5th Firefighter Post on 60 Engine Companies)	7,858	16,660	18,935	20,631
Fire Dept.	Attrition Savings (Eliminate Staffing at 4 Engine Companies)	5,586	6,729	6,633	6,733
DOC	Inmate Housing Efficiencies	10,618	10,722	10,814	10,929
Dept. of Homeless Services	Rapid Rehousing Initiative	7,599	7,599	7,599	7,599
District Attorney - NY	Budget Reduction	6,716	6,716	6,716	6,716
District Attorney - Kings	Budget Reduction	5,899	5,899	5,899	5,899
Office of the Comptroller	PS Reduction across the Board	5,369	5,369	5,369	5,369
Total		**$238,023**	**$293,175**	**$297,586**	**$289,623**

Risks and Offsets

As Table 3 on page 3 shows, the Comptroller's Office has identified risks ranging from $1.191 billion to $1.471 billion in FYs 2011 through 2014. The largest risk stems from the impact of the State Executive Budget. As discussed in "Federal and State Aid" beginning on page 31, actions proposed by the State could reduce State support by $800 million annually in each of FYs 2011 through 2014.

In addition to the risk of reduction in State support, the Comptroller's Office expects expenditures to exceed the City's estimates by $264 million in FY 2011, $155 million in FY 2012, $95 million in FY 2013, and $32 million in FY 2014. The biggest risk to expenditures stems from the potential cost of funding pollution remediation out of the General Fund. As discussed in previous reports, GASB Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued in calendar year 2006, requires governments to treat pollution remediation as an operating expense. The New York State Financial Control Board passed a resolution on April 30, 2008 authorizing the City to delay the implementation of

GASB Statement 49 until FY 2011. Because State law prohibits New York City from borrowing for operating expenses, the City will have to fund pollution remediation out of the General Fund. The Comptroller's Office estimates that the cost of pollution remediation will be approximately $200 million annually.

Overtime spending poses another significant risk to the expenditure estimates. The Comptroller's Office estimates that overtime will exceed the City's projections by $151 million in FY 2011 as discussed in "Overtime" beginning on page 39.

Mitigating the risks to the City's expenditure estimates is the Comptroller's Office expectation of lower cost for judgments and claims (J&C). The City projects that J&C will grow from $717 million in FY 2011 to $898 million by FY 2014. Based on settlement trends over the past few years, the Comptroller's Office expects J&C cost to average approximately $630 million over the Financial Plan period.[9] Therefore, the City could realize savings from lower J&C costs of $87 million in FY 2011, $145 million in FY 2012, $205 million in FY 2013, and $268 million in FY 2014.

Finally, the Comptroller's Office projects net tax revenue risks of $127 million in FY 2011, $463 million in FY 2012, $576 million in FY 2013, and $487 million in FY 2014. The biggest risk to the City's tax projections is its assumptions of additional revenues from both the City's proposal to extend the sales tax to include sales of aviation fuel to airlines and the State Executive Budget proposal to extend the mortgage recording tax to the financing of co-op purchases. The City expects to realize revenues from these two proposals totaling $219 million in FY 2011, $241 million in FY 2012, $262 million in FY 2013, and $284 million in FY 2014. However, both of these initiatives require the approval of the State Legislature. The Comptroller's Office considers both these proposals at risk as there is no indication at this point that the State Legislature will approve either proposal.

The Comptroller's Office also expects property and the economically sensitive tax revenues to be less than the City's projections due to the Comptroller's forecast of a slower economic recovery than the City. These risks however, are tempered by the Comptroller's Office forecast of higher real-property transfer and mortgage recording tax revenues. The Comptroller's Office expects a quicker recovery in the real-estate market as discussed in "Tax Revenues" beginning on page 25.

As discussed in "Labor" beginning on page 35, the City has removed from the Labor Reserve funding for wage increases for the first two years beyond the current round of collective bargaining. The City had previously funded wage increases of 1.25 percent per year beyond the current round of collective bargaining. Should the City fail to realize the productivity initiatives it is expecting to fund the wage increases in these two years, every percentage increase in wages would cost the City approximately $220 million in the first year and $300 million two years hence as pension cost of the wage increase takes effect.

[9] After reaching a peak of $627 million in FY 2003, J&C costs dropped to $517 million in FY 2006 before rising to $564 million in FY 2007, $625 million in FY 2008, and $623 million in FY 2009.

A. REVENUE OUTLOOK

In the FY 2011 Preliminary Budget and Financial Plan, the City projects City-fund revenues to increase $1.8 billion to $43.6 billion. Tax revenues are expected to increase 5.5 percent to $39 billion in FY 2011. Property tax revenues are projected to grow 5.6 percent, reflecting growth in billable assessed value, while non-property tax revenues are projected to grow 5.4 percent, reflecting the improved outlook for the local economy and continued strong Wall Street earnings in the coming fiscal year. Over the Plan period, total tax revenues are forecast to grow on average 4.5 percent annually.

Excluding intra-City revenues, miscellaneous revenue projection declines 5.0 percent in FY 2011, mostly as a result of an expected decline in non-recurring resources. Over the Financial Plan period, total revenues, which include tax and miscellaneous revenues and Federal and State categorical grants, are forecast to grow 9.7 percent, from $63.1 billion in FY 2010 to $69.2 billion in FY 2014.

Tax Revenues

Excluding tax programs, the Preliminary Budget projects $38.8 billion in total tax revenues for FY 2011, an increase of 4.9 percent from the FY 2010 level.[10] This new forecast represents a $727 million, or 1.9 percent, increase from the November Modification. The revision is attributable to an improved outlook for personal income tax (PIT), business taxes, and sales tax revenues. Total tax revenue is expected to grow 4.3 percent annually from FY 2010 to FY 2014, excluding tax programs.

The FY 2011 Preliminary Budget and Financial Plan includes a “tax fairness program” expected to generate over $1 billion in revenues in FYs 2011 – 2014. The program consists of a proposed extension of the sales tax on aviation fuel sold to airlines, expected to yield $169 million in FY 2011, rising to $206 million by FY 2014. In addition, the program includes a proposal to extend the mortgage recording tax (MRT) on co-op apartment purchases, which would yield $50 million in FY 2011, increasing to $78 million by FY 2014. Agency PEGs totaling $87 million in FYs 2010 through 2014 are also included in the Plan. Including tax programs, the Preliminary Budget and Financial Plan projects total tax revenues at $39.0 billion in FY 2011 with average annual growth of 4.5 percent from FY 2010 to FY 2014.

Changes from November Modification

Net of PEGs and the proposed tax fairness program, tax revenue projections for FY 2011 have increased $727 million, or 1.9 percent, since the November Modification. This upward revision is attributable to increases in PIT, business taxes and sales tax

[10] If not indicated specifically, the definition of tax revenue for each single tax excludes the proposed tax program throughout this section. Personal income tax (PIT) revenue includes School Tax Relief (STAR) reimbursement and the portion of PIT retained for NYCTFA debt service. Property tax revenue includes STAR reimbursement. Total tax revenue includes STAR, NYCTFA, and tax audit revenues.

revenue forecasts, partly offset by a small decline in the property tax revenue forecast. For FY 2011, the property tax revenue forecast declined $204 million, or 1.2 percent, while the forecast for non-property tax revenue increased $931 million, or 4.5 percent, since the November Plan.

The downward revisions to the real property tax revenue forecasts for FYs 2011 through 2014 are mostly due to lower than anticipated levy projections. The Tentative Assessment Roll for Fiscal Year 2011 was released in early January and showed slower market value growth than was anticipated. Forecasts for FYs 2012 to 2014 declined by $175 million, $353 million, and $320 million, respectively. Real property tax revenues are projected to grow by 11.5 percent over the Plan period.

In the Preliminary Budget the largest change in forecast revenues among non-property taxes comes from the PIT. The City has increased its FY 2011 PIT forecast $434 million, or 5.7 percent, compared to the forecast included in the November Modification. This change reflects the improved expectations for Wall Street bonuses, wage earnings, and capital gains realizations in tax year 2010. The City expects the impact of employment losses in 2010 will be offset by growth in bonus payouts on Wall Street earnings. While withholding collections are forecast to be flat, installment payments in FY 2011 are expected to grow 9.0 percent, reflecting strong anticipated capital gains realizations from recovery in the equity market. The PIT forecasts for the outyears were also increased $507 million, $566 million, and $570 million in FY 2012, FY 2013, and FY 2014, respectively.

The revenue forecast for business taxes has increased in the Preliminary Budget. For FY 2011, the business tax revenue projection has increased $371 million, or 8.1 percent, compared with the November Modification. The increase is attributable to an upward revision to general corporation tax (GCT) and the unincorporated business tax (UBT) forecasts, partially offset by a decrease in the banking corporation tax (BCT) forecast. The GCT and the UBT revenue forecasts increased $187 million and $235 million for FY 2011, respectively. These revisions reflect the City's anticipation of continued strength in NYSE member-firm profits in calendar year 2010. The BCT revenue forecast declined $51 million for FY 2011 compared to the previous plan, reflecting a return to a sustainable level of growth. Business tax revenue forecasts were raised $218 million, $273 million, and $290 million for FYs 2012, 2013 and 2014, respectively, compared to the November estimates.

Excluding proposed tax programs, the FY 2011 sales tax revenue forecast increased $172 million, or 3.5 percent, from the November forecast. This increase results from the City's assumption of a rebound in consumption stemming from an improved job outlook beginning by the end of calendar year 2010. In the outyears, excluding tax programs, the City's sale tax forecasts increased by $102 million, $62 million, and $75 million in FYs 2012 – 2014, respectively. When the proposed tax program is included, the FY 2011 forecast for sales tax revenue increases $341 million, or 6.9 percent, compared to the November Modification.

Excluding proposed tax programs, projected real-estate-related tax revenue forecast for FY 2011 was revised downward $95 million, or 7.9 percent. This decline is mainly due to $86 million less in anticipated revenues from the mortgage recording tax (MRT). The City also lowered its real-estate-related tax revenue forecasts $81 million, $72 million, and $11 million respectively for FYs 2012 through 2014.

The City's tax revenue assumptions are illustrated in Table 12.

Table 12. Changes to the City's Tax Revenue Assumptions, FYs 2010 – 2014

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Property	($30)	($204)	($175)	($353)	($320)
PIT	538	434	507	566	570
Business	236	371	218	273	290
Sales	92	172	102	62	75
Real-Estate Transaction	(44)	(95)	(81)	(72)	(11)
All Other	192	50	66	67	62
Total w/o Program	**$984**	**$727**	**$637**	**$542**	**$666**
PEGs	11	19	19	19	19
Proposed Program	0	219	241	262	284
Total	**$995**	**$965**	**$897**	**$824**	**$970**

SOURCE: Office of Management and Budget.

Tax Revenue Trends

Not including tax programs, total tax revenue is projected to increase $6.8 billion from FYs 2010 to 2014, an average annual rate of 4.3 percent. Collections are expected to grow 4.9 percent in FY 2011, 5.1 percent in FY 2012, 3.9 percent in FY 2013, and 3.3 percent in FY 2014. Non-property tax collections are expected to increase 4.3 percent in FY 2011 and to grow on average 5.6 percent annually from FY 2012 to FY 2014, reflecting the anticipated recovery of the local economy in calendar year 2010 and beyond.

Average annual property tax growth from FYs 2010 through 2014 is 2.8 percent. FY 2011 property tax revenue is expected to increase 5.6 percent on a year-over-year basis. The rate of growth then steadily declines for the rest of the Plan period due to the diminishing pipeline of assessed value growth accumulated when real estate values surged during the middle of the past decade. Commercial properties and large residential buildings should experience smaller price increases if not declines in value. Property tax revenue growth is estimated at 3.6 percent, 1.2 percent, and 0.8 percent for FY 2012, FY 2013, and FY 2014, respectively.

PIT growth averages 6.0 percent from FYs 2010 to 2014. PIT revenues are expected to increase 6.8 percent in FY 2011, followed by increases of 6.8 percent, 5.7 percent, and 4.6 percent in FYs 2012 through 2014, respectively. This reflects the City's expectations of a continued recovery in the national and local economies.

The City anticipates that business tax revenue will increase 7.6 percent in FY 2011 and continue to grow from FY 2012 to FY 2014. Excluding tax programs, business taxes are expected to grow 7.3 percent on an average annual basis over the Financial Plan period. The impact of the MRT proposal included in the tax program on the business tax revenue forecast is not significant.

Revenues from the sales tax are expected to grow on average 5.2 percent annually from FY 2010 to FY 2014, excluding the tax programs. Sales tax revenue is forecast to increase 4.9 percent in FY 2011, followed by four years of consecutive growth. With the tax programs, sales tax revenue is expected to grow 6.1 percent over the Plan period. The growth in the sales tax is driven by the tax initiatives, which include aviation fuel sold to airlines in the sales tax base, as well as expected improvement of local employment and consumption.

Real-estate-related tax revenues, which include the real property transfer tax and the mortgage recording tax, are expected to grow 13.9 percent in FY 2011. Average annual growth of real-estate-related tax revenue during the Financial Plan period is estimated at 13.2 percent. This projection reflects the City's expectation of a gradual recovery of the real estate market as both the transaction volume and prices are expected to grow from depressed 2009 levels. With tax programs, the real-estate-related tax revenue is projected to grow 14.6 percent from FY 2010 to FY 2014.

Table 13. Tax Revenue Forecast, Growth Rate, FYs 2010 – 2014

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FYs 2010 – 2014
Property	12.0%	5.6%	3.6%	1.2%	0.8%	2.8%
PIT	(1.1%)	6.8%	6.8%	5.7%	4.6%	6.0%
Business	(11.6%)	7.6%	8.7%	7.6%	5.4%	7.3%
Sales	6.2%	4.9%	4.7%	5.6%	5.6%	5.2%
Real-Estate Transaction	(22.9%)	13.9%	11.2%	15.2%	12.5%	13.2%
All Other	(2.7%)	(12.3%)	0.5%	(0.3%)	1.2%	(2.9%)
Total w/o Tax Program	**2.7%**	**4.9%**	**5.1%**	**3.9%**	**3.3%**	**4.3%**
Non-Property w/o Tax Program	(3.6%)	4.3%	6.3%	6.0%	5.1%	5.4%
PEGs	0.0%	76.3%	0.9%	0.9%	0.9%	16.0%
Proposed Tax Program	0.0%	0.0%	10.0%	8.7%	8.4%	0.0%
Total	**2.7%**	**5.5%**	**5.1%**	**3.9%**	**3.3%**	**4.5%**

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

Risks and Offsets

The Comptroller's Office projections of risks and offsets to the City's tax revenue assumptions, based on current year collections and economic growth projections, are illustrated in Table 14.

For FY 2011, the Comptroller's Office expects tax revenues to be $127 million lower than the City's estimate because of a less optimistic forecast for PIT, sales tax, and the uncertainty concerning the State legislative response to the City's tax proposals. The Comptroller's Office expects risks of $463 million in FY 2012, $576 million in FY 2013, and $487 million in FY 2014, due to less optimistic estimates for PIT, business tax, sales tax, and property tax revenues in FYs 2012 – 2014, as well as to legislative uncertainty about the tax fairness proposals.

Real property taxes are forecast to be slightly lower than the City's forecasts in each year. The Comptroller's Office believes market values will decrease in FY 2012 and that future increases will be modest, especially in single-family houses and commercial properties. Annual growth from FYs 2010 to 2014 is expected to average 2.6 percent, with risks of $70 million, $120 million, $150 million, and $145 million respectively during FYs 2011 to 2014.

While real estate values may not return to previous levels during the course of the Financial Plan, the Comptroller's Office believes that real-estate-related taxes will recover at a quicker pace than the City anticipates. The Comptroller's Office believes that there is substantial real estate investment capital waiting for prices to stabilize, and that transactions volume in the commercial sector may increase abruptly once the market settles. Offsets occur in every year from FYs 2010 to 2014 with a small offset of $48 million in the current year, rising to $552 million by FY 2014. Average annual growth during this period is projected at 20.5 percent.

The Comptroller's Office's forecasts of PIT, business tax, and sales tax revenues for FYs 2010 – 2014 reflect the Comptroller's expectation of strong NYSE member-firm profits and Wall Street bonuses in calendar year 2009, but a slow recovery of the U.S. economy to its trend rate of growth. In addition, the Comptroller's forecasts do not assume any additional revenues from proposed tax initiatives. Since State legislative approval of the proposed tax initiatives is uncertain at this point, the assumed additional revenues, $219 million in FY 2011, $241 million in FY 2012, $262 million in FY 2013, and $284 million in FY 2014, represent risks to the tax forecast. Excluding the tax programs, the Comptroller's Office expects combined offsets of $195 million for FY 2010 and combined risks of $165 million, $570 million, $670 million, and $610 million for FYs 2011, 2012, 2013, and 2014, respectively, for PIT, business tax, and sales tax revenues.

Table 14. Risks and Offsets to the City's Revenue Projections

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Property	$ 0	($70)	($120)	($150)	($145)
PIT	125	(60)	(265)	(200)	(140)
Business	130	(5)	(185)	(335)	(370)
Sales	(60)	(100)	(120)	(135)	(100)
Real-Estate Transaction	48	327	468	506	552
Total W/O Programs	**$243**	**$92**	**($222)**	**($314)**	**($203)**
Tax Fairness Proposals	0	(219)	(241)	(262)	(284)
Total	**$243**	**($127)**	**($463)**	**($576)**	**($487)**

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

Miscellaneous Revenues

Miscellaneous revenues include a variety of non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, interest income, water and sewer revenues and other miscellaneous revenues including one-time resources such as asset sales. In the FY 2011 Preliminary Budget and Financial Plan, the City projects miscellaneous revenues will decrease $231 million in FY 2011 to $4.2 billion (exclusive of private grants and intra-City revenues). This forecast represents a slight increase over the amount projected in the November Plan. This increase reflects $71 million in additional revenue from agency gap-closing actions without which, the current FY 2011 miscellaneous revenue forecast would have been down $19 million from the November forecast.

Table 15. City Forecast of Miscellaneous Revenues

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Licenses, Franchises, Permits	$479	$493	$497	$498	$500
Interest Income	30	44	99	128	128
Charges for Services	738	755	755	755	754
Water and Sewer	1,378	1,345	1,366	1,379	1,406
Rental Income	226	223	223	223	223
Fines and Forfeitures	884	896	870	869	869
Other Miscellaneous	744	492	496	493	486
Total Miscellaneous Revenues	**$4,479**	**$4,248**	**$4,306**	**$4,345**	**$4,366**

Note: Water & Sewer Revenues are not available for operating purposes because they are offset by expenditures related to providing water & sewer services.
Source: NYC Office of Management & Budget.

Miscellaneous revenues gap-closing actions include $32 million in additional service fee revenues to be achieved through increases in existing fees as well as implementation of new ones. Among the increases, the City expects the Department of Transportation (DOT) to collect an additional $13.6 million annually by raising commercial and passenger parking rates in selected areas. In the Department of Buildings, the City expects to generate another $5.7 million annually from increasing records management fees for scanning documents, and in the Fire Department (FDNY), a new repeat violator fee for defective and unwarranted fire alarms is expected to yield $2.2 million annually.

Other gap closing actions are reflected in slightly higher FY 2011 estimates for categories such as licenses, franchises and permits, rental income, and fines and forfeitures, which are up $9 million, each compared to the November Plan. The estimate for “other miscellaneous” decreased nearly $13 million, including an adjustment to HHC debt service payments. Revenue streams from non-recurring actions are very small compared to previous years.

As Table 15 shows, water and sewer revenues represent the largest component of miscellaneous revenues. However, the bulk of these revenues are dedicated to the cost of providing water and sewer services. Excluding water and sewer revenues, service fees and fines combined represent over half of the miscellaneous revenues available for general operating purposes. The category “other miscellaneous,” which includes sale of City property, mortgages, cash recoveries and other revenues, shows a 34 percent decline in FY 2011, reflecting the City’s upward revision to its FY 2010 estimate, as well as the above mentioned $13 million drop in the FY 2011 estimate for this category. In the outyears, with the exception of interest income, all other categories of miscellaneous revenues are expected to remain fairly constant.

As the recovery progresses, interest income, which the City earns by investing funds from cash balances, sales tax and debt service accounts, is expected to begin to rebound in FY 2011 and grow over 300 percent to $128 million by FY 2013, reflecting the City's assumption of rising short term interest rates over the Plan period. Overall, miscellaneous revenues will remain stable at about $4.3 billion in the outyears.

Federal and State Aid

The January Plan projects total Federal and State aid of $18.38 billion for FY 2011, comprising nearly 29 percent of the City's overall revenue budget. The current Plan maintains the same level of Federal and State grants as in the November Plan for FY 2011, though significant changes are reflected in the major categories. The City has recognized over $200 million in welfare funding, driven mainly by additional Federal reimbursement for family service administration and welfare caseload revisions. The January Plan also assumes an additional $156 million in the "other" category, mostly from a projected increase in Federal Section 8 funding for housing vouchers. These increases are offset by a decline of over $350 million in education support, attributable to City's re-estimates of Foundation Aid receipts and the advance of Federal funds to mitigate the impact of school aid cuts in the State's FY 2010 deficit reduction Plan.

In the January Plan presentation, the City estimates the proposed State budget will have a negative impact of $1.3 billion in FYs 2010 and 2011. The chief components of this impact are the proposed elimination of revenue sharing aid and reduction of education aid. The State Executive Budget is seeking to entirely eliminate $328 million in revenue sharing aid to the City starting in FY 2011, while the rest of the State would only need to absorb an aggregate cut of 2.0 percent from current funding levels. However, because of the way the City recognizes this revenue in its budget, the proposal would pose a similar cut in the current year. The City reflects revenue sharing aid in advance of actual payments from the State, which are made in separate installments during September and December. These payments are then accrued back to the prior fiscal year. Thus, any change in the FY 2011 revenue sharing aid will have an impact on the City's budget beginning in FY 2010, culminating in a total cut of $656 million across the two years. The State Executive Budget also contains a school aid cut of nearly $500 million for the City. Under the proposal, formula-based school aid streams would be reduced by a total of $442 million. The Governor's budget would also shift $51 million in summer school special education costs currently funded by the State onto the City. In addition, the City anticipates a cut of $89 million in support for mandated social services costs that include reduced reimbursement of $56 million for adult shelters and increased charges of $33 million for City juveniles placed in State-run youth facilities.

Further, the Governor's 21-day amendments to the Executive Budget include a proposal that would raise the City's Metropolitan Transportation Authority (MTA) Mobility Tax rate by 0.2 percent (from 0.34 percent to 0.54 percent) while cutting the tax rate for surrounding jurisdictions (from 0.34 percent to 0.17 percent). The State estimates the measure would increase the City's payroll tax expenditures by $10 million in FY 2010 and $20 million in FY 2011. Subsequent to the 21-day amendments, the State released its Economic and Revenue Consensus Report developed jointly by the Governor and the Legislature on March 1. The report reflects a further downgrade in the State's tax receipts of $850 million, bringing the cumulative budget gap to $9 billion in State FY 2011. Since the release of the Governor's proposed budget, the State's FY 2011 gap has worsened by $1.6 billion. The State has yet to develop a plan to address this latest revision in its revenue assumption, though it is likely the City will face additional risks arising from these estimates.

While the City has not incorporated the impact of the proposed State budget into its baseline assumptions, it has outlined a contingency program in the January Plan to cope with the potential risk from State budget actions. The contingency plan would require City-funds reductions of 7.2 percent in most agency budgets, with the exception of uniformed agencies and the DOE. Uniformed agencies would absorb a cut of 3.6 percent in City funds, while the DOE would need to eliminate sufficient headcount to meet the reduction in education aid. The overall Plan would reduce citywide headcount by 19,000 positions, with nearly 17,500 to be achieved through layoffs. The projected layoffs include 3,150 police officers, 1,050 firefighters and about 7,000 pedagogues. The impact of the reductions would be widespread as many human services would be further curtailed under the Plan, including day care, job training, homeless services, summer youth services, senior meals program, and school health services.

B. EXPENDITURE ANALYSIS

After adjusting for net prepayments, FY 2010 expenditure is expected by the Mayor's Office of Management and Budget to total $65.84 billion.[11] This is an increase of 5.2 percent from the adjusted FY 2009 expenditure estimate of $62.56 billion. From 2010 to FY 2014, expenditures, after adjusting for prepayments, are projected to grow by 11 percent, or 2.6 percent annually, approximately on pace with the projected 2.3 percent annual growth of revenues. However, because adjusted expenditures are higher than revenues in FY 2010, gaps persist in the outyears.

As Table 16 shows, projected spending increases in FY 2010 and the outyears of the Financial Plan are dominated by growth in pension contributions, debt service, health insurance costs, and judgments and claims (J&C) settlements.[12] The combined spending in these areas, which accounts for 25.1 percent of adjusted FY 2010 spending, is projected to grow 26.4 percent and comprise 28.6 percent of spending by FY 2014. All other expenditures are projected to grow 3.8 percent over the Plan period, averaging 0.9 percent growth annually.

---

[11] 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.

[12] 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.

Table 16. FY 2010 –FY 2014 Expenditure Growth

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Growth FYs 2010 – 2014	Annual Growth
Pension	$6,636	$7,144	$7,571	$7,717	$7,825	17.9%	4.2%
Debt Service	5,218	5,571	6,286	6,579	6,815	30.6%	6.9%
Health Insurance	4,004	4,356	4,599	4,952	5,344	33.5%	7.5%
J & C	663	717	775	835	898	35.4%	7.9%
Subtotal	**$16,521**	**$17,788**	**$19,231**	**$20,083**	**$20,882**	**26.4%**	**6.0%**
Salaries and Wages	$21,939	$21,337	$20,991	$21,627	$21,802	(0.6%)	(0.2%)
Other Fringe Benefits	3,303	3,266	3,321	3,262	3,370	2.1%	0.5%
Medicaid	5,801	5,939	6,113	6,293	6,478	11.7%	2.8%
Public Assistance	1,580	1,563	1,603	1,591	1,591	0.7%	0.2%
Other OTPS	17,625	16,710	17,949	18,444	18,925	7.4%	1.8%
Subtotal	**$50,248**	**$48,815**	**$49,977**	**$51,217**	**$52,166**	**3.8%**	**0.9%**
MA FMAP Increase	($850)	($295)	$0	$0	$0	(100.0%)	(100.0%)
Retiree Health Benefit Trust	($82)	($395)	($672)	$0	$0	(100.0%)	(100.0%)
Total	**$65,837**	**$65,913**	**$68,536**	**$71,300**	**$73,048**	**11.0%**	**2.6%**

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

Pensions

The FY 2011 Preliminary Budget projects that the City's pension contributions will total $7.144 billion in FY 2011, $508 million more than the estimated FY 2010 contributions. Pension contributions are then expected to increase at an average annual rate of 3.0 percent to $7.825 billion by FY 2014. These projections include the phase-in of recent pension fund investment losses of 5.4 percent in FY 2008 and 18.3 percent in FY 2009 as well as additional pension costs related to the last round of collective bargaining settlements. Additionally, the City has reserved $200 million in FY 2011 and $450 million annually beginning in FY 2012 to fund possible revisions in actuarial assumptions and methods by the five actuarial systems.

When compared to the November Plan, there is a net increase in pension contributions of $60 million in FY 2010, $259 million in FY 2011, $384 million in FY 2012, $279 million in FY 2013, and $201 million in FY 2014. The increases stem primarily from the City's decision to increase by $250 million annually, beginning in FY 2012, the amount held in reserve to fund potential changes in actuarial assumptions and methods and the removal from the budget of expected annual savings of $200 million from previously proposed but so far unachieved pension reforms.

The pension reform proposal, which the City hopes to negotiate eventually with municipal unions, would require that new civilian workers contribute to the pension plan for all years of service and for new uniformed employees to work at least twenty-five years and be at least fifty years old to qualify for full pension benefits. In December 2009, the State Legislature approved legislation to restructure pension benefits for new employees of the State and other localities. The legislation included the agreement between the City and the UFT to enact reform of pension benefits.[13] Savings from this restructuring are included in the current projections.

From July 1, 2009 through January 31, 2010, pension funds have experienced an investment gain of about 14.3 percent. Should pension investment returns remain above the actuarial interest rate assumption (AIRA) of 8.0 percent on June 30, 2010, the City will phase in investment gains above the AIRA beginning in FY 2012. Every percentage point gain above the AIRA will lower pension contributions by approximately $15 million in FY 2012, $28 million in FY 2013, and $42 million in FY 2014.

Health Insurance

The FY 2011 Preliminary Budget and FY 2010 to FY 2014 Financial Plan projects pay-as-you-go health insurance expenses for employees and retirees of $3.697 billion in FY 2010, growing to $5.344 billion in FY 2014. However, the Financial Plan projections understate the magnitude of the City's employee health insurance costs in FYs 2010 through 2012. The estimates include a prepayment in FY 2009 of $225 million for FY 2010 pay-as-you-go retiree health expenses. They also reflect the City's plan to allow funds previously accumulated in the Retiree Health Benefits Trust (RHBT) to be used to pay retiree pay-as-you-go health insurance costs of $82 million in FY 2010, $395 million in FY 2011, and $672 million in FY 2012. The savings to the City from the use of these substitute funds for retiree health insurance will be used to fund additional pension contributions that have resulted from investment losses in FYs 2008 and 2009. Adjusting for these actions allows a more realistic assessment of the actual costs of health insurance, which would be $4.004 billion in FY 2010, $4.355 billion in FY 2011, and $4.598 billion in FY 2012, as shown in Table 17.

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

($ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Department of Education	$1,522	$1,658	$1,668	$1,753	$1,857
CUNY	44	41	45	45	45
All Other	2,131	2,261	2,213	3,154	3,442
Total Pay-As-You-Go Health Insurance Costs	$3,697	$3,960	$3,926	$4,952	$5,344
Adjustment for FY 2010 prepayment	225	0	0	0	0
Adjustment for RHBT payment	82	395	672	0	0
Total Adjusted for prepayments and RHBT	**$4,004**	**$4,355**	**$4,598**	**$4,952**	**$5,344**

SOURCE: NYC Office of Management and Budget.

Since FY 2000, the City's health insurance rates have increased annually at an average rate of approximately 9.6 percent, reflecting the continued growth in health care costs and recent increased assessments by New York State on health insurance carriers. The current projection for FY 2011 assumes an increase in health insurance rates of about 9.7 percent over FY 2010 and annual increases of 8.0 percent for the outyears. These increases, however, are partially offset by projected savings of about $44 million

[13] The UFT agreement is discussed in greater details in "Pensions" beginning on page 24 of "*The State of the City's Economy and Finances, 2009*" that was released on December 15, 2009 by the New York City Office of the Comptroller.

annually from a June 2009 agreement between the City and the municipal unions to restructure certain health care benefits. The savings stem mainly from productivity initiatives and establishment of 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 from the Financial Plan a proposal requiring active and retired members to contribute 10 percent of the premium toward the cost of their health insurance. This proposal, which required approval by the municipal unions, was projected to reduce the City's share of health insurance cost by $357 million in FY 2011, $386 million in FY 2012, and $418 million in FY 2013.

As part of the June 2009 health benefit agreement with the municipal unions, the City was guaranteed annual savings of $112 million in health insurance costs to be funded by the Health Insurance Stabilization Fund (Fund). The agreement also called for the transfer of $46 million in FY 2010 and $44 million in FY 2011 from the Fund to the City's general fund for budget relief. These transfers are included in the Preliminary Budget and will offset some of the health insurance cost for these fiscal years.

The Health Insurance Stabilization Fund was created in the mid 1980s. The City makes an annual contribution to the Fund based on negotiation with municipal unions. The Fund was established primarily to pay the difference between the then higher GHI health insurance premium rate and the HIP rate since the City pays health insurance for all employees at the HIP rate. Subsequently, with increases in GHI co-payments and reductions in certain benefits, the GHI premiums fell below the HIP premiums and the Fund accumulated a surplus. The balance in the Fund at the end of FY 2009 was about $658 million.

Labor

Other than the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA), the City has contracts in place for the current collective bargaining round with all the major unions. The City had previously funded annual wage increases of 4.0 percent compounded over two years for the UFT and CSA, patterned after the contract settled with the other unions. In the January Plan, the City is proposing reducing these wage increases to 2.0 percent a year with a cap of $2,828 for salaries over $70,000, in lieu of budget cuts to meet agency reduction targets in the Department of Education as discussed in "Program to Eliminate the Gap" beginning on page 20. Consequently, the January 2010 Financial Plan contains funding reductions for UFT and CSA wage increases of $148 million for FY 2010, $350 million in FY 2011, $456 million in FY 2012, $509 million in FY 2013, and $512 million in FY 2014.[14]

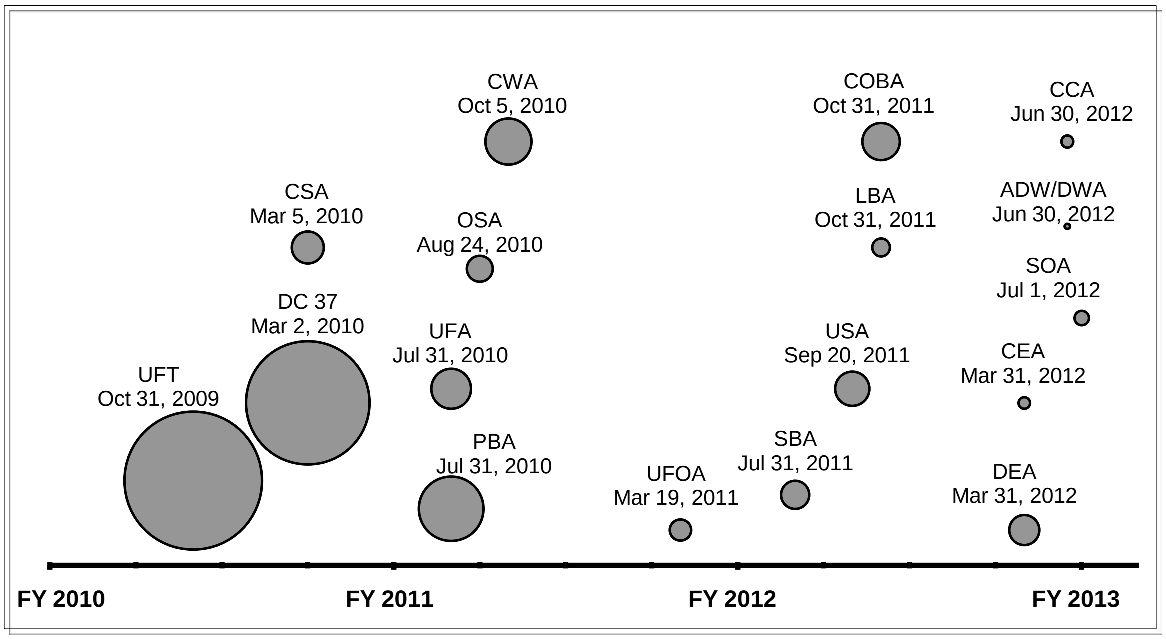
In addition, the City had previously funded annual wage increases of 1.25 percent for all employees beyond the current round of collective bargaining. In this Plan, the City

[14] The reduction in FY 2012 and the remaining outyears includes pension cost associated with the wage increases.

has removed funding for increases for the first two years beyond the current round of collective bargaining. Instead, the City is proposing that the municipal unions implement productivity initiatives or other savings such as health insurance or pension restructuring to fund wage increases in these years.

The next round of municipal labor contracts begins on March 3, 2010 with the expiration of the District Council 37 contract and extends to July 2, 2012, when the current contract with the Sanitation Officers Association expires. Chart 5 shows the expiration dates for current contracts.[15] Every one percent increase in wages for all municipal employees would cost approximately $300 million annually, including related pension cost.

Chart 5. Municipal Contracts Expiration Dates



Note: 1) Bubble size indicates the relative number of full-time City employees in each union.
2) UFT and CSA contracts are one round behind the settlements for the other unions.

Headcount

Planned full-time headcount has been reduced by an average of 1.4 percent for each of FYs 2011 to 2013 since the November 2009 Financial Plan.[16] These planned reductions are driven by numerous January 2010 PEGs that lower the November 2009 projections by more than 3,600 full-time jobs in FY 2011, and by more than 4,500 jobs in each of the outyears. Almost all the reductions are expected to be achieved through attrition with layoffs accounting for just over 200 of the total reductions. The reductions are partially offset by a funding switch at the DOE that increased City-funded full-time headcount by 1,835 positions in FY 2010 and by 1,834 positions thereafter.

[15] The UFT and CSA contracts in the chart are one round behind settlements for the other unions.
[16] There was no projected headcount for FY 2014 in the November 2009 Plan.

The biggest decline in planned headcount since the November 2009 Financial Plan occurs in the uniformed agencies and relies heavily on anticipated attrition.[17] The NYPD expects to achieve most of its FY 2011 to FY 2014 savings by maintaining peak headcount at the budgeted FY 2010 peak, resulting in the reduction of 892 police officers in FY 2011, 1,785 police officers in FY 2012, and 2,067 police officers in FY 2013. Additional savings will also be achieved by civilianizing 400 uniformed jobs. The Fire Department intends to reduce uniformed headcount by approximately 400 firefighters in FY 2011, with headcount in each of the outyears reflecting a reduction of approximately 500 positions. The Department of Correction has proposed various initiatives to achieve savings, resulting in a reduction of 286 uniformed positions in FY 2010, and 363 uniformed jobs in each of FYs 2011 to 2014. The dominant initiatives are inmate housing efficiencies, and jail, court and support command post reductions, which are expected to eliminate the need for 115 and 176 uniformed jobs respectively. One hundred and fourteen uniformed jobs will also be civilianized. Finally, the Department of Sanitation will implement a two-year delay in hiring 302 people to staff the new marine transfer stations.

The Administration for Children's Services (ACS), the Department of Social Services (DSS) and the Department of Homeless Services (DHS) are expected to reduce headcount by a combined 606 positions in FY 2011, and 663 positions in FYs 2012 to 2014 as a result of various PEGs that also depend on attrition. ACS will see a reduction of 250 positions, of which 202 are a result of child protective staffing re-estimates. DSS plans to reduce headcount targets by 299 positions, most of which will be achieved by increasing the productivity of case management staff. Finally, DHS will automate shelter intake and administration. When combined with miscellaneous PEGs, these actions will result in 57 fewer positions at DHS in FY 2011, and 114 fewer positions thereafter.

The Department of Parks and Recreation will implement a hiring freeze for FY 2011 as part of its PEG. The hiring freeze is not expected to extend beyond FY 2011. As a result, headcount will be reduced by 377 in FY 2011, and at least 186 positions in FYs 2012 to 2014. If attrition goals do not materialize, the Department will resort to layoffs. In that context, the Department of Health and Mental Hygiene has already committed to 141 layoffs during FY 2011, accounting for the bulk of their planned headcount reduction of 174 positions in total.

[17] All headcount reductions in this section are relative to the November 2009 Financial Plan.

Table 18. City-Funded Full-Time Year-End Headcount Projections

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Pedagogical					
Dept. of Education	96,525	96,510	82,661	92,435	92,435
City University	2,656	2,639	2,639	2,639	2,639
Subtotal	**99,181**	**99,149**	**85,300**	**95,074**	**95,074**
Uniformed					
Police	33,217	32,817	32,817	32,817	32,817
Fire	11,174	10,374	10,274	10,274	10,274
Corrections	7,940	7,419	7,419	7,419	7,419
Sanitation	7,238	7,075	7,047	7,292	7,291
Subtotal	**59,569**	**57,685**	**57,557**	**57,802**	**57,801**
Civilian					
Dept. of Education	8,363	7,907	7,904	7,904	7,904
City University	1,602	1,432	1,432	1,432	1,432
Police	14,286	14,378	14,378	14,378	14,378
Fire	4,716	4,738	4,735	4,732	4,729
Corrections	1,491	1,544	1,544	1,544	1,544
Sanitation	1,869	1,861	1,861	1,919	1,920
Admin for Children's Services	6,073	5,713	5,713	5,713	5,713
Social Services	10,413	10,449	10,443	10,443	10,443
Homeless Services	2,003	2,044	1,974	1,975	1,975
Health and Mental Hygiene	3,876	3,727	3,718	3,718	3,718
Finance	2,099	2,049	2,031	2,031	2,031
Transportation	2,043	2,124	2,093	2,113	2,113
Parks and Recreation	2,971	2,532	2,722	2,723	2,723
All Other Civilians	15,597	14,913	14,797	14,783	14,783
Subtotal	**77,402**	**75,411**	**75,345**	**75,408**	**75,406**
Total	**236,152**	**232,245**	**218,202**	**228,284**	**228,281**

The Department of Juvenile Justice (DJJ) will reduce the use of detention and will share executive staff with ACS by consolidating certain functions. In fact, there will be one Commissioner overseeing both ACS and DJJ. These actions will reduce the need for staff by 103 positions by FY 2011.

Overall, year-end full-time headcount is expected to be 236,152 for FY 2010 and 232,245 for FY 2011. During FY 2012, headcount is expected to decline significantly from the FY 2011 projection, falling to 218,202 positions, the lowest level in the January 2010 Financial Plan. This is due to the expiration of the Federal Stimulus Package, which places nearly 14,000 teaching jobs at risk in FY 2012. However, the City expects to reinstate approximately 10,000 teachers by the end of FY 2013, and thereby maintain the FY 2013 and FY 2014 planned headcount at 228,284 and 228,281 positions respectively.

As shown in Table 19, City-funded full-time equivalent (FTE) headcount is expected to be 25,719 in FY 2010, and nearly 25,000 in each of FYs 2011 through 2014. This represents a reduction of approximately 800 FTE positions in each of FYs 2011 to 2013, 69 percent of which occurs at the Department of Parks and Recreation.

Table 19. City-Funded FTE Year-End Headcount Projections

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Pedagogical					
Dept. of Education	1,053	1,053	1,053	1,053	1,053
City University	1,300	1,270	1,270	1,270	1,270
Subtotal	**2,353**	**2,323**	**2,323**	**2,323**	**2,323**
Civilian					
Dept. of Education	14,917	14,917	14,917	14,917	14,917
City University	637	588	588	588	588
Police	1,744	1,725	1,725	1,725	1,725
Health and Mental Hygiene	1,324	1,204	1,193	1,193	1,193
Parks and Recreation	3,012	2,442	2,469	2,474	2,474
All Other Civilians	1,732	1,713	1,706	1,706	1,706
Subtotal	**23,366**	**22,589**	**22,598**	**22,603**	**22,603**
Total	**25,719**	**24,912**	**24,921**	**24,926**	**24,926**

Overtime

The City's overtime estimate for FY 2011 is significantly below the historical overtime spending trend and, at $788 million, is $164 million less than the FY 2010 estimate of $952 million. The Comptroller's Office estimates that overtime spending in FY 2011 could be at least $151 million higher than budgeted, as shown in Table 20. The City spent just above $1 billion annually for overtime in FYs 2008 and 2009 and is on track to spend about the same amount for FY 2010.

Table 20. Projected Overtime Spending, FY 2011

($ in millions)

	City Planned Overtime FY 2011	Comptroller's Projected Overtime FY 2011	FY 2011 Risk
Uniform			
Police	$318	$425	($107)
Fire	139	139	0
Correction	60	90	(30)
Sanitation	54	54	0
Total Uniformed	$571	$708	($137)
Others			
Police-Civilian	$46	$60	($14)
Admin for Child Svcs.	7	7	0
Environmental Protection	21	21	0
Transportation	30	30	0
All Other Agencies	113	113	0
Total Civilians	$217	$231	($14)
Total City	**$788**	**$939**	**($151)**

The City's spending for uniformed police overtime continues to increase steadily, growing from $350 million in FY 2005 to $431 million in FY 2009. Through January 2010, the Department has spent $262 million for uniformed police overtime and is on target to spend about $450 million for FY 2010. In response to the persistent growth in Police uniformed overtime spending, the City has proposed citywide implementation of overtime reduction programs that have been successful in individual precincts or areas of service, including monitoring the four hundred officers who work the most overtime hours. The Department anticipates that these initiatives will reduce overtime spending by $50 million annually beginning in FY 2011. The Comptroller's Office projects that uniformed police overtime spending will total $425 million for FY 2011, $107 million greater than estimated in the Preliminary Budget.

Projected overtime spending for Department of Correction (DOC) officers also poses a risk to the budget. Uniformed overtime spending for correction officers has averaged about $93 million annually for the last three fiscal years. For FY 2010, the Department has spent $60 million through January and is likely to spend more than $90 million on uniform overtime for the entire fiscal year. The City is currently working to implement operational efficiencies which if successful will also lower overtime spending. While the City has provided some details on these initiatives their impact on overtime spending is less certain.

Public Assistance

The City's public assistance caseload, through January, has risen nearly 3.0 percent since the end of FY 2009, continuing a general uptrend that was established after caseload dipped to a recent low of 334,329 in September 2008. While the January caseload of 355,454 still remains well below the historical peak of 1,160,593, the recent surge has boosted caseload by about 21,000 recipients compared with the September 2008 level. More importantly, monthly cash assistance grants have grown from an average of $97 million during FY 2008 to an average of $106 million thus far in FY 2010. The growth of these expenditures has prompted the City to reflect significant needs in its public assistance budget in the January Plan.

For the current year, the City has revised its caseload projection from a previous target of 351,452 for June 2010 to a new estimate of 361,900. Mirroring the caseload re-estimate, the January Plan has increased its baseline grants projection by $94 million, to about $1.3 billion, in FY 2010 to meet the rising trend in cash assistance grants. In the outyears, the City expects caseload to remain constant at 361,900 over the remainder of the Plan. Baseline grants in the outyears have increased by $167 million in FY 2011 and $207 million annually in FYs 2012 – 2014 to reflect both caseload revisions and continuation of a State initiative to phase in increases in basic allowances for public assistance grants. The enacted Plan is expected to implement incremental increases of 10 percent annually in basic allowances over a three-year period spanning FYs 2010 – 2012. The Plan does not require the City to share the additional costs with the State until the 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 extra years.

Under the proposal, the City's contribution to these costs would not begin until the final quarter of FY 2014.

Aside from the higher cash assistance grants, the January Plan reflects additional funding of about $70 million in FY 2010 and $90 million in each of FYs 2011 – 2014 for Advantage Rental Assistance payments. The payments subsidize housing costs of families and single adults who formerly resided in homeless shelters. As of February, about 14,100 households received Advantage Rental subsidies, a significant increase from the 8,900 households that were served by the program in February 2009.

Department of Education

The January Plan poses significant challenges to the DOE budget in FY 2011. The DOE, already facing a major funding loss from the Governor's budget proposals, will also need to meet a significant target under the City's gap-closing program. Between the State budget impact and the January Plan reductions, the Department faces a potential loss of more than $1 billion in budgeted resources for the upcoming school year. While this is not the first time that the Department has been afflicted with such a bleak outlook in recent years, the possibility of a State budget restoration in the current round appears less and less likely as the State's fiscal problems continue to mount. Faced with similar prospects in last year's Preliminary Budget, the Department subsequently managed to avoid major budget cuts and teacher layoffs because of the Federal Stimulus package enacted by Congress in February 2009. However, without such new resources on the horizon, the current challenges will likely persist and lead to a significant loss in education funding for FY 2011.

Among the Governor's budget proposals, the implementation of the State's Educational Investment Plan would once again be extended for the second consecutive year. The Plan calls for the phase-in period of increasing education aid to stretch out from eight years to ten years. Meanwhile, Foundation Aid allocations would be held flat between the current and upcoming school year. While such is the premise of the governor's proposal, each school district is also assigned a gap elimination adjustment that effectively reduces its Foundation Aid allocation by a corresponding amount. The Department would sustain a reduction of $442 million in Foundation Aid under the State Executive Budget assumptions. The State also seeks to place a cap on the level of reimbursement that it provides to school districts for summer school special education services. The State, which normally contributes about 70 percent of the funding to maintain this program, would now lower its reimbursement rate to the City to less than 50 percent. The move would shift the funding responsibility for these mandated costs onto the City by $51 million annually. The combined impact would reduce State assistance to the Department by $493 million in FY 2011. In response to this potential impact, the January Plan has laid out a contingency plan that includes the elimination of 8,519 teachers by FY 2011. Of this total, the Department is expected to remove 7,019 positions through layoffs.

The January Plan projects the DOE budget to grow $382 million from the current year, arriving at a FY 2011 Preliminary Budget estimate of $18.82 billion. However, compared to the November Plan, the FY 2011 Budget has fallen by $546 million. The decline mainly reflects net PEG reductions of $317 million and the shift of about $129 million in Federal Stimulus funds from FY 2011 into FY 2010. This shift was enacted as part of the State's FY 2010 Deficit Reduction Plan to draw against Stimulus funds earmarked for the next school year, in lieu of a mid-year reduction in school aid. Thus, while the measure shielded the Department from budget harm in the current year, it also exacerbated the problem for next year.

Under the January Plan gap-closing program, the DOE is seeking to bring collective bargaining increases for teachers and principals in line with managerial raises that were finalized in December. If approved by the unions, teachers and principals would receive annual increases of 2.0 percent, covering November 1, 2009 through October 31, 2011 for teachers and March 6, 2010 through March 5, 2012 for principals. The maximum annual increase would be capped at $2,828 for both groups. The unions have already voiced their opposition to this proposal, which detracts from the pattern of 4.0 percent increases that most municipal unions have already received. The City counters that if the unions choose not to accept the reduced raises, the Department will need to achieve the targeted savings through teacher layoffs.

The Department's fiscal outlook will continue to deteriorate in the outyears. The January Plan anticipates funding for the Department to fall in FY 2012 to $18.59 billion, a decrease of $229 million from FY 2011. The decline is chiefly attributable to the expiration of Federal Stimulus support at the end of FY 2011. City funding for the Department would still increase by about $80 million under these projections, meeting the State's maintenance-of-effort requirement. Unless the Federal assistance is extended, it would mark the first time in recent memory that a year-to-year budget decline for the Department may actually occur.

Health and Hospitals Corporation

The January Plan reflects a darkening fiscal outlook for the Health and Hospitals Corporation. The Plan identifies additional expenses averaging almost $100 million each year for the Corporation in FY 2010 and FY 2011, chiefly from re-estimates for personal services, fringe benefits, and affiliation contracts. At the same time, HHC's revenue projection has been scaled down by more than $30 million in FY 2011, driven mainly by lower expectations for Medicaid fee-for-service revenue. As a result, HHC's projected deficit has risen to $1.48 billion on an accrual basis, compared with $1.36 billion in the June Plan. These changes are among the main factors leading to the decline of HHC's FY 2011 closing cash balance from $686 million in the June Plan to the current estimate of $514 million. This balance assumes that a gap-closing program totaling $863 million will be achieved during FY 2011. The chief components of the January Plan gap closing program include $300 million from the maximization of Medicaid Disproportionate Share (DSH) revenue, $185 in additional Federal and State actions, and $353 million in unspecified corporate savings initiatives.

Further, the State Executive Budget contains Medicaid savings actions of about $455 million targeting hospitals, nursing homes, home care and personal care. The City estimates that these actions could reduce HHC's revenue projection by up to $70 million in FY 2011. Among the proposals that would significantly hamper the Corporation's revenue picture are the elimination of trend factor increases for hospital and nursing home reimbursement, increased hospital Gross Receipt Tax, and higher nursing home assessment. In addition, HHC has warned that the expectation of $300 million from DSH revenue maximization could be jeopardized unless a proposal to redirect DSH revenue from private hospitals to the Corporation is realized.

Moving forward, HHC will face greater challenges as budget deficits climb to higher levels in FYs 2012 – 2014. The Corporation projects that budget gaps will range between $1.62 billion and $1.96 billion over the remainder of the Plan. As a function of the rising deficits, year-end cash balances are expected to fall sequentially to $355 million in FY 2012 and $240 million in FY 2013, before settling to $21 million in FY 2014. To reach these targets, the Corporation needs to achieve gap closing measures averaging more than $1.2 billion annually in FYs 2012 – 2014. Federal and State actions will continue to be a critical element of these proposals, constituting about 55 percent of the overall value of these programs during this span.

Debt Service

As shown in Table 21, debt service, after netting out the impact of prepayments, is projected to grow from $5.29 billion in FY 2010 to $6.89 billion in FY 2014, an increase of $1.6 billion, or 30.2 percent.[18] These projections represent decreases from the November 2009 Financial Plan of $113 million in FY 2010, $39 million in FY 2011, and increases of $60 million in FY 2012 and $39 million in FY 2013.[19]

Table 21. January 2010 Financial Plan Debt Service Estimates

($ in millions)

Debt Service Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Change from FYs 2010 – 2014
G.O.[a]	$3,825	$4,027	$4,417	$4,493	$4,561	$736
NYCTFA[b]	1,154	1,285	1,612	1,831	2,000	846
Lease-Purchase Debt	238	259	256	255	255	17
TSASC, Inc.	74	74	74	74	75	1
Total	**$5,291**	**$5,645**	**$6,359**	**$6,653**	**$6,891**	**$1,600**

SOURCE: January 2010 Financial Plan, January 2010.
NOTE: Debt service is adjusted for prepayments.
[a] Includes long-term G.O. debt service and interest on short-term notes.
[b] Amounts *do not* include NYCTFA building aid bonds.

The decrease of $113 million in FY 2010 compared to the November projection is due primarily to $104 million of interest savings related to low variable interest rates which averaged well below 1.0 percent through January 2010. If these low rates were to

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

[19] There was no official estimate for FY 2014 in the November Plan.

persist throughout all of FY 2010, there would be additional debt service savings of about $100 million in FY 2010. The decrease of $39 million in FY 2011 is due to refunding savings of $67 million and NYCTFA debt service savings of $16 million, partially offset by a $46 million reduction in estimated savings from federal school tax credit bonds due to a delay in implementation.

The federal school tax credit bonds created in last year's stimulus package are not estimated to provide the savings initially anticipated. Consequently, the City has revised FY 2012 and FY 2013 savings from this program downward by $33 million and $15 million, respectively. This revision accounts for approximately half of the increases in debt service costs of $60 million and $39 million in FYs 2012 and 2013. In addition, NYCTFA has increased projected borrowing costs of $22 million in FY 2012 and $18 million in FY 2013 due to increased borrowing of $352 million in FYs 2010 and FY 2011 combined. The remaining balance of about $5 million in each fiscal year is attributable to higher than expected borrowing costs from transactions in the first-half of FY 2010 in the expense budget.[20]

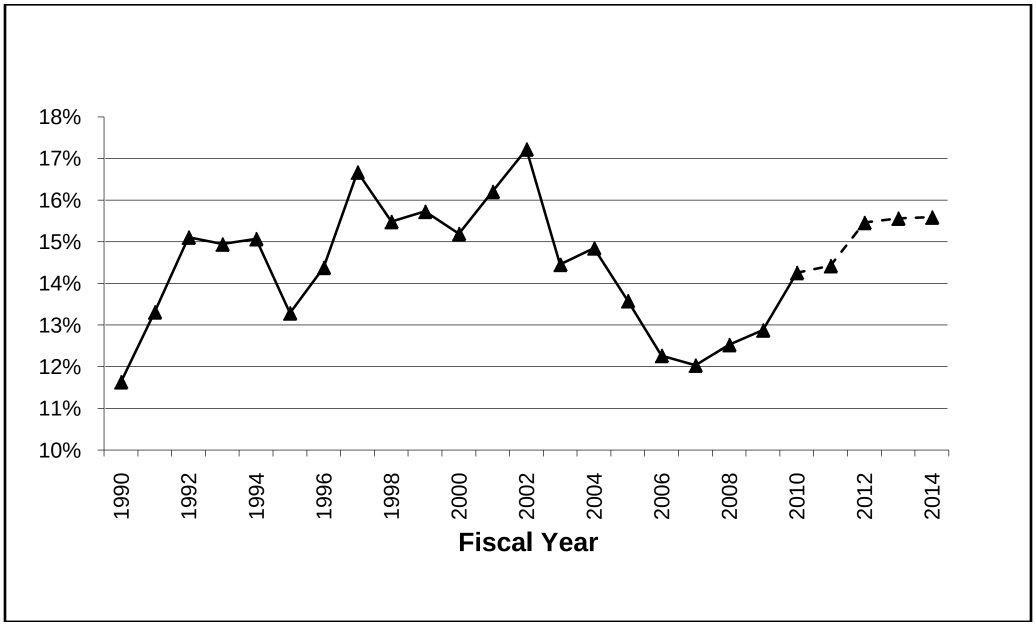
Debt Affordability

Debt service as a percent of local tax revenues is an accepted measure of affordability used by rating agencies and government officials. The January Plan projects debt service will consume 14.3 percent of local tax revenues in FY 2010, 14.4 percent in FY 2011, 15.5 percent in FY 2012, and 15.6 percent in FYs 2013 and 2014. The average annual growth of 6.8 percent in debt service between FYs 2010 and 2014 is greater than the estimated annual tax revenue growth of 4.5 percent over the same period, thus causing the increase in the debt service ratio. The 15.6 percent ratio in outyears is still below the 20 percent threshold established by the City in FY 2002.[21]

[20] While debt service has increased as stated, the Federal interest subsidy related to Build America Bonds has increased by $11 million from the November Plan.

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

Chart 6. Debt Service as a Percent of Tax Revenues, 1990-2014



SOURCE: NYC Office of Management and Budget, January 2010 Financial Plan.

Financing Program

The January 2010 Financial Plan contains $41.3 billion of planned City and State supported borrowing in FYs 2010 through 2014 as shown in Table 22. This is approximately $400 million more than the November 2009 Financial Plan. This increase is primarily due to a $425 million re-estimate in the DOE's projected capital cash need for FY 2010.[22]

GO and NYCTFA PIT-supported borrowing account for 68 percent of the borrowing over this period. Planned GO bonds total $13.98 billion while NYCTFA borrowing totals $14.04 billion. The use of NYCTFA Building Aid Revenue Bonds (BARBs) to support the DOE capital program is assumed to continue throughout the Financial Plan period with $4.04 billion of NYCTFA BARB issuances planned, accounting for 9.8 percent of capital borrowing over the Plan period. There is no pay-as-you-go capital in the financing program.

NYC Municipal Water Finance Authority (NYWFA) borrowing of $9.22 billion also accounts for a significant share of capital resources, at 22.3 percent of the total. However, unlike other debt that is funded through the property tax and other general fund revenues, the NYCWFA debt service is funded by user fees. NYCWFA debt service is estimated to be $1.018 billion in FY 2010, growing to $1.68 billion in FY 2014, an increase of 65 percent.[23] The escalating cost of debt service is largely responsible for the rate increases planned by the Water Board. In May 2009, the Water Board adopted a rate

[22] The November Plan Financing Program included projections for FYs 2010-2013 only.
[23] Debt service figures cited here reflect the benefit of the carry forward surplus.

increase of 12.9 percent for FY 2010 and projects further rate increases of 14.3 percent in FY 2011, 11.5 percent in FY 2012, and 7.8 percent in each of FY 2013 and FY 2014.

In addition to supporting NYCWFA debt service, user fees also support rental payments by the Water Board to the City. As a result of a provision in the lease agreement between the Water Board and the City, escalating debt service results in escalating rent payments by the Water Board to the City. In FY 2011, another factor that may push rates even higher is the cost of collective bargaining for approximately 1,300 Department of Environmental Protection (DEP) employees represented by different unions whose contracts expired between 1995 and 2006. Should these unions reach agreements comparable to the prevailing wage of sewage treatment workers, the retroactive adjustment would be approximately $300 million through FY 2010 which is likely to impact water rates in the future.

Table 22. January 2010 Plan, FYs 2010 – 2014

($ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2010-2014	Percent of Total
General Obligation Bonds	$13,978	33.9%
NYCTFA – PIT Bonds	14,035	34.0%
NYC Water Finance Authority	9,222	22.3%
NYCTFA – BARBs	4,038	9.8%
Total	**$41,273**	**100.0%**

SOURCE: January 2010 Financial Plan, NYC Office of Management and Budget.

Capital Commitment Plan

The January 2010 Capital Commitment Plan for FYs 2010 – 2013 contains $39.14 billion in authorized all-fund commitments, averaging $9.78 billion per year, as shown in Table 23.[24] This represents an increase of $791 million, or 2.1 percent, from the September 2009 Commitment Plan. Consistent with prior plans, capital commitments in DOE and CUNY, the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for more than 66 percent of all-fund commitments.[25]

After adjusting for the reserve for unattained commitments, the January 2010 Capital Commitment Plan for FYs 2010 – 2013 reflects $36.34 billion in all-funds commitments and $28.45 billion in City-fund commitments. The Plan is heavily front-loaded with 39.9 percent of the all funds commitments scheduled for FY 2010.

[24] Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded in the Commitment Plan.
[25] This percentage assumes all DOT project types, not just Bridges and Highways.

Table 23. FYs 2010 – 2013 Capital Commitments, All-Funds

($ in millions)

Project Category	January FYs 2010 – 2013 Commitment Plan	Percent of Total
Education & CUNY	$9,058	23.1%
Environmental Protection	7,494	19.1
Dept. of Transportation & Mass Transit	5,550	14.2
Housing and Economic Development	3,813	9.7
Administration of Justice	2,806	7.2
Technology and Citywide Equipment	3,072	7.9
Parks Department	1,871	4.8
Hospitals	506	1.3
Other City Operations and Facilities	4,974	12.7
Total	**$39,144**	**100.0%**
Reserve for Unattained Commitments	($2,803)	N/A
Adjusted Total	**$36,341**	**N/A**

SOURCE: NYC Office of Management and Budget, FY 2010 January Capital Commitment Plan, January 2010.

The City-funds portion of the authorized Plan totals $31.25 billion over FYs 2010 through 2013, as shown in Table 24. Capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development constitute 59 percent of the City-funds plan. The significant difference between the DOE's 15.2 percent share of the City-funded capital plan and its 23.1 percent share of the all-funds capital plan reflects State-supported commitments of $4.3 billion over FYs 2010 through 2013. This $4.3 billion in projected State support for the education portion of the commitment plan comprises 54 percent of the total State and Federal support to the entire commitment plan over FYs 2010 through 2013.

Table 24. FYs 2010 – 2013 Capital Commitment, City-Funds

($ in millions)

Project Category	January FYs 2010 – 2013 Commitment Plan	Percent of Total
Environmental Protection	$7,155	22.9%
Education & CUNY	4,753	15.2
Dept. of Transportation & Mass Transit	3,428	11.0
Housing and Economic Development	3,074	9.8
Administration of Justice	2,807	9.0
Technology and Citywide Equipment	3,063	9.8
Parks Department	1,665	5.3
Hospitals	503	1.6
Other City Operations and Facilities	4,803	15.4
Total	**$31,252**	**100.0%**
Reserve for Unattained Commitments	($2,803)	N/A
Adjusted Total	**$28,449**	**N/A**

SOURCE: NYC Office of Management and Budget, FY 2010 January Capital Commitment Plan, January 2010.

Programmatic Review

All-funds commitments over the FYs 2010 – 2013 period in the January 2010 Capital Commitment are $791 million more than the September 2009 Commitment Plan. This increase is primarily concentrated in projects related to computer equipment and technology upgrades, the Department of Health, and water pollution control, which together account for 96 percent of the Plan increases over the FYs 2010 – 2013 period.

Environmental Protection

Capital commitments in the Department of Environmental Protection (DEP) continue to comprise a large part of the Plan mainly as a result of Federal and State mandates. At $7.5 billion over FYs 2010 – 2013, DEP capital commitments account for 19.1 percent of the January Capital Commitment Plan, as shown in Chart 7. Significant DEP projects in the Commitment Plan include $646 million for Newtown Creek Water Pollution Control Plant, $499 million for combined-sewer overflow abatement facilities, $419 million for the Schoharie Reservoir/ Gilboa Dam project in upstate New York, and $189 million for the upgrade to the Tallmans Island Water Pollution Control Plant.

Education

Capital commitments for Education total $9.06 billion from FYs 2010 – 2013, or 23.1 percent of total citywide estimated commitments, as shown in Chart 7. This compares with $9.03 billion, or 19.2 percent of total commitments in September. In FYs 2006 – 2009, education commitments were $11.47 billion, or 29.7 percent of total commitments. The current January Plan contains $8.76 billion of commitments for the DOE, and $302 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 30,000 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 plant. This includes such projects as the rehabilitation and replacement of roofs, windows, and doors and the purchase and installation of electronic data processing equipment.

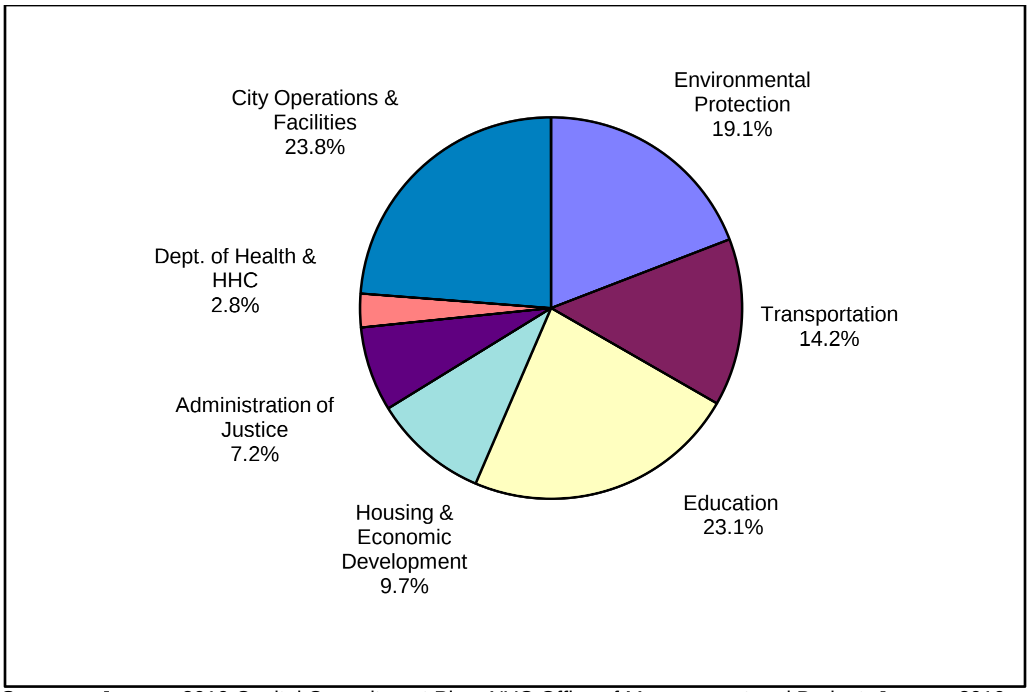
Transportation

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 January Plan for FYs 2010 – 2013 contains $411 million in capital commitments for mass transit projects, and $5.1 billion for DOT programs. Combined, this program area makes up 14.2 percent of the January modification, as shown in Chart 7.

Mass transit commitments of $411 million are highly concentrated in FY 2010, when commitments total $243 million, or 59 percent of the four-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. Although the average annual commitment for mass transit of approximately $100 million over FYs 2010 – 2013 is an improvement from the most recent four-year (FYs 2006 – 2009) period's actual commitments of $59 million per year, it is significantly below the $280 million per year average over FYs 1989 – 2005.

Chart 7. January 2010 Capital Plan Total Funds, 2010 – 2013, Shares of $39.144 Billions



SOURCE: January 2010 Capital Commitment Plan, NYC Office of Management and Budget, January 2010.

The January Plan for 2010 – 2013 contains $4.39 billion, or 11.2 percent of January modification commitments, for street resurfacing, highway reconstruction, and bridge rehabilitation projects managed by the City's DOT. This compares with $3.1 billion in FYs 2006 – 2009, or 8.0 percent of total capital commitments. Highlights of the DOT plan include $521 million for the rehabilitation of the Brooklyn Bridge, and $482 million for the repaving and resurfacing of streets with in-house forces.

Housing and Economic Development

Housing and economic development account for $3.81 billion of capital commitments from FY 2010 to FY 2013, or 9.7 percent of total commitments, with housing accounting for $1.92 billion in capital commitments, or 4.9 percent of total commitments.[26] The primary program areas in housing are low rental programs and supportive housing, and a variety of loan programs which allow privately-owned properties to renovate buildings through the use of low-interest loan programs.

Capital commitments for economic development total $1.89 billion, or 4.8 percent of total capital commitments over the Plan period. The highlights of the Plan include $1.15 billion for site acquisition and development citywide, along with $143 million for the Brooklyn Navy yard industrial park.

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 $2.8 billion in the January 2010 Commitment Plan, or 7.2 percent of the total plan over the four-year period. Estimated commitments in the Police Department total $1.25 billion, with $1.06 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 Corrections total $1.05 billion over FYs 2010 – 2013. Major projects included in the DOC plan are a new Bronx facility in the amount of $416 million along with unspecified capacity replacement projects of approximately $450 million.

Court facilities projects sum to $491 million over FYs 2010 – 2013. 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, and Fire Department, the Department of Parks, public buildings, the Dept. of Information, Telecommunications, and Technology (DOITT), public libraries and cultural institutions, and hospitals. The January Commitment Plan contains estimated commitments of $10.4 billion for City Operations, or 23.8 percent of total capital commitments.

At $1.87 billion over FYs 2010 – 2013, the Department of Parks and Recreation comprises 4.8 percent of total capital commitment. The Parks capital plan is heavily front-loaded with $1.333 billion, or 71 percent of the Parks plan, scheduled for FY 2010. Highlights include $123 million in park and street tree planting citywide, $71 million for a new park in Williamsburg, Brooklyn, and $76 million for Fresh Kills Park in Staten Island.

[26] Housing capital commitments are comprised of HPD and NYCHA.

At $1.864 billion, computer equipment purchases and installation related to DOITT also comprise 4.8 percent of the Plan over FYs 2010 – 2013. Highlights of the Plan include $596 million related to the new public safety answering center facility and $746 million for emergency communications systems and facilities.

The capital program for the Department of Sanitation comprises 3.7 percent of total commitments and sums to a projected $1.46 billion over FYs 2010 – 2013. Major components of the Sanitation plan include $699 million for the reconstruction of marine transfer stations citywide, $257 million for the construction of sanitation garages in districts 1, 2, and 5 in Manhattan, and $191 million for collection trucks and equipment.

The January commitment plan contains $1.24 billion for public libraries and cultural affairs, or 3.2 percent of total citywide commitments combined. Highlights for libraries include $155 million in funding for the New York Public Library, $111.5 million for the Queens Public Library, $62.3 million for the Brooklyn Public Library, and $15.7 million for the Research Libraries.

The Department of Cultural Affairs (DCA) capital plan totals $891 million between FYs 2010 – 2013, or 2.3 percent of total commitments. Highlights of the Plan include $63 million for Lincoln Center site and building improvements, $41 million for the Whitney Museum of American Art, $45 million for various projects at the New York Zoological Society (Bronx Zoo) and New York Aquarium, $35 million for City Center Dance Theater, $31 million for projects at the Brooklyn Academy of Music, $26 million for various projects at the Metropolitan Museum of Art, and $24 million for projects related to the New York State Theater.

Citywide equipment purchases, administered by DCAS, contain estimated capital commitments of $1.21 billion over FYs 2010 – 2013, or 3.1 percent of the Plan. Major program areas are $712 million for computer related purchases at various city agencies and $353 million for energy efficiency and sustainability projects.

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 January Plan contains $700 million for this work including $187 million in improvements to public buildings citywide, $78 million for the Board of Elections modernization project, and $77 million for the improvement, reconstruction, or modernization of long-term leased facilities citywide.

The January commitment plan for HHC in FYs 2010 – 2013 totals $506 million, or 1.3 percent of total estimated capital commitments. Two major projects include approximately $171 million for the Harlem Hospital modernization and rehabilitation and $80 million for the Gouverneur Hospital modernization.

This page intentionally left blank.

V. Appendix ─ Revenue and Expenditure Details

Table A1. **January 2010 Preliminary Budget Revenue Detail**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010-14 Dollar	Percent
Taxes:							
Real Property	$16,222	$17,126	$17,744	$17,955	$18,091	$1,869	11.5%
Personal Income Tax	$7,540	$8,054	$8,604	$9,097	$9,513	$1,973	26.2%
General Corporation Tax	$2,288	$2,640	$2,893	$3,115	$3,286	$998	43.6%
Banking Corporation Tax	$694	$649	$753	$856	$899	$205	29.5%
Unincorporated Business Tax	$1,618	$1,660	$1,734	$1,820	$1,918	$300	18.5%
Sale and Use Tax	$4,881	$5,291	$5,544	$5,851	$6,181	$1,300	26.6%
Real Property Transfer Tax	$589	$640	$691	$775	$849	$260	44.1%
Mortgage Recording Tax	$381	$515	$596	$712	$822	$441	115.7%
Commercial Rent Tax	$578	$551	$548	$557	$568	($10)	(1.7%)
Utility Tax	$394	$398	$411	$421	$434	$40	10.2%
Cigarette Tax	$350	$359	$360	$337	$344	($6)	(1.7%)
Hotel Tax	$96	$94	$92	$90	$88	($8)	(8.3%)
All Other Taxes	$467	$427	$432	$430	$431	($35)	(7.5%)
Tax Audit Revenue	$890	$612	$611	$610	$610	($280)	(31.5%)
Total Taxes	**$36,988**	**$39,016**	**$41,013**	**$42,626**	**$44,034**	**$7,046**	**19.0%**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$479	$493	$497	$498	$500	$21	4.4%
Interest Income	$30	$44	$99	$128	$128	$98	326.7%
Charges for Services	$738	$755	$755	$755	$754	$16	2.2%
Water and Sewer Charges	$1,378	$1,345	$1,366	$1,379	$1,406	$28	2.0%
Rental Income	$226	$223	$223	$223	$223	($3)	(1.3%)
Fines and Forfeitures	$884	$896	$870	$869	$869	($15)	(1.7%)
Miscellaneous	$744	$492	$496	$493	$486	($258)	(34.7%)
Intra-City Revenue	$1,804	$1,545	$1,547	$1,552	$1,552	($252)	(14.0%)
Total Miscellaneous	**$6,283**	**$5,793**	**$5,853**	**$5,897**	**$5,918**	**($365)**	**(5.8%)**
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	$327	$327	$327	$327	$327	$0	0.0%
Other Federal and State Aid	$13	$13	$13	$13	$13	$0	0.0%
Total Unrestricted Intergovernmental Aid	**$340**	**$340**	**$340**	**$340**	**$340**	**$0**	**0.0%**
Other Categorical Grants	**$1,372**	**$1,200**	**$1,155**	**$1,152**	**$1,151**	**($221)**	**(16.1%)**
Inter Fund Agreements	**$497**	**$471**	**$450**	**$450**	**$450**	**($47)**	**(9.5%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
Less: Intra-City Revenue	**($1,804)**	**($1,545)**	**($1,547)**	**($1,552)**	**($1,552)**	**$252**	**(14.0%)**
TOTAL CITY FUNDS	**$43,661**	**$45,260**	**$47,249**	**$48,898**	**$50,326**	**$6,665**	**15.3%**

Table A1 (Con't.). *January 2010 Preliminary 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
Federal Categorical Grants:							
Community Development	$308	$247	$242	$242	$242	($66)	(21.4%)
Welfare	$2,959	$2,739	$2,729	$2,702	$2,702	($257)	(8.7%)
Education	$2,908	$2,584	$1,759	$1,759	$1,759	($1,149)	(39.5%)
Other	$1,768	$1,044	$990	$977	$976	($792)	(44.8%)
Total Federal Grants	**$7,943**	**$6,614**	**$5,720**	**$5,680**	**$5,679**	**($2,264)**	**(28.5%)**
State Categorical Grants							
Social Services	$2,012	$1,940	$1,954	$1,927	$1,927	($85)	(4.2%)
Education	$8,077	$8,447	$8,964	$9,551	$9,601	$1,524	18.9%
Higher Education	$206	$220	$220	$220	$220	$14	6.8%
Department of Health and Mental Hygiene	$477	$462	$463	$464	$465	($12)	(2.5%)
Other	$704	$697	$806	$895	$982	$278	39.5%
Total State Grants	**$11,476**	**$11,766**	**$12,407**	**$13,057**	**$13,195**	**$1,719**	**15.0%**
TOTAL REVENUES	**$63,080**	**$63,640**	**$65,376**	**$67,635**	**$69,200**	**$6,120**	**9.7%**

Table A2. January 2010 Preliminary 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	$91,279	$88,966	$87,840	$87,850	$87,850	($3,429)	(3.8%)
Board of Elections	$108,427	$67,073	$67,145	$67,160	$67,160	($41,267)	(38.1%)
Campaign Finance Board	$47,696	$11,362	$11,366	$11,369	$11,369	($36,327)	(76.2%)
Office of the Actuary	$5,063	$4,917	$4,937	$4,944	$4,949	($114)	(2.3%)
President, Borough of Manhattan	$4,664	$2,978	$3,003	$3,011	$3,015	($1,649)	(35.4%)
President, Borough of Bronx	$5,388	$4,062	$4,099	$4,111	$4,117	($1,271)	(23.6%)
President, Borough of Brooklyn	$5,385	$3,670	$3,705	$3,717	$3,723	($1,662)	(30.9%)
President, Borough of Queens	$4,621	$3,426	$3,455	$3,464	$3,468	($1,153)	(25.0%)
President, Borough of Staten Island	$3,897	$2,880	$2,906	$2,915	$2,918	($979)	(25.1%)
Office of the Comptroller	$66,780	$62,514	$62,266	$62,312	$62,396	($4,384)	(6.6%)
Dept. of Emergency Management	$81,857	$7,632	$7,638	$7,643	$7,645	($74,212)	(90.7%)
Tax Commission	$3,560	$3,497	$3,506	$3,514	$3,518	($42)	(1.2%)
Law Dept.	$141,356	$129,148	$126,827	$126,522	$126,372	($14,984)	(10.6%)
Dept. of City Planning	$29,808	$23,342	$22,988	$22,792	$22,791	($7,017)	(23.5%)
Dept. of Investigation	$17,263	$15,739	$15,703	$15,703	$15,703	($1,560)	(9.0%)
NY Public Library - Research	$26,977	$19,453	$19,453	$19,453	$19,453	($7,524)	(27.9%)
New York Public Library	$113,761	$94,513	$94,248	$94,248	$94,248	($19,533)	(17.2%)
Brooklyn Public Library	$85,411	$71,039	$70,774	$70,774	$70,774	($14,637)	(17.1%)
Queens Borough Public Library	$83,682	$69,320	$69,055	$69,055	$69,055	($14,627)	(17.5%)
Dept. of Education	$18,424,012	$18,812,219	$18,583,274	$19,353,796	$19,707,607	$1,283,595	7.0%
City University	$749,240	$712,534	$699,370	$699,539	$699,602	($49,638)	(6.6%)
Civilian Complaint Review Board	$10,072	$9,616	$9,660	$9,665	$9,665	($407)	(4.0%)
Police Dept.	$4,483,566	$4,151,861	$4,189,156	$4,162,704	$4,162,704	($320,862)	(7.2%)
Fire Dept.	$1,749,238	$1,588,922	$1,574,562	$1,570,936	$1,568,945	($180,293)	(10.3%)
Admin. for Children Services	$2,720,530	$2,561,004	$2,563,774	$2,565,794	$2,565,794	($154,736)	(5.7%)
Dept. of Social Services	$8,209,781	$8,807,193	$9,300,572	$9,468,452	$9,653,239	$1,443,458	17.6%
Dept. of Homeless Services	$769,731	$696,118	$685,812	$685,904	$685,961	($83,770)	(10.9%)
Dept. of Correction	$1,019,035	$1,004,159	$1,016,697	$1,013,486	$1,013,486	($5,549)	(0.5%)
Board of Correction	$952	$954	$954	$954	$954	$2	0.2%
Citywide Pension Contribution	$6,636,057	$7,143,494	$7,569,890	$7,716,486	$7,824,617	$1,188,560	17.9%
Miscellaneous	$6,332,102	$6,435,157	$6,840,191	$8,133,066	$8,839,301	$2,507,199	39.6%
Debt Service	$4,062,798	$4,286,161	$4,673,996	$4,748,010	$4,815,800	$753,002	18.5%
N.Y.C.T.F.A. Debt Service	$1,154,317	$1,285,090	$1,611,650	$1,831,460	$1,999,570	$845,253	73.2%
Prepayments	($2,036,374)	$0	$0	$0	$0	$2,036,374	(100.0%)
FY 2007 BSA & Discretionary Transfers	($30,865)	$0	$0	$0	$0	$30,865	(100.0%)
FY 2009 BSA & Discretionary Transfers	($2,267,651)	$0	$0	$0	$0	$2,267,671	(100.0%)
FY 2010 BSA	$2,883,492	($2,883,492)	$0	$0	$0	($2,883,492)	(100.0%)
Transfer for NYCTFA Debt Service	($645,747)	$0	$0	$0	$0	$645,747	(100.0%)
Defeasance of NYCTFA. Debt Service	($382,000)	($35,000)	$0	$0	$0	$382,000	(100.0%)
Call 2009/2010 G.O. Debt	($276,634)	$0	$0	$0	$0	$276,634	(100.0%)
Public Advocate	$2,808	$1,830	$1,864	$1,870	$1,873	($935)	(33.3%)
City Council	$52,883	$52,883	$52,883	$52,883	$52,883	$0	0.0%
City Clerk	$5,295	$5,111	$5,111	$5,111	$5,111	($184)	(3.5%)
Dept. for the Aging	$285,632	$229,303	$229,303	$229,303	$229,303	($56,329)	(19.7%)
Dept. of Cultural Affairs	$152,789	$120,462	$120,462	$120,462	$120,462	($32,327)	(21.2%)
Financial Info. Serv. Agency	$57,735	$57,190	$56,478	$56,517	$56,517	($1,218)	(2.1%)
Dept. of Juvenile Justice	$132,159	$123,202	$126,786	$126,795	$126,795	($5,364)	(4.1%)
Office of Payroll Admin.	$34,638	$41,711	$41,668	$41,654	$41,654	$7,016	20.3%
Independent Budget Office	$4,153	$4,135	$4,098	$4,098	$4,098	($55)	(1.3%)
Equal Employment Practices Comm.	$701	$692	$692	$694	$694	($7)	(1.0%)

Table A2 (Con't). *January 2010 Preliminary Budget Expenditure Detail*

($ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Changes FYs 2010-14 Dollar	Percent
Civil Service Commission	$619	$612	$613	$613	$613	($6)	(1.0%)
Landmarks Preservation Comm.	$5,075	$4,819	$4,639	$4,676	$4,682	($393)	(7.7%)
Taxi & Limousine Commission	$31,499	$31,222	$30,678	$30,678	$30,678	($821)	(2.6%)
Commission on Human Rights	$7,217	$7,001	$7,145	$7,148	$7,151	($66)	(0.9%)
Youth & Community Development	$386,184	$263,087	$231,708	$231,725	$231,725	($154,459)	(40.0%)
Conflicts of Interest Board	$1,955	$1,787	$1,788	$1,789	$1,789	($166)	(8.5%)
Office of Collective Bargain	$2,049	$1,916	$1,918	$1,919	$1,920	($129)	(6.3%)
Community Boards (All)	$14,774	$12,190	$12,190	$12,190	$12,190	($2,584)	(17.5%)
Dept. of Probation	$86,175	$79,435	$76,613	$76,116	$76,116	($10,059)	(11.7%)
Dept. Small Business Services	$178,141	$105,996	$94,937	$92,071	$87,640	($90,501)	(50.8%)
Housing Preservat'n & Developm'nt	$756,900	$575,823	$569,738	$568,694	$568,460	($188,440)	(24.9%)
Dept. of Buildings	$105,749	$93,809	$93,809	$93,809	$93,826	($11,923)	(11.3%)
Dept. of Health & Mental Hygiene	$1,699,377	$1,606,048	$1,617,129	$1,616,722	$1,618,272	($81,105)	(4.8%)
Health and Hospitals Corp.	$96,347	$95,895	$121,542	$121,613	$121,613	$25,266	26.2%
Dept. of Environmental Protection	$1,046,780	$967,301	$966,960	$966,598	$966,598	($80,182)	(7.7%)
Dept. of Sanitation	$1,281,996	$1,352,293	$1,381,312	$1,380,245	$1,436,563	$154,567	12.1%
Business Integrity Commission	$7,099	$7,301	$7,211	$7,211	$7,211	$112	1.6%
Dept. of Finance	$226,088	$217,785	$216,876	$215,987	$215,993	($10,095)	(4.5%)
Dept. of Transportation	$843,076	$677,792	$671,791	$680,816	$680,816	($162,260)	(19.2%)
Dept. of Parks and Recreation	$315,232	$269,892	$274,944	$275,488	$275,648	($39,584)	(12.6%)
Dept. of Design & Construction	$110,040	$108,085	$107,989	$108,040	$108,064	($1,976)	(1.8%)
Dept. of Citywide Admin. Services	$395,014	$387,294	$385,514	$391,984	$391,984	($3,030)	(0.8%)
DOITT.	$259,288	$245,129	$231,473	$231,758	$231,758	($27,530)	(10.6%)
Dept. of Record & Info. Services	$4,671	$4,285	$4,336	$4,682	$4,689	$18	0.4%
Dept. of Consumer Affairs	$22,770	$18,655	$16,823	$16,823	$16,823	($5,947)	(26.1%)
District Attorney – N.Y.	$91,747	$68,773	$68,375	$68,375	$68,375	($23,372)	(25.5%)
District Attorney - Bronx	$50,615	$40,396	$40,507	$40,176	$40,065	($10,550)	(20.8%)
District Attorney - Kings	$83,577	$69,060	$68,141	$68,141	$68,141	($15,436)	(18.5%)
District Attorney - Queens	$50,288	$40,089	$39,903	$39,443	$39,443	($10,845)	(21.6%)
District Attorney - Richmond	$8,184	$6,672	$6,672	$6,523	$6,523	($1,661)	(20.3%)
Office of Prosecut'n. & Spec. Narc.	$18,505	$14,679	$14,351	$14,351	$14,351	($4,154)	(22.4%)
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	($500,000)	$0	$0	$0	$0	$500,000	(100.0%)
General Reserve	$200,000	$300,000	$300,000	$300,000	$300,000	$100,000	50.0%
Energy Adjustment	($31,298)	$41,514	$87,590	$122,574	$149,843	$181,141	(578.8%)
Lease Adjustment	$0	$22,098	$82,209	$106,773	$132,208	$132,208	N/A
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	$166,557	N/A
City-Wide Total	**$63,080,275**	**$63,639,587**	**$68,535,574**	**$71,299,799**	**$73,048,301**	**$9,968,026**	**15.8%**

Glossary of Acronyms

ACS	Administration for Children’s Services
ADW/DWA	Assistant Deputy Wardens/Deputy Wardens Association
AIRA	Actuarial Interest Rate Assumption
ARRA	American Recovery and Reinvestment Act
BARB	Building Aid Revenue Bond
BCT	Business Corporation Tax
BSA	Budget Stabilization Account
CCA	Correction Captains’ Association
CEA	Captains Endowment Association
CMBS	Commercial Mortgage-Backed Securities
COBA	Correction Officers’ Benevolent Association
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
CWA	Communications Workers of America
DCA	Department of Cultural Affairs

DCAS	Department of Citywide Administrative Services
DC37	District Council 37
DEA	Detectives' Endowment Association
DEP	Department of Environmental Protection
DHS	Department of Homeless Services
DJJ	Department of Juvenile Justice
DOC	Department of Correction
DOE	Department of Education
DOITT	Dept. of Information Technology &Telecommunications
DOT	Department of Transportation
DSH	Medicaid Disproportionate Share
DSS	Department of Social Services
FASB	Financial Accounting Standards Board
FDNY	Fire Department
FMAP	Federal Medical Assistance Percentages
FTE	Full-Time Equivalent

FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HPD	Department of Housing, Preservation & Development
J&C	Judgments and Claims
LBA	Lieutenants Benevolent Association
LIBOR	London Interbank Offered Rate
MAC	Municipal Assistance Corporation
MRT	Mortgage Recording Tax
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCHA	New York City Housing Authority

NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
NYWFA	New York City Municipal Water Finance Authority
OCFS	NYS Office of Children & Family Services
OMB	Office of Management and Budget
OSA	Organization of Staff Analysts
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Services
RHBT	Retiree Health Benefit Trust
SBA	Sergeants Benevolent Association
SOA	Sanitation Officers Association
S&P	Standard & Poor's

STAR	School Tax Relief Program
TSASC	Tobacco Settlement Asset Securitization Corporation
TARP	Troubled Asset Relief Program
UBT	Unincorporated Business Tax
UFA	Uniformed Firefighters Association
UFOA	United Fire Officers Association
UFT	United Federation of Teachers
U.S.	United States
USA	United Sanitationmen's Association