New York City Comptroller
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BUREAU OF FISCAL AND BUDGET STUDIES

The State of the City's Economy and Finances

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I. Executive Summary

New York City's economy continued to expand at a steady rate in 2013 despite the uneven performance of the financial services sector. The City's total private-sector employment now stands above its pre-recession peak. However, even with record levels of employment the City's unemployment rate remains stubbornly high and wages have not kept up with inflation, leaving even many fully-employed families less well off than they were five years ago. Overall growth in the local economy has been hampered somewhat by a sputtering national economy.

The City's economy, while certainly broad enough to withstand convulsions at the national level, will likely continue to feel the effects of any domestic economic uncertainty. The conflict-ridden environment of Washington which provoked the government shutdown and debt crisis in October is unlikely to change in the foreseeable future. The Federal government's penchant for fiscal austerity and the overall tightening of fiscal policy has effectively reduced the nation's GDP. Continuation along the current path will further hamper economic growth in the nation and New York City.

Offsetting the effects of political uncertainty on the national economy is the continued strength in the housing market. Overall home sales and new housing starts have been increasing at record rates for nearly two years. Increased demand has boosted prices and correspondingly has increased household net worth. The recovery in household wealth should make consumers both more disposed and able to spend on goods and services in the coming year.

The slightly positive outlook of the national economy coupled with continued growth in local private sector jobs and sustained gains by the stock market lead the Comptroller's Office to expect a positive economic outlook for New York City's economy in 2014. The Comptroller's Office expects expansion in the City's real gross domestic product (GDP) nearing 3 percent while the number of payroll jobs will continue to grow at a consistent rate. Although wage rates will probably not grow as fast as in boom times past, wages should finally start to rise after several years of stagnation.

The positive outlook on the City's economy will lead to robust revenue growth. The Comptroller's Office projects that in the current fiscal year tax revenues will exceed the Plan by $724 million. This is primarily a function of the Comptroller's estimate for personal income tax (PIT) receipts which exceeds the Plan by $528 million. For FYs 2015 through 2017, the Comptroller's Office estimates tax revenues will exceed the City's forecast by between $438 million and $816 million. These estimates are driven by continued growth in PIT as well as a more optimistic outlook on commercial property value appreciation leading to higher property tax revenue forecasts.

The Comptroller's higher tax revenue estimates are offset by risks against the City's planned expenditures. If realized, the net impact of the risks and offsets could result in a $2.988 billion budget gap in FY 2014. The risk to the FY 2014 budget stems primarily from the absence of funding for wage increases for employees in the United

Federation of Teachers (UFT) and Council of School Supervisors and Administrators (CSA) for the 2008 – 2010 round of collective bargaining. If the UFT and CSA were to be awarded raises similar to those given to the other municipal unions it would cost the City $3.495 billion in FY 2014, including retroactive cost. Other risks to the FY 2014 budget that have been identified include the City's underestimation of overtime spending and the Department of Education's overestimation of Medicaid reimbursement.

Similar risks exist in the outyears of the Financial Plan. In addition to the previously mentioned risks in the outyears, the City could face a shortfall of up to $200 million in funding from the State and Federal Governments. Fiscal uncertainty at both levels of government threatens to impact State and Federal aid to the determent of the City's revenues. Altogether, the Comptroller's Office estimates net risks ranging from $388 million to $838 million.

The Comptroller's Office cautions that, while the revenue derived from the sale of taxi medallions in the Financial Plan are not currently a risk, there could be some concern as to the certainty of this revenue stream. While the recent medallion sale generated strong interest, the City will be unable to continue to sell medallions beyond the 400 planned for FY 2014, without the submission and approval of an access plan for people with disabilities. Absent such a plan, the City could stand to forgo more than $1.2 billion of planned revenue in the coming fiscal years.

Of additional concern to the Comptroller's Office outlook on the Financial Plan are the expired contracts for municipal employees. Currently, all of the City's municipal unions are working under expired contracts. None of the City's labor unions has agreed to the terms for new labor contracts as set forth by the City. While it is nearly impossible to speculate on the nature of any contract settlements, it is a concern that the cost of potential settlements could create large gaps in the outyears of the Financial Plan.

Table 1. FYs 2014 – 2017 Financial Plan

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	Changes FYs 2014 – 2017 Dollar	Changes FYs 2014 – 2017 Percent
Revenues						
Taxes:						
General Property Tax	$19,833	$20,555	$21,491	$22,262	$2,429	12.2%
Other Taxes	$25,298	$26,583	$27,602	$28,767	$3,469	13.7%
Tax Audit Revenues	$710	$709	$709	$709	($1)	(0.1%)
Subtotal: Taxes	$45,841	$47,847	$49,802	$51,738	$5,897	12.9%
Miscellaneous Revenues	$7,276	$6,784	$6,635	$6,746	($530)	(7.3%)
Less: Intra-City Revenues	($1,710)	($1,573)	($1,577)	($1,578)	$132	(7.7%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$51,392	$53,043	$54,845	$56,891	$5,499	10.7%
Other Categorical Grants	$888	$842	$829	$825	($63)	(7.1%)
Inter-Fund Revenues	$535	$514	$514	$514	($21)	(3.9%)
Total City & Inter-Fund Revenues	$52,815	$54,399	$56,188	$58,230	$5,415	10.3%
Federal Categorical Grants	$8,113	$6,336	$6,292	$6,280	($1,833)	(22.6%)
State Categorical Grants	$11,777	$12,007	$12,349	$12,883	$1,106	9.4%
Total Revenues	$72,705	$72,742	$74,829	$77,393	$4,688	6.4%
Expenditures						
Personal Service						
Salaries and Wages	$22,372	$22,312	$22,542	$22,856	$484	2.2%
Pensions	$8,315	$8,240	$8,351	$8,520	$205	2.5%
Fringe Benefits	$8,862	$9,151	$9,790	$10,505	$1,643	18.5%
Retiree Health Benefits Trust	($1,000)	$0	$0	$0	$1,000	(100.0%)
Subtotal-PS	$38,549	$39,703	$40,683	$41,881	$3,332	8.6%
Other Than Personal Service						
Medical Assistance	$6,365	$6,447	$6,415	$6,415	$50	0.8%
Public Assistance	$1,387	$1,385	$1,385	$1,391	$4	0.3%
All Other	$23,018	$21,430	$21,784	$22,292	($726)	(3.2%)
Subtotal-OTPS	$30,770	$29,262	$29,584	$30,098	($672)	(2.2%)
Debt Service						
Principal	$1,935	$2,187	$2,351	$2,293	$358	18.5%
Interest & Offsets	$2,315	$2,531	$2,645	$2,737	$422	18.2%
Subtotal Debt Service	$4,250	$4,718	$4,996	$5,030	$780	18.4%
FY 2012 BSA & Discretionary Transfers	($31)	$0	$0	$0	$31	(100.0%)
FY 2013 BSA & Discretionary Transfers	($2,807)	$0	$0	$0	$2,807	(100.0%)
FY 2014 BSA	$1,770	($1,770)	$0	$0	($1,770)	(100.0%)
NYCTFA Debt Redemption	($7)	($99)	($103)	$0	$7	(100.0%)
NYCTFA						
Principal	$836	$784	$889	$1,025	$189	22.6%
Interest & Offsets	$935	$1,417	$1,529	$1,588	$653	69.8%
Subtotal NYCTFA	$1,771	$2,201	$2,418	$2,613	$842	47.5%
General Reserve	$150	$300	$300	$300	$150	100.0%
	$74,415	$74,315	$77,878	$79,922	$5,507	7.4%
Less: Intra-City Expenses	($1,710)	($1,573)	($1,577)	($1,578)	$132	(7.7%)
Total Expenditures	$72,705	$72,742	$76,301	$78,344	$5,639	7.8%
Gap To Be Closed	**$0**	**$0**	**($1,472)**	**($951)**	**($951)**	**N/A**

Table 2. Plan-to-Plan Changes
November 2013 vs. June 2013

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Revenues				
Taxes:				
General Property Tax	$40	$0	$0	$0
Other Taxes	$486	$0	$0	$0
Tax Audit Revenues	$1	$0	$0	$0
Subtotal: Taxes	$527	$0	$0	$0
Miscellaneous Revenues	$703	$167	$11	$11
Less: Intra-City Revenues	($128)	($12)	($12)	($12)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,102	$155	($1)	($1)
Other Categorical Grants	$48	($2)	($2)	($2)
Inter-Fund Revenues	($1)	($1)	($1)	($1)
Total City & Inter-Fund Revenues	$1,149	$152	($4)	($4)
Federal Categorical Grants	$1,618	$43	$15	$7
State Categorical Grants	$21	($40)	($119)	($49)
Total Revenues	$2,788	$155	($108)	($46)
Expenditures				
Personal Service				
Salaries and Wages	$203	$141	$122	$102
Pensions	($2)	($86)	($173)	($258)
Fringe Benefits	($19)	($336)	($361)	($389)
Retiree Health Benefits Trust	$0	$0	$0	$0
Subtotal-PS	$182	($281)	($412)	($545)
Other Than Personal Service				
Medical Assistance	($1)	$0	$0	$0
Public Assistance	$0	$0	$0	$0
All Other	$1,630	$254	$102	$152
Subtotal-OTPS	$1,629	$254	$102	$152
Debt Service				
Principal	($23)	($134)	$37	$34
Interest & Offsets	($156)	$36	($73)	($70)
Subtotal Debt Service	($179)	($98)	($36)	($36)
FY 2012 BSA & Discretionary Transfers	$0	$0	$0	$0
FY 2013 BSA & Discretionary Transfers	($16)	$0	$0	$0
FY 2014 BSA	$1,628	($1,628)	$0	$0
NYCTFA Debt Redemption	($7)	($1)	($5)	$0
NYCTFA Debt Service				
Principal	$171	($68)	($55)	$46
Interest & Offsets	($192)	$24	$13	($82)
Subtotal NYCTFA	($21)	($44)	($42)	($36)
General Reserve	($300)	$0	$0	$0
	$2,916	($1,798)	($393)	($465)
Less: Intra-City Expenses	($128)	($12)	($12)	($12)
Total Expenditures	$2,788	($1,810)	($405)	($477)
Gap To Be Closed	**$0**	**$1,965**	**$297**	**$431**

Table 3. Risks and Offsets to the November 2013 Financial Plan

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
City Stated Gap	**$0**	**$0**	**($1,472)**	**($951)**
Tax Revenues				
Property Tax	$0	$29	$108	$342
Personal Income Tax	$528	$213	$283	$362
Business Taxes	$96	($8)	$41	($37)
Sales Tax	$88	$73	$143	$174
Real-Estate-Related Taxes	$12	$131	$42	($25)
Subtotal	**$724**	**$438**	**$617**	**$816**
Federal and State Actions	**$0**	**($200)**	**($200)**	**($200)**
Expenditures				
UFT/CSA Collective Bargaining	($3,495)	($900)	($900)	($900)
Overtime	($150)	($100)	($100)	($100)
DOE Medicaid Reimbursement	($80)	($100)	($100)	($100)
Judgments and Claims	$13	$24	$60	$96
Subtotal	**($3,712)**	**($1,076)**	**($1,040)**	**($1,004)**
Total Risk/Offsets	**($2,988)**	**($838)**	**($623)**	**($388)**
Restated (Gap)/Surplus	**($2,988)**	**($838)**	**($2,095)**	**($1,339)**

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II. State of the City's Economy

New York City's economy continued to expand at a steady rate in 2013 despite the uneven performance of the financial services sector. Total private-sector employment now stands 195,400 above its pre-recession peak, an impressive record considering that national employment is still almost a million jobs below the previous peak level. However, the City's unemployment rate remains unacceptably high and wages have not kept up with inflation, leaving even many fully-employed families less well off than they were five years ago.

Growth in the local economy has been impeded by a sputtering national economy. Real gross domestic product is expected to increase by only 1.7 percent in 2013, an extremely disappointing performance in the fourth year of recovery. While some imbalances in the private sector that led to the financial crisis have been gradually repaired, a sharp turn in federal economic policy towards austerity has offset those improvements, and deep ideological divisions in Washington continue to threaten to interrupt economic momentum.

As one of the world's premier global cities, New York can sometimes offset domestic economic weakness by capitalizing on opportunities abroad. Unfortunately, Europe remains mired in a disastrous slump and growth in several of the largest emerging economies has slowed. Although world economic growth is expected to quicken somewhat in 2014, there do not seem to be any candidates to replace the United States as the growth engine of the global economy.

With the rapid economic growth of the "roaring nineties" fading into history, the view that the nation's economy has settled into a "new normal" is becoming more convincing. If so, it is also increasingly unlikely that the local economy will experience one of its periodic booms that provides unexpected opportunities for individual and civic improvement.

A. NYC'S ECONOMIC PERFORMANCE IN 2013

In 2013, New York City continued its slow but steady recovery from the financial crisis and recession. Although month-to-month job growth can fluctuate considerably, year-over-year job creation has been remarkably consistent. From October 2012 through October 2013, the City added 83,000 private-sector payroll jobs. In the previous two twelve-month periods, it added 90,000 and 85,000 jobs, respectively.

The City's establishments added 85,400 jobs in the first 10-months of 2013 compared with 64,500 during the same period in 2012. The private sector added 89,500 jobs while the public sector contracted by 4,300 jobs. The biggest job gains were in education and health services, followed by leisure and hospitality, trade, transportation and utilities, and then professional and business services.

During 2013 the Health Care sector, which generated 23,000 jobs since last December, has added jobs faster than at any time since comparable data became available in 1990. Within the sector, the fastest job growth has occurred in ambulatory care, especially in outpatient care centers and medical and diagnostic laboratories. Home health care employment has also experienced growth. Although it is difficult to identify the precise functions the additional health care workers are performing, the spurt in health care employment certainly appears to be related to implementation of the Patient Protection and Affordable Care Act. Massachusetts experienced a large increase in health care employment after its adoption of a similar health care reform in 2007.

The educational sector also continued to grow in 2013. By October 2013, employment in educational services, excluding public elementary and secondary schools, had increased by more than 15,000 workers year-over-year. Employment in the City's colleges and universities has nearly doubled since 1990 and has continued to expand in 2013, but the fastest job growth this year seems to be in private educational instruction and educational support services.

During 2013 local employment in the construction industries turned up after several years of substantial decline. Construction employment in October 2013 was about 3,300 higher than in October 2011. It is likely that repair and restoration activity after Superstorm Sandy has contributed to the increase; employment by firms involved in the construction of new buildings has continued to drop, while employment in specialty trade contractors is up by 10,600, year-over-year.

During the first several years after the financial crisis, the business and professional services industries led the City's recovery, creating over 65,000 new jobs from October 2009 through October 2012 and easily outpacing their counterparts in the rest of the country. In the year ending October 2013, however, only 11,100 new jobs were created in this sector. Legal services have still not fully recovered from the recession and employment dwindled further in the past year. The industry's difficulties were underscored by the collapse of Dewey & LeBoeuf in the spring. Accounting and related activities have also struggled in the post-financial crisis environment, and employment in the field slipped further in 2013. While architecture and engineering firms continued their slow recovery, the greatest employment growth has occurred in the computer and advertising industries. Computer systems design and consulting and advertising services have added over 30,000 jobs since the end of the recession and continued their growth in 2013.

It is impossible from conventional employment data to determine precisely the growth of technology and web-related employment in the City. Many traditional firms may add computer technicians, website designers and administrators, application software engineers, and other internet-related personnel to their existing staffs but the additions will not be picked up as technology-specific employment. Moreover, the commercialization of internet technologies provides new business for traditional New York firms in advertising, accounting, consulting and finance. Qualitative evidence, however, indicates that internet technology is having a significant impact on the City's business climate, as evidenced by the recent visibility of tech firms in the City's office leasing marketplace. During 2013, tech firms such as Microsoft, Yahoo, Facebook, Mediaocean, Spotify and AppNexus signed leases for significant amounts of office space in Manhattan, and several others are known to be shopping for suitable space.

The growth of technology-related employment is probably a major reason the City's economy has continued to expand despite the fitful recovery of the financial sector. As of August of this year, employment in the City's finance and insurance sector was no higher than in May 2009, at the depths of the recession. Wall Street firm profits have been on a roller-coaster since the financial crisis and, after a surprisingly poor third quarter, appear to be heading for a decline in 2013. Nevertheless, a rising stock market is historically the best leading indicator of increased Wall Street profits and employment, and in September and October the industry scored its biggest employment jump since the financial crisis.

While employment growth at the high-end of the salary curve has been uneven, it has been consistently strong at the entry levels of the occupational structure. In the first ten months of 2013, food service and drinking places added 12,400 jobs and retail establishments added almost 9,000. Since the low-point of the City's employment cycle in August 2009, the food service and retail industries have accounted for over 30 percent of the City's private-sector job gains. Although food service and retail provide a certain amount of creative jobs with career paths, most jobs in these industries are relatively poorly paid and offer little opportunity for skill acquisition.

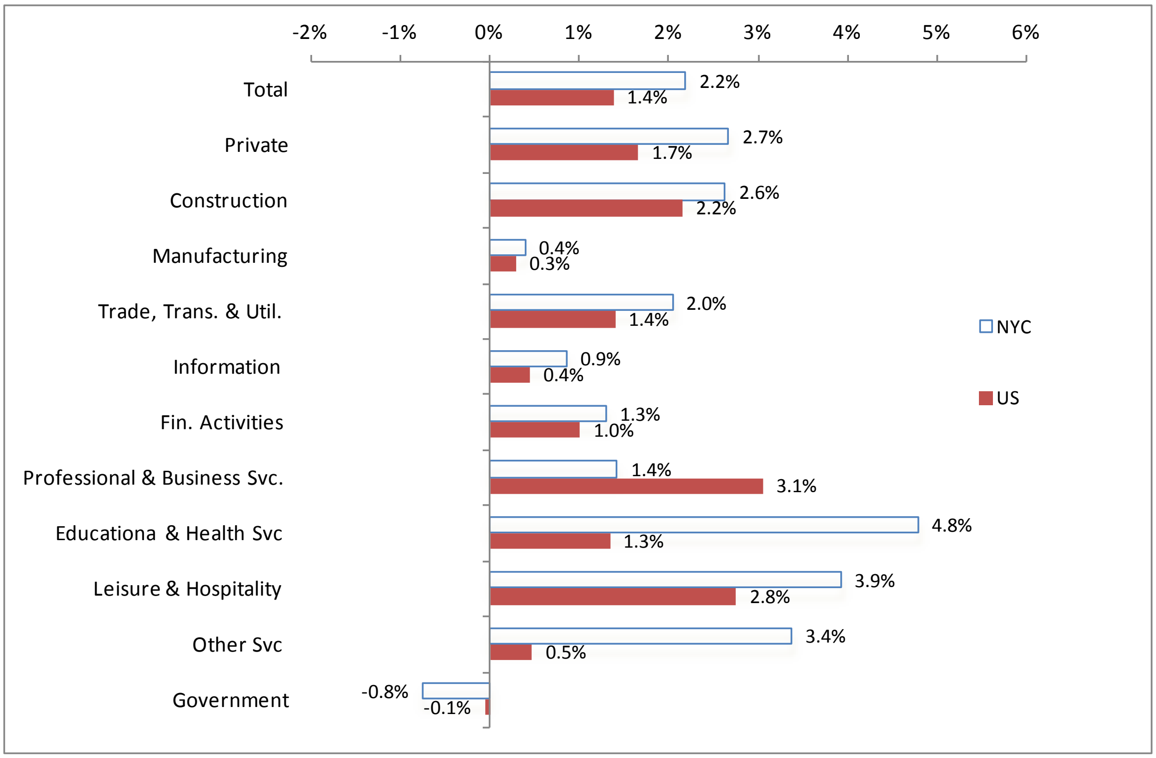
The disproportionate growth in retail-level employment is one reason overall wage rates in the City have been stagnant. In October 2013, the average weekly earnings of private-sector workers in New York City was $1,091, only 2.4 percent higher than in October 2008. During that same time period, the cost of living rose 7.8 percent, indicating that the average working person lost ground over the five-year period, perhaps explaining why so many residents feel that the recession has still not ended. Moreover, the past year has brought little relief, as average weekly earnings increased by only 1.0 percent in the twelve months ending in October.

Another reason the City's economy remains far from fully recovered is its stubbornly high unemployment rate. The City's unemployment rate, which more than doubled during the recession, has remained stuck well above 8.0 percent and is more than a full percentage point above the national rate. In fact, after drifting down to 8.3 percent (seasonally-adjusted) in May, it crept back up to 8.7 percent in October. For demographic groups such as African Americans (13.5 percent in 3Q13), Hispanics (11.1 percent), youths (13.7 percent) and those without a high school diploma (14.8 percent) the unemployment rate remains even more elevated than for the City as a whole.

The City's high unemployment rate may seem, at first glance, contradictory to its strong job creation, which in percentage terms has been far better than the national gain. However, while the nation's labor force participation rate has fallen continuously and its overall labor force is smaller than it was five years ago, the City's labor force participation rate has held steady and its labor force has expanded by about 134,000 workers (or 3.4 percent). It is not entirely clear why the City's labor force participation rate has not followed the national rate downward; a larger percentage of its population in their prime working ages may be part of the reason. It may also be that the City's large and constantly churning labor market prevents job-seekers from becoming too discouraged about their prospects.

Chart 1 shows the change in jobs for the city and the nation in the first 10 months of 2013.

Chart 1. Change in NYC and U.S. Payroll Jobs, First 10 Months of 2013



SOURCE: Monthly Data from U.S. Department of Labor and NYC Comptroller's Office.

B. ECONOMIC OUTLOOK

The national and local economies are expected to strengthen somewhat in 2014. The factors expected to contribute to accelerated growth are an increase in residential and nonresidential construction spending, an end to the state and local government spending cuts and employee layoffs, and a modest rise in exports as the EU emerges from its prolonged recession. Also, the rise in household net worth is expected to boost consumer confidence and consumer spending.

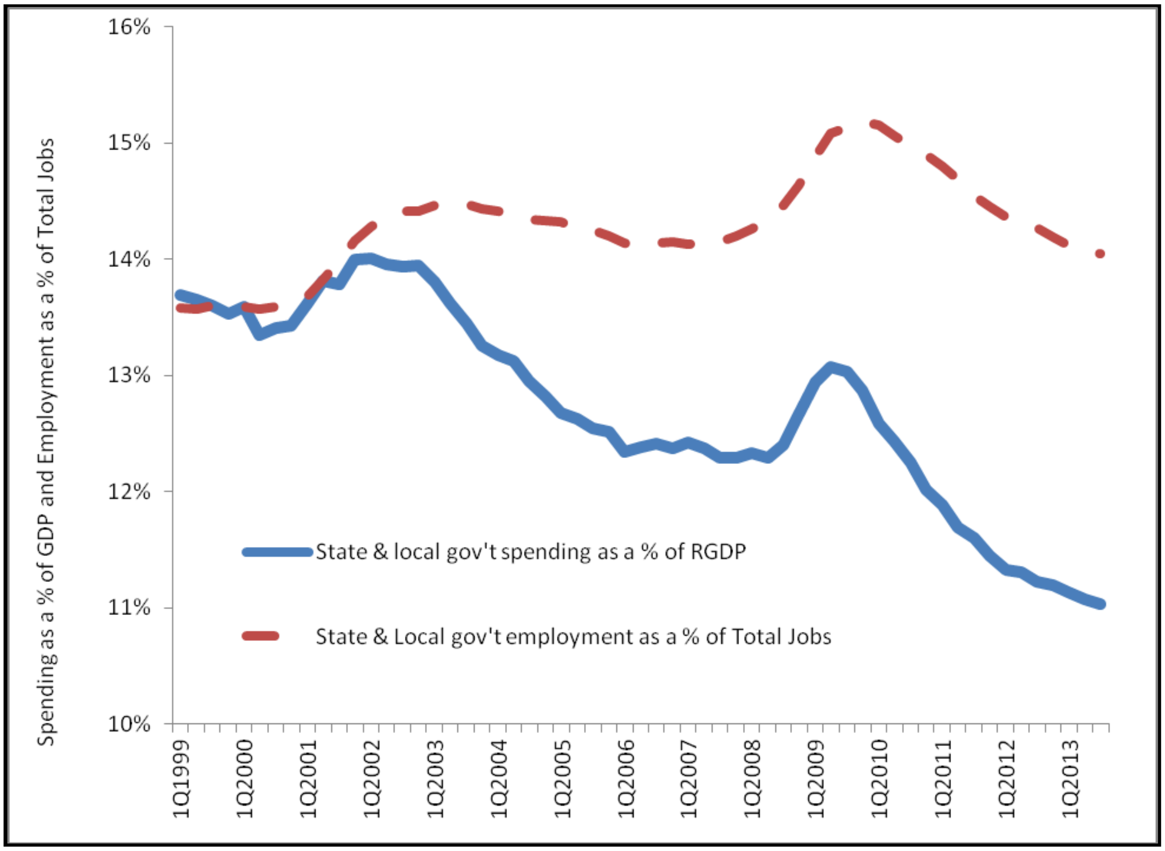
The major risks to the domestic economy continue to stem from the political divisiveness in Washington, which was dramatized by the Federal government shutdown and debt crisis in October. While the political costs of that standoff may discourage the House of Representatives from provoking another shutdown early in 2014, there is little reason to believe that national economic policy will step back from the fiscal austerity that has been adopted since mid-2011. Moreover, the Federal Reserve appears eager to wind down its long-term asset purchase program, so any significant improvement in economic momentum may be quickly tempered by a tapering of the asset purchases and a consequent increase in long-term interest rates.

As a result of the Budget Control Act of 2011 (BCA) which led to the Federal "sequester" in 2013, the American Taxpayer Relief Act of 2012 (ATRA), and the expiration of the social security payroll tax holiday at the beginning of 2013, the Federal government slashed its on-budget deficit from 7.0 percent of GDP in FY 2012 to 4.0 percent in FY2013. The Congressional Budget Office expects it to drop further, to 2.1 percent of GDP by Federal Fiscal Year 2015. That represents a dramatic tightening of fiscal policy, especially at a time when insufficient aggregate demand may be the primary cause of the country's sluggish economic growth.

Those deficit-closing measures probably reduced real GDP by at least 1 percent in 2013, and will continue to have some lingering impact in 2014. However, most of the fiscal effect has already been absorbed, so the underlying momentum of the economy will be less constrained. We do not expect that Congress will significantly alter the path of fiscal policy that is already established by the BCA and ATRA.

State and local governments have also implemented a period of austerity, albeit generally not of their choosing. Real state and local government consumption expenditures and gross investment declined 7.2 percent between the third quarter of 2009 and the third quarter of 2013, despite the temporary relief provided by the American Recovery and Reinvestment Act, while state and local government employment declined by over 550,000. The contraction in state and local spending reduced real GDP growth by .35 percentage point in 2010, by .46 percentage point in 2011, and by .08 percentage point in 2012. With the continued recovery of their tax revenues, state and local government spending should become a net contributor to GDP growth in 2014. That turn-around has already begun, as state and local government consumption expenditures and gross investment contributed .05 percentage point to GDP growth in 2Q2013 and .19 percentage point in 3Q2013. Chart 2 shows the spending and employment for state and local governments.

Chart 2. State and Local Government Spending and Employment, 1Q1999-3Q2013

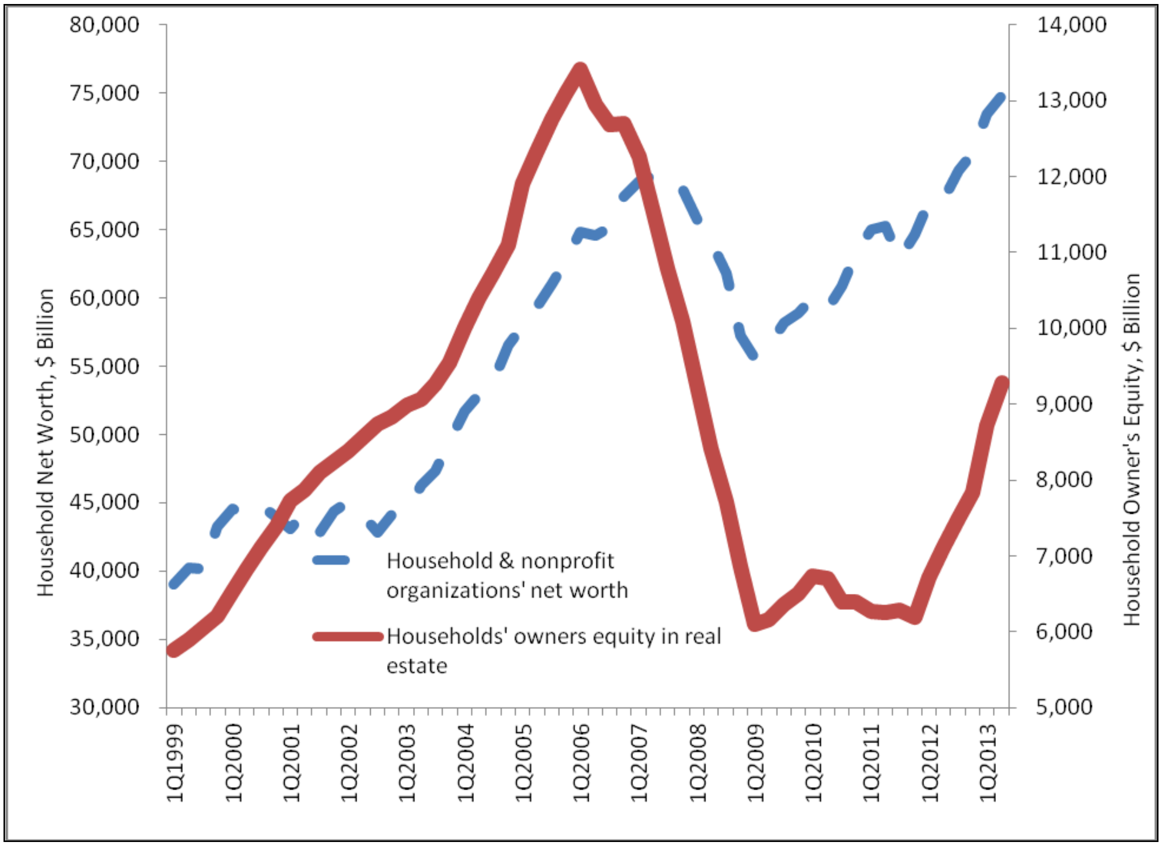


SOURCE: BEA.

The other major source of momentum in the national economy is construction spending, stemming primarily from pent-up demand for housing and an improvement in household finances. After a 69-month slide that saw home prices decline by 33.8 percent nationally (as measured by the Case-Shiller Home Price Index), prices bottomed out in January of 2012 and have since scored an almost-dizzying 18.5 percent increase. The price rebound was both a cause and effect of renewed home buying demand: renewed demand boosted prices, and rising prices convinced more potential buyers to enter the market. Existing home sales rose 9.0 percent in 2012 (according to the National Association of Realtors) and another 11.1 percent in 2013, year-to-date. Even more importantly for GDP growth, new home sales increased 20.3 percent in 2012 and 15.8 percent in 2013 (year-to-date), supporting corresponding increases in new housing starts of 28 percent and 19.7 percent, respectively. New residential investment should contribute about 0.4 percentage point to GDP growth in 2013 and, considering that new housing starts are still well below their "normal" levels, should continue to contribute positively to GDP growth for several more years.

The housing market rebound should also help the economy through other channels. The bursting of the housing bubble destroyed more than $7 trillion of owners' equity in household real estate, severely constraining households' borrowing capacity and damaging consumer confidence. Home price gains since then have helped to restore almost half of that loss and, together with gains in the stock market, have boosted the ratio of household net worth to its highest level ever. The recovery in household wealth should make consumers both more disposed and able to spend on goods and services in the coming year. Chart 3 shows the net worth and owner's equity for the US household.

Chart 3. Household Net Worth and Owner's Equity, 1Q1999-3Q2013



SOURCE: Federal Reserve Board of Governors.

One of the drags on U.S. economic growth in recent years has been the persistent weakness of the economies of the country's major trading partners, especially Europe. As a result of its currency crisis and the austerity policies adopted in response to it, the European Union has been in almost continuous recession since the financial crisis of 2008 and U.S. exports to that region have stagnated. Although hopes for a European recovery have disappointed before, there are indications that Europe's slump has finally bottomed-out and that, combined with weakening oil prices, foreign trade can be a more significant contributor to U.S. GDP growth in 2014.

While Federal fiscal policies should not dampen the positive economic trends as much as they did in 2013, it is probable that the Federal Reserve's monetary policies will become somewhat less stimulatory in the coming year. The Fed has clearly signaled its desire to wind down its large-scale asset purchase program and few monetary policy experts think that will not happen during 2014. Long-term interest rates increased significantly when a tapering became widely anticipated in mid-2013, and another jump in rates could occur once the tapering is actually underway. The housing market recovery lost some steam after the mid-year increase in interest rates, and it will remain vulnerable to any further increases in the coming year.

While 2014 promises to be a better year for the U.S. economy than the current one has been, the longer-term picture remains cloudy. An increasing number of academic economists, business forecasters, and market participants are beginning to wonder whether the U.S. economy has entered a period of "secular stagnation," similar to what Japan has experienced since 1990. Some who argue that economic growth will be slower than the 3.6 percent annual rate of the post-War period (1950-2000) emphasize an insufficiency of aggregate demand and misguided federal fiscal policies, while others emphasize technology cycles and the adjustments to them. In either case the arguments must be taken seriously in light of recent U.S. economic performance; since the turn of the century, the U.S. economy has grown at only a 1.7 percent annual rate. Reflecting the lower trend rate of real GDP and the arguments advanced to explain it, the Comptroller's Office has modestly reduced its expectations for economic growth in the years beyond 2014.

Because the national economy is expected to improve slightly in the coming year, the ferment in the City's technology sector shows no sign of slowing, higher stock prices are usually a good harbinger of financial industry employment gains, and a more vigorous housing recovery appears to be taking hold, the Comptroller's Office expects 2014 to be a positive year for the City's economy. We expect real gross domestic product to expand by close to 3.0 percent and for the number of payroll jobs to continue to grow at a consistent rate. Although wage rates will probably not grow as fast as in boom times past, wages should finally start to rise after several years of stagnation.

At present we see no risks that are likely to derail the City's economic progress during the four years of the current Financial Plan. Consequently, the Comptroller's Office expects real GCP to expand at approximately its long-term rate (1980-2012) of 2.7 percent annually in the three years beyond 2014. Job growth is expected to average around 1.5 percent in the next four years, with the unemployment rate gradually falling to six percent by 2017.

Table 4 provides summary projections for five NYC and U.S. indicators from 2013 to 2017.

Table 4. Selected NYC and the U.S. Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2013-2017

Selected NYC Economic Indicators, Annual Averages						
		2013	**2014**	**2015**	**2016**	**2017**
Real GCP, (2009 $),	Comptroller	2.7	2.7	2.8	2.7	2.6
% Change	Mayor	0.5	1.6	2.0	2.3	2.3
Payroll Jobs,	Comptroller	77	67	57	62	59
Change in Thousands	Mayor	73	48	47	51	50
Inflation Rate	Comptroller	1.8	1.9	2.3	2.4	2.6
Percent	Mayor	1.7	1.8	1.8	2.1	2.0
Wage-Rate Growth,	Comptroller	0.8	2.0	2.6	2.4	2.2
Percent	Mayor	(0.3)	2.5	2.4	2.8	3.0
Unemployment Rate,	Comptroller	8.6	8.2	7.5	6.7	6.0
Percent	Mayor	NA	NA	NA	NA	NA
Selected U.S. Economic Indicators, Annual Averages						
		2013	**2014**	**2015**	**2016**	**2017**
Real GDP, (2009 $),	Comptroller	1.7	2.8	2.9	2.8	2.7
% Change	Mayor	1.6	2.6	3.2	3.1	3.1
Payroll Jobs,	Comptroller	2.2	2.0	2.0	2.1	2.0
Change in Millions	Mayor	2.2	2.4	2.3	2.5	2.2
Inflation Rate	Comptroller	1.5	1.6	2.0	2.1	2.5
Percent	Mayor	1.5	1.5	1.6	1.9	1.9
Fed Funds Rate,	Comptroller	0.1	0.2	0.3	1.8	3.0
Percent	Mayor	0.1	0.2	0.4	2.2	3.8
10-Year Treasury Notes,	Comptroller	2.4	3.0	3.5	3.9	4.4
Percent	Mayor	2.4	3.1	3.5	3.9	4.6

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the November Modification Fiscal Year 2014.

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III. The City's Fiscal Outlook

The November Modification to the FY 2014 budget increased the Adopted Budget by $2.788 billion to $72.705 billion. More than half of the increase is in the other-funds category, with the Federal-funds category accounting for most of the increase as shown in Table 2 on page 2. Almost $1 billion of this increase is due to the rollover of FY 2013 community development block grants. Federal categorical grants are discussed in greater detail in "State and Federal Aid" beginning on page 23.

The City's fiscal outlook for FY 2014 has improved considerably since budget adoption in June 2013. City-funds revenues are $1.1 billion higher than projected in the Adopted Budget as shown in Table 5. The increase is split almost evenly between tax and non-tax revenues with upward revisions of $527 million to tax revenues and $575 million to non-tax revenues. The growth in tax revenues reflects stronger than expected tax collections, with the bulk of the increase in personal income tax revenue, which is increased by $155 million, and real estate transaction tax revenues which are increased by $240 million.[1] Total tax collections through October are $789 million higher than the FY 2014 Adopted Budget forecast. The upward revision to FY 2014 non-tax revenues results mainly from increased non-recurring sources. Revenue from the sale of two city-owned properties accounts for $214 million of the increase. Miscellaneous revenues are discussed in greater details in "Miscellaneous Revenues" beginning on page 22.

Table 5. Changes to the FY 2014 City-Funds Estimates

($ in millions)

REVENUES		EXPENDITURES	
Adopted Budget	**$50,290**	**Adopted Budget**	**$50,290**
Personal Income Tax	$155	General Reserve	($300)
Real-Estate-Related	$240	Debt Service	($225)
Other Taxes	$132	Miscellaneous Expense	($109)
Total Tax Revenues	$527	Health Insurance	($21)
		Pensions	($2)
Medallion Sales	$64	Agency Increases	$131
Other Non-Tax Revenues	$511	Subtotal Baseline Expenses	($526)
		FY 2014 BSA	$1,628
Total Change	$1,102	Total Change	$1,102
November Modification	**$51,392**	**November Modification**	**$51,392**

While City-fund expenditures have also increased by $1.1 billion, the entirety of this increase was subsumed by the Budget Stabilization Account (BSA) used to prepay FY 2015 debt service which has increased by $1.628 billion to $1.77 billion. Net of the increase in the BSA, baseline City-funds expenditures are $526 million lower than the

[1] Year-to-date PIT collections through October are $155 million higher than the FY 2014 Adopted Budget forecast while year-to-date real estate transition tax collections over the same period are $240 million higher than the FY 2014 Adopted Budget forecast.

FY 2014 Adopted Budget estimates, as shown in Table 5. The expenditure decrease is primarily due to a reduction in the general reserve of $300 million, from $450 million to $150 million and debt service savings of $225 million. The debt service savings stems mainly from a reduction in assumed variable rate and the elimination of planned short-term borrowing.

The Outyear Gaps

While the City is not required to balance the next fiscal year's budget until the submission of the Preliminary Budget, the November Plan presents, for the first time in recent history, a balanced budget for the ensuing fiscal year before the release of the Preliminary Budget. At the time of FY 2014 budget adoption, the FY 2015 budget gap was $1.965 billion. This gap has been closed mainly with FY 2014 resources. As discussed above, the BSA in the November modification was increased by $1.628 billion. This increased prepayment, along with a $155 million growth in non-tax revenues and a net decrease of $182 million in City-funds expenses, closes the $1.965 billion FY 2015 gap projected in June.

FY 2015 expenditure reductions are primarily driven by a $364 million savings in the cost of health insurance resulting from a smaller increase in the premium rate than previously anticipated, as discussed in "Health Insurance" beginning on page 26. Other FY 2015 expenditure changes include debt service savings of $147 million, miscellaneous expense reductions of $174 million and pension contribution reductions of $86 million.[2] Agency spending increases of $589 million partially offset these reductions.

Many of the expense reductions which affected the FY 2015 gap also reduced gaps in the outyears. Consequently, the gaps, in FYs 2016 and 2017 were reduced from $1.769 billion and $1.382 billion, respectively, to $1.472 billion and $951 million.

Risks and Offsets

While the City's FY 2014 budget is balanced, the Comptroller's Office has identified net risks which, if realized, could result in a gap of $2.988 billion. The risk to the FY 2014 budget stems primarily from the absence of funding for wage increases for employees in the United Federation of Teacher's (UFT) and Council of School Supervisors and Administrators (CSA) for the 2008 – 2010 round of collective bargaining. As discussed in "Labor" beginning on page 29, during that round of collective bargaining all other municipal unions settled for two-year contracts with increases of 4.0 percent at the beginning of the first and second year of the contract. If the UFT and CSA were to be awarded similar raises it would cost the City $3.495 billion in FY 2014 to fund these increases in FY 2014, including retroactive cost. Other risks to the FY 2014 budget that have been identified include estimates of overtime spending and Medicaid reimbursement in the Department of Education (DOE). However, these risks

[2] The reduction in pension contributions is from the phase-in of FY 2013 pension investment returns above the actuarial interest rate assumption of seven percent as discussed in "Pensions" beginning on page 25.

are more than offset by the Comptroller's Office's higher tax revenue projections as shown in Table 6.

Table 6. Risks and Offsets to the November 2013 Financial Plan

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
City Stated Gap	**$0**	**$0**	**($1,472)**	**($951)**
Tax Revenues				
Property Tax	$0	$29	$108	$342
Personal Income Tax	$528	$213	$283	$362
Business Taxes	$96	($8)	$41	($37)
Sales Tax	$88	$73	$143	$174
Real-Estate Related Taxes	$12	$131	$42	($25)
Subtotal	**$724**	**$438**	**$617**	**$816**
Federal and State Actions	**$0**	**($200)**	**($200)**	**($200)**
Expenditures				
UFT/CSA Collective Bargaining	($3,495)	($900)	($900)	($900)
Overtime	($150)	($100)	($100)	($100)
DOE Medicaid Reimbursement	($80)	($100)	($100)	($100)
Judgments and Claims	$13	$24	$60	$96
Subtotal	**($3,712)**	**($1,076)**	**($1,040)**	**($1,004)**
Total Risk/Offsets	**($2,988)**	**($838)**	**($623)**	**($388)**
Restated (Gap)/Surplus	**($2,988)**	**($838)**	**($2,095)**	**($1,339)**

Risks to the Financial Plan estimates extend into the outyears of the Plan. Similar to FY 2014, the risks to the outyears stem primarily from the absence of funding for wage increases for UFT/CSA employees for the 2008 – 2010 round of collective bargaining. In addition, as discussed in "Federal and State Aid" beginning on page 23, the Comptroller's Office estimates that, beginning in FY 2015, the City could face a shortfall of $200 million in Federal and State aid due to the impact of potential Federal and State budget actions that are not currently reflected in the November Plan. The outyear risks net to $838 million in FY 2015, $623 million in FY 2016 and $388 million in FY 2017.

The November Plan includes the assumption of revenues from the sale of 2,000 taxi medallions over the course of the Plan period. The Plan assumes that these sales would generate $364 million in FY 2014, $481 million in FY 2015, $360 million in FY 2016, and $400 million in FY 2017. Based on the result of the recent sale of 200 medallions which netted approximately $227 million, and with another sale of 200 medallions scheduled for March 2014, the City should be able to achieve its FY 2014 target. However, the sale of the remaining 1,600 medallions is contingent upon the submission to and approval by the State of a Disabled Accessibility Plan (DAP). The City has yet to submit a DAP to the State. If the Plan revenues from medallion sales are to be realized in the outyears, the incoming administration will need to develop, submit and obtain approval in a timely fashion. The Comptroller's Office will be in a better position to comment on the outyear medallion revenues when the new administration releases the City's FY 2015 Preliminary Budget.

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IV. Revenue Assumptions

The November Financial Plan assumes that total City revenues will increase at an average annual rate of 2.1 percent between FYs 2014 and 2017, growing from $72.71 billion in FY 2014 to $77.39 billion in FY 2017. The current Plan reflects the City's assumption that the national and local economies will continue to expand at a modest pace. Tax revenues are expected to increase from $45.84 billion in FY 2014 to $51.74 billion in FY 2017, growing from 63 percent of total revenues in FY 2014 to 67 percent by FY 2017. Property tax revenues are projected to grow from $19.83 billion in FY 2014 to $22.26 billion in FY 2017, while non-property tax revenues are expected to grow from $26 billion in FY 2014 to $29.48 billion in FY 2017.

Miscellaneous revenue, excluding intra-City revenue, is expected to decrease slightly from $5.57 billion in FY 2014 to $5.17 billion in FY 2017. The miscellaneous revenue forecast includes a combined $1.6 billion in revenues the City expects to realize from the sale of 2,000 taxi medallions in FYs 2014 through 2017. However, the sale of any more than 400 medallions is contingent upon State approval of a Disabled Accessibility Plan (DAP), which the City is required to develop in order to sell the remaining 1,600 medallions.

Total Federal and State aid is projected at $19.89 billion in FY 2014. The November Plan reflects an additional $1.62 billion in Federal aid primarily from the roll of unspent FY 2013 Federal grants into the current year, a process that normally takes place in the November Plan. The Plan assumes that Federal and State aid will decline to $18.34 billion in FY 2015 before rising modestly to $18.64 billion in FY 2016 and $19.16 billion in FY 2017. This trend mainly reflects the City's expectation of education aid increases from the State in the outyears.

Tax Revenues

The City's FY 2014 tax revenue forecast increased by a net $527 million from $45.31 billion to $45.84 billion in the November Financial Plan. The revision is primarily the result of an increase in projected personal income tax (PIT) and real-estate-related tax revenues. FY 2014 revenue projections for the property tax, business tax and sales tax also increased slightly. The City made no changes to its tax revenue forecasts in the outyears of the Financial Plan period. [3]

Changes from Adopted Budget

As Table 7 shows, the City increased all major FY 2014 tax revenue projections from the levels estimated in June. The City's projections for the PIT and real-estate-related tax revenues increased by $155 million and $240 million respectively in the

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

November Financial Plan. The current tax revenue forecast reflects higher than previously expected collections for the first four months of the fiscal year.

Table 7. Revisions to the City's Tax Revenue Assumptions

($ in millions)

	FY 2014
November Modification – Total	**$45,841**
Revisions:	
Property	40
Personal Income (PIT)	155
Business	50
Sales	47
Real-Estate Related	240
All Other	(6)
Tax Audit	1
Revisions-Total	**$527**

SOURCE: Office of Management and Budget.

Projected Tax Revenue Growth, City Forecast, FYs 2014-2017

The City projects sluggish growth in tax revenue in FY 2014, growing by a mere 0.3 percent on a year-over-year basis. The slow growth reflects an expected decline in non-property tax revenue collections led by a projected 8.6 percent drop in PIT revenue. The City's forecast assumes that non-wage income will decline as taxpayers sought to minimize the effects of the 2013 increase in the top capital gain tax rate. Weakness in non-property tax revenue is offset by a projected 4.6 percent increase in property tax revenue in FY 2014.

The Financial Plan assumes that total tax revenue will increase 4.4 percent in FY 2015, 4.1 percent in FY 2016 and 3.9 percent in FY 2017, averaging 3.1 percent annual growth over the Plan period as shown in Table 8. These increases are consistent with the City's assumption of moderate economic growth in the outyears of the Plan.

Table 8. City's Tax Revenue Forecast, Growth Rate, FYs 2014 – 2017

	FY 2014	FY 2015	FY 2016	FY 2017	Average Annual Growth
Property	4.6%	3.6%	4.6%	3.6%	4.1%
PIT	(8.6%)	8.4%	3.6%	3.2%	1.5%
Business	(1.4%)	3.7%	2.7%	4.9%	2.5%
Sales	3.9%	3.5%	3.6%	3.9%	3.7%
Real-Estate-Related	13.4%	1.0%	9.5%	9.7%	8.3%
All Other	(0.3%)	3.6%	3.0%	2.3%	2.1%
Tax Audit	(29.6%)	(0.1%)	0.0%	0.0%	(8.4%)
Total With Audit	**0.3%**	**4.4%**	**4.1%**	**3.9%**	**3.1%**

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

The Financial Plan assumes that real property tax revenue will grow by 4.6 percent in FY 2014 to $19.83 billion. This growth rate reflects a 5.7 percent growth in the tax levy over FY 2013. In the outyears, property tax revenue growth is expected to remain steady. Although the City anticipates that higher capitalization rates due to an expected rise in long-term interest rates will slow down growth in the market values of

Class 2 and 4 properties in the outyears, the pipeline of assessed value increases to be phased-in is expected to counteract the effects of weak anticipated growth in market values for those classes. Over the Plan period, property tax revenue growth is projected to average 4.1 percent annually.

After growing by nearly 15 percent in FY 2013, PIT revenue is expected to drop by 8.6 percent in FY 2014 to $8.9 billion. The large decline from the prior year is mostly due to an anticipated reverse effect in non-wage income as taxpayers shifted their capital gains realizations and tax payments from tax year 2013 into tax year 2012 to take advantage of a more favorable federal long-term capital gains tax rate. PIT withholding is expected to grow moderately in FY 2014. The City anticipates growth in employment and wages will offset weakness in Wall Street bonus payouts. PIT revenue is forecast to rebound in FY 2015 and grow steadily in FYs 2016-2017 reflecting the City's expectation of continued recovery in the national and local economies. Average PIT revenue growth over the Plan period is expected to be 1.5 percent annually.

Estimated FY 2014 revenues from business income taxes are forecast to decline 1.4 percent from the FY 2013 level to a combined $5.8 billion. The net decline is driven by an anticipated 4.0 percent fall in Banking Corporation Tax (BCT) revenues and a 2.9 percent fall in General Corporation Tax (GCT) revenues. The combination of the gradual withdrawal of government support from the financial system, tighter government regulations, and an expected decline in Wall Street profits is expected to have a negative impact on BCT collections in the current fiscal year. Lower anticipated Wall Street profitability is also expected to impact tax payments from non-bank finance sector firms, dampening GCT growth in FY 2014. Overall growth in business tax revenues is expected to rebound to 3.7 percent in FY 2015, averaging 2.5 percent annually in FYs 2014 through 2017.

The City projects sales tax revenue will grow 3.9 percent in FY 2014 to $6.4 billion. Sales tax revenue continues to benefit from a robust tourism industry. In 2012, according to the City's tourism agency, a record 52 million people visited the City and generated an estimated $3.3 billion in total city taxes. The City expects taxable consumption to continue to grow moderately in the outyears supported by gradual growth of income and employment as well as continued strength in the tourism sector. The November Plan assumes revenue growth from the sales tax will average 3.7 percent annually in FYs 2014 through 2017.

Real-estate-related tax revenues, which include revenues from the real property transfer tax and the mortgage recording tax, are expected to grow by a healthy 13.4 percent in FY 2014, to $2.1 billion. The current year's growth projection reflects strong demand for housing and commercial real estate. With higher property values and low interest rates, commercial property sales in New York City surged in calendar year 2012 and are expected to continue to rise in the coming years. The rebound in the City's real estate market is supported by strong foreign demand. Real-estate-related taxes are projected to grow at an average annual rate of 8.3 percent over the Plan period.

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's Office projections of risks and offsets to the City's tax revenue assumptions are based on current year collections and the Office's economic projections. As illustrated in Table 9, for FY 2014 the Comptroller's Office forecasts an offset of $724 million to the City's overall tax revenue estimates. Most of this offset is attributed to an estimated $528 million offset in PIT revenues. The Comptroller's Office has not changed its forecast of PIT revenues from that presented in its July report on the adopted budget. During the first four months of FY 2014, PIT revenues were about $155 million above Plan levels and the months with the historically largest collections remain ahead. Stock prices have also advanced approximately 6.0 percent since the Comptroller's July report, further suggesting that the decrease in capital gains realizations will not be as large as the City initially projected.

For FYs 2015 through 2017, the Comptroller's Office projects tax revenue offsets to grow from $438 million to $816 million. The Comptroller's higher forecasts for most major tax revenue categories stems from the belief that growth in the local economy in the outyears of the Plan period will be somewhat more robust than the City anticipates. Large offsets in the real property tax revenue forecast in the final two years of the Plan are due primarily to the Comptroller's more optimistic forecast of commercial property value appreciation.

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

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Property	$0	$29	$108	$342
PIT	528	213	283	362
Business	96	(8)	41	(37)
Sales	88	73	143	174
Real-Estate Related	12	131	42	(25)
Total	**$724**	**$438**	**$617**	**$816**

Miscellaneous Revenues

The FY 2014 miscellaneous revenue forecast increased by $575 million to $5.57 billion in the November Plan.[4] As shown in Table 10, the increase is due to a $547 million increase in the "other miscellaneous" category, the result of a number of additional revenue sources the City identified since the June Plan. The November Plan assumes an additional $214 million resulting from the sale of two city-owned buildings as part of the administration's goal of reducing agency office space. The revenue increase also includes $116 million in refunds of prior year expenses and other refunds, $47 million in revenues from uncashed payroll checks issued between 1996 and 2006, $50 million from a settlement agreement with Verizon related to the delays on the new 911 calling system, and $58.1 million in additional proceeds from asset sales.

[4] Miscellaneous revenue analysis excludes private grants and intra-City revenues.

The November Plan increase in miscellaneous revenue also includes an additional $64 million in revenues from the sale of taxi medallions in FY 2014 and an additional $81 million in FY 2015, raising the total revenue projection from taxi medallion sale to $364 million in FY 2014 and $481 million in FY 2015. The initial phase of a planned sale of up to 2,000 medallions over the next several years took place in November. The City auctioned the first 200 of the 400 medallions scheduled to be auctioned in the current fiscal year. The auction, which was restricted to corporate medallions for wheelchair-accessible vehicles, raised approximately $227 million. The City expects the auction of the remaining 200 medallions to take place in March and to include corporate and individual medallions.[5] Over the Financial Plan period, the City expects to collect $1.6 billion from the sale of taxi medallions.

Table 10. Changes in FY 2014 Estimates
November 2013 vs. June 2013

($ in millions)

	November	June	Change
Licenses, Franchises, Etc.	$578	$584	($6)
Interest Income	13	10	3
Charges for Services	921	909	12
Water and Sewer Charges	1,538	1,514	24
Rental Income	292	292	0
Fines and Forfeitures	811	816	(5)
Other Miscellaneous	1,413	866	547
Total	**$5,566**	**$4,991**	**$575**

Source: NYC Office of Management and Budget.

Other forecast changes to the City's miscellaneous revenue budget in the November Plan were minor; the City lowered its forecast for licenses and franchises and fines and forfeitures by $6 million and $5 million respectively. Projected revenues from charges for services increased by $12 million to reflect reimbursement income.[6]

The FY 2014 miscellaneous revenue estimate includes $900 million in nonrecurring revenues, comprising 16.2 percent of the total $5.57 billion miscellaneous revenue projection, this includes nearly $370 million in asset sales and $364 million in revenues from taxi medallion sales.

Federal and State Aid

The November Plan projects Federal and State aid of $19.89 billion for FY 2014, an increase of $1.64 billion over the Adopted Budget. The bulk of this increase, about $1.62 billion, is recognized under Federal aid. The change mainly reflects unspent grants

[5] In the first auction in November corporate medallions, which are sold in pairs, averaged $1.13 million per unit. The City anticipates individual medallion units to be auctioned in March will average approximately $550,000 per unit.

[6] Water and sewer revenues of the City consist of two parts: reimbursement for operation and maintenance (O&M) of the water delivery and sewer systems and rental payments from the Water Board for the use of the City's water supply, distribution and treatment plant. The bulk of these revenues represents reimbursement for O&M and therefore is not available for general operating purposes.

being rolled forward from the previous year, a standard procedure that typically occurs in the first quarter budget modification each fiscal year. This total includes over $959 million of Community Development Block Grants primarily designated for disaster recovery purposes. The remainder of the changes are scattered across various functions with concentration in homeland security and human services grants. The budget modification reflects a minimal net increase of $21 million in State aid, including an additional $69 million of grants mainly for social services and health that are partly offset by a $48 million decline in education aid.

Over the outyears of the Plan, the City has reflected only marginal changes in Federal and State aid assumptions. The November Plan includes $18.34 billion in Federal and State grants for FY 2015. This represents a net increase of $3 million over the previous projection but is significantly lower than the FY 2014 funding level. The large variance is the result of the aforementioned roll of unspent Federal funds from FY 2013 into the current year. In comparison, Federal and State funds support 27.4 percent of the expense budget in the current year and then decline to 25.2 percent of overall spending in FY 2015. The November Plan projects Federal and State grants to increase to $18.64 billion in FY 2016 and $19.16 billion in FY 2017. While the November Plan shows a rising trend in Federal and State grants in FYs 2015-2017, these funds will begin to support a smaller portion of the City's spending going forward. Federal and State aid will fund 24.4 percent and 24.5 percent of overall spending in FY 2016 and FY 2017, respectively, as growth of the City's expense budget is expected to outpace the growth of these funding sources.

The November Plan estimates for Federal and State aid do not reflect the impact of potential budget actions by either the Federal or State government. The recent failure by Congress to reach a budget resolution led to a shutdown of the Federal government in October. The continuing budget resolutions that Congress eventually adopted to end the shutdown will only fund government operations through the middle of January. Upon the expiration of these continuing resolutions Congress will once again be faced with a potential government shutdown unless an agreement can be reached. It remains unclear what actions Congress will take to end the budget impasse and what impact these actions will have on the City's Financial Plan.[7]

At the State level, the State's recent mid-year financial plan update continues to forecast a FY 2015 operating budget gap of about $1.7 billion, similar to its projection in the first quarter update. Currently it is uncertain as to how the State will close this gap and what affect it will have on the City's budget. The Comptroller's Office estimates that up to $200 million of Federal and State funds to the City are at risk as a result of potential budgetary actions by either entity.

[7] A tentative agreement was reached by budget negotiators on December 10th that could potentially end the deadlock and provide funding for Federal Government operations through Federal FY 2015. The proposed deal, which has not yet been approved by Congress, would eliminate across-the-board reductions and raise Federal spending above targeted caps set forth by sequestration in both Federal FY 2014 and FY 2015. If approved, the magnitude of the risks from Federal budget actions could be less severe than our current estimates.

V. Expenditure Analysis

The November Financial Plan projects City expenditures to grow from $72.705 billion in FY 2014 to $78.344 billion in FY 2017, a growth of 7.8 percent. However, both FYs 2014 and 2015 expenditures are distorted by prepayments which lowered expenditures in both these fiscal years. After adjusting for the effect of prepayments, FYs 2014 and 2015 expenditures total $74.620 billion, and $74.611 billion, respectively. These adjustments reduce the growth in expenditures between FYs 2014 and 2017 to 5.0 percent, or 1.6 percent annually. Spending on debt service, health insurance and judgment and claims account for most of the expenditure growth during the Plan period. These three categories of expenditure are projected to grow by $3.12 billion, or 25.9 percent, between FYs 2014 and 2017. Spending in all other areas is projected to increase by $604 million, or 1.0 percent, as shown in Table 11.

Table 11. FYs 2014 – 2017 Expenditure Growth (Expenditures Adjusted for Prepayments)

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	Growth FYs 14-17	Annual Growth
Debt Service	$6,022	$6,918	$7,414	$7,643	26.9%	8.3%
Health Insurance	5,369	5,628	6,167	6,785	26.4%	8.1%
J & C	663	674	710	746	12.6%	4.0%
Subtotal	**$12,054**	**$13,220**	**$14,290**	**$15,174**	**25.9%**	**8.0%**
Salaries and Wages	$22,054	$22,010	$22,240	$22,555	2.3%	0.8%
Pension	8,190	8,116	8,227	8,395	2.5%	0.8%
Other Fringe Benefits	3,414	3,439	3,533	3,625	6.2%	2.0%
Medicaid	6,365	6,447	6,415	6,415	0.8%	0.3%
Public Assistance	1,387	1,385	1,385	1,391	0.2%	0.1%
Other OTPS	21,155	19,994	20,312	20,789	(1.7%)	(0.6%)
Subtotal	**$62,566**	**$61,390**	**$62,113**	**$63,170**	**1.0%**	**0.3%**
Total	**$74,620**	**$74,611**	**$76,403**	**$78,344**	**5.0%**	**1.6%**

Pension

Pension contributions to the City's five actuarial systems are projected to remain relatively flat over the Financial Plan, increasing modestly from $8.2 billion in FY 2014 to $8.4 billion by FY 2017. The projections in the November Financial Plan include reductions in pension contributions beginning in FY 2015 from higher than expected pension investment return. The FY 2013 pension investments earned a combined return of 12.1 percent on market values compared to the actuarial interest rate assumption (AIRA) of 7.0 percent.[8] The higher than expected returns allow the City to reduce its pension contribution projections by $86 million in FY 2015, $172 million in FY 2016, $258 million in FY 2017. Through October 2013, the pension investments have earned a return of 7.8 percent in FY 2014. Each one percentage point of earnings above or below

[8] Returns above or below the AIRA for a given fiscal year are phased in over a six-year period in conjunction with the Actuary's Actuarial Asset Valuation Methodology (AAVM).

the AIRA will decrease or increase pension expenditures, respectively, by $15 million in FY 2016 increasing to $45 million in FY 2018.

Pursuant to Chapter 96 of the New York City Charter, the Comptroller's Office has engaged Gabriel, Roeder, Smith & Company (GRS) to conduct two consecutive biennial independent actuarial audits. The engagement consists primarily of an audit of employer contributions for FY 2012 and FY 2014 to validate actuarial calculations and methods, an experience study of data through June 30, 2011 and June 30, 2013 to validate actuarial assumptions, and an administrative review of the City's collection and processing of actuarial data. GRS has begun the audit process and is expected to release final reports for the first audit in the later part of FY 2014.

Health Insurance

The November Financial Plan estimates $5.369 billion in FY 2014 for pay-as-you-go health insurance expenses for employees and retirees, a slight decrease from the Adopted FY 2014 Plan. Of this, $1 billion of the retiree health insurance will be paid from the Retiree Health Benefits Trust (RHBT).[9] As shown in Table 12, health insurance expenditures are projected to increase an average of 8.6 percent annually from $5.369 billion in FY 2014 to $6.785 billion in FY 2017.

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

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Department of Education	$2,026	$2,149	$2,365	$2,619
CUNY	56	82	81	81
All Other	2,287	3,397	3,721	4,085
November Plan Expenditure	$4,369	$5,628	$6,167	$6,785
RHBT payment	$1,000	0	0	0
Total Health Expenditures	$5,369	$5,628	$6,167	$6,785

Since the July Financial Plan, the City has lowered the projections of health insurance cost to reflect a smaller increase in the premium rate for FY 2015 than previously estimated. Emblem Health, whose rate determines the City's overall health insurance cost, did not request a rate increase for CY 2014. This results in estimated savings of $21 million in FY 2014, $364 million in FY 2015, $399 million in FY 2016, and $437 million in FY 2017.

Headcount

The November 2013 Financial Plan includes City-funded full-time headcount of 235,458. This is a net increase of 292 from the Adopted Budget estimate of 235,166.

[9] Funds from the RHBT were used to pay retiree health insurance cost of $82 million in FY 2010, $395 million in FY 2011, $672 million in FY 2012, and $1 billion in FY 2013. The corresponding reductions in General Fund expenditures allowed the City partially offset additional pension expenditures that resulted from pension investment returns below the Actuarial Investment Rate Assumption (AIRA) in FY 2008 and FY 2009.

Changes to planned headcount for FY 2014 since Adoption are presented in Table 13. The changes include an additional 118 civilian positions in the Police Department, mostly for communications-system technicians and an additional 116 positions in the Department of Parks and Recreation. These increases are partially offset by decreases including the reduction of 75 uniformed positions in the Department of Sanitation related to the staffing of marine transfer stations.

Table 13. Changes to FY 2014 City-Funded Full-Time Headcount November 2013 Financial Plan vs. Adopted Budget

	Adopted Budget Estimate	Nov. 2013 Financial Plan	Change
Pedagogical			
Dept. of Education	92,809	92,809	0
City University	3,248	3,248	0
Subtotal	**96,057**	**96,057**	**0**
Uniformed			
Police	34,483	34,483	0
Fire	10,779	10,779	0
Correction	8,869	8,873	4
Sanitation	7,194	7,119	(75)
Subtotal	**61,325**	**61,254**	**(71)**
Civilian			
Dept. of Education	9,381	9,381	0
City University	1,756	1,756	0
Police	14,216	14,334	118
Fire	4,940	4,953	13
Correction	1,563	1,586	23
Sanitation	1,983	1,954	(29)
Admin. for Children's Services	6,401	6,399	(2)
Social Services	10,134	10,144	10
Homeless Services	1,959	1,917	(42)
Health & Mental Hygiene	3,336	3,350	14
Finance	1,903	1,909	6
Transportation	1,886	1,883	(3)
Parks and Recreation	3,221	3,337	116
All Other Civilians	15,105	15,244	139
Subtotal	**77,784**	**78,147**	**363**
Total	**235,166**	**235,458**	**292**

As shown in Table 14, headcount is scheduled to decline during the Financial Plan Period to 234,383 in FY 2015, 234,062 in FY 2016 and 233,987 in FY 2017. The reductions in the outyears are driven largely by significant cutbacks at the Department of Social Services, resulting from an ongoing multi-year re-engineering of the agency's operations, which takes advantage of new technology to modernize and streamline operations.

Table 14. City-Funded Full-Time Year-End Headcount Projections

	FY 2014	FY 2015	FY 2016	FY 2017
Pedagogical				
Dept. of Education	92,809	93,103	93,103	93,103
City University	3,248	3,248	3,208	3,208
Subtotal	**96,057**	**96,351**	**96,311**	**96,311**
Uniformed				
Police	34,483	34,483	34,483	34,483
Fire	10,779	10,274	10,274	10,274
Correction	8,873	8,873	8,873	8,873
Sanitation	7,119	7,173	7,265	7,265
Subtotal	**61,254**	**60,803**	**60,895**	**60,895**
Civilian				
Dept. of Education	9,381	8,960	8,961	8,961
City University	1,756	1,724	1,674	1,674
Police	14,334	14,395	14,244	14,244
Fire	4,953	4,940	4,940	4,940
Correction	1,586	1,586	1,586	1,586
Sanitation	1,954	1,992	2,020	2,020
Admin. for Children's Services	6,399	6,399	6,399	6,399
Social Services	10,144	9,549	9,437	9,378
Homeless Services	1,917	1,958	1,958	1,958
Health & Mental Hygiene	3,350	3,338	3,332	3,332
Finance	1,909	1,906	1,901	1,896
Transportation	1,883	1,975	1,975	1,975
Parks and Recreation	3,337	3,240	3,240	3,240
All Other Civilians	15,244	15,267	15,189	15,178
Subtotal	**78,147**	**77,229**	**76,856**	**76,781**
Total	**235,458**	**234,383**	**234,062**	**233,987**

As shown in Table 15, City-funded full-time equivalent (FTE) headcount is expected to total 24,480 in FY 2014, decreasing by 756 in FY 2015 and remaining relatively unchanged for the remainder of the Plan period.

Table 15. City-Funded FTE Year-End Headcount Projections

	FY 2014	FY 2015	FY 2016	FY 2017
Pedagogical				
Dept. of Education	553	553	553	553
City University	1,780	1,780	1,780	1,780
Subtotal	**2,333**	**2,333**	**2,333**	**2,333**
Civilian				
Dept. of Education	12,592	12,592	12,592	12,592
City University	984	984	984	984
Police	1,391	1,376	1,373	1,373
Health & Mental Hygiene	1,266	1,208	1,208	1,208
Parks and Recreation	2,830	2,886	2,886	2,886
All Other Civilians	3,084	2,345	2,345	2,337
Subtotal	**22,147**	**21,391**	**21,388**	**21,380**
Total	**24,480**	**23,724**	**23,721**	**23,713**

Labor

The City's labor contracts with its major municipal unions have expired and members are currently working under expired contracts. The City has proposed terms for a five-year contract for each union which mirrors the 2011 five-year agreement between New York State and the Civil Service Employees Association (CSEA). That agreement included zero wage increases in the first three years and annual raises of 2.0 percent in the last two years of the contract. However, the City's labor reserve reflects the cost of only 1.25 percent annual wage increases beginning in the fourth year of the current round of collective bargaining. A 2.0 percent wage increase in each of the last two years of a five-year contract will cost the City an additional $111 million, including retroactive cost, in FY 2014, $200 million in FY 2015, $325 million in FY 2016, and $410 million in FY 2017.[10]

The Comptroller's Office estimates that if all unions instead agreed to an annual increase of 1.0 percent over the five-year term of the contract, it will cost an additional $1.6 billion, including retroactive cost, in FY 2014, $770 million in FY 2015, $758 million in FY 2016 and $694 million in FY 2017.[11] If the wage increases were linked to inflation, the additional cost would increase to $3.4 billion in FY 2014, $1.9 billion in FY 2015, $2.1 billion in FY 2016, and $2.4 billion in FY 2017.[12]

The labor contracts for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA) are one round behind the contracts of the City's other municipal unions. The City and the unions were unable to reach an agreement in the 2008 – 2010 round after the City proposed a settlement with no wage increases. The other municipal unions had settled for a two-year contract with 4.0 percent increases in the beginning of the first and second year of the contract. The New York State Public Employment Relations Board (PERB) is in the final stage of a fact finding process that was initiated to resolve the deadlock between the UFT and the City. PERB will shortly hold a final hearing on wage increases for UFT members and then issue a report detailing recommendations for a contract resolution. While PERB recommendations are not binding they have served as a framework for final labor contracts with the UFT in the past. A recommendation patterned after the labor agreements of the other municipal unions will cost the City approximately $3.495 billion

[10] $35 million of the FY 2014 cost is retroactive to FY 2013.

[11] $936 million of the additional FY 2014 cost is the cost of retroactive increases for FYs 2010, 2011, 2012, and 2013. If UFT and CSA received wage increases similar to the other unions, a one percent increase over the five-year term of the contract will cost $5 billion in FY 2014, of which $3.5 billion is for retroactive wage increases in FYs 2010, 2011, 2012, and 2013.

[12] $1.9 billion of the FY 2014 cost is the cost of retroactive increase for FYs 2010, 2011, 2012, and 2013. These estimates assume zero increases for UFT and CSA for the previous round of collective bargaining.

in FY 2014, including retroactive cost, and $900 million annually beginning in FY 2015.[13]

Overtime

The FY 2014 overtime projection increased by $64 million in the November Plan to $1.151 billion. Almost two-thirds, or $40 million, of the November Plan increase in overtime expenses was due to an upward revision in the estimate for uniformed overtime at the Fire Department (FDNY). Most of this increase is expected to be funded with additional grants. Even with this increase, the Comptroller's Office estimates that overtime spending could be higher than budgeted by about $150 million in FY 2014, as shown in Table 16.

Table 16. Projected Overtime Spending, FY 2014

($ in millions)

	City Planned Overtime FY 2014	Comptroller's Projected Overtime FY 2014	FY 2014 Risk
Uniform			
Police	$416	$510	($94)
Fire	311	311	0
Correction	69	125	(56)
Sanitation	79	79	0
Total Uniformed	$875	$1,025	($150)
Others			
Police-Civilian	$79	$79	$0
Admin for Child Svcs	15	15	0
Environmental Protection	22	22	0
Transportation	36	36	0
All Other Agencies	124	124	0
Total Civilians	$276	$276	$0
Total City	**$1,151**	**$1,301**	**($150)**

The Plan includes $416 million for uniformed police overtime in FY 2014. The Comptroller's Office expects that, in keeping with past practices, the budget will be revised upwards to reflect actual spending as the fiscal year progresses. The Comptroller's Office projects police uniformed overtime spending will be about $510 million, $94 million higher than the City's overtime estimate for FY 2014.

The Department of Correction's (DOC) current FY 2014 overtime projection of $69 million is significantly below the $126 million average spent over FYs 2011 to 2013. The department has been somewhat successful in recruiting new officers which should result in overtime costs falling below the FY 2013 level of $139 million. As a result, the

[13] The UFT and CSA contracts are one round behind settlements for the other unions. Of the $3.495 billion FY 2014 costs, $2.595 billion is for retroactive wage increase cost in FYs 2010 through 2013.

Comptroller's Office expects FY 2014 uniformed overtime spending in the DOC to exceed the City's estimate by $56 million.

Public Assistance

Through October, the City's FY 2014 public assistance caseload has averaged 350,975 recipients per month. The average monthly caseload has declined by less than one percent, or 2,833 recipients compared with the same period in the prior year. From a historical perspective, the October 2013 public assistance caseload of 350,373 remains well below the peak caseload of 1,160,593 recipients in March 1995. Thus far in FY 2014, public assistance grants spending has averaged nearly $109 million per month, a 2.0 percent decline from the FY 2013 monthly average of approximately $111 million.

The City's FY 2014 public assistance caseload and grants projections remain unchanged in the November Plan. The November Plan continues to project an average caseload of 362,454 over the Plan period. Total baseline grant expenditures are projected at approximately $1.35 billion in each of FYs 2014-2017. While caseload in the current fiscal year is running well below plan estimates, actual welfare grant expenditures are tracking much closer with the City's projections. As a result, the City's budget for public assistance spending appears reasonable and may contain a cushion to mitigate any spike in welfare grant expenditures during the remainder of the fiscal year.

Department of Education

The Department of Education's (DOE) FY 2014 budget was reduced by $60 million in the November Modification, trimming its budget to $19.80 billion. The primary changes in the current year include a $21 million reduction in health insurance costs resulting from lower-than-expected insurance rates and a net decline of $48 million in State support. The State aid adjustments occurred mainly in special education reimbursement, including a $27 million reduction in High Cost/Excess Cost aids and a $15 million decrease for pre-school special education services.

The DOE's FY 2015 budget, as modified in the November Plan, is projected at $20.23 billion. The Department's FY 2015 budget has been reduced by $193 million when compared to the June Plan. A significant portion of the reduction is the result of expected health insurance cost savings, estimated at $144 million in FY 2015. The remainder of the reduction is the result of lower estimates of State aid primarily in transportation and special education reimbursements. The changes presented in the November Plan stand in stark contrast to past years because of the lack of a gap closing program. Over the past three years, the DOE's November Plan included gap closing programs ranging in annualized values of between $298 million and $350 million in first quarter modifications. The absence of City-imposed savings actions signifies a more stable fiscal outlook for the Department in FY 2015 and, more importantly, a significant lower likelihood of major school services disruptions.

Over the final two years of the Plan, the DOE budget is projected to rise to $20.74 billion in FY 2016 and $21.30 billion in FY 2017, reflecting annual increases of

$502 million and $566 million, respectively. State aid would comprise about $684 million or 64 percent of the total growth over this period, with City funds making up the remainder of the increase.

The DOE's November Plan assumes $117 million in Medicaid revenue to be realized in the current fiscal year for reimbursement of special education costs such as speech and occupational/physical therapies. Over the outyears, these Medicaid revenues are expected to rise to $167 million annually. However, the Department only managed to obtain $37 million in Medicaid reimbursements in FY 2012 and $15 million in FY 2013. While the Department has indicated a more expanded effort is underway to improve its Medicaid collections, the targets in the November Plan remain ambitious compared to actual collections. The Comptroller's Office assumes that the DOE will likely face Medicaid revenue risks of $80 million in FY 2014 and $100 million in each of FYs 2015-2017.

Debt Service

As shown in Table 17 below, the November Plan budget for debt service, after adjusting for the impact of prepayments, totals $6.1 billion in FY 2014, $6.99 billion in FY 2015, $7.49 billion in FY 2016 and $7.72 billion in FY 2017.[14] These amounts represent decreases from the June 2013 Financial Plan of $200 million in FY 2014, $143 million in FY 2015, $78 million in FY 2016, and $73 million in FY 2017. Between FY 2014 and FY 2017, total debt service is projected to increase by $1.62 billion, or 26.6 percent. These figures do not include debt of the New York City Municipal Water Finance Authority (NYW), which is backed by water and sewer user charges, nor New York City Transitional Finance Authority Building Aid Revenue Bonds (NYCTFA BARB) debt.

Table 17. November 2013 Financial Plan Debt Service Estimates

($ in millions)

Category	FY 2014	FY 2015	FY 2016	FY 2017	Change from FYs 2014 to 2017
GO[a]	$3,925	$4,403	$4,674	$4,718	$793
NYCTFA [b]	1,772	2,200	2,418	2,613	841
Lease-Purchase Debt	324	316	322	312	(12)
TSASC, Inc.	74	74	75	73	(1)
Total	**$6,095**	**$6,992**	**$7,488**	**$7,716**	**$1,621**

SOURCE: November 2013 Financial Plan.
NOTE: Debt Service is adjusted for prepayments.
[a] Includes long-term GO debt service and interest on short-term notes.
[b] Amounts *do not* include NYCTFA building aid bonds.

The decrease in the FY 2014 debt service budget is comprised of reductions of $180 million in GO and short-term debt service and $20 million in estimated NYCTFA savings. The $180 million decline in GO debt service is comprised of: $90 million from lower interest rate estimates on variable rate debt, $75 million from the elimination of the

[14] Includes GO, NYCTFA PIT bonds, TSASC, as well as interest on short-term notes.

budgeted short-term note borrowing, and $15 million from revised baseline projections as a result of lower than anticipated rates, year-to-date, in new money borrowings combined with miscellaneous baseline changes to debt service. The $20 million reduction in FY 2014 NYCTFA debt service is the net result of $27 million in savings from better than expected interest rates on current year borrowing, offset by a $7 million adjustment for the FY 2013 defeasance transaction's impact on FY 2014.[15]

The $143 million decrease of the budget for debt service in FY 2015 is comprised of GO debt service savings of $97 million, and NYCTFA savings of $46 million. GO savings are comprised primarily of the impact of lower FY 2014 projected borrowing, better than anticipated rates on actual FY 2014 borrowings to date, and $22.6 million of year-to-date refunding savings. Similarly, NYCTFA savings are primarily due to the impact of lower than planned FY 2014 borrowing combined with better than expected interest rates on actual FY 2014 borrowing to date. The Comptroller's Office, together with the Office of Management and Budget (OMB), closely monitors the City's outstanding bonds and market conditions to refinance debt when feasible and cost-effective. Since January 1, 2010, refundings have saved City taxpayers and water and sewer rate payers over $2 billion in budgetary savings.

The decreases in the debt service budget in FYs 2016 and 2017 are the result of the change in borrowing plan along with the continued impact of lower rates on FY 2014 borrowing to date. The overall net decrease of $220 million in GO and NYCTFA planned borrowing over the four-year period results in savings of about $36 million in FY 2016 and $29 million in FY 2017. The balance of the debt service savings of $42 million in FY 2016 and $44 million in FY 2017 comes primarily from lower interest rates in the first half of FY 2014.

While it is still early in the year to predict FY 2014 costs associated with variable rate bonds, the continued low interest rate environment could produce another year of significant savings in the variable rate market. OMB has acknowledged the year-to-date trend in the November Plan with a $90 million reduction in the current year budget for variable rate debt service. Approximately $237 million remains budgeted for variable rate interest debt service and the Comptroller's Office will continue to monitor actual spending and comment further after the release of the January Financial Plan.

Debt Affordability

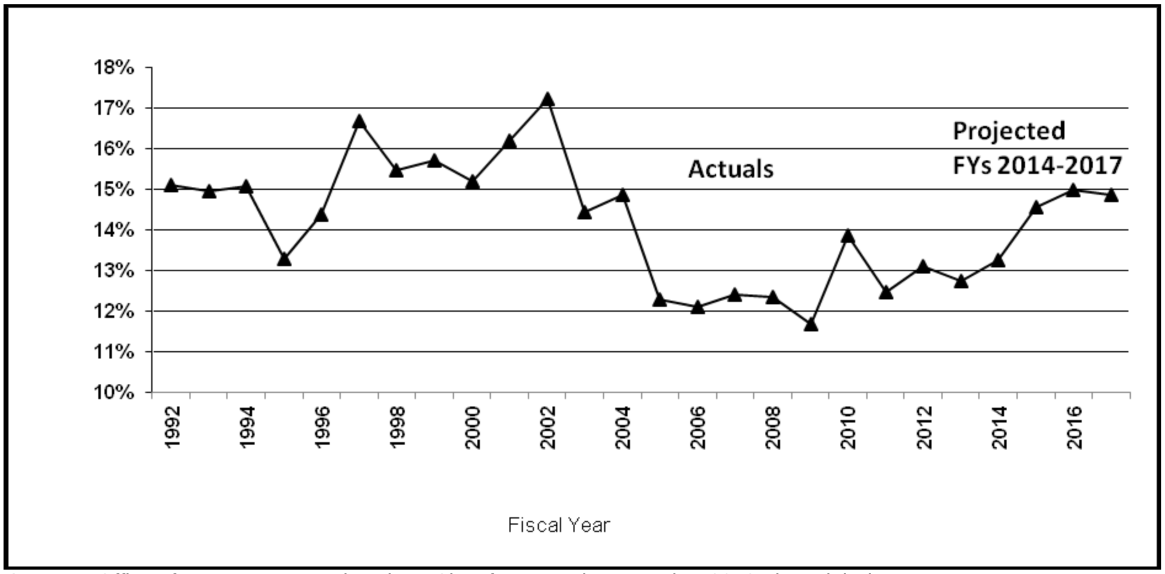
Debt service as a percent of local tax revenues and as a percent of City-funds expenditures are both accepted measures of debt affordability used by rating agencies and government staff alike.[16] In FY 2013, the City's debt service was 12.8 percent of local tax revenues. The November Plan projects debt service will consume 13.3 percent of local tax revenues in FY 2014, 14.6 percent in FY 2015, 15 percent in FY 2016, and 14.9 percent in FY 2017, as shown in Chart 4. The increase in the debt service to tax

[15] In June 2013, the NYCTFA used $196 million to redeem debt coming due in FY 2015 and FY 2016. As a result, interest savings will occur in FYs 2014-2016.

[16] Debt service in this discussion is adjusted for prepayments.

revenue ratio reflects the disparity between debt service and tax revenue growth over the Plan period. Debt service is projected to grow at an average annual rate of 8.2 percent from FYs 2014 to 2017 while tax revenue during this period is projected to grow 4.1 percent annually.

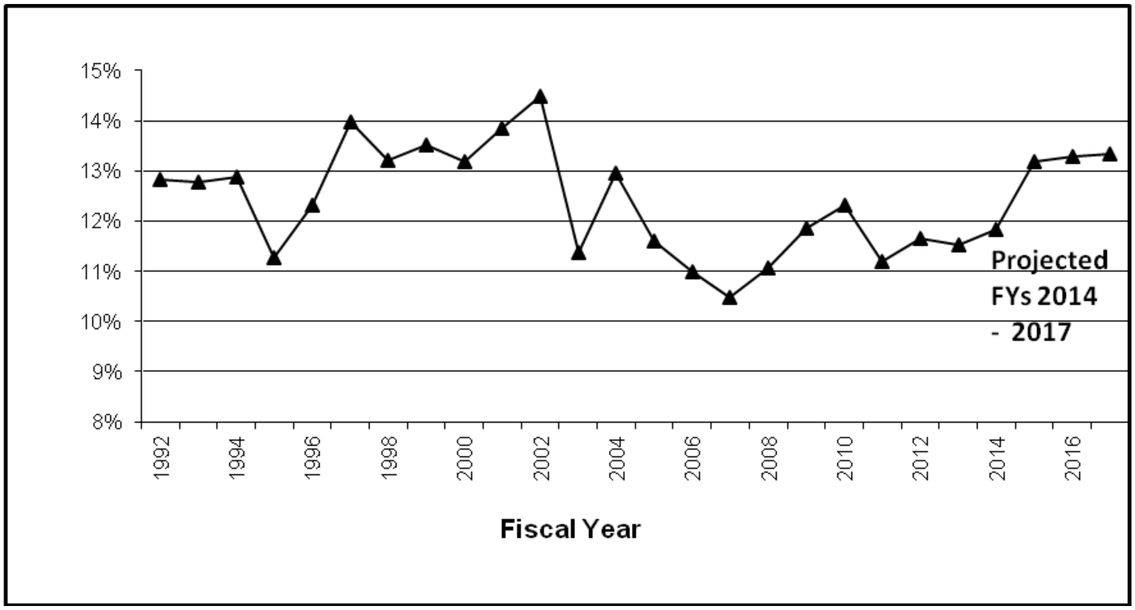
Chart 4. Debt Service as a Percent of Tax Revenues, FYs 1992 – 2017



SOURCE: Office of Management and Budget, City of New York, November 2013 Financial Plan.

Standard and Poor's (S&P) considers a ratio of debt service to general fund expenditures above 15 percent as an indication of a high debt service burden. As shown in Chart 5, the City's debt service to general fund ratio is estimated to be 11.9 percent in FY 2014, 13.2 percent in FY 2015, and 13.3 percent in FYs 2016 and 2017 below, S&P's threshold for a high debt service burden.

Chart 5. NYC Debt Service as a Percent of City-Funds Expenditures



SOURCE: City of New York, Office of the Comptroller, Comprehensive Annual Financial Reports, FYs 1982 – 2013, and NYC Office of Management and Budget, November 2013 Financial Plan. Debt service is adjusted for prepayments.

Financing Program

The November 2013 Financial Plan for FYs 2014-2017 contains $29.82 billion of planned City and State-supported borrowing in FYs 2014-2017 as shown below in Table 18. The borrowing is composed of $9.78 billion of GO bonds, $10.47 billion of NYCTFA Personal Income Tax (PIT) borrowing, $5.37 billion of NYC Water Finance Authority (NYW) borrowing and $4.21 billion of borrowing from NYCTFA Building Aid Revenue Bonds (BARBs) that are supported by State building aid revenues.

Table 18. FY 2014 November Plan, FYs 2014-2017

($ in millions)

Description:	Estimated Borrowing and Funding Sources FYs 2014-2017	Percent of Total
General Obligation Bonds	$9,775	32.8%
NYCTFA – General Purposes	10,465	35.1%
NYC Water Finance Authority	5,369	18.0%
NYCTFA – BARBs	4,213	14.1%
Total	**$29,822**	**100.0%**

SOURCE: November 2013 Financial Plan, Office of Management and Budget.

Total projected borrowing in the November Plan for FYs 2014 through 2017 is $547 million less than the June 2013 Financial Plan estimate. The primary source of the decrease is a $1.29 billion reduction in FY 2014 estimated borrowing, offset by borrowing increases of $242 million in FY 2015, $292 million in FY 2016, and $208 million in FY 2017.

The November Plan assumes a $600 million reduction in NYCTFA BARB borrowing in FY 2014, down from $1.8 billion, in order to better align with its expected capital cash needs. Despite the decrease, NYCTFA BARB's $9.4 billion borrowing limit would be exceeded during the course of FY 2017 according to current projections.

Total-funds borrowing in FY 2014 are projected to reach $7.66 billion, increasing to $8.09 billion in FY 2015, then declining to $7.44 billion in FY 2016 and $6.63 billion in FY 2017. Local tax-supported borrowing (GO and NYCTFA PIT bonds) is estimated to total $4.94 billion in FY 2014, increasing to $5.70 billion in FY 2015, then dropping to $5.08 billion in FY 2016, and $4.52 billion in FY 2017.

Capital Plan

The FYs 2014-2017 Adopted Capital Plan, which was released in October 2013, totals $35.71 billion in all-funds and $26.97 billion in City-funds after adjusting for the reserve for unattained commitments. The administration amended the capital plan in November 2013. The November 2013 Capital Commitment plan is $736 million higher over the four-year period than the October 2013 version of the Plan.[17] The November Capital Commitment Plan includes an additional $314 million in FY 2014, $224 million in FY 2015, $122 million in FY 2016, and $160 million in FY 2017. The Department of Parks alone accounts for $468 million, or 57 percent of the increase.

The November 2013 FYs 2014 – 2017 Capital Plan totals $36.45 billion in all-funds commitments, and $27.70 billion in City-funds commitments over the Plan period, after adjusting for the reserve for unattained commitments, as shown in Tables 19 and 20. The Plan is front-loaded with 44.4 percent or $16.18 billion of the all-funds commitments planned for FY 2014. Estimated commitments decrease in the outyears of the Plan, to $9.51 billion in FY 2015, $5.48 billion in FY 2016, and $5.27 billion in FY 2017.

[17] Although capital commitments increased, OMB did not prepare a formal cash flow for this plan. Per OMB, estimated increases in the City's capital cash flow need are $36 million in FY 2014, $87 million in FY 2015, $118 million in FY 2016, and $131 million in FY 2017. In addition, change from October is presented after reserve for unattained commitments. If the authorized Plan is used, the increase would be $821 million.

Table 19. FYs 2014 – 2017 Four-Year Capital Commitments, All-Funds

($ in millions)

Project Category	FY 2014 November Commitment Plan	Percent of Total
Education & CUNY	$8,822	22.9%
Environmental Protection	7,510	19.5
Dept. of Transportation & Mass Transit	6,324	16.4
Housing and Economic Development	2,995	7.8
Administration of Justice	2,071	5.4
Technology and Citywide Equipment	2,275	5.9
Parks Department	2,444	6.3
Hospitals	1,228	3.2
Other City Operations and Facilities	4,834	12.6
Total	**$38,502**	**100.0%**
Reserve for Unattained Commitments	($2,055)	
Adjusted Total	**$36,447**	

SOURCE: Office of Management and Budget, FY 2014 Capital Commitment Plan, November 2013.

Commitments for capital projects in the DOE and the City University of New York (CUNY), account for $8.82 billion or 22.9 percent of all-funds planned commitments. Other major components of the Plan are the Department of Environmental Protection (DEP) which comprises 19.5 percent of the all-funds planned commitments, Department of Transportation (DOT) and Mass Transit which account for 16.4 percent, and Housing and Economic Development which accounts for 7.8 percent of the Plan.[18] Consistent with prior plans, these four major program areas constitute a majority of the Commitment Plan, with $25.65 billion, or two-thirds of the Plan.

[18] DEP capital commitments are primarily funded through the issuance of Water Finance Authority Debt.

Table 20. FYs 2014 – 2017 Four-Year Capital Commitments, City-Funds

($ in millions)

Project Category	FY 2014 November Commitment Plan	Percent of Total
Environmental Protection	$7,420	24.9%
Education & CUNY	4,855	16.3
Dept. of Transportation & Mass Transit	3,657	12.3
Housing and Economic Development	2,472	8.3
Administration of Justice	1,985	6.7
Technology and Citywide Equipment	2,264	7.6
Parks Department	1,916	6.5
Hospitals	636	2.1
Other City Operations and Facilities	4,550	15.3
Total	**$29,755**	**100.0%**
Reserve for Unattained Commitments	($2,055)	
Adjusted Total	**$27,700**	

SOURCE: Office of Management and Budget, FY 2014 Capital Commitment Plan, November 2013.

The City-funded portion of the Plan totals $27.7 billion over FYs 2014 – 2017. DEP capital projects account for the largest share of the City-funds commitments totaling 24.9 percent of the Plan, followed by DOE and CUNY at 16.3 percent, DOT and Mass Transit at 12.3 percent, and Housing and Economic Development at 8.3 percent. Similar to the all-funds commitments, these four major program areas account for a majority of City-funds commitments representing 62 percent of the City-funds Commitment Plan, as shown in Table 20 above. The significant disparity between the DOE's 16 percent share of the City-funded Capital Plan and its 23 percent of the all-funds Capital Plan reflects the impact of $3.96 billion of State-supported commitments for education between FYs 2014 – 2017. Over 45 percent of all State and Federal capital funding in FYs 2014 – 2017 is allocated for education projects. The planned continuation of $4.2 billion in NYCTFA BARBs borrowing between FYs 2014 – 2017 is directly related to the continuing State support of education capital spending in New York City.[19] The BARBs statutory limit of $9.4 billion, however, will be approached by FY 2017.

Nearly all of DEP's capital projects are funded by the New York Water Finance Authority (NYW), the debt service of which is paid by water and sewer user fees. The remainder of the City-funded capital program is financed by GO and NYCTFA PIT bonds which have their debt serviced by general fund revenues and NYC personal income taxes retained by the NYCTFA.

[19] Debt service payments for BARBs debt are secured by Building Aid revenues provided by the State of New York.

VI. Appendix – Revenue and Expenditure Details

Table A1. *November 2013 Financial Plan Revenue Detail*

($ in millions)

					Change FYs 2014-17	
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	***Dollar***	***Percent***
Taxes:						
Real Property	$19,833	$20,555	$21,491	$22,262	$2,429	12.2%
Personal Income Tax	$8,937	$9,690	$10,042	$10,368	$1,431	16.0%
General Corporation Tax	$2,615	$2,757	$2,866	$3,023	$408	15.6%
Banking Corporation Tax	$1,303	$1,330	$1,340	$1,375	$72	5.5%
Unincorporated Business Tax	$1,858	$1,903	$1,947	$2,056	$198	10.7%
Sale and Use Tax	$6,370	$6,590	$6,829	$7,092	$722	11.3%
Real Property Transfer	$1,253	$1,266	$1,387	$1,515	$262	20.9%
Mortgage Recording Tax	$820	$828	$906	$1,000	$180	22.0%
Commercial Rent	$680	$715	$745	$778	$98	14.4%
Utility	$390	$405	$419	$423	$33	8.5%
Hotel	$521	$536	$560	$576	$55	10.6%
Cigarette	$61	$62	$60	$59	($2)	(3.3%)
All Other	$490	$501	$501	$502	$12	2.4%
Tax Audit Revenue	$710	$709	$709	$709	($1)	(0.1%)
Total Taxes	**$45,841**	**$47,847**	**$49,802**	**$51,738**	**$5,897**	**12.9%**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$578	$578	$588	$592	$14	2.4%
Interest Income	$13	$10	$45	$133	$120	923.1%
Charges for Services	$921	$915	$916	$915	($6)	(0.7%)
Water and Sewer Charges	$1,538	$1,511	$1,536	$1,504	($34)	(2.2%)
Rental Income	$292	$295	$295	$295	$3	1.0%
Fines and Forfeitures	$811	$803	$801	$801	($10)	(1.2%)
Miscellaneous	$1,413	$1,099	$877	$928	($485)	(34.3%)
Intra-City Revenue	$1,710	$1,573	$1,577	$1,578	($132)	(7.7%)
Total Miscellaneous	**$7,276**	**$6,784**	**$6,635**	**$6,746**	**($530)**	**(7.3%)**
Other Categorical Grants	**$888**	**$842**	**$829**	**$825**	**($63)**	**(6.6%)**
Inter-Fund Agreements	**$535**	**$514**	**$514**	**$514**	**($21)**	**(3.8%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
Less: Intra-City Revenue	**($1,710)**	**($1,573)**	**($1,577)**	**($1,578)**	**$132**	**(7.6%)**
TOTAL CITY-FUNDS	**$52,815**	**$54,399**	**$56,188**	**$58,230**	**$5,415**	**10.5%**

Table A1 (Con't). *November 2013 Financial Plan Revenue Detail*

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	Changes FYs 2014-17 Dollar	Changes FYs 2014-17 Percent
Federal Categorical Grants:						
Community Development	$1,179	$230	$219	$219	($960)	(81.4%)
Welfare	$3,227	$3,139	$3,127	$3,123	($104)	(3.2%)
Education	$1,785	$1,798	$1,797	$1,797	$12	0.7%
Other	$1,922	$1,169	$1,149	$1,141	($781)	(40.6%)
Total Federal Grants	**$8,113**	**$6,336**	**$6,292**	**$6,280**	**($1,833)**	**(22.6%)**
State Categorical Grants:						
Social Services	$1,506	$1,469	$1,465	$1,456	($50)	(3.3%)
Education	$8,616	$8,894	$9,181	$9,577	$961	11.2%
Higher Education	$256	$256	$256	$256	$0	0.0%
Department of Health and Mental Hygiene	$472	$456	$456	$456	($16)	(3.4%)
Other	$927	$932	$991	$1,138	$211	22.8%
Total State Grants	**$11,777**	**$12,007**	**$12,349**	**$12,883**	**$1,106**	**9.4%**
TOTAL REVENUES	**$72,705**	**$72,742**	**$74,829**	**$77,393**	**$4,688**	**6.4%**

Table A2. *November 2013 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2014	FY 2015	FY 2016	FY 2017	Change FYs 2014-17	
					Dollars	***Percent***
Mayoralty	$93,556	$87,590	$87,538	$86,957	($6,599)	(7.1%)
Board of Elections	$136,309	$76,486	$76,486	$76,486	($59,823)	(43.9%)
Campaign Finance Board	$71,864	$13,288	$13,288	$13,288	($58,576)	(81.5%)
Office of the Actuary	$6,459	$6,261	$6,263	$6,263	($196)	(3.0%)
President, Borough of Manhattan	$4,327	$2,457	$2,462	$2,462	($1,865)	(43.1%)
President, Borough of Bronx	$5,309	$3,245	$3,245	$3,245	($2,064)	(38.9%)
President, Borough of Brooklyn	$5,928	$2,893	$2,893	$2,893	($3,035)	(51.2%)
President, Borough of Queens	$4,728	$2,866	$2,870	$2,875	($1,853)	(39.2%)
President, Borough of Staten Island	$4,048	$2,303	$2,303	$2,303	($1,745)	(43.1%)
Office of the Comptroller	$82,798	$85,539	$85,978	$86,089	$3,291	4.0%
Dept. of Emergency Management	$60,133	$7,885	$7,891	$7,894	($52,239)	(86.9%)
Office of Administrative Tax Appeals	$4,329	$4,273	$4,273	$4,273	($56)	(1.3%)
Law Dept.	$160,508	$148,448	$142,106	$142,259	($18,249)	(11.4%)
Dept. of City Planning	$21,830	$20,278	$20,290	$20,290	($1,540)	(7.1%)
Dept. of Investigation	$29,351	$17,269	$17,236	$16,724	($12,627)	(43.0%)
NY Public Library - Research	$22,638	$22,622	$22,622	$22,622	($16)	(0.1%)
New York Public Library	$112,108	$112,108	$112,108	$112,108	$0	0.0%
Brooklyn Public Library	$83,649	$83,625	$83,625	$83,625	($24)	(0.0%)
Queens Borough Public Library	$82,931	$82,801	$82,801	$82,801	($130)	(0.2%)
Dept. of Education	$19,778,817	$20,224,848	$20,726,906	$21,293,886	$1,515,069	7.7%
City University	$876,171	$862,438	$851,565	$832,064	($44,107)	(5.0%)
Civilian Complaint Review Board	$11,917	$12,242	$12,242	$12,257	$340	2.9%
Police Dept.	$4,662,534	$4,446,286	$4,433,706	$4,426,727	($235,807)	(5.1%)
Fire Dept.	$1,953,827	$1,709,468	$1,688,946	$1,670,645	($283,182)	(14.5%)
Admin. for Children Services	$2,809,241	$2,815,612	$2,815,612	$2,815,612	$6,371	0.2%
Dept. of Social Services	$9,509,576	$9,556,436	$9,493,388	$9,494,823	($14,753)	(0.2%)
Dept. of Homeless Services	$979,524	$904,362	$904,162	$904,162	($75,362)	(7.7%)
Dept. of Correction	$1,069,640	$1,062,597	$1,063,296	$1,062,745	($6,895)	(0.6%)
Board of Correction	$1,246	$1,235	$1,235	$1,235	($11)	(0.9%)
Citywide Pension Contribution	$8,190,380	$8,115,764	$8,227,137	$8,395,352	$204,972	2.5%
Miscellaneous	$7,046,697	$8,537,277	$9,331,955	$10,319,918	$3,273,221	46.5%
Debt Service	$4,249,202	$4,718,757	$4,995,821	$5,030,068	$780,866	18.4%
N.Y.C.T.F.A. Debt Service	$1,771,940	$2,199,670	$2,417,730	$2,612,740	$840,800	47.5%
FY 2012 BSA & Discretionary Transfers	($30,611)	$0	$0	$0	$30,611	(100.0%)
FY 2013 BSA & Discretionary Transfers	($2,807,170)	$0	$0	$0	$2,807,170	(100.0%)
FY 2014 BSA	$1,770,131	($1,770,131)	$0	$0	($1,770,131)	(100.0%)
Redemption of N.Y.C.T.F.A. Debt Service	($7,240)	($98,800)	($102,670)	$0	$7,240	100.0%)
Public Advocate	$2,255	$1,523	$1,523	$1,523	($732)	(32.5%)
City Council	$51,529	$49,442	$49,442	$49,442	($2,087)	(4.1%)
City Clerk	$4,856	$4,545	$4,545	$4,545	($311)	(6.4%)
Dept. for the Aging	$260,667	$250,864	$245,361	$245,361	($15,306)	(5.9%)
Dept. of Cultural Affairs	$159,173	$148,970	$148,970	$148,970	($10,203)	(6.4%)
Financial Info. Serv. Agency	$92,238	$90,900	$91,400	$91,400	($838)	(0.9%)
Office of Payroll Admin.	$27,929	$27,664	$27,692	$27,722	($207)	(0.7%)
Independent Budget Office	$4,433	$4,355	$4,347	$4,333	($100)	(2.3%)
Equal Employment Practices Comm.	$745	$715	$715	$715	($30)	(4.0%)

Table A2 (Con't). *November 2013 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2014	FY 2015	FY 2016	FY 2017	Change FYs 2014-17 Dollars	Change FYs 2014-17 Percent
Civil Service Commission	$1,040	$1,040	$1,040	$1,040	$0	0.0%
Landmarks Preservation Comm.	$5,068	$5,023	$5,047	$5,047	($21)	(0.4%)
Taxi and Limousine Commission	$65,332	$61,045	$56,545	$43,045	($22,287)	(34.1%)
Commission on Human Rights	$6,374	$6,495	$6,495	$6,495	$121	1.9%
Youth & Community Development	$383,943	$305,564	$278,579	$278,579	($105,364)	(27.4%)
Conflicts of Interest Board	$2,033	$2,033	$2,033	$2,033	$0	0.0%
Office of Collective Bargain	$2,008	$2,001	$2,003	$2,003	($5))	(0.2%)
Community Boards (All)	$15,936	$15,359	$15,361	$15,361	($575)	(3.6%)
Dept. of Probation	$77,360	$75,816	$75,742	$75,727	($1,633)	(2.1%)
Dept. Small Business Services	$457,132	$96,675	$83,903	$83,906	($373,226)	(81.6%)
Housing Preservation & Development	$624,739	$553,460	$552,810	$552,810	($71,929)	(11.5%)
Dept. of Buildings	$107,695	$99,163	$98,569	$98,569	($9,126)	(8.5%)
Dept. of Health & Mental Hygiene	$1,414,357	$1,338,385	$1,332,779	$1,332,649	($81,708)	(5.8%)
Health and Hospitals Corp.	$261,394	$81,074	$81,124	$81,175	($180,219)	(68.9%
Office of Administrative Trials & Hearings	$35,012	$35,014	$35,016	$35,016	$4	0.0%
Dept. of Environmental Protection	$1,522,644	$1,103,115	$1,098,373	$1,051,483	($471,161)	(30.9%)
Dept. of Sanitation	$1,414,599	$1,463,297	$1,461,928	$1,462,352	$47,753	3.4%
Business Integrity Commission	$7,562	$7,192	$7,192	$7,192	($370)	(4.9%)
Dept. of Finance	$244,026	$233,163	$232,528	$232,120	($11,906)	(4.9%)
Dept. of Transportation	$848,974	$768,668	$765,404	$765,404	($83,570)	(9.8%)
Dept. of Parks and Recreation	$380,199	$333,472	$333,121	$333,121	($47,078)	(12.4%)
Dept. of Design & Construction	$123,253	$120,234	$120,234	$120,234	($3,019)	(2.4%)
Dept. of Citywide Admin. Services	$396,523	$360,247	$358,104	$357,575	($38,948)	(9.8%)
D.O.I.T.T.	$370,481	$330,618	$333,827	$332,373	($38,108)	(10.3%)
Dept. of Record & Info. Services	$5,274	$4,863	$4,867	$4,867	($407)	(7.7%)
Dept. of Consumer Affairs	$30,520	$28,160	$28,040	$28,040	($2,480)	(8.1%)
District Attorney - N.Y.	$96,427	$83,749	$83,749	$83,749	($12,678)	(13.1%)
District Attorney – Bronx	$53,855	$51,299	$51,299	$51,299	($2,556)	(4.7%)
District Attorney – Kings	$86,700	$82,748	$82,748	$82,748	($3,952)	(4.6%)
District Attorney – Queens	$52,085	$48,145	$48,145	$48,145	($3,940)	(7.6%)
District Attorney - Richmond	$8,683	$8,530	$8,530	$8,530	($153)	(1.8%)
Office of Prosec. & Spec. Narc.	$17,815	$17,816	$17,816	$17,816	$1	0.0%
Public Administrator - N.Y.	$1,443	$1,363	$1,363	$1,363	($80)	(5.5%)
Public Administrator - Bronx	$557	$491	$491	$491	($66)	(11.8%)
Public Administrator - Brooklyn	$664	$593	$593	$593	($71)	(10.7%)
Public Administrator - Queens	$526	$465	$466	$466	($60)	(11.4%)
Public Administrator - Richmond	$438	$371	$371	$371	($67)	(15.3%)
General Reserve	$150,000	$300,000	$300,000	$300,000	$150,000	100.0%
Energy Adjustment	$0	$17,649	$1,933	$14,146	$14,146	N/A
Lease Adjustment	$0	$38,136	$65,416	$93,514	$93,514	N/A
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$111,038	N/A
TOTAL EXPENDITURE	**$72,705,120**	**$72,741,807**	**$76,300,407**	**$78,344,187**	**$5,639,067**	**7.8%**

Glossary of Acronyms

AAVM	Actuarial Asset Valuation Methodology
AIRA	Actuarial Interest Rate Assumption
ATRA	American Taxpayer Relief Act
BARB	Building Aid Revenue Bonds
BCA	Budget Control Act
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
CSA	Council of School Supervisors and Administrators
CSEA	Civil Service Employees Association
CUNY	City University of New York
CY	Calendar Year
DAP	Disabled Accessibility Plan
DEP	Department of Environmental Protection
DOC	Department of Correction
DOE	Department of Education
DOT	Department of Transportation

FDNY	New York City Fire Department
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
J&C	Judgments and Claims
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYW	Municipal Water Finance Authority
O&M	Operation and Maintenance
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PERB	Public Employment Relations Board
PIT	Personal Income Tax
PS	Personal Services

RHBT	Retiree Health Benefits Trust
S&P	Standard and Poor's
STAR	School Tax Relief
TSASC	Tobacco Settlement Asset Securitization Corporation, Inc.
UFT	United Federation of Teachers
U.S.	United States