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COMMENTS ON NEW YORK CITY'S FISCAL YEAR 2015 ADOPTED BUDGET

JULY 28, 2014

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I. Executive Summary

The FY 2015 Adopted Budget

The City adopted a balanced and responsible FY 2015 Budget. The City strengthened its financial situation by using a significant portion of FY 2014 resources to boost reserves – increasing the General Reserve to $750 million a year, which is approximately one percent of the FY 2015 budget and depositing $864 million into the Retiree Health Benefit Trust (RHBT). That deposit, coupled with the decision in February to not withdraw $1 billion from the RHBT for FY 2014 budget relief, brings the RHBT balance to $2.3 billion.

The new administration's first Adopted Budget with the City Council totals $75.03 billion (all-funds) in FY 2015, an increase of $1.112 billion over the Modified FY 2015 Executive Budget released in May 2014. Almost all of the growth, $1.036 billion, comes from City-funds, which comprises 73 percent of the City's total budget. The increase is due primarily to recognizing the $1 billion payment from the Health Stabilization Fund (HSF) as a revenue source and explicitly recognizing its offsetting labor expenses. This payment, to help offset the cost of wage increases, as agreed upon between the City and the Municipal Labor Committee (MLC), was originally accounted for as an expenditure reduction in the Modified Executive Budget.

In addition to the HSF adjustment, City-funded expenditures in the Adopted FY 2015 Budget are $383 million above the Modified FY 2015 Executive Budget. Funding for City Council priorities accounts for $310 million of the increase, of which $27 million is mayoral funding and $50 million is member items. The City Council, under Speaker Mark-Viverito, changed the process for distributing discretionary Council funding among members, so that members receive equal amounts, with additional funding based on the number of people in poverty in their districts.

An increase to the General Reserve accounts for another $150 million of the FY 2015 spending increase. The increases are offset by additional debt service savings of $134 million from refundings.

City-funds revenues are revised upwards by $1.04 billion from the FY 2015 Modified Executive Budget. Aside from the HSF revenue, all other City-funds revenues for FY 2015 are $36 million above the Modified Executive Budget as a result of $81 million in additional tax revenues and a $42 million decline in miscellaneous revenues, which were realized earlier than expected – in FY 2014 – and a budgeted loss of $3 million in lunch fees from the City Council's free middle school lunch initiative.

After these revenue and expenditure increases, the Budget still had to close a gap of $347 million. That gap was closed by increasing the prepayment of FY 2015 debt service. In the Executive Budget, the City had planned to make prepayments totaling $1.636 billion. The Adopted Budget raised that amount by $347 million, for a total of $1.983 billion.

The June Financial Plan shows a balanced FY 2015 budget and gaps of $2.63 billion, $1.87 billion, and $3.093 billion in FYs 2016, 2017, and 2018, respectively. However, the

Comptroller's Office's analysis of the Financial Plan indicates that FY 2015 could end with a surplus of $748 million, with gaps in the outyears significantly lower than the Mayor's estimates at $1.66 billion in FY 2016, $522 million in FY 2017, and $1.19 billion in FY 2018 – due primarily to the City's more conservative tax revenue forecasts. The Comptroller's Office estimates that total tax revenues could be above the June Plan estimates by $853 million in FY 2015, $959 million in FY 2016, $1.18 billion in FY 2017, and $1.56 billion in FY 2018.

Risks to the City's overtime projections and assumption of Medicaid reimbursement for special education services at the Department of Education (DOE) temper some of the impact of the Comptroller's higher tax revenue forecast. The Financial Plan's expenditure projections do not include the phase-in of the FY 2014 pension investment gains above the actuarial interest rate assumption of 7 percent. This phase-in will lower expenditures beginning in FY 2016 and result in net expenditure risk of $12 million in FY 2016. In FYs 2017 and 2018, the phase-in of the pension investment gains is higher than the combined overtime and Medicaid risk, resulting in a net reduction in spending of $166 million and $344 million, respectively. Overall, the Comptroller's Office estimates net additional resources of $748 million in FY 2015, $961 million in FY 2016, $1.35 billion in FY 2017, and $1.90 billion in FY 2018.

The City's Economy

Despite an unexpected drop in first-quarter GDP, the U.S. economy is forecast to resume moderate growth. National job creation in the first quarter suggested underlying growth momentum and new jobs were added at an even faster pace in the second quarter. Consequently, with the exception of technical adjustments to the 2014 real GDP forecast, the Comptroller's economic forecasts for the nation and the City remain unchanged from the Comptroller's "Comments on New York City's Modified Fiscal Year 2015 Executive Budget", released in June 2014. The Comptroller's revised forecast anticipates that U.S. real GDP will grow by 1.6 percent in 2014 as the poor first quarter performance depresses the year-over-year change. The annualized rate of growth is expected to be closer to 3 percent in the second half of 2014 and through 2015.

The City's economy is forecast to perform slightly better than the national economy in 2014 but should move toward the national rate of growth in the later years of the Plan period. While the City's rate of job creation shows signs of slowing from the impressive pace of recent years, it should remain satisfactory. Residential construction activity picked up significantly in mid-2013 and promises to remain strong barring any unforeseen disruptions in the financial market. Wall Street appears to have begun 2014 with a relatively weak first quarter but short-term performance is volatile and unpredictable. With the immediate risks to U.S. economic growth relatively low, the Comptroller expects the local economy to continue on a path of moderate growth.

The New Administration's Budgeting Priorities

This report examines the cumulative FY 2014 and FY 2015 budget changes from the November Plan, last fall through the Adopted Budget in June. The new administration had $6.4 billion in additional resources when building the FY 2015 budget. The resources include $3.2 billion in higher than forecasted tax revenues, $152 million in non-tax revenues,

$993 million in prior-year payables and $644 million in debt service savings. In addition, the Adopted Budget recognizes $1 billion from the HSF and $400 million in targeted health care savings.

In managing FY 2014 and crafting the FY 2015 budget, the new administration used the $6.4 billion in resources in only a few areas. The budget puts one-third of these new resources into reserves. It utilizes approximately three-quarters of the remaining new resources for costs arising from the resolution of labor contracts and anticipated labor agreements. The new administration with the City Council used the remaining money for mayoral and Council priorities and expense changes.

Table 1. FYs 2015–2018 Financial Plan

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	Changes FYs 2015 – 2018 Dollar	Percent
Revenues						
Taxes:						
General Property Tax	$20,981	$22,086	$23,035	$23,970	$2,989	14.2%
Other Taxes	$26,928	$28,097	$29,055	$29,984	$3,056	11.3%
Tax Audit Revenues	$709	$709	$709	$709	$0	0.0%
Subtotal: Taxes	$48,618	$50,892	$52,799	$54,663	$6,045	12.4%
Miscellaneous Revenues	$8,020	$6,996	$6,988	$6,624	($1,396)	(17.4%)
Less: Intra-City Revenues	($1,797)	($1,822)	($1,825)	($1,830)	($33)	1.8%
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City-Funds	$54,826	$56,051	$57,947	$59,442	$4,616	8.4%
Other Categorical Grants	$809	$876	$872	$867	$58	7.2%
Inter-Fund Revenues	$533	$519	$518	$518	($15)	(2.8%)
Total City & Inter-Fund Revenues	$56,168	$57,446	$59,337	$60,827	$4,659	8.3%
Federal Categorical Grants	$6,458	$6,329	$6,306	$6,293	($165)	(2.6%)
State Categorical Grants	$12,401	$12,820	$13,294	$13,813	$1,412	11.4%
Total Revenues	$75,027	$76,595	$78,937	$80,933	$5,906	7.9%
Expenditures						
Personal Service						
Salaries and Wages	$23,747	$24,668	$24,975	$26,388	$2,641	11.1%
Pensions	$8,595	$8,833	$8,900	$9,408	$813	9.5%
Fringe Benefits	$8,670	$9,039	$9,460	$9,972	$1,302	15.0%
Subtotal-PS	$41,012	$42,540	$43,335	$45,768	$4,756	11.6%
Other Than Personal Service						
Medical Assistance	$6,447	$6,415	$6,415	$6,415	($32)	(0.5%)
Public Assistance	$1,428	$1,407	$1,413	$1,413	($15)	(1.1%)
All Other	$22,640	$22,688	$23,138	$23,671	$1,031	4.6%
Subtotal-OTPS	$30,515	$30,510	$30,966	$31,499	$984	3.2%
Debt Service						
Principal	$2,147	$2,365	$2,306	$2,282	$135	6.3%
Interest & Offsets	$2,323	$2,545	$2,629	$2,720	$397	17.1%
Subtotal Debt Service	$4,470	$4,910	$4,935	$5,002	$532	11.9%
FY 2012 BSA and Discretionary Transfers	$0	$0	$0	$0	$0	N/A
FY 2013 BSA and Discretionary Transfers	$0	$0	$0	$0	$0	N/A
FY 2014 BSA and Discretionary Transfer[a]	($1,983)	$0	$0	$0	$1,983	(100.0%)
NYCTFA Debt Redemption	($99)	($103)	$0	$0	$99	(100.0%)
NYCTFA						
Principal	$765	$915	$1,051	$1,083	$318	41.6%
Interest & Offsets	$1,394	$1,520	$1,596	$1,754	$360	25.8%
Subtotal NYCTFA	$2,159	$2,435	$2,647	$2,837	$678	31.4%
General Reserve	$750	$750	$750	$750	$0	0.0%
	$76,824	$81,042	$82,633	$85,856	$9,032	11.8%
Less: Intra-City Expenses	($1,797)	($1,822)	($1,825)	($1,830)	($33)	1.8%
Total Expenditures	$75,027	$79,220	$80,808	$84,026	$8,999	12.0%
Gap To Be Closed	**$0**	**($2,625)**	**($1,871)**	**($3,093)**	**($3,093)**	**N/A**

[a] FY 2014 BSA and Discretionary Transfer totals $1.983 billion, including General Obligation of $621 million and NYC Transitional Finance Authority of $1.362 billion.

Table 2. June 2014 Plan vs. May 2014 Plan

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018
Revenues				
Taxes:				
General Property Tax	$75	$140	$196	$256
Other Taxes	$6	$6	$6	$6
Tax Audit Revenues	$0	$0	$0	$0
Subtotal: Taxes	$81	$146	$202	$262
Miscellaneous Revenues	$957	$2	$2	$2
Less: Intra-City Revenues	($2)	($2)	($2)	($2)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City-Funds	$1,036	$146	$202	$262
Other Categorical Grants	$48	$39	$40	$39
Inter-Fund Revenues	$6	$6	$5	$5
Total City & Inter-Fund Revenues	$1,090	$191	$247	$306
Federal Categorical Grants	$81	($4)	($4)	($6)
State Categorical Grants	($59)	($84)	($107)	($140)
Total Revenues	$1,112	$103	$136	$160
Expenditures				
Personal Service				
Salaries and Wages	$1,317	$437	$779	$773
Pensions	$241	$388	$354	$685
Fringe Benefits	($388)	($683)	($984)	($1,268)
Retiree Health Benefits Trust	$0	$0	$0	$0
Subtotal-PS	$1,170	$142	$149	$190
Other Than Personal Service				
Medical Assistance	$0	$0	$0	$0
Public Assistance	$0	$0	$0	$0
All Other	$276	($130)	($169)	($189)
Subtotal-OTPS	$276	($130)	($169)	($189)
Debt Service				
Principal	$0	$0	$0	$0
Interest & Offsets	($135)	$0	$0	($1)
Subtotal Debt Service	($135)	$0	$0	($1)
FY 2012 BSA and Discretionary Transfers	$0	$0	$0	$0
FY 2013 BSA and Discretionary Transfers	$0	$0	$0	$0
FY 2014 BSA and Discretionary Transfer	($347)	$0	$0	$0
NYCTFA Debt Defeasance	$0	$0	$0	$0
NYCTFA Debt Service				
Principal	$0	$0	$0	$0
Interest & Offsets	$0	$0	$0	$0
Subtotal NYCTFA	$0	$0	$0	$0
General Reserve	$150	$150	$150	$150
	$1,114	$162	$130	$150
Less: Intra-City Expenses	($2)	($2)	($2)	($2)
Total Expenditures	$1,112	$160	$128	$148
Gap To Be Closed	**$0**	**($57)**	**$8**	**$12**

Table 3. Change from June 2014 Financial Plan

($ in millions)

	FY 2015	FY 2016	FY 2017
Revenues			
Taxes:			
General Property Tax	$426	$595	$773
Other Taxes	$345	$495	$288
Tax Audit Revenues	$0	$0	$0
Subtotal: Taxes	$771	$1,090	$1,061
Miscellaneous Revenues	$1,403	$372	$253
Less: Intra-City Revenues	($236)	($257)	($259)
Disallowances Against Categorical Grants	$0	$0	$0
Subtotal: City-Funds	$1,938	$1,205	$1,055
Other Categorical Grants	($35)	$45	$45
Inter-Fund Revenues	$18	$4	$3
Total City & Inter-Fund Revenues	$1,921	$1,254	$1,103
Federal Categorical Grants	$165	$52	$33
State Categorical Grants	$354	$352	$362
Total Revenues	$2,440	$1,658	$1,498
Expenditures			
Personal Service			
Salaries and Wages	$1,576	$2,248	$2,221
Pensions	$269	$309	$122
Fringe Benefits	($817)	($1,112)	($1,434)
Subtotal-PS	$1,028	$1,445	$909
Other Than Personal Service			
Medical Assistance	$0	$0	$0
Public Assistance	$43	$22	$22
All Other	$1,464	$1,006	$998
Subtotal-OTPS	$1,507	$1,028	$1,020
Debt Service			
Principal	($174)	$51	$47
Interest & Offsets	($172)	($173)	($178)
Subtotal Debt Service	($346)	($122)	($131)
FY 2014 BSA and Discretionary Transfer	($1,841)	$0	$0
NYCTFA Debt Defeasance	($1)	($5)	$0
NYCTFA Debt Service	$0	$0	$0
Principal	($87)	($29)	$72
Interest & Offsets	$1	$4	($74)
Subtotal NYCTFA	($86)	($25)	($2)
General Reserve	$450	$450	$450
	$711	$2,771	$2,246
Less: Intra-City Expenses	($236)	($257)	($259)
Total Expenditures	$475	$2,514	$1,987
Gap To Be Closed	**$1,965**	**($856)**	**($489)**

Table 4. Risks and Offsets to the FY 2015 Adopted Budget and the FYs 2015-2018 Financial Plan

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

	FY 2015	FY 2016	FY 2017	FY 2018
City Stated Gap	**$0**	**($2,625)**	**($1,871)**	**($3,093)**
Tax Revenues				
Property Tax	$0	$250	$314	$515
Personal Income Tax	$622	$618	$686	$808
Business Taxes	($28)	($56)	$10	$32
Sales Tax	$0	$40	$52	$63
Real-Estate-Related Taxes	$259	$107	$114	$137
Subtotal	**$853**	**$959**	**$1,176**	**$1,555**
Speed Camera Revenues	**$28**	**$14**	**$7**	**$0**
Expenditures				
Overtime	($73)	($100)	($100)	($100)
DOE Medicaid Reimbursement	($50)	($80)	($80)	($80)
Cost of Fair Hearings	($10)	($10)	($10)	($10)
Pension Investment Earnings	$0	$178	$356	$534
Subtotal	**($133)**	**($12)**	**$166**	**$344**
Total (Risks)/Offsets	**$748**	**$961**	**$1,349**	**$1,899**
Restated (Gap)/Surplus	**$748**	**($1,664)**	**($522)**	**($1,194)**

II. The New Administration's Early Budget Priorities – Crafting the Fiscal Year 2015 Budget

The City's Four-Year Financial Plan is crafted incrementally throughout the year. Changes to the current fiscal year and the outyears build in each of the plans, which are generally released in: October/November, January/February, April/May, culminating in the adopted budget in June, for the new fiscal year beginning July 1st. The FY 2015 Adopted Budget marks the inaugural budget of the new administration with the City Council. Below is a cumulative overview of the major changes since the release of the November 2013 Plan, which reflected the state of the FY 2014 and FY 2015 budgets inherited by the new administration upon inauguration in January.

The November Financial Plan for FYs 2014 – 2018 inherited by the new administration was balanced for the ensuing fiscal year of FY 2015. However, the Plan balanced FY 2015 by using $1 billion from the Retiree Health Benefits Trust (RHBT) and had an unrealistically low labor reserve. It assumed no wage increases for the unions who did not reach labor agreements in the prior round of collective bargaining and three years of no raises, followed by assumed raises of 1.25 percent for the current round of collective bargaining.

The new administration's first budget priority was to fund the expansion of Universal Pre-Kindergarten (UPK) and afterschool programs for middle school students. While the programs were initially funded in the budget with expected revenue from a personal income tax surcharge, ultimately, the adopted budget utilizes a dedicated state revenue stream of $300 million to fund UPK expansions and uses a portion of the annual increase in State Foundation Aid to pay for the afterschool expansion for middle school students.

Looking at this year's budget process, the most significant change was the inclusion of additional expenses related to the resolved and anticipated labor contract resolutions, which removed the uncertainty within the financial plans released from FY 2010 until the FY 2015 Executive Budget.

On May 1, 2014, the administration and the United Federation of Teachers (UFT) reached a tentative agreement on a nine-year contract. The settlement with the UFT was used as the assumed pattern for the outstanding labor contracts in budgeting new labor contract costs. The Modified Executive Budget and accompanying Financial Plan, released on May 21, 2014 included net costs resulting from the UFT agreement and assumed net costs of settling other pending labor contracts of $5.65 billion between FYs 2014 – 2018. The combined increase in budget expenditures to FY 2014 and FY 2015 for labor settlements is $2.95 billion. However, after factoring in the HSF withdrawal and the budgeted healthcare savings target for FY 2015, the net impact to FY 2014 and FY 2015 is a combined $1.55 billion.

$6.4 Billion of Additional Resources

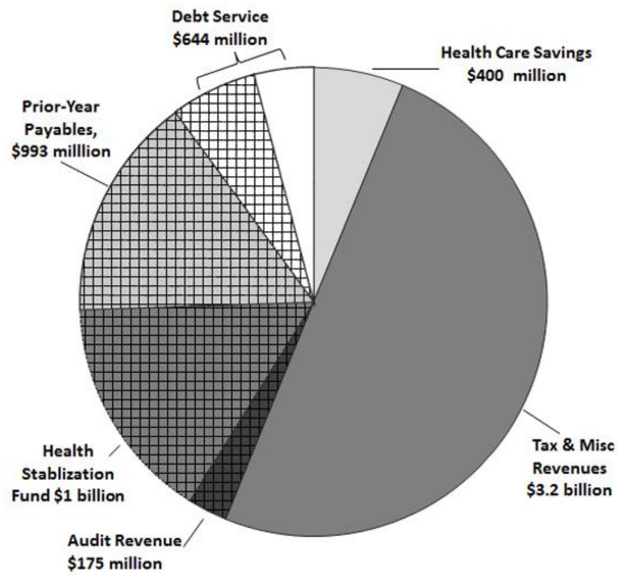
A broad look at the combined changes to FY 2014 and FY 2015 as the budget year progressed shows a fiscal situation that kept improving. Because the City annually utilizes a prepayment to roll funds from the current fiscal year into the next, additional resources in FY 2014 alleviated financial pressures for FY 2015. Looking at the two fiscal years together, there was a cumulative total of $6.4 billion in additional City-funds resources for FY 2014 and FY 2015 available to the administration when crafting the FY 2015 budget. The largest resource was $3.2 billion in higher than forecasted tax revenues and $152 million more in miscellaneous revenues and fees and fines. Other realized resources were $644 million in debt service savings and $993 million in reduction of prior-year payables (a downward adjustment made to estimated payments related to prior-year obligations). Lastly, the Budget recognizes $1 billion in revenue from the Health Stabilization Fund (HSF) and assumes $400 million in healthcare savings. More than one-third of those resources accumulated since FY 2008.

The new administration began the FY 2015 budget cycle in a period of economic stability. Although the national economy has not returned to the rapid growth and prosperity of the 1990s, there has been a slow and steady recovery from the financial crisis and “Great Recession.” After several years of strong employment growth and rebounding property markets, the City’s tax revenue growth is once again approaching its historic norms. That growth, coupled with a long standing practice of conservative tax revenue forecasting, enabled the administration to make use of $3.2 billion in higher than forecasted tax revenues – the two largest increases being $1.3 billion more in Personal Income Tax (PIT) and $817 million more in Property Tax revenues.

In crafting the budget, the administration used the $6.4 billion in resources in a few ways. First, the administration conservatively restricted spending by putting aside more than one-third, $2.2 billion, in trust or reserve. The Budget adds $1.9 billion to the Retiree Health Benefit Trust (RHBT) and increases the FY 2015 General Reserve by $450 million for a total of $750 million, offset by a reduction of $110 million in the FY 2014 General Reserve.

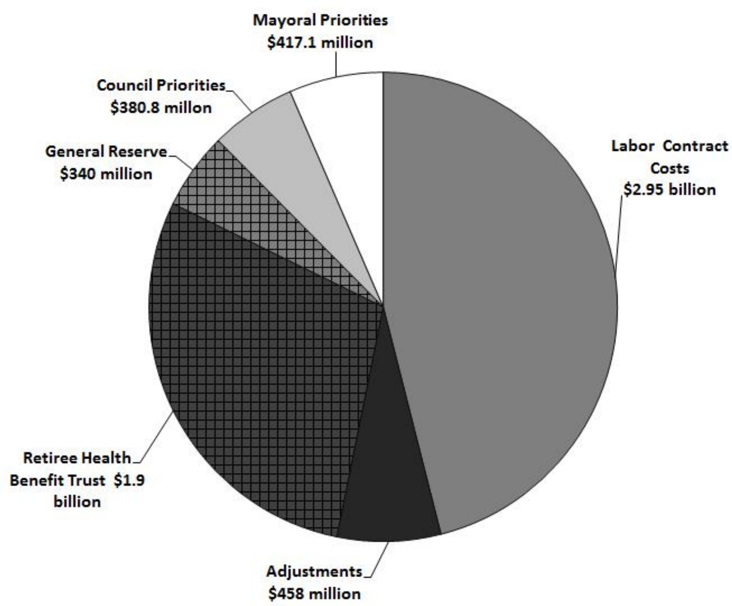
Of the remaining $4.2 billion in new resources, nearly three-quarters, $2.95 billion is budgeted for costs arising from settled and anticipated labor contracts. With the remaining $1.25 billion, the Budget uses resources of $798 million for mayoral and Council priorities comprised of: $380.8 million in Council initiatives and $417.1 million in mayoral initiatives. One of the largest mayoral initiatives was to relieve NYCHA of $123 million for security costs provided by New York City Police Department (NYPD). The funding was added as an expense to the NYPD’s budget. Other City-funded mayoral priorities include funding for the Vision Zero traffic safety initiative, expanded mental health services for inmates and increased personnel in correctional facilities and the Municipal ID program. In addition to the $798 million for mayoral and Council initiatives, another $458 million was used to fund expense increases such as $97 million for snow removal and $66 million in pension costs.

Chart 1. Sources of Additional $6.4 Billion in Resources



**Solid-colors represent resources accumulated under the current administration. Hatched-colors represent resources accumulated from prior years.*

Chart 2. Uses of the $6.4 Billion



**Solid-colors represent resources allocated for FYs 14-15 expenses and hatched-colors represent resources reserved for future expenses.*

Table 5. Mayoral Priorities

Fiscal Years 2014 and 2015	(in millions)
Major Initiatives	**$263.5**
NYCHA	*$138.6*
Correctional Health	*$31.5*
Vision Zero	*$61.7*
Expanded Arts Education	*$23.0*
Municipal ID	*$8.8*
Health, Housing and Social Services	**$79.1**
HASA Rent Cap, Summer Youth Employment, Earned Sick Time Act	
Public Protection	**$21.3**
Anti-Gun Violence, Inspector General, Collaborative Policing	
Education	**$50.1**
Teacher Evaluation - Probation Reassignment, English Language Learners, Stem Support	
Transportation & Small Business Services	**$3.1**
Rockaway Ferry Service, M/WBE Capacity Building	
CUMULATIVE TOTAL	**$417.1**

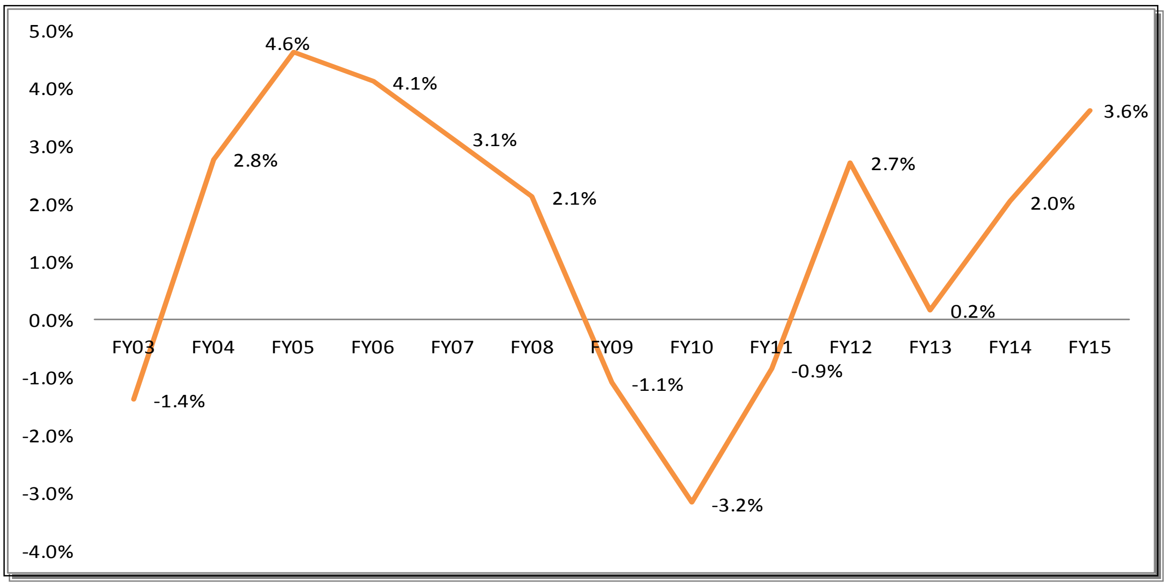
Table 6. Council Priorities

Fiscal Year 2015	(in millions)
Health, Housing and Social Services	
NYCHA Centers, Hepatitis B/C Initiative, Child Care Vouchers	$122.7
Public Protection	$100.8
Alternative-to-Incarceration Program, Anti-Gun Initiative, Police Civilianization	
Education	$85.3
Middle School Free Lunch, Summer Youth Employment	
Small Business Services	
Small Business Outreach, Worker Cooperative Business Development	$8.5
Borough wide Initiatives	$2.0
City Council Local Initiatives	$49.7
Elected Officials Enhancements/Restorations	$11.8
TOTAL	**$380.8**

FY 2015 Growth from November through June

After accounting for prepayments, the City-funds portion of the FY 2015 Adopted Budget is almost $2 billion (3.6 percent) more than what was projected in the November Plan. Looking at financial plans going back to FY 2003, the chart below shows a large variation between fiscal years when looking at how much the City-Funds' budgets grew from November through June in a given fiscal year.

Chart 3. Percent Change to Financial Plans, November Plan to Adopted



Conclusion

With higher tax revenues from a recovering economy and the revenues and savings associated with the labor settlement, the new administration's first budget funded the administration's goals such as expanding UPK and afterschool programs, settling and funding expired labor contracts, expanding funding to homeless services and correctional mental health and investing in greater security for NYCHA residents. Increasing the RHBT and the General Reserve prudently sets funds aside for future needs, but the Comptroller continues to advocate for the administration to implement an agency savings and efficiency program to increase the funds available for future expenses, so that the budgetary cushion increases. Together, these strategies provide the flexibility necessary for the City to address outyear budget gaps and absorb any future unanticipated revenue declines or expense increases.

III. The FY 2015 Adopted Budget

On June 26, 2014, the City adopted a balanced budget of $75.03 billion for FY 2015. The FY 2015 Adopted Budget is $459 million less than the FY 2014 budget. The FY 2015 Adopted Budget is balanced with the help of a $1.98 billion prepayment of FY 2015 debt service and a reduction of $99 million in New York City Transitional Finance Authority (NYCTFA) debt service from a debt defeasance in FY 2013. In addition, the FY 2014 budget is increased by a deposit of $864 million into the Retiree Health Benefits Trust (RHBT). After netting out the impact of prepayments and debt service savings in both FYs 2014 and 2015 and the $864 million RHBT deposit, the adjusted spending in the FY 2015 budget totals $77.11 billion, which is $1.63 billion or 2.2 percent more than the adjusted modified FY 2014 spending and $3.5 billion or 4.8 percent more than the adjusted FY 2014 Adopted Budget expenditures.

The $75.03 billion Adopted Budget is $1.11 billion more than the Modified Executive Budget. The City-funds portion of the Budget accounts for $1.04 billion of the increase. As shown in Table 7, the increase in the City-funds Budget is due primarily to the recognition of a $1 billion payment from the Health Stabilization Fund (HSF) as revenues. This payment is part of an agreement between the City and the Municipal Labor Committee (MLC) to help fund wage increases and was accounted for as a reduction to labor cost in the Modified Executive Budget. Aside from the recognition of the HSF payment, tax revenues were revised upwards by $81 million while non-tax revenues were revised downwards by $45 million, resulting in a net increase of $36 million in baseline revenues from the Modified Executive Budget.

Table 7. Changes to City-Funds Estimates
FY 2015 Adotped Budget vs. FY 2015 Modified Executive Budget

($ in millions)

REVENUES		EXPENDITURES	
Property Tax	$75	Council Initiatives	$283
Other Taxes	6	City funding of Council Initiatives	27
Subtotal Tax Revenues	**$81**	Agency Expense	75
		General Reserve	150
Reduced Lunch Fee from Council Initiatives	(3)	Debt Service	(134)
Other Non-Tax Revenue	(42)	Retiree Benefit	(18)
Subtotal Non-Tax Revenues	**($45)**	Health Stabilization Fund Offset Shift	1,000
		Subtotal	**$1,383**
Payment from Health Stabilization Fund	$1,000		
		FY 2014 BSA	**($347)**
Total	**$1,036**	**Total**	**$1,036**

City-funded expenditures, before the impact of prepayments, are $1.38 billion more than the Modified Executive Budget. The shift from the categorization of the HSF payment from expense reduction to revenue inflow, as discussed above, accounts for $1 billion of the increase.

The FY 2015 Adopted Budget adds $27 million in mayoral funding for various Council initiatives, bringing the total funding to $310 million, approximately half the amount funded in the FY 2014 Adopted Budget. While the remaining $283 million in City Council initiatives seems to stand in contrast to recent year totals of about $400 million, that is because approximately $500 million worth of initiatives and restorations were base-lined in the Financial Plans throughout the fiscal year, prior to budget adoption.[1] The $283 million Council initiatives include $60 million of enhancements or additional funding for some of the base-lined restorations and initiatives.

The Adopted Budget and Financial Plan increases the General Reserve by $150 million in each of FYs 2015 through 2018. The increase brings the General Reserve in each of these fiscal years to $750 million, or 1 percent of the FY 2015 budget. In comparison, in the November Modification to its first Adopted Budget (FY 2003), the prior administration increased the General Reserve to $300 million, which at the time was 0.7 percent of the City's Budget. Subsequently, the General Reserve remained at $300 million until Mayor Bloomberg's last Executive Budget (FY 2014), when it was raised to $450 million. Despite the increase, the General Reserve was only 0.6 percent of the City's Budget.

Debt service savings of $134 million help offset some of the expenditure increase. The net increase of $1.383 billion in City-funded expenditures relative to the net increase of $1.036 billion in City-funds revenues results in a gap of $347 million. This gap is closed with a $347 million increase in the prepayment of FY 2015 debt service from the FY 2014 Budget Stabilization Account (BSA).

Table 8 shows the change to the BSA and discretionary transfer since May. Revenues and expenditures are $482 million and $135 million above the May projections, respectively. The increase in expenditures stems from the deposit of $864 million to the RHBT. The deposit increases the balance in the RHBT to $2.3 billion. Aside from this deposit, all other expenses are estimated to decrease by a net of $729 million. Adjustments to prior-year payables account for $593 million of the reduction. This adjustment combined with the $400 million adjustment in May brings the total adjustments for prior-year-expenses to $993 million.

[1] The $500 million restorations and initiatives that were base-lined include both Council initiatives and Mayoral funding of these initiatives.

Table 8. Change to FY 2014 BSA and Discretionary Transfer

($ in millions)

May FY 2014 BSA and Discretionary Transfer	**$1,636**
Revenue Changes	
Tax Revenues	$348
Non-Tax Revenues	134
Subtotal Revenues	**$482**
Expenditure Changes	
Retiree Health Benefit Trust Deposit	$864
Retiree Cost	65
General Reserve	(10)
Debt Service	(84)
Agency Expenditures	(107)
Prior-Year-Payable	(593)
Subtotal Expenditures	**$135**
Total Change	**$347**
June FY 2014 BSA and Discretionary Transfer	**$1,983**

Risks and Offsets

The Office of the Comptroller's analysis of the June Financial Plan shows that there could be additional resources of $748 million in FY 2015, $961 million in FY 2016, $1.35 billion in FY 2017, and $1.90 billion in FY 2018. If realized, these additional resources would result in a surplus of $748 million in FY 2015 and reduce outyear gaps to $1.66 billion in FY 2016, $522 million in FY 2017, and $1.19 billion in FY 2018, as shown in Table 9.

The additional resources stem mainly from the Comptroller's higher tax revenue forecast relative to the Financial Plan projections. Net risks to expenditures in FYs 2015 and 2016 offset some of the gains from the higher tax revenue forecasts. The Comptroller's Office estimates that overtime spending could be $73 million above the Plan estimate in FY 2015 and $100 million higher in each of the outyears of the Plan. In addition, the City's estimates of Medicaid reimbursement for special education services at the Department of Education (DOE) continue to be overly optimistic. The Comptroller's Office estimates that reimbursements are likely to be below the City's projections by $50 million in FY 2015 and $80 million in each of the outyears of the Plan.

Beginning in FY 2016, however, the phase-in of pension investment earnings for FY 2014 will mitigate the expenditure risks identified by the Comptroller's Office. Savings from this phase-in is not reflected in the pension contribution projections in the Financial Plan. The Comptroller's Office estimates that the phase-in of the FY 2014 pension investment earnings above the actuarial interest rate assumption (AIRA) of 7 percent will reduce pension contributions by $178 million in FY 2016, $356 million in FY 2017 and $534 million in FY 2018.

Table 9. Risks and Offsets to the FY 2015 Adopted Budget and the FYs 2015-2018 Financial Plan

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

	FY 2015	FY 2016	FY 2017	FY 2018
City Stated Gap	**$0**	**($2,625)**	**($1,871)**	**($3,093)**
Tax Revenues				
Property Tax	$0	$250	$314	$515
Personal Income Tax	$622	$618	$686	$808
Business Taxes	($28)	($56)	$10	$32
Sales Tax	$0	$40	$52	$63
Real-Estate-Related Taxes	$259	$107	$114	$137
Subtotal	**$853**	**$959**	**$1,176**	**$1,555**
Speed Camera Revenues	**$28**	**$14**	**$7**	**$0**
Expenditures				
Overtime	($73)	($100)	($100)	($100)
DOE Medicaid Reimbursement	($50)	($80)	($80)	($80)
Cost of Fair Hearings	($10)	($10)	($10)	($10)
Pension Investment Earnings	$0	$178	$356	$534
Subtotal	**($133)**	**($12)**	**$166**	**$344**
Total (Risks)/Offsets	**$748**	**$961**	**$1,349**	**$1,899**
Restated (Gap)/Surplus	**$748**	**($1,664)**	**($522)**	**($1,194)**

IV. The State of the City's Economy

COMPTROLLER'S ECONOMIC FORECAST, 2014-2018

Since the Comptroller's last budget report in June 2014, only technical changes were made to the economic outlook for the nation and the City. Both the U.S. and NYC economies are expected to grow at a moderate pace through 2015 and the risks to that forecast are relatively low.

Technical changes were necessitated by data that show the U.S. economy encountered more problems in the first three months of 2014 than previously projected. According to the Bureau of Economic Analysis, real GDP growth, which was initially estimated at 0.1 percent in the first quarter of 2014, was revised to negative 2.9 percent. Contributing factors to the surprising decline were unusually severe winter weather, a sudden deterioration in the country's foreign trade balance, and a rapid depletion of business inventories- all factors which are usually transitory. Consequently, the Comptroller shares the consensus view that the expansion will resume and that the rest of 2014 will bring moderate economic growth. According to the Blue Chip Economic Indicators, the U.S. economy is expected to grow over 3 percent during the remainder of 2014.

The strongest evidence of underlying forward momentum in the nation's economy is the recent pace of job creation, which appears to be quickening. Despite the dip in first-quarter GDP, private payroll employment expanded at a monthly average of 189,000 in that quarter and the monthly rate of job creation increased to 255,000 in the second quarter. The rate of private job creation through the first half of 2014 overall is consistent with an underlying rate of GDP growth of 3 percent or more.

Other recent indicators of economic growth have been mixed but generally positive. Through May, new housing starts were up 5.3 percent, year-to-date, compared to the same period of 2013. The value of private non-residential construction put in place was also up, by 12.6 percent year-to-date through May. During the first five months of 2014, however, new home sales were up only 0.2 percent over the previous year and existing home sales were running 6.3 percent behind the previous year's pace. New car and light truck sales were up about 4.5 percent in the first half of the year.

Two factors that temper optimism about short-term economic growth are the weakness in business investment and the continued stagnation of wages. Real non-residential fixed investment increased by only 2.7 percent in 2013 and fell by 1.2 percent in the first quarter of 2014 (measured at a seasonally-adjusted annual rate). Business investment spending is typically one of the engines of economic growth and it is disappointing that it has been so weak at this stage of the recovery. Consumer spending is also an important driver of the economy but to be sustainable it must be supported by corresponding wage growth. Since the end of the recession, however, the average hourly wage of private-sector workers has grown at less than a 2 percent annual rate and there is still no evidence that faster wage growth is on the horizon.

Overall, the Comptroller's revised forecast anticipates that U.S. real gross domestic product will grow by only 1.6 percent in 2014, as the poor first quarter weighs down the year-over-year performance. The annualized rate of growth is expected to be closer to 3 percent in the second half of 2014 and through 2015. The longer-run outlook of steady but modest GDP growth is unchanged.

The City's economy is expected to perform slightly better than the national economy in 2014 but should converge to the national rate of growth in the later years of the Plan period. The City's rate of job creation shows signs of slowing from the impressive pace of recent years, but should remain satisfactory. Residential construction activity picked up significantly in mid-2013 and promises to remain strong barring any unforeseen disruptions in financial markets. Wall Street appears to have started 2014 with a relatively weak first quarter but its short-term performance is volatile and essentially unpredictable.

At this point, risks to the economic projections will not be identifiable until Spring 2015. The U.S. debt ceiling has been suspended through March 15, 2015 and will be re-imposed at the federal debt level at that time. Regardless of which political party takes control of the U.S. Senate following the mid-term elections, it is likely that the subsequent debt ceiling negotiations will be contentious. Additionally, the Federal Reserve is on course to end its large-scale asset purchases in the last quarter of 2014 and sometime thereafter may begin to raise short-term interest rates. Those political and monetary developments could cause financial stresses that alter the economic outlook.

The short-term risks stemming from the European debt crisis have receded but growing turmoil in the Middle East could put upward pressure on petroleum prices. Higher oil prices have the effect of suppressing economic growth by diverting other consumer spending to energy.

Overall, the immediate risks to U.S. economic growth are low and we believe the economy will continue on its path of moderate growth. Table 10 compares the Comptroller's and the Mayor's forecasts of five economic indicators for 2014 to 2018.

Table 10. Selected NYC and the U.S. Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2014-2018

NYC	2014		2015		2016		2017		2018	
	Comp	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**
Real GCP (2009 $) Change	2.5%	0.1%	2.9%	1.8%	2.7%	2.6%	2.6%	2.4%	2.7%	2.3%
Payroll Jobs Change (Thousands)	66	58	65	51	65	58	62	55	59	50
Inflation Rate	1.8%	1.7%	2.3%	1.7%	2.4%	1.8%	2.6%	2.1%	2.9%	2.3%
Wage-Rate Growth	1.6%	2.5%	2.4%	1.1%	2.3%	3.1%	2.1%	3.1%	2.2%	3.1%
Unemployment Rate	7.8%	N/A	7.2%	N/A	6.5%	N/A	6.2%	N/A	5.9%	N/A
U.S.	**2014**		**2015**		**2016**		**2017**		**2018**	
	Comp	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**	**Comp**	**Mayor**
Real GDP (2009 $) Change	1.6%	2.5%	3.0%	3.1%	2.8%	3.2%	2.7%	3.1%	2.7%	3.0%
Payroll Jobs Change (Millions)	2.3	2.2	2.4	2.8	2.2	2.8	2.1	2.4	2.0	1.9
Inflation Rate	1.7%	1.6%	1.9%	1.9%	2.1%	1.7%	2.3%	1.9%	2.6%	2.1%
Fed Funds Rate	0.1%	0.1%	0.3%	0.4%	1.8%	2.2%	3.0%	3.8%	3.7%	4.0%
10-Year Treasury Notes	2.8%	3.3%	3.5%	3.9%	3.9%	4.3%	4.4%	4.6%	5.0%	4.6%

SOURCE: Comp=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the FY 2015 Adopted Budget. GCP=Gross City Product. NA=not available.

V. Revenue Assumptions

The FY 2015 Adopted Budget and Financial Plan projects total revenues will grow 7.9 percent, or from $75.03 billion to $80.93 billion, from FY 2015 to FY 2018. Those projections are based on the City's assumption of moderate growth in the local and national economies throughout the Plan period. In FY 2015, revenues are expected to decline slightly from the FY 2014 level, due to an anticipated drop in Federal aid in FY 2015 and relatively flat tax revenue growth. Tax revenues are estimated to have comprised 64 percent of total revenues in FY 2014, and are expected to increase to nearly 68 percent of total revenues in FY 2018. Property tax revenues are projected to grow from $20.22 billion in FY 2014 to $23.97 billion in FY 2018, while non-property tax revenues are expected to grow from $28.07 billion in FY 2014 to $30.69 billion in FY 2018.

Miscellaneous revenues, excluding intra-City revenue, are expected to increase by 9 percent in FY 2015 to $6.22 billion. This forecast includes a $1 billion transfer from the HSF to help cover costs associated with labor settlements and $553 million in proceeds from taxi medallion sales. The City expects to realize a combined $1.65 billion in revenue from the sale of 2,000 taxi medallions in FYs 2014 through 2017. Total miscellaneous revenue is expected to decline 17 percent, to $5.17 billion, in FY 2016 and remain stable through the remainder of the Plan period.

Total Federal and State aid is projected at $18.86 billion in FY 2015. The FY 2015 Adopted Budget reflects a net decrease of $1.16 billion in Federal and State aid from FY 2014, comprised of a $1.84 billion in reduction in Federal support partly offset by $676 million in additional State grants. The net decline is primarily attributable to the City's more conservative Federal aid estimates for FY 2015 and to the recognition of reimbursement for Hurricane Sandy in FY 2014, which is expected to diminish in future years. In the outyears, Federal and State aid are expected to grow to $19.15 billion in FY 2016, $19.60 billion in FY 2017 and $20.11 billion in FY 2018. This trend mainly reflects the City's expectation of education aid increases from the State.

Tax Revenues

The Adopted Budget projects total tax revenues of $48.62 billion in FY 2015, approximately $81 million above the forecast included in the Modified FY 2015 Executive Budget. The current FY 2015 tax revenue projection represents an increase of $325 million from the estimated FY 2014 tax revenue total. Non-property tax revenues are projected to fall 1.5 percent in FY 2015, while property tax revenues are expected to grow 3.7 percent.

Except for re-estimates of revenues from the real property tax (RPT) and payments in lieu of taxes (PILOT), the City left its FYs 2015-2018 tax revenue projections unchanged from the May Financial Plan estimates. For FY 2015, the City increased its property tax revenue projection by a net $100 million and raised projected

PILOT revenues by $6 million. Real property tax projections were also raised in FYs 2016 through 2018 by $140 million, $196 million and $256 million, respectively.

Projected Tax Revenue Growth, City Forecast, FYs 2014-2018

In the FY 2015 Adopted Budget and Financial Plan, the City projects total tax revenue to increase $6.37 billion from FY 2014 to FY 2018, an average annual growth rate of 3.1 percent as shown in Table 11. In FY 2015, total tax revenue is expected to grow only slightly, ticking up 0.7 percent after growing 5.6 percent in FY 2014. Growth is expected to accelerate in FY 2016 and remain above 3 percent into FY 2018.

Following an estimated 4.9 percent increase in FY 2014, growth in non-property tax collections is expected to decelerate to 1.5 percent in FY 2015, due in large part to a projected decline in anticipated revenues from the Personal Income Tax (PIT) and the real-estate-related taxes. Property tax revenues are projected to increase 3.7 percent in FY 2015.

Table 11. City's Tax Revenue Forecast, Growth Rate, FYs 2015 – 2018

	FYs 2014-15	FYs 2015-16	FYs 2016-17	FYs 2017-18	FYs 2014-18
Property	3.7%	5.3%	4.3%	4.1%	4.3%
PIT	(2.5%)	4.2%	3.2%	2.6%	1.8%
Business	0.9%	3.2%	2.7%	3.5%	2.5%
Sales	3.2%	4.2%	4.5%	4.1%	4.0%
Real-Estate-Related	(10.5%)	10.8%	3.8%	3.0%	1.5%
All Other	0.2%	2.1%	2.5%	2.8%	1.9%
Tax Audit	(19.8%)	0.0%	0.0%	0.0%	(5.4%)
Total With Audit	**0.7%**	**4.7%**	**3.7%**	**3.5%**	**3.1%**

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

The City expects to collect $20.98 billion in property tax revenues in FY 2015. Projected growth in property tax revenue is supported by strong billable value growth of 6.3 percent in the FY 2015 Final Assessment Roll. Higher sales prices, larger net operating income for property owners, and significant construction activity created strong market value growth. Over the forecast period, property tax revenue growth is expected to average 4.3 percent annually, reflecting steady, moderate growth in billable assessed value, fueled in part by the phase-in of the pipeline of assessed value growth from prior years.

After growing by a projected 3.4 percent in FY 2014, the City expects PIT collections to decline 2.5 percent in FY 2015 to $9.85 billion. Withholding payments, the bulk of PIT collections, are expected to decline slightly while estimated payments are expected to rise. A decline in bonus payouts is expected to offset continued employment and wage growth. Overall, revenue from the PIT is expected to rebound in FY 2016 and to grow at an average annual rate of 1.8 percent from FYs 2014 through 2018.

Projected revenues from business income taxes, i.e., General Corporation Tax (GCT), Banking Corporation Tax (BCT), and the Unincorporated Business Tax (UBT), are forecast to increase by less than one percent in FY 2015 to $5.96 billion, before rebounding in FY 2016. The marginal increase in FY 2015 is produced by a projected

4.7 percent growth in UBT revenues, offset by a 4 percent fall in BCT collections and a flat growth rate for GCT revenues. Weak BCT collections in FY 2015 are anticipated due to tightened monetary policy, a slowdown in mortgage activity and a drop in Wall Street profits. Payments from non-finance sector firms are projected to grow moderately, resulting in nearly flat overall growth for GCT revenues. However, growth in GCT and UBT collections is expected to lift overall business tax revenue by 3.2 percent in FY 2016. Business tax revenues are forecast to grow at an average rate of 2.5 percent annually from FYs 2014 through 2018.

Sales tax collections are forecast to reach $6.67 billion in FY 2015. The forecast represents a 3.2 percent growth in sales tax revenues in FY 2015, compared to an estimated 5.3 percent increase in FY 2014. The slower growth projection reflects the City's assumption of moderate growth in taxable consumption and wages. Beyond FY 2015, revenues from the sales tax are projected to grow steadily, supported by gradual growth of employment and wages as well as continued strength in the tourism sector. Revenue growth from the sales tax is expected to average 4 percent annually from FYs 2014 through 2018.

Real estate related tax revenues, which include revenues from the real property transfer tax and the mortgage recording tax, are expected to decline by 10.5 percent to $2.23 billion in FY 2015. Revenues from those taxes jumped an estimated 36.1 percent in FY 2014 as commercial property transaction volume increased and prices rose. The City anticipates a decline in commercial transactions as interest rates rise, as well as a decline in commercial mortgage recordings due to an expected slowdown in commercial real estate activity. Revenues from residential transactions are forecast to continue to grow in FY 2015. Collections from the real estate-related taxes are expected to rebound in FY 2016 and to grow at a moderate pace in the last two years of the Plan period. Real-estate-related tax revenues are projected to grow at an average annual rate of 1.5 percent from FYs 2014 to 2018.

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's Office's projections of risks and offsets to the City's tax revenue assumptions are based on current collections and the Office's latest economic projections. As illustrated in Table 12, the Comptroller's Office projects tax revenue offsets growing from $853 million in FY 2015 to $1.56 billion in FY 2018.

Table 12. Risks and Offsets to the City's Tax Revenue Projections

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Property	$0	$0	$250	$314	$515
PIT	0	622	618	686	808
Business	0	(28)	(56)	10	32
Sales	0	0	40	52	63
Real-Estate-Related	0	259	107	114	137
Total	**$0**	**$853**	**$959**	**$1,176**	**$1,555**

The Comptroller's Office projects no offset from FY 2015 property tax revenues but forecasts increasing property tax offsets in FY 2016 through FY 2018, boosted by rising market values, assessments and transitional values for Class 2 and Class 4 properties, as well as a resurgence of new construction activity. The Comptroller's economic forecasts anticipate that long-term interest rates will remain historically low at least through 2017, in turn keeping mortgage rates and capitalization rates relatively low and prices, especially of commercial properties, high.

The Comptroller's Office forecasts consistently higher PIT revenue throughout the Plan period. The Comptroller believes that all substantial capital gains shifts in response to Federal tax changes have already occurred, and that growth in PIT collections in FY 2015 will be determined primarily by economic conditions prevailing in calendar years 2014 and 2015. The strong stock market gains of 2012-2014 are expected to provide a basis for a continued high level of long-term capital gains realizations and estimated tax payments, while projected employment and wage growth supports continued moderate growth in PIT withholding.

Miscellaneous Revenues

Excluding intra-City revenues, the FY 2015 Adopted Budget and Financial Plan projects miscellaneous revenues will increase 9.1 percent on a year-over-year basis, to $6.2 billion in FY 2015. The current forecast reflects a net increase of $955 million in FY 2015 compared with the Modified FY 2015 Executive Budget forecast. The most significant adjustment is a $1 billion transfer from the HSF into the miscellaneous revenue budget to help fund the estimated cost of prospective labor settlements.[2] Table 13 shows, the City's latest miscellaneous revenue forecast. Total miscellaneous revenues are expected to decline to $5.2 billion in FY 2016, remain virtually unchanged in FY 2017 and decline slightly to $4.8 billion in FY 2018.

Table 13. June 2014 Financial Plan Miscellaneous Revenue Projections

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018
Licenses, Franchises, Etc.	$583	$591	$592	$589
Interest Income	10	45	134	163
Charges for Services	920	924	924	924
Water and Sewer Charges	1,559	1,565	1,513	1,509
Rental Income	272	272	272	272
Fines and Forfeitures	789	787	787	787
Other Miscellaneous	2,090	990	941	550
Total	**$6,223**	**$5,174**	**$5,163**	**$4,794**

Source: NYC Office of Management and Budget.

In addition to the $1 billion transfer from the HSF, adjustments to "other miscellaneous" category reflects an increase of $5.4 million in expected grant refunds

[2] In June 2014, the City reached a labor agreement with the UFT. The cost of labor settlements in the Financial Plan is based on the assumption that labor agreements with other municipal unions will be patterned after the UFT settlement.

and a downward adjustment of $42 million in taxi medallion revenues, which the City is recognizing in FY 2014 due to earlier than anticipated medallion sales. The City expects to close FY 2014 with a total of $337 million in proceeds from medallion sales. The FY 2015 Budget and Financial Plan reflects an additional $553 million in FY 2015, $360 million in FY 2016 and $400 million in FY 2017 in revenues from the sale of taxi medallions.

The current miscellaneous revenue budget anticipates a $9 million decline in revenues from charges for services in FY 2015, including a $3.2 million projected loss of school lunch revenues resulting from the City Council initiative to provide free lunch for middle school students, and a projected $5.3 million decline in overall school lunch collections.

With the transfer of the $1 billion from the Health Stabilization Fund, and the expected proceeds from taxi medallion sales, non-recurring revenues are projected to top $1.5 billion in FY 2015. Excluding these major non-recurring revenue sources, projected miscellaneous revenue is estimated to hover between $4.7 billion and $4.8 billion throughout the Plan period.

Federal and State Aid

The Adopted Budget for FY 2015 assumes $18.86 billion of Federal and State aid, which is about $1.16 billion lower than the FY 2014 estimates of $20.02 billion. The decline is attributable both to the City's customary conservative budgeting of Federal aid forecasts and recognition of Federal reimbursement in FY 2014 for Hurricane Sandy clean-up and recovery efforts that will have a significantly smaller impact in FY 2015. For FY 2015, Federal and State grants constitute about 25 percent of the City's expense budget. Overall, about 83 percent of Federal and State aid is dedicated for education and social service expenditures.

Federal and State aid estimates for FY 2015 reflect a net increase of $22 million since the Executive Budget. This increase is primarily the result of the rollover of certain Federal Homeland Security grants into FY 2015, partly offset by lower State grants due to revised projections in spending for certain private special education programs.

The City anticipates Federal and State support to rise modestly in FY 2016 with larger increases in FY 2017 and FY 2018. The June Plan projects that Federal and State grants will increase by about $290 million to $19.15 billion in FY 2016, growing to $19.60 billion in FY 2017 and $20.11 billion by FY 2018. In the outyears of the June Plan, Federal and State grants are projected to grow at an annual average of 2.2 percent. Within these assumptions, Federal aid is expected to decline from $6.46 billion in FY 2015 to $6.29 billion in FY 2018. Given that Federal aid experienced an annual growth of 2.7 percent over the past five years, the City should realize greater Federal assistance, including additional Sandy-related funding that has been awarded but not yet reflected in the Plan. State education aid is expected to be the main driver of the increases in the June Plan, rising by nearly 12 percent from $9.25 billion in FY 2015 to $10.34 billion in FY 2018. However, because growth in the City's expense budget is expected to outpace the growth in Federal and State aid over the Plan period, Federal and State support as a percent of the expense budget will decrease over the course of the Plan from 25.1 percent in FY 2015 to 23.9 percent in FY 2018.

VI. Expenditure Analysis

All-funds expenditures in the FY 2015 Adopted Budget total $75.03 billion, a decline of $459 million, or 0.6 percent from the modified FY 2014 budget. However, the FY 2014 spending includes an $864 million deposit into the RHBT. In addition, both FY 2015 and FY 2014 expenditures are reduced by prepayments in the prior-fiscal year and a New York City Transitional Finance Authority (NYCTFA) bond defeasance in FY 2013.[3] The City prepaid $2.84 billion of FY 2014 at the end of FY 2013 and $1.98 billion of FY 2015 debt service towards the end of FY 2014. After netting out these prepayments, the $864 million deposit into the RHBT, and the impact of the NYCTFA bond defeasance, the adjusted FY 2015 expenditures total $77.11 billion, $1.63 billion, or 2.2 percent more than the adjusted FY 2014 expenditures of $75.48 billion.

From FY 2015 through FY 2018, expenditures adjusted for prepayments are projected to grow by 9.0 percent, or 2.9 percent annually, about the same rate as the projected average annual adjusted revenue growth.[4] The estimated average annual inflation rate over the same period is 2.1 percent. Spending on wages and salaries, debt service, health insurance, other non-pension fringe benefits, and judgments and claims, which together make up 51 percent of the adjusted FY 2015 expenditures accounts for most of the growth, averaging 4.3 percent growth annually, as shown in Table 14. All other expenditures are projected to average 1.5 percent growth over the same period.

Table 14. FY 2015 – FY 2018 Expenditure Growth Adjusted for Prepayments

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	Growth FYs 15-18	Annual Growth
Wages and Salaries	$23,435	$24,352	$24,660	$26,067	11.2%	3.6%
Debt Service	6,629	7,345	7,582	7,839	18.2%	5.7%
Health Insurance	5,235	5,477	5,776	6,134	17.2%	5.4%
Other Fringe Benefits	3,350	3,472	3,589	3,743	11.8%	3.8%
J & C	674	710	746	782	16.0%	5.1%
Subtotal	**$39,323**	**$41,356**	**$42,353**	**$44,565**	**13.3%**	**4.3%**
Pensions	$8,469	$8,704	$8,771	$9,279	9.6%	3.1%
Medicaid	6,447	6,415	6,415	6,415	(0.5%)	(0.2%)
Public Assistance	1,428	1,407	1,413	1,413	(1.0%)	(0.3%)
Other OTPS	21,443	21,440	21,856	22,354	4.2%	1.4%
Subtotal	**$37,786**	**$37,966**	**$38,455**	**$39,461**	**4.4%**	**1.5%**
Total	**$77,109**	**$79,322**	**$80,808**	**$84,026**	**9.0%**	**2.9%**

[3] The FY 2013 redemption of $194 million of NYCTFA debt resulted in reductions in NYCTFA debt service of $7 million in FY 2014, $99 million in FY 2015, and $103 million in FY 2016.

[4] The projected FY 2015 revenues are adjusted to exclude the $1 billion payment from the HSF.

Labor

The City has settled labor contracts with the United Federation of Teachers (UFT), the New York State Nurses Association (NYSNA) and 1199SEIU United Healthcare Workers East (1199SEIU) and reached a tentative agreement with District Council 37 (DC 37). Together, these four unions represent approximately 60 percent the City's workforce.

Both the NYSNA and 1199SEIU are nine-year contracts patterned after the UFT contract.[5] The DC 37 settlement is patterned after the 10 percent increases granted in the latter seven year period of the UFT contract. Just as in the UFT contract, all members who are on payroll on the date of ratification will receive a one-time $1,000 ratification bonus. Highlights of these agreements are as follows:

1. NYSNA agreement

    - Contract period: January 21, 2010 through June 5, 2019

    - Wage increases

1/10	1/11	1/12	7/13	7/14	7/15	7/16	7/17	1/18	7/18	1/19
0%	0%	0%	1.0%	1.0%	3.0%	3.461%	2.0%	2.5%	1.9605%	3.0%

    - Other Benefits – A fund will be established to provide for childcare and eldercare for members' dependents. NYSNA's education fund will be restructured to enable members to attain higher levels of education and enhance their skills for career building and promotions. The additional funding for these benefits will be funded within the pattern settlement.

2. 1199SEIU agreement

    - Contract period: August 5, 2009 through August 4, 2018

    - Wage increases

8/09	8/10	8/11	2/13	2/14	2/15	2/16	2/17	2/18
0%	0%	0%	.35%	1.0%	3.0%	3.461%	4.5%	4.4905%

    - Other Benefits – Similar to the NYSNA contract, 1199SEIU has also agreed to set aside funds for childcare and eldercare. The union's existing education fund will also be restructured to enable members to attain higher levels of education and enhance their skills for career building and promotions.

3. DC37 agreement

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[5] The UFT contract is discussed in detail in the Comptroller's Office's report "Comments on New York City's Modified Fiscal Year 2015 Executive Budget."

- Contract period: March 3, 2010 through July 2, 2017

- Wage increases

3/10	9/11	9/12	9/13	9//14	9/15	9/16
0%	1.0%	1.0%	1.0%	1.5%	2.5%	3.0%

- Other Benefits - An additional 0.52 percent in additional compensation fund on March 3, 2017 and a gainsharing plan under which DC37 and the City will work together to review and develop initiatives that will generate workplace savings and share in the savings. They will also work together to increase recruitment, retention and promotion of women and minorities in DC37 jobs. The City has agreed to offer similar protections for provisional employees at the DOE, NYCHA, and HHC which other provisional employees have had since the 1980s.

The projected cost from FY 2014 through FY 2018 of the settled contracts and projected settlements for all unions is estimated to be $13.6 billion.[6] This cost, however, is offset by $3.4 billion in healthcare savings to be agreed to by the City and the Municipal Labor Committee (MLC), based on an agreement with the MLC to identify health care savings plus $1 billion from the Health Stabilization Fund (HSF) resulting in a net cost to the City of $9.2 billion through FY 2018. As shown in Table 15, the cost of the contracts already negotiated totals $8.14 billion or 60 percent of the projected Citywide cost of labor settlements. The net cost after adjusting for healthcare savings and payment from the health stabilization for the negotiated contracts are $5.57 billion, approximately 60 percent of the projected Citywide net cost of labor settlements.[7]

Table 15. Cost of Negotiated Contracts

($ in billions)

	Gross Cost	HSF Payment and Health Savings	Net Cost
United Federation of Teachers (UFT)	$5.83	$1.44	$4.39
New York State Nurses Association (NYSNA)	0.44	0.10	0.34
1199SEIU United Healthcare Workers East (1199SEIU)	0.12	0.03	0.09
District Council 37 (DC37)	1.75	1.00	0.75
Total	**$8.14**	**$2.57**	**$5.57**

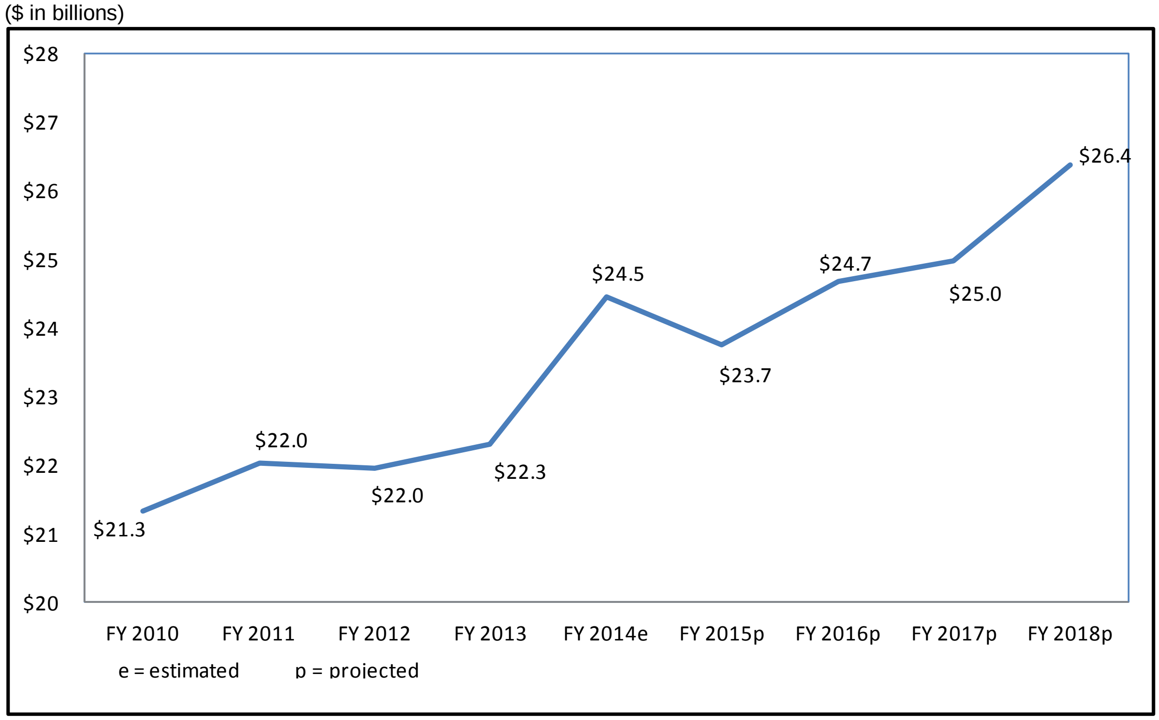
The impact of the labor agreements on wages and salaries is reflected in Chart 4, which shows actual and projected salaries and wages from FY 2010 to FY 2018. The City's spending for wages and salaries grew at an average annual rate of 1.15 percent between FY 2010 and FY 2013. During that period, most City employees were working

[6] The cost of the collective bargaining agreements includes employees at the Health and Hospital Corporation (HHC), the New York City Housing Authority (NYCHA), and the City University of New York (CUNY).

[7] Labor savings as a percentage of gross cost is 45.7 percent for DC 37, 24.7 percent for UFT, 22.7 percent for NYSNA, and 25 percent for 1199SEIU.

under expired labor contracts. The projections going forward show the impact of recent and anticipated labor settlements. For FY 2014, spending for wages and salaries is estimated to be 10 percent higher than in FY 2013. The spike in FY 2014 is due to the funding for retroactive wage increases for eligible employees and retirees. Because there are no payments for prior-year increases in FY 2015, projected wages and salaries show a decline of almost 3 percent from FY 2014 to $23.7 billion. From FY 2015 to FY 2018, wages and salaries are projected to grow at an average annual rate of 3.7 percent.

Chart 4. Wages and Salaries



Overtime

The FY 2015 Adopted Budget includes $1.1 billion for overtime expenditures. This projection is approximately $37 million higher than budgeted in the FY 2015 Modified Executive Budget. The overtime projection reflects an upward revision of $17 million for uniformed police officers and $20 million for correction officers. The Comptroller's Office estimates that overtime spending could be higher than budgeted by at least $73 million in FY 2015, as shown in Table 16.

Table 16. Projected Overtime Spending, FY 2015

($ in millions)

	City Planned Overtime FY 2015	Comptroller's Projected Overtime FY 2015	FY 2015 Risk
Uniform			
Police	$435	$480	($45)
Fire	229	229	0
Correction	87	115	(28)
Sanitation	87	87	0
Total Uniformed	$838	$911	($73)
Others			
Police-Civilian	$82	$82	$0
Admin for Child Services	17	17	0
Environmental Protection	23	23	0
Transportation	34	34	0
All Other Agencies	127	127	0
Total Civilians	$283	$283	$0
Total City	**$1,121**	**$1,194**	**($73)**

The Comptroller's Office expects FY 2015 uniformed overtime spending in the New York City Police Department (NYPD) to exceed the City's estimate by $45 million. The City has spent $431 million on uniformed overtime through May FY 2014 and is on target to spend approximately $480 million for the fiscal year. Overtime spending for police officers is expected to remain relatively flat for FY 2015.

For several years, the Department of Correction (DOC) was not able to recruit enough correction officers to meet its staffing needs. As a result, the department had to rely on additional overtime hours to meet its operational needs. DOC's overtime cost for uniformed officers grew from $90 million in FY 2010 to $139 million in FY 2013. However, recruitment has recently improved and DOC hired 649 new officers in 2014 which helped lower FY 2014 overtime spending. The Department's overtime spending through May is $115 million, and the Comptroller's Office estimates that overtime spending for FY 2014 will total $125 million. The Comptroller's Office expects uniformed overtime spending at the Department to further decline in FY 2015 to $115 million, $28 million higher than the City's estimate.

Headcount

The June 2014 Financial Plan shows the FY 2015 year-end City-funded full-time headcount at 237,604. This is a net increase of 481 from the Modified May 2014 Financial Plan estimate. Changes to City-funded full-time planned headcount since the Modified May 2014 Financial Plan for FYs 2014 – 2018 are presented in Table 17.

The Adopted Financial Plan, as compared to the Modified May Plan, includes City-funds for hiring of 200 Civilian Police Administrative Aides, so that Police Officers currently performing these functions can be redeployed to patrol and enforcement functions.

The Adopted Financial Plan also includes City-funds for 232 new positions in the Department of Correction (DOC): 220 uniformed positions and 12 civilian positions. 138 of the total 232 positions are for the supervision of high custody units, 82 are for an intensive mental observation unit and 12 are for field officer training. These positions are from the $27.3 million added in the Adopted Budget. This additional funding is intended to reduce violent incidents at Rikers Island and other detention facilities. The Budget also funds six additional positions in the Department of Health and Mental Hygiene for this initiative.

Table 17. Changes to FYs 2014 – 2018 City-Funded Full-Time Headcount June 2014 Adopted Financial Plan vs. Modified May 2014 Financial Plan

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Pedagogical					
Dept. of Education	0	0	0	0	0
City University	0	(2)	(2)	(2)	157
Subtotal	**0**	**(2)**	**(2)**	**(2)**	**157**
Uniformed					
Police	0	0	0	0	0
Fire	0	0	0	0	0
Correction	0	220	220	220	220
Sanitation	0	0	0	0	0
Subtotal	**0**	**220**	**220**	**220**	**220**
Civilian					
Dept. of Education	0	0	0	0	0
City University	0	2	2	2	2
Police	0	200	200	200	200
Fire	0	0	0	0	0
Correction	0	12	12	12	12
Sanitation	0	0	0	0	0
Admin. for Children's Services	0	0	0	0	0
Social Services	0	21	21	21	21
Homeless Services	0	0	0	0	0
Health and Mental Hygiene	4	6	6	6	6
Finance	0	0	0	0	0
Transportation	0	4	4	4	4
Parks and Recreation	0	10	10	10	10
All Other Civilians	3	8	9	9	9
Subtotal	**7**	**263**	**264**	**264**	**264**
Total	**7**	**481**	**482**	**482**	**641**

As shown in Table 18, during the Financial Plan period, City-funded full-time headcount is scheduled to increase in FY 2015 to 237,604, to decline slightly to 237,171 in FY 2016, and then to remain relatively stable in FYs 2017 and 2018 at 236,999 and 236,935, respectively.

Table 18. City-Funded Full-Time Year-End Headcount Projections FYs 2014-2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Pedagogical					
Dept. of Education	92,809	93,146	93,146	93,146	93,146
City University	3,248	3,336	3,331	3,365	3,365
Subtotal	**96,057**	**96,482**	**96,477**	**96,511**	**96,511**
Uniformed					
Police	34,483	34,483	34,483	34,483	34,483
Fire	10,779	10,780	10,780	10,780	10,780
Correction	8,884	9,109	9,109	9,109	9,109
Sanitation	7,119	7,239	7,280	7,280	7,280
Subtotal	**61,265**	**61,611**	**61,652**	**61,652**	**61,652**
Civilian					
Dept. of Education	9,381	8,985	8,986	8,986	8,986
City University	1,756	1,728	1,676	1,676	1,676
Police	14,517	14,802	14,651	14,651	14,651
Fire	5,022	5,100	5,100	5,095	5,095
Correction	1,599	1,610	1,610	1,610	1,610
Sanitation	1,960	2,040	2,072	2,072	2,072
Admin. for Children's Services	6,399	6,399	6,761	6,761	6,761
Social Services	10,150	10,288	9,680	9,498	9,439
Homeless Services	1,982	1,948	1,948	1,948	1,948
Health and Mental Hygiene	3,327	3,417	3,395	3,391	3,391
Finance	1,914	1,926	1,921	1,916	1,911
Transportation	2,003	2,144	2,144	2,144	2,144
Parks and Recreation	3,357	3,279	3,279	3,281	3,281
All Other Civilians	15,430	15,845	15,819	15,807	15,807
Subtotal	**78,797**	**79,511**	**79,042**	**78,836**	**78,772**
Total	**236,119**	**237,604**	**237,171**	**236,999**	**236,935**

As shown in Table 19, City-funded full-time equivalent (FTE) headcount is projected to total 23,501 in FY 2014, increasing by 190 in FY 2015, decreasing by 907 in FY 2016 to 22,784, and then remaining relatively unchanged for the remainder of the Plan period.

Table 19. City-Funded FTE Year-End Headcount Projections FYs 2014-2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Pedagogical					
Dept. of Education	553	593	593	593	593
City University	1,780	1,780	1,788	1,795	1,795
Subtotal	**2,333**	**2,373**	**2,381**	**2,388**	**2,388**
Civilian					
Dept. of Education	11,592	11,751	11,592	11,592	11,592
City University	984	984	984	984	984
Police	1,422	1,407	1,404	1,404	1,404
Health and Mental Hygiene	1,039	1,183	1,186	1,186	1,186
Parks and Recreation	2,923	3,125	2,895	2,896	2,896
All Other Civilians	3,208	2,868	2,342	2,339	2,346
Subtotal	**21,168**	**21,318**	**20,403**	**20,401**	**20,408**
Total	**23,501**	**23,691**	**22,784**	**22,789**	**22,796**

Pensions

Pension expenditures in the June Financial Plan are projected to grow from $8.468 billion in FY 2015 to $9.279 billion by FY 2018. The projections do not reflect reductions in pension contributions due to FY 2014 investment earnings that are above the assumed actuarial interest rate assumption (AIRA). The current pension projections are based on the assumption that the pension investments will earn 7 percent each year after FY 2013. The combined pension investment earnings for FY 2014 were 17.48 percent. The additional earnings will result in lower pension contributions of $178 million in FY 2016, $356 million in FY 2017 and $534 million in FY 2018.

As shown in Table 20, projected pension expenditures are higher than the FY 2015 Modified Executive Budget and Financial Plan by $39 million in FY 2014, $241 million in FY 2015, $388 million in FY 2016, $354 million in FY 2017 and $685 million in FY 2018. The increase is due to the transfer from the labor reserve to the pension budget estimated pension costs associated with budgeted wage increases for City Employees.

Table 20. FY 2014 – FY 2018 City Pension Expenditures

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Five Actuarial Systems	$8,180	$8,447	$8,677	$8,739	$9,239
Other Systems	128	148	156	161	169
Less: Intra-City Expense	(124)	(127)	(129)	(129)	(129)
Net Pension Expense Adopted Budget	8,184	8,468	8,704	8,771	9,279
Net Pension Expense Modified May Plan	8,145	8,227	8,316	8,417	8,594
Net Change	**$39**	**$241**	**$388**	**$354**	**$685**

NOTE: Totals may not add up due to rounding.

Health Insurance

The June 2014 Financial Plan projects that the City's spending for employee and retiree health insurance will increase at an average rate of 5.4 percent from $5.235 billion in FY 2015 to $6.128 billion in FY 2018, as shown in Table 21. Reflected in these projections are expected savings of $400 million in FY 2015, $700 million in FY 2016, $1 billion in FY 2017, and $1.3 billion in FY 2018 from the recent Health Reform Agreement between the City and the MLC.

The City's healthcare expenditures have more than doubled since FY 2003, increasing at an average rate of 8.7 percent from $2.229 billion in FY 2003 to $5.143 billion in FY 2013. The growth in health insurance expenditures was fueled by the increased cost of delivering health care. As a result, the average premium paid by the City for health insurance increased by approximately 9.5 percent annually growing from $4,966 in FY 2003 to $12,353 in FY 2013.[8]

The health insurance premium increase for FY 2014 was significantly lower than the average increase in past fiscal years. The New York State Department of Financial Services approved a premium rate increase of 5.2 percent for the Health Insurance Plan of Greater New York (HIPGNY) effective July 1, 2013. Health insurance premiums for FY 2015 will remain relatively unchanged since Emblem Health, the parent company of HIPGNY, did not request a rate increase.

The FY 2014 health insurance spending includes an $864 million deposit into the RHBT, which results in total health insurance spending of $6.21 billion. The RHBT was set up to fund retiree health benefits. The deposit brings the RHBT balance to $2.3 billion.

Table 21. Health Expenditures

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Department of Education	$2,031	$1,979	$2,092	$2,215	$2,357
CUNY	52	91	88	87	83
All Other	3,264	3,165	3,296	3,473	3,688
Total Insurance Costs	$5,347	$5,235	$5,476	$5,775	$6,128
Retiree Health Benefits Trust Fund (RHBT)	864	0	0	0	0
Adjusted Total	$6,211	$5,235	$5,476	$5,775	$6,128

Department of Education

The FY 2015 Adopted Budget includes $20.75 billion for the Department of Education's operating budget, an increase of about $757 million over the agency's FY 2014 estimated budget of $19.99 billion. The Department's Adopted FY 2015 Budget reflects a net increase of about $126 million in funding over the Executive Budget projection of $20.62 billion. The new funding provided in the Adopted Budget includes

[8] The average health insurance premium paid by the City is a weighted of 60 percent of the premium for family coverage and 40 percent of the premium for individual coverage.

an increase of $148 million in City-funds, partly offset by a net decline of $22 million in Federal, State and other categorical grants.

Since the November 2013 Plan, the Department's budget has risen by a net of $515 million, which includes State support for full-day Universal Prekindergarten and middle school afterschool expansions and collective bargaining increases primarily for teachers, as shown in Table 22.

Table 22. Changes to the FY 2015 DOE Budget Since the November Plan

($ in millions)

	FY 2015
FY 2014 November Plan	**$20,234**
Full Day UPK Expansion	$300
After School Expansion	145
Collective Bargaining Increases	125
Charter Schools	98
Special Education Pre-Kindergarten Re-estimate	(107)
Federal Medicaid Revenue Re-estimate	(100)
Net All Other	54
Total Changes	$515
FY 2015 Adopted Budget	**$20,749**

The additional City-funds reflected in the Adopted Budget are primarily in support of the recently ratified UFT contract and City Council initiatives. The labor reserve has provided $251 million to the DOE budget to fund teacher salary increases from the UFT labor settlement.[9] This amount is partly offset by expected health insurance savings of $147 million agreed upon by the union. The Adopted Budget also allocates nearly $24 million for City Council initiatives that include a variety of actions such as Teacher's Choice ($6.5 million), middle school free lunch ($6.3 million), Urban Advantage science program ($3.5 million) and dropout prevention ($1 million). It is worth noting that, combined with Federal and State support, the Adopted Budget establishes new funding of $14.5 million for the free lunch initiative in middle schools, partly offset by reduced lunch fee collection of $3.3 million. The Adopted Budget also provides $20 million for custodians' health fund contribution to round out the significant changes in City-funds spending.

Among the major revisions in Federal and State aid, the City has trimmed the projected growth in spending for both Pre-Kindergarten special education and summer handicapped programs, reducing expected State reimbursement from these categories by $83 million. The decline is partly offset by increases in Federal aid and other categorical grants. The increase in Federal aid stems mainly from Title I funding adjustments and the

[9] The June Financial Plan similarly reflects $246 million in labor costs for FY 2014, including $116 million for a one-time $1,000 ratification bonus for teachers and $130 million for salary increases that went into effect in FY 2014.

middle school free lunch initiative, while the increase in other categorical grants is mostly attributable to School Construction Authority and private grants.

Over the remainder of the Plan, the Department's budget is expected to rise to $21.45 billion in FY 2016 and $22.23 billion in FY 2017, before topping out at $23.10 billion in FY 2018. The trend reflects annual funding increases averaging over $780 million during this span. The Plan projects that the composition of the Department's operating budget will remain relatively stable over the outyears, with about 47 percent of funding provided by the City and 45 percent provided by the State.

Our assessment of the Department's Medicaid revenue assumptions remains negative. The DOE reduced its Medicaid revenue assumptions to $67 million in FY 2015 and $97 million annually in FYs 2016 – 2018 in the Executive Budget. However, given that only $2 million in revenue has been realized for FY 2014 to date, the Financial Plan assumptions appear overly ambitious and will likely pose risks of $45 million in FY 2014, $50 million in FY 2015 and $80 million in each of FYs 2016-2018.

Debt Service

Debt service for General Obligation (G.O.), NYC Transitional Finance Authority (NYCTFA), TSASC, and lease-purchase debt, after adjusting for prepayments, totals $6.7 billion in the FY 2015 Adopted Budget. This represents an increase of $1.01 billion from FY 2014.[10] By FY 2018, debt service is projected to grow an additional $1.22 billion to $7.92 billion; or 39.2 percent greater than the FY 2014 total of $5.69 billion.

As shown in Table 23, G.O. debt service is estimated to increase by $998 million, or 27 percent, from FY 2014 to FY 2018. This increase is driven primarily by planned new G.O. borrowing of $9.45 billion for FYs 2015 through 2018 together with new debt incurred in FY 2014 that begins to amortize. New borrowing will increase annual debt service by approximately $570 million by FY 2018, while FY 2014 borrowings adds $115 million in debt service. In addition, conservative budgeting for variable interest rates well above the levels experienced in FY 2014 will add another $274 million to the forecasted annual variable rate demand bond (VRDB) interest costs by FY 2018.

NYCTFA debt service is expected to grow by $1.19 billion or by 72.1 percent from FY 2014 to FY 2018. Planned NYCTFA borrowing of $11.2 billion over the period accounts for $695 million of the increase. The remaining increase is primarily the result of differences in forecasted VRDB costs.

[10] The increase of $1.01 billion is primarily from increased principal due of $229 million in FY 2015, along with over $300 million in higher estimated variable rate interest costs, and a $75 million increase in planned short-term interest costs associated with a forecasted cash flow borrowing. Our office does not believe cash flow borrowing will be necessary in FY 2015.

Table 23. FYs 2014–2018 Debt Service Estimates

($ in millions)

Debt Service Category	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Change FYs 2014 – 2018
G.O.[a]	$3,699	$4,153	$4,588	$4,623	$4,697	$998
NYCTFA [b]	1,649	2,159	2,434	2,647	2,837	1,188
Lease-Purchase Debt	262	317	323	312	305	43
TSASC, Inc.	79	74	74	74	82	3
Total	**$5,689**	**$6,703**	**$7,419**	**$7,656**	**$7,921**	**$2,232**

SOURCE: June 2014 Financial Plan.
NOTE: Debt Service is adjusted to net out the impact of prepayments.
[a] Includes long-term G.O. debt service and interest on short-term notes.
[b] Amounts do not include NYCTFA Building Aid Revenue Bonds debt service.

The Financial Plan does not assume savings from refunding activities in the outyears. However, the Comptroller's Office and the NYC Office of Management and Budget (OMB) monitor outstanding debt and market conditions to actively refinance higher coupon debt to reduce debt service cost. Based on the coupons on outstanding bonds, it is likely that there will be refunding opportunities over the Plan period. Since January 2010, the City has achieved gross savings of over $2.3 billion through refundings of G.O., NYCTFA, and New York Water bonds.

The underlying interest rate assumptions for long-term fixed-rate and variable rate borrowings in the June Financial Plan are conservative in nature and provide a buffer against sudden rises in market rates. If VRDB interest rates and their resulting costs were to continue at their current historically low levels, there would be significant savings in FY 2015.

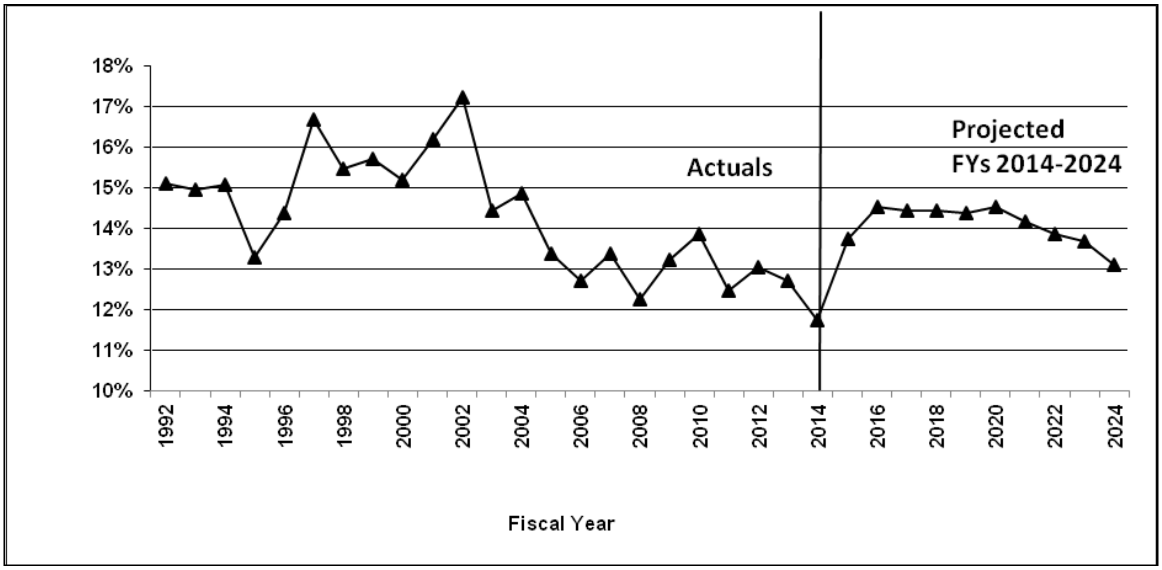
Debt Burden

As shown in Chart 5, debt service as a percentage of local tax revenues is projected to rise from 11.7 percent in FY 2014 to 14.4 percent by FY 2018.[11] This is the result of projected debt service growth outpacing estimated growth in local tax revenues. Between FY 2014 and FY 2018 local tax revenues are projected to grow at an annual rate of 3.1 percent while debt service is estimated to grow at an annual rate of 8.6 percent. Beyond FY 2018, however, debt service growth is projected to stabilize and average about 1.3 percent annually from FYs 2018 to 2024, resulting in average annual debt service growth of 4.2 percent for the FY 2014 – FY 2024 period. As a result, debt service as a percent of local tax revenues drops to 13.1 percent by FY 2024. However, Capital Plan needs, which then translate to borrowing estimates, are not as refined in the latter years as in the first four years of the Financial Plan. Consequently, debt service could likely increase above the current forecast in the outer years.[12]

[11] Both TSASC revenues and expenditures are included in the computation of the ratio.

[12] Tax revenue growth is assumed at 3 percent per annum in FYs 2019-2024. If the tax growth rate dropped to 1.0 percent, the debt ratio would increase to 14.8 percent by FY 2024.

Chart 5. Total Debt Service as a Percentage of Local Tax Revenues, FYs 1992-2024



SOURCE: June 2014 Financial Plan for FYs 2015-2018, Office of Management & Budget, June 2014.

Capital Budget Additions

The Budget added $626.4 million to the FY 2015 Capital Budget; 62 percent of which was concentrated in four agencies: $141.1 million to the Department of Cultural Affairs, $93.7 million to the Parks Department, $84.7 million of Council additions to DOE and $67.9 million to NYCHA. Of these new projects, $605.9 million are estimated to be City-funded, $20 million in Federal funds and $500,000 by private sources. The Council also rescinded $72.2 million of City-funded projects from a variety of agencies for a net addition of $554.2 million in FY 2015. These additional amounts should appear in the Adopted Capital Commitment Plan expected in September or October.

These FY 2015 additions to the Capital Budget are much lower than the $2.021 billion added in FY 2014 (less rescindments of $789 million in City-funds, resulting in a net addition of $1.23 billion). The boost to FY 2014 capital funding was mostly a result of federal Superstorm Sandy support.

VII. Appendix – Revenue and Expenditure Details

Table A1. *FY 2015 Adopted Budget Revenue Detail*

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	Change FYs 2015-18 Dollars	Change FYs 2015-18 Percent
Taxes:						
Real Property	$20,981	$22,086	$23,035	$23,970	$2,989	14.2%
Personal Income Tax	$9,851	$10,262	$10,593	$10,865	$1,014	10.3%
General Corporation Tax	$2,858	$2,950	$3,036	$3,136	$278	9.7%
Banking Corporation Tax	$1,168	$1,183	$1,190	$1,226	$58	5.0%
Unincorporated Business Tax	$1,933	$2,016	$2,086	$2,168	$235	12.2%
Sale and Use Tax	$6,666	$6,946	$7,260	$7,556	$890	13.4%
Real Property Transfer	$1,352	$1,476	$1,531	$1,576	$224	16.6%
Mortgage Recording Tax	$874	$991	$1,030	$1,062	$188	21.5%
Commercial Rent	$715	$745	$778	$812	$97	13.6%
Utility	$415	$413	$421	$431	$16	3.9%
Hotel	$535	$556	$573	$595	$60	11.2%
Cigarette	$53	$51	$50	$49	($4)	(7.5%)
All Other	$507	$507	$507	$507	$0	0.0%
Tax Audit Revenue	$709	$709	$709	$709	$0	0.0%
Total Taxes	**$48,617**	**$50,891**	**$52,799**	**$54,662**	**$6,045**	**12.4%**
Miscellaneous Revenues:						
Licenses, Franchises, Etc.	$583	$591	$592	$589	$6	1.0%
Interest Income	$10	$45	$134	$163	$153	1530.0%
Charges for Services	$920	$924	$924	$924	$4	0.4%
Water and Sewer Charges	$1,559	$1,565	$1,513	$1,509	($50)	(3.2%)
Rental Income	$272	$272	$272	$272	$0	0.0%
Fines and Forfeitures	$789	$787	$787	$787	($2)	(0.3%)
Miscellaneous	$2,090	$990	$941	$550	($1,540)	(73.7%)
Intra-City Revenue	$1,797	$1,822	$1,825	$1,830	$33	1.8%
Total Miscellaneous	**$8,020**	**$6,996**	**$6,988**	**$6,624**	**($1,396)**	**(17.4%)**
Other Categorical Grants	**$809**	**$876**	**$872**	**$867**	**$58**	**7.2%**
Inter Fund Agreements	**$533**	**$519**	**$518**	**$518**	**($15)**	**(2.8%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
Less: Intra-City Revenues	**($1,797)**	**($1,822)**	**($1,825)**	**($1,830)**	**($33)**	**1.8%**
TOTAL CITY-FUNDS	**$56,167**	**$57,445**	**$59,337**	**$60,826**	**$4,659**	**8.3%**

Table A1 (Con't). *FY 2015 Adopted Budget Revenue Detail*

($ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	Change FYs 2015-18 Dollars	Change FYs 2015-18 Percent
Federal Categorical Grants:						
Community Development	$245	$229	$226	$219	($26)	(10.6%)
Welfare	$3,242	$3,222	$3,213	$3,209	($33)	(1.0%)
Education	$1,736	$1,748	$1,747	$1,747	$11	0.6%
Other	$1,235	$1,130	$1,120	$1,118	($117)	(9.5%)
Total Federal Grants	**$6,458**	**$6,329**	**$6,306**	**$6,293**	**($165)**	**(2.6%)**
State Categorical Grants						
Social Services	$1,476	$1,485	$1,479	$1,482	$6	0.4%
Education	$9,253	$9,569	$9,932	$10,341	$1,088	11.8%
Higher Education	$260	$260	$260	$260	$0	0.0%
Department of Health and Mental Hygiene	$468	$458	$458	$458	($10)	(2.1%)
Other	$944	$1,048	$1,165	$1,272	$328	34.7%
Total State Grants	**$12,401**	**$12,820**	**$13,294**	**$13,813**	**$1,412**	**11.4%**
TOTAL REVENUES	**$75,026**	**$76,594**	**$78,937**	**$80,932**	**$5,906**	**7.9%**

Table A2. *FY 2015 Adopted Budget Expenditure Detail*

($ in thousands)

	FY 2015	FY 2016	FY 2017	FY 2018	Change FYs 2015-18 Dollars	Change FYs 2015-18 Percent
Mayoralty	$94,531	$93,864	$93,399	$90,665	($3,866)	(4.1%)
Board of Elections	$110,869	$84,220	$84,220	$84,220	($26,649)	(24.0%)
Campaign Finance Board	$12,294	$13,288	$13,288	$13,288	$994	8.1%
Office of the Actuary	$6,259	$6,261	$6,261	$6,261	$2	0.0%
President, Borough of Manhattan	$4,459	$4,210	$4,210	$4,210	($249)	(5.6%)
President, Borough of Bronx	$5,223	$5,029	$5,029	$5,029	($194)	(3.7%)
President, Borough of Brooklyn	$5,481	$4,911	$4,911	$4,911	($570)	(10.4%)
President, Borough of Queens	$4,669	$4,390	$4,390	$4,390	($279)	(6.0%)
President, Borough of Staten Island	$4,233	$3,959	$3,959	$3,959	($274)	(6.5%)
Office of the Comptroller	$88,072	$88,283	$88,367	$88,389	$317	0.4%
Dept. of Emergency Management	$9,884	$8,134	$8,137	$8,137	($1,747)	(17.7%)
Office of Administrative Tax Appeals	$4,273	$4,273	$4,273	$4,273	$0	0.0%
Law Dept.	$168,552	$153,767	$152,194	$152,832	($15,720)	(9.3%)
Dept. of City Planning	$28,363	$27,820	$27,820	$27,820	($543)	(1.9%)
Dept. of Investigation	$22,915	$22,882	$22,171	$22,171	($744)	(3.2%)
NY Public Library - Research	$23,356	$22,656	$22,656	$22,656	($700)	(3.0%)
New York Public Library	$115,885	$112,185	$112,185	$112,185	($3,700)	(3.2%)
Brooklyn Public Library	$85,977	$83,177	$83,177	$83,177	($2,800)	(3.3%)
Queens Borough Public Library	$86,233	$83,372	$83,372	$83,372	($2,861)	(3.3%)
Dept. of Education	$20,740,326	$21,437,169	$22,226,126	$23,094,125	$2,353,799	11.3%
City University	$928,505	$897,049	$896,935	$892,061	($36,444)	(3.9%)
Civilian Complaint Review Board	$12,758	$12,758	$12,774	$12,774	$16	0.1%
Police Dept.	$4,580,000	$4,474,396	$4,467,233	$4,466,796	($113,204)	(2.5%)
Fire Dept.	$1,776,546	$1,751,969	$1,733,410	$1,695,784	($80,762)	(4.5%)
Admin. for Children Services	$2,817,374	$2,824,065	$2,824,065	$2,824,065	$6,691	0.2%
Dept. of Social Services	$9,736,540	$9,640,410	$9,632,938	$9,631,501	($105,039)	(1.1%)
Dept. of Homeless Services	$953,982	$948,386	$948,386	$948,386	($5,596)	(0.6%)
Dept. of Correction	$1,095,400	$1,090,662	$1,090,111	$1,090,536	($4,864)	(0.4%)
Board of Correction	$1,618	$1,501	$1,474	$1,474	($144)	(8.9%)
Citywide Pension Contribution	$8,468,530	$8,703,533	$8,770,679	$9,278,643	$810,113	9.6%
Miscellaneous	$8,842,765	$9,977,450	$10,417,620	$11,932,906	$3,090,141	34.9%
Debt Service	$4,470,414	$4,910,168	$4,934,194	$5,002,249	$531,835	11.9%
N.Y.C.T.F.A. Debt Service	$2,158,790	$2,434,450	$2,647,400	$2,836,940	$678,150	31.4%
FY 2014 BSA and Discretionary Transfer	($1,982,731)	$0	$0	$0	$1,982,731	(100.0%)
Redemption of N.Y.C.T.F.A. Debt Service	($98,800)	($102,670)	$0	$0	$98,800	(100.0%)
Public Advocate	$3,153	$3,153	$3,153	$3,153	$0	0.0%
City Council	$57,087	$49,442	$49,442	$49,442	($7,645)	(13.4%)
City Clerk	$5,624	$5,103	$5,103	$5,103	($521)	(9.3%)
Dept. for the Aging	$280,482	$254,345	$254,345	$254,345	($26,137)	(9.3%)
Dept. of Cultural Affairs	$157,671	$148,501	$148,501	$148,501	($9,170)	(5.8%)
Financial Info. Serv. Agency	$100,443	$99,990	$92,895	$92,693	($7,750)	(7.7%)
Office of Payroll Admin.	$27,668	$27,696	$27,726	$27,726	$58	0.2%
Independent Budget Office	$4,389	$4,345	$4,335	$4,327	($62)	(1.4%)
Equal Employment Practices Comm.	$999	$814	$814	$814	($185)	(18.5%)

Table A2 (Con't). *FY 2015 Adopted Budget Expenditure Detail*

($ in thousands)

	FY 2015	FY 2016	FY 2017	FY 2018	Change FYs 2015-18 Dollars	Change FYs 2015-18 Percent
Civil Service Commission	$1,040	$1,040	$1,040	$1,040	$0	0.0%
Landmarks Preservation Comm.	$5,268	$5,092	$5,092	$5,102	($166)	(3.2%)
Taxi & Limousine Commission	$74,995	$62,844	$44,844	$44,794	($30,201)	(40.3%)
Commission on Human Rights	$6,494	$6,494	$6,494	$6,494	$0	0.0%
Youth & Community Development	$417,174	$297,269	$297,269	$297,269	($119,905)	(28.7%)
Conflicts of Interest Board	$2,117	$2,117	$2,117	$2,117	$0	0.0%
Office of Collective Bargaining	$2,318	$2,185	$2,185	$2,185	($133)	(5.7%)
Community Boards (All)	$15,483	$15,400	$15,400	$15,400	($83)	(0.5%)
Dept. of Probation	$84,015	$79,942	$79,927	$79,927	($4,088)	(4.9%)
Dept. Small Business Services	$146,152	$89,711	$89,514	$89,514	($56,638)	(38.8%)
Housing Preservation & Development	$553,357	$534,955	$534,961	$534,925	($18,432)	(3.3%)
Dept. of Buildings	$108,295	$102,252	$102,307	$99,862	($8,433)	(7.8%)
Dept. of Health & Mental Hygiene	$1,397,371	$1,373,079	$1,372,936	$1,372,936	($24,435)	(1.7%)
Health and Hospitals Corp.	$81,149	$81,094	$81,145	$81,145	($4)	0.0%
Office of Administrative Trials & Hearings	$35,535	$35,801	$36,126	$36,546	$1,011	2.8%
Dept. of Environmental Protection	$1,166,205	$1,136,264	$1,072,014	$1,054,516	($111,689)	(9.6%)
Dept. of Sanitation	$1,484,698	$1,534,872	$1,513,992	$1,514,143	$29,445	2.0%
Business Integrity Commission	$7,010	$7,010	$7,010	$7,010	$0	0.0%
Dept. of Finance	$244,930	$241,712	$241,565	$241,058	($3,872)	(1.6%)
Dept. of Transportation	$829,066	$819,560	$822,164	$821,979	($7,087)	(0.9%)
Dept. of Parks and Recreation	$370,381	$350,531	$350,802	$350,777	($19,604)	(5.3%)
Dept. of Design & Construction	$121,232	$121,232	$121,232	$121,232	$0	0.0%
Dept. of Citywide Admin. Services	$378,891	$364,876	$364,288	$364,084	($14,807)	(3.9%)
D.O.I.T.T.	$368,488	$352,077	$352,708	$353,634	($14,854)	(4.0%)
Dept. of Record & Info. Services	$5,050	$5,054	$5,054	$5,054	$4	0.1%
Dept. of Consumer Affairs	$33,627	$30,348	$30,354	$30,360	($3,267)	(9.7%)
District Attorney - N.Y.	$91,278	$91,278	$91,278	$91,278	$0	0.0%
District Attorney - Bronx	$53,649	$53,624	$53,624	$53,624	($25)	0.0%
District Attorney - Kings	$87,983	$87,983	$87,983	$87,983	$0	0.0%
District Attorney - Queens	$51,093	$51,093	$51,093	$51,093	$0	0.0%
District Attorney - Richmond	$9,286	$9,036	$9,036	$9,036	($250)	(2.7%)
Special Narcotics	$18,346	$18,346	$18,346	$18,346	$0	0.0%
Public Administrator - N.Y.	$1,571	$1,512	$1,512	$1,512	($59)	(3.8%)
Public Administrator - Bronx	$624	$606	$606	$606	($18)	(2.9%)
Public Administrator - Brooklyn	$688	$673	$673	$673	($15)	(2.2%)
Public Administrator - Queens	$538	$540	$540	$540	$2	0.4%
Public Administrator - Richmond	$448	$441	$441	$441	($7)	(1.6%)
General Reserve	$750,000	$750,000	$750,000	$750,000	$0	0.0%
Energy Adjustment	$0	($8,971)	$2,084	$51,051	$51,051	N/A
Lease Adjustment	$0	$33,668	$63,347	$93,916	$93,916	N/A
OTPS Inflation Adjustment	$0	$55,519	$111,038	$166,557	$166,557	N/A
TOTAL EXPENDITURES	**$75,026,906**	**$79,219,525**	**$80,807,819**	**$84,026,048**	**$8,999,142**	**12.0%**

Glossary of Acronyms

AIRA	Actuarial Interest Rate Assumption
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
CUNY	City University of New York
DC37	District Council 37
DOC	Department of Correction
DOE	Department of Education
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HIPGNY	Health Insurance Plan of Greater New York
HSF	Health Stabilization Fund
MLC	Municipal Labor Committee
NYC	New York City
NYCHA	New York City Housing Authority
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
NYS	New York State
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PIT	Personal Income Tax
PILOT	Payment in Lieu of Taxes
PS	Personal Services
RHBT	Retiree Health Benefits Trust
TSASC	Tobacco Settlement Asset Securitization Corporation, Inc.
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers
UPK	Universal Pre-K
U.S.	United States
VRDB	Variable Rate Demand Bonds