New York City Comptroller
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BUREAU OF FISCAL AND BUDGET STUDIES

Comments on New York City's Fiscal Year 2012 Executive Budget

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I. Executive Summary

On May 6, 2011, Mayor Bloomberg presented his Executive Budget for FY 2012 and the accompanying Four-Year Financial Plan, covering FY 2012 to FY 2015. The FY 2012 Budget totals $65.7 billion after various prepayments. The FY 2012 budget is the product of a series of actions which closed a $3.26 billion gap projected in the July 2010 Financial Plan stemming from a structural imbalance where expenditures exceeded revenues.

Overall spending in the FY 2012 budget has decreased by 0.4 percent when compared to the FY 2011 Budget. But these numbers mask the fact that while overall expenditures have been held flat, the City-funded portion of the budget has increased from 67.1 percent of the FY 2011 Budget to 70.7 percent of the FY 2012 Budget. The City-funds portion of the budget is $2.2 billion greater than the FY 2011 Budget and $2.1 billion more than was planned a year ago. The City-funded share of the budget in FY 2012 would be the highest such percentage since FY 2007.

With the expiration of the American Recovery and Reinvestment Act of 2009, and no expectation of future economic stimulus from the Federal Government, and with the State continuing its own fiscal belt-tightening, the City can be assured that this trend will continue into the near future. The Financial Plan assumes that by FY 2015 the City-funded portion of the budget will exceed 74.5 percent, a share higher than any of the last thirty fiscal years. While the Financial Plan assumes only a modest 14.2 percent growth in total funds expenditure between FYs 2011 and 2015 it assumes City-funded spending will escalate by 26.9 percent while all other spending will decrease by 11.9 percent. The growth in City-funded spending, which is exacerbated by the decline in other funding, will create budget gaps that widen in each of the outyears, growing from $4.767 billion in FY 2013 to $5.26 billion in FY 2015.

In the Comptroller's Office's analysis of the Mayor's Preliminary Budget it was pointed out that the City's reliance on $600 million of State actions was highly dubious and presented a risk to the City's budget. As it turned out, nearly two-thirds of these funds were never realized. The assumptions made in the Executive Budget reduce the budgetary risk associated with potential State actions for FY 2012. The City took further steps to reduce the exposure related to State funding by not assuming any revenue sharing aid in any year of the Financial Plan and also by holding State education aid projections virtually flat in the outyears. While the State's financial plan includes an expansion of school aid to municipalities for the next year, the City's Financial Plan takes the prudent step by assuming no increases.

The Evolution of the FY 2012 Budget

Since July 2010 the Administration has been able to eliminate a large budget gap that has been augmented by State actions. At the time of the adoption of the FY 2011 Budget in July, 2010, the estimated FY 2012 Budget gap was $3.26 billion, or nearly 6.7 percent of the City-funds FY 2012 expense budget. In an effort to get a head start on addressing the FY 2012 Budget gap, the Administration took the first steps towards presenting a balanced budget in their November modification. The November Plan included a large scale PEG (program to eliminate the gap) which, when combined with increased FY 2011 revenue estimates enabled the City to realize a $1.16 billion surplus in FY 2011. The PEG value for FY 2012 in November was $1.01 billion, but this action was largely offset by a decision to replace expiring federal ARRA funding for education with city funds and an additional $400 million allocated towards the reserve for changes to pension assumptions and methods. In total, the actions taken during the November Plan reduced the original gap to $2.36 billion, mainly as a result of the use of FY 2011 Budget surplus to prepay a portion of FY 2012 debt service.

Prior to the release of the City's Preliminary Budget Governor Cuomo issued his Executive Budget for State FY 2012. The Governor's budget proposal eliminated $1.4 billion in State funding to New York City, potentially increasing the City's budget gap to $3.75 billion. The Preliminary Financial Plan assumed that the State Legislature would restore only $400 million of the aid to New York City cut by the Governor in his Executive Budget while providing an additional $200 million savings through the implementation of changes to supplemental retirement payments. The remainder of the FY 2012 gap closing effort relied primarily on actions to be achieved in FY 2011. The addition of $935 million in City-funds revenues coupled with $1.1 billion net reduction in the City-funds expenses generated a $1.99 billion FY 2011 surplus. These resources would be used to prepay FY 2012 expenses, thus reducing obligations payable in FY 2012.

Prior to the release of the Executive Budget it was evident that the $600 million of additional State revenue estimated in the Preliminary Budget would not totally materialize. The adopted State Budget included an additional $192 million in state aid for the city that was not included as part of the Governor's proposal, but still fell far short of the $600 million the City had budgeted. In the Mayor's Executive Budget, the $408 million shortfall was closed with the realization of $304 million in addition FY 2012 revenues, a $232 million FY 2012 agency PEG and $66 million in additional surplus FY 2011 funds, offset by $194 million in new FY 2012 expense needs.

Structural Imbalance and the City's PEG Program

Over the past decade, through multiple economic downturns the City has been able for the most part to avoid many of the devastating budgetary cuts and layoffs that other states and municipalities have faced. The City's accumulation of reserves, built up during the period of unprecedented revenue growth in FY 2005 through FY 2007, has created a fiscal cushion for the inevitable economic downturn. The existence of this fiscal cushion masks the City budget's structural imbalance. While FY 2011 is estimated to end with a $3.217 billion surplus, when compared with the $3.646 billion surplus similarly transferred from FY 2010 to FY 2011, it becomes clear that in the current year, the City is drawing on more resources than it is generating.

The City has relied on multiple PEGs to slow the growth in expenditures and increase revenues. The current plan includes moderate new savings as a result of PEG actions. The balancing of the FY 2012 Budget relies heavily on the accrued benefits of PEG programs totaling $633 million in FY 2011 and $1.24 billion in FY 2012. The Executive headcount plan shows City-funded full-time headcount of 224,672 for FY 2012 a net reduction of 9,026 from estimated June 30, 2011 City-funded full-time headcount. This total includes a headcount reduction of 5,398 of pedagogical employees at the Department of Education (DOE). While the City has provided $853 million in additional funding to the DOE to mitigate the impact from the expiration of Federal ARRA funds at the end of FY 2011, these funds will not be adequate to prevent additional pedagogical layoffs. As a result, it is estimated that nearly 3,900 teachers will face layoffs in FY 2012. Although no PEG layoffs are planned in the Uniformed Agencies, there are planned PEG reductions of 733 uniformed and 107 civilian positions to be achieved through attrition.

Risks and Offsets

The Comptroller's Office has identified risks and offsets in the Mayor's budgetary assumptions totaling $867 million in FY 2011 and $1.1 billion in FY 2012. Overall, the Comptroller assumes less of a net risk to the Executive Budget than existed in the Preliminary Budget primarily as a result of the Mayor's advance recognition of reductions in State aid. The net risk for FYs 2011 and 2012 posed by the Mayor's tax revenue forecasts have reduced slightly since the Preliminary Budget. The Comptroller's tax revenue forecasts for the two fiscal years closely mirror those presented by the Mayor in the Executive Budget, although differences remain regarding the composition of tax collections.

The economy is expected to continue on the path of slow recovery during the Plan period. But despite mostly positive indicators for the City's short-term economic condition there exist the possibility of negative externalities that could hinder the current expansion. Factors outside of the City's control such as rising energy prices, the continued depression of the construction industry specifically within the residential construction sector, and the potential European debt crisis can be expected to produce additional drag on the US and local economies. Over the last two years the US economy has experienced growth rates of only 2.8 percent annually, well below the 5.2 percent annual rate that characterized the first two years of recovery from previous post-war recession. As a result, the Comptroller's Office continues to forecast relatively slow revenue growth over the Plan period. The Comptroller expects that the local real estate market will fare better and business related taxes will fare worse that the Mayor's budget assumes. In total the Comptroller forecasts a $24 million risk in FY 2011 and $163 million risk in FY 2012 for tax revenue collection.

The tax revenue risk is augmented by additional risks to expenditures. The exclusion of funding for wage increases for the current round of collective bargaining for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA) poses the single largest risk to the current year's budget, nearly $900 million and $800 million in FY 2012. The Administrations routine under estimation of overtime costs adds an additional $195 million in FY 2012 risks offset slightly by the Comptroller's estimate of a decrease in the costs related to judgments and claims.

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Table 1. May 2011 Modification and FYs 2012 – 2015 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Changes FYs 2011 – 2015 Dollar	Changes FYs 2011 – 2015 Percent
Revenues							
Taxes:							
General Property Tax	$17,048	$17,899	$18,417	$18,844	$19,274	$2,226	13.1%
Other Taxes	$22,035	$23,538	$24,371	$25,107	$26,452	$4,417	20.0%
Tax Audit Revenues	$868	$660	$659	$666	$666	($202)	(23.3%)
Subtotal: Taxes	$39,951	$42,097	$43,447	$44,617	$46,392	$6,441	16.1%
Miscellaneous Revenues	$6,192	$5,915	$5,971	$6,030	$6,049	($143)	(2.3%)
Unrestricted Intergovernmental Aid	$14	$12	$12	$12	$12	($2)	(14.3%)
Less: Intra-City Revenues	($1,890)	($1,532)	($1,526)	($1,523)	($1,523)	$367	(19.4%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$44,252	$46,477	$47,889	$49,121	$50,915	$6,663	15.1%
Other Categorical Grants	$1,336	$1,160	$1,158	$1,156	$1,153	($183)	(13.7%)
Inter-Fund Revenues	$569	$543	$503	$503	$503	($66)	(11.6%)
Total City & Inter-Fund Revenues	$46,157	$48,180	$49,550	$50,780	$52,571	$6,414	13.9%
Federal Categorical Grants	$8,325	$6,525	$6,290	$6,235	$6,233	($2,092)	(25.1%)
State Categorical Grants	$11,495	$11,010	$11,093	$11,159	$11,250	($245)	(2.1%)
Total Revenues	$65,977	$65,715	$66,933	$68,174	$70,054	$4,077	6.2%
Expenditures							
Personal Service							
Salaries and Wages	$22,130	$21,277	$21,342	$21,558	$21,647	($483)	(2.2%)
Pensions	$7,002	$8,424	$8,568	$8,451	$8,727	$1,725	24.6%
Fringe Benefits	$7,651	$7,992	$8,420	$8,935	$9,500	$1,849	24.2%
Retiree Health Benefits Trust	($395)	($672)	$0	$0	$0	$395	(100.0%)
Subtotal-PS	$36,388	$37,021	$38,330	$38,944	$39,874	$3,486	9.6%
Other Than Personal Service							
Medical Assistance	$4,894	$6,141	$6,327	$6,463	$6,643	$1,749	35.7%
Public Assistance	$1,558	$1,348	$1,365	$1,365	$1,365	($193)	(12.4%)
All Other	$20,379	$19,740	$20,236	$20,790	$21,377	$998	4.9%
Subtotal-OTPS	$26,831	$27,229	$27,928	$28,618	$29,385	$2,554	9.5%
Debt Service							
Principal	$1,789	$1,990	$2,189	$2,161	$2,243	$454	25.4%
Interest & Offsets	$2,167	$2,359	$2,608	$2,710	$2,800	$633	29.2%
Subtotal Debt Service	$3,956	$4,349	$4,797	$4,871	$5,043	$1,087	27.5%
FY 2010 BSA and Discretionary Transfers[a]	($3,646)	$0	$0	$0	$0	$3,646	(100.0%)
FY 2011 BSA and Discretionary Transfers[b]	$3,217	($3,217)		$0	$0	($3,217)	(100.0%)
FY 2008 Redemption of Certain NYCTFA Debt	($35)	$0	$0	$0	$0	$35	(100.0%)
NYCTFA							
Principal	$475	$376	$594	$719	$725	$250	52.5%
Interest & Offsets	$641	$1,189	$1,277	$1,331	$1,510	$869	135.7%
Subtotal NYCTFA	$1,116	$1,565	$1,871	$2,050	$2,235	$1,119	100.3%
General Reserve	$40	$300	$300	$300	$300	$260	650.0%
	$67,867	$67,247	$73,226	$74,783	$76,837	$8,970	13.2%
Less: Intra-City Expenses	($1,890)	($1,532)	($1,526)	($1,523)	($1,523)	$367	(19.4%)
Total Expenditures	$65,977	$65,715	$71,700	$73,260	$75,314	$9,337	14.2%
Gap To Be Closed	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**	**($5,260)**	**N/A**

[a] FY 2010 BSA and Discretionary Transfers include prepayments of $2.888 billion of GO debt service, $371 million of NYCTFA debt service, $383 million of subsidies and bond refunding of $4 million.

[b] FY 2011 BSA including prepayments of $2.263 billion of GO debt service and $790 million of NYCTFA debt service and $164 million of subsidies.

Table 2. Plan-to-Plan Changes
May 2011 Modification vs. July 2010 Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
Revenues				
Taxes:				
General Property Tax	$59	$267	$516	$806
Other Taxes	$740	$981	$568	$112
Tax Audit Revenues	$246	$39	$39	$46
Subtotal: Taxes	$1,045	$1,287	$1,123	$964
Miscellaneous Revenues	$280	$177	$202	$211
Unrestricted Intergovernmental Aid	$0	($302)	($302)	($302)
Less: Intra-City Revenues	($274)	($34)	($24)	($21)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,051	$1,128	$999	$852
Other Categorical Grants	$101	$18	$19	$19
Inter-Fund Revenues	$11	$50	$10	$10
Total City & Inter-Fund Revenues	$1,163	$1,196	$1,028	$881
Federal Categorical Grants	$1,512	$778	$616	$568
State Categorical Grants	$143	($1,264)	($1,394)	($1,744)
Total Revenues	$2,818	$710	$250	($295)
Expenditures				
Personal Service				
Salaries and Wages	$554	$266	$13	($317)
Pensions	($610)	$548	$585	$365
Fringe Benefits	($18)	($96)	$11	$18
Retiree Health Benefits Trust	$0	$0	$0	$0
Subtotal-PS	($74)	$718	$609	$66
Other Than Personal Service				
Medical Assistance	($272)	$194	$156	($315)
Public Assistance	($28)	($278)	($249)	($249)
All Other	$964	$450	$404	$413
Subtotal-OTPS	$664	$366	$311	($151)
Debt Service				
Principal	$0	($162)	$56	$57
Interest & Offsets	($255)	($168)	($24)	($26)
Subtotal Debt Service	($255)	($330)	$32	$31
FY 2010 BSA and Discretionary Transfers	($4)	$0	$0	$0
FY 2011 BSA and Discretionary Transfers	$3,217	($3,217)	$0	$0
FY 2008 Defeasance of Certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA Debt Service				
Principal	$19	($202)	($91)	$12
Interest & Offsets	($78)	$152	$125	$19
Subtotal NYCTFA	($59)	($50)	$34	$31
General Reserve	($397)	$0	$0	$0
	$3,092	($2,513)	$986	($23)
Less: Intra-City Expenses	($274)	($34)	($24)	($21)
Total Expenditures	$2,818	($2,547)	$962	($44)
Gap To Be Closed	**$0**	**$3,257**	**($712)**	**($251)**

Table 3. Risks and Offsets to the May Modification and FYs 2012 – 2015 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
City Stated Gap	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**
Tax Revenues					
Property Tax	($13)	($8)	($39)	($17)	$14
Personal Income Tax	($21)	($27)	$65	$314	$191
Business Taxes	$3	($268)	($122)	$129	$297
Sales Tax	$0	$0	$19	$87	$156
Real-Estate-Related-Taxes	$7	$140	$318	$308	$325
Subtotal	**($24)**	**($163)**	**$241**	**$821**	**$983**
Expenditures					
UFT/CSA Collective Bargaining	($898)	($800)	($897)	($900)	($900)
Overtime	$0	($195)	($100)	($100)	($100)
Pension Reform	$0	$0	$0	($131)	($252)
Public Assistance	$20	$0	$0	$0	$0
Judgments and Claims	$35	$55	$85	$115	$150
Subtotal	**($843)**	**($940)**	**($912)**	**($1,016)**	**($1,102)**
Total Risks/Offsets	**($867)**	**($1,103)**	**($671)**	**($195)**	**($119)**
Restated (Gap)/Surplus	**($867)**	**($1,103)**	**($5,438)**	**($5,281)**	**($5,379)**

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II. The City's Economic Outlook

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2011-2015

The recession of 2008-2009 ended almost two years ago. Since then, the U.S. economy has grown at a 2.8 percent annual rate, well below the 5.2 percent annual rate that characterized the first two years of recovery from previous post-war recessions. The Comptroller's Office anticipates that this subdued rate of economic growth will continue for the foreseeable future, with economic momentum increasing only gradually during the next four years.

Although government fiscal and monetary stimulus helped end the recession without a complete economic catastrophe, many of the imbalances that led to the crisis remain unresolved. In particular, the housing market has yet to stabilize and the balance sheets of households and financial institutions remain fragile. Moreover, the high energy prices that helped to tip the economy into recession in 2008 have returned, while the limits of political tolerance for further government stimulus appear to have been reached. In the coming few years, economic growth will be driven primarily by the spending decisions of households and businesses, who have yet to demonstrate full confidence in the sustainability of the recovery.

Nevertheless, the economy seems to have passed the point of maximum vulnerability to a relapse. The unemployment rate has begun to move downward and the pace of private hiring appears to be gaining steam. Delinquencies on mortgages, credit cards and other types of household loans have begun to decline. The contractions in household spending and business investment have reversed, corporate profits are at an all-time high, and foreign demand for U.S.-produced goods and services has recovered. The Comptroller's Office believes that the recovery will continue even as federal fiscal and monetary stimulus programs wind down, but that the rate of growth will be insufficient to lower rapidly the unemployment rate.

New York City's economy has performed somewhat better than the nation's throughout the recession and recovery, primarily because several industries that were most inflated by the credit bubble, including construction and manufacturing, play a relatively small role in the local economy. Consequently, the city's employment base declined less severely than the nation's during the recession and began to recover more quickly once the recession ended. The Comptroller's Office expects the relatively strong performance of the city's economy to continue throughout the forecast period, with real GCP increasing at a rate that is close to the national growth rate.

Table 4 compares the Comptroller's and Mayor's forecasts for major national and local economic variables.

Table 4. Selected NYC and the U.S. Economic Indicators, Annual Averages, Comptroller and Mayor's Forecasts, 2011-2015

Selected NYC Economic Indicators, Annual Averages						
		2011	**2012**	**2013**	**2014**	**2015**
Real GCP, (2005 $),	Comptroller	2.9	2.9	3.1	3.1	3.2
% Change	Mayor	0.7	0.9	1.8	2.7	2.4
Payroll Jobs,	Comptroller	30.0	47.0	55.0	65.0	59.0
Change in Thousands	Mayor	28.0	29.0	32.0	47.0	51.0
Inflation Rate	Comptroller	2.5	2.1	2.2	2.3	2.6
Percent	Mayor	3.0	2.2	2.0	2.4	2.4
Wage-Rate Growth,	Comptroller	2.5	3.2	3.5	3.8	3.6
Percent	Mayor	3.2	1.6	2.2	2.9	3.1
Unemployment Rate,	Comptroller	8.7	8.4	7.6	6.8	5.9
Percent	Mayor	NA	NA	NA	NA	NA
Selected U.S. Economic Indicators, Annual Averages						
		2011	**2012**	**2013**	**2014**	**2015**
Real GDP, (2005 $),	Comptroller	2.6	3.0	3.1	3.2	3.3
% Change	Mayor	2.7	2.8	2.9	3.6	3.2
Payroll Jobs,	Comptroller	1.5	2.0	2.2	2.4	2.2
Change in Millions	Mayor	1.5	2.3	2.4	3.0	2.7
Inflation Rate	Comptroller	2.7	2.1	2.2	2.2	2.6
Percent	Mayor	3.1	1.9	1.8	2.2	2.2
Fed Funds Rate,	Comptroller	0.2	0.7	2.0	3.7	4.1
Percent	Mayor	0.2	1.2	3.4	3.6	4.7
10-Year Treasury Notes,	Comptroller	3.6	4.4	4.5	5.0	5.4
Percent	Mayor	3.7	4.2	4.6	4.8	5.6

SOURCE: Comptroller=forecast by the NYC Comptroller's Office. Mayor=forecast by the NYC Office of Management and Budget in the Executive Budget Fiscal Year 2012 Message of the Mayor.

B. UNDERLYING FACTORS AFFECTING THE FORECAST

The National Economy

Real GDP (preliminary) increased at a 1.8 percent annual rate in the first quarter of 2011, following a 3.1 percent growth rate in the fourth quarter of 2010. Many economic forecasters have attributed the weak first-quarter growth to severe winter weather in much of the country, but the Comptroller's Office believes the slowdown reflects structural factors as well.

In particular, declining federal, state and local government expenditures shaved 1.1 percentage points from GDP growth in the first quarter. Although the tax compromise between the President and Congress in late 2010 provided additional fiscal stimulus in the form of a 2-percentage point decrease in the Social Security payroll tax, that stimulus was eroded by federal spending cuts associated with the subsequent FY 2011 Budget deal. Federal spending may be further curtailed by budget cuts demanded by House Republicans as a condition for raising the federal debt ceiling. Adopted and potential federal budget reductions will amplify spending cuts already implemented by state and local governments, which have reduced their payrolls by 446,000 employees over the past two years. Government budget reductions will continue to act as a drag on economic growth, at least until private demand for credit begins to put significant pressure on long-term interest rates, demonstrating crowding out of private borrowing.

Rising energy prices were a second drag on growth in early 2011 and may remain so throughout the year. The U.S. City average per gallon price for regular unleaded gasoline rose from $2.96 at the beginning of December 2010 to $3.60 at the end of March 2011. By mid-May, average retail prices had risen further, to $3.96 per gallon. A sustained increase in gasoline prices of $1 per gallon would offset virtually all of the gains to household disposable income resulting from the temporary Social Security payroll tax reduction and may serve to further undermine consumer confidence.

Real consumer spending grew at a 4.0 percent annual rate in the fourth quarter of 2010, marking the fifth consecutive quarter of increasing momentum. In the first quarter of 2011, the rate of increase in real consumer expenditures slipped to 2.2 percent, possibly signaling increased consumer caution or depletion of their discretionary cash balances. However, the rate of growth in personal consumption expenditures actually increased in the first quarter in nominal dollars; the rise in energy and food costs negated that spending increase and translated into a smaller increase in real goods and services purchased. That divergence dramatizes the impact energy and food costs have on consumer budgets, but also provides for some optimism about the future path of the recovery. Consumers have stepped up their purchasing, especially of durable goods, during the past six months and that augers well for the recovery's continued momentum, providing that rising energy costs do not negate the improvement.

Recent national jobs reports confirm the resilience of the recovery. Private-job growth, which averaged only 109,000 jobs per month in the 12 months ending in January 2011, accelerated to an average of 253,000 jobs per month from January to April. Although job gains of that magnitude are not abnormally high by historical standards (during the last expansion, total-job gains at times exceeded 350,000 per month), they are well above the number necessary to keep pace with population growth and to reduce the unemployment rate. However, the improved job growth in the first four months of 2011 did not bring down the unemployment rate significantly, as more job seekers entered the labor market in response to improved labor market conditions. In April, there were still 13.7 million people unemployed, almost twice as many as before the recession. Even more worrisome, there are over 2 million Americans who have been unemployed for 80 weeks or longer, and if their work skills and job contacts atrophy, it will become more and more difficult to reincorporate them into the workforce. Nevertheless, continued job creation at a level of 250,000 or more per month will slowly pull down the unemployment rate; the Comptroller's Office anticipates that the national rate will fall to 7.4 percent by the end of 2012.

One reason the unemployment rate remains high and will continue to be significantly above the rates recorded at similar stages of previous recoveries is the continued depression in the construction industry. Employment in all segments of the construction industry remains about 2.2 million below the levels of five years ago, accounting for 46 percent of the total national employment decline relative to April 2006. The situation is particularly dire in the residential construction industry, where employment is down 45 percent from its level of five years ago. High GDP growth rates and low-unemployment rates will not be restored until the construction industry returns to health, and that does not appear to be imminent. New housing starts in April were mired at an annual rate of only 523,000 and new residential construction has shown no upward trend in recent months. Given the renewed weakness in home prices nationwide, it appears that it may take several more years before construction activity again contributes materially to economic growth.

While the recovery now appears to be firmly rooted and capable of sustaining itself without further governmental stimulus, there are several risk factors that could undo much of the progress made in the past two years. One is the political impasse over the federal debt ceiling. The debt ceiling of $14.3 trillion was reached on May 16, and since then the federal government has used various budgetary techniques to keep basic government functions operating normally. However, the Treasury Department estimates that, if the debt ceiling is not raised by early August, dramatic actions such as suspending Social Security benefit payments will be necessary. An outright default on Treasury debt would have calamitous effects on the global economy and is therefore highly improbable, but even radical and abrupt spending cuts could provide a fiscal and psychological shock large enough to derail the recovery. Recognizing these serious risks, the Comptroller's Office expects that a compromise agreement will be reached between the President and Congress, and that budget cuts with mildly contractionary effects will be adopted.

The debt problems of some Euro-zone countries also have the potential to trigger renewed global financial disruptions reminiscent of the subprime crisis of 2008. Many knowledgeable observers believe that the sovereign debt burdens of Greece, Ireland and possibly Portugal are unsustainable and that actions to relieve them will eventually be taken cooperatively by European leaders or unilaterally by the countries themselves. There are a variety of scenarios of how those situations might be resolved with the anticipated stresses on international financial markets ranging from negligible to severe. The Comptroller's Office expects that the European debt problem will be successfully managed but recognizes the serious risks to the global economy inherent in it.

The New York City Economy

Recent employment reports indicate that the city's economic recovery is on track and is keeping pace with the nation's. The City's employment base expanded vigorously early in 2010 but job growth faltered late in the year. However, during the first four months of 2011, the City's private sector added over 42,000 payroll jobs, indicating that the hiring lull was temporary and that the expansion has gained traction. Financial activities, information, and professional and business services accounted for over half of the new private jobs created in the first four months of the year, which augurs well for the future. Those sectors generate much of their business outside of the city and provide the highest average wages, consequently providing strong "multiplier effects" to other sectors of the local economy.

Reflecting the strong job growth in office-intensive industries, Manhattan's office market continued to improve. According to Cushman and Wakefield, the overall vacancy rate (including sublet space) was 10.0 percent in the first quarter of 2011, 1.6 percentage points lower than the first quarter of 2010. New leasing activity for the first quarter of 2011 totaled 7.6 million square feet, 33 percent more than in the first quarter of 2010. Space absorption was about 439,000 square feet in the first quarter of 2011, compared with a contraction of over 2 million square feet in the corresponding quarter of 2010. Strong demand for office space has a variety of spillover benefits for the City's economy, positively affecting industries such as real estate and building management, construction, legal and architectural services, and food service.

Residential real estate has also rebounded strongly during the past year. According to Prudential Douglas Elliman, sales of Manhattan condos and co-ops totaled 10,060, a 35 percent increase over 2009 and the third-highest sales volume on record. Furthermore, a total of 2,394 co-op and condo sales closed in the first quarter of 2011, the best first quarter in three years. While sales prices of condominiums in the first quarter (measured by average selling price per square foot) were still 16 percent below their peak levels of the second quarter of 2008, the price decline has been much less than for home prices nationally and renewed price weakness has not been evident. In Brooklyn, the number of 1- to 3-family home sales increased 12 percent over the first quarter of 2010 and prices strengthened. Market momentum was less evident in Queens, however, where 1- to 3-family homes sales were down 19 percent compared to the first quarter of 2010.

Despite the generally positive indicators for the City's short-term economic condition, many uncertainties remain about the long-term vigor of the current expansion. First and foremost are the risks, discussed above, to the national economic recovery. Since so much of the City's business income is generated outside of the five boroughs, the pace of the national and global economic expansion will necessarily affect local economic prospects. In addition, competitive, regulatory and structural factors are rapidly changing the business environment of its leading industries, making past patterns of growth poor guides to the future.

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III. The FY 2011 Budget

The May Modification to the FY 2011 Budget which was released concurrently with the FY 2012 Executive Budget and FYs 2012 – 2015 Financial Plan, showed only moderate change from the February Modification. Overall, the May Modification realizes a net of $66 million in additional resources as a result of downward revisions of $30 million and $39 million in estimated revenues and expenditures, respectively, and additional FY 2011 PEGs (Programs to Eliminate the Gap) of $48 million. Retroactive Federal reimbursements for WeCare contract expenses and Medicare eligible inmates served by Health and Hospitals Corporation (HHC) facilities totaling $21 million and property tax recoupment of $6 million account for more than half of the additional FY 2011 PEGs.

The May Modification reflects the improved fiscal outlook for FY 2011 since the amended Adopted Budget in July. FY 2011 tax revenue estimates have increased by $1.033 billion since July 2010 mainly as a result of higher than expected Wall Street profits, a rebound in the tourism industry, and increased real estate transactions.

Further improving the FY 2011 fiscal picture is a net reduction of $1.633 billion in City-funds expenditures. Elimination of the FY 2011 pension reserve to fund changes in actuarial assumption and methodologies, accounts for $600 million of the decrease in expenditures. The City had previously assumed that any changes to actuarial assumptions and methodologies would impact FY 2011 pension contributions. The City now expects any changes to be effective in FY 2012. Other expenditure changes include reducing the General Reserve by $397 million, recognition of $500 million in prior-year-payable savings, reduction of $516 million in Medical Assistance (MA) expenditure from earlier than expected Federal Medical Assistance Percentage reimbursement, and $301 million in debt service savings.

In addition to the revisions to revenue and expenditure estimates, proposed programs to eliminate the gap (PEGs) provide additional resources of $633 million in FY 2011 through a combination of revenue enhancements and budget savings. As Table 5 on page 12 shows, the increased revenue projections, lower spending estimates, and expected budget relief from PEGs combine to fund a FY 2011 Budget Stabilization Account (BSA) of $3.217 billion. The BSA is earmarked to provide budget relief for FY 2012 through the prepayments of $2.263 billion of FY 2012 general obligation (GO) debt service, $790 million of FY 2012 New York City Transitional Finance Authority (NYCTFA) debt service, and $164 million of FY 2012 library subsidies.

Table 5. Changes to the FY 2011 Estimates Since July 2010

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

	July to Nov. Mod.	Nov. to Feb. Mod.	Feb. to May Mod.	July to May Mod.
Beginning Gap	**$0**	**$0**	**$0**	**$0**
State Budget Impact	**$0**	**($48)**	**$9**	**($39)**
Changes to Revenues				
Tax Revenues	$77	$993	($37)	$1,033
Non-Tax Revenues	8	(58)	7	(43)
Total Revenue Changes	**$85**	**$935**	**($30)**	**$990**
Changes to Expenses				
Fund FMAP Shortfall[a]	($43)	$0	$0	($43)
FMAP acceleration	0	516	0	516
General Reserve	137	200	60	397
Prior-Year-Payable	0	500	0	500
HIP Rate Increase	(7)	4	0	(3)
J & C	0	50	0	50
Reserve for Changes in Pension Assumptions & Methods	600	0	0	600
Debt Service	23	269	9	301
Pension	0	12	(2)	10
Other Expense Changes	(219)	(448)	(28)	(695)
Total Expense Changes	**$491**	**$1,103**	**$39**	**$1,633**
Surplus/(Gap) to be Closed	**$576**	**$1,990**	**$18**	**$2,584**
Agency Program	**$585**	**$0**	**$48**	**$633**
FY 2011 BSA Prepayment	**($1,161)**	**($1,990)**	**($66)**	**($3,217)**
Remaining Gap Current Plan	**$0**	**$0**	**$0**	**$0**

[a]The actual impact of the FMAP shortfall was a cost of $180 million, which was offset by $137 million held in the General Reserve as contingency against this potential loss.

IV. Balancing the FY 2012 Budget

The City-funds portion of the FY 2012 Executive Budget totals $46.477 billion, a decrease of $289 million from the Preliminary Budget as shown in Table 6. The most significant change in the City's revenue assumptions is the removal of $600 million in revenues from anticipated State actions. This shortfall is offset by higher FY 2012 revenue forecasts, a modest increase of $66 million in projected prepayments, and additional PEGs of $232 million.

Table* 6. *Changes to City-Funds Estimates
Preliminary Budget to Executive Budget

($ in millions)

Revenue Changes		Expenditure Changes	
Tax Revenues	$163	State Budget Impact	($192)
Non-Tax Revenues	$141	Judgments & Claims	($20)
Revenue PEGs	$7	Debt Service	$7
Anticipated State Actions	($600)	Expenditure PEGs	($225)
		Prepayment	($66)
Total	**($289)**	Pension	$5
		Other Expense Changes	$202
		Total	**($289)**

The FY 2012 Executive Budget closes a $3.257 billion gap originally projected in the July 2011 Financial Plan. As Table 7 shows, actions adopted in the State 2011 – 2012 Enacted Budget widened the gap to $4.454 billion. Surplus FY 2011 resources, stemming primarily from higher revenue forecast, lower expenditure estimates and gap-closing actions as discussed in "The FY 2011 Budget" beginning on page 11, provides $3.217 billion of budget relief for FY 2012. In addition, higher FY 2012 revenue forecasts of $1.313 billion combined with $1.242 billion of PEG benefits provide another $2.555 billion of budget relief. Together, these improvements to the budget enable the City to close the $4.454 billion gap and fund a net increase of $1.318 billion in City-funds expenditures.

The majority of the City-funds expenditure increase in FY 2012 is the result of the inclusion of the City support to offset the expiration of education support from American Recovery and Reinvestment Act of 2009 (ARRA) and an increase of $400 million to the reserve to fund the potential cost of expected change to actuarial assumptions and methodologies in computing pension contributions.[1] The July Financial Plan projections

[1] The July Financial Plan includes $600 million in each year of the Plan to fund the potential cost of actuarial changes. The additional $400 million added to the reserve brings the reserve to $1 billion beginning in FY 2012. As discussed in "The FY 2011 Budget" the City has removed the $600 million for FY 2011 as any changes will not affect FY 2011 contributions.

reflected pedagogical headcount reduction of 14,190 positions (13,930 positions through layoffs and 260 positions through attrition) to absorb the loss of ARRA funding.[2] These reductions will be averted with the use of City-tax levy to offset the expiration of ARRA funding.

Table 7. Changes to the FY 2012 Estimates

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

	July to Nov. Plan	Nov. to Prelim. Budget	Prelim. To Executive Budget	July to Executive Budget
Beginning Gap	**($3,257)**	**($2,357)**	**$0**	**($3,257)**
State Budget Impact	**$0**	**($1,389)**	**$192**	**($1,197)**
Gap After State Budget Impact	**($3,257)**	**($3,746)**	**$192**	**($4,454)**
Changes to Revenues				
Tax Revenues	($49)	$1,131	$163	$1,245
Non-Tax Revenues	(56)	(17)	141	68
Total Revenue Changes	**($105)**	**$1,114**	**$304**	**$1,313**
Changes to Expenses				
Replace ARRA Funding for Education	($853)	$0	$0	($853)
Fund FMAP Shortfall	(72)	0	0	(72)
FMAP acceleration	0	(122)	0	(122)
HIP Rate Increase	(126)	64	0	(62)
J & C	10	60	20	90
Reserve for Changes in Pension Assumptions and Methods	(400)	0	0	(400)
Debt Service	341	339	(7)	673
FY 2010 Asset Gains	45	0	0	45
Investment Fees	(102)	0	0	(102)
Pension	(12)	(75)	(5)	(92)
Other Expense Changes	3	(224)	(202)	(423)
Total Expense Changes	**($1,166)**	**$42**	**($194)**	**($1,318)**
Surplus/(Gap) to be Closed	**($4,528)**	**($2,590)**	**$302**	**($4,459)**
Agency Program	**$1,010**	**$0**	**$232**	**$1,242**
FY 2011 BSA	**$1,161**	**$1,990**	**$66**	**$3,217**
Anticipated State Actions	**$0**	**$600**	**($600)**	**$0**
Remaining Gap Current Plan	**($2,357)**	**$0**	**$0**	**$0**

[2] Pedagogical headcount reduction of 14,190 is part of a PEG that was included in the January 2009 Plan with the reduction scheduled to be effective for FY 2010. The subsequent passage of the ARRA enabled the City to delay the PEG until FY 2012.

PROGRAMS TO ELIMINATE THE GAP

The Executive Budget contains additional PEGs that will generate net benefits of $232 million partially offsetting the loss of $600 million of anticipated budget relief resulting from State actions included in the Preliminary Budget. The PEGs include the reversal of previously proposed PEGs totaling $27 million. As in previous plans, the majority of the PEG benefits are accrued from initiatives that produce at least $5 million in savings or revenues. Of the 178 new initiatives in the Executive Budget, 13 initiatives are expected to generate $131 million, or approximately 56 percent of the PEG benefits. Table 8 shows the details of these initiatives.

Table 8. PEG Initiatives With a Minimum Value of $5 Million

($ in thousands)

Agency	PEG Initiatives	FY 2012 Benefits
Dept. of Parks & Recreation	Attrition Incentive Program	$29,063
Dept. of Education	Field Services - PS Attrition	13,742
	Custodial PEG	10,000
	Central Admin – OTPS	8,002
	Field Services - OTPS	6,162
Dept. of Finance	Tax Shelters and Expansion of Limited Scope Audits	12,146
Administration for Children's Services	Additional Child Care Revenue	10,000
	Adoption Subsidy Re-estimate	7,114
	Additional Federal Funding for Child Care	7,000
Dept. of Transportation	CHIPS Funding Switch for Traffic Operations	7,546
	Expansion of Red Light Camera Within Current Authorization	5,616
Dept. of Social Services	Increased Reimbursement for Disability Determinations	8,151
Dept. of Sanitation	Waste Export Funding Reduction	6,920
Total		**$131,462**

RISKS AND OFFSETS

While the City has presented a balanced FY 2012 Executive Budget, the Comptroller's Office's analysis of the budget shows that there is a net risk of $1.103 billion to the FY 2012 estimates. The largest risk to the Executive Budget stems from the absence of funding for the current round of collective bargaining for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA). In corresponding rounds of collective bargaining, all other major unions have settled for two annual wage increases of 4.0 percent. As Table 9 on page 16 shows, the absence of funding for wage increases for the UFT and CSA poses a potential risk of $800 million in FY 2012.

Risks in the outyears of the Plan decline steadily mainly as a result of higher revenue projections. The Comptroller's Office expects revenues to be above the City's projections by $241 million in FY 2013, $821 million in FY 2014, and $983 million in FY 2015, partially offsetting risks to expenditures. Risks associated with the UFT/CSA collective bargaining and overtime continue in the outyears and remain relatively unchanged between FY 2013 through FY 2015. However, new risks associated with the City's assumption of pension reform appear in FY 2014 and continue into the outyears. The FYs 2014 and 2015 expenditure projections assume savings of $131 million and $252 million, respectively, as a result of proposed pension reform. However, currently it is uncertain if these reforms will materialize.

Table 9. Risks and Offsets to the May Modification and FYs 2012 – 2015 Financial Plan

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
City Stated Gap	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**
Tax Revenues					
Property Tax	($13)	($8)	($39)	($17)	$14
Personal Income Tax	($21)	($27)	$65	$314	$191
Business Taxes	$3	($268)	($122)	$129	$297
Sales Tax	$0	$0	$19	$87	$156
Real-Estate-Related-Taxes	$7	$140	$318	$308	$325
Subtotal	**($24)**	**($163)**	**$241**	**$821**	**$983**
Expenditures					
UFT/CSA Collective Bargaining	($898)	($800)	($897)	($900)	($900)
Overtime	$0	($195)	($100)	($100)	($100)
Pension Reform	$0	$0	$0	($131)	($252)
Public Assistance	$20	$0	$0	$0	$0
Judgments and Claims	$35	$55	$85	$115	$150
Subtotal	**($843)**	**($940)**	**($912)**	**($1,016)**	**($1,102)**
Total Risks/Offsets	**($867)**	**($1,103)**	**($671)**	**($195)**	**($119)**
Restated (Gap)/Surplus	**($867)**	**($1,103)**	**($5,438)**	**($5,281)**	**($5,379)**

V. Revenue Assumptions

Revenue Outlook

Total FY 2012 revenues are projected to decline, on a year-over-year basis, by $262 million in FY 2012 to $65.72 billion. Since the July Plan, total revenue projections for FY 2012 have increased by a net $710 million. Over the Plan period, total revenue is projected to increase 6.2 percent from $66 billion in FY 2011 to $70 billion in FY 2015, as shown in Table 1 on page 1. Tax revenues are projected to comprise 61 percent of total revenues in FY 2011 growing to 66 percent of total revenues by FY 2015. Property tax revenues are projected to grow from $17 billion in FY 2011 to $19.3 billion in FY 2015, while non property tax revenues are expected to grow from $22.9 billion in FY 2011 to $27.1 billion in FY 2015.

Excluding intra-City revenues, miscellaneous revenues are expected to comprise approximately 6.6 percent of total revenues throughout the Plan period. Federal categorical grants are expected to decline considerably from $8.3 billion in FY 2011 to $6.5 billion in FY 2012 and remain below this level over the course of the Plan period. The largest component of this decline is a reduction of $1 billion in education support as a result of the expiration of ARRA grants. In addition, the City does not assume federal funds in numerous areas until appropriations are finalized.

State categorical grants are expected to total $11.5 billion in FY 2011 and hover between $11 billion and $11.3 billion through the remainder of the Plan period. The trend mainly reflects the City's adjustments of education and social service grants due to the impact of the enacted 2011-2012 State Budget. Given the State's fiscal condition, the City maintains a conservative outlook in its state aid assumptions, hence the marginal changes over the outyears of the Plan.

Tax Revenues

Projected City tax revenue in the FY 2012 Executive Budget totals $42.1 billion. This forecast reflects a year-over-year increase of 5.4 percent and a $1.3 billion increase over the FY 2012 forecast in the July 2010 Financial Plan. The revision is attributed to forecast increases in all major tax revenues categories, reflecting the City's improved outlook for the local and national economies. Total tax revenues are forecast to grow at an average annual rate of 3.8 percent between FY 2011 and FY 2015.[3]

[3] If not indicated specifically, tax revenues include PEGs and tax programs. Personal income tax (PIT) and Property tax revenues also include School Tax Relief (STAR) reimbursement.

Changes to the FY 2012 Tax Revenue Forecast

As Table 10 on page 19 shows, including PEGs and tax programs, total tax revenue projections for FY 2012 have increased by $1.29 billion since the July Plan. Sales and business tax revenue forecasts experienced the largest increases since July, consistent with the City's assumption of continued employment gains and strength in Wall Street profits.

The FY 2012 forecast for property tax revenue increased $267 million from the July 2010 forecast to $17.9 billion. The revision is mostly due to a $380 million increase in the levy and a $42 million increase in lien sales proceeds, partially offset by a combined $160 million increase in the reserve for uncollectible taxes and refunds. The City's property tax revenue forecast is based on the FY 2012 Tentative Assessment Roll released by the Department of Finance in January 2011. The City expects total billable assessed value on the FY 2012 Final Assessment Roll to decrease by $1.3 billion from the Tentative Roll, bringing total billable value to $156 billion.

The FY 2012 forecast for the personal income tax (PIT) is $8.7 billion, a net increase of just $37 million from the July 2010 Plan. The revision is mostly due to $30.5 million the City expects to collect as a result of legislation enacted in the 2010-2011 New York State Budget, which reduces itemized deductions for households earning a State adjusted gross income (AGI) above $10 million. The City expects both employment and wages to continue to grow in FY 2012 despite an expected decline in Wall Street bonus payments. Capital gains realizations are expected to remain strong, lifting non-wage income.

FY 2012 business tax revenue projections have increased by a combined $359 million, to $5.75 billion in the Executive Budget. The revised forecast reflects the City's expectation of continued strength in Wall Street profits in calendar year 2011, and continued business expansion in the non-financial sector. In addition, the City anticipates banking tax refund payouts will return to pre-recession levels. The current general corporation tax (GCT) revenue forecast is $63 million lower than the July 2010 forecast while the forecasts for the banking corporation tax (BCT) and the unincorporated business tax (UBT) revenues have increased by $324 million and $98 million respectively.

As Table 10 shows, the largest change in forecast collections from the July 2010 Plan occurs in sales tax revenue. The FY 2012 sales tax revenue projection increased $446 million to nearly $5.8 billion. The increase is due to an improved outlook for taxable consumption and employment, and continued strength in the tourism industry. The forecast increase also includes $21.3 million in anticipated sales tax revenues resulting from a number of legislative changes enacted in the 2010-2011 State Budget.

The $1.27 billion real-estate-related tax revenue forecast is only slightly higher than the forecast included in the July Plan. The combined revenue forecast for real property transfer tax (RPTT) and mortgage recording tax (MRT) increased by only

$24 million. The City anticipates revenues from residential transactions to decline further in FY 2012 driven by an expected decline in average sales price as interest rates are forecast to rise. Collections from residential mortgages are also expected to decline. In contrast, collections from commercial mortgages and commercial transactions are forecast to rise as demand for the commercial market continues to rebound.

Table 10. Changes to the City's Tax Revenue Assumptions February 2011 vs. July 2010

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
July 2010 Financial Plan - Total	**$38,906**	**$40,811**	**$42,324**	**$43,653**
Revisions:				
Property	60	267	516	806
Personal Income (PIT)	(180)	37	131	(150)
Business	328	359	81	(78)
Sales	400	446	323	272
Real-Estate-Related	69	24	(90)	(80)
All Other	121	114	123	147
Audit	246	39	39	47
Revisions -Total	$1,044	$1,287	$1,124	$964
May 2011 financial Plan - Total	**$39,950**	**$42,097**	**$43,447**	**$44,617**

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

Tax Revenue Trends

In the FY 2012 Executive Budget and Financial Plan, the City projects total tax revenue to increase $6.4 billion from FY 2011 through FY 2015, an average annual growth rate of 3.8 percent. As shown in Table 11, total tax revenue collections are expected to grow 5.4 percent in FY 2012, 3.2 percent in FY 2013, 2.7 percent in FY 2014 and 4.0 percent in FY 2015. Non-property tax collections are expected to grow at an average annual rate of 4.3 percent over the Financial Plan period while property tax revenue is forecast to grow at an average annual rate of 3.1 percent.

As Table 11 shows, after a projected 5.0 percent growth in property tax revenue in FY 2012, growth is expected to slow considerably in FY 2013 through FY 2015. The deceleration reflects the City's anticipation of higher interest rates in the outyears, which are expected to increase capitalization rates and put downward pressure on Class 2 and Class 4 market value growth. Nevertheless, the increase in FY 2012 assessment values for Classes 2 and 4 properties is expected to build up the "pipeline" enough to provide stable revenue growth in property tax collections over the Financial Plan period. Property tax revenues are estimated to increase 2.9 percent in FY 2013 and 2.3 percent in FYs 2014 and 2015.[4]

[4] Class 1 properties are valued based on sales of comparable properties. Class 2 and Class 4 properties are valued based on the capitalization of income.

Over the Plan period, PIT revenue is expected to grow at an average annual rate of 5.4 percent. The City expects PIT revenues will grow at a healthy 7.8 percent in FY 2012 reflecting continued growth in the national and local economies. PIT revenue growth is expected to slow in FY 2013 to 5.7 percent and decline further to 1.5 percent in FY 2014 before rebounding to 6.6 percent in FY 2015. The City believes the expiration of the extension of the Bush tax cuts will accelerate capital gains realizations into liability year 2012 from liability year 2013, resulting in a spike in FY 2013 PIT revenues and a corresponding slowdown in revenue growth the following year.

Business income tax collections are expected to grow at an average annual rate of 4.2 percent over the Plan period. In FY 2012, collections from business income are expected to increase nearly 10 percent, driven mainly by growth in projected GCT revenues. The forecast reflects the City's anticipation of continued strength in finance sector profits as well as a return to trend growth in the non-finance sectors. In FY 2013, growth is expected to slow considerably to 1.8 percent and remain moderate, mostly due to a continued decline in projected BCT revenues in FYs 2013-14 and to much slower growth in GCT collections over the course of the Plan period.

The City expects sales tax revenue to grow 4.7 percent in FY 2012, fueled by continued job and income growth as well as continued strength in the tourism sector. Over the Financial Plan period, sales tax revenue is forecast to grow at a steady pace averaging 4.2 percent annually.

Real-estate-related tax revenues, which include real property transfer and mortgage recording tax revenues, are forecast to grow 10.6 percent in FY 2012. The City anticipates MRT collections will grow 17.9 percent in FY 2012, reflecting a projected 57.2 percent increase in revenues from commercial mortgages offset in large part by a projected 13.1 percent decline in revenues from residential mortgages. Collections from the RPTT are expected to increase 6.3 percent in FY 2012 reflecting a continued rebound in the commercial real estate market. In the outyears, the City expects collections from residential transactions to rebound and collection from commercial transactions to continue to grow. Overall, real-estate-related tax revenues are projected to average 9.4 percent annual growth over the Plan period.

Table 11. City's Tax Revenue Forecast, Growth Rate

	FY 2012	FY 2013	FY 2014	FY 2015	Average Growth
Property	5.0%	2.9%	2.3%	2.3%	3.1%
PIT	7.8%	5.7%	1.5%	6.6%	5.4%
Business	9.9%	1.8%	1.9%	3.3%	4.2%
Sales	4.7%	3.2%	4.4%	4.5%	4.2%
Real-Estate-Related	10.6%	2.7%	12.7%	12.1%	9.4%
All Other	(1.5%)	0.3%	3.1%	3.1%	1.2%
Total Tax W/O Audit	6.0%	3.3%	2.7%	4.0%	4.0%
Tax Audit	(24.0%)	(0.2%)	1.2%	0.0%	(6.4%)
Total With Audit	**5.4%**	**3.2%**	**2.7%**	**4.0%**	**3.8%**

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

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's Office projections of risks and offsets to the City's tax revenue assumptions based on current year collections and economic growth projections are illustrated in Table 12.

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

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Property	($13)	($8)	($39)	($17)	$14
PIT	(21)	(27)	65	314	191
Business	3	(268)	(122)	129	297
Sales	0	0	19	87	156
Real-Estate-Related	7	140	318	308	325
Total	**($24)**	**($163)**	**$241**	**$821**	**$983**

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

In the current fiscal year, the Comptroller's Office expects tax revenues to be slightly lower than the City's forecast. The $24 million risk is due to somewhat lower forecasts for property and PIT tax revenues. The Comptroller's tax revenue projection for FY 2012 also identifies a net risk of $163 million, reflecting mainly lower forecasts for the business taxes partially offset by higher forecasts for real-estate-related tax revenues. The Comptroller believes FY 2012 collections from both the GCT and the BCT will be lower than the City's forecasts in anticipation of slightly lower non-financial corporate profits and constraints on bank profits. The Comptroller remains concerned about regulatory changes as well as the impact that unrealized losses on commercial real estate loans still held by banks may have on future BCT collections. In addition, an expected tightening of Federal Reserve monetary policies in 2012 is expected to reduce bank profitability.

The Comptroller's Office's forecasts for real-estate-related tax revenues in FY 2012 through FY 2015 are significantly higher than the City's. The Comptroller expects a more rapid and vigorous rebound in residential sales activity and prices as confidence in the national economy is restored, and a high level of investor interest in commercial properties in premium markets, including Manhattan. However, an unusually low ratio of mortgage recording tax collections to transfer tax collections, due to higher equity requirements in real estate transactions, is expected to keep the FY 2015 total of real-estate-related tax revenues below its level of ten years earlier. The Comptroller is also concerned that the proposed dismembering of Fannie Mae and Freddie Mac, combined with new risk retention rules for mortgage securitization, will adversely affect the financing of residential real estate transactions in high-cost areas such as New York City.

For FY 2013 through FY 2015, the Comptroller's Office is projecting net offsets growing from $241 million to $983 million. In FY 2013, the net offset is mainly due to higher forecast for real-estate-related tax revenues, somewhat offset by lower business and property tax forecasts. In the last two years of the Plan period, excluding the FY 2014 property tax forecast, projections for other major tax revenue categories are higher than the City's.

Miscellaneous Revenues

Miscellaneous revenues are non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, water and sewer revenues, interest income and non-recurring revenues deriving from asset sales and other one-time resources. In the FY 2012 Executive Budget, the City projects miscellaneous revenues will increase $81 million to $4.38 billion (exclusive of private grants and intra-City revenues), a 1.9 percent increase over estimated FY 2011 collections.

As Table 13 shows on page 23, the City's latest FY 2012 miscellaneous revenue forecast reflects a net increase of $143 million compared to the forecast included in the July 2010 Financial Plan. The largest forecast change is an increase of $100 million in water and sewer charges. However, the bulk of these revenues are the result of reimbursements for expenses related to the provision of water and sewer services, and therefore, are not available for general operating purposes. Also significant is a $71 million decrease in the interest income category, which reflects the City's expectation that a sluggish economy will result in short-term interest rates remaining historically low. The City also lowered its forecast for fines and forfeitures by a net $11 million, primarily due to a downward revision to its parking fine revenue projection. However, the current forecast includes an expansion of the Red Light Camera program with 20 additional cameras projected to generate an extra $6.5 million in fine revenues in FY 2012.

The City increased its FY 2012 forecast for charges for services by a net $47 million. The increase reflects a projected $22.5 million in additional revenues from commercial and residential parking rate increases including municipal lots, and a $21 million increase in projected tuition revenues. The FY 2012 forecast for licenses and franchises increased by $36 million since July 2010, reflecting re-estimates of construction fees and permits, cable franchise revenues, and other fees. The category "other miscellaneous" increased by $43 million over the same period, including $13.5 million from HHC debt service adjustment, $7.4 million in projected increases from contractual payments from the New York City Economic Development Corporation (EDC), $7 million in court reimbursements and $4.1 million in anticipated revenues from a contractual agreement with the New York Racing Association (NYRA).

FY 2012 non-recurring miscellaneous revenues are projected to be under $20 million. This is in contrast to the nearly $200 million in one-time revenues included in the FY 2011 miscellaneous revenue budget which were primarily the result of two large one-time distribution of funds resulting from the settlement of the Credit Suisse litigation and funding from the Battery Park City Authority (BPCA) totaling $137 million. During the Financial Plan period, total miscellaneous revenues will hover between $4.3 billion and $4.5 billion.

Table 13. Changes in FY 2012 Estimates
May 2011 vs. July 2010

($ in millions)

	May 2011	July 2010	Change
Licenses, Franchises, Etc.	$521	$485	$36
Interest Income	34	105	(71)
Charges for Services	795	748	47
Water and Sewer Charges	1,435	1,335	100
Rental Income	250	251	(1)
Fines and Forfeitures	814	825	(11)
Other Miscellaneous	534	491	43
Total	**$4,383**	**$4,240**	**$143**

SOURCE: NYC Office of Management and Budget.

Federal and State Aid

The Executive Budget revenue forecast for FY 2012 includes $17.54 billion in Federal and State aid. Federal and State aid constitutes nearly 27 percent of the City's FY 2012 revenues, a decrease from the 30 percent share that these same revenue sources represent in FY 2011. The FY 2012 Executive Budget assumes $486 million less in Federal and State grants than was budgeted for in the July 2010 Plan. The reduction in aid is the result of an approximately $1.3 billion reduction in State aid offset by a $778 million increase in Federal assistance.

Prior to the Executive Budget, the City reflected a reduction of $1.4 billion in State support stemming mainly from the Governor's proposals to eliminate revenue sharing aid of $302 million and cut education aid by slightly over $1 billion. At the time the City also included three State-related gap-closing actions totaling $600 million. The additional revenue and savings would be derived from a more equitable distribution of the State's revenue sharing program, partial restoration in education aid and reduced Variable Supplement Fund benefits for retired policemen and firefighters. The enacted State budget, however, provided very little of the requested budget relief anticipated in the City's gap-closing program.

The Executive Budget assumes that the enacted State budget actions will provide the City with $1.2 billion less than originally anticipated last July. This assessment is $192 million less than the budgetary impact from State actions assumed in the Mayor's Preliminary Budget. While the enacted State budget failed to restore any of the $302 million in lost revenue sharing aid, it did include a restoration of $197 million in education funding to the City, decreasing the net reduction in school aid to $812 million. The increased education support includes $51 million in Foundation Aid, $121 million in summer special education services and $25 million in reimbursement for blind and deaf programs. The Executive Budget also takes into account an additional $5 million reduction in State aid for health and social services, which leaves the cumulative impact of State budget actions for FY 2012 health and social services at $81 million. Among the initiatives affected by this reduction in the Executive Budget are increased public assistance costs arising mainly from changes in funding structure and reduced support for optional public health services. These expenditures are partly offset by the restoration of special education room and board reimbursement and juvenile detention funding.

In the next fiscal year most of the Federal Stimulus funds that have flowed to the City over the past two fiscal years will come to an end. The bulk of the Stimulus funds, which have provided over $1.6 billion in additional Federal dollars to the City annually, are not included in the FY 2012 Executive Budget.[5] The majority of this support had been earmarked for education. The City has made up for the lost Federal revenue with additional City funds to continue providing educational services that these funds supported.

The decline in Federal and State support becomes even more problematic in the out-years of the Plan as the City's projected expenses increase without corresponding increases from these revenue sources. The Plan projects that Federal and State grants would remain relative flat beyond FY 2012, falling to $17.38 billion in FY 2013, only rising back to the FY 2012 level of $17.48 billion by FY 2015. In contrast, the expense budget is expected to grow by over 14 percent from $65.7 billion to $75.3 billion over the same period. Federal and State support of the expenditure budget would drop significantly from 27 percent in FY 2012 to 24 percent in FY 2013 and is expected to dwindle further to 23 percent by FY 2015.

[5] Federal Stimulus funds have also reduced the City's Medicaid costs by over $900 million annually, on average, during FYs 2010 and 2011. However, because the additional Federal Medical Assistance Percentage (FMAP) is shown as expenditure offsets in the Financial Plan, it is therefore not reflected in the Federal grants assumptions.

VI. Expenditure Analysis

All-funds expenditures in the FY 2012 Executive Budget total $65.715 billion, $262 million less than the revised FY 2011 level.[6] However, as discussed in "The FY 2011 Budget," the City expects to end FY 2011 with a budget surplus of $3.217 billion, the entire amount of which will be used to prepay a portion of FY 2012 debt service and library subsidies. After adjusting for this action, FY 2012 expenditures total $68.932 billion, an increase of 3.75 percent from the adjusted FY 2011 estimate of $66.441 billion.

Over the Plan period, expenditures adjusted for prepayments and prior-year actions are projected to increase 9.3 percent, an annual average growth rate of 3.0 percent. As shown in Table 14, spending on health insurance, debt service, and judgments and claims (J&C) are among the fastest growing expenditure categories.[7] The combined growth in these areas over the Financial Plan period is projected to be 24.5 percent, or 7.6 percent annually, more than three times the projected average annual inflation rate for this period.

Table 14. FYs 2012 – 2015 Expenditure Growth

($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	Growth FYs 2012–15	Annual Growth
Health Insurance	$4,743	$5,130	$5,540	$6,052	27.6%	8.5%
Debt Service	5,914	6,668	6,921	7,278	23.1%	7.2%
Judgments and Claims	655	685	718	754	15.1%	4.8%
Subtotal	**$11,312**	**$12,483**	**$13,179**	**$14,084**	**24.5%**	**7.6%**
Salaries and Wages	$20,985	$21,050	$21,266	$21,355	1.8%	0.6%
Pensions	8,300	8,444	8,457	8,855	6.7%	2.2%
Other Fringe Benefits	3,177	3,216	3,321	3,373	6.2%	2.0%
Medical Assistance	6,340	6,359	6,463	6,643	4.8%	1.6%
Public Assistance[b]	1,348	1,365	1,365	1,365	1.3%	0.4%
Other OTPS	18,341	18,815	19,340	19,891	8.5%	2.7%
Subtotal	**$58,491**	**$59,249**	**$60,212**	**$61,842**	**5.1%**	**1.7%**
MA FMAP Increase	($199)	($32)	$0	$0	(100.0%)	(100.0%)
Retiree Health Benefit Trust	($672)	$0	$0	$0	(100.0%)	(100.0%)
Pension Reform	$0	$0	($131)	($252)	N/A	N/A
Total Expenditure	**$68,932**	**$71,700**	**$73,260**	**$75,314**	**9.3%**	**3.0%**

In all other areas, spending is projected to grow by only 5.1 percent over the Financial Plan period, an annual growth rate of 1.7 percent.[8] Pension contribution

[6] Expenditures in this report include NYCTFA debt service.

[7] While the City projects J&C spending to average 4.8 percent annual growth over the Plan period, the Comptroller's Office expects J&C spending to be relatively flat over the same period.

[8] CFE supported expenditure growth is driven by the phase-in schedule of increased State education funding in response to the November 2006 CFE court ruling.

expenditures, which grew at an average annual rate of 21.7 percent from FY 2001 to FY 2010, are expected to grow at a modest 2.2 percent annually over the Plan period as the phase-in of actuarial investment losses in FYs 2008 and 2009 are mitigated by the phase-in of investments gains in FY 2010.

Overtime

The Executive Budget for FY 2012 projects overtime expenditures of $825 million in FY 2012, an increase of $6 million over the amount assumed in the Preliminary Budget. The current FY 2012 projection is $250 million or 23 percent lower than the FY 2011 estimate of $1.1 billion. Since FY 2008, the City has spent just above $1 billion annually for overtime expenditures and is on target to spend a similar amount for FY 2011. The Comptroller's Office estimates that FY 2012 overtime spending would total $1.02 billion, $195 million higher than the City's estimate.

Table 15. Projected Overtime Spending, FY 2012

($ in millions)

	City Planned Overtime FY 2012	Comptroller's Projected Overtime FY 2012	FY 2012 Risk
Uniform			
Police	$330	$465	($135)
Fire	143	143	0
Correction	69	100	(31)
Sanitation	64	64	0
Total Uniformed	$606	$772	($166)
Others			
Police-Civilian	$46	$75	($29)
Admin for Child Svcs.	12	12	0
Environmental Protection	22	22	0
Transportation	34	34	0
All Other Agencies	105	105	0
Total Civilians	$219	$248	($29)
Total City	**$825**	**$1,020**	**($195)**

Over the last three fiscal years, uniformed police officer overtime expenditures have increased at an average rate of about 8.0 percent annually from $366 million in FY 2007 to $462 million in FY 2010. However, FY 2011 overtime spending for uniformed officers shows little or no increase over FY 2010 levels. Overtime spending through April 2011 was $368 million, only slightly higher than the $362 million spent in FY 2010 over the same period. The Comptroller's Office expects overtime spending for uniformed police officers to remain relatively flat costing $465 million in FY 2012, $135 million higher than the City's estimate.

Similarly through April, civilian overtime in the Police Department is approximately the same as FY 2010 spending over the same period. The Comptroller's

Office expects this trend to continue in FY 2012 and estimates that civilian overtime will total $75 million, or $29 million above the City's estimate.

The Comptroller's Office also expects FY 2012 overtime spending in the Department of Correction (DOC) to exceed the City's estimate by $31 million. Through April 2011, DOC has spent $84 million on uniformed overtime and is on target to spend about $100 million for FY 2011.

Headcount

The Executive Budget headcount plan shows City-funded full-time headcount of 224,672 for FY 2012, a net reduction of 9,026 from estimated June 30, 2011 City-funded full-time headcount. Year-end full-time headcount is expected to increase modestly to 225,065 in FY 2013 and remain relatively flat in FY 2014 before declining to 222,344, as shown in Table 16.

Table 16. City-Funded Full-Time Year-End Headcount Projections

	FY 2012	FY 2013	FY 2014	FY 2015
Pedagogical				
Dept. of Education	86,248	86,263	86,427	83,533
City University	3,150	3,150	3,150	3,150
Sub-total	**89,398**	**89,413**	**89,577**	**86,683**
Uniformed				
Police	34,309	34,309	34,309	34,309
Fire	10,273	10,273	10,273	10,273
Correction	8,404	8,404	8,404	8,404
Sanitation	6,822	7,067	7,027	7,027
Sub-total	**59,808**	**60,053**	**60,013**	**60,013**
Civilian				
Dept. of Education	8,756	8,748	8,748	8,748
City University	1,590	1,550	1,550	1,550
Police	14,037	14,047	14,047	14,047
Fire	4,788	4,773	4,758	4,746
Corrections	1,705	1,689	1,689	1,689
Sanitation	1,865	1,923	1,923	1,923
Admin for Children's Services	6,339	6,336	6,336	6,336
Social Services	10,607	10,392	10,337	10,337
Homeless Services	1,865	1,883	1,883	1,883
Health and Mental Hygiene	3,529	3,524	3,524	3,524
Finance	1,965	1,965	1,965	1,965
Transportation	1,901	1,971	2,103	2,103
Parks and Recreation	1,987	2,256	2,258	2,261
All Other Civilians	14,532	14,542	14,525	14,536
Sub-total	**75,466**	**75,599**	**75,646**	**75,648**
Total	**224,672**	**225,065**	**225,236**	**222,344**

Although no PEG layoffs are planned in the Uniformed Agencies (Police and Fire Departments and the Departments of Correction and Sanitation), there are planned PEG reductions of 840 positions to be achieved through attrition. These headcount reductions include 350 civilian employees in the Police Department (NYPD), 265 uniformed and 4 civilian employees in the Department of Sanitation (DOS), 118 uniformed and 8 civilian employees in the Department of Correction (DOC) and 26 uniformed and 85 civilian employees in the Fire Department (FDNY). Other large PEG headcount reductions include 964 positions in the Department of Parks and Recreation, 591 for Libraries, 284 in the Department of Cultural Affairs, 256 in the Department of Transportation and 102 in the Department of Probation.

As shown in Table 17, City-funded full-time equivalent (FTE) headcount is expected to total 24,220 in FY 2012. FTE headcount is projected to decrease by 330 in FY 2013 and then remain relatively flat for the remainder of the Plan period.

Table 17. City-Funded FTE Year-End Headcount Projections

	FY 2012	FY 2013	FY 2014	FY 2015
Pedagogical				
Dept. of Education	553	553	553	553
City University	1,925	1,925	1,925	1,925
Sub-total	**2,478**	**2,478**	**2,478**	**2,478**
Civilian				
Dept. of Education	13,417	13,417	13,417	13,417
City University	593	593	593	593
Police	1,488	1,488	1,488	1,488
Health and Mental Hygiene	1,247	1,246	1,247	1,247
Parks and Recreation	2,344	2,361	2,362	2,361
All Other Civilians	2,653	2,307	2,305	2,307
Sub-total	**21,742**	**21,412**	**21,412**	**21,413**
Total	**24,220**	**23,890**	**23,890**	**23,891**

Health Insurance

Spending on health insurance in the FY 2012 Executive Budget totals $4.071 billion, an increase of 1.5 percent from estimated FY 2011 spending. Health insurance spending estimates in FY 2011 to FY 2012 are lowered through the use of Retiree Health Benefits Trust (RHBT) assets which pay for $395 million and $672 million of pay-as-you-go retiree health insurance in FYs 2011 and 2012, respectively.[9] Netting out the impact of these reductions, FY 2012 health insurance expenditures total $4.743 billion, an increase of 7.6 percent, as shown in Table 18. From FY 2011 to FY 2015, health insurance expenditures are projected to increase 8.3 percent

[9] In addition to the planned use of $395 million and $672 million of RHBT assets to pay some of FYs 2011 and 2012 retiree pay-as-you health insurance, the City used $82 million of RHBT assets to pay a portion of the FY 2010 retiree pay-as-you-go health insurance. The resulting reductions in the City ‘s health insurance payments help offset additional pension contributions due to pension investment returns that were below the Actuarial Interest Rate Assumption (AIRA) of 8.0 percent in FYs 2008 and 2009.

annually to $6.052 billion in FY 2015. This growth reflects annual increases in health insurance premiums of 9.8 percent in FY 2012 and 9.5 percent in FY 2013 and9.0 percent in each of FYs 2014 and 2015, as well as lower than anticipated headcount and retirement rates.

Table 18. Pay-As-You-Go Health Expenditures

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Department of Education	$1,720	$1,836	$1,929	$2,010	$2,165
CUNY	50	42	44	45	45
All Other	2,242	2,193	3,157	3,485	3,842
Total Pay-As-You-Go Health Insurance Costs	$4,012	$4,071	$5,130	$5,540	$6,052
Adjustment for RHBT payment	395	672	0	0	0
Adjusted Total	$4,407	$4,743	$5,130	$5,540	$6,052

Health insurance expenditures have increased at an average annual rate of 9.6 percent between FY 2000 and FY 2010 reflecting the continued growth in health care costs. The cost of annual health insurance premiums has increased from $1,991 in FY 2000 to $4,987 in FY 2010 for individual coverage and from $4,878 in FY 2000 to $12,219 in FY 2010 for family coverage. The City expects to spend about $6,090 for individual coverage and $14,924 for family coverage by FY 2012. The current estimates for health insurance expenditures reflect the impact of the Federal Health Care Reform.

Pension

In FY 2012, the City has budgeted $8.3 billion for pension expenditures. Pension costs are projected to remain relatively flat growing to $8.6 billion by FY 2015. These projections include the impacts of FYs 2008 and 2009 investment losses, FY 2010 investment gains, and reserves of $1 billion annually beginning in FY 2012 to fund changes in actuarial assumptions and methods that may result from the ongoing audit of the five actuarial systems.

The City's projected FY 2012 pension contributions are 21 percent greater than the FY 2011 projection of $6.9 billion. Most of the increase results from the $1 billion to fund the potential costs of changes to the methods and assumptions used to calculate pension contributions.[10] Depending on the Chief Actuary's recommendations after completing his review of the actuarial audit, it is possible that beginning in FY 2012 pension costs could significantly change.

From July 1, 2010 through May 31, 2011, pension fund investments have earned approximately 22 percent returns. The City will phase in these investment gains beginning in FY 2013. Under the current actuarial assumptions, every percentage point

[10] Without the $1 billion reserve, pension contributions in FY 2012 would be only 6.0 percent above FY 2011 contributions.

gain above the Actuarial Interest Rate Assumption (AIRA) of 8.0 percent will lower pension contributions by approximately $11 million in FY 2013, $22 million in FY 2014, and $33 million in FY 2015.[11]

The City is seeking reform of pension benefits for new employees and has reduced expected pension costs to reflect such changes by $131 million in FY 2014 and $252 million in FY 2015. Highlights of the proposal include increasing the retirement age for civilian employees hired on or after July 1, 2011 to age 65 and requiring these employees to contribute 5.0 percent of their wages towards their pensions for their entire employment period. Currently, new civilian employees contribute 4.85 percent of their wages for the first ten-years and 1.85 percent for the next twenty-years of employment and are eligible to receive full pension at age 57. In addition, the proposal calls for new correction officers and sanitation workers to receive the same pension benefit as Tier III police officers and firefighters. Under this tier, uniformed police officers and firefighters hired beginning July 1, 2009 contribute 3.0 percent of their wages towards their pensions for up to 25 years and are eligible for full pension benefits after 22 years of service. In addition, pension benefits are calculated using the average salary of the final three-years rather than the final year's salary as is the case for uniformed employees hired before July 1, 2009.

Labor

As of the issuance of the Executive Budget, contract negotiations between the City and the UFT remained at an impasse. Both parties are currently awaiting the appointment of a fact-finding panel by the New York State Public Employment Relations Board (PERB) to conduct hearings and make recommendations on a contract settlement. The other major municipal unions had settled for two annual wage increases of 4.0 percent over the comparable period of their contracts. The City is offering no wage increases in the UFT contract and is adopting the same stance with the CSA whose contract has also expired. It is not unreasonable to expect that PERB may use the City's settlement with the other unions as a benchmark in making its recommendations. While the PERB recommendations are not binding they have in the past served as a pattern for eventual settlements. If wage increases similar to those secured by the other unions are granted to UFT and CSA, it will cost the City approximately $898 million in FY 2011 ($272 million of which is retroactive to FY 2010), $800 million in FY 2012, $897 million in FY 2013, and $900 million in FYs 2014 and FY 2015.[12]

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[11] The actuarial asset valuation method used by the City to calculate employer contributions includes an actuarial interest rate assumption (AIRA) of 8.0 percent. Returns above or below the AIRA for a given fiscal year are phased in over a six-year period in conjunction with the One Year Lag Methodology (OYLM) implemented beginning FY 2006.

[12] The UFT and CSA contracts are one round behind settlements for the other unions.

The labor reserve, a reserve fund for the costs resulting from collective bargaining, totals \$54 million in FY 2011, \$105 million in FY 2012, \$269 million in FY 2013, \$528 million in FY 2014, and \$804 million in FY 2015. The funding of the reserve reflects the City's assumption of no wage increases for the first two-years of the next round of municipal labor contracts. The City has taken the position that any wage increases granted for that period will have to be funded through productivity initiatives. The labor reserve, however, does contain funding for annual wage increases of approximately 1.25 percent for the third-year and beyond. Contracts negotiated with municipal unions for the previous round of collective bargaining will all expire by the end of FY 2012. Every 1.0 percent increase in wages for all employees will cost approximately \$300 million annually, including pension cost.

Public Assistance

Through April, the City's public assistance caseload has averaged 350,837 recipients per month for Fiscal 2011. The average monthly caseload has experienced only a marginal decline compared with an average of 351,890 for the same period in FY 2010. Monthly public assistance grant expenditures have averaged nearly \$107 million, reflecting an increase of 1.5 percent from the monthly average of approximately \$105 million during FY 2010. The higher grant expenditures in the current year mainly reflect the phase-in of the State's plan to increase basic allowances by 10 percent annually over a three-year period. FY 2011 marks the second year of the phase-in period. However, the enacted State budget has delayed the initiative by a year, pushing the final implementation date out to July 1, 2012.

In the Executive Budget, the City has maintained the same public assistance caseload assumptions as in the July 2010 Plan, projecting a constant caseload of 361,900 through FY 2012. Meanwhile, total baseline grants expenditures for FY 2012 are estimated at about \$1.31 billion, representing a net decline of \$107 million from the July Plan. The decline is the product of State budget actions that include the one year delay of basic allowance increase and the elimination of the Advantage Rental Assistance program. Also, in a separate action, the State has approved the takeover of the City-share of Family Assistance expenditures mainly through the use of Federal Temporary Assistance to Needy Families grants. In exchange, the City-share for Safety Net Assistance spending would rise from 50 percent to 71 percent. While the measure has no impact on overall public assistance spending, the City estimates its share of public assistance costs would increase by a net of about \$7 million in FY 2012.

The termination of the State funding for the Advantage Rental Assistance program has reduced the overall public assistance budget by over \$190 million. While the City is not mandated to maintain support for this program, which provides rental subsidies to 15,000 families, the court has ordered the City to continue the subsidy payments through May 2011. Beyond this, it is uncertain if the court will renew its stance and hold the City responsible for further payments. In the event that the payments will be extended through FY 2012, the City indicates that a risk of \$50 million may materialize in its public assistance spending.

Department of Education

The Executive Budget includes $19.22 billion in FY 2012 for the Department of Education (DOE) budget, representing an increase of $331 million, or nearly 2.0 percent, from the projected $18.89 billion in FY 2011 spending. While the Department's fiscal picture has improved slightly as a result of school aid restoration in the enacted State budget, the City maintains that a significant number of teacher layoffs will still be needed to meet the gap-closing savings target assigned to the DOE.

The DOE's FY 2012 Budget is $730 million greater than it was in the July 2010 Plan. At that time the FY 2012 Budget did not include any plan to make up for the loss of Federal support from the expiration of ARRA funding. DOE's FY 2012 Budget in the July 2010 Plan was actually lower than the FY 2011 Budget. In the November Plan, the City provided $853 million to fill the gap that would have materialized from the loss of ARRA funds beginning in FY 2012. In addition, the City also opted in the February Plan to contribute over $1 billion to wholly offset the potential impact of State budget proposals, which threatened to reduce Foundation Aid by nearly $900 million and shift significant costs to the Department for the provision of certain special education programs.

The DOE's Executive Budget reflects the restoration of approximately $197 million in State school aid included in the enacted State budget. The restored funds include $51 million in Foundation Aid and $146 million in special education reimbursement for summer and blind/deaf programs. Overall, city tax levy support for the Department's FY 2012 Budget has increased by $1.31 billion since the July Plan. The increase in City funds is net of $394 million in savings that the Department expects to achieve from its gap-closing program, which includes $44 million in additional savings resulting from reductions to central and field staffing in the Executive Budget. However, the core element of the DOE's gap-closing program remains the same, requiring the Department to eliminate about 5,400 pedagogical positions from its projected payroll for FY 2012.[13] Of this total, the Department estimates that nearly 3,900 teachers will face layoffs in the coming school year.

The City's decision to make up for the loss of Federal and State assistance marks a fundamental shift in the policy on the funding of education. In the Executive Budget nearly 48 percent of the DOE operating budget will now be supported by City funds. School aid restoration in the enacted State budget provided only a marginal increase in State share of the Department's budget in the latest modification. The share of the DOE budget to be funded by Federal and State sources in FY 2012 is markedly less than it was as recently as FY 2010, when these sources comprised 60 percent of DOE funding. The situation is not expected to improve over the term of the current Plan. In fact, the City's

[13] In addition to the pedagogical reductions, the DOE PEG program also assumes the attrition of 155 positions from its administrative functions in FY 2012.

outyear projections show the tax levy share of the Department's budget edging higher each year beginning in FY 2013. It is estimated that by FY 2015, the City-funded portion of the DOE budget will reach 50 percent in order to compensate for the continued decline in Federal and State support.

Health and Hospitals Corporation

In the Executive Budget, the City projects the Health and Hospitals Corporation (HHC) will face a budget deficit of $363 million, on an accrual basis. This estimate incorporates gap-closing actions totaling approximately $100 million. These cost savings are accrued mainly from ongoing restructuring efforts at the Corporation that feature reduction of construction and maintenance staff, efficiencies in long term care and cutbacks in affiliation contracts.

The current budget deficit for FY 2012 is nearly $57 million greater than the July 2010 Plan estimate of $306 million. HHC's FY 2012 Executive Budget forecasts a one percent growth in revenues over the FY 2011 total, increasing from $6.7 billion to $6.77 billion. The stagnant revenue growth is in part due to recognition of cost containment initiatives from the Governor's Medicaid Redesign Team. The Corporation estimates $175 million in revenue would be lost as a result of a multitude of State actions that would reduce Medicaid reimbursement to HHC. These include a 2.0 percent cut in across-the-board spending, elimination of hospital and nursing home trend factors, and reduction in manage care reimbursement rates. Meanwhile, HHC's operating costs are estimated to rise by more than 3 percent, driven mainly by growth in fringe benefits and other than personal services spending. Notwithstanding these developments, the Executive Budget projects HHC will still retain a significant cash balance of $531 million by the end of FY 2012. However, compared with the July 2010 Plan, the projected FY 2012 closing cash balance shows a decline of more than $140 million.

Over the remainder of the May Plan period, HHC's financial condition is expected to undergo further deterioration. By FY 2013, the Corporation's operating deficit would rise to $672 million before gap-closing actions. The projected deficits would reach $822 million and $911 million in FY 2014 and FY 2015, respectively. In response to the mounting deficits, HHC's gap closing program would include more aggressive assumptions going forward, spiking to $471 million in FY 2013 and $611 million in FY 2014 before reaching $761 million in FY 2015. There is also greater uncertainty in the gap-closing plan for all these years as it shows significant reliance on Federal and State actions that have yet to be specified. On average, these actions, which range between $250 million in FY 2013 and $500 million in FY 2015, would provide about 60 percent of the expected budget relief during this period. The rising deficits pose a similar impact on the Corporation's cash balance, which is projected to fall sequentially over the outyears to $409 million in FY 2013, $195 million in FY 2014 and $56 million in FY 2015.

Debt Service

Debt service projections in the May 2011 Financial Plan remain relatively unchanged from the February Plan. Projections for FYs 2012, 2013 and 2015 have been increased by $7 million, $2 million, and $10 million, respectively, while projected debt service for FY 2013 has been decreased by $4 million. Cumulatively, FY 2012 debt service is $380 million less than projected in the July 2010 Plan while FY 2013 and FY 2014 debt service are $66 and $63 million more, respectively.[14]

The decrease of $380 million in the FY 2012 debt service estimate since the July Plan is the result of three primary actions: 1) $189 million of year-to-date refunding savings; 2) $165 million of projected variable rate interest savings; and 3) a $40 million reduction to estimated interest costs related to the issuance of short-term notes. The projected increases of $66 million and $63 million in FYs 2013 and 2014 debt service costs are due largely to the anticipated Hudson Yards Infrastructure Corporation (HYIC) borrowing in late CY 2011 and its related projected incremental interest costs of $65 million per year.

As shown in Table 19, debt service, after adjusting for prepayments, is projected to grow from $5.14 billion in FY 2011 to $7.35 billion in FY 2015. Over this period, total debt service is expected to grow by $2.21 billion, or 43 percent. General Obligation debt service is forecast to increase by $977 million, or by 26 percent from FY 2011 to FY 2015. The Plan assumes an increase of $1.12 billion for servicing NYCTFA PIT bond debt over the same period, an increase of 100 percent. The rapid growth in NYCTFA debt service is due to new NYCTFA borrowing as a result of a 2009 State Legislation change permitting issuance of NYCTFA debt under the City's general debt limit.

[14] Debt service projections in the July 2010 Financial Plan did not extend beyond FY 2014.

Table 19. Debt Service FYs 2011 – 2015, May 2011

($ in millions)

Debt Service Category	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011 – 2015
G.O.[a]	$3,742	$4,041	$4,459	$4,539	$4,719	$977
NYCTFA[b]	1,116	1,565	1,871	2,050	2,235	1,119
Lease-Purchase Debt	214	309	338	333	325	111
TSASC,Inc.	68	74	74	75	75	7
Total	**$5,140**	**$5,988**	**$6,742**	**$6,997**	**$7,354**	**$2,214**

SOURCE: FY 2012 Executive Budget, May 2011, Office of Management & Budget.
NOTE: Debt service is adjusted for prepayments.
[a] – Includes long-term GO debt service and interest on short-term notes.
[b] – Amounts do not include NYCTFA Building Aid Revenue Bonds (BARBs).

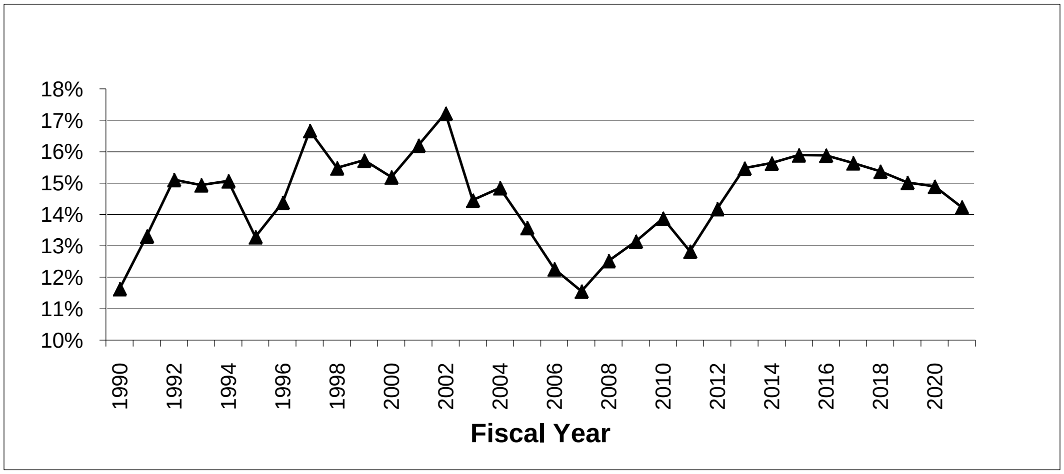
Debt Affordability

Debt burden and affordability are issues a municipality must evaluate as part of its long-term planning. One accepted measure of affordability is debt service as a percentage of local tax revenues.[15] As shown in Chart 1, adjusted for prepayments, debt service as a percentage of tax revenues is projected to be 12.8 percent in FY 2011, increasing to 14.2 percent in FY 2012, 15.5 percent in FY 2013, 15.6 percent in FY 2014, and 15.9 percent in FY 2015.[16] Debt service is projected to grow at an average rate of 9.4 percent per year from FY 2011 to FY 2015, outpacing tax revenue growth of 3.8 percent per year over the same period. Over the longer term, debt service growth is expected to slow during FYs 2015 – 2021, reflecting the decline in the City's capital cash need forecast. The slower growth helps stabilize the ratio at about 15 percent by FY 2021. It is unclear how accurate capital cash needs forecasts for the outyears are due to scope changes, capital project delays, cost overruns and the overall uncertainty of the City's capital program.

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

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

***Chart* 1. Debt Service as a Percentage of Tax Revenues, FYs 1990 – 2021, FY 2012 Executive Budget**



SOURCE: FY 2012 Executive Budget and Financial Plan, NYC Office of Management and Budget, May 2011.

Financing Program

The Financing Program for FYs 2011 – 2015 totals $40.3 billion, an increase of $2.1 billion from the February 2011 Financial Plan. The increase is primarily the result of a $1.68 billion increase in assumed NYCTFA BARB borrowing. As shown in Table 20, GO bonds, payable from property tax retention, constitute $12.29 billion, or 30.5 percent of the total expected financing during FYs 2011 – 2015. The NYCTFA is scheduled to borrow $13.46 billion or 33.4 percent of the total. Planned GO and NYCTFA PIT borrowing combined has increased by $310 million from February.

The New York Water Finance Authority (NYWFA) borrowing comprises $9.46 billion, or 23.5 percent of the Plan. These bonds, which are supported with water and sewer revenues, are used to fund the capital improvement program of the City's Department of Environmental Protection. Projected borrowing for NYWFA has increased by $100 million from the February Plan.

In addition, the City's borrowing plan includes NYCTFA BARBs, which are supported by State Building aid. The City is projected to borrow $5.1 billion over FYs 2011-2015 utilizing this financing vehicle. The Governor's proposed change to the Building Aid formula would have drastically reduced how much NYCTFA BARBs the City could issue. As a result, in the February Plan the City lessened its planned NYCTFA BARB program. The State Legislature did not authorize the changes to the Building Aid formula to localities, and thus, the borrowing plan has increased by $1.68 billion over the period compared to the February Plan. This reflects the State's continued support of the DOE capital program.

Table 20. FYs 2011 – 2015 Financing Program, May 2011

($ in millions)

Type of Debt	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total
GO	$2425	$2,680	$2,460	$2,460	$2,260	$12,285
NYCTFA PIT Bonds	3,600	2,680	2,460	2,460	2,260	13,460
Water Authority Bonds	3,252	2,027	1,598	1,420	1,164	9,461
NYCTFA BARBs	922	935	1,048	1,128	1,039	5,072
Total	$10,199	$8,322	$7,566	$7,468	$6,723	$40,278

SOURCE: FY 2012 Executive Budget, May 2011, Office of Management and Budget.
Note: NYCTFA BARBs are supported by State Building Aid and its debt service is not included in the debt service budget.

Capital Plan

The Executive Capital Commitment Plan for FYs 2011 – 2015 totals $40.25 billion of which $31.74 billion is funded by City-funds. After accounting for the $2.16 billion reserve for unattained commitments, total planned commitments are $38.1 billion while City-funds commitments are estimated to be $29.59 billion for FYs 2011 – 2015. The Plan continues to be front-loaded with just over 50 percent of both total and City commitments for FYs 2011 – 2015 planned for in FYs 2011 and 2012.

Consistent with prior plans, capital commitments in DOE and the City University of New York (CUNY), the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for the 72 percent of the total projected commitments over the Plan period as shown in Table 21.

Table 21. FYs 2011 – 2015 Capital Commitments, All-Funds

($ in millions)

Project Category	May 2011-2015 Commitment Plan	Percent of Total
Education & CUNY	$10,656	26.5%
Environmental Protection	9,125	22.7
Dept. of Transportation & Mass Transit*	5,374	13.4
Housing and Economic Development	3,792	9.4
Administration of Justice	1,856	4.6
Technology and Citywide Equipment	2,192	5.4
Department of Parks and Recreation	1,742	4.3
Hospitals	773	1.9
Other City Operations and Facilities	4,742	11.8
Total	**$40,252**	**100.0%**
Reserve for Unattained Commitments	($2,156)	N/A
Adjusted Total	**$38,096**	**N/A**
***- Includes all DOT project types**		

SOURCE: Office of Management and Budget, Capital Commitment Plan Executive Budget FY 2012, May 2011.

Capital projects in the primary infrastructure agencies (DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development) constitute more than

65 percent of the City-funds Capital Plan. The significant difference between the DOE's 18.1 percent share of the City-funds Capital Plan and its 26.5 percent share of the all-funds Capital Plan reflects the State-supported commitments of $4.91 billion over FY 2011 through FY 2015. This State support for the education portion of the commitment plan comprises 58 percent of the total State and Federal support in the entire FYs 2011 – 2015 Commitment Plan. The elimination of the Governor's proposed cap on the use of building aid contributes greatly to the $1.75 billion increase in State-supported capital commitments to the DOE over the February Plan period.

Table 22. FYs 2011 – 2015 Capital Commitment, City-Funds

($ in millions)

Project Category	May 2011-2015 Commitment Plan	Percent of Total
Environmental Protection	$8,717	27.5%
Education & CUNY	5,750	18.1
Dept. of Transportation & Mass Transit	3,474	10.9
Housing and Economic Development	2,944	9.3
Administration of Justice	1,856	5.9
Technology and Citywide Equipment	2,148	6.8
Department of Parks and Recreation	1,535	4.8
Hospitals	770	2.4
Other City Operations and Facilities	4,550	14.3
Total	**$31,744**	**100.0%**
Reserve for Unattained Commitments	(2,156)	N/A
Adjusted Total	**$29,588**	**N/A**

SOURCE: Office of Management and Budget, Capital Commitment Plan Executive Budget FY 2012, May 2011.

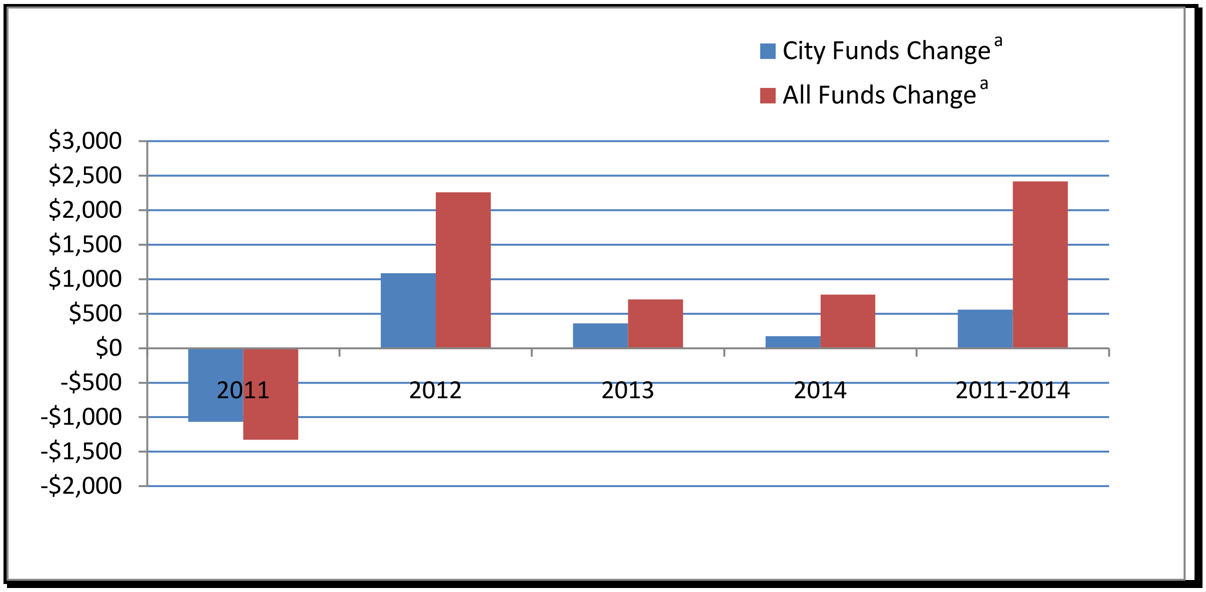
Programmatic Review of Capital Plan

The May 2011 Executive Capital Commitment Plan for FYs 2011 – 2015 is $2.52 billion greater than the February 2011 Plan.[17] The increase is primarily the result of an increase of $1.75 billion of State supported DOE related capital commitments. Approximately $1.3 billion of commitments are expected to be rolled from FY 2011 to FY 2012, as shown on Chart 2.

[17] The February 2011 Commitment Plan reflected commitments in FYs 2011-2014. Changes noted are after the reserve for unattained commitments over FYs 2011-2014 only.

***Chart* 2. FYs 2011 – 2015 Capital Commitment Changes from February, 2011**

($ in millions)



SOURCE: Capital Commitment Plan, Executive Budget FY 2012, NYC Office of Management and Budget, May 2011.
[a] Net of changes in reserve for unattained commitments.

Environmental Protection

Capital commitments for the Department of Environmental Protection (DEP) account for $9.1 billion or 22.7 percent of the FYs 2011 – 2015 May Commitment Plan, as shown in Chart 3 on page 41. Some of the major planned commitments include $1 billion for the replacement and extension of trunk and distribution water mains citywide, $1.1 billion for the extension and reconstruction of sewers citywide, $308 million for the Staten Island Bluebelt program, and $191 million for Green Infrastructure initiatives to address combined sewer overflow issues. In addition, $327 million is budgeted for traditional grey infrastructure to meet Combined Sewer Overflow (CSO) challenges, $161 million for the reconstruction of the Gilboa Dam in the Catskill watershed region, and $335 million for the continuation of the Croton Filtration project in the Bronx.

Education

The May Capital Commitment Plan includes $10.66 billion in FYs 2011 – 2015 for capital projects related to Education, this represents 26.5 percent of the total citywide planned commitments, as shown in Chart 3. The current Plan includes $10.34 billion of commitments for the DOE, and $318 million for the City University of New York (CUNY). Highlights of the current DOE capital plan include planned contract registrations for the construction of approximately 35,000 seats across 55 buildings in a combination of new facilities, expansions or leases.

The CUNY capital plan is primarily allocated towards the upgrade and maintenance of the community college physical facilities. This includes such projects as the rehabilitation and replacement of electrical systems, mechanical systems, façade reconstruction, and a green roof initiative at the Borough of Manhattan Community College.

Transportation

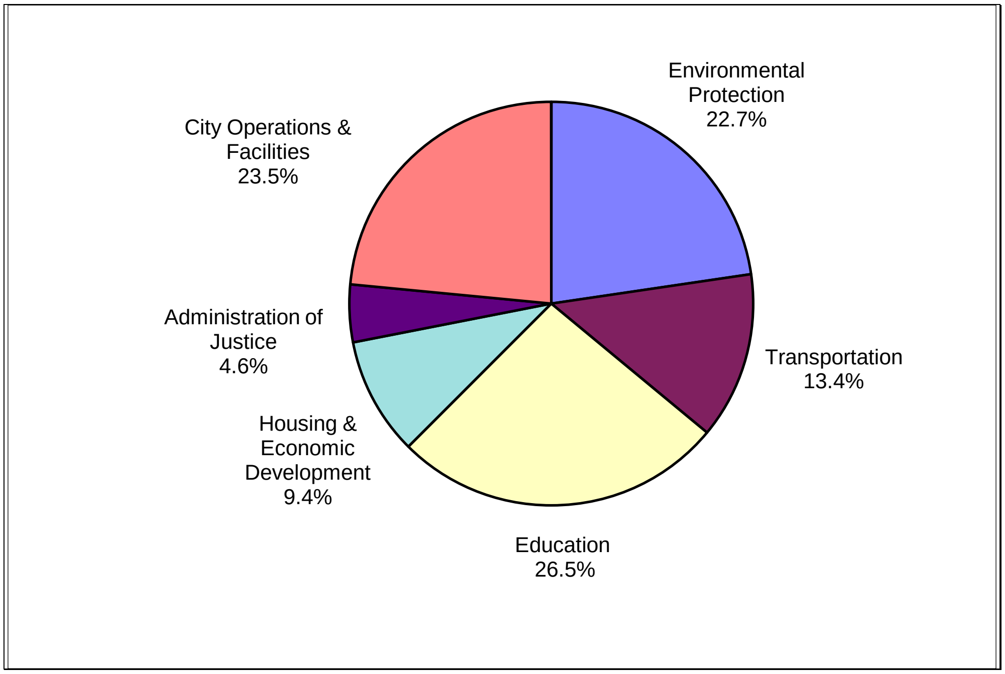
The transportation portion of the Capital Plan is composed of two types of projects: projects for mass transit administered by the Metropolitan Transportation Authority (MTA) on behalf of New York City Transit; and the Highways and Bridges program, which is administered by the Department of Transportation (DOT).

The May Plan for FYs 2011 – 2015 contains $681 million in capital commitments for mass transit projects, and $4.69 billion for the DOT capital program. As shown in Chart 3, this program area makes up 13.4 percent of the May Commitment Plan.

Planned Commitments for mass transit in FYs 2011 and 2012 are 56 percent, or $381 million of the five-year total. These two fiscal years alone exceed the entire funding of $354 million for the FYs 2006 – 2010 period. City support to the MTA for capital work at New York City Transit (NYCT) constitutes a small portion of the NYCT's overall capital program, which exceeds $13.1 billion. MTA bonds and other federal grants support a significant portion of its capital needs. Although the current Plan reverses a period of decreased support for NYCT during the period of FYs 2006-2010, it still remains below the nearly $280 million per year average seen in FYs 1989 – 2005.

Nearly 12 percent, or $4.69 billion of the May Capital Plan for FYs 2011 – 2015 is allocated for street resurfacing, highway reconstruction, and bridge rehabilitation projects managed by the City's DOT. Highlights of the DOT plan include $521 million for street and arterial resurfacing projects, $337 million for the rehabilitation and reconstruction of bridge structures, $219 million for the Mill Basin Bridge in Brooklyn, along with $316 million of ferry boat replacements or reconstructions.

***Chart 3.* May 2011 Capital Plan Total Funds, FYs 2011 – 2015, Shares of $40.252 Billion**



SOURCE: Capital Commitment Plan Executive Budget FY 2012, NYC Office of Management and Budget, May 2011.

Housing and Economic Development

Housing and economic development projects account for $3.79 billion, or 9.4 percent, of capital commitments from FY 2011 to FY 2015. Of this total, $2.26 billion, or 5.6 percent, are commitments for housing projects.[18] The primary objective of the City's capital housing program is the preservation of existing affordable housing through assistance to private owners to avoid abandonment. Other program areas in housing are low-income rental programs and supportive housing, and a variety of loan programs which allow owners of private properties to renovate buildings through the use of low-interest loan programs. Through various new construction initiatives, HPD plans to produce in excess of 18,000 units over the Plan period in a broad array of housing options.

Capital commitments for economic development total $1.53 billion, or 3.8 percent of total capital commitments over the Plan period. Major elements of the Plan include $249 million for acquisition and infrastructure improvements at Willets Point, $306 million at Governor's Island for the rehabilitation of existing structures, and upgrades to basic infrastructure to facilitate future development on the island,

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

$114 million for development and infrastructure improvements at the Brooklyn Navy yard industrial park, and $59 million for the development of East River waterfront esplanades and piers.

Administration of Justice

Commitments under the category of administration of justice include capital projects in the Department of Correction, the Police Department, and Courts administration. In the May 2011 Commitment Plan, $1.86 billion, or 4.6 percent of the total Five-Year Plan are allocated for projects in these agencies. Estimated commitments in the Police Department total $517 million. Major projects for the Police Department include $132 million for the construction, rehabilitation, maintenance, relocation, and security of police facilities citywide, $175 million for police communication and computer equipment, and $45 million to maintain or replace operational and support vehicles throughout the agency.

Capital commitments in the Department of Correction total $1.04 billion over FYs 2011 – 2015. Major projects undertaken by DOC are capacity replacement initiatives including $563 million for a new detention center on Rikers Island, $57 million for the construction of a co-generation power plant on Rikers Island, and $61 million for equipment and vehicles throughout the agency.

Court facilities projects total $286 million over FYs 2011 – 2015. Highlights of the Plan include $32 million for the continuation of a new court facility on Staten Island, and $62 million for improvements to the court facility at 215 E. 161 Street in the Bronx.

Other City Operations and Facilities

Capital projects designated as City Operations include projects for the Department of Sanitation, the Fire Department, the Department of Parks, public buildings, the Dept. of Information, Telecommunications, and Technology (DOITT), public libraries and cultural institutions, and hospitals. Over 23.5 percent or $9.45 billion of the May Commitment Plan are allocated for City Operations.

The Department of Parks and Recreation capital plan totals $1.74 billion for FYs 2011 – 2015. The Parks capital plan is heavily front-loaded with $845 million, or 48 percent of the total commitments, scheduled for FY 2011. Major projects include $56 million for acquisition and development of open space at northern Brooklyn waterfronts, $36 million for a new park in Fresh Kills Landfill on Staten Island, $12 million for Ferry Point park in the Bronx, $6 million for the reconstruction of an annex in the Alley Pond Environmental Center in Queens, and $57 million for the reconstruction of the High Bridge in Manhattan and Bronx.

Over $1.11 billion, or 2.8 percent of the FYs 2011 – 2015 Plan is allocated for computer equipment purchases and installation related to DOITT. Highlights of the Plan include approximately $392 million for emergency communications systems and facilities.

The capital program for the Department of Sanitation comprises 3.5 percent of total commitments and amounts to a projected $1.4 billion over FYs 2011 – 2015. Major components of the Sanitation plan include $407 million for the reconstruction of marine transfer stations citywide and other facilities in accordance with the City's Solid Waste Management Plan, and $389 million for vehicle replacements.

The May 2011 commitment plan contains $343 million for public libraries. Highlights of the capital program for libraries include $149 million in funding for the New York Public Library, $122 million for the Queens Public Library, $57 million for the Brooklyn Public Library, and $15.5 million for the Research Libraries over FYs 2011 – 2015.

The Department of Cultural Affairs (DCA) capital plan totals $667 million for FYs 2011 – 2015, or just under 2.0 percent of total commitments. Projects include $40 million for the shark exhibit at the New York Aquarium and $41 million for Carnegie Hall mechanical systems and music education spaces.

For the Plan period FYs 2011 – 2015 over $1.08 billion is allocated for citywide equipment purchases, administered by DCAS. This includes $398 million for energy efficiency projects and building retrofits.

Public works projects, also administered primarily by DCAS, typically involve the rehabilitation of City-owned office space, the renovation of leased space, compliance with legal mandates and correction of unsafe conditions. The May Plan contains $886 million for this work; including $263 million in improvements to public buildings citywide, $156 million for the improvement, reconstruction, or modernization of long-term leased facilities citywide, and $18 million for the Board of Elections modernization project.

The May Commitment Plan for HHC totals $773 million, or 1.9 percent of total estimated capital commitments. Major projects include $52 million for the Harlem Hospital modernization and rehabilitation and $78 million for the consolidation and relocation of the long-term acute care beds and nursing facility beds from the Goldwater Campus to North General Hospital in Harlem.

Ten-Year Capital Strategy – Changes from February

Every odd calendar year, the Mayor is required, in accordance with Section 215 of the City Charter, to publish a Ten-Year Capital Strategy (TYCS) to reflect the administration's long-term capital planning goals by agency. The TYCS for FYs 2012 – 2021 totals $54.1 billion, an increase of $7.12 billion from the preliminary TYCS published in February 2011. City-funds account for $40.09 billion, or 74.1 percent of the capital strategy. Programmatically, education, environmental protection, transportation, and housing projects account for 81 percent, or $43.95 billion, of the TYCS.

Table 23 on page 45 presents the comparison of the current and previous TYCS. Slightly more than $5 billion, or 71 percent, of the $7.12 billion increase in the Plan from February 2011 is attributable to restorations in the DOE capital plan.

Funding the Ten-Year Capital Strategy

The City-funds portion of the TYCS will be financed primarily with $27.8 billion of GO and NYCTFA PIT bonds and $12.3 billion of New York Water Finance Authority (NYW) bonds. Together, GO, NYCTFA PIT and NYW borrowing will finance $40.1 billion, or 74.1 percent of the total TYCS. New York State Funds are expected to finance another $10.6 billion of capital projects while the Federal Government and other non-city sources are anticipated to fund the remaining $3.4 billion.

In percentage terms, GO and NYCTFA PIT bonds are projected to finance 51.4 percent of the TYCS, NYW bonds 22.7 percent, the State of New York 19.6 percent, and the Federal Government just 6.0 percent. More than 70 percent, or $10 billion, of the non-City support is for capital projects in the DOE. This projection reflects the assumption of continuing support of State Building Aid to help finance DOE's capital strategy.

Ten-Year Capital Strategy by Type of Work

The May 2011 TYCS is comprised of three major types of capital projects: 1) State of Good Repair which accounts for 42.4 percent of the Plan ($22.96 billion); 2) Program Expansion which accounts for 32.8 percent of the Plan ($17.72 billion); and 3) Programmatic Replacement which accounts for 24.8 percent of the Plan ($13.42 billion).

State of Good Repair projects include reconstruction and rehabilitation of schools ($9.75 billion), reconstruction of East River and other bridges ($3.44 billion), and the reconstruction and resurfacing of streets and highways citywide ($2.41 billion).

Program Expansion projects include the construction of new schools ($10.36 billion), construction of water conveyance systems, ($2.0 billion), new and special needs housing initiatives ($1.57 billion), and commercial, industrial and cultural development ($629 million).

Programmatic Replacement projects include capital programs for water quality mandates and preservation ($3.02 billion), water pollution control plant upgrades and stabilization ($2.2 billion), water main replacement and dam safety programs ($1.46 billion), and the purchase of Sanitation equipment ($1.0 billion).

Table 23. Ten-Year Capital Strategy, FYs 2012 – 2021, May 2011

($ in millions)

	February 2011 City-Funds	February 2011 Total Funds	May 2011 City-Funds	May 2011 Total Funds	Percent of Total Funds May 2011	Change in Total Funds from February 2011
Education	$10,133	$15,135	$10,143	$20,193	37.3%	$5,059
Dept. of Transportation	4,236	6,541	4,486	7,031	13.0	490
Environmental Protection	11,912	12,141	12,264	12,569	23.2	428
Housing & Economic Development	3,193	4,137	3,211	4,155	7.7	18
Administration of Justice	1,976	1,976	2,259	2,259	4.2	283
Sanitation	1,465	1,465	1,559	1,559	2.9	94
Mass Transit	570	570	652	656	1.2	86
Other City Services	4,925	5,012	5,511	5,677	10.5	665
Total	**$38,410**	**$46,976**	**$40,085**	**$54,099**	**100.0%**	**$7,123**

SOURCE: Ten-Year Capital Strategy, FYs 2012-2021, NYC OMB, May 2011. Numbers may not add due to rounding.

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VII. Appendix – Revenue and Expenditure Details

Table A1. **FY 2012 Executive Budget Revenue Detail**

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011-15 Dollar	Change FYs 2011-15 Percent
Taxes:							
Real Property	$17,048	$17,898	$18,417	$18,844	$19,273	$2,225	13.1%
Personal Income Tax	$8,112	$8,749	$9,248	$9,385	$10,009	$1,897	23.4%
General Corporation Tax	$2,312	$2,725	$2,879	$2,992	$3,098	$786	34.0%
Banking Corporation Tax	$1,261	$1,227	$1,104	$1,018	$1,026	($235)	(18.6%)
Unincorporated Business Tax	$1,660	$1,799	$1,873	$1,956	$2,041	$381	23.0%
Sale and Use Tax	$5,539	$5,797	$5,984	$6,246	$6,526	$987	17.8%
Real Property Transfer	$728	$774	$767	$853	$957	$229	31.5%
Mortgage Recording Tax	$424	$500	$541	$621	$696	$272	64.2%
Commercial Rent	$603	$622	$642	$663	$686	$83	13.8%
Utility	$393	$413	$427	$440	$455	$62	15.8%
Hotel	$418	$398	$371	$388	$414	($4)	(1.0%)
Cigarette	$70	$70	$68	$66	$65	($5)	(7.1%)
All Other	$515	$466	$468	$479	$480	($35)	(6.8%)
Tax Audit Revenue	$868	$659	$658	$666	$666	($202)	(23.3%)
Total Taxes	**$39,951**	**$42,097**	**$43,447**	**$44,617**	**$46,392**	**$6,441**	**16.1%**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$514	$521	$521	$524	$525	$11	2.1%
Interest Income	$22	$34	$107	$140	$165	$143	650.0%
Charges for Services	$756	$795	$812	$812	$813	$57	7.5%
Water and Sewer Charges	$1,294	$1,435	$1,419	$1,447	$1,465	$171	13.2%
Rental Income	$249	$250	$256	$264	$267	$18	7.2%
Fines and Forfeitures	$802	$814	$811	$810	$809	$7	0.9%
Miscellaneous	$665	$534	$519	$510	$482	($183)	(27.5%)
Intra-City Revenue	$1,890	$1,532	$1,526	$1,523	$1,523	($367)	(19.4%)
Total Miscellaneous	**$6,192**	**$5,915**	**$5,971**	**$6,030**	**$6,049**	**($143)**	**(2.3%)**
Unrestricted Intergovernmental Aid:							
Other Federal and State Aid	$14	$12	$12	$12	$12	($2)	(14.3%)
Total Unrestricted Intergovernmental Aid	**$14**	**$12**	**$12**	**$12**	**$12**	**($2)**	**(14.3%)**
Other Categorical Grants	**$1,336**	**$1,160**	**$1,158**	**$1,156**	**$1,153**	**($183)**	**(13.7%)**
Inter-Fund Agreements	**$569**	**$543**	**$503**	**$503**	**$503**	**($66)**	**(11.6%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**
Less: Intra-City Revenue	**($1,890)**	**($1,532)**	**($1,526)**	**($1,523)**	**($1,523)**	**$367**	**(19.4%)**
TOTAL CITY-FUNDS	**$46,157**	**$48,180**	**$49,550**	**$50,780**	**$52,571**	**$6,414**	**13.9%**

Table A1 (Con't). *FY 2012 Executive Budget Revenue Detail*

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Changes FYs 2011-15 Dollar	Percent
Federal Categorical Grants:							
Community Development	$284	$235	$227	$220	$220	($64)	**(22.5%)**
Welfare	$3,209	$3,135	$3,117	$3,114	$3,114	($95)	**(3.0%)**
Education	$2,847	$1,825	$1,819	$1,818	$1,818	($1,029)	**(36.1%)**
Other	$1,985	$1,330	$1,127	$1,083	$1,081	($904)	**(45.5%)**
Total Federal Grants	**$8,325**	**$6,525**	**$6,290**	**$6,235**	**$6,233**	**($2,092)**	**(25.1%)**
State Categorical Grants							
Social Services	$1,833	$1,487	$1,446	$1,442	$1,442	($391)	**(21.3%)**
Education	$8,136	$8,114	$8,203	$8,253	$8,252	$116	**1.4%**
Higher Education	$186	$212	$212	$212	$212	$26	**14.0%**
Department of Health and Mental Hygiene	$468	$425	$420	$419	$419	($49)	**(10.5%)**
Other	$872	$772	$812	$833	$925	$53	**6.1%**
Total State Grants	**$11,495**	**$11,010**	**$11,093**	**$11,159**	**$11,250**	**($245)**	**(2.1%)**
TOTAL REVENUES	**$65,977**	**$65,715**	**$66,933**	**$68,174**	**$70,054**	**$4,077**	**6.2%**

Table A2. FY 2012 Executive Budget Expenditure Detail

($ in thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011-15 Dollars	Change FYs 2011-15 Percent
Mayoralty	$100,204	$91,425	$89,602	$89,425	$89,279	($10,925)	(10.9%)
Board of Elections	$103,377	$99,688	$76,595	$76,595	$76,595	($26,782)	(25.9%)
Campaign Finance Board	$13,969	$12,250	$13,288	$13,288	$13,288	($681)	(4.9%)
Office of the Actuary	$5,302	$6,055	$6,109	$6,109	$6,109	$807	15.2%
President, Borough of Manhattan	$4,570	$2,860	$2,721	$2,727	$2,727	($1,843)	(40.3%)
President, Borough of Bronx	$5,197	$3,845	$3,680	$3,688	$3,688	($1,509)	(29.0%)
President, Borough of Brooklyn	$5,546	$3,677	$3,390	$3,398	$3,398	($2,148)	(38.7%)
President, Borough of Queens	$4,713	$3,495	$3,226	$3,232	$3,232	($1,481)	(31.4%)
President, Borough of Staten Island	$3,795	$2,694	$2,613	$2,618	$2,618	($1,177)	(31.0%)
Office of the Comptroller	$71,073	$73,377	$74,116	$74,264	$74,349	$3,276	4.6%
Dept. of Emergency Management	$55,663	$30,532	$13,149	$6,825	$6,838	($48,825)	(87.7%)
Tax Commission	$3,775	$3,859	$3,863	$3,863	$3,863	$88	2.3%
Law Dept.	$131,300	$136,809	$135,656	$129,677	$129,677	($1,623)	(1.2%)
Dept. of City Planning	$25,542	$24,667	$21,427	$20,647	$20,529	($5,013)	(19.6%)
Dept. of Investigation	$16,682	$16,334	$15,873	$15,873	$15,873	($809)	(4.8%)
NY Public Library - Research	$22,154	$16,733	$16,733	$16,733	$16,733	($5,421)	(24.5%)
New York Public Library	$110,848	$81,974	$81,625	$81,625	$81,625	($29,223)	(26.4%)
Brooklyn Public Library	$82,168	$61,323	$60,973	$60,973	$60,973	($21,195)	(25.8%)
Queens Borough Public Library	$81,073	$60,097	$59,746	$59,746	$59,746	($21,327)	(26.3%)
Dept. of Education	$18,852,229	$19,201,878	$19,557,032	$19,941,412	$20,143,391	$1,291,162	6.8%
City University	$775,032	$731,885	$727,414	$728,950	$729,398	($45,634)	(5.9%)
Civilian Complaint Review Board	$9,755	$9,610	$9,683	$9,686	$9,689	($66)	(0.7%)
Police Dept.	$4,581,114	$4,315,337	$4,194,154	$4,191,027	$4,191,027	($390,087)	(8.5%)
Fire Dept.	$1,776,185	$1,623,888	$1,585,942	$1,563,474	$1,562,402	($213,783)	(12.0%)
Admin. for Children Services	$2,715,619	$2,751,065	$2,713,633	$2,710,639	$2,711,205	($4,414)	(0.2%)
Dept. of Social Services	$8,175,045	$9,159,937	$9,349,062	$9,482,182	$9,662,052	$1,487,007	18.2%
Dept. of Homeless Services	$848,072	$785,939	$765,999	$766,046	$766,035	($82,037)	(9.7%)
Dept. of Correction	$1,041,273	$1,021,965	$1,014,270	$1,014,240	$1,014,240	($27,033)	(2.6%)
Board of Correction	$999	$1,000	$1,000	$1,000	$1,000	$1	0.1%
Citywide Pension Contribution	$6,877,293	$8,299,854	$8,443,867	$8,326,363	$8,603,059	$1,725,766	25.1%
Miscellaneous	$6,198,862	$6,182,449	$7,733,096	$8,466,784	$9,408,282	$3,209,420	51.8%
Debt Service	$3,955,689	$4,349,130	$4,796,994	$4,871,771	$5,043,468	$1,087,779	27.5%
N.Y.C.T.F.A. Debt Service	$1,116,134	$1,565,110	$1,871,200	$2,049,600	$2,234,940	$1,118,806	100.2%
FY 2010 BSA	($3,646,142)	$0	$0	$0	$0	$3,646,142	(100.0%)
FY 2011 BSA and Discretionary Transfers	$3,216,918	($3,216,918)	$0	$0	$0	($3,216,918)	(100.0%)
Redemption of N.Y.C.T.F.A. Debt Service	($35,000)	$0	$0	$0	$0	$35,000	(100.0%)
Public Advocate	$2,254	$1,714	$1,720	$1,724	$1,724	($530)	(23.5%)
City Council	$52,883	$52,090	$52,883	$52,883	$52,883	$0	0.0%
City Clerk	$4,733	$4,323	$4,349	$4,352	$4,355	($378)	(8.0%)
Dept. for the Aging	$273,040	$217,045	$218,535	$218,535	$218,535	($54,505)	(20.0%)
Dept. of Cultural Affairs	$143,377	$100,559	$100,533	$100,533	$100,533	($42,844)	(29.9%)
Financial Info. Serv. Agency	$63,103	$87,824	$86,967	$85,243	$83,510	$20,407	32.3%
Dept. of Juvenile Justice	$205,137	$0	$0	$0	$0	($205,137)	(100.0%)
Office of Payroll Admin.	$59,914	$61,070	$47,657	$31,653	$31,705	($28,209)	(47.1%)
Independent Budget Office	$3,963	$4,450	$4,429	$4,429	$4,429	$466	11.8%
Equal Employment Practices Comm.	$744	$789	$790	$790	$790	$46	6.2%

Table A2 (Con't). *FY 2012 Executive Budget Expenditure Detail*

($ in thousands)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change FYs 2011-15 Dollars	Change FYs 2011-15 Percent
Civil Service Commission	$685	$751	$751	$751	$751	$66	9.6%
Landmarks Preservation Comm.	$5,401	$4,759	$4,723	$4,729	$4,729	($672)	(12.4%)
Taxi & Limousine Commission	$30,920	$31,067	$30,826	$30,826	$30,826	($94)	(0.3%)
Commission on Human Rights	$7,329	$7,111	$6,660	$6,660	$6,660	($669)	(9.1%)
Youth & Community Development	$335,119	$233,718	$211,995	$211,995	$211,995	($123,124)	(36.7%)
Conflicts of Interest Board	$2,022	$2,119	$2,120	$2,120	$2,120	$98	4.8%
Office of Collective Bargain	$2,101	$2,220	$2,121	$2,121	$2,121	$20	1.0%
Community Boards (All)	$15,093	$14,617	$14,617	$14,617	$14,617	($476)	(3.2%)
Dept. of Probation	$81,255	$74,851	$71,829	$71,925	$72,031	($9,224)	(11.4%)
Dept. Small Business Services	$140,576	$128,455	$105,029	$96,760	$90,450	($50,126)	(35.7%)
Housing Preservation & Development	$793,936	$564,367	$561,397	$555,015	$553,795	($240,141)	(30.2%)
Dept. of Buildings	$99,720	$94,474	$89,624	$89,641	$89,624	($10,096)	(10.1%)
Dept. of Health & Mental Hygiene	$1,675,494	$1,543,539	$1,533,260	$1,532,059	$1,532,096	($143,398)	(8.6%)
Health and Hospitals Corp.	$92,369	$71,786	$71,114	$71,114	$71,114	($21,255)	(23.0%)
Office of Administrative Trials & Hearings	$25,067	$33,518	$33,518	$33,518	$33,518	$8,451	33.7%
Dept. of Environmental Protection	$1,013,332	$1,034,891	$1,016,241	$1,016,603	$1,017,480	$4,148	0.4%
Dept. of Sanitation	$1,414,381	$1,298,277	$1,335,545	$1,427,039	$1,427,121	$12,740	0.9%
Business Integrity Commission	$7,341	$7,190	$7,117	$7,117	$7,117	($224)	(3.1%)
Dept. of Finance	$219,554	$219,630	$216,568	$216,256	$216,006	($3,548)	(1.6%)
Dept. of Transportation	$847,193	$684,005	$688,935	$690,970	$690,970	($156,223)	(18.4%)
Dept. of Parks and Recreation	$322,376	$260,584	$263,852	$264,106	$264,190	($58,186)	(18.0%)
Dept. of Design & Construction	$110,255	$106,261	$106,798	$106,822	$106,822	($3,433)	(3.1%)
Dept. of Citywide Admin. Services	$422,283	$344,041	$353,657	$353,706	$353,523	($68,760)	(16.3%)
D.O.I.T.T.	$326,629	$306,625	$274,324	$269,519	$271,057	($55,572)	(17.0%)
Dept. of Record & Info. Services	$5,501	$5,042	$5,382	$5,382	$5,242	($259)	(4.7%)
Dept. of Consumer Affairs	$21,814	$24,082	$23,096	$22,866	$22,780	$966	4.4%
District Attorney - N.Y.	$91,621	$75,865	$75,866	$75,866	$75,866	($15,755)	(17.2%)
District Attorney - Bronx	$50,266	$46,923	$44,471	$44,360	$44,360	($5,906)	(11.7%)
District Attorney - Kings	$82,705	$77,060	$74,453	$74,453	$74,453	($8,252)	(10.0%)
District Attorney - Queens	$49,638	$46,211	$44,136	$44,136	$44,136	($5,502)	(11.1%)
District Attorney - Richmond	$8,445	$7,672	$7,201	$7,201	$7,201	($1,244)	(14.7%)
Office of Prosec. & Spec. Narc.	$18,237	$16,328	$16,328	$16,328	$16,328	($1,909)	(10.5%)
Public Administrator - N.Y.	$1,268	$1,181	$1,181	$1,181	$1,181	($87)	(6.9%)
Public Administrator - Bronx	$499	$425	$425	$425	$425	($74)	(14.8%)
Public Administrator - Brooklyn	$605	$526	$526	$526	$526	($79)	(13.1%)
Public Administrator - Queens	$473	$400	$400	$400	$400	($73)	(15.4%)
Public Administrator - Richmond	$380	$307	$307	$307	$307	($73)	(19.2%)
Prior Payable Adjustment	($500,000)	$0	$0	$0	$0	$500,000	(100.0%)
General Reserve	$40,000	$300,000	$300,000	$300,000	$300,000	$260,000	650.0%
Energy Adjustment	$0	$0	$57,434	$97,915	$119,286	$119,286	N/A
Lease Adjustment	$0	$0	$24,906	$86,821	$114,332	$114,332	N/A
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	$166,557	N/A
TOTAL EXPENDITURE	**$65,977,059**	**$65,714,564**	**$71,699,846**	**$73,259,816**	**$75,313,905**	**$9,336,846**	**14.2%**

Glossary of Acronyms

AGI	Adjusted Gross Income
AIRA	Actuarial Interest Rate Assumption
ARRA	American Recovery and Reinvestment Act
BARB	Building Aid Revenue Bond
BCT	Business Corporation Tax
BPCA	Battery Park City Authority
BSA	Budget Stabilization Account
CSA	Council of School Supervisors and Administrators
CSO	Combined Sewer Overflow
CUNY	City University of New York
DCA	Department of Cultural Affairs
DEP	Department of Environmental Protection
DOC	Department of Correction
DOE	Department of Education
DOITT	Dept. of Information Technology &Telecommunications

DOT	Department of Transportation
DOS	Department of Sanitation
EDC	Economic Development Corporation
FDNY	New York City Fire Department
FMAP	Federal Medical Assistance Percentage
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HPD	Housing Preservation Development
HYIC	Hudson Yard Infrastructure Corporation
J&C	Judgments and Claims
MRT	Mortgage Recording Tax

MTA	Metropolitan Transportation Authority
NYC	New York City
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
NYWFA	New York City Municipal Water Finance Authority
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PEG	Program to Eliminate the Gap
PERB	Public Employment Relations Board
PIT	Personal Income Tax
PS	Personal Services
RHBT	Retiree Health Benefit Trust
RPTT	Real Property Transfer Tax
TYCS	Ten Year Capital Strategy
UBT	Unincorporated Business Tax

UFT	United Federation of Teachers
U.S.	United States