

Staff Report

**REVIEW OF FYs 2014-2017
FINANCIAL PLAN**

July 18, 2013



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I. Overview

The city has ended FY 2013 with a surplus of more than \$2.8 billion, most of which is being used to help balance FY 2014. Since the executive budget the surplus has grown by \$630 million, mainly through increased revenues and debt service savings. In fact, there were \$826 million of additional resources. The city chose to use \$196 million for the early redemption of outstanding bonds producing \$98 million of savings in each of FYs 2015 and 2016. Utilizing the more than \$2.8 billion from the FYs 2012 and 2013 surpluses, \$1 billion in agency actions, and \$1 billion from the depletion of the Retiree Health Benefits Trust, the city has adopted a balanced FY 2014 budget. The budget projects a surplus of \$142 million and an increased general reserve of \$450 million to protect against possible disallowances in federal aid related to Hurricane Sandy. The outyear budget gaps are projected to be \$2 billion in FY 2015, \$1.8 billion in FY 2016, and \$1.4 billion in FY 2017.

The FYs 2014-2017 Financial Plan shows that city-fund revenues are basically flat in FY 2014. While property taxes are projected to increase by \$860 million, nonproperty taxes fall by \$895 million. This drop reflects the reversal of the spin-up that caused local tax collections to surge in FY 2013 when taxpayers recognized incomes early in order to avoid impending federal tax increases. The financial plan also shows that the two fastest growing expenditure areas are healthcare costs and debt service.

The large growth in healthcare costs is generated by both current and retired employees. Estimated spending is expected to grow from about \$5.3 billion in FY 2013 to \$8.4 billion in FY 2017, a 60 percent increase. In fact, the average annual growth rate of 12.5 percent from FY 2013 to FY 2017 is outpacing all other expenditure levels by a significant margin. The average annual growth rate for healthcare costs is expected to be almost double the 6.6 percent average annual growth rate for debt service over the same period. This makes the depletion of the Retiree Health Benefits Trust troubling. The Trust was created to start to deal with the unfunded liability for retiree health benefits, which stands at \$88 billion and is growing by about \$5 billion a year. This rising cost will continue to be funded on a pay-as-you-go basis with no plan to either reduce the liability or fund it.

The four-year financial plan is based on reasonable assumptions with manageable risks and appropriate reserves. However, this could change dramatically depending on how collective bargaining with the city's unions is concluded. To date, labor contracts settled in the 2008-2010 round of collective bargaining have all expired. In addition, contracts with the United Federation of Teachers and Council of Supervisors and Administrators have not been settled since the 2006-2008 round of collective bargaining. All terms of the last contracts remain in place.

The financial plan assumes a five-year contract with a wage freeze in the first three years followed by 1.25 percent increases in the last two years. This is mostly consistent with the contract reached by the state with its employees. If contract settlements are higher than currently funded, the city estimates that each one percent

costs about \$308 million. The financial plan does not include any funding for retroactive increases. If there is a settlement with the unions that have not settled the 2006-2008 round of bargaining granting retroactive four percent increases, the FY 2014 cost would be \$3.7 billion and \$1 billion in each subsequent fiscal year. The city, to date, has made it clear that it is not obligated to pay retroactive increases and, more importantly, states it cannot afford any such increases.

The decisions made on the terms of future labor contract settlements will largely determine whether the financial stability over the plan period remains, or if outyear budget gaps will increase potentially causing disruptive service cuts or large tax increases that could slow the growth of the city's economy.

**JUNE FINANCIAL PLAN:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2014-2017**

TABLE 1

(\$ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
<u>Revenues</u>				
Taxes:				
General Property	\$19,532	\$20,290	\$21,221	\$21,986
Other Taxes	25,035	26,810	27,834	29,003
Tax Audit Revenue	709	709	709	709
Sale of Property Tax Liens	38	38	38	40
Miscellaneous Revenues	6,573	6,617	6,624	6,735
Less: Intracity Revenues	(1,582)	(1,561)	(1,565)	(1,566)
Disallowances	(15)	(15)	(15)	(15)
Total City Funds	\$50,290	\$52,888	\$54,846	\$56,892
Other Categorical Grants	840	844	831	827
Interfund Revenues	536	515	515	515
Federal Categorical Grants	6,495	6,293	6,277	6,273
State Categorical Grants	11,756	12,047	12,468	12,932
Total Revenues	<u>\$69,917</u>	<u>\$72,587</u>	<u>\$74,937</u>	<u>\$77,439</u>
<u>Expenditures</u>				
Personal Service	\$38,367	\$39,984	\$41,095	\$42,426
Other Than Personal Service	29,141	29,008	29,482	29,946
General Obligation, Lease & TFA Debt Service	6,221	6,963	7,394	7,715
Budget Stabilization & Prepayments	(2,680)	(142)	--	--
General Reserve	450	300	300	300
Subtotal	\$71,499	\$76,113	\$78,271	\$80,387
Less: Intracity Expenditures	(1,582)	(1,561)	(1,565)	(1,566)
Total Expenditures	<u>\$69,917</u>	<u>\$74,552</u>	<u>\$76,706</u>	<u>\$78,821</u>
<u>Gap To Be Closed</u>	<u>\$0</u>	<u>(\$1,965)</u>	<u>(\$1,769)</u>	<u>(\$1,382)</u>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2014-2017
JUNE FINANCIAL PLAN COMPARED TO JANUARY MODIFICATION**

TABLE 2

(\$ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
<u>Revenues</u>				
Taxes:				
General Property	\$214	\$152	\$154	\$156
Other Taxes	(333)	171	61	(12)
Tax Audit Revenue	0	0	0	0
Sale of Property Tax Liens	0	0	0	0
Miscellaneous Revenues	(302)	(141)	(91)	277
Less: Intracity Revenues	26	50	51	47
Disallowances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total City Funds	<u>(\$395)</u>	<u>\$232</u>	<u>\$175</u>	<u>\$468</u>
Other Categorical Grants	(\$100)	(\$63)	(\$64)	(\$64)
Interfund Revenues	18	(2)	(2)	(2)
Federal Categorical Grants	(48)	(68)	(72)	(73)
State Categorical Grants	<u>391</u>	<u>362</u>	<u>321</u>	<u>657</u>
Total Revenues	<u>(\$134)</u>	<u>\$461</u>	<u>\$358</u>	<u>\$986</u>
<u>Expenditures</u>				
Personal Service	\$646	\$479	\$379	\$445
Other Than Personal Service	712	(114)	(71)	17
General Obligation, Lease & TFA Debt Service	(104)	(220)	(108)	5
Budget Stabilization & Prepayments	(1,564)	(142)	--	--
General Reserve	<u>150</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	<u>(\$160)</u>	<u>\$3</u>	<u>\$200</u>	<u>\$467</u>
Less: Intracity Expenditures	<u>26</u>	<u>50</u>	<u>51</u>	<u>47</u>
Total Expenditures	<u>(\$134)</u>	<u>\$53</u>	<u>\$251</u>	<u>\$514</u>
<u>Gap To Be Closed</u>	<u>\$0</u>	<u>\$408</u>	<u>\$107</u>	<u>\$472</u>

RISKS TO THE FINANCIAL PLAN

TABLE 3

(\$ in millions, positive numbers are offsets to risks)

	FY 2014	FY 2015	FY 2016	FY 2017
Stated Financial Plan Gap	\$0	(\$1,965)	(\$1,769)	(\$1,382)
Estimation				
Uniformed Services Overtime	(52)	(164)	(200)	(200)
Police Overtime PEG	(50)	(50)	(50)	(50)
Subtotal	(\$102)	(\$214)	(\$250)	(\$250)
Implementation				
Sale of Taxi Medallions	\$0	(\$400)	(\$360)	(\$400)
Subtotal	\$0	(\$400)	(\$360)	(\$400)
Risk Total	(\$102)	(\$614)	(\$610)	(\$650)
Total FCB Estimated Surplus/(Gap)	(\$102)	(\$2,579)	(\$2,379)	(\$2,032)

II. Balancing the FY 2014 Budget

The June 2013 Financial Plan projects that FY 2014 revenues will cover expenditures of \$69.9 billion, making for a balanced budget that is \$2.6 billion smaller than for FY 2013. The year-over-year lower revenue forecast reflects an allocation of categorical aid (largely federal emergency aid related to Hurricane Sandy) that is smaller in FY 2014 than FY 2013. The city expects the receipt of Hurricane Sandy aid in FY 2014 will be higher than currently designated, which could augment the budget at a later date. City-fund revenues are projected to remain flat year-over-year. An estimated \$900 million slippage in nonproperty taxes in FY 2014, following the surge in collections in FY 2013 in response to higher federal tax rates that went into effect at the start of calendar year 2013, serves to offset expected strong property tax growth and the start of the long-delayed taxi medallion sale.

With lower net revenues, the city made commensurate adjustments to its operating expenditures. In actuality, expenses climb in several areas of the FY 2014 budget, namely healthcare and debt service. However, the city is using \$2.8 billion of surplus funds from prior years to balance the FY 2014 budget, among other actions. It is currently forecasted that FY 2014 will end with a small surplus of \$142 million that serves to reduce the projected budget gap for FY 2015 to \$2 billion. Smaller budget gaps of \$1.8 billion and \$1.4 billion are projected for FYs 2016 and 2017, respectively. It is likely that the city will have to address the renewal of labor contracts that have since expired, which has the potential to exacerbate these gaps.

CITY FUNDS ARE FLAT IN FY 2014, WHILE TOTAL REVENUE FALLS

The June 2013 modification contains \$365 million in additional FY 2013 city-funded revenue compared with the May modification. These revenue gains will be used to help future budgets by prepaying some expenses before the close of FY 2013. Most of the city's taxes participated in the year-end revenue gains, with the real property tax contributing an extra \$150 million and the nonproperty taxes adding \$215 million to FY 2013 revenue. Since the May modification, total revenues are up by \$679 million in FY 2013 because of the previously mentioned city-fund increases and a net increase of \$314 million in categorical grants and interfund revenue.

The FYs 2014–2017 Financial Plan shows that city funds remain at \$50.3 billion in FY 2014, declining by a scant \$15 million compared with the previous year, as shown in the figure. City-fund revenues, which include taxes, intergovernmental aid and miscellaneous revenue, remain flat largely because property tax gains are offset by reduced nonproperty tax receipts. Total revenue declines by \$2.6 billion, to \$69.9 billion. The weakness of FY 2014 total revenues reflects federal emergency aid that was approved in the previous year in the aftermath of Hurricane Sandy. The federal

FY 2014 City-Fund Revenues Are Relatively Flat (\$ in millions)	
Property Tax	\$860
Nonproperty Taxes	(895)
Audits	(351)
STAR Aid	7
Miscellaneous Revenue	80
Nonrecurring Revenue	284
City Funds	(\$15)
Categorical Aid	(2,577)
Interfund Revenue	(15)
Total Change in Revenues	(\$2,607)
Note: Numbers may not add due to rounding.	

government has thus far agreed to an initial installment of \$1.77 billion in aid. The city expects that Sandy aid could eventually total \$4.5 billion once the city has completed additional phases of its disaster recovery plan.

As shown in the figure on the prior page, the real property tax increases by \$860 million, to \$19.6 billion in FY 2014. The city expects the nonproperty taxes to slide by \$895 million to \$24.2 billion in FY 2014. The slippage of the nonproperty taxes reflects the spin-down of revenues following the surge in collections in FY 2013 in response to higher federal tax rates that went into effect at the start of calendar year 2013. There are no tax program initiatives in the city's financial plan. The city's tax audit program declines by \$351 million in FY 2014 to \$709 million.

Miscellaneous revenue including one-time revenue is projected to yield \$5 billion in FY 2014. This revenue estimate has increased by \$364 million since the previous year largely because the taxi medallion sale is scheduled to start in FY 2014. If it goes as planned, the first installment of the proposed \$1.46 billion medallion sale will produce \$300 million in FY 2014.

The nonproperty taxes fall by \$895 million to \$24.2 billion in FY 2014. This drop reflects the reversal of the spin-up that caused local tax collections to surge in FY 2013, when taxpayers recognized incomes early in order to avoid impending federal tax increases. This decline follows three years of rising nonproperty tax receipts since the start of the recovery. Growth started off with a strong 13 percent upturn in FY 2011, at the start of the recovery, and then weakened to four percent in FY 2012. Strong growth returned in FY 2013, with an 11 percent upturn driven by the spin-up in tax collections. Collections are weak in FY 2014 because the national economic recovery, now in its fourth year, is being weaned from the last of the federal stimulus programs. This could be why the stock market took an unnerving tumble when the Federal Reserve Board announced that it was contemplating gradually extricating itself from its quantitative easing bond-purchase program.

Among the declining taxes, the personal income tax, which falls \$971 million, or 11 percent, has by far the biggest decrease in FY 2014. This decrease is a huge shift from the 15 percent gain in the preceding year. The business taxes drop by \$160 million in FY 2014, for a decline of 2.7 percent because of the projected weakness of the bank tax. The decline of the business taxes follows a stellar 10 percent surge in FY 2013. The property transactions taxes remain virtually flat in FY 2014, following spin-up assisted growth of 26 percent in 2013. The city sales tax, with a gain \$208 million, or 3.4 percent, registers the biggest increase among the nonproperty taxes that are showing positive growth. The commercial rent tax shows moderate but steady growth, with an increase of \$26 million, or four percent, in FY 2014, down slightly from the \$31 million increase of the previous year.

EXPENDITURE HIGHLIGHTS IN FY 2014

The June financial plan assumes a balanced budget for FY 2014 with projected total-funded spending of \$69.9 billion, a \$142 million surplus to be used to prepay FY 2015 expenses, and a higher than normal general reserve of \$450 million. The projected

total-funded spending in FY 2014 is \$2.6 billion lower than the FY 2013 projection. Most of the difference is due to a nearly \$1 billion decrease in expenses associated with Other Than Personal Services and a more than \$3 billion net change in surplus funds. The city expects to rollout about \$2.8 billion of surplus funds from FY 2013 into FY 2014 versus the \$2.4 billion roll-out into FY 2013 from FY 2012. This amounts to about \$360 million more in net surplus funds.

The adopted budget assumes higher spending in salaries, fringe benefits, and debt service of \$825 million. In an unusual step, the budget allocates an additional \$150 million to the city's general reserve, bringing its total to \$450 million. The city routinely replenishes the general reserve at the start of the fiscal year and holds \$300 million in this reserve to deal with any unforeseen events. The reserve is normally taken down at the end of the fiscal year if these funds are no longer needed. The higher amount in the general reserve will protect the city from potential disallowances from the federal government over Hurricane Sandy.

While many of the troubling financial issues that arose in FY 2013 have been resolved (i.e., the restoration of state education aid and a state court approval to sell new taxi medallions), it is likely that the city will have to address the renewal of labor contracts that have since expired and work to close an expected budget shortfall of almost \$2 billion in FY 2015. However, subsequent gaps in the outyears of the financial plan are expected to fall to \$1.8 billion and \$1.4 billion, in FYs 2016 and 2017, respectively.

The city has been able to cut expenditures and maintain city services in the face of economic decline, a major hurricane, and cuts in state and federal funding. Following the financial crisis and national recession, operating deficits started to occur in FY 2008. As a prudent course of action, the city implemented the first of 12 consecutive agency programs to reduce costs, but even with these cost-containment measures, shortfalls continue to exist illustrating the financial challenges the city faces each fiscal year. To resolve these challenges and bring budget balance, the city has resorted to the use of one-shot measures, such as drawing down and depleting the Retiree Health Benefits Trust fund, in addition to cutting agency spending and implementing other recurring gap-closing measures.

As early as the July 2010 financial plan, the city was projecting a sizable deficit of more than \$4.8 billion in FY 2014, which was narrowed to \$2.7 billion by FY 2013. The city had just \$155 million (includes \$31 million from FY 2012 and \$124 million from FY 2013) at the start of FY 2013 to deal with the gap. As shown in the figure to the right, the city was able to add almost \$2.7 billion of additional surplus funds during FY 2013 and start a surplus with \$142 million in FY 2014.¹

As it has done in past fiscal years, the city relied on surplus funds to bring about budget balance. There was no departure from this budget practice for FY 2014 and more than \$2.8 billion of surplus funds from FYs 2012 and 2013 were used to prepay debt service and subsidies to help close the FY 2014 gap.

As shown in the figure, the city has projected higher net revenue collection of \$207 million, which includes a higher revenue forecast of \$191 million and a component of the FY 2014 Program to Eliminate the Gap (PEG) totaling \$111 million.² However, the higher projected collections and PEG are expected to be offset by the stretch out of the new taxi medallion sales and a reduced nontax revenue estimate.

FY 2014 Gap-Closing Actions	
City Funds (\$ in millions)	
Projected Gap	(\$2,663)
Beginning Surplus	155
Gap to be Closed	(\$2,508)
<u>Revenue Inc/(Dec)</u>	
Forecast	\$191
PEG	111
Taxi Medallions	(65)
Nontax	(30)
Revenue Increase	\$207
<u>Expenses Inc/(Dec)</u>	
PEG	(\$890)
Miscellaneous	(273)
Debt	(223)
Agency	864
City Council	393
Pension	203
General Reserve	150
Expense Increase	\$224
Gap to be Closed	(\$2,525)
Surplus Funds Added	2,667
Surplus Available to FY 15	\$142

On the expense side, the city projects higher net spending of \$224 million. The city is estimating elevated agency spending of \$864 million, increased pension costs of \$203 million, as well as a supplemental allocation of \$150 million to the general reserve. Also, the City Council will use \$393 million to restore funding to select programs and agencies that were part of earlier budget cuts and allocate funds to various citywide initiatives. Partially offsetting these increased expenditures are agency expense reductions, totaling \$890 million that are part of the PEG program, miscellaneous spending decreases yielding \$273 million in savings, and debt service savings of \$223 million largely attributable to bond refundings.

¹ In our June 6, 2013 FCB Staff Report starting on page 12, we detailed the city's build up of an additional \$2.037 billion of surplus funds. Since the release of the executive budget, the city added another \$630 million of surplus funds, which was derived from a higher revenue forecast of \$365 million, additional debt service savings of \$213 million, miscellaneous savings of \$192 million (mainly fringe benefit adjustments of \$123 million and \$65 million in lower than expected Judgment and Claims), and agency savings of \$56 million. While the additional funds totaled \$826 million, the city has used \$196 million of these funds for the early retirement of outstanding debt creating savings of \$98 million in each of FYs 2015 and 2016.

² The revenue and expenditure components of the PEG program discussed are the initial estimates presented in the November modification for FY 2013. The PEG program has been augmented since with expected revenue of \$101 million and expenditure savings of \$904 million as projected in the June modification.

The adopted budget assumes increased spending for the majority of city agencies in FY 2014. Much of this \$864 million increase is for new needs and other adjustments but some of the cost is to restore initial funding to some departments that had previously reduced spending. For example, newly needed funding of about \$228 million is planned for the city's Health and Welfare agencies (includes the Administration for Children Services and the Departments of Social Services, Homeless, and Health and Mental Hygiene). Most of the increase stems from the upward adjustment of previous budget estimates. Also, the city's uniformed services area (Police, Fire, Sanitation, and Correction Departments) will be allocated an additional \$163 million for mostly staffing and operational needs (e.g., increased snow budget for the Sanitation Department). In all other agencies, such as Libraries, Environmental Protection, Parks and Recreation, Cultural Affairs, Citywide Services, the bulk of the remaining new funding will be spent on restoration of cut services, new staffing needs, and various other uses.

The increased agency spending mentioned is in addition to City Council initiatives and restorations made in the June financial plan. The City Council has allocated a total of \$393 million to such funding. Some of the larger funding allocations included in this amount is \$44 million to keep 20 fire companies operating and to restore 505 firefighter positions, \$63 million of restored funding for child care services, \$31 million for the Department of Health and Mental Hygiene to cover various outreach and prevention programs, \$30 million for the Department of Aging, \$19 million for cultural programs and services, and \$26 million for educational programs in the Department of Education (DOE) and City University of New York (CUNY).

Elsewhere, the city estimates that its pension costs for FY 2014 will rise by \$203 million. The increase is a result of an updated actuarial valuation and starting the phase-in of FY 2012 investment losses. The phase-in of losses and gains occurs over a six-year period and is lagged by two years from the date of occurrence. Lastly, while not a cost increase, the city will allocate an additional \$150 million to its general reserve.

One of the major budget objectives for the city has been to reduce agency spending. The city has decreased spending in FY 2014 by implementing consecutive agency programs, starting in FY 2008, which have reduced departmental expenditures and increased revenue collections by about \$6.6 billion. In the FY 2013 November modification the city presented its FY 2014 PEG program. As recognized in the June financial plan, and shown in the figure to the right, the city expects to cut \$1 billion of agency expenditures as part of its PEG program.³ As shown, the DOE has identified almost one-third of these savings. Other

FY 2014 PEG Program	
City Funds (\$ in millions)	
DOE	(\$291)
Debt Service	(230)
Other Mayoral	(151)
Uniformed Services	(148)
Health and Welfare	(129)
Procurement Savings	(56)
Total Program Savings	(\$1,005)

³ A detailed analysis of the FY 2014 PEG can be read in the December 13, 2012 FCB Staff Report starting on page 14. Since the November modification the PEG program has been revised.

savings are attributable to reduced debt service costs of \$230 million from bond refundings, which are supplementary to \$223 million of gap-closing savings discussed earlier.

Other agencies have continued to cut costs and are expected to lower spending by \$428 million. Most of these savings are in the city's Mayoral agencies (e.g., Housing Preservation and Development, Departments of Finance and Transportation, Citywide Services). As shown, the agencies are anticipated to save a total of \$151 million. The city has also budgeted for reduced spending in uniformed services and health and welfare agencies. These two agency groups will save a combined \$277 million. Lastly, procurement savings will lower costs by \$56 million.

About half of these PEG savings are recurring over the life of the financial plan. The city will reduce the value of the PEGs by \$445 million in FY 2015 and by \$432 million in each of FYs 2016 and 2017. Nearly half of the reduced PEG value is due to the removal of debt service savings from the PEG. Other areas that are affected by nonrecurring savings are the Police and Sanitation Departments, and Youth and Community Development.

In other budget savings, the city is expecting lower miscellaneous spending totaling \$273 million.⁴ A large part of this savings stems from lower healthcare premium payments. In earlier estimates, the city had assumed a 9.5 percent rate for premium payments. However, the newly approved Health Insurance Plan of New York (HIP) Health Maintenance Organization (HMO) rate dropped to 5.18 percent for FY 2014.⁵ This rate reduction is expected to reduce health insurance premiums by \$191 million. Other savings will be recognized in reduced debt service of \$223 million.

⁴ The lower spending in this budget area reflects a net decrease after adjusting for a planned allocation of additional funding to the Housing Authority totaling \$71 million, replacing federal aid lost due to sequestration.

⁵ The financial plan assumes nine percent growth in health insurance premiums for each of FYs 2015 and 2016.

III. The FYs 2014-2017 Financial Plan

Starting with a balanced budget of \$69.9 billion in FY 2014, the June 2013 Financial Plan forecasts revenues growing slower than expenditures through FY 2017, when revenues total \$77.4 billion and expenditures \$78.8 billion. The divergence between revenues and expenditures is greatest in FY 2015, when expenses for such areas as healthcare and debt service outpace revenues, resulting in a projected budget deficit totaling \$2 billion. The budget gap shrinks to \$1.8 billion in FY 2016 and \$1.4 billion in FY 2017, as expenditure growth tapers. However, expenditure growth rates are based on an assumption that labor contracts that have expired as early as 2008 will be settled with a five-year agreement that freezes wages for the first three years, followed by 1.25 percent annual wage increases in the last two years, and with no retroactive wage payments. If contract settlements are higher than currently funded, the outyear budget gaps can easily widen.

THE OUTLOOK FOR REVENUE GROWTH

Total revenue increases by \$4.9 billion, or 6.8 percent, from \$72.5 billion in FY 2013 to \$77.4 billion in FY 2017, as shown in Table 4. At the start of the plan, revenues decline by 3.6 percent in FY 2014 when compared with the extraordinary revenue surge that occurred in FY 2013. Two factors caused revenues to surge in FY 2013 and set the stage for the corresponding decline in FY 2014. First, local tax receipts soared in FY 2013 after many taxpayers rushed through the sale of homes and financial assets at the close of calendar year 2012 to avoid anticipated federal tax increases. Second, federal disaster aid supported the city's FY 2013 budget to help pay for the rebuilding that was needed after the destruction caused by Hurricane Sandy. Strong growth in the later years of the plan should enable revenues to climb despite the weakness at the start of the plan.

TABLE 4

CITY FUNDS INCREASE BY \$6.6 BILLION OVER THE NEXT FOUR YEARS							
(\$ in millions)							
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013-17 % Change	FY 2013-17 \$ Change
Property Tax	\$18,711	\$19,570	\$20,328	\$21,259	\$22,026	17.7%	\$3,316
Nonproperty Taxes	25,094	24,198	25,938	26,957	28,121	12.1	3,028
Audit Revenue	1,060	709	709	709	709	(33.1)	(351)
Miscellaneous	4,581	4,661	4,639	4,683	4,754	3.8	173
Nonrecurring	46	330	417	376	415	802.2	369
STAR Aid	829	836	872	877	881	6.3	52
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0	0
Total City Funds	\$50,305	\$50,290	\$52,888	\$54,846	\$56,892	13.1%	\$6,587
Federal Grants	\$9,366	\$6,495	\$6,293	\$6,277	\$6,273	(33.0%)	(\$3,093)
State Grants	11,346	11,756	12,047	12,468	12,932	14.0	1,586
Private Grants	956	840	844	831	827	(13.5)	(129)
Categorical Aid	\$21,668	\$19,091	\$19,184	\$19,576	\$20,032	(7.6%)	(\$1,636)
Interfund Revenue	551	536	515	515	515	(6.5)	(36)
Total Funds	\$72,524	\$69,917	\$72,587	\$74,937	\$77,439	6.8%	\$4,915

Note: Numbers may not add due to rounding.

City-fund revenues increase by \$6.6 billion, or 13.1 percent, from \$50.3 billion in FY 2013 to \$56.9 billion in FY 2017. The spin-down of tax collections will initially cause city-funded revenue growth to pause in FY 2014 but growth rebounds to 5.2 percent in

FY 2015, lifted by recovering nonproperty tax collections. Following this rebound, city-fund growth slows to a steady 3.7 percent in FYs 2016 and 2017. Rising tax receipts are driving the revenue growth, with the real property tax growing by \$3.3 billion, or 17.7 percent, and nonproperty tax collections increasing by \$3 billion, or 12.1 percent, over the next four years.

After being lifted by an extraordinary collection in FY 2013, audits decline from \$1.1 billion in FY 2013 to about \$700 million in each of FYs 2014 through 2017. The city's \$1.46 billion taxi medallion sale has been deferred to FYs 2014-17, and is reflected in the climb of nonrecurring revenue from \$46 million in FY 2013 to \$415 million in FY 2017.

Categorical aid, which consists of federal, state and private program-specific grants, falls by \$1.6 billion, or 7.6 percent. Federal grants decline by \$3.1 billion, or 33 percent, because the federal response to Hurricane Sandy, which lifted grants in FY 2013 and could spill over into FY 2014, is not planned to continue into the outyears. Private grants fall by \$129 million, for a decline of 13.5 percent. Offsetting a major portion of this shrinkage is a state grant increase of \$1.6 billion, a 14 percent gain. State education grants, which expand by 20 percent, account for nearly all of the state aid growth.

Economic Outlook

The national recovery, which has continued for four years, has produced solid job gains even though output gains and income growth have been disappointing. Federal stimulus programs, which have in the past provided crucial support for the economy and for state and local governments, are being withdrawn as the federal government grapples with its own budget deficits and with issues like the sequester. The one remaining stimulus is the Federal Reserve's (Fed) bond purchase program, for which the Fed is seeking an exit strategy. At the mere mention of a plan to gradually reduce bond purchases, the markets responded with extreme volatility and raised questions about the staying power of the recovery. The most likely outcome is that the economic recovery will persist albeit with growth held down by the fiscal drag of a tighter federal budget and the gradual removal of the last of the stimulus programs.

National output growth is still weak and unsteady as evidenced by the swing of gross domestic product (GDP) from a growth rate of 0.4 percent in the fourth quarter of 2012 to 1.8 percent in the first quarter of 2013. The city sees weak GDP growth of 1.6 percent in 2013, which is a decline from the subpar 2.2 percent growth recorded for 2012. GDP growth accelerates to 2.7 percent in 2014 and to 3.4 percent in 2015. The Blue Chip July forecast of 1.8 percent growth in 2013 is slightly stronger than the city estimate, while the Blue Chip projection of 2.7 percent growth in 2014 is identical to the city's outlook. Although recession in several European markets has weakened exports, manufacturing for the domestic market is energizing the recovery, and factory orders climbed in April and May, led by commercial aircraft.

The city expects the local economy to stagnate for the next two years before showing stronger growth. In the city's plan, gross city product (GCP) growth drops to about one percent in calendar years 2013 and 2014 from 2.3 percent in 2012. Output growth strengthens to 2.4 percent annually in 2015 through 2017. The city's outlook is predicated on a softening of the national expansion, weak local incomes falling behind

stronger job growth, and the decline of securities industry profits. Wall Street profits drop in the city's plan to \$13.4 billion in 2013 from \$23.9 billion recorded in 2012. Results for the first quarter of 2013 show profits of \$6.6 billion, which indicates the possibility of another excellent year for this key industry. However, the extreme volatility that befell the stock and bond markets in the aftermath of the Fed's statement about its exit strategy indicates the need for a conservative perspective on Wall Street profits.

One very encouraging indicator, for the nation and the city, is employment. For the year through June, the national economy has been producing jobs at the rate of about 2.1 million jobs per year, a rate which slightly exceeds the city's projection of 1.9 million new jobs in 2013. Job growth has been positive for 33 straight months since October 2010 and the unemployment rate has dropped to 7.6 percent by June 2013 from 9.5 percent at the start of this extended hiring streak.

The labor market is also a prime mover of the city's economy. Since January, local employment has been climbing at a rate of 64,000 jobs per year, which is substantially better than the 54,000 job increase in the city's economic plan for calendar year 2013. The local job count is easing back from the torrid pace of 86,700 jobs in 2011 and 79,500 jobs in 2012. Despite exemplary employment growth the local unemployment rate, which stands at 8.3 percent as of May, has not fallen as much as the nation's.

Many of the new jobs are in low paying sectors such as retail and wholesale trade or leisure and hospitality services. Also, highly paid finance sector and securities industry jobs continue to decline in the city. An encouraging development is that the high-pay professional and business services sector is in the third year of a vigorous expansion. However, the expansion is bypassing the legal services industry, which is shedding jobs. Also, the count of government jobs has been shrinking in the city for about five years.

The expanding job market and the profitability of the securities industry are having a strong effect on incomes. The latest data show that personal income increased in the city by 5.1 percent in 2011 following an upwardly revised growth rate of 7.5 percent in 2010. In contrast to the strong actual results for these earlier years, the city's economic plan estimates that personal income growth is soft, with increases of about two percent in each of 2012 and 2013.

Property Tax Growth

Property tax revenue is among the fastest growing revenue sources, increasing by \$3.3 billion, or 18 percent, from \$18.7 billion in FY 2013 to \$22 billion in FY 2017. Property tax growth edges up to 4.6 percent in FY 2014 from 4.3 percent in FY 2013, after which revenue growth wavers between a high of 4.6 percent in FY 2016 and a low of 3.6 percent in FY 2017. Faster growth of 6.4 percent was seen in FY 2012, when revenues were still being lifted by the rapid growth of market values from five years earlier in FY 2008, before the recession flattened market values.

The June plan added \$85 million to the real property tax estimate of \$19.6 billion in FY 2014, compared with the estimate in the May modification. The extra revenue was recognized after billable assessment growth improved to 5.7 percent in the final tax roll for FY 2014, up from 5.3 percent in the May modification. Billable assessment growth increases from 4.4 percent in FY 2013 to 5.7 percent in FY 2014 and then slows to about four percent in each of FYs 2015-17.

The billable growth plan was enabled by three consecutive increases in market values, which accelerated to 4.3 percent on the city's FY 2014 tax roll from 2.9 percent in FY 2013 and 2.6 percent in FY 2012. The upward trend of market values indicates that the local real estate market has pulled out of the slump that hit in FY 2009. Each successive year of market value growth helps lift billable growth because assessments of most large properties are phased in over five years.

At the end of FY 2013, the city tapped excess property tax reserves and sold additional tax liens to produce an extra \$150 million but it is not apparent that similar surplus reserves will be available in FY 2014. This is because many property taxpayers affected by Hurricane Sandy may have filed assessment claims with the city. To help these taxpayers, the city has already granted \$90.3 million in FY 2014 property tax reductions to more than 50,000 owners, due to the storm. Also, the Tax Commission, which hears property assessment appeals, had extended its normal March filing deadline by more than three months until June 20, 2013 for Sandy-affected properties. It is therefore likely that many more property tax claims than usual will need to be resolved by using property tax reserves that are set aside for these and similar contingencies.

Nonproperty Taxes

The nonproperty taxes account for nearly half of the projection of city fund growth. These taxes increase by \$3 billion, or 12.1 percent, from \$25.1 billion in FY 2013 to \$28.1 billion in FY 2017, as shown in Table 4 on page 12. Because of the spin-down of tax collections following the surge in FY 2013, the nonproperty taxes drop by 3.6 percent in FY 2014. Collections rebound with 7.2 percent growth in FY 2015, after which growth levels off at about four percent in each of FYs 2016 and 2017. Previously, at the start of the recovery, these taxes surged by 13 percent in FY 2011 but growth then dropped to four percent in FY 2012. The nonproperty taxes soared by 10.9 percent in FY 2013 when taxpayers acted to recognize incomes early in order to avoid impending federal tax increases. The city expects this revenue spin-up to be offset by lower collections in FY 2014.

The fastest growing nonproperty taxes are related to the city's expanding real estate market. The real estate related taxes increase by 32 percent in FYs 2013-2017. The business taxes are mixed, with the general corporation and the unincorporated business taxes expanding by more than 15 percent and the bank tax falling by eight percent. The sales and the hotel taxes, which benefit from the city's strong tourism sector, increase by 16 percent and 14 percent, respectively. The city's largest nonproperty tax is the personal income tax, which is also among the slowest growing of the city's taxes with six percent growth.

Real Estate Related Taxes. The city expects this group of three taxes (the real property transfer, the mortgage recording, and the commercial rent taxes) to increase by \$802 million, or 32 percent, from \$2.5 billion in FY 2013 to \$3.3 billion in FY 2017. Previously, these taxes increased by an abnormally robust 20 percent in FY 2013, lifted by the rush to close property sales in CY 2012, before federal capital gains taxes would jump. Following this spin-up, tax growth retreats to a mere one percent in FY 2014 so that virtually all of the 32 percent growth anticipated from these taxes will occur in the outyears of the plan.

Mortgage interest rates, which had long been held down by the Fed's expansionary monetary policies, are finally heading upward. Higher mortgage rates could test the staying power of the city's real estate recovery and the city's revenue plan for the fast-growing real property transfer and mortgage recording taxes.

The commercial rent tax is the most steady of this group of taxes and its revenue expands by 18 percent in FYs 2013-2017. An influx of commercial tenants into the two nearly-completed new office towers of the World Trade Center will produce no extra revenue, as all tenants at this site are exempt from paying this tax. Similarly, the city's real property tax will see no growth from these buildings, which are instead subject to payments in lieu of taxes (PILOT) negotiated with the Port Authority, which owns the site.

Business Taxes. This group of taxes, consisting of the general corporation tax (GCT), the banking corporation tax (BCT) and the unincorporated business tax (UBT), increases by 10 percent, or about \$600 million, over the next four years from \$5.9 billion in FY 2013 to \$6.5 billion in FY 2017. Previously, these taxes grew by 10 percent in 2013 and by one percent in 2012, down from the stellar 18 percent surge in FY 2011 at the start of the recovery. The outlook for the individual taxes in this group is mixed with the collections growth of the GCT and the UBT exceeding 15 percent and the bank tax declining by eight percent in FYs 2013-17.

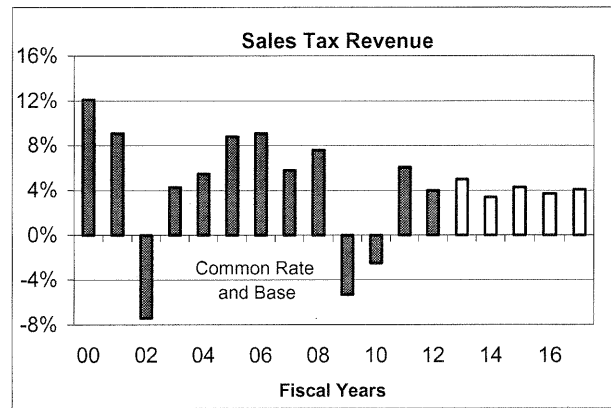
Profit reports have been inconsistent, with the securities industry showing continued strength while corporate profit growth has weakened. Bank earnings are also inconsistent, with national bank profits showing growth but not New York banks. The securities industry earned \$23.9 billion in CY 2012. These excellent profits were followed by an equally encouraging report of \$6.6 billion earned in the first quarter of 2013. However, national pretax corporate profits have slipped to a lackluster showing of three percent growth in the first quarter of 2013, down from 17 percent in 2012.

FDIC bank earnings reports have also been inconsistent. Nationally, bank earnings increased by 16 percent in the first quarter of 2013, while banks in New York State reported a staggering earnings decline of 51 percent. Rising mortgage rates could slow the real estate recovery and reduce refinancing activity. Also, new regulations such as higher reserve requirements and limits on derivative trading could restrict bank profit opportunities.

Sales Tax. In the short-term view that encompasses FY 2014 and the longer-term outlook that covers the financial plan, most of the pieces are in place for good, but not stellar, sales tax revenue growth. In the adopted budget, sales tax collections in FY 2014

are expected to increase 3.4 percent from the prior year to \$6.3 billion. The necessary elements include strong gains in jobs, tourists, housing prices, number of homes sold, and retail sales from a more confident consumer despite higher taxes and government spending cuts. It is likely that these positive trends will continue through the forecast period.

Yet, an important element is lacking that could propel sales tax revenue, which is income growth at a rate comparable to the other economic variables. In its latest forecast, the city estimates that finance sector compensation will remain in the three percent range during the forecast period of 2013-17, with no year-to-year growth expected in 2014, which provides limited support to total wages and discretionary spending during 2013-17. As shown in the figure to the right, after rising five percent in FY 2013 on a continuing base, sales tax revenue is projected to slow to 3.4 percent in FY 2014, improve to 4.3 percent in FY 2015, slip to 3.7 percent in FY 2016, and reach 4.1 percent in FY 2017.⁶

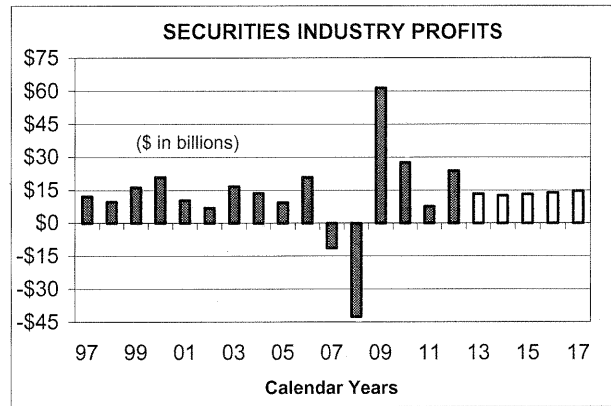


While the increase in home and stock prices during the first quarter of 2013 made some consumers feel “wealthier,” particularly if they had owed more on their mortgages than their homes were worth, a recent study has shown that the wealth effect is not helping consumers to the same degree. On a nominal basis, the Federal Reserve (Fed) determined that household wealth in the first quarter of 2013 reached an all-time high of \$70.3 trillion. The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis adjusted the nominal value of household wealth released by the Fed for changes in population and inflation over time. In their study, the Federal Reserve Bank of St. Louis revealed that the average inflation-adjusted net worth per household fell about 26.1 percent between the peak in the first quarter of 2007 to the trough in the first quarter of 2009. In the four years since 2009, the authors of the study found that adjusted for inflation, the average household recovered only about 62.8 percent of the wealth lost incurred during the recession.

⁶ “Continuing base” or “common rate and base” refers to tax collections that have been modified to remove the effects of tax programs and other adjustments to focus on the influence of the economy.

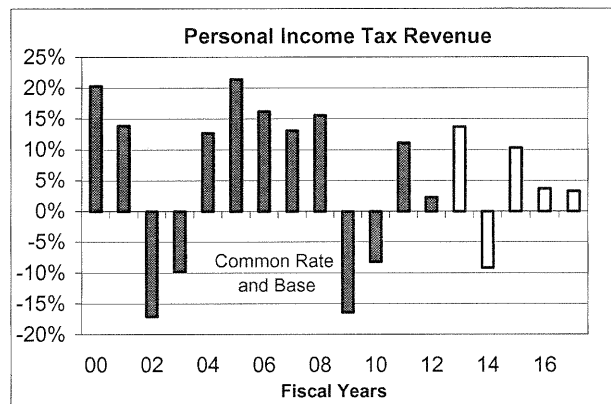
Personal Income Tax. It remains to be seen if the recent volatility in the financial markets, particularly in bonds, represents a temporary reaction to the Fed's more optimistic view of the national economy and labor market, or a sustained period of unease. There is concern in the market that the Fed will reduce its \$85 billion monthly bond purchases and increase the federal funds rate sooner than announced by the Federal Open Market Committee. As investors and traders adjust to the reality of an exit strategy by the Fed, investors will rebalance portfolios to acknowledge rising interest rates, and investment banks may benefit from higher net interest margins, but could be hurt by a tougher fixed-income trading environment and fewer mortgage refinancings.

In FY 2014, the city estimates personal income tax revenue will fall 10.6 percent to \$8.2 billion due to a year-to-year decline in the bonus payout and layoffs in the securities industry, and a revenue spin-down. In FY 2013, because of pending federal tax law changes, there was a revenue spin-up as dividends, capital gains realizations, and cash and stock bonuses were shifted into 2012 from 2013. It is not unusual for annual growth rates to gyrate sharply as sources of income and transactions are moved from year to year to lower taxpayer liability.



During the transition to a less accommodative Fed policy, revenues and profits at banks may be constrained. It could become harder for New York Stock Exchange (NYSE) member firms to repeat the \$6.6 billion earned in the first quarter of 2013 in subsequent quarters. For 2013, the city expects NYSE member firms to earn \$13.4 billion, after profits reached \$23.9 billion in 2012. The figure above shows actual profits from the securities industry and the city's (reasonable) forecast for 2013-17, where \$15 billion is attained by 2017. Besides the possibility of more market volatility, Wall Street firms still face higher capital requirements, mortgage-related litigation, and federal regulations, although some of the new rules that were adopted are not as strict as first proposed.

As seen in the figure to the right, personal income tax collections on a common rate and base are projected to leap 13.7 percent in FY 2013, drop 9.2 percent in FY 2014, rise 10.3 percent in FY 2015, and settle at 3.7 percent and 3.3 percent in FYs 2016 and 2017, respectively. Setting aside tax law changes, personal income tax revenue has been supported, especially withholding

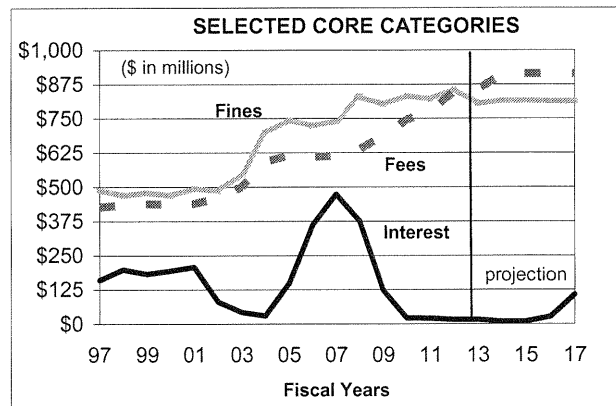


collections, by continued robust local job growth and modest increases in income. In 2013, the city expects a loss of 1,000 high-paying jobs in the securities sector, but an overall gain of 54,000 private sector jobs. Going forward, the city anticipates almost 50,000 new jobs per year during 2014-17, while total wages are projected to grow steadily in the forecast period and rise by an average annual growth rate of 3.6 percent from 2013 to 2017 to \$352.9 billion.

Miscellaneous Revenue

The city's latest miscellaneous revenue forecast increases by 11.7 percent or \$542.3 million to \$5.2 billion from FY 2013 to FY 2017, with a large boost from nonrecurring actions. If we narrow the view to just the core categories, we can evaluate the potential for recurring revenue growth in the city's miscellaneous revenue forecast.⁷ This is accomplished by negating the effects of the highly variable nature of asset sales and third-party payments, in addition to collections that are tied to agency expenditures. In this way, core category revenue is expected to advance by four percent or \$113.7 million to \$2.95 billion from FY 2013 to FY 2017. Of the total variance of \$113.7 million, the largest projected increase during this period is from interest income, which rises from \$16.3 million in FY 2013 to \$107.6 million in FY 2017. The impetus for growth in interest income is likely to be from higher short-term interest rates rather than a substantial increase in cash available for investment.

Even with the improvement in interest earnings assumed later in the financial plan, there needs to be some perspective on the relative weight of interest earnings among the other core categories. As seen in the figure to the right, with the exception of FYs 2002-04, the city earned over \$120 million annually from the short-term investment of available funds, until FY 2010 when income plummeted to \$22.2 million from \$123.9 million received in the prior year. The revenue decline that started in FY 2010 and continues until FY 2016 reflects the Federal Reserve's policy of keeping the federal funds rate low to promote economic growth. The figure also shows that even in the best years for interest income, such as during FYs 2006-08, the city has consistently earned more from fees and fines.



After FY 2013, revenue in the core category of charges for services is projected to exceed \$900 million, led by college tuition, parking meters, Fire Department inspections,

⁷ Core category revenue consists of six types of revenue: licenses (with permits and franchises), charges for services, interest, rent, fines, and a miscellaneous category without major nonrecurring actions, tobacco proceeds, housing revenue, and HHC payments. Dedicated funds such as water and sewer charges are also excluded from core category revenue since the funds are unavailable for gap-closing assistance.

and fees from the Departments of Finance and Buildings. Fine revenue is expected to remain in the \$800 million range during FYs 2013-17 from violations of parking, building, health, and environmental regulations. Before the state legislative session ended, the city received permission to begin a five-year pilot program to place 20 cameras among the 100 schools with the most dangerous intersections to catch speeding drivers.

Nonrecurring Resources

Among the various payments and asset sales projected to be generated and used from FY 2013 through FY 2017, the most important asset sale relates to taxicab medallions. The city expects to earn \$300 million in FY 2014, \$400 million in FY 2015, \$360 million in FY 2016, and \$400 million in FY 2017 from auctions of 2,000 handicapped taxicab medallions, now that the New York State Court of Appeals ruled in the city's favor on June 6th to uphold the constitutionality of the state legislation that permitted the sale of the taxicab medallions and established Hail Accessible Inter-borough Licenses (HAIL) licenses for borough taxis.

In an unanimous decision, the justices found that there was compelling state interest in providing more vehicles, in general, to residents and visitors outside of the central business district in Manhattan, and, in particular, more of the taxis and for-hire vehicles need to be wheelchair accessible. They also found that the HAIL Act addresses the state's substantial concern in improving access to transportation. The court rejected the plaintiff's arguments that the HAIL Act violated the municipal home rule, double enactment, and exclusive privileges clauses of the New York Constitution.

While this favorable decision by the court is great news for the city, the enabling legislation contains numerous milestones and requirements for the Taxi and Limousine Commission (TLC) that need to be met before the medallions can be sold. First, rules and procedures had to be developed for the HAIL program by the TLC, and then a HAIL license and base permit could be sold. Second, the city can sell only 400 taxicab medallions until the Disabled Accessibility Plan (DAP) is completed by the TLC, commented on by stakeholders, and approved by the New York State Department of Transportation (NYSDOT). The purpose of the DAP is to make it easier for handicapped individuals to use the city's transit system by gradually increasing, over a period of years, the number of taxicabs, for-hire vehicles, and HAIL vehicles that are wheelchair accessible. Part of the study will determine the geographic need for accessible vehicles from for-hire base stations, other means to increase the marketability/incentives to purchase accessible licenses, and to recommend whether or not to change the percent set aside for accessible vehicles in the second and third group of HAIL licenses to be sold.

In light of this requirement, the city has decided to undertake two sales, one in the fall and one in the spring, of 200 handicapped accessible taxicab medallions (individual and corporate) per sale to gauge price and demand. Prior to the fall sale in October, the TLC will have completed the environmental impact study for the entire 2,000 medallions. The city is prudent to divide the 400 medallions into two sales and can adjust, if necessary, the total yield in FY 2014 from the medallion sales in subsequent modifications. However, we are holding at risk the proceeds from medallion sales scheduled for FYs 2015-17, because it may take more time for the NYSDOT and other

stakeholders to approve the city's DAP than anticipated. While not linked to the sale of taxicab medallions, the enabling legislation also requires the TLC to complete an analysis of the HAIL market.

SOURCES OF EXPENDITURE GROWTH

Projected expenditure growth in FYs 2013 to 2017 is presented in Table 5. The city projects total-funded expenditures, excluding intracity expenses and interfund agreements, to grow by \$6.3 billion from \$72 billion in FY 2013 to \$78.3 billion in FY 2017, or an increase of 8.8 percent. The main drivers of this growth are fringe benefits, debt service, and pension costs, growing at 46.3 percent, 29 percent, and 7.3 percent, respectively. The city estimates that costs related to salaries will grow modestly at three percent when compared to fringe benefits, debt service, and pension costs. Public Assistance is estimated to remain mostly flat with growth of just 0.1 percent and Medicaid spending is expected to increase by one percent. One of the city's largest costs is operational support services or other OTPS.⁸ This budget item is expected to decrease by 0.7 percent.

PROJECTED EXPENDITURE GROWTH IN FYs 2013-2017

TABLE 5

(yr/yr percent change, \$ in millions)

	FYs 2013-14	FYs 2014-15	FYs 2015-16	FYs 2016-17	FYs 2013-17	Level in FY 2013	Level in FY 2017
Total Expenditures	(3.6%)	6.7%	2.9%	2.8%	8.8%	71,973	78,305
Total PS	1.6%	4.4%	2.8%	3.3%	12.7%	36,852	41,536
Salaries and Wages	0.2%	0.2%	1.1%	1.5%	3.0%	21,345	21,988
Fringe Benefits	5.9%	20.4%	7.0%	7.3%	46.3%	7,445	10,894
Pensions	1.6%	0.1%	2.4%	3.0%	7.3%	8,061	8,653
Total OTPS	(9.1%)	9.4%	3.0%	2.2%	4.7%	35,122	36,769
Public Assistance	(0.2%)	(0.1%)	0.0%	0.4%	0.1%	1,390	1,391
Medicaid	0.2%	1.3%	(0.5%)	0.0%	1.0%	6,353	6,415
Debt Service	4.0%	11.9%	6.2%	4.4%	29.0%	5,983	7,715
Other OTPS	(16.1%)	12.2%	3.2%	2.2%	(0.7%)	21,396	21,248
Note: Includes city, state, and federal funds. Excludes intracity expenses and interfund agreements. Numbers may not add due to rounding.							

The two expenditure components in the city's budget are Personal Service (PS) and Other Than Personal Service (OTPS). PS expenditures have two large components - salaries and wages, or labor costs, and fringe benefits (pension costs, healthcare, payroll tax, unemployment insurance, payments to Supplemental Welfare Funds, and workers' compensation). We separate pension costs from fringe benefits in the growth table.

⁸ Operational support services are Other OTPS that include spending on supplies, technical needs, transportation, equipment, etc.

The largest budgetary item in PS is labor costs. The city estimates that in FY 2014, more than 299,000 workers will be in its employment. To date, labor contracts settled in the 2008-2010 round of collective bargaining have all expired. Of special note is the expiration of contracts for the United Federation of Teachers (UFT) and Council of Supervisors and Administrators (CSA), which have not settled since the 2006-2008 round of collective bargaining. Nonetheless, the provisions of these contracts remain in place, even though expiration has occurred, until new contracts replace them. This means that contract terms, like automatic pay increases built into existing contracts for many city workers, continue to take place.

As shown in Table 5 on page 21, city labor costs are expected to increase from \$21.3 billion to almost \$22 billion between FYs 2013 and 2017, or three percent. The increase reflects funding for a five-year contract deal, which assumes a wage freeze for the first three years of the contract, beyond the 2008-2010 round of collective bargaining, followed by 1.25 percent annual wage increases in the last two years of the contract. The funding in each fiscal year reflects the expected start and expiration dates for each of the union contracts. However, the labor reserve does not include money to fund any retroactive wage increases. Accordingly, if contract settlements are higher than currently funded, the city will need to increase its funding with each additional one percent increase costing about \$308 million, which includes related pension costs and payroll taxes.⁹

The city has made clear that it is not obligated to pay retroactive increases and more importantly states it cannot afford any retroactive wage increases. In its executive budget for FY 2014, the city quantifies the cost of such retroactive payments. For example, if four percent retroactive raises were to be paid out to unsettled unions representing teachers, principals, and other employees, the cost in just FY 2014 alone would be \$3.7 billion, and for every fiscal year thereafter almost \$1 billion.

The other major piece of PS expenditures is fringe benefits (excluding pension costs). As a part of fringe benefits, healthcare costs represent one of the largest expenses for the city. Healthcare costs, paid annually on a pay-as-you-go basis, are part of the collective bargaining process, along with wages and work rules, whereas pensions are decided by the State Legislature.

Estimated spending in healthcare costs for active and retired city workers, including payments to Supplemental Welfare Funds, are expected to increase from about \$5.3 billion in FY 2013 to \$8.4 billion in FY 2017. This accounts for a \$3.1 billion increase, or nearly 60 percent, which represents the largest spending increase than any other budgetary item that is experiencing growth. In fact, the average annual growth rate of 12.5 percent from FY 2013 to FY 2017 is outpacing all other expenditure components by a significant margin. As an example, the average annual growth in healthcare costs is expected to be almost double the 6.6 percent average annual growth for debt service over the same period.

⁹ The cost of a one percent increase is based on city estimates from December 31, 2009.

A large portion of the rapid increase in fringe benefits is explained by the drawdown of the Retiree Health Benefits Trust (RHBT). In each of FYs 2013 and 2014, the city is drawing down \$1 billion of RHBT funds and using the funds to pay a portion of its pay-as-you-go healthcare cost for each of those fiscal years. This technical adjustment is the main cause for a 20 percent jump in fringe benefit costs between FYs 2014 and 2015. The city previously had drawn down \$672 million in FY 2012 from the RHBT, following drawdowns of \$82 million and \$395 million in FYs 2010 and 2011, respectively. With the last of the drawdowns occurring in FY 2014, the city will have exhausted the RHBT in its entirety.

By depleting the RHBT, the city leaves the Other Postemployment Benefits (OPEB) liability, totaling more than \$88 billion as of June 30, 2012, completely unfunded. We project that the unfunded OPEB liability will continue to grow at about \$5 billion a year on average and will easily top \$100 billion in just three fiscal years. We have argued repeatedly in our reports that the cost of providing pay-as-you-go funding for OPEB expenses and healthcare premiums for retired and active city workers will, over time, become unsustainable without the allocation of more city resources to fund them.

In our March 2013 report, we cited a study from the Citizens Budget Commission (CBC) on the growing fiscal impact of healthcare costs on the city's budget.¹⁰ The city estimates that only five percent of its workforce is contributing to the cost of their healthcare. In comparison, over 90 percent of state and private sector employees do so. The city has recently sent a letter to the Municipal Labor Committee, a coalition of municipal unions, asking for cooperation in crafting a Request for Proposal to replace the current healthcare contracts with a new "data-driven, proactively managed" healthcare plan that could save up to \$400 million annually and deliver a higher standard of care.

As shown in Table 5 on page 21, pension costs are projected to increase from \$8.1 billion in FY 2013 to \$8.7 billion in FY 2017. Much of this increase is for funding an unexpected actuarial investment loss experienced in FY 2012 and an actuarial valuation update. The city reported an investment return of just 1.37 percent for FY 2012, which is far short of the required seven percent return set for the fund. The financial plan accounts for the six year phase-in of this actuarial loss starting in FY 2014. In other pension developments, the State Legislature passed and the Governor signed into law (January 2013) the recommended pension changes in actuarial assumptions and methods proposed by the City Actuary.¹¹

Another large source of growth is in the city's debt service expense (net of prepayments). As shown in Table 5 on page 21, the city projects debt service will increase by 29 percent from \$6 billion in FY 2013 to \$7.7 billion in FY 2017. For the most

¹⁰ See the March 14, 2013 FCB Staff Report starting on page 20 for more information on the CBC report.

¹¹ The changes to the pension systems' actuarial assumptions and methods recommended by the City Actuary are detailed in the March 15, 2012 FCB Staff Report, starting on page 19.

part, FY 2013 debt service represents actual costs, including \$356 million of savings realized from a number of refunding bond sales as well as historically low interest rates on existing variable rate debt. Partially offsetting the savings in FY 2013 is the use of current resources for a \$196 million early redemption of future years' bond maturities. Meanwhile, in estimating debt service for FY 2017, the city prudently applied conservative interest rate assumptions to the large amount of bonds planned to be sold in support of its capital program. As such, debt service is forecasted to be the second fastest growing area of the expense budget. In the section of the report titled "The Capital Program Profile and Associated Debt" beginning on page 26, we describe how compounded capital investments are causing debt service costs to escalate and place added pressure on the operating budget.

Other OTPS expenditures are expected to decrease by 0.7 percent from FYs 2013 to 2017. This budget area, which serves to support city operations such as technical and facility needs, also accounts for the impact of prepaid expenses in debt service and library subsidies. Between FYs 2013 and 2014, the city projects a precipitous drop in other OTPS spending of \$3.4 billion, or 16.1 percent, but it projects a substantial increase of \$2.2 billion, or 12.2 percent, between FYs 2014 and 2015. Excluding the impact of prepaid expenses, the decrease between FYs 2013 and 2014 mainly reflects one-time adjustments in expenses related to Hurricane Sandy that hit the budget in FY 2013. For FYs 2014 and 2015, the city actually expects to spend \$300 million less on operational support costs net of the FY 2014 prepayment of debt service. The city projects to roll out more than \$2.6 billion of surplus funds from FY 2013 but only \$142 million in FY 2014. The difference in the surplus accounts for the expected increase between FYs 2014 and 2015.

In other developments, an issue surrounding the delayed agreement of an evaluation plan for teachers and principals between the city and the UFT, which caused the city to lose \$250 million of state education aid in FY 2013, has since been resolved. The issue at the time was that the city had failed to meet a state mandated deadline on January 17, 2013 to fully implement a plan of "standards and procedures" for evaluating teachers and principals. As a result, the city did not qualify to receive an increase in state education aid for the 2012-2013 school year. State legislation enacted in FY 2013, as part of the adopted state budget, mandated that the New York State Education Department (NYSED) impose an evaluation plan for any school district that did not have an approved plan by May 29, 2013. The city was the only district in the state that failed to meet the May deadline. On June 1, 2013, the NYSED imposed its own plan for the city, and with a plan now implemented, aid has been fully restored. Also restored were pedagogical and nonpedagogical positions budgeted for reduction.

The 20-20-60 plan to evaluate teachers imposed by the NYSED is detailed as follows:

- State Growth Performance – 20 percent
 - State-provided growth for scores in grades 4-8.
 - For teachers in core subjects, state assessments will be used.
 - For teachers in core subjects without state assessments, city performance assessments will be used.

- For all other teachers, menu determined by NYSED.
- Student performance targets for Student Learning Objectives approved by principals with teacher input.
- Locally Selected Measures – 20 percent
 - NYSED menu of performance options.
 - School-based measures of student learning committee with teacher and administrator input.
 - Committee recommends measures to principal from NYSED menu.
 - Principal may reject recommendation and apply default school-wide measure.
- Observation Process – 60 percent
 - 55 percent teacher observations in the classroom for grades 3-12.
 - 5 percent student surveys grades 3-12.

The law enacted stipulates that the evaluation plan will remain in force until at least the 2016-2017 school year, when a new evaluation plan can be collectively bargained for, but must be approved by the NYSED for it to supplant the imposed plan.¹²

In other budget areas, the city projects uniformed overtime expenditures of about \$1.2 billion for FY 2013, which includes costs related to Hurricane Sandy. For FY 2014, spending is expected to be less, at about \$955 million, falling to \$843 million in FY 2015, and about \$800 million in each of FYs 2016 and 2017. The city spends almost the entirety of its total citywide overtime budget among its uniformed service agencies. The total citywide overtime budget (including uniformed services) is expected to be nearly \$1.1 billion in FY 2014, \$970 million in FY 2015, and \$934 million in each of FYs 2016 and 2017. Almost half of the total expenditures in FY 2014, \$494 million, will be generated in the Police Department alone.

Over the last couple of fiscal years, overtime spending in the four uniformed service agencies have steadily climbed. For example, FY 2011 actual spending through May 2011 was \$884 million and increased to \$920 million in May 2012. For the current fiscal year, through May 2013 and adjusting for Hurricane Sandy, the city has already spent \$923 million. While we see no risk in the current fiscal year that the city will exceed its overtime budget, there is a risk in the outyears of the financial plan. As shown in Table 3 on page 5, we risk \$52 million in FY 2014, \$164 million in FY 2015, and \$200 million in each of FYs 2016 and 2017 based upon the city's spending history.

¹² Source: The New State Education Department www.oms.nysed.gov/press/nyc-appr-plan.html

THE CAPITAL PROGRAM PROFILE AND ASSOCIATED DEBT

In accordance with its financial planning process, the city released its Ten-Year Capital Strategy for FYs 2014-23. Every two years the city presents a strategy that identifies the capital goals and anticipated sources of financing for the ensuing ten-year period. The strategy incorporates the city's four-year authorized capital commitments (or contracts) in the initial years, and extends the forecast for an additional six years. At \$53.7 billion, total commitments in the new strategy are similar in scale to the \$54.1 billion outlined in the prior strategy for FYs 2012-2021. The new strategy builds on approximately \$92 billion of investments that the city undertook over the past ten-year period of FYs 2004-13 to restore, replace and expand its capital stock. Reflecting the compounded enormity of the capital program, debt service cost is projected to escalate and place added pressure on the operating budget.

Profile of the FYs 2014-23 Capital Strategy

The FY 2014 Ten-Year Capital Strategy calls for a total investment of \$53.7 billion that is allocated across three main categories: state of good repair, which represents essential repair work needed largely because of deferred maintenance; programmatic replacement, which represents replacement of equipment and asset components at regular intervals at the end of their life cycle; and program expansion, which represents the addition of assets. There are more than two dozen functional areas to which the categories of investment are apportioned, but 78 percent of planned commitments are in five areas: education, environmental protection, housing, bridges and highways. Given the amount of commitments planned for these areas, their distribution among the three categories has a considerable impact on the profile of the entire strategy, as illustrated in Table 6 on page 27.

The largest portion of commitments in the capital strategy, at \$26.6 billion or 50 percent, is classified as state of good repair projects.¹³ Education projects make up \$11.9 billion, bridges \$4.3 billion, highways \$2.6 billion and housing \$1.6 billion. The balance of commitments are split 25 percent each between program expansion and programmatic replacement. Commitments classified as program expansion total \$13.6 billion, with the largest allocation at \$7.8 billion for education, the second largest at \$3.4 billion for environmental protection and the third largest at \$1.3 billion for housing. Commitments for programmatic replacement projects amount to \$13.5 billion, with the majority allocated for environmental protection at \$8.2 billion.

¹³ The city in its FY 2013 Asset Information Management System (AIMS) Report recommends an investment of \$6.4 billion during FYs 2014-17 to bring certain physical assets up to a state of good repair. Only 58 percent, or \$3.7 billion, of the recommendations have been identified as being funded in the capital program for FYs 2014-17. Comparatively, this funding proportion is second only to the 60 percent high identified in the FY 2008 AIMS Report, as the funding proportion has been low over the past ten years. The city is required by charter to produce an annual maintenance report each October that details the recommended amounts of funding over the ensuing four fiscal years to maintain assets and asset systems with a replacement cost of \$10 million or greater and a useful life in excess of ten years. Additionally, the city produces a separate document, usually published around the time the executive budget is released, that reconciles the funding needs to the planned funding for each agency.

THE FY 2014 TEN-YEAR CAPITAL STRATEGY

TABLE 6 (\$ in millions)

	State of Good Repair	Program Expansion	Programmatic Replacement	Total
TOTAL	\$ 26,614	\$ 13,568	\$ 13,535	\$ 53,717
Percent of Total Program	50%	25%	25%	100%
Department of Education	11,884	7,759	22	19,666
Department of Environmental Protection^a	856	3,381	8,174	12,410
Water Pollution Control	19	148	4,207	4,374
Water Mains	0	534	2,998	3,532
Water Supply	0	1,648	0	1,648
Sewers	834	1,051	295	2,180
Equipment	4	0	673	677
Department of Transportation	7,632	0	508	8,140
Bridges	4,330	0	26	4,356
Highways	2,644	0	0	2,644
Traffic	652	0	0	652
Ferries	6	0	424	430
Transportation Equipment	0	0	58	58
Housing	1,635	1,289	0	2,923
All Others^b	4,607	1,139	4,831	10,578

^aThese categories are funded by Water Finance Authority revenue bonds.

^bAll Others include Sanitation, Citywide Equipment, Correction, Parks, Public Buildings, Economic Development, Police, Transit Authority, Health and Hospitals Corporation, Fire, Courts, Cultural Affairs, Health, Human Resources, Administration for Children Services, Libraries, Homeless Service, CUNY, Real Estate, Aging, and Juvenile Justice.

Numbers may not add due to rounding.

The FY 2014 capital strategy expands on approximately \$92 billion of capital investment that the city undertook over the past ten-year period of FYs 2004-13.¹⁴ This massive undertaking largely reflects historically high outlays for environmental protection projects and school facilities, with the two areas alone comprising 50 percent. The Department of Environmental Protection (DEP) undertook approximately \$23 billion of commitments to replace and expand the water distribution systems as well as facilities that protect and maintain the water supply sources; expand water supply conveyance; replace wastewater treatment facilities in compliance with state and federal mandates; repair, replace and expand the sewer system; and provide equipment for water conservation and the automatic meter reading system. The Department of Education (DOE) also undertook roughly \$23 billion to halt and reverse the deterioration of school buildings, provide additional capacity to relieve overcrowding and acquire state-of-the-art technology.

This vast sum of investment was enabled by the city securing a record high amount of state funding for education, and by the issuance of an expansive volume of fee-based bonds for environmental protection projects, in addition to the issuance of tax-

¹⁴ The city has not published the actual commitment level for FY 2013. In calculating the ten-year total, we use the targeted level for FY 2013 taken from the executive budget.

supported debt. As illustrated in Table 7, \$51.7 billion (56 percent) of the commitments entered into over the ten-year period of FYs 2004-13 were funded with tax-supported debt, \$22.7 billion (25 percent) with revenue bonds sold for environmental protection projects, and \$17.8 billion (19 percent) with noncity resources.

FUNDING FOR THE CAPITAL PROGRAM

TABLE 7

(\$ in billions)

<u>Capital Commitments</u>	<u>FYs 2004-13 Actuals</u>		<u>FY 2014 Strategy</u>	
G.O./NYCTFA	\$51.7	56%	\$27.3	51%
Water Authority	22.7	25%	12.4	23%
NonCity	17.8	19%	14.0	26%
Total	\$92.2	100%	\$53.7	100%

In building on prior-year commitments, the FY 2014 strategy assumes the continuation of varied sources of financing, as can be seen in the above table. Noncity funds comprise \$14 billion, or 26 percent, including \$10 billion of support from the state for education and bolstered by \$3 billion from the federal government to address damages to critical infrastructure caused by Hurricane Sandy. Additionally, environment protection projects totaling \$12.4 billion, or 23 percent, are slated to be financed with the sale of bonds by the Water Finance Authority, which are backed by city water and sewer user fees. At \$27.3 billion, 51 percent of the capital commitments are expected to be financed by the sale of general obligation (g.o.) bonds by the city and revenue bonds by the New York City Transitional Finance Authority (NYCTFA), both of which are backed by city tax revenues.

Subsequent to the publication of the FY 2014 strategy, the Mayor released a report titled "A Stronger, More Resilient New York" that recommends \$19.5 billion of investments that should be undertaken in the medium- to long-term timeframe to protect the city against the effects of climate change, such as coastal storm surges, intense downpours, droughts, and heat waves that threaten power failures. The report identified \$15 billion of funds already allocated or appropriated by the city and federal government for resiliency measures, with \$5.5 billion specifically contained in the city's existing capital plan to secure critical infrastructure and ensure services can continue during and after weather-related events. The vast majority (roughly 75 percent) of the resiliency projects in the capital plan are water and wastewater initiatives carried out by the DEP, with the remaining projects fortifying recreational facilities, as well as transportation and economic development infrastructure. With the adoption of the FY 2014 budget, the Mayor announced the addition of \$250 million of city funds to the capital plan for FY 2014 to begin filling the \$4.5 billion funding gap for the resiliency measures.

Debt Profile

The city's operating budget reflects the impact of the capital program through the allocation for debt service costs related to the sale of tax revenue bonds. For a comprehensive analysis of the debt resulting from the city's capital program for the years covered by the financial plan, we use the framework of the annual Statement of

Debt Affordability that was released by the city at the time of the executive budget. The Statement of Debt Affordability presents the aggregate debt and debt service levels for all bonds backed by city tax revenues sold to support the capital program, including city and NYCTFA securities, as well as city lease agreements. Table 8 displays measures used in the Statement of Debt Affordability.

TABLE 8

DEBT AFFORDABILITY MEASURES

(\$ in millions, except per capita)

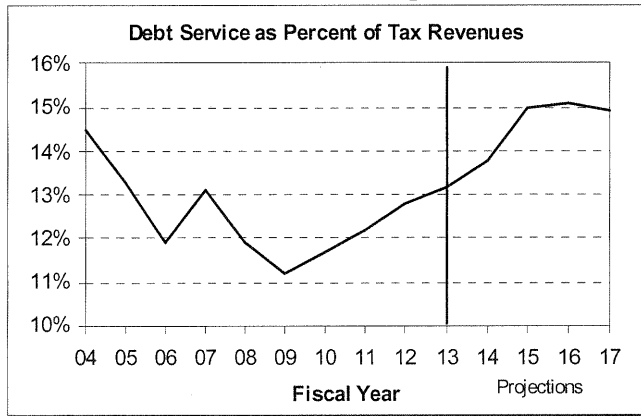
	FY 2014	FY 2015	FY 2016	FY 2017	Average Annual Growth
City & NYCTFA Debt Service	\$ 6,245	\$ 7,179	\$ 7,510	\$ 7,732	7.4%
Debt Service Per Capita	764	878	919	946	
Debt Service as Percentage of:					
Tax Revenues	13.8%	15.0%	15.1%	14.9%	
Total Revenues	9.0%	9.9%	10.0%	10.0%	
Local Personal Income	1.3%	1.4%	1.5%	1.4%	
City, NYCTFA & Conduit Outstanding Debt	\$ 69,654	\$ 71,943	\$ 73,444	\$ 74,261	2.2%
Outstanding Debt Per Capita	8,520	8,800	8,984	9,084	
Outstanding Debt as Percentage of:					
Local Personal Income	14.5%	14.5%	14.2%	13.8%	
Tax Revenues	\$ 45,239	\$ 47,847	\$ 49,802	\$ 51,738	4.6%
Total Revenue	69,776	72,641	75,051	77,604	3.6%
Local Personal Income	479,950	497,480	515,800	536,590	3.8%

In its Statement of Debt Affordability, the city projects that debt service will climb from \$6.2 billion in FY 2014 to \$7.7 billion in FY 2017.¹⁵ This reflects an average annual growth rate of 7.4 percent, with the vast majority of the debt service derived from bond sales related to the above mentioned \$52 billion of tax-supported commitments entered into during FYs 2004-13. As forecasted, the debt service levels are the second fastest growing component of the operating budget, following the growth in healthcare costs, with the city having contained future growth rates for such expenditure areas as pension and Medicaid. The average annual growth rate accelerates compared to the prior ten-year period when debt service grew by 4.3 percent from \$4.1 billion in FY 2004 to \$6 billion in FY 2013. Back at these levels, debt service did not reflect issuance of the full amount of bonds related to the \$52 billion of tax-supported

¹⁵ Debt service projections are based on long-term financing assumptions in the executive budget and are net of prepayments. Debt service estimates based on assumptions in the adopted budget amount to \$6.221 billion in FY 2014, \$6.963 billion in FY 2015, \$7.394 billion in FY 2016 and \$7.715 billion in FY 2017, for the same average annual growth rate of 7.4 percent.

commitments, as \$11 billion of the contracts had yet to be financed and represented an outstanding liability. Typically, the financing of existing capital contracts is undertaken over several years to correspond with project progression. Accordingly, there is a lag between when commitments are undertaken and when the associated debt service is payable.

Meanwhile, the city projects tax revenues, with which debt service is paid, will increase from \$45.2 billion in FY 2014 to \$51.7 billion in FY 2017, predicated on a slower average annual growth rate, relative to debt service, of 4.6 percent over the plan years. The share of tax revenues that debt service will consume is forecasted to grow from 13.8 percent in FY 2014 to 15.1 percent in FY 2016, before retreating to 14.9 percent in FY 2017 when the impact of the extraordinarily high commitments from past years levels off. Comparatively, during the most recent ten-year period, tax revenues grew at an average annual rate of 5.5 percent, exceeding that for debt service at 4.3 percent, with the burden fluctuating from a high of 14.5 percent in FY 2004 to a low of 11.2 percent in FY 2009 then increasing to 13.1 percent in FY 2013, as illustrated in the figure to the right.¹⁶ In six of the most recent ten years, the burden reflects the benefit of substantial debt service savings generated from refunding bonds. For example, debt service was lowered by \$356 million in FY 2013 owing to savings on refunding bonds sold by the city and the NYCTFA between FYs 2004-13. Without such savings that resulted from the replacement of high coupon bonds with lower coupon bonds and the restructuring of maturities, debt service would have consumed a much higher 13.9 percent of tax revenues in FY 2013.



Similarly, debt service is forecasted to consume an overall larger share of local personal income, rising from 1.3 percent in FY 2014 to 1.5 percent in FY 2016, then scaling back partially to 1.4 percent in FY 2017, as the projected average annual growth rate of 7.4 percent is faster than the 3.8 percent assumed for local personal income. Additionally, as a share of total revenue, debt service is projected to grow from nine percent in FY 2014 to 10 percent in FY 2017. Total revenue is forecasted to grow at an average annual rate of 3.6 percent over the four years, lagging a 4.2 percent growth for total expenditure that is largely driven by the surging debt service cost and resulting in projected budget gaps in each of FYs 2015-17. Based on the assumption that population size will hold steady at 8,175,000, per capita debt service is projected to increase from \$764 in FY 2014 to \$946 in FY 2017.

¹⁶ The city has not published actual debt service and tax revenues for FY 2013. We use the levels for FY 2013 from the June 2013 Financial Plan.

With the ongoing financing of the city's sizeable tax-supported capital program, Table 8 on page 29 bares the combined outstanding debt growing from the high base of \$69.7 billion at the end of FY 2014 to \$74.3 billion at the end of FY 2017, for an average annual growth rate of 2.2 percent. The increase in outstanding debt is a function of the compounding effects of new bond issuances exceeding annual principal redemption. The amount of outstanding debt allotted to each New York City resident is expected to rise from \$8,520 in FY 2014 to \$9,084 in FY 2017. However, the debt to income ratio is forecasted to decrease from 14.5 percent in FY 2014 to 13.8 percent over in FY 2017, as the growth rate for personal income is anticipated to be faster than that for outstanding debt.

The Statement of Debt Affordability does not include the debt service and outstanding debt associated with the Water Authority bonds that are sold to finance city environmental protection projects. The New York City Water Board levies user fees on city rate payers to fund the debt service on Water Authority bonds. As discussed earlier, environmental protection projects comprise \$12.4 billion of the commitments in the FY 2014 strategy, which is added to the \$22.7 billion undertaken during FYs 2004-13. At the time the Statement of Debt Affordability was released, the Water Authority projected the annual debt service on its bonds will grow at an average annual rate of 6.9 percent, from \$1.7 billion in FY 2014 to \$2.1 billion in FY 2017, based on the forecast for outstanding bonds increasing at an average annual rate of 2.7 percent from \$30.4 billion at the end of FY 2014 to \$32.9 billion at the end of FY 2017.

Glossary of Acronyms

AIMS	Asset Information Management System
BCT	Banking Corporation Tax
CBC	Citizens Budget Commission
CSA	Council of Supervisors and Administrators
CUNY	City University of New York
CY	Calendar Year
DAP	Disabled Accessibility Plan
DEP	Department of Environmental Protection
DOE	Department of Education
FCB	Financial Control Board
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Bonds	General Obligation Bonds
HAIL	Hail Accessible Inter-borough Licenses
HHC	Health and Hospitals Corporation
HIP	Health Insurance Plan of New York
HMO	Health Maintenance Organization
NYCTFA	New York City Transitional Finance Authority
NYSDOT	New York State Department of Transportation
NYSE	New York Stock Exchange
NYSED	New York State Education Department
OPEB	Other Postemployment Benefits
OTPS	Other than Personal Service

PA	Public Assistance
PEG	Program to Eliminate the Gap
PILOT	Payment in Lieu of Taxes
PS	Personal Service
RHBT	Retiree Health Benefits Trust
STAR	School Tax Relief program
TCL	Taxi and Limousine Commission
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers