New York City Independent Budget Office

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Analysis of the Mayor's Preliminary Budget for 2014

IBO's Reestimate Of the Mayor's Preliminary Budget for 2014 And Financial Plan Through 2017

IBO

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Preface

As required by the New York City Charter, IBO presents our Analysis of the Mayor's Preliminary Budget for 2014 and Financial Plan Through 2017. This annual report is an examination of many of the Mayor's key budget proposals, and contains IBO's latest economic forecasts and projections of city revenues and expenses. Unless otherwise indicated, all years refer to the city's fiscal year, which runs from July 1 to June 30.
As IBO completed this report on the Mayor's Preliminary Budget for 2014, the state was finalizing its budget negotiations. With many details on the state budget still unclear, our report reflects state issues affecting the city budget as presented in the Mayor's plan.

Each year, IBO also publishes a companion report entitled *Budget Options for New York City*. This year's report will be available in the coming weeks and will include dozens of ways for the city to cut spending or raise revenue. In addition to quantifying potential savings or revenue, IBO considers arguments for and against each of the options.

This report could not have come together without the hard work and dedication of IBO's staff. A list of IBO's analysts and economists and their contributions can be found on the report's last page. The report is produced under the direction of Supervising Analysts Ana Champeny, Ray Domanico, Michael Jacobs, and Paul Lopatto. Deputy Directors Frank Posillico and George Sweeting provided additional guidance. Tara Swanson coordinated production and distribution, and Elizabeth Brown, Kayla Epstein, and Doug Turetsky provided editorial assistance.

Ronnie Lowenstein

Director

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Overview

When the Bloomberg Administration released its first Preliminary Budget in February 2002, the city was still reeling from the aftershocks of September 11th and feeling the effects of a recession that had gripped the national and local economies. The city's prognosis seemed so uncertain that Albany enabled the Mayor to borrow up to $2.5 billion for daily operating expenses—a practice scorned since the darkest fiscal days of the 1970s. Under the Mayor's plan, IBO expected the city to end fiscal year 2003 with just a small surplus, not nearly enough to help close a budget gap of more than $3 billion—nearly 11 percent of city-generated revenues—we projected for 2004.

Fast forward to January 2013 and the Bloomberg Administration's last Preliminary Budget. The city has rebounded from the throes of another recession, this one even deeper than the last, although not as wrenching for the city as it was for the nation. We are again recovering from disaster, the devastation unleashed by Hurricane Sandy that swept from the South Shore of Staten Island to the Rockaways in Queens. Likewise, IBO projects that under the Mayor's plan the city would end fiscal year 2014 with a relatively small surplus. Where the story seems to diverge is the bottom line for the year after: IBO forecasts a relatively modest gap of $1.3 billion—just 2.4 percent of city generated revenues—in 2015.

On his weekly radio show five years ago, the Mayor vowed that he would not leave his successor with huge budget shortfalls like those he faced upon taking office. Has he succeeded? Based on the Preliminary Budget for 2014 and Financial Plan through 2017, the answer would seem to be yes. But a number of issues could upend the Mayor's plan and present very significant budget challenges for the next Mayor and City Council.

This report presents our latest economic forecast and tax revenue projections along with our review and reestimates of the Mayor's spending plans in the 2014 Preliminary Budget and four-year financial plan. Among the findings in this report:

- The city gained 79,500 new jobs in calendar year 2012, the second consecutive year of strong growth. We anticipate somewhat slower but still solid employment growth in the coming years, including increases of 56,800 in 2013 and 65,000 in 2014.
- Although employment is increasing in a broad range of industries, securities—the city's most lucrative industry—has been shedding jobs. Without growth

Total Revenue and Expenditure Projections
Dollars in millions

	2013	2014	2015	2016	2017	Average Change
Total Revenues	**$70,671**	**$70,964**	**$73,927**	**$76,995**	**$79,266**	**2.9%**
Total Taxes	*43,428*	*44,987*	*47,940*	*50,613*	*53,014*	*5.1%*
Total Expenditures	**70,671**	**70,537**	**75,223**	**77,290**	**79,296**	**2.9%**
IBO Surplus/(Gap) Projections	**$-**	**$427**	**$(1,296)**	**$(295)**	**$(31)**	
Adjusted for Prepayments:						
Total Expenditures	*$71,857*	*$71,813*	*$75,223*	*$77,290*	*$79,296*	*2.5%*
City-Funded Expenditures	*$50,224*	*$51,949*	*$55,230*	*$56,859*	*$58,744*	*4.0%*

NOTES: IBO projects a surplus of $1.246 billion for 2013, $160 million above the Bloomberg Administration's forecast. The surplus is used to prepay some 2014 expenditures, leaving 2013 with a balanced budget. Revenue and expenditures include $1.4 billion in Hurricane Sandy federal categorical funding in 2013. Estimates exclude intra-city revenues and expenditures. Figures may not add due to rounding.

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Pricing Differences Between IBO and the Bloomberg Administration
Items that affect the gap
Dollars in millions

	2013	2014	2015	2016	2017
Gaps as Estimated by the Mayor	**$-**	**$-**	**$(2,373)**	**$(1,876)**	**$(1,854)**
Revenues					
Taxes					
Property	$21	$120	$163	$341	$652
Personal Income	112	87	502	568	550
General Sales	(20)	(3)	102	176	210
General Corporation	(28)	26	98	194	197
Unincorporated Business	(63)	82	183	325	399
Banking Corporation	26	(4)	101	92	160
Real Property Transfer	78	41	5	29	(28)
Mortgage Recording	31	19	46	49	3
Utility	15	20	33	41	56
Hotel Occupancy	8	29	45	55	76
Commercial Rent	5	4	9	30	24
Cigarette	2	1	0	1	0
	$186	**$422**	**$1,287**	**$1,902**	**$2,301**
STaR Reimbursement	-	(1)	(2)	(3)	(5)
Other Revenue	(13)	(6)	(6)	(6)	(6)
Total Revenues	**$173**	**$415**	**$1,279**	**$1,893**	**$2,290**
Expenditures					
Fringe Benefits:					
Health Insurance—Education	$45	$19	$36	$67	$37
Health Insurance—City University	(27)	(32)	(41)	(50)	(60)
Health Insurance—All Other Agencies	38	59	28	(10)	(41)
Education	(51)	(123)	(170)	(265)	(306)
Public Assistance	(8)	(12)	(9)	(9)	(9)
Homeless Services	(15)	(27)	(27)	(27)	(27)
Correction	-	(15)	(15)	(15)	(15)
Small Business Services	5	3	(4)	(4)	(4)
Campaign Finance Board	-	-	-	-	(42)
Board of Elections	-	(20)	-	-	-
Total Expenditures	**$(13)**	**$(148)**	**$(202)**	**$(312)**	**$(467)**
Total IBO Pricing Differences	**$160**	**$267**	**$1,077**	**$1,581**	**$1,823**
IBO Prepayment Adjustment 2013/2014	(160)	160	-	-	-
IBO Surplus/(Gap) Projections	**$-**	**$427**	**$(1,296)**	**$(295)**	**$(31)**

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Figures may not add due to rounding.

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in securities, IBO expects far slower growth in total wages and salaries than the city enjoyed during the boom years of the last expansion.

- Given our forecast of earnings, IBO projects steady but moderate increases in tax revenues, growing from $43.4 billion in this fiscal year to $53.0 billion in 2017—an average annual increase of just over 5 percent.
- Total city spending under the Mayor's plan is projected to grow from $70.7 billion this year to $79.3 billion in 2017, an average annual increase of 2.9 percent. The fastest growing costs in the budget are expected to be health insurance and other fringe benefits for city employees and debt service—the interest and principal payments the city owes on money borrowed to pay for capital projects.
- Additional spending, beyond what was included in the Preliminary Budget, will be needed for a number of programs. The largest additions are $123 million for the 37 charter schools opening in September along with the expansion of grade levels served by existing charters, and $70 million (about $25 million in city funds) to shelter homeless families.

IBO's projection of surpluses and gaps under the Mayor's budget plan for fiscal year 2013-2017 presents an unusually optimistic view of the city's fiscal condition over the next few years. But that picture should be viewed with caution.

The single largest reason for caution is that the contracts for all the city's municipal unions have expired and there is little money set aside to cover contract settlements prior to 2013. Assuming that the unions for teachers and principals receive the two-year, 4.0 percent annual increases that other unions agreed to in the 2008-2010 round of collective bargaining and that all the unions with contracts that expired in 2010 or later settled for two years of 2.0 percent raises—and that the 2.0 percent raises were also extended to nonunion employees as the city has in the past—the total cost by the end of fiscal year 2013 would be $4.5 billion. The higher salaries would increase the city's labor costs by $1.8 billion in 2014 and beyond.

Another significant reason for caution is the continued expectation of $1.5 billion in revenue from the proposed sale of new taxi medallions. The budget plan now includes $600 million from the medallion sale in 2014 with the balance expected in 2015 and 2016. With the sale tied up in court and the next hearing date scheduled for late April, these revenue projections are far from certain. Uncertainty also follows from the still unfolding effects of federal budget cutbacks, the so-called sequestration, along with after-effects of Sandy and the still developing plans for how the city will rebuild and protect itself from future storms.

Economic & Tax Revenue Forecast. IBO expects that the city will continue to see a healthy increase in jobs over the next few years. In calendar year 2012, the city added 79,500 jobs, one of the best years on record. We expect that job growth in calendar year 2013 will not be as robust, as employment increases by 56,800. Over the ensuing years through 2017, we forecast job growth will rise at an average annual rate of 66,300.

With Wall Street still shedding jobs, other industries are driving the city's job growth—industries not much linked to the fortunes of Wall Street or that have become less tied to its fate. These growth leaders include the education, health, and social assistance services sector; information; trade (except for beleaguered music and book stores); and professional and business services.

The somewhat diminished role of the extraordinarily high-paying securities sector in the local economy is not without its consequences. Despite the city's strong 2.1 percent increase in total employment in 2012, the loss of jobs on Wall Street led to a decline of 0.7 percent in total wages and salaries for the year. In the recent past, Wall Street has propelled total wage growth in the city far above its share of job increases. In the boom years leading up to the financial crisis, the securities sector accounted for about 10 percent of job gains but more than 57 percent of total wage growth. Based on our projections for 2013 through 2017, Wall Street will comprise about 1 percent of job growth and just 19 percent of the city's aggregate wage growth.

Consistent with our economic forecast, IBO projects that tax revenues will grow strongly this fiscal year, slow down next year, and then resume stronger growth through 2017. This pattern follows our expectations for job growth in the city, and also reflects events in calendar year 2012 that are not likely to be repeated this calendar year and the years after.

One such event in 2012 was the unexpected jump in Wall Street profits—the third best year on record at nearly $24.0 billion. Another was the early realization of capital gains by taxpayers seeking to avoid the rise in federal capital gains taxes that went into effect beginning in January 2013. Together, these events have given revenues from the property transfer and business and personal income taxes an extra boost in fiscal year 2013.

Fueled by the strong job growth, high level of Wall Street profits, and early realization of capital gains in calendar year 2012, IBO forecasts that fiscal year 2013 tax revenues will grow by 5.1 percent and reach $43.4 billion. Somewhat slower growth will follow in 2014, when we expect tax revenues will total $45.0 billion, an increase of 3.6 percent. For fiscal years 2015 through 2017, we expect tax revenue to again grow at a faster pace, averaging 5.6 percent annually. The faster growth in 2015 and beyond is spurred in part by our expectation that Wall Street will begin adding jobs again.

Gap-Closing Measures. The Mayor's January 2013 Financial Plan includes a set of savings measures: $540 million in the current fiscal year and just over $1.0 billion in 2014. These measures, often referred to as PEGs or the Program to Eliminate the Gap, are a combination of spending cuts, revenue from new or increased fees and fines, updated estimates of costs, and the supplanting of city dollars with revenue from other sources. For the current fiscal year, the Mayor has proposed $436 million in reductions of city-funded spending and $104 million in proposals to increase city-generated revenue from fees, fines, and other revenues—but no new taxes. For 2014, proposed spending reductions total $890 million and increases of revenues other than taxes of $111 million.

The savings measures include some job eliminations, mainly through attrition. The largest jobs cut in the budget plan results from the state's cancellation of $250 million in school aid as a result of the impasse over teacher and principal evaluations. The Bloomberg Administration proposes to eliminate a total of about 2,500 teaching and related positions through attrition over 2013 and 2014 to partially compensate for the lost state funding. A legal challenge to the Governor's decision to withhold the aid is now underway, and—despite initial assertions that the state Legislature would restore these funds—as IBO completes this report it appears that the restoration was not part of Albany's budget agreement.

The potential loss of teaching positions will not save any city dollars—the job cuts result from the loss of state aid—and has no effect on city-funded spending unless City Hall decides to replace the lost state aid with city funds. In contrast, the city is saving money on full-time workers in other agencies. The largest city-initiated job reduction is in the Human Resources Administration, where 385 positions are expected to be shed over time through attrition for savings growing to $46 million in 2017 as the agency increasingly automates its services for public assistance and food stamp recipients. Another example is the decision not to reopen the Queens Detention Complex, which will save the city $24 million in 2014 by allowing the Department of Correction to eliminate 208 correction officer positions through attrition. At the Department of Transportation, 34 bridge inspectors will now be paid for with federal funds and save the city $3.1 million in 2014.

One of the largest savings measures in the plan for 2014 has no effect on services and derives from the fact that interest rates continue to be lower than the city has been projecting in prior budget plans. Continued low interest rates have allowed the city to refinance $3 billion in debt this year. Most of those savings—about $230 million—have been concentrated in 2014 (see page 64 for more details).

Other such "no impact" savings come from the Bloomberg Administration's expectation that less waste will need to be exported to incinerators and landfills outside the city and that the cost per ton will be lower than the city previously anticipated, along with changes to when the long-term waste export contracts will go into effect. Together, these will save the city $57 million in 2014. In addition, delays in the construction and scheduled opening of marine transfer stations that are part of the city's Solid Waste Management Plan mean that fewer staff than planned will be needed in 2014, saving $19 million (see page 51 for details).

While these city-initiated savings measures are not expected to result in service reductions, other proposals in the financial plan will. For example, the financial plan includes a cut of $10 million in 2014 to Out-of-School Time, the city's largest after-school program. This comes on top of a $51 million cut to Out-of School Time previously included in the financial plan for 2014. Together these cuts would reduce the number of slots in the program from 56,000 this year to 21,500 next year (see page 47 for more details). Likewise, the budget plan includes a cumulative reduction in the subsidy to the city's libraries totaling $102 million for 2014, which could lead libraries to reduce service by as much as two days a week. The budget plan would also eliminate 20 fire companies to save about $44 million, a reduction that has been proposed and rejected in each of the past three years (see page 53 for more details).

Each of these proposed spending reductions are part of a larger universe of cuts that are usually included in the city's financial plan for four years, but repeatedly restored by the City Council for one year at a time. Although funds were restored for these and other programs when the budget for the current fiscal year was adopted last spring, these funds are not in the budget for 2014 through 2017. There are about $360 million in restorations and initiatives put in place for this year by the City Council that are not included in the Mayor's budget plan for 2014 and beyond.

City Spending. Despite the proposed spending reductions, city expenditures continue to rise. There is a small dip between this year and 2014, but this is the result of nearly $1.4 billion in federal aid expected to be spent this year in the aftermath of Hurricane Sandy. IBO projects that total city spending, adjusted for the use of surpluses to make prepayments, will edge down from $71.9 billion this year to $71.8 billion in 2014 and then rise to $75.2 billion in 2015. Looking only at city funds (and therefore not including federal dollars for Hurricane Sandy), and again adjusting for the use of surpluses, IBO estimates spending will increase from $50.2 billion this year to $51.9 billion in 2014 and $55.2 billion in 2015.

The growth in city spending comes despite IBO's projection that spending on most major city functions will be flat or declining. For example, under the Mayor's plan, IBO estimates that city spending on police will fall by $154 million to $4.6 billion in 2014, from $4.7 billion this year, and decline at an average rate of just below 1.0 percent a year through 2017. Spending by the Department of Health and Mental Hygiene is expected to fall by nearly $100 million in 2014, from $1.6 billion this year, and decline at an average rate of 1.6 percent through 2017.

Continuing a pattern of the past few years, only a few areas of the budget are growing appreciably in either dollar or percentage terms. IBO estimates that the largest increase in spending in dollar terms next year will be by the Department of Education. The agency's budget is expected to rise by $395 million to $19.6 billion in 2014 from $19.2 billion this year (this estimate assumes the $250 million in contested state education aid is not restored). IBO projects education department spending will grow by nearly $2.1 billion over the course of the financial plan and total $21.3 billion in 2017, an average annual increase of 2.6 percent.

Rising at a faster percentage rate are two seemingly perennial sources of spending growth: debt service on funds the city borrows for capital projects and health insurance and other fringe benefits for municipal employees. After adjusting for the use of prior-year surpluses, debt service is expected to rise by $315 million (5.2 percent) and then jump $858 million (13.2 percent) in 2015. The primary factor contributing to the steep increase forecast for 2015 is that the city has achieved significant debt service savings from refinancing $3.0 billion in debt so far this year, and most of those savings have been concentrated in 2014. Although we expect that in the near term continued low interest rates will provide additional opportunities for the city to achieve savings by refinancing existing debt, the size of the capital plan will continue to drive an overall increase in debt service, which is projected to reach $7.7 billion in 2017 (see pages 61-66 for more details on the city's capital budget plan).

Spending on health and fringe benefits for city employees (excluding the education department and city university system) is rising at an even faster rate. IBO projects health and related spending will grow by $133 million and total just under $5.0 billion next year (after adjusting for the use of the Retiree Health Benefits Trust to pay a portion of retiree health insurance costs). Spending on health and other fringe benefits is estimated to rise at an average annual rate of 7.1 percent over 2013-2017, when it will reach $6.4 billion (for more details see pages 57-58).

IBO Expenditure Projections
Dollars in millions

	2013	2014	2015	2016	2017	Average Change
Health & Social Services						
Social Services						
Medicaid	$6,525	$6,582	$6,655	$6,624	$6,624	0.4%
All Other Social Services	2,858	2,763	2,769	2,751	2,752	-0.9%
HHC	172	65	64	64	64	-21.8%
Health	1,649	1,551	1,545	1,545	1,545	-1.6%
Children's Services	2,819	2,746	2,746	2,746	2,746	-0.6%
Homeless	992	932	928	928	928	-1.7%
Other Related Services	592	462	440	440	440	-7.1%
Subtotal	**$15,607**	**$15,101**	**$15,148**	**$15,098**	**$15,100**	**-0.8%**
Education						
DOE (excluding labor reserve)	$19,228	$19,623	$20,211	$20,862	$21,297	2.6%
CUNY	825	799	802	800	810	-0.5%
Subtotal	**$20,054**	**$20,422**	**$21,013**	**$21,662**	**$22,106**	**2.5%**
Uniformed Services						
Police	$4,729	$4,575	$4,572	$4,574	$4,574	-0.8%
Fire	1,897	1,761	1,676	1,673	1,676	-3.1%
Correction	1,069	1,074	1,070	1,070	1,070	0.0%
Sanitation	1,474	1,422	1,468	1,466	1,466	-0.1%
Subtotal	**$9,169**	**$8,831**	**$8,786**	**$8,784**	**$8,786**	**-1.1%**
All Other Agencies	**$8,727**	**$7,600**	**$7,801**	**$7,923**	**$8,106**	**-2.0%***
Other Expenditures						
Fringe Benefits	$3,860	$3,993	$5,413	$5,894	$6,404	7.1%**
Debt Service	4,889	5,049	7,183	7,502	7,710	6.4%*
Pensions	7,937	8,087	8,079	8,274	8,527	1.8%
Judgments and Claims	735	768	779	815	851	3.7%
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	-	-	-	-	-	n/a
All Other Agencies	106	265	465	714	983	n/a
Expenditure Adjustments	(513)	121	255	325	423	n/a
TOTAL Expenditures	**$70,671**	**$70,537**	**$75,223**	**$77,290**	**$79,296**	**2.9%**

NOTES: *Represents the annual average change after adjusting for prepayments.
**The annual average change excludes the Retiree Health Benefits Trust fringe adjustment. Fringe benefits exclude DOE and CUNY expenditures, which are reported within DOE and CUNY budget amounts.
Various agency expenditures include $1.4 billion in Hurricane Sandy federal categorical funding in 2013. Expenditure adjustments include prior-year payable, energy and lease, and nonlabor inflation adjustments. Estimates exclude intra-city expenses. Figures may not add due to rounding.

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While spending growth for pension contributions and city Medicaid expenditures are expected to be relatively modest, both will still be major expenses for the city. Pension spending is projected to increase at an annual rate of 1.8 percent over 2013-2017 and rise from $7.9 billion to $8.5 billion. With the state cap on year-to-year increases continuing to limit growth in the city's share of Medicaid, we expect Medicaid spending to edge up from $6.5 billion in 2013 to $6.6 billion in 2017.

Some new initiatives proposed by the Bloomberg Administration are also contributing to the projected spending increase—although in amounts far below the primary factors propelling expenditures. One such effort would increase the number of maintenance and operations staff in the city's parks department by 18 percent. Under the plan, the city would add 414 employees to the 2,295 full-time workers currently staffing the parks. The new employees would add $26.2 million to the budget annually, beginning in 2014 (see page 52 for more details).

Another new initiative seeks to boost the city's recycling rates. The proposal includes providing recycling bins in public spaces, expanding recycling education and outreach efforts, and the launching of a pilot program in public schools to collect and compost food waste. These efforts would add $6.7 million to the 2014 budget and, under current plans, lesser amounts in future years (see page 51 for details).

IBO also estimates that some existing programs, including charter schools and homeless shelters, will cost more to run than the Mayor's budget plan anticipates. The budget does not include enough funds for the 37 charter schools scheduled to open this fall as well as the expansion of charter schools currently in operation and expected to add new grade levels. We estimate the city will need $123 million more than currently budgeted for charter schools in 2014, an amount that grows to $306 million in 2017 (see page 31 for details). We also expect that based on the current growth of the city's homeless population, more funds will be needed to run New York's shelter system. We estimate that a total of $38 million more in city, state, and federal funds will be needed this year and $72 million more next year (see page 35 for details). Among the other additional spending needs forecast by IBO are $20 million for a likely runoff election and $15 million in overtime for correction officers.

The Sandy Effect. One-time federal aid received in the aftermath of Hurricane Sandy has swelled total city expenditures this year. As of the January budget plan, the city has been allocated $1.4 billion in aid from Washington for daily operating expenditures involving cleanup, relief, and repair needs following Sandy. The city is also receiving an additional $3.1 billion for capital needs such as reconstructing roads, piers, parks, and beach areas. Most of the $1.4 billion is expected to be spent in 2013, while the capital funds are planned to be committed over 2013-2015. Following the release of the January budget plan, nearly $1.8 billion more in federal community development funds were allocated to the city, with $720 million of it intended for housing aid, including repair grants for homeowners, grants and loans to renovate apartment buildings, and to purchase emergency generators for public housing developments. Some of the community development funds will also be used to aid business recovery efforts.

A large share of the $1.4 billion from Washington, about $341 million, is going to cover city staffing costs, including $188 million through March 14 for overtime. The single largest allocation is $500 million set aside for the Rapid Repairs program, which made free emergency repairs such as restoring heat or electricity so that residents could stay in their homes until longer-term post-Sandy repairs are made. Storm-damaged hospitals received $100 million in aid to make emergency repairs to allow them to reopen. Some other significant allocations include $61 million to fund debris removal and repairs in parks, $57 million for repairs to schools, and $34 million for demolition and to shore up buildings that were left uninhabitable.

The capital funds will be used for a range of longer-term repair and rebuilding projects. Among these projects, $824 million is planned over 2013-2015 for repairing and reconstructing roads, bridges, and ferries and $528 million for the reconstruction of beaches and boardwalks and parks and playgrounds. Several weeks after the release of the Preliminary Budget, Senator Charles Schumer announced that he had secured $436 million in additional funds for beachfront and sea wall repairs, including projects in Brighton Beach, Coney Island, and the Rockaways that had not been fully covered by the initial federal assistance.

Planned capital commitments also include a total of $712 million in 2013 and 2014 to repair storm-damaged public hospitals. The Bloomberg Administration has also planned to commit $477 million this year for "Sandy Housing," but has yet to provide any details of how this money would be spent (see page 63 for more on this).

Budget Pitfalls. IBO's projections of budget gaps and surpluses based on the Mayor's latest financial plan are indicative of a city in comparatively good fiscal health—although several factors could upend that diagnosis.

By far the largest fiscal uncertainty facing the city is the Mayor's assumption that the municipal labor unions will accept settlements with no wage increases for contracts that expired after 2010 and that the unions for the teachers and principals will forgo the two years of 4.0 percent raises other unions received in the negotiations that covered 2008-2010. With virtually no money set aside to pay for wage increases prior to 2013, the financial plan gambles that the unions and the next Mayor will agree to no retroactive raises.

That is a gamble that may be hard to win. Giving the teachers and principals the raises other unions received in the 2008-2010 round of negotiations and providing all unions with contracts that expired in 2010 or later with two years of 2.0 percent annual raises—and extending those raises to nonunion employees as the city typically does—would cost $4.5 billion by the end of this fiscal year. This scenario would add $1.8 billion annually to the city's personnel costs in 2014 and in future years.

Another substantial uncertainty is the Mayor's plan to generate $1.5 billion in new revenue over three years through the sale of 2,000 new taxi medallions. Four separate lawsuits have put the plan on hold and have led the Bloomberg Administration to repeatedly delay the schedule for expected revenue. With hearings for three of the legal challenges now scheduled for late April, the Mayor's financial plan now estimates that the city will garner $600 million from the medallion sales in 2014 and an additional $900 million over 2015 and 2016.

A variety of other questions could also undermine the city's fiscal condition. The Bloomberg Administration is still considering options for how to better to protect the city from the next Sandy-like storm. Suggestions such as building seawalls are hugely expensive and it is far from clear how much Washington or Albany is willing to invest. There are also more "everyday" concerns: from the effects of recent federal aid cutbacks (sequestration) and the city's potential need to fill the funding gaps left by Washington to the likelihood that the city's expectations for reimbursement from Medicaid for certain special education services will fall well short of projections.

Fiscal Fitness. Is the city in better fiscal shape today than when Mayor Bloomberg took office in January 2002? Our projection of out-year city budget gaps would seem to say so. But the Bloomberg Administration appears to be leaving the next Mayor and City Council with a number of fiscal challenges, the largest being the unresolved labor contracts. Reaching a settlement with the municipal labor unions could prove costly and quickly alter the city's fiscal condition. Other budget uncertainties pose the potential for additional stress on the Mayor's financial plan—and the city's budget balance—over the next few years.

Economic Outlook

U.S. Economy

Although the private sector has strengthened, IBO expects that contractionary federal fiscal policy will keep U.S. economic growth sluggish in 2013. (Unless otherwise noted, in the sections on the U.S. and local economics all years refer to calendar years.) Elimination of the payroll tax cut and the return of pre-Bush era tax rates for high-income households that took effect in January, coupled with the across-the-board federal spending cuts that began in March, is expected to reduce economic growth by nearly 1.5 percentage points this year. IBO forecasts that real gross domestic product (GDP) will increase 2.0 percent in 2013—slightly slower growth than in 2012. As the fiscal headwinds abate, real GDP growth will accelerate to 3.0 percent in 2014 and 3.1 percent in 2015.

The best evidence of the private-sector's gathering strength can be seen in private sector employment. Over the last six months, the private sector has added an average of 200,000 jobs per month, compared with a monthly average of 129,000 jobs in the preceding six months.

Despite the recent job gains since employment bottomed out three years ago, the U.S. has regained just 72.0 percent of the private sector jobs lost during the recession and only 65.6 percent of all jobs lost. In contrast, in the first three years of the two previous expansions, the economy regained far greater number of jobs than were lost during the preceding recessions—171.6 percent of private sector jobs lost during the 2001 recession and 450.3 percent of private-sector jobs lost in 1990-1991 recession (with similar percentages for total employment).

Employment gains have been spread widely across different industries. Recent job gains in residential construction are particularly noteworthy because they reflect a turnaround in the housing market, which had been a major impediment to solid growth in the aftermath of the Great Recession.

The prolonged period of deleveraging by household, businesses, and banks since the Great Recession has improved balance sheets, creating conditions favorable for economic growth. Household debt as a percentage of disposable (after-tax) income is lower than at any point since 1993. The after-tax profit margins of the corporate sector have reached new heights in the last few years and corporate balance sheets have again become strong. Banks are also more highly capitalized than at any point in the last 25 years, the result of more stringent capital requirements in the wake of the recession and the high profit margins that low interest rates have enabled.

Improved household balance sheets combined with continued very low interest rates have increased access to mortgage financing, stimulated home sales, and reversed the long slide in home prices. As a result inventories of unsold homes have declined and housing starts have increased. The improving housing market and the boost in the value of financial assets generated by low interest rates are creating a wealth effect that is stimulating spending, especially by upper middle- and high-income households.

IBO's economic forecast is premised on a continuation of current monetary and fiscal policy with no external shocks to the economy. The Federal Reserve (Fed) has indicated that it will continue its very accommodative monetary policy—keeping the federal funds rate near zero and buying up financial assets to put downward pressure on long-term interest rates—until the unemployment rate falls below 6.5 percent or inflation appears to be taking hold. Based on our employment forecast, this suggests that Fed policy will be maintained through 2014. Our forecast also assumes a continuation of current fiscal policy, meaning that even if there are adjustments to the federal budget

IBO Versus Mayor's Office of Management and Budget Economic Forecasts

	2012	2013	2014	2015	2016	2017
National Economy						
Real GDP Growth						
IBO	2.2	2.0	3.0	3.1	2.9	2.6
OMB	2.2	1.5	2.2	3.4	3.4	3.2
Inflation rate						
IBO	2.1	2.1	2.5	2.6	2.5	2.3
OMB	2.1	1.6	1.7	1.4	1.6	1.7
Personal Income Growth						
IBO	3.5	3.1	6.6	6.7	6.0	5.0
OMB	3.3	3.5	4.5	4.6	5.1	4.6
Unemployment Rate						
IBO	8.1	7.7	7.1	6.5	6.1	5.7
OMB	8.1	7.9	7.8	7.2	6.5	6.1
10-Year Treasury Bond Rate						
IBO	1.8	2.3	3.5	4.5	4.9	4.7
OMB	1.8	2.4	3.2	3.7	4.3	4.9
Federal Funds Rate						
IBO	0.1	0.1	0.1	1.7	3.9	4.0
OMB	0.1	0.2	0.2	0.7	2.7	4.0
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO	79.5	56.8	65.0	72.5	68.7	59.2
OMB	74.0	41.0	41.0	38.0	44.0	44.0
Nonfarm Employment Growth						
IBO	2.0	1.5	1.7	1.8	1.7	1.4
OMB	2.0	1.1	1.0	1.0	1.1	1.1
Inflation Rate (CPI-U-NY)						
IBO	2.0	2.7	3.0	3.1	3.0	2.9
OMB	2.0	1.9	1.9	1.6	1.8	1.9
Personal Income ($ billions)						
IBO	461.0	470.9	499.1	530.2	560.7	586.7
OMB	464.6	477.1	493.4	509.7	529.4	548.1
Personal Income Growth						
IBO	1.4	2.1	6.0	6.2	5.8	4.6
OMB	2.0	2.7	3.4	3.3	3.9	3.5
Manhattan Office Rents ($/sq. ft)						
IBO	66.7	66.9	69.2	72.2	74.7	82.7
OMB	67.3	70.2	70.4	75.1	80.9	87.7

SOURCE: Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal. For 2012, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release.

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cuts under sequestration, they would not alter the total dollar amount of deficit reduction.

IBO projects 2.0 percent real U.S. GDP growth in 2013, slightly less than growth of 2.2 percent in 2012. Federal tax increases and spending cuts taking effect this year will have their greatest impact in 2013, reducing economic growth by an estimated 1.5 percentage points, with the effect diminishing over the first half of 2014. The biggest impact on the economy comes from the 2-percentage point increase in payroll taxes, which reduces the disposable income of nearly everyone who is employed; its impact is three times larger than that of income tax increases for high-income taxpayers. Because it will take time for the across-the-board cuts in federal spending known as sequestration to actually affect government outlays, the impact of sequestration will gradually increase through the middle of 2013. For this reason IBO projects that economic growth will be slower in the second and third quarters of 2013 than in any other period of the financial plan.

The modest pace of economic growth in 2013 will bring only a small improvement in the nation's unemployment rate, from 8.1 percent in 2012 to 7.7 percent in 2013. Personal income growth will also dip to 3.1 percent, down from 3.5 percent. With high unemployment and relatively stable oil prices in the near term, IBO expects the rate of inflation to remain a low 2.1 percent in 2013, the same as in 2012.

As the impact of federal tax increases and spending cuts diminishes early in 2014, economic growth is expected to pick up. IBO forecasts 3.0 percent real GDP growth in 2014 and 3.1 percent growth in 2015—annual growth rates faster than any since 2004. Personal income growth will accelerate from this year's modest 3.1 percent gain, increasing to 6.6 percent next year and 6.7 percent in 2015. Faster growth will finally bring significant reduction in the unemployment rate, to 7.1 percent in 2014 and 6.5 percent in 2015. It also will put upward pressure on prices. As the unemployment rate approaches the Fed's 6.5 percent target, we expect Federal Reserve policymakers to gradually increase the federal funds rate in order to contain inflation. IBO forecasts that the rate of inflation will remain in the vicinity of 2.5 percent from 2014 through 2017.

IBO expects the growth of personal income and output to moderate after 2015, with real GDP growth dipping to 2.9 percent and 2.6 percent in 2016 and 2017, respectively. Despite slower economic growth, we expect the unemployment rate to continue its gradual decline, falling below 6.0 percent in 2017 for the first time since 2008.

Compared with IBO's macroeconomic forecast, the Mayor's Office of Management and Budget's (OMB) projects slower real GDP growth in both 2013 (1.5 percent versus 2.0 percent for IBO) and 2014 (2.2 percent versus 3.0 percent). In the OMB forecast, substantial acceleration of economic growth comes a year later than it does in IBO's forecast—in 2015, when OMB projects a jump in real GDP growth to 3.4 percent. Unlike IBO, OMB does not expect substantial improvement in the rate of unemployment until 2015 (7.2 percent), and their forecast of the unemployment rate exceeds IBO's each year through 2017.

Risks to the Economic Forecast. IBO's economic forecast is premised on there being no external shocks to the U.S. economy, whether from oil prices or other countries' economic troubles. The quickest damage to the U.S. economy would come from a disruption in the supply of oil resulting in sudden price increases, particularly if it were to happen this summer, when federal fiscal policy will have its most contractionary effect.

Worsening economic problems in the countries of the European Union (EU)—which together comprise a huge economy and major U.S. trading partner—would have a vast impact on global trade and financial markets, not just in the U.S. With prolonged downturns plaguing many EU countries, resolution to sovereign debt problems and even the fate of the euro are far from certain. The shocks from a European financial crisis would have a major impact on New York City's economy, as a global financial center.

Finally, federal fiscal policy poses a risk. In the near-term, the current mix of budget cuts and tax increases might reduce domestic economic growth more sharply than anticipated. Another showdown in Congress over the federal debt limit or the budget itself could undermine consumer and business confidence, and potentially trigger another downgrade of U.S. debt.

The Local Forecast

In contrast to the nation as a whole, the recovery from the Great Recession was anything but jobless in New York City. With total payroll employment in the city already well above its prerecession peak—indeed, at an all-time high—IBO projects another solid gain of 56,800 jobs (1.5 percent) in 2013, followed by average growth of 66,300 (1.7 percent) per year from 2014 through 2017. Barring disruptions, this scenario would give the city a gain of more than 500,000 jobs since the end of the downturn in 2009.

However, IBO's forecast of city personal income growth is relatively less robust—average growth of 4.9 percent per year over the 2013 through 2017 period, or only 3.0 percent per year when adjusted for inflation. This is largely due to a slowdown in projected labor earnings.

The disparity between employment and income growth was extremely pronounced in 2012. Last year payroll employment in New York City grew by 79,500 (2.1 percent), one of its best years on record. Yet at the same time, aggregate wages earned in the city are estimated to have *fallen* by 0.7 percent. Adjusted for inflation, the decline was 2.3 percent, and the citywide average wage fell even more steeply, 4.3 percent. Though a large share of the wage decline appears to have been borne by commuters, overall resident personal income in the city itself fell an estimated 0.2 percent after inflation. Increases in capital income and transfer payments offset some of the labor earnings decline.

Last year's conjunction of strongly expanding employment and contracting earnings is unprecedented in modern city history.[1] But it may be a harbinger of the transition to a new economic regime in the city, one in which robust increases in employment will be accompanied, at least for a time, by less vigorous growth in earnings and income than have been the norm in prior decades.

Two factors underlie the anomalies of 2012 and possible longer-term change: First, Wall Street is still coping with fallout from its role in the crisis of 2007-2008 and is no longer generating the levels of revenue and compensation that were produced before the crisis. Second, the broader city economy is less influenced by what happens on Wall Street.

Sandy's Effect on the Local Economy

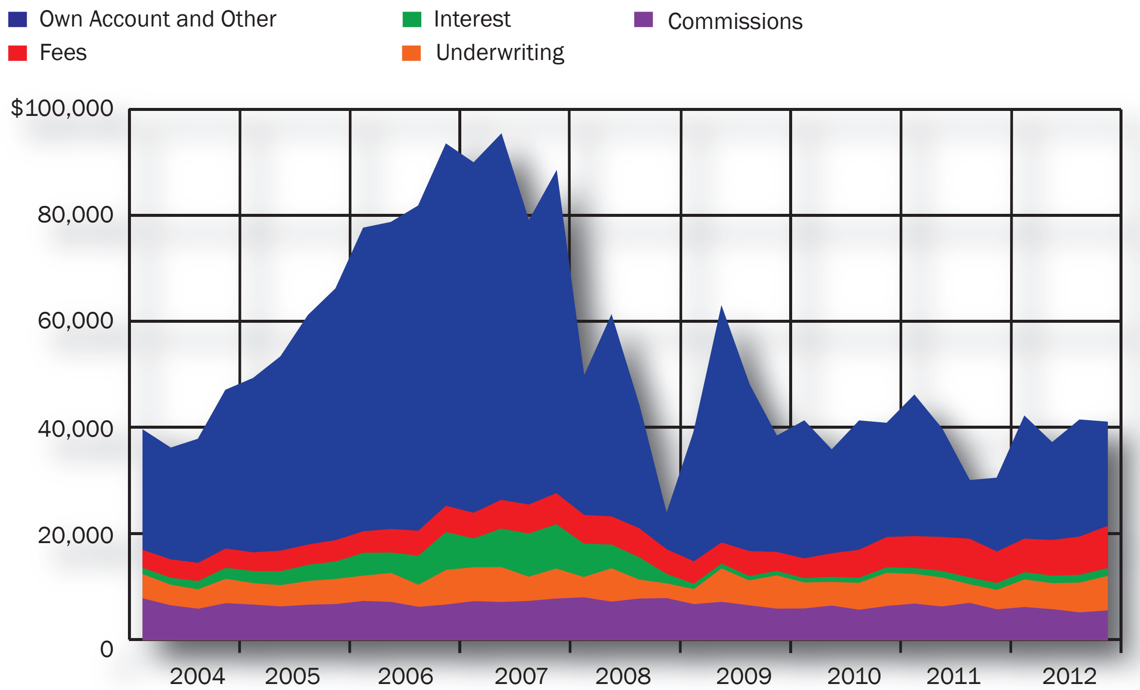
For all the devastation that Sandy wrought, it did not leave deep tracks in the greater city economy. Moody's Analytics estimates that Sandy wiped out about $10 billion in New York City output in the fourth quarter of 2012, though with offsetting boosts to output in 2013. This number must be set against total city GDP, estimated by IBO to be $675 billion last year. Other traces of the hurricane and flood can be seen in the sharp fourth quarter declines followed by strong first quarter 2013 rebounds in employment in food services, education, and health care, along with a sizable boost to projected construction employment over the first half of 2013.

Wall Street. By one headline measure—the profits on broker-dealer operations of New York Stock Exchange (NYSE) member firms—2012 was a banner year on Wall Street. Profits rode a second-half surge to finish the year at $23.9 billion, triple the level of 2011 and indeed the street's third-best year ever. But beneath the headlines, this was a very different Wall Street from precrisis years. Broker-dealer revenues rebounded from the previous year's lows, but just to $161.5 billion—well under half of their $352.0 billion peak in 2007. Most of the difference from six years ago was in own-account (proprietary) trading revenue. Member firms managed to squeeze out strong profits last year only because expenses fell even further. In particular, interest expenses in 2012 were less than a tenth of what they were in 2007.

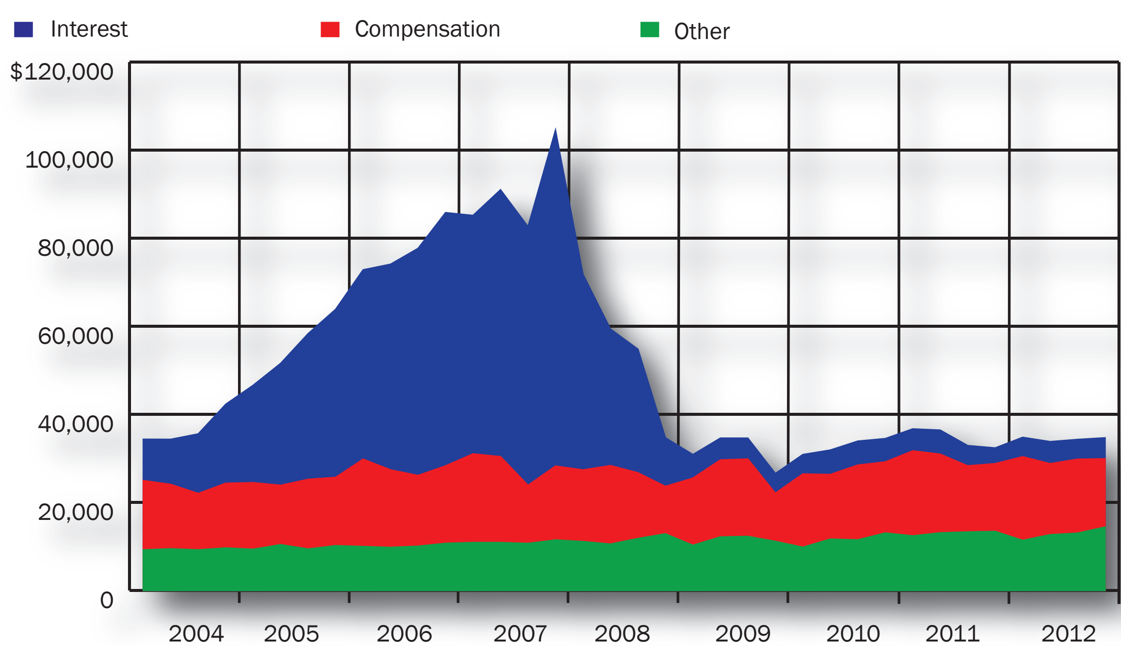
These post-crisis transformations on both the revenue and expense side of NYSE member firm books are charted on the next page. It may be noted that the two years where member firms achieved greater profits than in 2012 were also post-crisis (2009 and 2010) and were the product of an environment of reduced revenue but even more reduced interest costs. The reduction in interest expenses is a function both of the near-zero rate policy pursued by the Federal Reserve (which has also, albeit less drastically, cut down on NYSE member firm interest revenues) and by a falloff in borrowing.

Another sign of the altered terrain on Wall Street, at the end of 2012 member firm assets ($4.2 trillion) were still 29 percent below the peak attained in the second quarter of 2007 ($5.8 trillion). Most of the decline was

New York Stock Exchange Member Firm Broker-Dealer Quarterly Revenues
Dollars in millions



New York Stock Exchange Member Firm Broker-Dealer Quarterly Expenses
Dollars in millions



SOURCE: NYSE EURONEXT

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due to a 58 percent ($1.4 trillion) drop in the value of securities borrowed. At the same time, ownership equity increased from $108.8 billion (2.0 percent of assets) to $170.3 billion (4.1 percent of assets).

Broader measures confirm that last year's Wall Street profits were won at a price. Average annual employment in New York City's securities sector fell by 2,500 in 2012, to 166,800, while average wages dropped an estimated 7.7 percent (adjusted for inflation, 9.2 percent). This was mostly the result of a 25 percent contraction in the previous year's bonus pool (paid out mostly in the first quarter of 2012). Average annual wages in 2012 were still very high by everyone else's standards (about $333,000), but were nearly 17 percent below the industry peak hit in 2007; in real dollars, 2012 securities wages were almost 23 percent below peak.

In 2013 and over the rest of our forecast period, we expect to see the securities industry continuing to adapt to the constraints that have followed the financial crisis. The full effects of regulatory reform are still to be determined: two and a half years after the passage of Dodd-Frank, only 40 percent of the regulations have been finalized. The impending introduction of wide-reaching financial transaction taxes in parts of the European Union adds to the uncertainties confronting the financial services industry. Beyond these institutional changes, some individual banks are still confronting legal repercussions from their role in the expansion and collapse of the markets for real estate and mortgage backed securities as well as their role in the LIBOR (London Interbank Offered Rate) scandal. Rapid expansions in securities employment and earnings of the sort we grew accustom to seeing before the crisis do not appear to be in the cards for (at least) the next few years.

A small rebound is expected in the 2012 bonus pool (paid mostly early in 2013, though some bonuses may have instead been given in late 2012 in anticipation of federal tax changes), and we project average wage growth of just 3.9 percent (in real dollars, 2.0 percent) in 2013 overall. Meanwhile, annual average employment in the securities industry is expected to slip by another 3,500. NYSE member firm profits are also projected to fall back to $13.6 billion, a consequence of upticks in interest and compensation costs.

For the 2014 through 2017 period, IBO projects somewhat stronger but still relatively tepid growth in securities-sector employment (1,600 jobs per year) and average wages (5.7 percent per year; 3.7 percent after inflation).

Economic Life Beyond Wall Street. There is an old saying that when Wall Street sneezes, New York City catches a cold. This may still be true, but the chance that the cold turns into pneumonia appears to be much less. Employment growth in the city is increasingly in the hands of industries that have never been much linked to Wall Street (such as education and health care and information) or industries that have been growing less dependent on Wall Street (notably professional and business services, leisure and hospitality, and trade).

Education, health care, and social assistance services are perennial growth sectors that are projected to add a combined 13,400 jobs (1.7 percent) this year and an average of 14,600 (1.8 percent) per year in 2014 through 2017. In recent years, both private grade schools and colleges have contributed to strong education employment growth. Health care and social assistance job gains have been concentrated in home health care, physicians' offices, family services, and child care. (General hospitals and nursing homes have been shedding jobs.) These patterns are expected to hold through the forecast period.

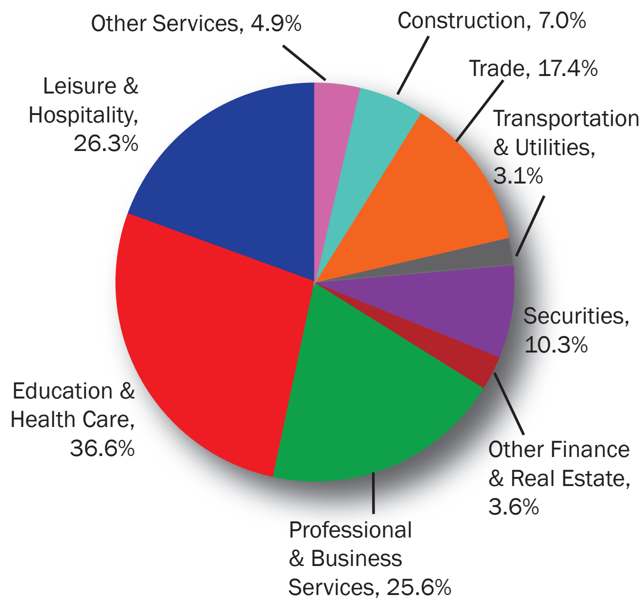
The relatively high-wage information sector includes traditional publishing and broadcasting, motion picture production, and new communications and media services. It missed out on the city's previous economic expansion (motion picture production was the one exception to this). But recently all of its subsectors except publishing have been adding jobs, and more of the same is forecast: growth of 3,000 (1.7 percent) per year over the next five years.

Trade has shown exceptionally robust growth over the past three years despite the deleveraging of city resident household debt in 2010 and 2011 (which meant that consumption grew more slowly than income) and the contraction in resident personal income itself in 2012. Employment gains have been spread over nearly every category of retail, with the notable exception of book and music stores, which have been under an onslaught from the Internet.

Growth in trade has been boosted by the city's tourism boom. The recession did dent the number of visitors and visitor spending in 2009, but real dollar direct visitor spending has grown by 8.0 percent per year since then. The city's official tourism marketing bureau NYC & Company looks forward to much the same at least through 2015, planning for 6.1 percent annual growth in inflation-adjusted visitor spending over the next three years. IBO expects trade employment growth to also slow somewhat, with increases of 6,200 (1.3 percent) in 2013 and then 5,200 (1.1 percent) per year in 2014 through 2017.

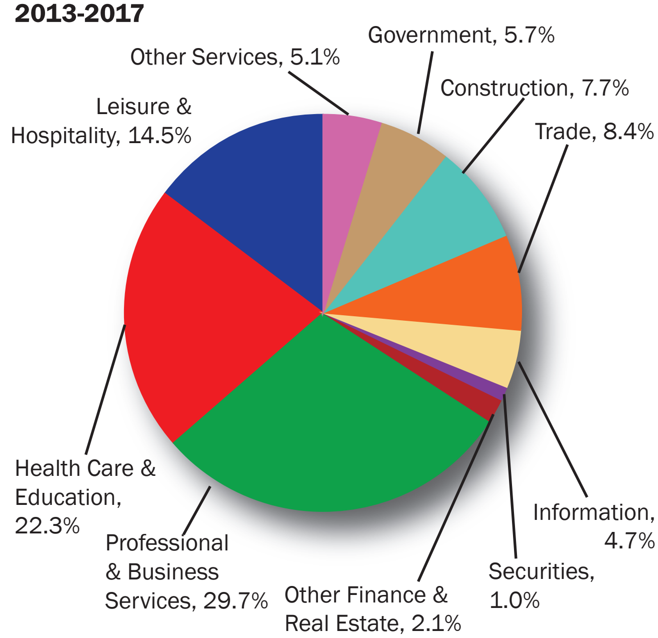
Led by the expansion of food services and drinking places, employment in leisure and hospitality has almost doubled in the past two decades. As in

Shares of New York City Employment Growth, 2003-2007



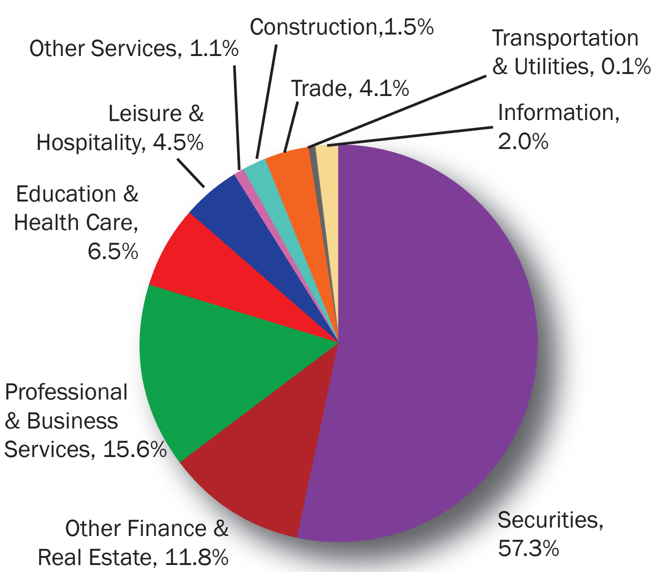
SOURCES: Bureau of Labor Statistics; Moody's Analytics
NOTES: Sums to more than 100. Manufacturing contributed -23.8%, information -0.6%, and government -0.4% to 2003-2007 New York City employment growth.

Shares of New York City Employment Growth, 2013-2017



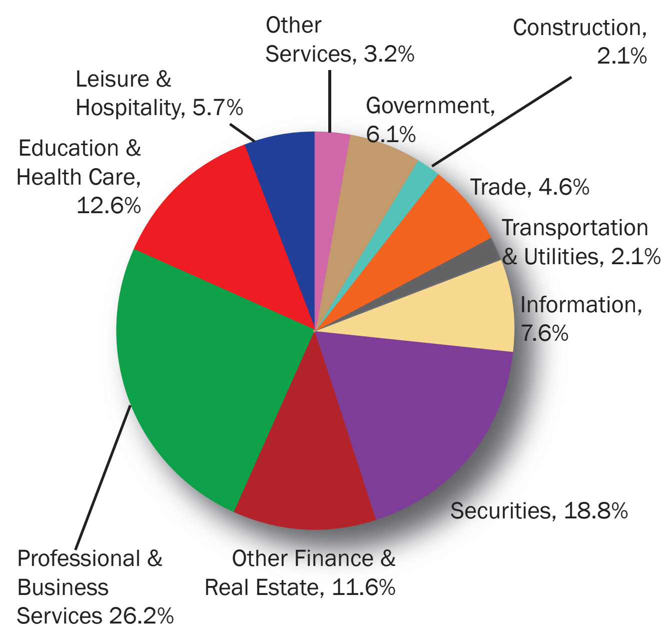
SOURCES: Bureau of Labor Statistics; Moody's Analytics
NOTES: Sums to more than 100. Manufacturing contributes -0.7% and transportation & utilities -0.5% to the 2013-2017 New York City employment growth.

Shares of New York City Aggregate Wage Growth, 2003-2007



SOURCES: Bureau of Labor Statistics; Moody's Analytics
NOTES: Sums to more than 100. Manufacturing contributed -2.6% and government -2.1% to 2003-2007 New York City aggregate real wage growth.

Shares of New York City Aggregate Wage Growth, 2013-2017



SOURCES: Bureau of Labor Statistics; Moody's Analytics
NOTES: Sums to more than 100. Manufacturing contributes -0.5% to 2013-2017 New York City aggregate real wage growth.

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retail trade, the last three years has seen especially explosive growth—evidence that here too employment has become less sensitive to shocks on Wall Street, and that other factors such as tourism have become more important drivers of employment growth. Again we expect things to cool off a bit, but with projected growth of 11,200 (3.1 percent) in 2013 and an average of 8,900 (2.7 percent) in 2014 through 2017, leisure and hospitality will continue to be one of the fastest-growing sectors in the city economy.

An even faster pace of growth is expected in professional and business services: a gain of 21,100 (3.3 percent) in 2013 and 18,600 (2.7 percent) per year in 2014 through 2017. Business services accounted for one out of nine jobs in the city economy three decades ago and now accounts for nearly 1 out of 6. In recent years the jobs mix within the sector has changed markedly. Growth has shifted away from legal services and towards computer systems design, consulting, employment services, and advertising—all areas less tied to the fortunes of Wall Street.

That changing mix may, indirectly, help explain the forecast for the construction industry. Rebuilding after Hurricane Sandy is currently providing a large (albeit temporary) boost to construction employment. As a result we expect an annual average gain of 6,900 jobs (6.3 percent) this year, followed by projected employment growth of 4,400 (3.6 percent) per year from 2014 through 2017—well below the pace of the previous boom. IBO's construction forecast assumes a continued recovery of residential construction permits from their 2011 lows, though the number of permits will fall far short of the prerecession peak.

Likewise midtown Manhattan commercial rent rates are projected to increase by a relatively tepid 4.4 percent per year and remain well below their 2008 peaks as late as 2017. This is partly due to the impending expansion of the supply of office space in the city, including the reopening of the World Trade Center site. Another factor is that while continued growth is projected in what is traditionally defined as "office-using employment," subsumed in that category—and providing much of its recent and expected growth—are professional and business service subsectors such as computer systems design and employment services. These subsectors may not be absorbing prime office space as readily as the Wall Street-related firms that previously drove the office using employment category. All this may put a bit of a brake on the growth of construction activity and employment.

Manufacturing and transportation and utilities are expected to be, as they long have been, essentially no-growth sectors (actually, we project in each somewhat negative growth). "Other services" employers include membership organizations, personal and laundry services, repair and maintenance, and private households—businesses that today employ over twice as many workers as are employed in manufacturing. The other services sector is expected to continue to grow, with gains of 4,500 (2.6 percent) in 2013 and 3,300 (1.7 percent) per year over the four years following.

Reflecting the fiscal aftershocks of the Great Recession and other strains, there were 21,400 fewer government jobs in the city in 2012 than there were in 2009; all three levels of government shed jobs here last year. Modest headcount growth (2,100 jobs, 0.4 percent) is expected to resume in 2013 and continue at a slightly stepped up pace (an average of 4,100 jobs, 0.7 percent) over 2014 through 2017.

The Changing Drivers of the City's Economic Engine. The struggles on Wall Street and reduced reliance on Wall Street have markedly altered the relative degrees to which the major sectors of the economy contribute to payroll employment and aggregate real wage growth in the city. Comparing sectors' percent shares of employment and wage growth during the previous expansion (2003 through 2007) with the shares IBO forecasts (2013 through 2017) reveals the diminished role of the securities sector. In the previous boom it accounted for 10.3 percent of the employment growth and an astounding 57.3 percent of the real aggregate wage growth in the city. Going forward, the securities sector generates just 1.0 percent of the employment growth and 18.8 percent of the wage growth. The wage share is still disproportionately large because wages remain much higher in securities than in any other sector. Nevertheless, we would have to go back at least four decades before we would see such a small contribution by Wall Street to overall city wage growth.

Taking up the slack left by securities' diminished role are significantly larger contributions to aggregate wage growth projected for professional and business services, education and health care, and information. These all feature middling to high average wages, but nothing on the level of securities. Nor are these sectors characterized by the rapid bonus-driven wage growth seen on Wall Street during the previous boom. That is why the strong overall city employment growth we are forecasting for the next five years is accompanied by less robust wage and income growth than it would have been expected to generate in the past. For 2013 through 2017, IBO forecasts employment growth of 1.7 percent per year along with real income growth of 3.0 percent per year. Over the 2004 through 2007 period, however, city employment growth of 1.5 percent per year generated real personal income growth of 4.6 percent per year.

The Unemployment Rate. Though the city has far outpaced the nation with near-record payroll job gains in 2011 and 2012, it has had little to show for it in terms of the growth of the number of residents employed, the reduction of the number unemployed, and unemployment rates. The city's annual average unemployment rate was still 9.1 percent in 2012, a full percentage point above the national rate. Growth in the number of employed city residents might be lagging growth in city payroll employment because commuters are taking the bulk of new city jobs, because formerly self-employed individuals are taking payroll jobs, or because of increases in multiple jobholders. However, analysis by IBO has not supported any of these hypotheses.[2] In any case, IBO projects growth in the number of employed residents to fall more in line with payroll employment growth over the 2013 through 2017 period. Consequently, we expect the city's annual average unemployment rate to decline to 7.6 percent by 2014 and 5.5 percent by 2017—the latter lower than the projected national rate.

Endnotes

[1]Official records of compensation by industry for the city go back to 1969, and IBO has constructed estimates back to 1950, the starting point for the payroll employment series.
[2]IBO, "A Matter of Data? Unraveling the Discrepancy Between City Job Growth & A High Unemployment Rate," February 2013.

Taxes & Other Revenues

IBO forecasts that the city's revenue from taxes and other sources including state and federal aid will total just under $71.0 billion in 2014. The city has included $1.4 billion in its 2013 expense budget in anticipated federal aid to reimburse the city for the costs of immediate response and recovery from Hurricane Sandy. This additional one-time revenue has increased IBO's forecast of total revenue in 2013 to $70.7 billion, resulting in what appears to be essentially no revenue growth from this year to next year. In reality, IBO expects tax and other city revenues to grow from 2013 to 2014 by $1.6 billion (3.6 percent) and $503 million (9.0 percent), respectively. This gain of $2.1 billion in city revenue (4.2 percent) is offset by a decline in noncity revenues of $1.8 billion (8.1 percent), with federal grants—mostly Sandy aid recorded in 2013—accounting for virtually all of the decline.

In the three years following 2014, total revenues are expected to grow in a more typical pattern, increasing to $73.9 billion 2015 and $79.3 billion by 2017. Annual revenue growth will average 3.8 percent over these three years, driven by city taxes, which are forecast to increase at an average annual rate of 5.6 percent. Growth of noncity sources is projected to average 1.1 percent annually in 2015 through 2017.

The first part of this section presents IBO's tax revenue forecast, with detailed discussion of each of the city's major tax sources. It concludes with a brief overview of the outlook for non-tax revenues.

Tax Revenues

IBO's forecast for tax revenue in the current fiscal year is $43.4 billion, an increase of 5.1 percent from the 2012 total. For 2014, IBO projects somewhat slower revenue growth of 3.6 percent to just under $45.0 billion. Tax revenue growth for next year will be slowed by a shift in the timing of capital gains realizations by taxpayers seeking to lock in the lower capital gains rates that expired at the end of December 2012. This "speed-up" has resulted in personal income tax (PIT) revenues growing by 8.1 percent this year. Much of the activity that has been shifted into this fiscal year would have occurred in 2014, and as a result PIT revenues are expected to show essentially no growth next year. The same timing issue contributes to strength in the property transaction taxes so far this fiscal year, particularly in December and January. As a result, IBO has revised its forecasts for the so-called transfer taxes upward; we now expect year-over-year growth of 22.1 percent for the real property transfer tax (RPTT) and 28.0 percent for the mortgage recording tax (MRT). As with the PIT, IBO forecasts only moderate growth for these taxes in 2014.

Much of the muted growth that IBO does forecast for total tax revenue in 2014 is expected to come from the real property tax (RPT), where strong assessment growth, particularly for multifamily housing and commercial property, account for much of the $1.0 billion increase (5.5 percent) in property tax revenue. Growth next year is expected to be somewhat more moderate for business income taxes (4.8 percent) and the sales tax (also 4.8 percent).

For 2015 through 2017, IBO expects faster tax revenue growth to resume, averaging 5.6 percent annually. Tax revenues are forecast to reach $53.0 billion by 2017. Even faster growth is expected from the personal and business income taxes, as well as the transfer taxes over the three-year period.

The expectation that tax revenue will grow strongly this year, slower next year, and then stronger for the final three years of the forecast is generally consistent with IBO's economic forecast. Very strong employment gains during calendar year 2012 are expected to be followed weaker but still-solid gains in 2013, with somewhat larger increases forecast for 2014 through 2016. This same pattern is broadly followed by the tax revenue

IBO Revenue Projections
Dollars in millions

	2013	2014	2015	2016	2017	Average Change
Tax Revenue						
Property	$18,460	$19,476	$20,338	$21,446	$22,523	5.1%
Personal Income	8,600	8,581	9,532	9,976	10,325	4.7%
General Sales	6,041	6,333	6,696	6,984	7,275	4.8%
General Corporation	2,465	2,593	2,781	3,003	3,191	6.7%
Unincorporated Business	1,700	1,946	2,101	2,294	2,474	9.8%
Banking Corporation	1,387	1,280	1,473	1,598	1,705	5.3%
Real Property Transfer	1,114	1,137	1,192	1,316	1,405	6.0%
Mortgage Recording	687	731	821	889	938	8.1%
Utility	397	420	446	465	481	4.9%
Hotel Occupancy	510	533	571	605	639	5.8%
Commercial Rent	658	683	715	764	787	4.6%
Cigarette	65	64	62	61	59	-2.5%
Other Taxes, Audits, and PEGs	1,344	1,211	1,211	1,211	1,211	-2.6%
Total Taxes	**$43,428**	**$44,987**	**$47,940**	**$50,613**	**$53,014**	**5.1%**
Other Revenue						
STAR Reimbursement	$829	$867	$870	$874	$876	1.4%
Miscellaneous Revenues	4,796	5,260	5,140	5,092	4,839	0.2%
Unrestricted Intergovernmental Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,610**	**$6,113**	**$5,995**	**$5,951**	**$5,699**	**0.4%**
Total City-Funded Revenue	**$49,038**	**$51,100**	**$53,935**	**$56,564**	**$58,713**	**4.6%**
State Categorical Grants	$11,308	$11,423	$11,745	$12,207	$12,336	2.2%
Federal Categorical Grants	8,766	6,943	6,781	6,771	6,768	-6.3%
Other Categorical Aid	986	980	948	936	932	-1.4%
Interfund Revenues	571	518	517	517	517	-2.5%
TOTAL Revenues	**$70,671**	**$70,964**	**$73,927**	**$76,995**	**$79,266**	**2.9%**

NOTES: Federal categorical grants include $1.4 billion in Hurricane Sandy funding in 2013. Estimates exclude intra-city revenues. Figures may not add due to rounding.

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forecast. One thing not found in IBO's forecast is a projection for double-digit tax revenue growth, something that did occur each year from 2004 through 2007. In the near-term, continued difficulties in the securities industry, including lower aggregate earnings, declines in employment, and an expectation of lower profits will mean less tax revenue generated from Wall Street. Even after the industry turns the corner in calendar 2014, IBO expects growth in the securities sector—along with growth in city tax revenues—to remain relatively modest compared with growth during the last expansion.

IBO's 2013 tax revenue forecast is $608 million higher than when the budget was adopted last spring. The outlook for 2014 has brightened even more—IBO's forecast is $740 million more than the Bloomberg Administration projected nine months ago. The increase for this year is due to the unexpected strength in the labor markets and higher Wall Street profits in calendar year 2012—which we do not expect to continue next year—as well as the pulling forward of capital gains transactions that might have waited months or even years to be realized into the current fiscal year. Higher than anticipated property tax assessments for 2014 have also resulted in upward revisions in the revenue forecast for 2014 through 2017. IBO's tax revenue forecast for 2013 is $186.4 million higher than the Mayor's Office of Management and Budget's (OMB), a difference of less than 0.5 percent. The gap between the two forecasts waxes and wanes over the coming years, ranging from $421.9 million next year to $2.3 billion in 2017, but the difference never exceeds 2 percent of total tax revenues.

Real Property Tax

IBO projects that property tax revenues will grow from $18.5 billion in 2013 to $19.5 billion in 2014, a 5.5 percent increase. Faster than projected growth on January's tentative assessment roll, as well as changes to the coop and condo abatement program, have led us to increase our 2014 forecast by $361 million since December. We expect property tax revenue to grow at an average annual rate of 5.1 percent over the financial plan period.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market value), and the applicable tax rate.[1] Under property tax law, there are four tax classes: Class 1, consisting of one-, two-, and three-family homes; Class 2, composed of apartment buildings, including cooperatives and condominiums; Class 3, made up of the real property of utility companies; and Class 4, comprising all other commercial and industrial property.

The method of assessing properties and recognizing market value appreciation differs by tax class, so each class can have its own assessment ratio (the share of market value actually subject to tax) and tax rate. Generally, Class 1 accounts for a much smaller share of the assessment roll's total assessed value than its share of market value (9.7 percent of assessed value on the 2013 roll compared with 47.7 percent of the department's estimate of total market value in the city). The other classes, especially Classes 3 and 4, bear a disproportionately large share of the property tax burden because their shares of assessed value are larger than their shares of market value.

The Tentative Assessment Roll for 2014. In January, the Department of Finance released the tentative 2014 assessment roll. After taxpayer challenges and other department adjustments are processed, assessments will be finalized in May and used for setting 2014 tax bills. IBO projects greater than usual change from the tentative to the final roll, a decrease of 1.3 percent or $2.2 billion in assessed value for tax purposes. The primary reason is that about $920 million in assessed value for tax purposes was put back onto the tentative roll after a number of institutions—primarily not-for-profits—lost their full tax exemptions. IBO expects that many of these institutions will have their tax exemptions restored on the final tax roll. Conversely, IBO did not make any adjustment for changes stemming from damage inflicted by Hurricane Sandy because of uncertainty about the extent of the change and a lack of data on which to base the adjustment.

Revoked Exemptions. As part of on-going efforts to ensure that all properties receiving tax exemptions are qualified to receive the benefit, the tentative roll for 2014 restored taxable status to about 800 tax lots that were fully tax exempt in 2013.[2] Restoring these properties added $920 million in assessed value for tax purposes to the tentative tax roll and—if the properties remain on the roll—would increase the property tax levy by $96 million. The exemptions that were revoked fall into one of four categories—$859 million for exemptions granted to nonprofit institutions, $29 million for exemptions granted to or by public authorities, $15 million for exemptions for government ownership (city, state, federal or foreign governments), and $18 million for other exemptions, primarily for housing development.

In some cases it was appropriate to revoke the tax exemption, for example where the revocation resulted from the sale of property or change in its use. But other tax exemptions may have been revoked because the owners did not file the proper paperwork or due to processing errors. For example, the most valuable property restored to the roll was the Chrysler Building, which had been tax exempt since 1902 when it was acquired by Cooper Union (the legal standing for exemption dates back further, to the 1859 Cooper Union charter). The Chrysler Building was given an assessed value for tax purposes of $184 million for 2014.

Nearly all (96.3 percent) of the exempt value that was restored to the tax rolls is in Class 4, and IBO expects that many of these properties will be granted tax exempt status on the final 2014 roll. Our forecast assumes that the Chrysler Building's exemption is restored, along with 75 percent of government exemptions, 50 percent of exemptions granted to nonprofit institutions, and 50 percent of exemptions granted to or by public authorities—in total, a $538 million decline in assessed value for tax purposes in Class 4.

Hurricane Sandy. With just over two months between Hurricane Sandy and the release of the tentative tax roll, the Department of Finance was not able to fully reflect the effects of the storm on the tentative roll. According to IBO's analysis, there are over 72,000 taxable lots (condominiums being treated as a single lot, rather than as individual condo units) in areas of the city that flooded, though many of these properties may have escaped significant damage. Owners whose properties were damaged in the storm were asked to report the damage to the finance department and encouraged to appeal to the Tax Commission; the department had received about 15,000 damage reports as of the end of February. According to the finance department, 55 assessors are in the field reviewing the assessments for damaged homes and in neighborhoods that flooded.

While IBO expects that values will be adjusted on the final roll to reflect damage from Sandy, our forecast does not explicitly make any adjustments for Hurricane Sandy. There is significant uncertainty about how the Department of Finance and Tax Commission will account for property damage and lost income. Moreover, while the storm's impact was severe for families and property in the affected neighborhoods, given the enormous property value across the city, once the finance department has made the proper adjustments to reflect storm damage, the impact on aggregate market value and assessed value for tax purposes is likely to be quite small.

Projected Tentative to Final Roll Changes. The final roll is expected to show assessed value for tax purposes of $171.3 billion, a reduction of 1.3 percent ($2.2 billion) from the tentative roll. The restoration of exemptions for nonprofit institutions is expected to reduce assessed value for tax purposes in Class 4 by $538 million. The remaining reduction of $1.7 billion will result from routine tentative to final roll adjustments, such as Tax Commission appeals, corrections, adjustments for properties under construction, and general exemption processing. IBO projects that assessed value for tax purposes will be reduced by $60 million in Class 1, $1.0 billion in Class 2 and $1.6 billion in Class 4. These reductions will be partly offset by a $446 million increase in assessed value for utility property (in anticipation of state assessments expected in April).

Coop and Condo Abatement. The coop and condo abatement provides a reduction in property taxes for owners of cooperative and condominium units. After having expired at the end of June, the abatement was renewed with significant changes shortly after the release of the Preliminary Budget, with the changes made retroactive to July 1, 2012. The abatement program's eligibility criteria were revised to restrict the abatement to apartments used as primary residences. The renewed abatement will also have a higher percentage of taxes abated for most owners. IBO has documented shortcomings of the original abatement: it was supposed to be temporary, does not address disparities among apartment owners, and is inefficient because if the goal was to equalize tax burdens on apartment owners and homeowners, the abatement provides more relief than needed to some owners and less to others. Our analysis of the most recent changes found that these shortcomings remain.

IBO estimates that the changes to the abatement will reduce the tax expenditure associated with the program because the savings from excluding owners whose units are not primary residences will exceed the increased cost of providing a more generous abatement to most owners. The Department of Finance has indicated that it will use existing data, including receipt of the School Tax Relief Program (STAR, a state tax exemption for primary residences) and New York City personal income tax filings, to determine which current recipients of the abatement use the units as their primary residence. Those owners who are found not to be using the property as their primary residence were notified by the finance department and given the opportunity to appeal the determination by submitting documentation. While this approach may be expedient given the need to implement the changes retroactively (they take effect on 2013 taxes), it is surprising that the Department of Finance is not requiring all abatement recipients to state affirmatively that their coops or condos are their primary residences.

IBO has revised our earlier analysis of the savings from the changes to the program to reflect additional information provided by the finance department on how residence status will be determined. We now estimate that the city will save $41 million in 2013 (retroactive billing adjustments will be made on the first bills in 2014), $72 million in 2014, and $106 million in 2015, when the changes will be fully phased in. Although the abatement was only extended through 2015, our forecast assumes it is continued in 2016 and 2017 without further changes.

The Outlook for Market Value and Assessed Value in 2014. When the roll is finalized in May, IBO forecasts that market value in the city will total $874.1 billion, 4.1 percent greater than 2013. This growth rate is higher than in the last two years, which saw increases of 2.6 percent in 2012 and 3.1 percent in 2013. Even with our expectation of a larger than usual reduction from the tentative to the final roll, assessed value for tax purposes is projected to grow 5.5 percent over 2013.

Class 1. The aggregate market value of Class 1 properties is expected grow just 1.9 percent in 2014. This growth is slightly stronger than 2013, when market value for Class 1 grew 1.7 percent, and is very different than from 2009 through 2011, when aggregate market value in the class declined by 1.0 percent, 5.0 percent, and 2.8 percent, respectively.

IBO projects stronger growth in assessed value for tax purposes, an increase of 3.3 percent over 2013. In Class 1, the assessed value of a property moves toward a target of 6 percent of market value, with assessment increases capped at 6 percent a year or 20 percent over five years. If a parcel is assessed at less than 6 percent of market value, its assessed value grows until it hits the target ratio of 6 percent of market value or it reaches the cap on annual assessment increases—even if the market value stays flat or declines. When the housing market was strong, the median ratio for one-family homes outside Manhattan declined, from 5.4 percent in 2004 to a low of 3.7 percent in 2008, well below the 6 percent target. From 2009 through 2013, the median assessment ratio was increasing, from 4.0 in 2009 to 5.2 percent in 2013. The median assessment ratio fell slightly, to 4.9 percent, on the tentative 2014 roll.

Class 2 and Class 4. IBO projects that on the final roll for 2014, aggregate market value for all properties in Class 2 will total $201.9 billion, 3.5 percent greater than 2013. In Class 4, despite the larger than usual reduction from the tentative to final roll, market value is expected to reach $237.2 billion, an 8.6 percent increase over 2013. The finance department's use of lower capitalization rates for most types of commercial properties helped to spur these increases.

Aggregate assessed value for tax purposes is expected to be $58.6 billion for Class 2, 4.9 percent higher than 2013, and $84.5 billion for Class 4, a year-over-year increase of 6.6 percent. The projected growth in 2014 for Class 2 is slightly lower than the average annual growth from 2006 to 2013 of 5.4 percent, while in Class 4 the growth in 2014 matches the average annual growth of 6.6 percent for those years.

This stable growth in assessed value for tax purposes stems partly from the method for capturing changes in market value. Increases and, in many cases, decreases in parcels' market values are phased in over five years. The assessed value changes from the preceding four years that have yet to be recognized on the tax roll are called the pipeline. Strong growth in both 2012 and 2014, especially in Class 4, has replenished the pipeline that had begun to shrink due to slow growth in the preceding years. IBO projects that the pipeline will reach $16.2 billion in 2014, up sharply from $6.6 billion in 2011.

Outlook for Market and Assessed Values in 2015-2017. For 2015, IBO forecasts an increase in aggregate market value of 4.0 percent. Growth in market value is projected at 1.4 percent in Class 1, 7.4 percent in Class 2, and 5.7 percent Class 4. For 2015 through 2017, these classes are expected to see market value growth averaging about 3.9 percent a year. Class 1 will be slower at 1.7 percent a year on average, while Class 2 and Class 4 are projected to grow by 5.4 percent a year and 6.1 percent a year, respectively, on average.

IBO projects growth of 4.5 percent in aggregate assessed value for tax purposes value in 2015, slightly slower than this year. Total assessed value for tax purposes in Class 1 is expected to grow an average of 2.8 percent a year from 2015 through 2017.

With the pipeline of assessed value increases in Class 2 and Class 4 replenished by the large increases in 2012 and again in 2014, growth of assessed value for tax purposes is strong through 2017, especially in Class 4. Assessed value for tax purposes in Class 2 will grow 4.1 percent a year, on average, through 2017. The Class 2 pipeline, estimated at $5.5 billion following the 2014 final roll, is expected to grow to $7.9 billion by 2017. With a larger pipeline in 2014, Class 4 has stronger growth, averaging 6.5 percent a year through 2017. IBO projects the total pipeline in Class 4 to be $10.7 billion after the 2014 roll is finalized, growing to $11.6 billion by 2017. While our projection for gains in Class 4 market value for 2015 through 2017 are expected to keep pipeline growth steady, the significant increases from 2012 and 2014 that are already reflected in the Class 4 pipeline are providing a boost for assessed values through 2017.

Revenue Outlook. After the Department of Finance completes the assessment roll, the actual property tax levy is determined by the City Council when it sets the tax rates for each class. IBO's baseline property tax revenue forecast, and the Bloomberg Administration's, assume that the average tax rate during the forecast period will remain 12.28 percent, the rate set by the City Council in December 2008 when the Council enacted the Mayor's proposal to rescind a short-lived 7 percent rate reduction.

The amount of property tax revenue in a fiscal year is determined not only by the levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. Taking these other factors into account, IBO projects that property tax revenue for 2013 will total $18.5 billion, 2.9 percent higher than in 2012. For 2014, IBO forecasts property tax revenue of $19.5 billion, an increase from our December 2012 forecast. From 2015 through 2017, revenue growth is projected to average 5.2 percent a year, reaching $22.5 billion by the last year of the forecast period. This projected revenue growth is slower than the 6.6 percent average annual growth seen from 2007 (before the most recent property tax rate decrease and increase) through 2012.

IBO's property tax revenue forecast is just $20.8 million (0.1 percent) above OMB's for 2013, stemming from small differences in the reserve. For 2014, our revenue forecast is $120 million above OMB's. This difference stems mainly from IBO assuming a slightly lower reduction from the tentative to the final roll than OMB assumed and from minor differences in estimates of the property tax reserve and (especially) the coop and condo abatement. In 2015 through 2017, IBO forecasts stronger growth than OMB and our revenue forecast is respectively $162.6 million, $341.0 million, and $652.4 million above OMB's.

Transfer Taxes

After bottoming out at just $981 million in 2010, revenues from the RPTT and the MRT—collectively referred to as the transfer taxes—are now in their third year of recovery. IBO projects that revenues from the two taxes will reach $1.8 billion this year and then increase steadily, to $2.3 billion in 2017—the latter still about 30 percent below the 2007 peak of $3.3 billion.

Residential real estate sales have increased this year, with $21.1 billion in taxable sales during the first seven months of fiscal year 2013 compared with $17.6 billion during the equivalent period of 2012. But the rise in commercial sales has been even more dramatic—$31.3 billion in taxable sales from the start of 2013 through January, versus $21.4 billion in sales during the equivalent 2012 period. Sales of both residential and commercial properties were especially strong at the end of calendar year 2012, as buyers and sellers rushed to complete transactions in anticipation of higher tax rates for capital gains that took effect in January 2013. Many of these transactions took place in December 2012, but were not recorded until the next month. As a result, recorded taxable sales reached $12.4 billion in January, the highest monthly level since November 2007.

During the first seven months of 2013 there have been 46 commercial real estate transactions valued at over $100 million, compared with 34 during the same period in 2012. There have been three RPTT transactions with a sales price greater than $500 million.

Because RPTT collections this past December and January were very strong, IBO has raised its RPTT forecast for 2013 to $1.1 billion—a 22.1 percent increase over 2012. In contrast, we expect RPTT revenue to rise just 2.1 percent ($23 million) in 2014. After 2014, IBO projects steady growth in RPTT revenues through 2017, from both commercial and residential properties. By 2017, RPTT revenue is projected to be just over $1.4 billion, around 82 percent of the 2007 peak of $1.7 billion.

MRT revenues fell 77.1 percent between their peak in 2007 ($1.6 billion) and their trough in 2010 ($366 million). IBO forecasts MRT revenue of $687 million for 2013, an increase of 28.0 percent over 2012. In spite of projections for continued strength in real estate sales, we project slower MRT revenue growth (6.4 percent) in 2014, with collections totaling $731 million.

The MRT does not track the value of real estate sales as closely as does the RPTT, because not all sales involve a mortgage and not all new taxable mortgages involve a sale. In addition to mortgage activity related to property purchases, current MRT strength comes from the persistence of historically low interest rates, which has aided refinancing activity. However, the Mortgage Bankers Association expects refinancing to decline later this calendar year, as pent-up demand subsides. Finally, some of the city's highest-priced residential real estate transactions escape the MRT. Many of the foreign buyers who account for a significant share of the luxury housing market in the city are not able to obtain financing locally, and must either pay cash or secure financing from outside the U.S. Since no mortgage is recorded locally in these cases, there is no MRT liability.

For the 2013 through 2015 period, IBO expects MRT revenues to grow at a faster rate than the RPTT, but in subsequent years MRT growth is slightly below that of the RPTT. Overall growth in the MRT between 2013 and 2017 is projected at 36.5 percent, compared with 26.1 percent for the RPTT. However, because the drop in MRT collections in 2008 through 2010 was so great, our MRT forecast of $938 million of for 2017 is still about 40 percent below the 2007 peak.

Personal Income Tax

IBO forecasts $8.6 billion in personal income tax (PIT) revenue in 2013, 8.1 percent greater than 2012 collections, followed by virtually no change in PIT receipts in 2014. The absence of revenue growth next year is not due to a projected deterioration of city residents' employment and income but rather the result of federal fiscal policy. Some taxpayers, anticipating increases in federal income tax rates, have shifted capital gains realizations and salary bonuses from calendar year 2013 to calendar year 2012, boosting fiscal year 2013 PIT receipts at the expense of 2014 receipts. The annual average PIT growth rate for the combined two years—3.9 percent—is a more accurate of gauge of expected economic conditions for this year and next.

The projected increase of $646 million in PIT collections from 2012 to 2013 reflects growth in withholdings, estimated payments, and final returns payments. Fueled by solid employment growth this past calendar year plus a small rebound in Wall Street bonus compensation (paid out of firms' calendar year 2012 earnings), withholding collections in the first eight months of this fiscal year (July 2012-February 2013) were 6.2 percent greater than in the first eight months of the prior fiscal year. With withholding collections expected to level off as the bonus season ends, IBO projects 4.4 percent growth in withholding for the year as a whole. Withholdings this past December were the highest they've ever been for the month, suggesting that a substantial amount of bonus compensation was shifted earlier to avoid widely anticipated federal tax increases starting on January 1. This timing shift is within the current fiscal year, so it does not affect PIT growth from 2012 to 2013.

Unlike the shift in bonus payments, the shift in the timing of capital gains realizations by taxpayers seeking to avoid the anticipated increase in federal capital gains taxes does affect city PIT growth in 2013.[3] Realizing capital gains—which can result from the sale of financial assets as well as real estate and personal property—in calendar year 2012 before the federal tax increases took effect instead of in later years, will increase PIT revenue in fiscal year 2013. These receipts can either be in the form of estimated payments, including payments made by taxpayers filing for extensions this spring, or payments accompanying final returns. IBO forecasts large increases in 2013 from estimated payments (a 17.7 percent increase) and from final returns (a 25.4 percent increase)—which together will account for $455 million of the $646 million increase in PIT revenue for the current fiscal year.

This boost to PIT revenue in 2013 comes at the expense of receipts in 2014 and, to a lesser extent, later years. IBO forecasts virtually no change in PIT revenue from 2013 to 2014—a decline $18 million or 0.2 percent—in spite of faster economic growth starting in calendar year 2014. Withholding in 2014 is projected to be 6.2 percent greater than in 2013, the result of faster employment growth starting early in calendar year 2014 and a 6.0 percent increase in personal income in that year, compared with 2.1 percent growth the previous year. But the $395 million increase in withholding will be more than offset by a $196 million (7.9 percent) decline in estimated payments, a $109 million (26.7 percent) decline in final returns and a $129 million (10.9 percent) increase in refunds. With both employment growth and personal income growth reaching their high points for the financial plan period in calendar year 2015, and with PIT receipts artificially low in 2014, IBO forecasts strong 11.1 percent PIT growth in fiscal year 2015. After 2015, we expect PIT growth to moderate to an annual average rate of 4.1 percent. By 2017, PIT revenue is forecast to reach $10.3 billion.

IBO's forecasts of PIT revenue exceed OMB's by relatively small amounts in 2013 ($112 million) and 2014 ($87 million)—about 1 percent in each year. After 2014, the difference between IBO and OMB's forecasts increases sharply due to IBO's forecast of stronger growth in employment and income. In the 2015 through 2017 period, IBO's PIT forecast exceeds OMB's by between $502 million (2015) and $568 million (2016).

Business Income Taxes

After very slow revenue growth in 2012 (1.2 percent), total 2013 collections (through December) from the city's three business income taxes were up 3.4 percent, compared with the same period a year before. For the remainder of the year IBO forecasts slightly faster growth to produce a modest business tax increase of 3.6 percent for the year as a whole. As is often the case, revenue growth for the three taxes is expected to differ greatly in 2013: 0.8 percent growth in the general corporation tax (GCT), 3.9 percent for the unincorporated business tax (UBT), and 8.5 percent in banking corporation tax (BCT) revenue. For 2014, we forecast another year of moderate business tax growth—4.8 percent. And for 2015 through 2017, we expect more robust growth, at an annual average rate of 8.2 percent.

GCT collections so far in 2013 (through December) are down $30 million (2.2 percent) over the same period last year—IBO's 2013 forecast shows 0.8 percent growth. Through December, GCT collections from finance and insurance companies were down 15.2 percent, while collections from professional, technical and managerial services and information companies were up 12.8 percent and 6.7 percent, respectively. Wall Street firms enjoyed very strong profits in calendar year 2012—$23.9 billion, the third highest level ever. In 2013, we are anticipating $13.6 billion in profits due to increases in both interest and compensation expenses. Moreover, the huge losses sustained in 2007 and 2008 continue to have an effect on tax liability as they produce future deductions in taxable income. IBO forecasts GCT growth of 5.2 percent in 2014—much higher than growth in 2013 but modest in comparison to the double-digit growth rates seen prior to the downturn. For the 2014 through 2017 period, we expect GCT growth to average 7.2 percent a year.

Through December, the fastest growth in business tax collections came from the BCT, up $90.6 million (16.6 percent) from the same period in 2012. BCT collections from commercial banks were up 73.3 percent through December, while collections from foreign banks were down 16.1 percent. Following the usual pattern of sharp swings up and down, BCT revenue is forecast to grow 8.5 percent in 2013, drop 7.7 percent in 2014, and bounce up 15.1 percent in 2015. Instituting the Dodd-Frank regulations will take a toll on banks in the near term, and that combined with the still high standards for issuing small business loans and mortgages will limit the revenue potential of banks. BCT's inherent volatility is in large part due to very large fluctuations in refunds resulting from overpayments of varying amounts made throughout the fiscal year—overpayments often affected by the timing of deductions for net operating losses. Annual average BCT growth during the 2015 through 2017 period is projected to be 7.6 percent.

The UBT is up only $5.4 million (1.1 percent) through December, compared with 2012 receipts. We expect faster growth in the remainder of the year to produce 3.9 percent growth for the year as a whole. IBO anticipates robust, but hardly unusual, growth in UBT revenue of 14.5 percent in 2014, which would produce revenue that finally surpasses the UBT's pre-recession peak of $1.9 billion in 2008. Robust growth in the professional and business services industry, which added 44,000 jobs between 2010 and 2012 and is forecast to add another 21,100 jobs in 2013, will boost UBT revenues. For the remainder of the forecast period, 2015 through 2017, IBO expects UBT revenue growth to average 8.3 percent per year and reach $2.5 billion.

IBO's forecast for the combined business income taxes is $65 million (1.2 percent) lower than OMB's in the present year—$26 million higher in BCT, $27.5 million lower in GCT and $63 million lower in UBT. For 2014, IBO's business tax forecast is $104 million (1.8 percent) higher than OMB's, with the majority of the difference explained by IBO's forecast of unincorporated business tax revenue, which exceeds OMB's by $82 million. The difference between the two forecasts grows throughout the period to reach $757 million in 2017.

General Sales Tax

Through January, general sales tax revenue in 2013 is up approximately 4.4 percent over the same period last year. Slightly slower growth is expected for the remainder of the fiscal year—IBO's sales tax forecast for 2013 as a whole is $6.0 billion (3.9 percent greater than collections in 2012). The expiration of a 2.0 percentage point cut in payroll taxes on December 31, 2012 is reducing disposable income, which in turn is expected to depress retail sales. Also contributing to the forecast of modest growth in sales tax collections for the current fiscal year is our expectation of relatively slow growth in local personal income (2.1 percent in calendar year 2013) and in the pay of securities industry employees (2.0 percent in calendar year 2013), who account for a significant share of purchases of taxable goods.

IBO projects somewhat stronger 4.8 percent growth in sales tax revenue in 2014, reflecting our forecast of much faster growth in personal income (6.0 percent in calendar year 2014). Moreover, a projected gain of 1,500 Wall Street jobs in calendar year 2014, in contrast to job losses in the current year, also contributes to more rapid sales tax revenue growth. IBO also expects stronger U.S. economic growth and diminished uncertainty over federal fiscal policy to bolster consumer confidence and boost retail sales next year. However, continued weakness in the euro zone is likely to curtail tourist spending in the near term.

Throughout the remainder of the forecast period, we project sales tax revenue growth averaging 4.7 percent a year, with collections reaching $7.3 billion in 2017. Compared with OMB's estimates, IBO's forecast is just slightly lower for 2013 and virtually identical for 2014. In 2015 and beyond, IBO's expectation of more rapid growth in local personal income and employment results in increasing differences between the two forecasts, with IBO's forecast of sales tax revenue exceeding OMB's by $210 million in 2017.

Hotel Occupancy Tax

IBO forecasts $510 million in hotel occupancy tax revenue in 2013—7.2 percent growth over 2012 collections. Collections through January are up 7.0 percent over the same period last year, with continued strength expected through the remainder of the year. Data from NYC & Company shows occupancy rates in the fourth quarter of 2012 increased by 1.3 percentage-points over the fourth quarter of 2011 (90.3 percent vs. 89.0 percent), simultaneous with an increase in room inventory of almost 3 percent. The average daily rate for hotel rooms was also higher in the fourth quarter of 2012 ($336 in Q4:12 versus $324 in Q4:11).

Hotel tax revenues are being fueled by steady increases in visitors to the city, particularly foreign tourists, whose numbers have increased by 50 percent in the last six years. In spite of continuing economic difficulties in Europe, IBO projects continued robust growth in the number of visitors from overseas. Non-European countries—particularly Brazil, Australia, and China—are the fastest growing sources of international visitors to New York.

IBO projects hotel tax revenue will grow 4.5 percent to $533 million in 2014, more moderate growth than in 2013, due to our expectation that slower U.S. economic growth early in the year will constrain domestic travel, especially among leisure travelers. As U.S. growth accelerates in the latter part of 2014 and into 2015, domestic travel to the city and hotel tax collections will also pick up. From 2015 through 2017, we project an increase in hotel tax revenue at an average annual rate of 6.2 percent—faster growth than in 2013 and 2014, but more moderate than 12.5 percent growth in the 2003 through 2008 period before the Great Recession. IBO's hotel tax forecast is higher than OMB's in each year, with the difference growing from $8.0 million in 2013 to $76 million in 2017.

Other Revenues

The city's non-tax revenues combine a variety of fees, fines, charges, interest income, and other miscellaneous revenue, which total $5.6 billion this year. The Mayor's Preliminary Budget calls for a significant increase next year when it expects to raise $600 million in revenue from the sale of new taxi medallions, although that initiative has been challenged in court. The city is counting on the taxi revenue to bring the total non-tax sources to $6.1 billion in 2014. In the following years, which include plans for smaller amounts of taxi medallion revenue, city non-tax revenues remain below $6.0 billion dropping to $5.7 billion by 2017.

State, federal, and other categorical aid and interfund revenue are the remaining sources among non-tax revenues. They are expected to total $21.6 billion this year, although that figure includes $1.4 billion in anticipated Hurricane Sandy relief assistance from the federal government. That money, which will be used to cover overtime, and other costs associated with the immediate response and recovery incurred by the city, will largely be expended this year, which accounts for the drop-off in this revenue category to $19.9 billion in 2014. After 2014, state, federal, other categorical and interfund revenues resume growing at a more traditional pace; growth is expected to average 1.1 percent, annually in 2015 through 2017. By the last year of the financial plan, these grants are expected to total $20.6 billion.

Endnotes

[1]For additional information about the complications of the city's real property tax, see Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City, Independent Budget Office for New York City, December 2006. When IBO refers to market values and assessments, the reference includes only taxable property. The assessed value for tax purposes (also referred to as billable taxable value) reflects the required phase-in of assessment changes for apartment, commercial, and industrial buildings. In this report the billable taxable values are shown before applying the STAR exemptions.
[2]This count excludes condominium units because most of those were assumed to be beginning the phase-out period of their construction exemption.
[3]New York City and New York State tax capital gains and dividends as ordinary income and, therefore, the state and local tax base and tax rates are not directly affected by changes in the federal preferential tax rates for capital gains and dividends.

Education

Cuts in November and January that have reduced planned spending for 2013 by $498 million from the level projected when the budget was adopted last June would leave the Department of Education's (DOE's) budget for 2013 virtually unchanged from 2012. Half of the reduction for 2013 is due to the loss of $250 million in state education aid when the city and the unions could not agree on a new evaluation system for teachers and principals. The Mayor's Preliminary Budget assumes that the cut will stay in place, despite on-going litigation and possible legislative action that could restore the funds.

Although there has been little growth in the DOE's budget in 2012 through 2014—annual increases average 1.2 percent—some parts of the budget are growing, particularly payments to nonpublic schools and charter schools, which are up by an estimated $818 million (37.6 percent) from 2011 to 2014. In contrast, spending on services for traditional schools is projected to fall by $365 million (2.6 percent) over the same three years.

Little Overall Growth in Services to Schools In the 2014 Preliminary Budget

There are three main components of the DOE's expense budget: services to schools, nonpublic school payments, and systemwide costs; their shares of the DOE budget are little changed from 2013 to 2014. Services to schools, budgeted at $13.5 billion for 2014, include classroom instruction, instructional support, instructional administration, and non-instructional support services. The nonpublic school portion of the budget, projected to total $2.9 billion in 2014, includes special education prekindergarten contracts, payments for charter schools, contract schools, and foster care, and pass-through payments for private schools and the Fashion Institute of Technology. Systemwide costs of almost $3.0 billion, consisting of fringe benefit expenditures and central administrative spending, make up the balance of the $19.5 billion total operating budget.

Spending for services to schools edged down $48 million in 2012 and declined $282 million (2.0 percent) in 2013. Under the Preliminary Budget, spending for 2014 would be virtually unchanged (declining 0.3 percent) from 2013. Growth in special education classroom instruction and related special education support partly offset a projected loss of more than $100 million in general education funding. Under the Mayor's Preliminary Budget, spending for general education classroom instruction is expected to decline 0.9 percent this year and fall by an additional 1.8 percent in 2014.

Categorical programs, which have state or federal restrictions on how money can be allocated and spent by schools, have declined sharply this year, down 11.7 percent to $1.9 billion. A modest 1.2 percent decline is expected for 2014. Additionally, the instructional administration budget contracted by 10.5 percent to $138 million in 2013, and is expected to remain near that level next year.

Among noninstructional support services, school facilities expenditures fell by $24 million (3.2 percent) in 2012, with a steeper decline of $80 million (10.9 percent) projected in 2013, followed by another 9.0 percent drop in 2014, when they are expected to be $590 million. These declines reflect decisions to defer some nonemergency maintenance work and to reduce staffing through attrition. Pupil transportation, the largest category among the noninstructional support services, is budgeted at $1.2 billion for 2014 and has been growing steadily for at least a decade. The DOE is currently reviewing bids for new bus contracts, the first rebidding in 33 years and the spark of the recent strike by drivers and matrons. Spending for energy and leases has seen year-to-year swings, reflecting fluctuations in the costs of fuel and rents; this category went up more

Department of Education Budget, by Program Area

Dollars in millions

	2010	2011	2012	2013 Projected	2014 Preliminary
TOTAL DOE BUDGET	**$18,502**	**$18,944**	**$19,283**	**$19,271**	**$19,650**
Services to Schools	**$13,705**	**$13,830**	**$13,782**	**$13,500**	**$13,465**
Classroom Instruction	**$7,820**	**$7,831**	**$7,957**	**$7,856**	**$7,849**
General Education Instruction	$6,052	$6,006	$6,016	$5,961	$5,851
Special Education Instruction	1,020	1,052	1,181	1,106	1,167
Citywide Special Education Instruction	748	773	760	789	831
Noninstructional Support	**$2,867**	**$2,939**	**$2,953**	**$3,010**	**$2,978**
School Facilities	744	759	735	655	590
School Food Services	409	380	389	410	411
School Safety	295	298	298	304	308
Pupil Transportation	996	1,017	1,074	1,133	1,163
Energy & Leases	423	484	457	509	505
Instructional Support	**$2,805**	**$2,926**	**$2,718**	**$2,496**	**$2,501**
Special Education Instructional Support	489	510	526	561	589
Categorical Programs	2,315	2,416	2,192	1,935	1,912
Instructional Administration	**$213**	**$134**	**$154**	**$138**	**$137**
Regional & Citywide Instructional & Operational Administration	213	134	154	138	137
Systemwide Costs	**$2,895**	**$2,939**	**$3,000**	**$3,082**	**$3,193**
Fringe Benefits	2,502	2,589	2,701	2,837	2,962
Collective Bargaining	34	12	0	0	0
Central Administration	359	338	299	245	230
Nonpublic and Charter School Payments	**$1,902**	**$2,175**	**$2,501**	**$2,689**	**$2,993**
Special Education Pre-Kindergarten Contracts	**$853**	**$943**	**$1,009**	**$1,038**	**$1,143**
Special Education Pre-Kindergarten Tuition	718	815	887	924	1,028
Special Education Pre-Kindergarten Transportation	135	128	122	114	114
Charter School, Contract School, Foster Care Payments	**$977**	**$1,162**	**$1,422**	**$1,580**	**$1,779**
Blind and Deaf Schools	-	-	$58	$59	$59
In-State Contract Schools	268	321	297	308	338
Out-of-State Contract Schools	35	32	34	38	40
Carter Cases	215	183	263	236	256
Foster Care	27	37	33	45	49
Tax Levy Match for Chapter 683	14	17	21	14	14
IBO Reestimated Charter Schools	$418	$572	$716	$879	$1,022
Nonpublic School/ FIT Payments	**$72**	**$70**	**$71**	**$71**	**$71**

SOURCE: January 2013 Departmental Estimates
NOTES: Fiscal years 2010-2012 are actual spending. Fiscal years 2013 and 2014 are projections. Does not include debt service and pensions. Includes intra-city sales. These figures reflect IBO reestimates of the Preliminary Budget.

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than 11 percent this year, but is expected to remain roughly constant for 2014.

Turning to systemwide costs, the budget for fringe benefits in 2013 is $135 million higher than in 2012; for 2014 fringe benefits are projected to exceed $2.9 billion, $126 million (4.4 percent) more than in 2013. The growth in fringe benefits continues to be driven largely by the cost of health insurance. Unlike other city departments, the DOE budget has traditionally included a labor reserve to reflect the cost of future labor settlements. However, there have been no collective bargaining reserves allocated since 2011 to cover the years since the teachers' and the principals' contracts expired.

Continued Nonpublic School and Charter School Growth

Nonpublic school payments this year are almost $188 million more than in 2012, largely driven by special education prekindergarten, charter school, and contract school payments. They are forecast to grow by 11.3 percent in 2014 to $3.0 billion, a $303 million increase over projected 2013 expenditures. IBO expects the total budget for nonpublic schools to reach $3.6 billion by 2017 including the costs of additional charter school students who are not currently reflected in the Preliminary Budget. These payments also include tuition at private schools for certain special education students, and "pass-throughs" of support for private schools and the Fashion Institute of Technology.

Special education tuition for preschoolers who are placed in nonpublic schools by the district Committee on Pre-School Education is initially paid by the DOE, with 59.5 percent of the outlay reimbursed by the state after a one year lag. The state also reimburses a portion of school districts' transportation costs for preschoolers receiving special education services. Total tuition and transportation pre-kindergarten contracts for special education are anticipated to exceed $1.0 billion in 2013 and increase to $1.1 billion in 2014. Although spending on preschool special education is expected to continue to increase, efforts have been made to slow their rate of growth. In the November 2012 Financial Plan, the DOE identified $31 million of savings on city-funded tuition and transportation costs, due to reestimated tuition needs and renegotiated transportation contracts. More than offsetting these savings, tuition costs—the chief driver of spending for preschool special education—are projected to increase from $924 million in 2013 to $1.0 billion in 2014.

In the 2014 Preliminary Budget, payments for Carter cases, in-state contract schools, and charter schools continue to add budget pressure. Tuition payments for in-state contract schools to provide special education services are expected to be $338 million in 2014, a one-year increase of 9.8 percent, and rise to $390 million by fiscal 2017. DOE spending for Carter cases, which result from parents successfully petitioning the courts to authorize reimbursement for the costs of special education in private school settings, is projected to grow by 8.5 percent next year, reaching $256 million. These cases are determined by the outcome of court decisions and are largely beyond the department's control.

Charter school expenditures represent the second largest category of nonpublic school payments after special education prekindergarten. Costs of charter schools are largely driven by student enrollment. This expense item increased by $113 million from 2012 to 2013, but the Preliminary Budget only projects growth of $71 million to a total of just under $900 million in 2014. However, IBO estimates that charter school payments will be significantly higher next year, totaling over $1.0 billion.

IBO Reestimate of Charter School Payments

Dollars in thousands

	2013	2014	2015	2016	2017
Estimated Payments, Preliminary Budget	$828,448	$899,320	$947,320	$994,320	$994,320
IBO's Estimate of Additional Enrollment	3,761	9,101	12,596	19,557	22,593
Cost of Additional Enrollment	$50,875	$123,109	$170,386	$264,548	$305,616
IBO's Estimate of Charter School Payments	**$879,323**	**$1,022,429**	**$1,117,706**	**$1,258,868**	**$1,299,936**

SOURCE: IBO reestimates of Preliminary Budget using State Education Department data on new charter school approvals

Increases in charter school spending are due both to the opening of new schools and to enrollment growth in existing schools that continue to expand to their full complement of grades. This year the State Education Department has identified 37 new charter schools scheduled to open in September 2013. Based on new charter schools' projected enrollment and anticipated enrollment growth in schools currently operating, IBO expects 9,100 more students will be attending charter schools in the fall of 2013 than are accounted for in the Preliminary Budget. Accordingly, we estimate that spending on charter schools for 2014 will be $1.0 billion, $123 million higher than in the Preliminary Budget. IBO expects total charter school costs will exceed $1.3 billion by fiscal 2017.

Lost and Found-ation Aid

A key component of New York State's education reform agenda to improve student achievement is improving schools' ability to develop, retain, and reward effective teachers and school leaders. To this end, New York State has adopted legislation that requires a more rigorous annual performance review process for teachers and principals. Each school district in the state was required to submit an evaluation plan by January 17, 2013 or lose its increase in state foundation aid for this year. New York City was one of a handful of school districts that did not meet the plan submission deadline, putting the city's scheduled $250 million increase in foundation aid for 2013 at risk. The city also faces the potential loss of next year's state aid increment if an agreement on an evaluation plan is not in place by this fall, although the Governor has moved to prevent a second reduction in aid by seeking legislation to have the state impose a plan if an agreement is not finalized by June 2013. The Preliminary Budget assumes that the reduction for this year would take effect by March 1, leaving only four months of the fiscal year to generate the necessary savings. The budget also assumes that this year's loss in state aid is permanent so that $250 million was removed from each year of the financial plan.

The city's plan to absorb the reduction in state aid this year includes reclaiming undisbursed school funding from principals' budgets; reestimating the growth in expenses for the most severely disabled students; limiting replacement of teachers and other school personnel who leave the DOE; reducing spending on supplies and services in administrative offices; signing fewer youth development, professional development, and IT related contracts; eliminating unfilled positions in central administration; reducing the use of substitute teachers; improving reporting for unemployment claims; reducing school aide work schedules by 30 minutes; and other actions. However, recent events suggest that these plans may not be necessary.

In February, a State Supreme Court judge issued an injunction preventing foundation aid from being withheld. A subsequent ruling enjoined the DOE from beginning to implement the actions it planned to generate the necessary $250 million in savings. Some state legislators had vowed to reverse the Governor's policy as part of the budget process, but as this report is being completed, it appears that the funds will not be included as part of the deal on the state budget—

Foundation Aid Reduction Plan
Dollars in thousands

	Fiscal Year 2013
Spending Reductions	**$(202,600)**
Removal of Undisbursed School Funds	$(59,884)
Reduced School Aid Work Schedules	(8,600)
Reduced Youth & Professional Development, IT Contracts from Various Central Offices	(16,338)
Reduced Use of Substitute Teachers	(5,000)
Reestimated District 75 Special Education Expense	(50,000)
Estimated Attrition of Teachers and Other Pedagogs Plus Related Fringe	(33,059)
Unemployment Insurance Claims Process Efficiencies	(4,000)
Administrative OTPS Reductions	(16,801)
Eliminate Unfilled Central Position Vacancies	(8,918)
Revenue Reestimates	**$(47,816)**
Recognition of Transportation Revenue	$(15,050)
Recognition of Title I Revenue	(7,809)
Redistribution of Education Jobs Act Revenue	(2,809)
SCA Reimbursement	(22,148)
Total	**$(250,416)**

SOURCE: Mayor's Office of Management and Budget
New York City Independent Budget Office

although an increase in other state education aid may make up the loss.

Capital Plan

The School Construction Authority's latest amendment to its five-year capital plan for fiscal years 2010 through 2014 proposes to increase the total spent over the five years to $11.8 billion, an increase of $618 million (5.5 percent) over the current plan, which was adopted in June 2012. The additional funds include: $200 million in city funds to repair damage caused by Hurricane Sandy, $290 million in city funds made available under the city's capital commitment plan, and an increase of $120 million for Resolution A capital improvement projects, which are funded through City Council, Borough President, and Mayor/Council sources.

Although very little additional funding is slated for new capacity ($54 million, a 1.6 percent increase over the current plan), the School Construction Authority proposes to add 931 seats to the five-year plan, bringing the total number of new seats up to 34,819, an increase of 2.7 percent over the existing plan that was approved by City Council in June 2012. The authority expects to fund most of the additional seats by taking advantage of lower construction and lease costs. A closer look at when new seats are estimated to be completed, however, shows that many have been pushed back from opening in time for fall 2014 to later years, in some cases as late as 2018.

Housing, Health, & Community Services

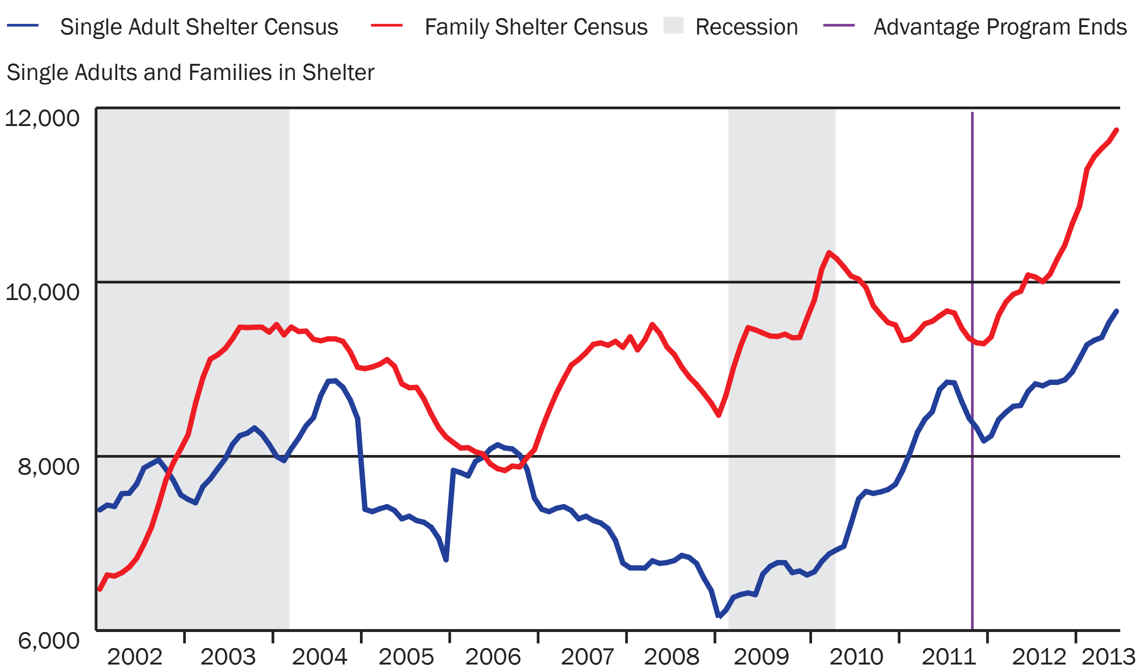
Homeless Shelter Spending Likely to Exceed Record Budgeted Amounts

Despite budgeting more funds than ever before to pay for emergency shelter—and the introduction of several new programs that attempt to rein in future costs—the Department of Homeless Services (DHS) is likely to face continued budget challenges. The number of homeless families and individuals in the city's shelter system has swelled to all time highs, even excluding New Yorkers displaced by Hurricane Sandy, causing the city to open 16 new shelters within the past year. With few options available to move families and individuals into permanent housing (the city's rental subsidy program ended in April 2011), along with the failure of several previously proposed cost-saving measures, the price of emergency shelter—specifically for families—appears likely to exceed what the city has planned for this year and next.

Homeless Shelter Census and Length of Stay at Record Levels. The census in the city's homeless shelters, both in shelters serving families and those serving single adults, has reached record highs this year. During the first seven months of 2013 there were, on average, 11,311 families in shelter each day—1,612 more families than during the same period last year. (Sandy evacuees are not included in these counts.) The increase in single adults in shelter is similar, although slightly less dramatic. During the first seven months of 2013, on average 9,324 individuals were in adult shelter each day—861 more than during the same period last year. In order to accommodate this growth in the homeless population, the city has opened

Shelter Census at Record Highs

By fiscal year



SOURCES: Department of Homeless Services; U.S. Bureau of Labor Statistics

NOTES: Families in shelter include both families with children and adult families. The gray areas reflect periods of economic recession as measured by sustained declines in employment. The solid vertical line represents when the Advantage rental assistance program ended in April 2011.

16 new shelters since May 2012. Eleven of them were opened through emergency declarations, which means the city did not follow normal procurement procedures when opening the shelters. The new shelters include eight shelters for families with children, four shelters for families without children, and four for single adults. Six are located in the Bronx, five in Manhattan, four in Brooklyn, and one in Queens.

One reason for the growth in the shelter population is that both families and individuals are staying in shelters longer. Shelter stays for families with children average nearly a year (359 days) based on data from the first six months of this fiscal year, which is more than a month longer than during the same period last year. For families without children the average length of stay is even longer, nearly 15 months (453 days), 55 days longer than during the same period last year. For single adults, average length of stay is 279 days, 15 days longer than last year. Shelter stays have been increasing fairly consistently for both families and single adults since the city ended its rental assistance program, Advantage, in April 2011. (See IBO's Advantage blog post for details.) Without a replacement program for Advantage, this trend is likely to continue.

Shelter Budget at All Time High, Yet More Funds May Be Needed. Given the record census, planned spending for adult and family shelter in fiscal year 2013 is the highest in the city's history, although slightly less spending is planned for 2014 and beyond. The city has budgeted $464 million for family shelter in 2013, $37 million more than it spent last year. This includes spending on family shelter operations, intake, placement, and administration. Of that total, $152 million are city funds. (Funding for shelter comes from the city, state, and federal governments.) A total of $430 million is planned for family shelter in fiscal year 2014 ($143 million are city funds).

IBO estimates, however, that family shelter costs will reach $500 million by the end of fiscal year 2013, $36 million more than the city has already budgeted (about $13 million of which would be city funds). Moreover, if shelter trends remain unchanged, we project that $71 million more for family shelter may be necessary in fiscal year 2014 (about $25 million in city funds).

The current budget for adult shelter is also at an all time high. In 2013, the city has budgeted $317 million, with city funds making up $230 million of that total. This is $22 million more than adult shelter cost last year. IBO estimates adult shelter costs will be $2 million higher than budgeted by the city—reaching $320 million in 2013—the increase is due to a failed plan to reduce costs by mandating that adult shelter clients prove that they have no other housing options before being placed in a shelter. The city lost a lawsuit over the policy change, but is currently appealing the court's decision. The city has budgeted even less for fiscal year 2014 ($302 million, of which $224 million are city funds). Most of the difference in funding between this year and next is due to cost-saving measures the city has introduced for adult shelter, although the potential for success of these new programs remains unclear.

New Cost-Saving Measures Introduced, While Past Efforts Stall. In November 2012, the city proposed several measures to curb future shelter costs, with most of the potential savings coming from two programs aimed at reducing the number of single adults in shelter. The first is a subsidized employment program. Adult shelter clients who are eligible for public assistance will be placed in a job for six months (with their public assistance grant paying for a subsidy to the employer). Clients are expected to use their earnings to pay for housing, leading to an earlier exit from shelter, which the city currently expects to be after

Family Shelter Costs Projected to Exceed Budget
Dollars in millions

Family Shelter Costs	OMB		IBO		Difference	
	Total Cost	City Share	Total Cost	City Share	Total Cost	City Share
2012 (actual)	$427.0	$139.5	--	--	--	--
2013 (projected)	464.0	151.9	500.1	164.8	36.1	12.9
2014 (projected)	430.1	142.5	500.9	167.8	70.8	25.3

SOURCE: Mayor's Office of Management and Budget
NOTES: Family shelter costs include shelter operations, shelter intake and placement, and shelter administration and support. Total costs include city, state, and federal funds.

New York City Independent Budget Office

about six weeks in the job. DHS expects 150 clients to participate in the program this fiscal year producing an estimated $1.1 million in savings. The number of participants is expected to increase to 500 next year, increasing potential savings to $4.4 million.

The second proposal increases how often adult shelter clients must reapply for shelter. Under current policy, clients out of shelter for more than 365 days must reapply for shelter at the city's intake center instead of returning to their previously assigned shelter. This policy change reduces that time to 30 days. The city's rationale is that clients who were out of shelter for a month may have another housing option and may benefit from resources provided by intake staff, such as one-time rental assistance, thereby avoiding another shelter stay. This change, which includes hiring more intake staff, is not expected to begin producing savings until next year. Once implemented, the change is estimated to save $4.0 million in 2014 and $5.1 million in the following years.

DHS proposed these new measures, even as it added funding back to its budget for five other cost-saving programs that it had previously announced but has been unable to implement thus far. The failed programs include a plan to house some homeless families in shared living space (which has received opposition from the City Council), an initiative to institute performance based payments for contractors sheltering families in hotels (delayed due to the lack of a new rental assistance program), a plan to substitute state funds for city funds to pay for street homeless outreach, a plan for administrative and security costs savings at contracted shelters, and a proposal to move a shelter from city-owned space to leased space. Savings associated with these measures were expected to total $15 million in city funds for fiscal year 2013. The city was able to substitute some savings from other programs to make up about $6 million of the failed initiatives this year, mainly through delays in hiring.

City Paying for Temporary Housing and Services for Sandy Evacuees

Approximately 1,200 households displaced by Hurricane Sandy are being temporarily housed in hotels through two parallel programs, one administered by the city and the other by the Federal Emergency Management Agency (FEMA), the city reported in late February. Approximately three-quarters of the households (about 900) are being housed through the city's hotel program. Both the city and FEMA hotel programs began in November after the city began closing its emergency evacuation centers. While the number of households in the FEMA program has fallen in recent months, the number in the city program has increased. The Bloomberg Administration reports that approximately 400 households moved into its program directly from the Sandy evacuation centers, while the remainder entered the program through referrals from staff at the city's restoration centers set up after Sandy, due to a lack of heat, hot water, or other housing problems that they encountered in the weeks and months following the storm. The city also reports that households that do not qualify for the FEMA program, because they lack formal leases or other documentation, have been placed in hotels by the city.

Despite repeated requests, the Bloomberg Administration did not provide IBO with estimates of the cost of its hotel program, which is not flowing through the DHS budget. DHS, however, has budgeted $11 million to pay for shelter at the city's emergency evacuation centers, which includes the cost of contracted shelter facilities, food, transportation, security, supplies, and homelessness prevention outreach, which was provided through the city's Homebase program. The city expects to be reimbursed by FEMA for both the hotel and emergency evacuation center costs.

Additionally, in an effort to help displaced families find more permanent housing solutions and to help connect them to other public benefits, such as food and transportation assistance, the city has contracted with five social service agencies to provide case management to the households in its hotel program. The city has budgeted $9.3 million to cover the costs of these contracts, for which it also expects to be reimbursed by FEMA. Similar case management services are being provided to households by FEMA contractors through the federal hotel program.

Housing Repairs and Demolition Following Hurricane Sandy to Cost Over Half a Billion Dollars

The largest expenditure in the city budget related to Hurricane Sandy is for funding to help repair damaged housing and to demolish those damaged beyond repair, estimated at $534 million in the 2014 preliminary budget. The city expects to receive federal reimbursement through the Federal Emergency Management Agency for these costs.

More than 90 percent of the funds ($500 million) are budgeted for the NYC Rapid Repairs program, to provide immediate—albeit largely temporary—repairs to impacted housing. Another $34 million is planned for the demolition of unsafe buildings and other potential emergency repair costs. Because these are the city's initial estimates of repair and demolition costs, they are likely to be revised in future financial plans.

The NYC Rapid Repairs program—created by the city and FEMA—was designed to allow residents to remain in their homes while contractors made the most pressing repairs. These include addressing electrical, heat, and hot water issues, and ensuring the homes are protected from the elements. The repairs may be temporary and are not meant to fix long-term structural issues. While the program received initial criticism for lack of organization and inefficiency, as of late February the Bloomberg Administration reported it was 99 percent complete, and that the program had made repairs to 9,560 one- to two-family homes and 1,840 multifamily buildings. As of March 8, although the city had agreements with contractors for about $445 million of repair work, it had only spent $86 million, reflecting a lag in payments to contractors. The program, funded through the Department of Environmental Protection's budget, is expected to end in early March.

Complaints have been voiced recently in the media about the quality of the repairs being done, though no systemic review has been publicly released. The city has contracted out oversight of the program; in November 2012, the Department of Investigation issued four contracts totaling $7.2 million for monitoring the NYC Rapid Repairs program.

Along with buildings needing repairs, the city identified more than 800 buildings that have been destroyed or become structurally unsound as a result of Sandy. The city expects more than 400 of these buildings will be demolished (not all structurally unsound buildings will need to be demolished). The city added $34.2 million to the Department of Housing Preservation and Development's budget to cover the costs of demolition, which began in January. Some of these funds may also be used for emergency housing repairs if they are needed after the NYC Rapid Repairs Program ends.

Hurricane Sandy Deals a Blow to HHC's Revenues, With Larger Federal and State Cuts on the Horizon

The Mayor's Preliminary Budget projects that the Health and Hospitals Corporation's (HHC) expenses will continue to outstrip revenues in 2013 through 2017, leading to growing operating deficits and dwindling cash reserves. There are a number of factors contributing to HHC's lagging revenues, including a patient mix that contains a persistently high share of Medicaid patients and the uninsured. This year, another major factor behind HHC's lower than anticipated revenues was the months-long closure of several facilities in the wake of Hurricane Sandy. Financial support from all levels of government has also been dropping in recent years.

Although the Preliminary Budget contains no new cuts to HHC's city funding, reductions previously incorporated in the city's financial plan to Child Health and Developmental Evaluation clinic funding and to the unrestricted city subsidy for HHC are scheduled to go into effect in 2014. On the state level, HHC is heavily reliant on Medicaid funding, and several rounds of cost-cutting initiatives have taken a toll on the corporation's revenues. This year, the loss of substantial amounts of federal funding for developmental centers has resulted in another $500 million in proposed Medicaid cuts in the Governor's Executive Budget for 2013-2014, some of which will inevitably fall on HHC. Finally, HHC will sustain additional cuts to its Medicaid and Medicare funding, and possibly experience changes in its patient mix, as the state and federal governments move forward with implementation of the Affordable Care Act (ACA) in 2014 and beyond. HHC's financial plan assumes that significant "corrective actions" (operating savings or new forms of assistance) will be needed to avoid running negative cash balances, beginning with 2013.

Hurricane Sandy Shutters HHC Facilities. Bellevue Hospital Center, Coney Island Hospital, and the Coler campus of the Coler-Goldwater Specialty Hospital and Nursing Facility were particularly hard hit during Hurricane Sandy. All three facilities sustained major flooding and damage to their electrical systems,

The Health and Hospitals Corporation's Financial Plan
Dollars in millions

Preliminary Budget—Projected	2013	2014	2015	2016	2017
Total Operating Revenues	$7,433.3	$7,570.6	$7,734.9	$7,759.1	$7,673.0
Total Operating Expenses	7,980.4	8,085.1	8,340.4	8,568.5	8,806.9
Total Interest Income and Expense	(93.0)	(96.0)	(97.0)	(98.0)	(97.0)
Profit/(Loss) Before Other Changes in Net Assets	**$(640.1)**	**$(610.5)**	**$(702.6)**	**$(907.4)**	**$(1,230.9)**
Total Corrective Actions	183.1	691.3	987.9	1,075.2	1,100.2
Profit/(Loss) After Corrective Actions	**$(457.0)**	**$80.8**	**$285.3**	**$167.7**	**$(130.8)**
Prior Year Cash Balance	461.5	139.5	163.3	239.4	275.0
Accrual to Cash Adjustment	134.9	(57.0)	(209.1)	(132.2)	(131.2)
Closing Cash Balance	**$139.5**	**$163.3**	**$239.4**	**$275.0**	**$13.0**

SOURCE: Health and Hospitals Corporation
NOTE: Projections of operating revenues and expenses assume planned cuts to city funding for child health and developmental evaluation clinics and to HHC's unrestricted subsidy, which were restored in 2013, will be implemented in future years.
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causing the first two to undertake large scale evacuations of all their patients in the days after the storm. The hospitals corporation estimates their revenue losses from the full or partial closure of these facilities at about $15 million a week, or a total of $183 million in 2013. They are projecting an additional loss of $13 million in 2015, as the closures will affect future, lagged payments under Medicaid's Upper Payment Limit program.

Replacing Operating Revenues Lost to Hurricane. HHC is hoping to avoid hurricane-related loss of operating revenues by tapping supplemental federal reimbursements, although no specific funding has yet been secured. Since these revenue losses are not reimbursable by the Federal Emergency Management Agency under federal law, HHC is seeking to obtain funding for this purpose either through a Community Development Block Grant already awarded to New York State, or through a special request for additional Medicaid funds from the U.S. Centers for Medicare and Medicaid Services (CMS). (An earlier request to CMS made by the state in the days immediately after the storm was rejected.) HHC is also relying on the federal government to cover the lion's share of its Hurricane Sandy-related capital costs—currently estimated at $712 million. Since the corporation generally reimburses the city for capital spending incurred on its behalf, its budget could sustain an additional hit if most of these capital costs are not reimbursed by FEMA.

Developmental Centers' Medicaid Funding Cut. On the state budget side, the 30-day amendments to Governor Cuomo's Executive Budget for 2013-2014 contain $500 million in Medicaid spending reductions, some of which may impact HHC. These reductions, which were not included in the Governor's original Executive Budget proposal, are the result of a recent, highly critical federal audit of New York State's Medicaid program. This audit found that the rate-setting methodology New York uses to bill Medicaid for institutional care for the developmentally disabled is flawed and has resulted in significant federal overpayments for more than 20 years. CMS announced that it was moving forward to alter this methodology and reducing New York State's developmental centers' annual Medicaid reimbursements by $1.1 billion effective April 2013. In order to absorb the subsequent hit to the state's Medicaid budget, the Cuomo Administration in February 2013 identified $600 million in new federal revenues or investments and also proposed $500 million in spending reductions in the upcoming state fiscal year.[1]

The Cuomo Administration chose not to level these cuts solely against the developmental centers at the heart of the federal audit and instead the Governor's Executive Budget proposal spreads the $500 million reduction throughout the health care sector. Specifically, $120 million will come from a 6 percent reduction to Medicaid rates for not-for-profit providers serving the developmentally disabled, and another $200 million will come from using current year under-spending on Medicaid to prepay 2013-2014 expenses. Lastly, $180 million will come from accelerating various initiatives put forward by the Governor's Medicaid

Redesign Team and by delaying promised investments. It is this last category that may impact HHC, although a detailed provider-level impact analysis is not yet available.

One example of a change that may hurt HHC is the Governor's proposal to delay an additional investment in supportive housing, bringing the 2013-2014 allocation for this initiative down from $91 million to $79 million. (HHC needs supportive housing dollars from the state in order to move some of its higher-functioning nursing home patients into the community.) The impact on the corporation may also increase if the federal government decides to pursue back pay from the state, or if CMS holds up its decision on New York State's 1115 Medicaid waiver application while this issue is resolved. HHC is counting heavily on this waiver—worth $10.0 billion in additional Medicaid funds statewide—in order to balance its budget in 2014 and beyond.

Affordable Care Act Implementation—Patient Mix Changes. One of the primary goals of the Affordable Care Act was to increase the number of Americans with health insurance coverage. However, two proposals included in the Governor's Executive Budget for 2013-2014 and deemed necessary for ACA implementation could perversely result in some New Yorkers losing their health insurance coverage. Specifically, Governor Cuomo proposes to phase out two programs designed to provide low-cost health insurance coverage to low income adults: Family Health Plus and Healthy NY. Family Health Plus is technically part of the state's Medicaid program, but with a slightly less generous benefit package. It is offered to adults with income above the Medicaid limits, but less than either 101 percent or 151 percent of the federal poverty level (FPL), depending on whether they have children.[2] It requires no premium contributions or deductibles, but some services do require small co-pays. Healthy NY provides subsidized health insurance coverage through private insurance companies to small employers, sole proprietors, and working individuals and their families. The income eligibility limit for individuals is higher than that of Family Health Plus (up to 250 percent of FPL) and coverage requires substantially more cost-sharing, including monthly premium contributions.

Under the Governor's proposal, Healthy NY and Family Health Plus would be eliminated as of January 1, 2014 and January 1, 2015, respectively (with a gradual phase out for Family Health Plus). Individuals with income at or below 138 percent of FPL would be shifted into Medicaid, and those with income above 138 percent of FPL would be given the option to purchase coverage in the new medical insurance exchange instead, with premium subsidies available on a sliding scale. Since Family Health Plus is partially state funded and Healthy NY is fully state funded, shifting enrollees into the health care exchange, where premium subsidies are 100 percent federally funded, makes sense from a state budget perspective.

The downside, however, is that some people may end up losing coverage. There are two reasons for this. First, New York State's eligibility requirements for immigrants are generally more inclusive than those of the federal government. Second, even with the federal subsidies, health insurance products offered through the exchanges may be unaffordable, especially for people used to minimal cost-sharing. The Governor's Executive Budget does address this concern by proposing to cover costs that are in excess of existing requirements for individuals who were enrolled in Family Health Plus prior to January 1, 2014 and subsequently purchase coverage in the exchanges. However, no such supplementary funds are proposed for individuals formerly enrolled in Healthy NY.

If the elimination of Family Health Plus and Healthy NY does result in a significant number of individuals losing their health insurance coverage, this would have an indirect effect on HHC. The corporation provides the bulk of services to the city's uninsured and could see a rise in the number of uninsured patients they serve. Still, implementation of the Affordable Care Act is likely to result in more individuals with health insurance coverage in New York City. Medicaid eligibility limits will be slightly increased for childless adults and formerly uninsured individuals too well-off for Medicaid may now opt to purchase subsidized coverage in the exchange.

What the net effect of these changes will be on New York State in general, and on HHC specifically, depends to a large extent on the pricing of insurance products in the exchange and on whether newly insured patients opt to use HHC or one of the city's private hospitals. Changing coverage options for different categories of immigrants could also have a substantial impact on the corporation, which serves a large share of the city's low-income immigrant population. HHC has reported that 60 percent to 70 percent of their currently uninsured patients are undocumented immigrants.[3]

Affordable Care Act implementation—Medicaid and Medicare Cuts. The ongoing implementation of the Affordable Cart Act will also bring new cuts in the corporation's Medicaid and Medicare funding. As IBO reported last year, ACA is funded in part through reductions to the Disproportionate Share Hospital (DSH) program that are scheduled to go into effect on October 1, 2013. This program provides supplementary Medicaid payments to hospitals that serve a high proportion of Medicaid patients and the uninsured.

In New York State, federal DSH funds are disbursed to hospitals through direct intergovernmental transfers (with a 50 percent local funds match) and indirectly through the Indigent Care Pool. The city has used the DSH program extensively to leverage federal dollars to bolster its support of HHC. Although the ACA legislation specifies the total dollar amount by which federal DSH funding will be reduced nationwide, the Department of Health and Human Services has not yet determined how the nationwide reduction will be allocated among the states. The ultimate duration of the cuts, which were originally set to expire in federal fiscal year 2020, is also still uncertain. Two separate federal budget deals—the most recent of which averted the fiscal cliff in December 2012—have so far resulted in their extension to 2022.

The potential impacts of reductions in federal DSH payments on New York State and on HHC are substantial since both receive a comparatively large share of federal DSH money. In federal fiscal year 2012, New York State was allocated $1.6 billion in DSH funds, which was approximately 14.5 percent of the national total and was a larger allotment than any other state. In city fiscal year 2013, HHC projects that they will receive $409 million in federal DSH funds through intergovernmental transfers—around 24.5 percent of the projected state total—in addition to DSH money received through the Indigent Care Pool.[4] Assuming that HHC's DSH reductions are proportionate to the aggregate reductions, IBO estimates that the hospitals corporation would lose $16 million in federal funds in federal fiscal year 2014, increasing to a high of $166 million in federal fiscal year 2019. If the city's matching payments are also scaled back, these losses would double to $33 million and $332 million respectively. HHC's most recent financial plan assumes that the city will maintain its share of DSH payments despite the federal reductions. Although the city has not committed to maintaining its share of the DSH payments, funding for these payments is currently included in the financial plan.

While less significant from a budgetary perspective, the Affordable Care Act also contains a number of changes to Medicare payment methodologies that will further shrink patient revenues at HHC. For example, CMS rolled out two new policies late in calendar year 2012 tying Medicare reimbursements to quality of care. The first penalizes hospitals for excess readmissions, and the second grants hospitals either an additional penalty or a bonus based on their adherence to clinical standards of care and ratings on patient surveys. IBO's analysis of the likely impact of these two policies found that HHC's 11 acute care facilities will receive an average penalty of -1.11 percent of their Medicare reimbursements, compared with an average penalty of -0.98 percent for hospitals citywide.[5] In all, eight HHC hospitals will receive penalties greater than the citywide average. Based on the corporation's total

Estimated Reductions in Medicaid Disproportionate Share Hospital Payments
By federal fiscal year, dollars in millions

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Aggregate Federal Funds Reductions in Law	$500	$600	$600	$1,800	$5,000	$5,600	$4,000	$4,000	$4,000
Estimated Percent Change	4%	5%	5%	15%	40%	43%	30%	30%	29%
NYS's Estimated Loss of Federal Funds	73	87	87	261	725	812	580	580	580
HHC's Estimated Loss of Federal Funds	16	19	19	56	151	166	116	114	112

SOURCES: Congressional Budget Office; Mayor's Office of Management and Budget
NOTES: HHC's estimated Disproportionate Share Hospital losses exclude losses through the Indigent Care and related pools.
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inpatient Medicare reimbursements of $804 million in 2012 (including fee-for-service and managed care), these penalties will be relatively modest in 2013 and 2014. However, President Obama specifically mentioned tying Medicare payments to quality of care in his State of the Union speech—an indication that these types of initiatives could be ramped up in the future. Moreover, these cuts will occur on top an automatic 2.0 percent reduction in Medicare provider rates that is scheduled to go into effect on April 1 as part of the federal sequester.

Cumulative Impact on Cash Balances. With increasing pressure on HHC funding, HHC expects operating revenues to increase by only 3.2 percent by 2017, while operating expenses are on pace to increase by 10.4 percent. Including interest income and expense, HHC projects a loss of $640 million in 2013 increasing to $1.2 billion in 2017. The corporation is only able to end each year with a positive cash balance by drawing down cash reserves and by relying on an expanding number of corrective actions for which implementation is far from certain. As discussed above, these corrective actions include: federal reimbursement for revenue losses during Hurricane Sandy, additional Medicaid funds from the state's pending 1115 waiver, and the continuation of city funding for DSH. In addition, the Corporation's financial plan includes $105 million in savings in 2014 from unspecified restructuring and cost containment initiatives.

Staffing and Service Cuts Proposed for School Health

The Preliminary Budget reduces the Department of Health and Mental Hygiene's (DOHMH) 2014 city-funded head count by 115 full-time positions, or 3.4 percent of total positions in the 2013 Adopted Budget. Over a quarter of the proposed staff reductions will occur in the Bureau of School Health, where 21 full-time employees will be laid off and another eight positions will be lost via attrition.[6] In dollar terms, the budget of the Bureau of School Health is being cut by a total of $6.7 million in 2014, or 7.6 percent of its 2013 Adopted Budget.

The staff reductions are the result of three distinct Program to Eliminate the Gap (PEGs) proposals initially presented in the November 2012 Financial Plan. First, DOHMH is eliminating eight vacant positions in the Bureau of School Health's administrative offices. Second, the department is laying off its entire staff for the Condom Availability Program (10 full-time positions). The role of health department staff in this program has consisted mostly of oversight and the layoffs are not expected to impact condom distribution. Finally, DOHMH is laying off 11 employees in the Vision and Hearing Program, almost half of currently budgeted full-time staff.

Reduction in Vision Screening Services. In conjunction with these staffing reductions, the health department has proposed eliminating all vision screening services for students in kindergarten and first grade. Currently, the department provides roughly 200,000 screenings each year to children in these grades. DOHMH also provides vision screenings for children in the Department of Education's (DOE) universal pre-K program, and will continue to offer those services moving forward. However, the approximately 14.8 percent of New York City school children who do not attend universal pre-K would not have access to vision screening services until the third grade if this PEG were implemented in its present form. (DOE offers its own vision screenings to students in the third and fifth grades.) In percentage terms, this service reduction would amount to a 76.7 percent decrease in spending on vision and hearing screening services compared with the amount in the 2013 Adopted Budget.

At a March 7th City Council hearing on DOHMH's Preliminary Budget proposal, Commissioner Farley stated that the department would in fact continue to provide vision screenings for public and private school students. He asserted that DOHMH would work with DOE to identify an alternative proposal to achieve the same level of savings in the Bureau of School Health's budget, but provided no details of what this alternative would be.

More Cuts for School Based Health Centers. In addition to the reductions in staffing described above, the Preliminary Budget also proposes the elimination of city funding for four school-based health centers in 2014. The health center program as a whole is overseen by DOHMH and DOE, and individual centers are run by independent organizations such as local hospitals or community-based organizations. They generally operate in areas with limited access to health care and offer scheduled and walk-in primary and preventive care, first aid, and emergency care to students. Some centers also offer additional services

Proposed Reductions in the Bureau of School Health
Dollars in thousands

	2013				2014			2015		
	Full-Time Positions	City	State	Total	City	State	Total	City	State	Total
School Health PEGs	**(29)**	**$(194)**	**$(109)**	**$(303)**	**$(4,853)**	**$(1,877)**	**$(6,730)**	**$(5,326)**	**$(1,877)**	**$(7,203)**
School-Based Health Centers	-	(194)	(109)	(303)	(775)	(436)	(1,211)	(775)	(436)	(1,211)
School Health - Layoffs	(10)	-	-	-	(598)	(224)	(822)	(677)	(224)	(901)
School Health Efficiencies	(8)	-	-	-	(690)	(262)	(952)	(703)	(262)	(965)
School Health Vision Screening Program	(11)	-	-	-	(2,790)	(955)	(3,745)	(3,171)	(955)	(4,126)
City Council Restorations	**NA**	**130**	**73**	**203**	**-**	**-**	**-**	**-**	**-**	**-**
School-Based Health Centers	NA	130	73	203	-	-	-	-	-	-
Net Impact - Dollars	**(29)**	**$(64)**	**$(36)**	**$(100)**	**$(4,853)**	**$(1,877)**	**$(6,730)**	**$(5,326)**	**$(1,877)**	**$(7,203)**
Net Impact - Percent of 2013 Adopted Amount		**-0.1%**	**-0.1%**	**-0.1%**	**-10.3%**	**-5.4%**	**-7.6%**	**-11.4%**	**-5.4%**	**-8.1%**

SOURCE: Mayor's Office of Management and Budget
NOTES: Twenty-nine positions represent 14.5 percent of the Bureau of School Health's budgeted headcount in the 2013 Adopted Budget.
New York City Independent Budget Office

such as mental health care, reproductive services, optometry, and dental care. There are currently 126 school-based health centers throughout the city, but only 10 of these receive baselined city funding through either DOHMH or the Center for Economic Opportunity. Another is funded with one-year funding through the City Council, and the rest operate exclusively with Medicaid reimbursements and other revenues.

In the 2012 Adopted Budget, the health department eliminated city funding for two school-based health centers, which also resulted in the loss of state matching funds. In the November 2012 Financial Plan, DOHMH proposed extending this funding cut to four more centers, with the withdrawal of funds set for partway through 2013. In the Preliminary Budget, however, approximately two-thirds of these centers' 2013 funding was restored, although no adjustment was made for 2014.

Under this latest proposal, all four centers will receive partial City Council funding in 2013, and then lose all city funding in 2014. In percentage terms, this action will result in a 44.9 percent decrease in spending on school-based health centers in 2014 compared with the amount in the 2013 Adopted Budget. In service terms, this will bring the total number of city-funded school-based health centers to just seven, down from 13 in 2011. (If the one-year Council funding is not renewed, this number will fall to six.) Of the six centers with baselined city funding for 2014, three are located in the Bronx, one in Manhattan, one in Queens, and one in Staten Island. The center with one-year Council funding is located in Manhattan, and the four centers losing funding under this proposal are located in Manhattan, Brooklyn (two centers), and the Bronx.

After Four Years of Increases, Public Assistance Spending Declines

In 2012, spending on cash assistance including the basic grant and rent subsidies totaled $1.4 billion, a decrease of 9.1 percent from the previous year. The Preliminary Budget projects that total grant spending will decline by another 7.1 percent in 2013, before leveling off in 2014 and in the later years of the financial plan. The decreases last year and this year represent a significant break from the prior trend; from 2007 through 2011 total public assistance spending rose by nearly 30 percent.

Changes in the cash assistance caseload have had only a limited impact on the trends in grant spending. The recent economic downturn led to only a modest increase in the number of public assistance recipients in the city. As the local economy slowed, the welfare rolls rose from 334,000 in September 2008 to 358,000 in December 2009, an increase of 7.1 percent. Since then the caseload has been largely stable, although the number of recipients increased from 354,000 in November 2012 to 363,000 in December 2012 and to 365,000 in January 2013. The recent uptick could reflect—at least in part— the impact of Hurricane Sandy, which resulted in the temporary closing of some hospitals and other institutions that employ significant numbers of low-income workers.

Rather than swings in caseload, the pattern of increasing grant spending through 2011 followed more recently by grant spending declines reflects in large part two decisions made by state officials. The first decision was to gradually increase the size of the basic grant, resulting in a multiyear increase in grant spending; this process has now been completed and is no longer driving up spending. The second decision was to end state and federal funding for the Advantage Rental Assistance program, resulting in the elimination of rent subsidy payments to formerly homeless clients and therefore less spending on grants.

Basic Grant Increase. The bulk of welfare expenditures are for the traditional cash assistance program, which provides eligible recipients with a basic grant to cover general expenses such as food and clothing, and specific grants to cover shelter and utility costs. A major factor which had been contributing to increased public assistance spending from the middle of calendar year 2009 through late 2012 was the state's decision to increase the size of the basic grant after leaving it frozen for nearly two decades. The state increased the value of the grant by 10.0 percent in July 2009 and an additional 10.0 percent in July 2010. Each of these increases added about $40 million annually to total grant spending in the city. A final 10.0 percent increase was scheduled for July 2011, but in an effort to limit state spending the 2011-2012 adopted state budget delayed this increase until July 2012. The 2012-2013 state budget further delayed the final round of increases, with half occurring in July 2012 and the other half in October 2012. No additional increases are scheduled and the Governor's Executive Budget, released in January 2013, does not propose any.

In order to limit the impact of this mandated increase on local budgets (in New York State localities share with the state the cost of public assistance not covered by federal dollars), the state agreed to use state and federal funds to cover the local share of the incremental costs attributable to the higher grants through March 31, 2012. After that point, however, the city—and the other counties across the state—became responsible for its normal share of the costs, adding significantly to the city's welfare expenditures. As a result, the rise in the basic grant increased the city's share of total grant spending by about $12 million in 2012 and about $50 million a year from 2013 on.

Rent Subsidies. While the leveling off of the basic grant removed a major factor driving up grant spending, the decrease in spending in 2012 and 2013 reflects the elimination of the Advantage Rental Assistance program; the expansion of the program had contributed to the growth in grant spending prior to 2012. The short-lived program, which for a few years provided rent subsidies for up to 24 months to families and individuals moving out of the city's shelter system, had been a major factor driving public assistance cost increases. The program was administered by the Department of Homeless Services, although the rent subsidies were paid from the cash assistance budget at the Human Resources Administration. While the Advantage program was initiated by the city in 2007, its approval by the state made the program eligible for state and federal support. At its peak, the city was responsible for about a third of the program's costs, with federal and state funding accounting for the rest.

The Advantage program emerged as a key component of the city's strategy for reducing homelessness. But the cost of the program grew rapidly, from $54 million in 2008 to about $210 million in 2010 and 2011, with the city, state, and federal government sharing in the cost. Looking to constrain state spending, state officials eliminated all state and federal funding for Advantage in the budget adopted for the 2011-2012 state fiscal year. The cutback meant the elimination of over $130 million a year in state and federal funding for the program beginning in April 2011, additional costs the city was unwilling to cover.

In response the city began shutting down the program, a process that was completed in January 2012. The city's termination of the Advantage program eliminated its share of the program costs, although it has contributed to rising costs in the city's shelter system (see page 36).

Public Assistance Funding Shift. While total cash assistance spending— including city, state, and federal funds— is expected to continue to decrease in 2013, another recent state action will limit the city's savings. The state legislation that implemented the 1996 federal welfare law for New York established different funding formulas for New York's cash assistance programs: the Family Assistance program for families with minor children was funded with 50 percent federal funds, 25 percent state funds, and 25 percent local funds, while the Safety Net programs for single adults and for families who have used up their five year federal limit on assistance were funded with 50 percent state and 50 percent local funds. The 2011-2012 state budget, however, included what was identified as a one year funding switch: Family Assistance would be funded with 100 percent federal funds, and Safety Net would be funded as 29 percent state and 71 percent local. But rather than reverting to the prior shares after 2011-2012, the state's 2012-2013 budget made these new funding formulas permanent. Based on the present makeup of the caseload, this funding switch will continue to cost the city nearly $40 million a year.

TANF Funds. Under the 1996 federal welfare law, New York State receives about $2.4 billion in Temporary Assistance for Needy Families (TANF) block grant funds each year. These funds are used to pay for the federal share of Family Assistance grants, with the remainder available to pay for other programs aimed at helping low-income New Yorkers, referred to as TANF initiatives. These TANF initiatives have at various times included funding for child care, employment training, the state's Earned Income Tax Credit, and other social programs. With the size of the block grant frozen at its 1996 level, however, its inflation-adjusted value has decreased over the years by nearly 40 percent. In addition, the state's new cash assistance funding formulas mean that a greater portion of the TANF block grant is needed to fund grant costs. As a result, these TANF initiatives are competing for a shrinking pool of resources.

Although the long-term trend is one of decreasing availability of TANF funds for initiatives other than grants, the Governor's 2013-2014 Executive Budget projects a modest increase in funds for TANF initiatives compared with the current year, resulting from a slight reduction in the statewide Family Assistance caseload. Under the proposed budget nearly all of the available funds would be allocated to two major long-standing initiatives: the Flexible Fund for Family Services block grant to local governments, and the TANF contribution to the Child Care Block Grant (CCBG). While the flexible fund block grant would remain at $964 million, the annual TANF allocation to the Child Care Block Grant would increase from $324 million to $395 million. The Governor's Executive Budget proposes to use the additional $71 million in federal funds to replace an equal amount of state funds in the CCBG (the reverse of a year ago when these state funds were used to make up for a shortfall in TANF funds). The proposed action would reduce state spending while holding the CCBG flat. There would be no impact on the city's CCBG allocation.

Summer Youth Employment. Over the years, the city's Summer Youth Employment Program (SYEP) has relied on TANF for a significant portion of its funding. In the summer of 2009, the peak year, SYEP received $20 million in TANF funds as part of a $67 million budget that enabled 52,000 youth to participate in the program. Since then, reductions in TANF and other funding streams have resulted in a smaller program. Last summer, for the second year in a row, no TANF funds were allocated for SYEP. Instead, the program received $14 million in state funds as part of a $43 million budget that enabled the program to enroll about 29,000 youth. At present, the expected budget for this coming summer is $39 million, including $14 million in TANF funds proposed in the Governor's Executive Budget to replace the same amount of state funds, $21 million in city funds allocated in the city's Preliminary Budget, and small amounts of other federal funding streams. Although the expected budget is $4 million less than last year, the program is expected to once again be able to serve about 29,000 youth, due to changes in the program design that will result in a lower cost per participant.

Child Care Capacity Would Decrease Without Additional Funds

The Administration for Children's Services (ACS) administers the largest municipal child care system in the country, providing subsidies for almost 96,000 children in 2012. Services are provided to two groups based upon eligibility: public assistance families participating in work or training programs and low-income working families. In addition to providing subsidized child care options, ACS sponsors Head Start centers throughout the city as the recipient of a federal Head Start grant. These centers offer early childhood care and education programs to eligible children ages 3 and 4 from very low-income working families. Over 18,000 children were enrolled in Head Start citywide in 2012.

In October 2012, the Bloomberg Administration implemented a new program at ACS called EarlyLearn NYC, which blends together subsidized child care provided through contracts with the city and the Head Start program. In its original incarnation, EarlyLearn was expected to serve 15 percent fewer children in 2013 than had been cared for in the programs that EarlyLearn replaced. Additional funding provided by the Bloomberg Administration during last spring's budget process increased the program's capacity and funding beyond the original plans for 2013 and in the remaining years of the financial plan. Moreover, the City Council further augmented capacity by adding over $44 million to provide an additional 4,900 slots in child care programs under contract with the city, although this funding was only for one year. (These Council-funded slots are not technically part of the EarlyLearn program because they were not awarded based on the Request for Proposals process.) Because the slots funded by the City Council were a one-time addition, the Mayor's Preliminary Budget assumes that the contracted child care system will serve 4,900 fewer children in 2014 compared with the system's capacity in 2013.

Funding Needed in 2014 to Maintain 2013 Capacity
Dollars in thousands

Child Care Program	Slots	Funding
Restore Council Discretionary Funds For Contracted Child Care (Full Year Value of 2013 Addition)	4,919	$59,259
Restore Council Discretionary Funds For School-Age Vouchers	4,400	12,100
Restore Low-Income Vouchers Reduced by November 2012 PEG	N.A.	5,287
TOTAL	**9,319**	**$76,646**

SOURCE: Mayor's Office of Management and Budget; New York City Council Finance Division
NOTE: N.A. denotes not available.
New York City Independent Budget Office

The Mayor's Preliminary Budget projects a reduction in city funding for child care of 22 percent, from $307 million in 2013 to $240 million in 2014. Nearly 84 percent of this $67 million reduction results from the disappearance of the one-year discretionary funding added by the City Council when it adopted the 2013 budget. These funds provided additional contracted child care slots and after-school vouchers for a total cost of $57 million.

Another component of the projected decline is a proposed reduction included in the November 2012 Financial Plan that would reduce the number of low-income vouchers granted to children who have completed a one year transitional period following their time on public assistance. Traditionally, these children have been guaranteed vouchers for child care; however, the cut eliminates that guarantee and grants the child a slot in a contracted child care facility only if one is available. If a slot is not available, the child will be placed on a waiting list—effectively leaving the child without subsidized care. This cut would save $5.3 million in 2014.

For some time, a considerable portion of child care funding has been allocated on a one-year basis creating an annual threat to the size of the system, and 2013 continued that trend. Since the Preliminary Budget included no actions to extend discretionary funding that was added for 2013 or to reverse previously scheduled cuts, the child care program is once again reliant on restorations to the financial plan to avoid or minimize losses in capacity. This year the amount needed has grown. Significantly, the discretionary funding added by the City Council to provide more contracted child care slots in 2013 was for three quarters of a year only. Therefore, approximately $59 million would be needed in 2014 to restore the same number of contracted child care slots for a full year. Adding that figure to the $12 million required to restore school-age vouchers and the $5.3 million necessary to restore low-income vouchers, the total amount needed in 2014 to maintain 2013 capacity comes to $77 million. If Council discretionary funding is not provided, at least 9,300 children will lose service in 2014; and many more children will lose low-income vouchers if the November Plan reduction is not restored.

After-School & Other Youth Programs Face Large Cutbacks

The Mayor's Preliminary Budget for 2014 includes significant funding reductions to some core programs at the Department of Youth and Community Development (DYCD), including the Out-of-School Time (OST), Beacon, and Runaway and Homeless Youth (RHY) programs. The 2013 Adopted Budget included over $68 million in one-year funding for DYCD programs; the Preliminary Budget includes no actions to extend this funding for 2014. In addition, the November 2012 Financial Plan included new cuts that would further reduce after-school services if they are implemented as planned.

Out-of-School Time. The department's OST program provides activities for school-age youth during after-school hours, on weekends, and during school vacations. OST programs are offered at no cost to participants and provide a mix of academics, recreational activities, and cultural experiences for elementary, middle school, and high school students. OST service providers operate mostly in public school buildings and in facilities of the parks department and the New York City Housing Authority.

Under the Preliminary Budget, total spending on OST in 2014 would be $87 million, down $35 million from 2013. The November 2012 Financial Plan proposed a $10 million reduction to OST programs beginning in 2014; this cut would reduce the number of OST slots by 5,316. The Preliminary Budget reflects the November plan cut and assumes that the $51 million that was added for OST by the City Council as part of the 2013 Adopted Budget will not be available in 2014 or later years. Unless these funds are added to the 2014 budget, OST capacity will be significantly reduced as the Council funds covered nearly 30,000 slots.

The Governor's executive Budget includes a proposal to merge Youth Delinquency & Development Program (YDDP) and Special Development Prevention Program (SDPP) funds into one pot of money, known as Youth Development Services. DYCD typically gets YDDP money and uses it for OST; it does not receive any SDPP funds. Last year the department received nearly $4.0 million in YDDP funding. The state proposal gives municipalities more "flexibility" on how these funds can be used; this has led to concern among advocates that DYCD could choose to use these funds for other youth development services. However, the Bloomberg Administration has stated that they do not anticipate any significant reduction in state funds for OST in the 2014 budget.

Beacons. DYCD supports 80 Beacon community centers located in public schools. These centers operate six days a week (42 hours) in afternoons and evenings, including weekends, school holidays, and during the summer. Beacons provide a range of activities for young people and adults, such as tutoring, college prep, basketball, martial arts, general

Out-of-School Time Capacity Significantly Reduced for 2014
Dollars in thousands

Fiscal Year	2012	2013	Proposed 2014		2012	2013	2013 Slots Funded By Council	Proposed 2014
Total Budget	**$96,190**	**$121,422**	**$86,511**	**Total Slots**	**52,567**	**56,498**	**29,691**	**21,491**
City	90,797	117,507	82,748	Elementary	36,033	37,419	21,947	12,179
Council Share Of City Funding	12,000	50,600	N.A.	Middle	9,325	13,205	3,702	7,480
State	4,525	3,914	3,762	High School	1,832	1,832	-	1,832
Federal	62	-	-	Option II	4,152	4,042	4,042	-
				Option III	1,225	-	-	

SOURCE: Department of Youth and Community Development
NOTE: N.A denotes not available. Options II and III slots existed under a prior version of the program.
New York City Independent Budget Office

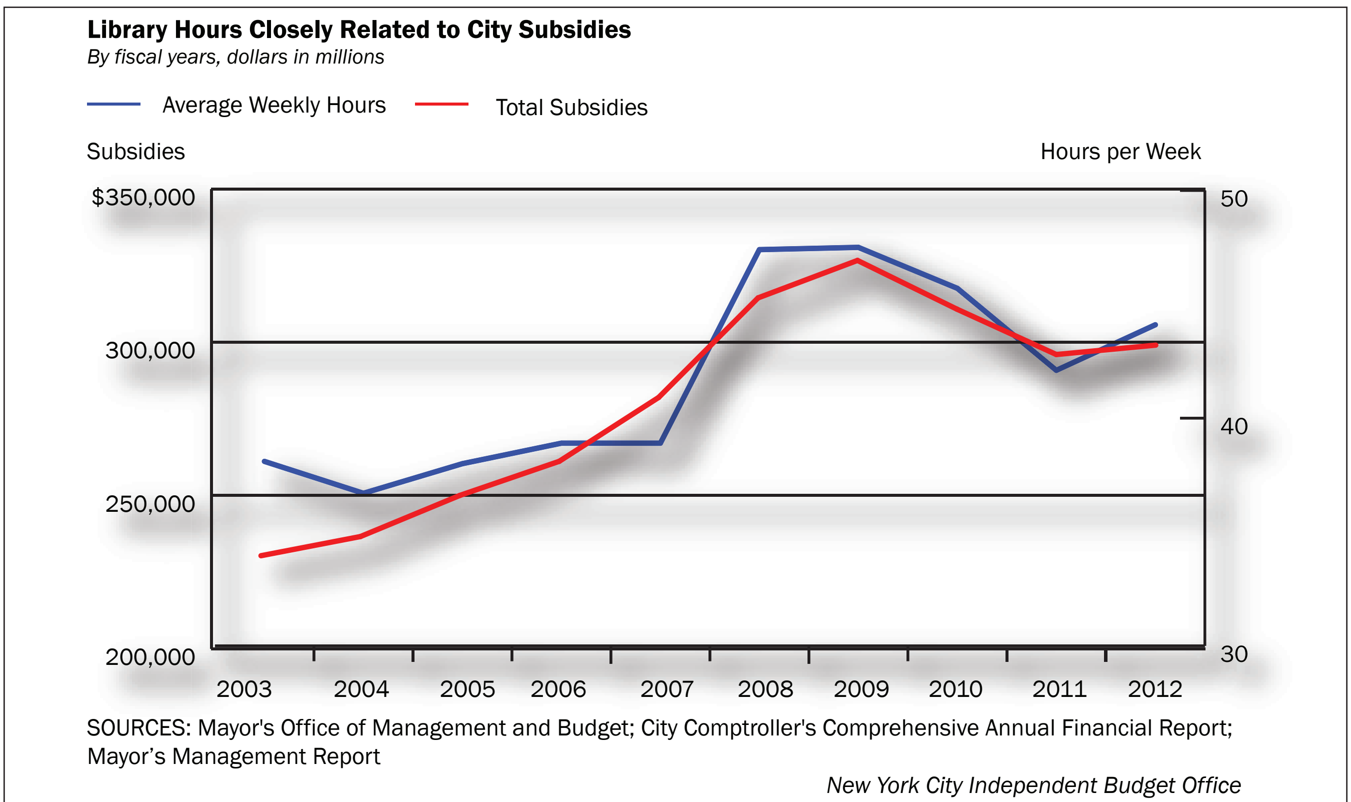
equivalency diploma training, and English for Speakers of Other Languages programs.

Under the Preliminary Budget, various changes would leave spending on Beacons in 2014 at $43 million, down $5.4 million from 2013, and $7.1 million from 2012. The 2013 Adopted Budget included a City Council restoration of $4.4 million that prevented two proposed cuts. One restoration added $2.1 million to prevent the elimination of seven Beacon programs in regions identified by DYCD as being low need and another added $2.3 million to restore a reduction in services to the 66 city-funded Beacons. Barring a new round of restorations, these two cuts would be implemented beginning this July.

Runaway and Homeless Youth. The department's Runaway and Homeless Youth program offers services to homeless youth and works whenever possible to reunite them with their families. Services provided include: street outreach, crisis shelters, drop-in centers, and transitional independent living facilities. Under the Preliminary Budget, planned 2014 spending for RHY is $5.4 million, about $7.3 million less than 2013. As part of an earlier round of budget cutting, the November 2010 Financial Plan included proposals to eliminate the city's street outreach contracts and reduce the level of funding for the drop-in centers for a savings of about $330,000; these funds were restored on a one-year basis in the 2012 Adopted Budget and then again for the 2013 Adopted Budget. The 2013 Adopted Budget also included a $6.8 million one-year extension of a City Council initiative to fund youth shelters (77 shelter beds and 82 Transitional Independent Living beds); this restoration made up a little over half of the agency's total RHY budget. Unless these funds are added to the 2014 budget, services for homeless youth would be significantly reduced from current levels.

Once Again Library Subsidies Facing Deep Cuts

New York City provides support for general operating and energy costs in the form of a subsidy payment to each of the city's three public library systems: the New York Public Library (NYPL), which operates branch libraries in Manhattan, the Bronx, and Staten Island; the Brooklyn Public Library; and the Queens Borough Public Library. The city also provides a separate funding stream for the New York Research Libraries which are housed within the NYPL system. Each system has extensive autonomy in deciding how to budget these funds.
Since November 2008 library subsidies have been



reduced in nine different financial plans. Each year when the budget was adopted the libraries received a partial restoration of the subsidy for the new fiscal year, offsetting some of the cuts scheduled in earlier financial plans. This past June, the Mayor and the City Council restored funding to avoid an $90 million cut in library subsidies, resulting in a modest 1.2 percent decrease in library funding levels from 2012 to 2013. (Allocations have been adjusted to reflect prepayments.) The 2014 Preliminary Budget proposes total funding of $193 million for the public library system, a decrease of $102 million, or 34.6 percent from 2013. This decrease reflects the fact that, as usual, last spring's restorations were limited to 2013 only, and additional reductions—scheduled to take effect this July —were included in the November 2012 Financial Plan.

In the 2008 Adopted Budget, amid frustration with the routine of budget cutting followed by restorations, the Mayor and the City Council agreed to permanently add funding to the libraries' baseline subsidies to ensure that all branches could provide full six-day service. A few years later, with the city's budget situation deteriorating in the face of the 2008-2009 recession, a broad array of cuts to public services were proposed, including the library subsidies. Traditionally cuts to library subsidies have been partially restored at adoption each year; however, those previously implemented reductions have made it difficult to fulfill the agreement to provide six day service.

As a result of continued cuts, libraries have been forced to reduce service hours and staff. For example, as part of the November 2012 Financial Plan the Bloomberg Administration proposed a 3.4 percent reduction in operating subsidies for 2013 (the current fiscal year), which grows to an 8.0 percent reduction in 2014 and beyond. More than half of the 2013 cut was subsequently restored in the Preliminary Budget; however, the full 8.0 percent reduction remains in the plan for 2014. This reduction is expected to result in lower service levels systemwide. Even if the $90 million that was restored for 2013 is restored again for 2014, the libraries are still facing a year-to-year decrease of 4.3 percent or $13 million. As such, the Bloomberg Administration is forecasting a reduction in average service from 5.9 days to 5.6 days per week for the New York Public Library, from 5.5 days to 5.2 days per week for the Brooklyn Public Library and from 5.4 days to 5.1 days per week for the Queens Borough Public Library. If additional funds are not provided, the service reductions at library branches would likely be far greater.

Cultural Programs Increasingly Dependent On Adopted Budget Restorations

The Department of Cultural Affairs (DCA) offers two categories of operating support to cultural organizations in New York City. The department provides subsidies to the Cultural Institutions Group (CIG), 34 organizations housed within city-owned property, ranging from large, world renowned institutions such as the Metropolitan Museum of Art, to small organizations which primarily serve local communities like the Queens Theater in the Park.

Restorations and Additions to the Cultural Affairs Budget
City funds only, dollars in thousands

Fiscal Year	2009	2010	2011	2012	2013
Executive Budget	**$142,558**	**$ 130,513**	**$109,547**	**$100,065**	**$102,377**
Mayoral Restorations	-	-	6,400	13,451	40,000
Council Restorations	5,000	19,499	25,933	29,548	6,000
Council Initiatives	800	5,900	4,780	5,800	5,800
Council Member Items	2,657	2,436	2,856	3,097	3,207
Other Adjustments	1,558	-	-	(6)	(1,764)
Adopted Budget	**$152,573**	**158,348**	**$149,516**	**$151,955**	**$155,620**
Total Restorations & Additions	8,457	27,835	39,969	51,896	55,007
Restorations & Additions Year-to-Year Percentage Increase		229.1%	43.6%	29.8%	6.0%

SOURCE: Mayor's Office of Management and Budget
NOTE: The Other Adjustments category reflects adjustments made at budget adoption such as collective bargaining agreements, changes to the cost of heat, light, and power, and additions for specific institutions.

New York City Independent Budget Office

For organizations not operating out of city-owned property, the Cultural Programs Unit distributes Cultural Development Fund (CDF) grants to more than 850 nonprofit arts and cultural organizations offering citywide and community-based programs.

Although no new cuts to cultural subsidies were included in the Mayor's Preliminary Budget, city funding for cultural organizations is slated to fall by 38.7 percent between 2013 and 2014, from $150 million to $92 million, due to reductions already incorporated into the city's financial plan. The drop in funding is the result of three factors:

- Recurring cuts to the cultural budget scheduled for 2013 and beyond were avoided for one year only (2013) when the Mayor and the City Council restored funding at budget adoption last spring, leaving in place cuts slated to take effect beginning in 2014;

- Council initiatives and member items totaling $9.0 million were added only for this year when the 2013 budget was adopted; and

- The November 2012 Financial Plan introduced an additional cut in cultural subsidies of 5.4 percent ($8.5 million) in 2013 and 8.0 percent ($8.1 million) in 2014 and beyond.

The 2013 cut was reduced to $6.0 million in the Mayor's Preliminary Budget, which also included some small other adjustments; however, the 2014 cut remains unchanged at $8.1 million.

The November Plan reductions would primarily affect the operating budgets of the CIGs, with a smaller impact on Cultural Development Fund grants. If all of the reductions reflected in the Preliminary Budget remain in effect when the 2014 budget is adopted and the City Council does not provide new money for their own initiatives and member items, the CIGs face a decrease in funding of $36 million (32.8 percent), while CDF grant funding would be reduced by $22 million (61.0 percent).

Subsidy Reductions. Having a large year-over-year drop in the cultural subsidies budgets in the city's financial plan is nothing new. But the size of the restoration needed has been growing, making it more of a challenge each year to prevent significant cutbacks. Since November 2008, DCA subsidies have been reduced in nine different financial plans. Each year when the budget is adopted, however, the City Council and the Mayor act to mitigate the impact on cultural institutions by at least partially restoring subsidies for the new fiscal year. For 2013, the Mayor and the City Council restored $46 million in subsidies and the City Council provided an additional $9.0 million for initiatives and member items, bringing the total restorations and additions to just over $55 million for 2013.

While it has become common practice for Mayors to propose cuts to cultural programming only to agree to restorations at adoption, the magnitude of these reductions and restorations has increased over time. The total amount of restorations and additions to the DCA budget has increased steadily from $8.5 million in the 2009 Adopted Budget to $55.0 million in 2013. This increase has made it increasingly difficult to find enough funds to maintain current levels of cultural subsidies. It also adds to the uncertainties faced by the organizations that depend on these funds.

Solid Waste Management Plan Implementation Moving Forward

The Department of Sanitation (DSNY) is moving forward with the implementation of two key components of the city's Solid Waste Management Plan (SWMP). Although delayed several years from the initial completion dates, progress is being made in the conversion of four city-owned marine transfer stations. Additionally, a series of new recycling and waste reduction initiatives has been added to the budget in an effort to divert more of the city's solid waste from landfills.

Marine Transfer Station Construction Moving Forward. In 2006, the city and state approved a 20-year Solid Waste Management Plan for New York City with the goal of creating a "cost-effective, reliable, and environmentally sound system for managing the city's waste." A major component of the SWMP is the conversion of four city-owned marine transfer stations (MTS) to shift export of the city's waste primarily from trucks to barge and rail and to allocate responsibility for the city's waste equitably throughout each of the five boroughs. Delays in securing permits have pushed back the completion of all four stations, originally expected for 2010. (A city-owned transfer station in Staten Island began operations in 2007 via a rail link).

Conversion is moving forward, with two of the stations nearing completion and the other two about to begin construction, for a total planned cost of $748 million. The North Shore MTS in Queens is expected to be completed in July 2013, with $194 million committed through 2012 and an additional $2.4 million planned for this year. Similarly, $173 million has been committed through 2012 for the Hamilton Avenue MTS in Brooklyn, with an additional $500,000 planned in 2013; it is expected to be completed in September 2013. DSNY recently awarded a contract of $182 million to Skanska for construction of the East 91st Street MTS in Manhattan. An additional $24 million is planned for this project and DSNY expects it to be completed during 2016. Lastly, $164 million, including a $55 million increase in the January 2014 Capital Commitment Plan to reflect the actual construction bids and consultant change orders, is planned for the Southwest Brooklyn MTS in 2013. It is expected to be completed in 2017.

While there is progress, new delays could arise, particularly at the East 91st Street MTS where there has been strong opposition from neighborhood residents and elected officials. Although the city is beginning construction of this MTS, lawsuits were filed recently by City Council Member Jessica Lappin, State Assembly Member Micah Kellner, and U.S. Congresswoman Carolyn Maloney against the Army Corp of Engineers and the city with the goal of having the project abandoned. The upcoming Mayoral election could also affect the outcome of the East 91st Street MTS. At a recent candidate forum, four of the five participating mayoral candidates expressed a willingness to reconsider the station's location.

Short-term Savings Resulted from MTS Construction Delay. The delays in MTS construction have led to short-term savings in DSNY's expense budget, both for waste export costs and staff at the new facilities. As planned in the SWMP, DSNY will enter into 20-year contracts with private exporters to ship waste out of the city once the transfer stations are completed. Implementation of these long-term contracts is on hold until individual marine transfer stations become operational and the city continues to use short-term contracts for truck-based export for the waste that will eventually be handled at the new facilities. According to the Bloomberg Administration, short-term contracts are less expensive than long-term contracts because the latter usually involve greater hauling distances. Since long-term contracts set adjustments for certain costs—such as salaries and energy costs—over a longer time frame, contractors take on more market risk and require greater compensation than short-term contracts. This delay in switching to long-term contracts, as well as lower than expected waste tonnage in recent years, has reduced the 2014 waste export budget by $57 million.

Additionally, the construction delay has postponed the need to staff the new stations, decreasing the 2014 budget by $19 million from what was planned in June 2012. DSNY is budgeting for operations at the new transfer stations, with $2.5 million planned in 2013, $7.5 million planned in 2014, and $18 million planned for 2015 and 2016.

Expansion of Recycling and Waste Prevention Programs. In his most recent State of the City speech, Mayor Bloomberg announced a series of new recycling and waste reduction initiatives and a goal of diverting 30 percent of residential waste from landfills by 2017. Meeting this goal would mean doubling the city's current residential recycling rate, which was only 15 percent in 2012.

These new initiatives coincide with the near completion of the Sims Municipal Recycling Facility, located at the city-owned South Brooklyn Marine Terminal. This facility—a joint project of DSNY, the Department of Small Business Services, the New York City Economic Development Corporation, and Sims Metal Management—is scheduled to open this summer and will process the majority of the city's metal, glass, and plastic recyclables.

To help inform waste prevention and recycling efforts, DSNY is updating its Waste Characterization Study, which was last conducted in 2005. This study will provide a comprehensive look at the amount and composition of the city's residential waste stream. Specific attention will be paid to the different types of rigid plastic in the waste stream and the feasibility of recycling those that are currently not recycled once the Sims Municipal Recycling Facility opens. Sims is splitting the costs of this study with the city, with the city budgeting about $700,000 for the study this year.

The five recycling and waste reduction initiatives that were announced will increase city spending in this area by $2.4 million in 2013 (a 6.6 percent jump in the total Waste Prevention, Reuse, and Recycling division budget since June 2012), $6.7 million in 2014, $2.2 million in 2015 and $1.0 million in 2016. (Installations of new public recycling bins comprise a majority of the total cost increases in 2014 and 2015). The increases that specifically address recycling include additional outreach for all of DSNY's recycling efforts, two new staff specifically focused on recycling, and the placement and management of new recycling receptacles (including separate paper and metal/glass/plastic bins) in public spaces such as parks and busy intersections. The city is also beginning to address food waste as a separate waste stream to be composted or used for energy production rather than be sent to landfills. A pilot program will be launched in the spring of 2013 to provide curbside collection of organic waste from single-family homes in Staten Island; it will be expanded throughout the city if successful. A separate pilot program established this year will collect organic waste from selected high-rise apartment buildings in Manhattan. Additionally, the city is expanding a food waste collection program from eight schools to approximately 90 schools and institutions.

Department of Parks and Recreation Staff to Increase

A five-year effort to reduce spending on personnel at the Department of Parks and Recreation (DPR) through hiring freezes and attrition may come to an end this fiscal year. The latest agencywide initiative to reduce staff was the Attrition Incentive Program, which was reintroduced in the November 2011 Financial Plan and projected to achieve savings of over $15 million a year starting in 2013. (For more on the parks department's previous efforts to cut spending on personnel, see IBO's Analysis of the Mayor's Preliminary Budget for 2013.) With only 136 employees signing up for the program, fewer than half the target of 330, the department now expects the initiative to save $6.5 million a year. Reversing course, the Preliminary Budget proposal for 2014 adds funding for 414 new parks staff, at an estimated cost of $26 million next year. However, $18 million in other cuts that were restored for 2013 are still not funded for 2014 and beyond, primarily for the Job Training Program that would be cut in half in 2014 without additional funds.

Attrition Incentive Program Restoration. The parks department reintroduced the Attrition Incentive Program for 330 employees in the November 2011 Financial Plan. The program was one of two replacement programs for a proposal to lay off 465 employees. Employees who signed up for the attrition program left full-time employment at the agency in exchange for six-month seasonal positions for up to three years.

Based on the assumption that 330 employees would sign up for the Attrition Incentive Program, the city expected savings of $15 million in 2013 and $16 million in 2014 and beyond. Fully implemented, the program would have reduced full-time staff at DPR by 10 percent.

Only 136 employees had signed up by the December 31, 2011 deadline. Since participation in the program did not meet targets, when the 2013 budget was adopted, the parks department reduced expected savings for this year by $9.2 million but left the full savings in 2014 and beyond. In the 2014 Preliminary Budget, expected DPR savings were reduced by $9.3 million in 2014 and by $9.6 million in each of the following years. The savings generated by the employees who did sign up for the attrition incentive program are estimated at $6.5 million a year.

Ramping Up Maintenance & Operation Staffing. While the parks department recognized that the staff reductions they proposed were not succeeding, they also recognized a need to counteract some of the recent staffing reductions at the department by adding city funding for new staff. The parks department is ramping up with 414 new full-time parks employees in the Maintenance and Operations unit by 2014—an increase is unrelated to the impact of Hurricane Sandy.

Hiring is expected to begin midyear with a cost of $6.6 million in 2013, rising to $26 million a year beginning in 2014. The cost of new hiring increases the department's expenditures and is not offset by cuts elsewhere in the department's budget.

Currently, Maintenance and Operations is budgeted for 2,295 full-time employees and the new staff will be an 18 percent increase. The Bloomberg Administration plans to hire 207 park workers to assist in park maintenance, 96 maintenance and trades workers, and technicians to maintain play and mechanical equipment, 81 parks enforcement patrol officers, and 30 tree climbers and pruners.

Proposed Police Officer Staffing To Remain Level Next Year, Authorized Civilian Positions to Decline

Under the Mayor's Preliminary Budget for 2014, authorized uniformed staffing in the police department (NYPD) would remain at the current level of 34,483. Police officer staffing has been relatively stable in recent years after declining sharply from a peak of 40,285 in June 2000.

Meanwhile, authorized full-time civilian staffing within the NYPD would decline by 160 positions next year, from 14,421 this year to 14,261. This comes after a drop in civilian staffing since fiscal year 2009, when the NYPD employed over 15,000 full-time civilian personnel.

Using police officers to perform administrative or other support functions rather than civilians can achieve budgetary savings by reducing the number of civilian positions required in the department, but at the cost of reducing police officers' availability for direct law enforcement activities. In a recent report to the City Council, the police department acknowledged that as of September 2012 there were 530 "full duty" police officers performing tasks that could instead be performed by less costly civilian personnel, thereby enhancing the department's law enforcement capacity.

Proposed Decline in 2014 Authorized Civilian Staffing in the Police Department

Actual				Proposed	
2009	2010	2011	2012	2013	2014
15,034	14,646	14,527	14,238	14,421	14,261

SOURCE: Mayor's Office of Management and Budget
NOTES: Figures above are either actual or proposed end-of-year (June 30) full-time staffing levels.
New York City Independent Budget Office

Twenty Fire Companies Once Again Scheduled for Elimination

Under the Mayor's Preliminary Budget for 2014, a total of 20 fire department (FDNY) companies would be taken out of service next year, with the firefighters currently assigned to those companies redeployed to other assignments. (A fire company refers to a group of firefighters assigned to staff a fire truck on a daily, around-the-clock basis.) Eliminating 20 companies would reduce the number of engine and ladder companies available for service by roughly 6 percent.

Although the Mayor had proposed that the companies be deactivated for the current fiscal year, $44 million in funding was restored to the agency's budget by the City Council when the budget for this year was approved last June, forestalling the reduction for at least one year. This marked the fourth consecutive year in which the Mayor proposed eliminating fire companies, only to have the Council restore funding.

The number of firefighters has declined each year since 2009. This is due in part to a court case challenging the FDNY's hiring practices, which prevented the department from hiring any new

Proposed Police Staffing for 2014 Remains Constant

Actual Staffing									Proposed Staffing	
1990	1995	2000	2005	2007	2009	2010	2011	2012	2013	2014
31,985	36,429	40,285	35,489	35,548	35,641	34,636	33,777	34,510	34,483	34,483

SOURCE: Mayor's Office of Management and Budget
NOTES: Figures above are either actual or proposed end-of-year (June 30) staffing levels. Includes uniformed police personnel of all ranks.
New York City Independent Budget Office

Drop in Firefighter Staffing Has Resulted in More Firefighter Overtime

	Actual				Proposed	
	2009	2010	2011	2012	2013	2014
Firefighter Staffing	11,459	11,080	10,646	10,260	10,074	10,282
Firefighter Overtime *in millions*	$127.6	$157.7	$197.9	$230.8	$308.0	$215.2

SOURCE: Mayor's Office of Management and Budget
NOTES: Includes uniformed firefighting personnel of all ranks. For years other than 2013, staffing is as of end-of-year (June 30). For 2013, staffing is for the mid-point of fiscal year (December 31, 2012) and overtime is as currently budgeted for the entire year.
New York City Independent Budget Office

firefighters for over four years, even to replace those retired from the department. The need to continue staffing all companies as the number of firefighters on staff continued to fall led to an increased reliance on overtime spending. Overtime expenditures grew from $128 million in 2009 to a projected $308 million in the current year. The roughly 300 firefighters hired in January 2013 constitute the first class of new firefighters hired since July 2008.

For next year, the Preliminary Budget's proposed level of firefighter staffing (10,282) and overtime spending ($215 million) rests on the assumption that funding will not be restored to keep in operation the 20 companies scheduled to be eliminated on July 1.

Endnotes

[1]The newly identified federal revenues include additional savings from the Affordable Care Act and increased emergency Medicaid claiming, as well as a $250 million investment in comprehensive reform of the developmental disability system. CMS has agreed in principle to the $250 million investment, although the details are still being finalized.
[2]The children of adults on Family Health Plus can generally obtain coverage through Medicaid or Child Health Plus.
[3]NYS Health Foundation, "A Conversation with Alan Aviles and Arthur Gianelli," June 2010. http://www.nyshealthfoundation.org/section/aviles_and_gianelli_event
[4]IBO's analysis excludes the impact of federal DSH reductions on HHC's Indigent Care Pool revenues, as this pool is funded through a complex formula utilizing multiple funding sources. HHC projects their total revenue from the Indigent Care and other related pools at $442 million in 2013.
[5]IBO's analysis of the impact of new Medicare reimbursement policies is based on data released by CMS in September and December 2012. It does not account for revisions to this data that were released in March 2013 and may alter the impact on HHC facilities.
[6]IBO's analysis of staffing impacts is based upon the Preliminary Budget proposal released in January. Since then, DOHMH has indicated that they will be modifying one of the Bureau of School Health PEGs, but has not offered any details on what will replace it.

Labor Costs

The expense budget of each city agency includes funds to pay the wages and salaries of its current employees, but other labor-related expenses are funded in the city's miscellaneous and pension budgets. The miscellaneous budget includes funding for fringe benefits for most agencies' employees and the labor reserve contains funding for future and/or expected retroactive wage increases that have not yet been settled by collective bargaining agreements (or administrative orders for nonunion personnel). Funding for the labor reserve in the Preliminary Budget reflects the Bloomberg Administration's assumption that even though all of the city's collective bargaining agreements have now expired, there will be no retroactive wage increases unless they are paid for by increases in productivity or other contractual offsets—which is difficult to do retroactively. IBO estimates that under a scenario allowing for some retroactive wage increases, the city would face a one-time liability of $4.5 billion in retroactive wages through the end of 2013 plus an increase in compensation costs of $1.8 billion each year, beginning in 2014. The Bloomberg Administration projects that in 2014 salaries and wages along with pensions and other benefits will cost $37.7 billion—before any contract settlement. Coming to agreement with the city's unionized workforce is likely to be the biggest fiscal issue confronting the next Mayor.

Fringe benefit costs—health insurance premiums are by far the largest of these expenses—continue to be one of the fastest-growing parts of the city budget. The Preliminary Budget assumes that over this year and 2014 the city will draw down the remaining money in the Retiree Health Benefits Trust that was originally set up to begin addressing the city's long-term obligations to provide retirees' health benefits, which are currently estimated at $83.3 billion. Unlike health insurance costs, which continue to rise, the city's pension costs have now stabilized, albeit at a high level. There are some risks, however, which could result in larger pension costs than currently assumed in the Preliminary Budget.

Overtime spending for city workers responding to Hurricane Sandy totals $188 million, so far. The city expects to be reimbursed by the federal government for these costs.

Potential Cost of Settling Expired Contracts

All of the city's unions are working under expired collective bargaining agreements. Three of the largest unions, the United Federation of Teachers (UFT), the Council of Supervisors and Administrators (CSA), and District Council 37 have been without contracts for over three years. (Contracts for some smaller unions expired as long ago as 2007.) The Mayor's Preliminary Budget assumes that when new collective bargaining agreements are finally put in place they will include no retroactive pay increases covering the time between the expiration of the old contracts and the start of the new ones—a position that would be a break from customary municipal labor relations in the city. But if future agreements do not adhere to this position, the city's labor costs would grow substantially, and the seemingly manageable budget gaps in the financial plan would become much more challenging to fill.

Wage patterns are a historical part of labor relations in New York City. The city typically has two types of wage patterns, the civilian wage pattern and the uniformed wage pattern; at times the uniformed pattern has been slightly higher. The wage patterns typically hold for a "round" of collective bargaining agreements. A round spans a loosely defined number of years during which contracts generally follow the pattern for that round, although in any collective bargaining round, the starting date of contracts can vary greatly among the different unions. The negotiated wage increases in the first signed contract usually establishes the wage pattern for that round of bargaining.

A number of unions never reached agreements during the round of contract bargaining in which two annual 4.0 percent compounded wage increases was the pattern (2008-2010 for the DC 37 contract years). The

Collective Bargaining Expiration Dates and Active Membership
Uniformed, Pedagogical, & Civilian City Unions
With More Than 1,000 Total Membership

Union Type	Collective Bargainning Unit	Expiration Date	Active Membership Count
Uniformed	Sanitation Officers' Association Local 444, SEIU	7/1/2012	988
Uniformed	Correction Captains' Association	6/30/2012	737
Uniformed	Assistant Deputy Wardens Association	6/30/2012	133
Uniformed	Detectives' Endowment Association	3/31/2012	4,925
Uniformed	Captains' Endowment Association	3/31/2012	772
Uniformed	Correction Officers' Benevolent Association	10/31/2011	7,921
Uniformed	Lieutenants Benevolent Association	10/31/2011	1,741
Uniformed	Uniformed Sanitation Chiefs Association	10/9/2011	76
Uniformed	Uniformed Sanitationmen's Association, Local 831, IBT	9/20/2011	6,160
Uniformed	Sergeants Benevolent Association	8/29/2011	4,614
Uniformed	Fireboat Titles, Marine Engineers' Beneficial Association	7/27/2011	33
Uniformed	Uniformed Fire Officers Association, Local 854, District 1, IAFF	3/26/2011	2,400
Pedagogical	Professional Staff Congress (excluding CUNY senior colleges)	10/19/2010	7,364
Civillian	Communications Workers of America, Local 1180, Principal Administrative Associates	10/5/2010	6,052
Civillian	IBT, Local 237 (most units)	9/25/2010	7,705
Civillian	DC 37, Locals 2507, 3621-EMS Personnel	9/5/2010	3,463
Civillian	Organization of Staff Analysts	8/24/2010	3,727
Uniformed	Patrolmen's Benevolent Association	7/31/2010	23,174
Uniformed	Uniformed Firefighters Association Local 94, IAFF	7/31/2010	7,874
Civillian, Sec. 220	SEIU, Local 246, Auto Mechanics, Machinists	5/30/2010	1,114
Civillian	Communications Workers of America, Local 1182	3/9/2010	2,247
Pedagogical	Council of Supervisors and Administrators	3/5/2010	6,119
Civillian	DC 37 (excluding Section 220 and EMS)	3/2/2010	78,154
Pedagogical	United Federation of Teachers, Local 2, AFT	10/31/2009	118,990

SOURCES: Mayor's Office of Management and Budget; Office of Labor Relations; City Human Resources Management System
NOTES: Includes New York City agencies proper (including the five city-maintained pension systems). Excludes public benefit organizations (such as Health and Hospitals Corporation, New York City Housing Authority, New York Cuty Transit Authority), CUNY senior colleges, libraries, cultural institutions, and nonprofits.

New York City Independent Budget Office

United Federation of Teachers (UFT) and the Council of Supervisors and Administrators are the largest unions that did not come to an agreement during that round.[1]

For the subsequent round of bargaining (covering 2010 to 2013 for DC 37), the city has assumed a civilian and uniformed wage pattern of no raises in the first three contract years, unless the cost of the raises is offset by productivity gains or other labor cost savings. Although the city has not signed any contracts for this round, the financial plan looks ahead to the next round. For this next round the city has assumed a uniformed and civilian wage pattern of two compounded annual increases of 1.25 percent.

In order to understand the order of magnitude of the cost if new contracts were signed with at least some retroactive wage increases, IBO constructed the following scenario. First, we assumed that the UFT, the CSA, and the other smaller unions that did not sign contracts in the round when the wage pattern was two compounded 4.0 percent annual raises, now settle under this pattern and receive the raises retroactively. Second, instead of a pattern of three years of no raises assumed by the city for the next round, we assume all unions negotiate contracts with a pattern of two consecutive years of compounded 2.0 percent annual raises. For those unions where IBO estimated the impact of 4.0 percent raises, those increases are built into the base for the subsequent 2.0 percent increases. These wage increases were assumed to apply to regular wages, and where applicable, holiday pay, overtime, and differential pay tied to regular pay. IBO also assumed that welfare fund, annuity fund, and other fund contributions are not increased. In addition to wages, applicable payroll taxes were also included, as well as additional pension costs that result from the higher wages.

IBO estimates that under this scenario the cumulative liability from retroactive raises would be $4.5 billion by the end of this fiscal year. In addition, we estimate that the higher salaries would increase the city's labor expenses by $1.8 billion in 2014 and each year going forward. In December 2012, IBO presented a lower estimate of the retroactive cost of a similar scenario. Unlike our earlier estimate, we have now included nonunion workers who typically get raises that follow the collective bargaining pattern and the additional payroll tax and pension costs.

The city budget includes reserves to cover anticipated collective bargaining settlements. For most agencies these monies are recorded in a citywide labor reserve that is part of the miscellaneous budget. The exception is the Department of Education (DOE), which has a separate labor reserve for its employees as part of its budget. Currently, there are insufficient funds in both the DOE labor reserve and the citywide labor reserve (recorded in the miscellaneous budget) to cover either the retroactive liability or the recurring annual costs.

Health Insurance Costs Rising, Trust Fund Depleted

Health insurance costs are, by far, the largest fringe benefit cost for the city. IBO's forecast for total health insurance costs for 2013 is $5.1 billion. They are expected to increase by 5.4 percent in 2014 to $5.4 billion and then jump in 2015 by 11.4 percent to $6.0 billion. Spending on health insurance in 2013 and 2014 includes funds drawn from the Retiree Health Benefit Trust (RHBT); draw downs of $1.0 billion in 2013 and again in 2014 will virtually deplete the RHBT. In the final two years of the financial plan period, growth is expected to be slower than in 2015, but still average 10.3 percent, annually. By 2017, health insurance costs are projected to total $7.3 billion.

IBO's forecast differs slightly from the estimates in the Mayor's Preliminary Budget, with the differences never exceeding 1.0 percent. We project less spending in 2013 through 2016, with the differences ranging from a high of $55.6 million in 2013 to a low of $6.8 million in 2016. For 2017, our forecast exceeds the Mayor's by $64.0 million

For 2014, employer provided health insurance premiums are expected to increase by 5.2 percent, somewhat slower than in recent years. This slower premium growth accounts for the relatively modest increase in health insurance costs from 2013 to 2014, but this pause is short-lived, with faster premium growth expected to resume in 2015. IBO has assumed that health insurance premium costs will increase even faster than the city has projected for 2015 through 2017, at an annual rate of 9.2 percent compared with the city's forecast of 9.0 percent.

Another difference between IBO's forecast and that of the Preliminary Budget is our estimate of the City University of New York's (CUNY) health insurance costs. The Preliminary Budget includes approximately $40 million for health insurance costs for eligible CUNY employees and retirees. Based on data from February that showed an eligible workforce of 5,585 and an average employer provided premium cost of $11,379, IBO estimates that health insurance for the active CUNY workforce alone will cost $63.6 million (including health insurance waiver payments).

Labor Reserve Balances
By fiscal year, dollars in millions

Labor Reserve Agency	2008	2009	2010	2011	2012	2013	2014	2015
Department of Education	$1.6	$0.0	$18.9	$6.6	$0.0	$0.0	$0.0	$0.0
Miscellaneous Labor Reserve	0.0	109.0	40.3	26.2	36.7	105.5	264.6	465.0
TOTAL Labor Reserve Balances	**$1.6**	**$109.0**	**$59.3**	**$32.7**	**$36.7**	**$105.5**	**$264.6**	**$465.0**

SOURCES: Mayor's Office of Management and Budget; Department of Education

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Finally, IBO's analysis suggests that the allocation for fringe benefits in the DOE budget is too high. (The education department is the only city agency with fringe benefit expenses reflected in the department budget rather than in the citywide miscellaneous budget.) A significant number of eligible Department of Education employees enrolled in the 55/25 program, which allows employees with 25 years of service to retire at age 55, are deferring retirement past age 55. This results in savings for the city by avoiding simultaneously paying for primary health insurance for both the retiree and his or her replacement. Moreover, delaying retirement shortens the period before a retiree is eligible for Medicare. Until retirees qualify for Medicare the city has to pay for primary health insurance, which is more expensive than the secondary insurance coverage the city funds once retirees qualify.

Pension Cost Growth Slows, Some Risks Remain

After a decade of rapid increases, city pension costs are expected to level off over the next few years. Pension costs in 2013 are projected to be $7.9 billion and to increase to $8.1 billion in 2014, a rise of 1.9 percent. The growth remains moderate, averaging 1.8 percent annually from 2014 through 2017, when city pension costs are expected to reach $8.5 billion.

The additional costs are primarily due to changes in actuarial assumptions, the most significant of which is the reduction of the assumed actuarial interest rate from 8.0 percent to 7.0 percent. Although this change has not been formally approved, the city has budgeted on the assumption that it will be. Incorporating investment losses from prior years also contributes to the increase in pension costs. Investment returns for 2012 were far from the 7.0 percent target, coming in at just 1.4 percent. In order to make up the shortfall, the city's November 2012 plan added $98 million, $197 million, and $295 million, to the pension budgets for 2014, 2015, and 2016, respectively. With the stock market reaching new highs, the city may be able to save money on its pension contributions beginning in 2015, if this year's investment returns exceed 7.0 percent.

On the other hand, there are also downside risks to the outlook for pension costs. A recent court case (*Lynch vs. City of New York*) has challenged the employee pension contributions of 3.0 percent required of new members of the Police and Fire Pension Funds under Tier 3, which took effect in 2009. The city lost in the lower courts but is appealing. If the initial decision is upheld, future savings the city was counting on from implementation of Tier 3 would be greatly reduced. In addition, some contributions already paid into the pension funds would have to be refunded. IBO estimates that as of June 30, 2013, the cumulative cost of refunding Tier 3 employee pension contributions for current workers would be $18 million, including interest. This exposure will grow over time, particularly as more employees are hired into Tier 3. With the fire department's hiring discrimination case resolved, the department is once again hiring firefighters, with most of the new hires covered by Tier 3.[2]

Hurricane Sandy Overtime Costs

The costs incurred for overtime and holiday pay attributable to Hurricane Sandy continue to grow, although at a much slower pace than last fall. Based on payroll data through March 14, IBO estimates that Sandy-related overtime and holiday pay, including

New York City Sandy-Related Overtime and Holiday Costs
As of March 14, 2013; dollars in thousands

Agency	Amount
Police Department	$85,472
Department of Sanitation	62,075
Fire Department	11,770
Department of Parks & Recreation	6,768
Department of Transportation	3,848
Department of Environmental Protection	2,928
Department of Health & Mental Hygiene	2,584
Department of Correction	2,365
Department of Citywide Administrative Services	1,544
Department of Homeless Services	1,479
Human Resources Administration	1,399
Department of Buildings	1,174
Department of Education	1,103
Housing Preservation & Development	688
Office of Emergency Management	624
City University of New York	495
Department of Information Technology & Telecommunications	456
All Other Agencies	1,241
TOTAL	**$187,554**

SOURCE: New York City payroll data
New York City Independent Budget Office

payroll taxes, totals $188 million. As with regular overtime expenses, the Sandy costs are accounted for in the individual agency budgets. The city is counting on full reimbursement from the federal government for these expenses

In addition, IBO estimates that for the New York City Housing Authority, Sandy-related overtime and holiday pay costs, including payroll taxes, is $5.5 million.

Endnotes

[1]Besides the UFT and CSA, there are also other smaller unions that have not yet settled under prior rounds of bargaining, with most being Section 220 unions. These unions mostly represent craft and trades workers who under that section of state labor law can elect to petition the City Comptroller to determine the private sector prevailing rate for those occupations as an alternative to collective bargaining.

[2]According to the final relief order issued by federal District Court Judge Nicholas G. Garaufis, some minority firefighter applicants who were adversely affected may have the right to retroactive Tier 2 pension benefits if their hiring would have occurred while Tier 2 was still open, as part of a “make- whole” remedy for the plaintiffs.

Capital Spending, Financing, & Debt Service

Four-Year Capital Commitment Plan

The January 2013 Capital Commitment Plan that was released with the Mayor's Preliminary Budget provides $39.3 billion for the city's capital program, covering the period 2013 through 2016. The total represents an increase of $5.0 billion, or 14.4 percent, from the level of capital funding in the October 2012 plan. Much of the increase in planned spending will go towards repair and rebuilding in the aftermath of Hurricane Sandy.

The capital program is primarily city-financed, with only about 16 percent of total funding expected to come from state, federal, and private grants. The January 2013 plan includes $6.5 billion from sources other than city funds, $62 million (0.9 percent) less than in the October 2012 plan.

Note that the current plan classifies the entire $3.1 billion in funding for Hurricane Sandy capital projects as city funds, even though the city expects to be fully reimbursed by the federal government on these projects. The city plans to commit $1.7 billion in 2013, $1.2 billion in 2014, and $134 million in 2015 for storm-related capital projects.

Capital commitments for the plan period 2013 through 2016 are largely concentrated in three areas—education, environmental protection, and transportation—that comprise $22.3 billion in total funds, or roughly 57 percent of the entire capital plan.

Education projects constitute the largest share, $9.0 billion or 22.9 percent, of total planned commitments. The January 2013 plan increases capital funding for education projects by $200 million from the level in

City Revises Four-Year Capital Commitment Plan
Authorized commitments, dollars in millions

	2013	2014	2015	2016	TOTAL
January 2013 Plan					
City Funds	$16,502	$7,917	$4,770	$3,680	$32,869
Noncity Funds	2,525	1,822	1,079	1,042	6,468
TOTAL	**$19,027**	**$9,739**	**$5,849**	**$4,722**	**$39,337**
October 2012 Plan					
City Funds	$15,397	$5,819	$3,496	$3,134	$27,846
Noncity Funds	2,518	1,677	1,069	1,266	6,530
TOTAL	**$17,915**	**$7,496**	**$4,565**	**$4,400**	**$34,376**
Change					
City Funds	$1,105	$2,098	$1,274	$546	$5,023
Noncity Funds	7	145	10	(224)	(62)
TOTAL	**$1,112**	**$2,243**	**$1,284**	**$322**	**$4,961**
Percent Change					
City Funds	7.2%	36.1%	36.4%	17.4%	18.0%
Noncity Funds	0.3%	8.6%	0.9%	-17.7%	-0.9%
TOTAL	**6.2%**	**29.9%**	**28.1%**	**7.3%**	**14.4%**

SOURCES: January 2013 and October 2012 Capital Commitment Plans
NOTES: Plan categorizes all funding for Hurricane Sandy projects as city funds, even though the city expects to be fully reimbursed by the federal government. Plan figures exclude inter-fund agreements and contingency amounts.

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the October plan. The additional funds will be used to repair 70 school buildings damaged due to flooding caused by Hurricane Sandy. Schools in southeast Queens (District 27) and south Brooklyn (District 21) were especially hit hard by the storm; nearly half of the 70 buildings needing storm-related repairs are located in these two districts. Other areas of the city where school buildings were particularly affected by Sandy are northwest Bronx (District 10), northwest Queens (District 30), and Staten Island (District 31).

Environmental protection projects account for the second largest share, $7.8 billion or 19.9 percent, of total planned commitments. The January 2013 plan increases capital funding for environmental protection projects by $809 million from the October plan. Water supply projects account for more than half ($425 million) of the increase over the plan period. Much of the funding increase for water supply projects will be used to repair the Delaware Aqueduct's Rondout-West Branch Tunnel and to enhance the capacity of the Catskill Aqueduct. Other funding increases for environmental protection include $77 million for the Croton Filtration Plant (which is nearing the end of construction) and $53 million for green infrastructure projects in an effort to reduce sewer overflows. Capital commitments of $47 million were also included for the reconstruction of water pollution control plants and pumping stations damaged during Hurricane Sandy.

Transportation projects account for the third largest share, $5.4 billion (13.8 percent), of total planned commitments. The January 2013 plan adds $1.2 billion, a 28.2 percent increase from the October plan, for transportation projects, including $685 million for highway projects and $513 million for bridge projects over the plan period.

The majority of the funding increase in highway projects, $600 million, is for recovery work related to Sandy, mainly in street reconstruction and resurfacing. Street reconstruction funding increased by $538 million ($40 million in 2013 for project design and $498 million in 2014 for street reconstruction). Street resurfacing funding increased by $59 million in 2013.

Close to a third of additional commitments in bridge projects, about $162 million in 2013, are for structural enhancements to East River bridges. Other major funding increases include additional commitments of $34 million in 2013 for the construction of a new Mill Basin Bridge over the Belt Parkway and $86 million in 2014 for work on the Harlem River Drive Viaduct. Additional capital funding, $81 million in 2013, was provided for bridge projects necessitated by damage from Sandy. Planned commitments include repairs on the Battery Park underpass and on moveable bridges, including those over the Harlem River, Gowanus Canal, and Newtown Creek, along with a number of smaller projects.

Hospitals. Hospital projects received an additional $949 million, an increase of 186.2 percent over the four-year plan period. The largest increase in planned commitments is $712 million for Hurricane Sandy-related reconstruction efforts. The major increase in funding for 2013 will go towards the three facilities most heavily damaged during the storm. A combined $250 million for capital repairs has been allocated for Bellevue Hospital Center, Coney Island Hospital, and the Coler campus of the Coler-Goldwater Specialty Hospital and Nursing Facility. An additional $410 million for storm-related rebuilding is planned for 2014, but has not yet been committed to specific hospitals or projects.

The commitment plan also added $175 million over the plan period to upgrade HHC's electronic medical record system. Also included is $33 million in 2013 and 2014 for the modernization of Gouverneur Healthcare Services and $34 million over the plan period for ambulance purchases.

Parks and Recreational Facilities. Funding for parks and recreation projects has increased since the October plan by $500 million, or 32.1 percent, over the plan period, with nearly all of the new funding going for Hurricane Sandy reconstruction. About $282 million is planned for the reconstruction of city beaches damaged during the storm; the largest share, about $200 million, is planned for Rockaway Beach. Roughly $161 million is planned for nonemergency reconstruction of parks, playgrounds, buildings and systems that were also damaged during the storm. Another $48 million is planned for emergency capital work, including demolition, beach cleanup (excluded from above), and equipment purchases.

Since the release of the Preliminary Capital Commitment Plan, the parks department has continued to adjust the scope and schedule of hurricane-related projects. For example, funding to repair beach damage has been accelerated in an effort to open all beaches by Memorial Day.

Housing. In the latest commitment plan, housing projects received an increase of $494 million (30.1 percent) over the plan period with nearly all of the new funding planned to address Sandy-related housing damage. While the specific use of these funds is still to be determined, the Bloomberg Administration reports that the money may be used by several housing agencies, including the Department of Housing Preservation and Development (HPD), the New York City Housing Authority, and the Mayor's Housing Recovery Office, which was created in response to Hurricane Sandy.

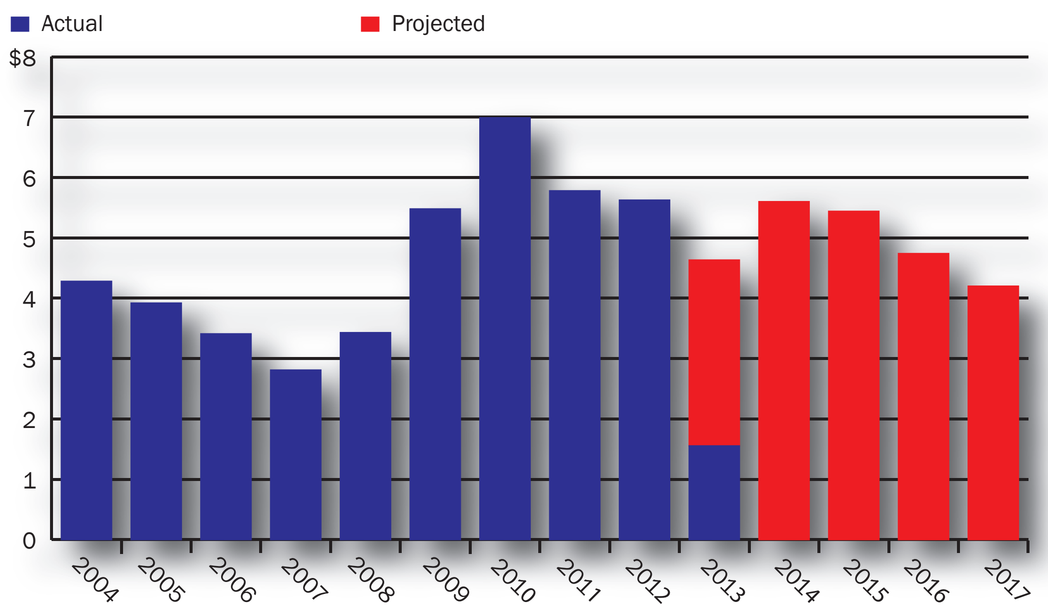
Aside from the Sandy funds, there were other significant changes made in funding for HPD's capital program. The current plan increased planned commitments for supportive housing, which serves low-income people with special needs, to $287 million, an increase of $36 million. Meanwhile, planned commitments for the construction of new affordable housing were reduced by $18 million, to $512 million.

Paying for the Capital Plan

Borrowing. To finance the January 2013 Capital Commitment Plan, the city will borrow money by issuing three types of debt: general obligation (GO), Transitional Finance Authority (TFA), and Municipal Water Finance Authority (NWY). GO debt is backed primarily by the city's property tax. TFA debt is backed by the personal income tax. NYW debt is backed by fees and charges levied on users of the New York City water and sewer systems. The proceeds of water authority debt are pledged exclusively to capital improvements for the city's water and sewer system. GO and TFA debt proceeds fund the remainder of the city-funded capital program.

City Debt Issuance Trends. Annual borrowing is based on the city's cash needs for capital projects. Cash needs are roughly correlated with city capital expenditures in each year. But because a capital commitment (when the city registers a contract for the project) in one year can result in capital expenditures in that year, in a later year, or spread out over a few years, there is only a weak relationship between capital expenditures and capital commitments in a single year. The Mayor's Office of Management and Budget projects that new bond issuance will total $4.6 billion in 2013,

Selected City Bond Issues
Dollars in billions



SOURCE: Mayor's Office of Management and Budget
NOTES: Includes general obligation and Transitional Finance Authority (TFA) new money bond issues. Excludes refunding bonds,TFA Recovery Bonds, TFA Building Aid Revenue Bonds and Muncipal Water Finance Authority Bonds.
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which is $1.0 billion less than the amount borrowed in 2012. This continues a downward trend in new money issues, which peaked at $7.0 billion in 2010. New bond issues are projected to increase to $5.6 billion in 2014, before declining again in the out-years of the financial plan. The city anticipates that GO and TFA new money issuance for the remainder of 2013 through 2017 will total $23.1 billion.

Since the November plan, the city has reduced the amount it expects to borrow in 2013 and 2014. The Mayor's Office of Management and Budget anticipates that the current fund balances, coupled with slightly lower borrowing, will cover the city's near-term capital expenditures. In total, planned borrowing was reduced by $472 million in 2013 and $160 million in 2014. GO borrowing was reduced by $50 million in 2013 and by $480 million in 2014, while TFA borrowing was reduced by $422 million in 2013 and increased by $320 million in 2014, thereby substituting $320 million of TFA borrowing for GO borrowing.

Debt Service. Debt service—the cost of repaying principal and/or interest on outstanding bonds—is a function of the amount of outstanding debt and the terms that were obtained when the debt was issued. Debt service in the city budget reflects GO and TFA borrowing, as well as several smaller obligations. Debt service for NYW borrowing is not an item in the city budget as it is paid directly by the water authority—a self-financing public benefit corporation.

Refunding Savings. The city continues to realize savings by refunding its existing debt in order to take advantage of historically low interest rates. The city refunded $1.0 billion of GO debt in December, which generated savings of $13 million in 2013 and $121 million in 2014. Since the start of 2013, GO refundings have saved the city $32 million in debt service that would have been due in 2013 and $209 million due in 2014. It also refunded $553 million in TFA debt so far this year, generating additional debt service savings (detailed savings information is not available).

Variable Rate Interest Assumptions. The city's financial plan includes assumptions about the interest rates it will secure for variable rate debt in the future. Typically, these assumptions are conservative relative to market conditions to ensure that the city will budget sufficient funds to cover its debt service obligations. As of the Preliminary Budget, the city had $7.2 billion in outstanding General Obligation variable-rate debt, which was about 18 percent of all outstanding GO debt. As of December 2012, TFA reported that it had $3.6 billion in outstanding variable-rate TFA debt, which was roughly 17 percent of all outstanding TFA debt.
In the 2014 Preliminary Budget, the city assumes that it will pay 2.45 percent interest on its variable rate debt for the remainder of 2013, 4.15 percent in 2014, and a baseline of 4.25 percent for 2015 into the future. The assumption for 2013 has not been lowered since June 2012. The rate for 2014 was reduced by 0.1 percentage points last November.

Looking back at the two previous preliminary budgets, from January 2011 and January 2012, the variable rate interest assumptions for the current and upcoming years were lower than the comparable assumptions for 2013 and 2014 in the current Preliminary Budget (2.45 percent and 4.15 percent, respectively), even though interest rates have not risen appreciably in the last year. In the January 2012 Preliminary Budget, the city assumed an interest rate of 0.80 percent for the remainder of 2012 and an interest rate of 2.72 percent for 2013. The assumptions were similar in the January 2011 Preliminary Budget—1.00 percent for the remainder of 2011 and 2.00 percent for 2012. Additionally, unlike this year, in the two prior preliminary budgets the city also reduced its variable interest rate assumptions for the current and upcoming fiscal years from those in the preceding November plans.

The assumptions for 2013 and 2014 are also higher than what the city is currently realizing in the bond market, especially for the current year. A $100 million adjustable-rate bond offering sold by TFA in December, for example, has not paid an interest rate higher than 0.15 percent since it was issued. The Securities Industry and Financial Markets Association's (SIFMA) Muni Swap Index, which measures the rates paid on high-grade tax-exempt variable rate municipal bonds, has been less than 2.45 percent, the city's current assumption for 2013, since October 2008 and shows no upward momentum. In fact, the index has been below 0.5 percent since April 2009 and was at 0.11 percent as of February 20.

If interest rates remain at current levels through the end of 2013, IBO expects that the city will recognize more debt service savings in the Executive Budget and when the budget is adopted. If the tax-exempt variable interest rate assumption for 2013 is lowered to 0.3 percent and no additional variable rate debt is issued, the city could recognize savings for this year of $148 million in GO debt service alone.

There may be additional savings for 2014. The current assumption for variable rate tax exempt GO debt for next year is 4.15 percent. If interest rates remain at the current level, which is likely given fiscal policy, or even increase a bit, the city is likely to also see significant savings in 2014.

Growth in Debt Service. Debt service, adjusted for prepayments and defeasances, which involve the use of surplus funds to prepay future interest and principal on existing debt, is expected to total $6.0 billion in 2013, a 10.6 percent increase from 2012. Given the low-interest rate environment discussed above, the city is likely to realize additional debt service savings for this year. Because the terms of much of the city's outstanding debt (other than variable rate debt and new issuances) predate the current interest rate environment and there are limits on the number of times the city can refund debt, the budgetary impact is likely to be moderate. For example, if the city sold an additional $800 million in fixed-rate GO debt this year, the savings from receiving a 5.0 percent interest rate rather than its assumed 6.5 percent rate would be approximately $12 million a year.

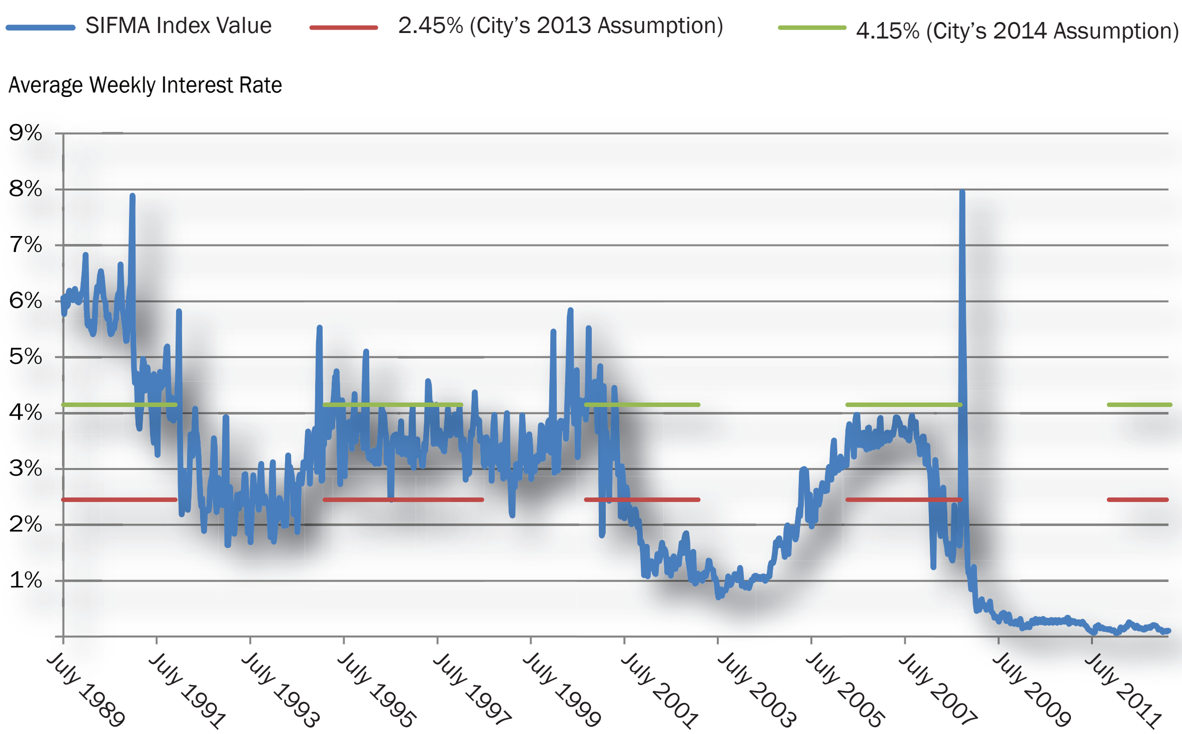
Debt service is projected to grow by 5.2 percent in 2014, which reflects both the reduced planned borrowing in 2013 and 2014 discussed earlier, as well as savings that the city has already achieved by refinancing its existing debt. Additional savings are possible in 2014 if interest rates remain low. According to the Bloomberg Administration, debt service is projected to increase by 13.6 percent in 2015 before continuing to grow at a more modest rate in 2016 and 2017. The large jump in 2015 results from savings from recent refundings that have been concentrated in 2013 and 2014.

The $6.0 billion in debt service due in 2013 represents 13.8 percent of IBO's forecast of city tax revenues. We expect debt service as a share of tax revenue to rise to 14.9 percent in 2015 before declining in 2016 and 2017.

Debt service as a share of city expenditures is also projected to rise, reaching 8.5 percent in 2013, up

Securities Industry and Financial Markets Association Muni Swap Index Remains at Record Lows

As of February 20, 2013



SOURCES: Securities Industry and Financial Markets Association (SIFMA); Mayor's Office of Management and Budget

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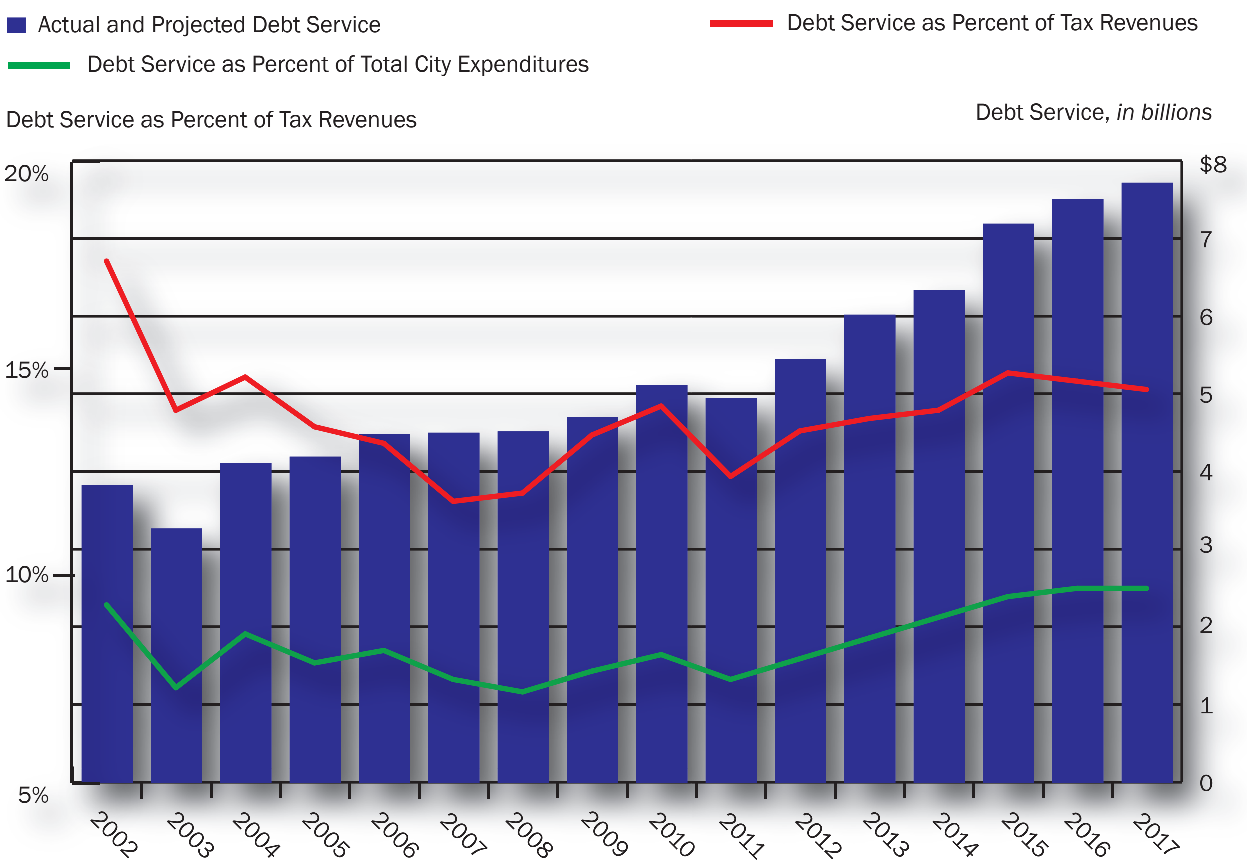
Debt Service and Debt Service as Shares of Tax Revenues and Expenditures



SOURCE: Mayor's Office of Management and Budget
NOTES: Fiscal years 2013 to 2017 are projected. Adjusted for prepayment of debt service. Projections based on IBO tax revenue and expenditure forecasts.

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from 8.0 percent in 2012. Based on IBO's forecast of future spending, we expect that debt service as a share of expenditures will increase to 9.7 percent by 2017.

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