Review of the Financial Plan of the City of New York

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New York State
Office of the State Comptroller
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I. Executive Summary

On February 9, 2015, the City of New York submitted to the New York State Financial Control Board a revised financial plan (the “February Plan”) covering fiscal years 2015 through 2019 (see Figure 1). The February Plan incorporates the Mayor’s preliminary budget for FY 2016 and developments during the first half of the current fiscal year.

Since the beginning of the fiscal year, the City has raised its tax revenue forecast for fiscal years 2015 through 2018 by more than $4.5 billion, and has realized savings of $3.2 billion from a reduction in planned debt service payments and pension contributions. These resources closed the FY 2016 budget gap ($2.6 billion at the beginning of the fiscal year) and narrowed the out-year budget gaps despite new agency needs and higher collective bargaining costs. The City now projects budget gaps of $1 billion in FY 2017, $1.4 billion in FY 2018 and $2.1 billion in FY 2019. These gaps are relatively small (ranging from 1.8 percent to 3.3 percent of City fund revenues), and the general reserve totals $750 million in those years.

The City’s financial outlook has improved as the economy has recovered. Economic growth has been strong in recent years, driven by high levels of job growth, a booming tourism industry and strengthening real estate markets. Since the end of 2009 the City has added 425,000 jobs, and employment now totals a record 4.1 million jobs.

Job growth has averaged 2.2 percent over the past four years, outpacing the nation (1.6 percent) and the rest of the State (0.6 percent). So far, the City has experienced five years of job growth, and the February Plan assumes that growth will continue for another five years (which would be the longest expansion in 60 years). The Federal Reserve, however, has begun to unwind the monetary policies that helped the economy recover from the recession.

A wide range of industries has contributed to the recovery, but three-quarters of the new jobs have been concentrated in industries that pay less than the citywide average. With a record number of visitors, tourism has helped drive job gains in hotels, restaurants and retail stores. Unlike in prior recoveries, the securities industry has not been a driving force. Instead, most of the job gains in the higher-paying industries have been concentrated in technology, advertising, media and information companies.

The unemployment rate has fallen from its recessionary peak of 10.1 percent to 6.3 percent. In 2014, the unemployment rate fell by 1.7 percentage points, the largest decline in nearly two decades. Despite the impressive improvement, certain segments of the population have much higher unemployment rates, and wage growth has been relatively weak compared with other recoveries.

The securities industry, which is still one of the City’s economic engines, has been profitable in each of the past six years. Higher capital reserve requirements and the continued cost of legal settlements, however, have constrained profitability during the past two years. The broker/dealer profits of the member firms of the New York Stock

Exchange (the traditional measure of industry profitability) declined by 30 percent to $16.7 billion in 2013, and profits are projected to decline again in 2014. Nonetheless, employment in the securities industry stabilized during 2014, although the industry is 12 percent smaller than before the financial crisis.

The City has now reached new labor agreements with more than three-quarters of its workforce. The February Plan increases the reserve for collective bargaining to provide uniformed employees with a wage increase of 11 percent over seven years, one percentage point more than the pattern for civilian employees. The City also reports that it is on track to achieve the health insurance savings targets for fiscal years 2015 ($400 million) and 2016 ($700 million) under a formal agreement with the Municipal Labor Committee, but there has not yet been mutual agreement on the specific proposals to achieve the savings.

The Office of the State Comptroller (OSC) estimates that City-funded spending will increase by 3.4 percent in FY 2015 and by a similar amount in FY 2016. City-funded staffing levels are projected to increase by nearly 7,200 employees in FY 2015, but in the past many positions have remained vacant. Most of the planned hires are concentrated in the uniformed and health and welfare agencies. The Mayor has also proposed increasing the City's ten-year capital program by $14 billion (26 percent) to better reflect recent levels of capital investment, with more than two-thirds of the increase focused in education and housing.

The Governor has proposed a large statewide increase in education aid, but he has not indicated how much would be allocated to each school district. The increase is contingent upon the State Legislature adopting his other education proposals, including changes in teacher evaluations and tenure, and an increase in the number of charter schools. The Governor would also allocate resources to increase homeless services and to provide property tax relief to home owners and renters. The State is expected to consider an extension of the City's rent-stabilization laws, which expire on June 15, 2015.

The Health and Hospitals Corporation and the New York City Housing Authority are still dealing with significant challenges, which have required additional City financial assistance. While the operating budget for the Metropolitan Transportation Authority has improved with the economy, its proposed five-year capital program has a $15.2 billion funding gap. The Governor has proposed increasing the State's contribution to $1.1 billion, but the City has yet to increase its modest contribution.

In conclusion, the City's budget continues to benefit from an improving economy. The City currently projects a surplus of $1.6 billion in FY 2015, which will likely grow by the end of the year (see Figure 2). The February Plan shows a balanced budget for FY 2016 and out-year budget gaps that have been reduced to manageable levels. The City also has taken steps over the past year to increase its reserves, which would cushion the impact of adverse developments.

Figure 1
New York City Financial Plan
(in millions)

REVENUES	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Taxes					
General Property Tax	$ 21,170	$ 22,113	$ 23,141	$ 24,151	$ 25,220
Other Taxes	28,346	29,019	29,814	30,737	31,679
Tax Audit Revenue	912	711	711	711	711
Subtotal: Taxes	$ 50,428	$ 51,843	$ 53,666	$ 55,599	$ 57,610
Miscellaneous Revenues	7,738	6,938	6,805	6,862	7,090
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,967)	(1,804)	(1,814)	(1,825)	(1,825)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 56,184	$ 56,962	$ 58,642	$ 60,621	$ 62,860
Other Categorical Grants	898	832	840	848	845
Inter-Fund Revenues	574	547	543	546	546
Federal Categorical Grants	8,399	6,618	6,433	6,389	6,297
State Categorical Grants	12,493	12,772	13,181	13,638	13,682
Total Revenues	**$ 78,548**	**$ 77,731**	**$ 79,639**	**$ 82,042**	**$ 84,230**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 24,241	$ 24,875	$ 25,014	$ 26,413	$ 27,842
Pensions	8,582	8,534	8,504	8,490	8,586
Fringe Benefits	8,660	9,177	9,682	10,287	11,019
Subtotal: Personal Service	$ 41,483	$ 42,586	$ 43,200	$ 45,190	$ 47,447
Other Than Personal Service					
Medical Assistance	6,447	6,415	6,415	6,415	6,415
Public Assistance	1,476	1,407	1,413	1,413	1,413
All Other	25,110	23,261	23,510	23,932	24,053
Subtotal: Other Than Personal Service	$ 33,033	$ 31,083	$ 31,338	$ 31,760	$ 31,881
Debt Service[1,2,3]	6,242	7,031	7,414	7,735	8,051
Debt Defeasances[1]	(115)	(337)	(201)	(198)	- - -
FY 2014 Budget Stabilization[2]	(2,006)	- - -	- - -	- - -	- - -
FY 2015 Budget Stabilization[3]	1,578	(1,578)	- - -	- - -	- - -
General Reserve	300	750	750	750	750
Subtotal	$ 80,515	$ 79,535	$ 82,501	$ 85,237	$ 88,129
Less: Intra-City Expenses	(1,967)	(1,804)	(1,814)	(1,825)	(1,825)
Total Expenditures	**$ 78,548**	**$ 77,731**	**$ 80,687**	**$ 83,412**	**$ 86,304**
Gap to Be Closed	**- - -**	**- - -**	**$ (1,048)**	**$ (1,370)**	**$ (2,074)**

Source: NYC Office of Management and Budget

1 Includes Debt Defeasances of TFA in Fiscal Year 2013 of $196 million and Fiscal Year 2015 of $592 million impacting FY 2014 to FY 2018.

2 Fiscal Year 2014 Budget Stabilization totals $2.006 billion, including GO of $621 million, TFA of $1.362 billion, and net equity contribution in bond refunding of $23 million.

3 Fiscal Year 2015 Budget Stabilization totals $1.578 billion in TFA.

Figure 2
OSC Risk Assessment of the City Financial Plan
(in millions)

	Better/(Worse)				
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Surplus/(Gaps) Per February Plan	**$ - - -**	**$ - - -**	**$ (1,048)**	**$ (1,370)**	**$ (2,074)**
Tax Revenue	250	450	300	300	300
Prior-Year Payables	250	- - -	- - -	- - -	- - -
Medicaid Reimbursement	(50)	(80)	(80)	(80)	(80)
Uniformed Overtime	(50)	(100)	(100)	(100)	(100)
OSC Baseline Risk Assessment	**400**	**270**	**120**	**120**	**120**
Surplus/(Gaps) Per OSC[4]	**$ 400**	**$ 270**	**$ (928)**	**$ (1,250)**	**$ (1,954)**

[4] The February Plan includes a general reserve of $300 million in fiscal year 2015 and $750 million in each of fiscal years 2016 through 2019, which, if not needed, could be used to help close the projected budget gaps. In addition, the Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of $2.4 billion.

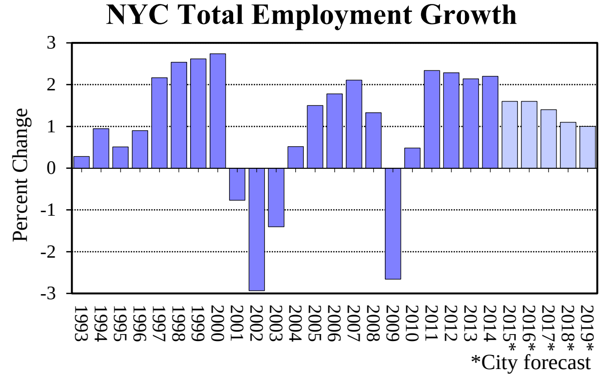
II. Economic Trends

In 2014, for the first time since the recession, the national economy demonstrated sustained growth. The Gross Domestic Product (GDP) increased by 2.4 percent, and most economists anticipate that the GDP will grow by 3 percent in 2015. Job growth has strengthened, rising by 1.9 percent during 2014 (which was the fastest rate of growth since 2000), and the unemployment rate has fallen from its recessionary peak of 10 percent to 5.7 percent (although many workers are still underemployed and others have been without jobs for an extended period of time).

With the national economy improving, attention has turned to possible changes in monetary policy. The Federal Reserve has indicated that it will remain “patient” in decisions about the timing and scope of future rate increases. The Federal Reserve Chairman recently indicated that interest rates would not increase before June 2015, and many observers (and the February Plan) expect the Federal Reserve to begin raising interest rates during the third quarter of 2015, although the timing could be affected by economic developments.

Over the past five years, the City has added 425,000 jobs and employment has reached a record 4.1 million jobs. Job growth has averaged 2.2 percent in each of the past four years (see Figure 3), with growth in the private sector averaging 2.7 percent. So far, the City has experienced five years of job growth, and the February Plan assumes that growth will continue for another five years. In the last 50 years, the longest expansion has lasted eight years (during the dot-com boom in the 1990s).

Figure 3
NYC Total Employment Growth



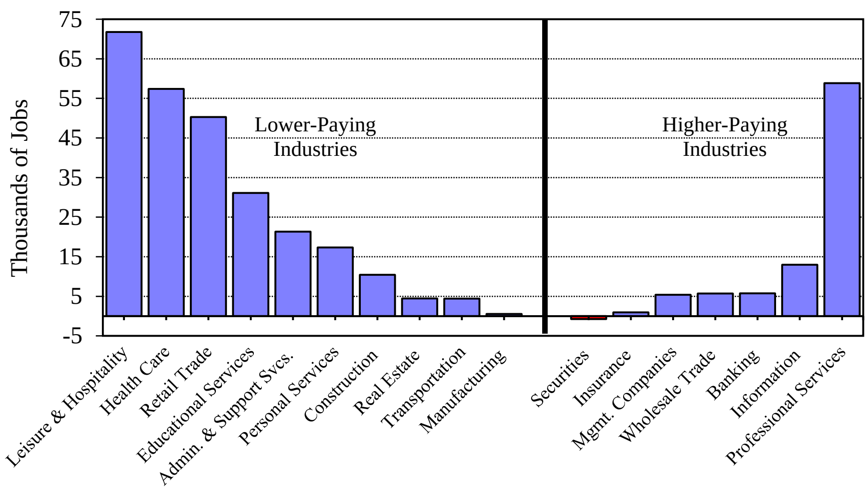
Sources: NYS Department of Labor; OSC analysis

Although job growth has been strong, wage growth has been relatively weak, averaging 4.1 percent annually between 2009 and 2013 (it was considerably higher during the prior two recoveries, at 6.3 percent and 6.2 percent). The slow rate of wage growth reflects the large number of lower-paying jobs created during the recovery and the lack of job gains in the high-paying securities industry, which, unlike in prior recoveries, has not been a force in the current job recovery. Nevertheless, during the first half of 2014 (the latest period for which data are available), total wage growth increased by 10.1 percent, driven by a large increase in bonuses.

While a wide range of industries has contributed to the current recovery, three-quarters of the private sector jobs have been added in industries that pay less than the citywide private sector average (see Figure 4). Continued strength in tourism (a record 56.4 million visitors came to the City in 2014) has helped drive the gains in the leisure and hospitality and retail trade sectors (primarily in restaurants and stores). Without strong gains in the securities industry, most of the job growth in higher-paying industries has been concentrated in the professional services and information industries, especially in technology, advertising, media and information companies.

Figure 4

Job Growth by Industry, 2010 to 2014



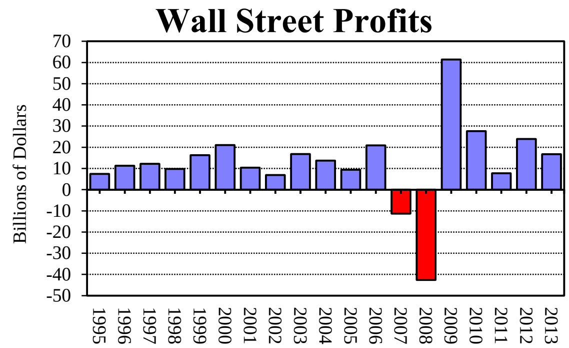
Note: Analysis done on three-digit NAICS codes; industries have been consolidated for presentation purposes when possible. Data is for the private sector in New York City and average salaries are from 2013.
Sources: NYS Department of Labor; OSC analysis

The February Plan assumes that job growth will ease from 2.3 percent in 2014 to 1.6 percent annually in 2015 and 2016, and then average 1.2 percent annually in 2017 through 2019. The City still expects that many of the new jobs will be in lower-paying industries (such as leisure and hospitality) but that higher-paying industries (such as professional services) will make up a larger share of the new jobs in 2015 and 2016. As a result, wage growth is expected to grow at an average annual rate of 4.2 percent during the period from 2015 through 2019.

The City's unemployment rate has fallen from its recessionary peak of 10.1 percent to 6.3 percent. In 2014, the unemployment rate fell by 1.7 percentage points, the largest decline in nearly two decades. While the City's unemployment rate remains higher than the national rate (5.7 percent), the gap narrowed by the end of 2014. Despite these improvements, certain segments of the population and some parts of the City have higher unemployment rates, and the share of long-term unemployed continues to be higher than before the recession.

Wall Street is one of the City's economic engines and a major source of tax revenues. While the securities industry has been profitable for the past six years, higher capital reserve requirements and the continued cost of legal settlements have constrained profitability during the past two years. The broker/dealer profits of the member firms of the New York Stock Exchange (the traditional measure of profitability) fell by 30 percent to $16.7 billion in 2013 (see Figure 5) and are projected to decline again in 2014.

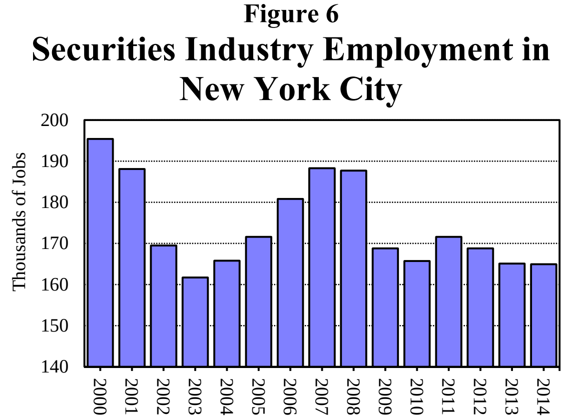
Figure 5



Note: Results are for broker/dealer operations of the NYSE member firms.
Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange

Employment in the securities industry in New York City stabilized during 2014, but the industry was 12 percent smaller than in 2007 before the financial crisis (see Figure 6). Although the industry added jobs during the last few months of 2014, it remains to be seen whether those gains will be sustained in 2015 (the February Plan expects the securities industry to add 3,000 jobs in 2015). While the industry is smaller, it remains well-compensated, with an average salary (including bonuses) of $355,900 in 2013, which is five times higher than the average salary of all other private sector jobs in the City.

Figure 6



Source: NYS Department of Labor

In March 2014, OSC estimated that the average securities industry bonus for 2013 was the third-highest on record. Compensation data for the industry (and for the six largest firms) suggests that 2014 bonuses may not increase much over last year's level, although bonuses deferred from prior years could lift total payments. The February Plan assumes a small increase in bonuses in 2014. OSC will release its annual bonus estimate later this month.

Although the construction industry also has not regained all of the jobs it lost during the recession, it has been adding jobs during the past few years. According to the New York City Department of Buildings, new building permits increased by 8 percent in 2014, and the New York Building Congress projects that construction spending in the City will total $35.3 billion in 2015, an increase of 7.3 percent from 2014.

The City's commercial and residential markets have improved significantly in recent years, with rising property values and a rebound in transaction activity helping to boost tax collections. Both markets have benefited from foreign investors, who have been attracted to the security and rising values of property in New York City. The strengthening dollar, however, could affect the level of foreign investment.

According to Green Street Advisors, the total market value of office buildings in Midtown Manhattan has rebounded from its recession low and is now 8 percent above prerecession levels, a new record. Data from the New York City Department of Finance show that sales of large Manhattan office buildings (those valued at $50 million or more) totaled $8.3 billion in 2014, the second-highest level since 2007. Residential sales throughout the City increased in 2014 to the highest level since 2007, driven by the demand for luxury apartments.

Nevertheless, there remains a shortage of affordable housing in New York City. The majority of residents are renters, and many households face serious rent burdens. In May 2014, the Mayor announced a ten-year plan to build and preserve 200,000 units of affordable housing in the City, building on affordable housing initiatives supported by his predecessors.

New York City is benefiting from a period of strong economic growth, but the possibility of a setback increases with each passing year. The U.S. economy has been gaining strength, but the economies of many Asian and European countries weakened in 2014, and this could affect trade and tourism.

Changes in federal fiscal and monetary policies also could impact the City. The Federal Reserve has begun to unwind the extraordinary accommodative monetary policies that helped the economy recover from the recession. Many observers expect the Federal Reserve to begin increasing interest rates during the third quarter of 2015. It remains to be seen whether the Federal Reserve can increase interest rates and reduce its unprecedented balance sheet without disrupting the financial markets and hurting the recovery.

III. Changes Since the June 2014 Plan

In June 2014, the City projected budget gaps of $2.6 billion in FY 2016, $1.9 billion in FY 2017 and $3.1 billion in FY 2018. Since then, the City has increased its tax revenue forecast by more than $4.5 billion through FY 2018 and has lowered its expenditure forecast by a net of $1 billion (see Figure 7). These resources helped generate a surplus of $1.6 billion in FY 2015, closed the budget gap in FY 2016, and reduced the out-year gaps to $1 billion in FY 2017 and $1.4 billion in FY 2018 despite new agency needs and higher collective bargaining costs for uniformed employees.

In the absence of an economic setback, the remaining budget gaps appear to be manageable. The gaps are relatively small (ranging from 1.8 percent to 3.3 percent of City fund revenues) and the City has substantial reserves, including a general reserve of $750 million in each of fiscal years 2016 through 2018, which, if unneeded, could be used to help close the following year's budget gaps.

Tax collections are now expected to be higher by $1.8 billion in FY 2015, mainly because strong job and wage growth is increasing personal income tax collections faster than the City had expected, property tax refunds have been lower, and a number of large tax audits were completed during the first part of the fiscal year. Tax collections are projected to be higher by an average of more than $900 million in each subsequent year.

The City has realized debt service savings totaling $1.6 billion during 2015 through 2018, with most of the savings coming from refinancing outstanding debt at lower interest rates. Pension contributions are also lower by $1.6 billion, reflecting better-than-expected investment earnings and the City Actuary's final valuation for FY 2014. The City's pension systems earned 17.5 percent on their investments in FY 2014, far more than the 7 percent expected rate of return.

In December 2014, the City reached tentative labor agreements with a coalition of eight unions that represent superior uniformed officers. The agreement will increase wages by 11 percent over seven years, which is one percentage point more than the May 2014 agreement with the United Federation of Teachers, which the City had assumed would set the pattern for all other unions. The February Plan includes resources to fund the agreement with the superior officers and assumes that the remaining uniformed unions will reach similar agreements with the City.

Since the beginning of the fiscal year the City has funded new agency needs that average more than $600 million annually. About two-thirds of that amount is concentrated in uniformed agencies and health and welfare agencies. For example, the City relieved the New York City Housing Authority of its obligation to reimburse the Police Department for police services, and increased funding for security and mental health services at correctional facilities, additional ambulance tours by the Fire Department, new training and equipment for police officers and correction officers, and homeless services. The City's improved financial outlook also allowed the City to reschedule the sale of taxi medallions, which postponed the receipt of $506 million from FY 2015 to future years, and to reduce the FY 2015 general reserve from $750 million to $300 million.

Figure 7
Financial Plan Reconciliation–City Funds
February 2015 Plan vs. June 2014 Plan
(in millions)

		Better/(Worse)		
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**
Surplus/(Gaps) Per June 2014	**$ - - -**	**$ (2,625)**	**$ (1,871)**	**$ (3,093)**
Revenue Reestimates				
Taxes				
Personal Income	626	459	360	371
Real Property	391	259	342	417
Real Estate Transactions	235	(17)	(18)	4
Business Taxes	141	113	81	48
Sales Tax	116	99	67	68
Other Taxes	100	36	33	26
Audits	203	2	2	2
Subtotal	1,812	951	867	936
Taxi Medallions	(506)	(48)	(161)	256
All Other	52	8	(11)	(13)
Total	**1,358**	**911**	**695**	**1,179**
Expenditure Reestimates				
Debt Service	424	548	369	302
General Reserve	450	- - -	- - -	- - -
Pension Contributions	13	299	396	919
Collective Bargaining	(261)	(137)	(94)	(156)
Agency New Needs				
Uniformed Agencies	(148)	(259)	(240)	(238)
Health and Welfare Agencies	(132)	(165)	(148)	(128)
Other Agencies	(170)	(266)	(267)	(278)
All Other	44	116	112	123
Total	**220**	**136**	**128**	**544**
Net Change During FY 2015	**1,578**	**1,047**	**823**	**1,723**
Surplus/(Gap)	**$ 1,578**	**$ (1,578)**	**$ (1,048)**	**$ (1,370)**
Surplus Transfer	(1,578)	1,578	- - -	- - -
Gaps Per February 2015 Plan	**$ - - -**	**$ - - -**	**$ (1,048)**	**$ (1,370)**

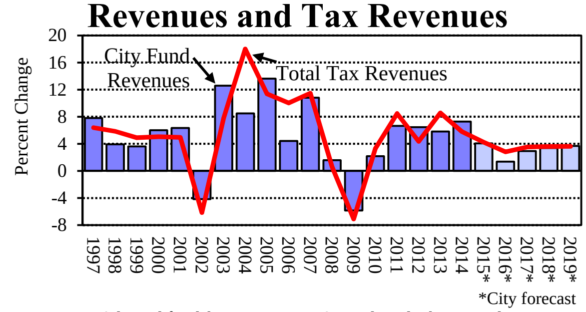
Sources: NYC Office of Management and Budget; OSC analysis

IV. Revenue Trends

After three years of weak growth due to the recession, City fund revenues grew at an average annual rate of 6.5 percent during fiscal years 2011 through 2014. Job growth has averaged 2.2 percent annually since 2010, and private sector job growth was even stronger, averaging 2.7 percent. Interest rates have been very low, which has been beneficial to the City's real estate markets, but many observers (as well as the February Plan) expect the Federal Reserve to begin raising interest rates during the third quarter of 2015.

The February Plan assumes that City fund revenues will grow by 4.1 percent in FY 2015 (see Figure 8), nearly double the rate anticipated at the beginning of the fiscal year but less than the growth rate in recent years. The City has now raised its tax revenue forecast by $1.8 billion since the beginning of the fiscal year to a record $50 billion. Nonetheless, OSC believes tax collections are likely to exceed the City's revised forecasts for FY 2015 by $250 million.

Figure 8
Annual Changes in City Fund Revenues and Tax Revenues



Note: Adjusted for debt service on TFA Bonds and tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The City expects job growth to ease in 2015, causing the growth in City fund revenues and tax collections to slow to 1.4 percent and 2.8 percent, respectively, in FY 2016. The City's conservative forecast is appropriate, particularly in the out-years of the financial plan when uncertainty is the greatest. The current economic recovery has already exceeded the average length of all recoveries since World War II, and a conservative forecast would cushion the impact of a significant economic setback. Nevertheless, OSC recognizes the potential for higher tax collections given the continued strength in the local economy.

The February Plan assumes that collections from tax audits will decline from $912 million in FY 2015 to $711 million in FY 2016, and then stay at that level during the remainder of the financial plan period. Miscellaneous revenues (excluding $1 billion transferred from the Health Stabilization Fund pursuant to a May 2014 agreement with the municipal unions) will increase by $363 million to $5.2 billion in FY 2016. The City is counting on the receipt of $1.3 billion over five years from the sale of taxi medallions beginning in FY 2015, but new alternatives to traditional taxis (e.g., smartphone applications such as Uber) may weaken the demand for medallions and thereby affect their sale price.

Details of the City's revenue forecasts are shown in Figure 9 and discussed below.

Figure 9
City Fund Revenues
(in millions)

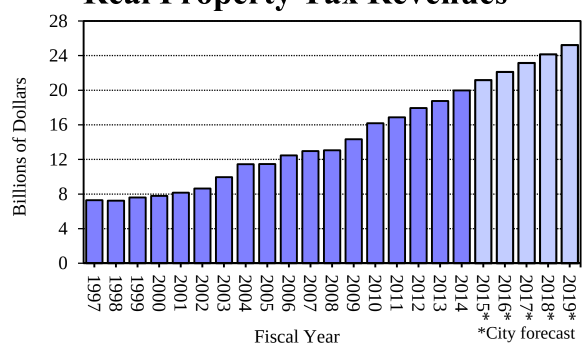
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Taxes					
Real Property Tax	$ 21,170	$ 22,113	$ 23,141	$ 24,151	$ 25,220
Personal Income Tax	9,817	10,076	10,308	10,591	10,908
Sales Tax	6,782	7,045	7,327	7,624	7,893
Business Taxes	6,100	6,262	6,393	6,578	6,809
Real Estate Transaction Taxes	2,461	2,450	2,543	2,642	2,732
Other Taxes	3,186	3,186	3,243	3,301	3,337
Audits	912	711	711	711	711
Subtotal	**50,428**	**51,843**	**53,666**	**55,598**	**57,610**
Miscellaneous Revenues	5,845	5,208	5,065	5,120	5,347
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Total	**$ 56,258**	**$ 57,036**	**$ 58,716**	**$ 60,703**	**$ 62,942**

Note: Miscellaneous revenues include tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Office of Management and Budget; OSC analysis

1. Real Property Tax

Since FY 2010 (the last year in which property tax rates were raised), property tax collections have increased at an average annual rate of more than 5 percent. Collections are projected to total $21.2 billion in FY 2015, one-third higher than they were in FY 2010 (see Figure 10). Although tax rates have not risen during this period, the average tax paid by residential home owners has increased by $1,000 and commercial property taxes have increased by an average of $20,000.

Figure 10
Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

The preliminary property tax roll for FY 2016 reflects continued strength in the real estate markets. The February Plan assumes that property tax collections will increase by 4.5 percent in FY 2016.

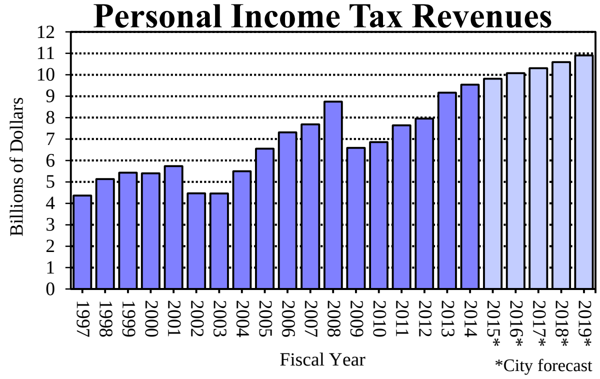
After FY 2016, the February Plan assumes that the real estate markets will soften as interest rates rise and demand wanes. Despite the City's expectation that the real estate markets will soften, property tax collections are still projected to grow at an average annual rate of 4.5 percent during fiscal years 2017 through 2019 because of provisions in State law that require increases in assessments for commercial and large residential properties to be phased in over five years.

2. Personal Income Tax

Personal income tax collections increased by 4 percent in FY 2014 and are projected by the City to increase by 2.9 percent in FY 2015. Strong job gains and higher bonuses helped drive collections. The City expects job growth to gradually slow and bonuses to decline next year. As a result, the February Plan assumes that personal income tax collections will grow by 2.6 percent in FY 2016 to nearly $10.1 billion (see Figure 11). In the later years of the financial plan period, growth in personal income tax collections is forecast to average 2.7 percent annually. This reflects the City's expectations of a modest rate of growth in jobs and capital gains.

Figure 11

Personal Income Tax Revenues



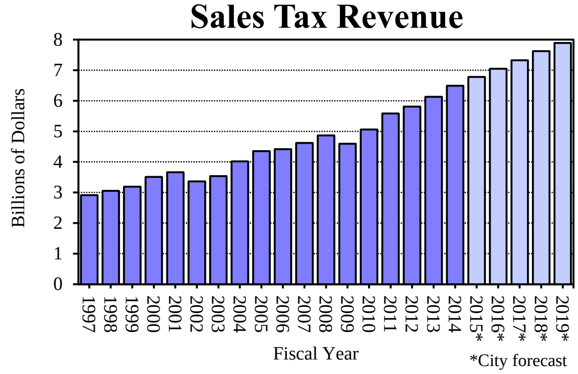
Sources: NYC Comptroller; NYC Office of Management and Budget

3. Sales Tax

Sales tax collections have benefited from strong employment gains as well as robust tourism. NYC & Company (the City's tourism organization) recently announced that 56.4 million visitors came to New York City in 2014 (the fifth-consecutive record-breaking year) and spent $41.4 billion, with much of that spending on goods and services subject to sales tax. As a result, the February Plan assumes that collections will rise by 4.4 percent to $6.8 billion in FY 2015 (see Figure 12). The City expects that collections will increase at an average annual rate of 3.9 percent during the remainder of the financial plan period as job growth slows.

Figure 12

Sales Tax Revenue



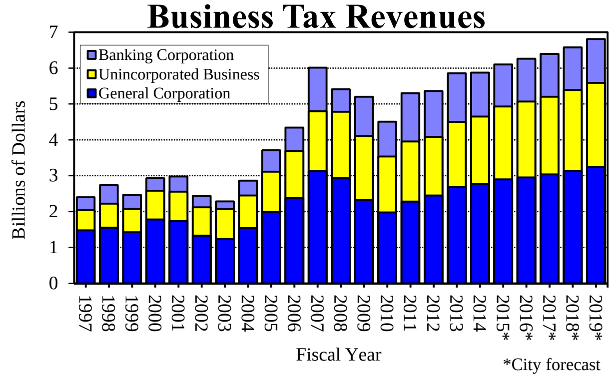
Sources: NYC Comptroller; NYC Office of Management and Budget

4. Business Taxes

The February Plan assumes that collections from the three business taxes (the general corporation, banking corporation and unincorporated business taxes) will grow by 3.8 percent to $6.1 billion in FY 2015, surpassing the previous record high in FY 2007 (see Figure 13). Collections are expected to grow by 2.7 percent in FY 2016 to $6.3 billion, and then by a similar rate in subsequent years. Corporate profits are expected to remain at a moderate level, with general corporation tax collections increasing by 1.7 percent, the weakest growth in six years. Wall Street is expected to remain profitable, though the industry will continue to deal with the effects of regulatory requirements and legal settlements related to the financial crisis.

Figure 13

Business Tax Revenues

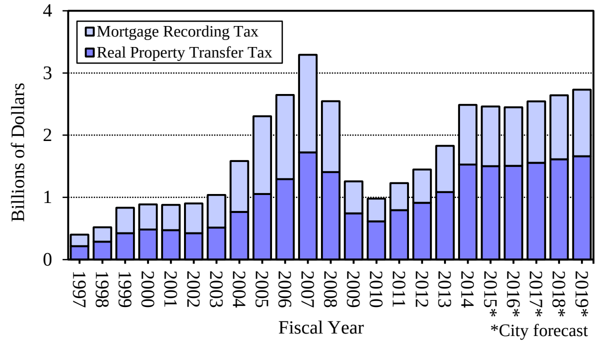


Sources: NYC Comptroller; NYC Office of Management and Budget

The State Executive Budget for Fiscal Year 2015-2016 includes legislation to implement changes in the City’s corporate taxes as proposed by the Mayor, which would largely parallel changes in State law enacted in 2014. Under the proposal, the banking corporation tax would be merged into the general corporation tax, and tax rates would be cut for small businesses and manufacturers. Reductions in tax revenue from these and other changes would be offset by a broadening of the City’s tax base and by making it more difficult for companies to shift income to jurisdictions with lower tax rates. The proposals are expected to be revenue-neutral, and would be effective retroactively to January 1, 2015.

5. Real Estate Transaction Taxes

Figure 14
Real Estate Transaction Taxes Revenue



Sources: NYC Comptroller; NYC Office of Management and Budget

The City's commercial and residental real estate markets remain strong, boosted by historically low interest rates and strong demand from both domestic and international buyers. Data from the New York City Department of Finance show that the value of sales for large Manhattan office buildings (those valued at $50 million or more) totaled $8.3 billion in 2014, the second-highest year since 2007. This trend is expected to continue into 2015. Residential sales throughout the City have also been increasing, and the total dollar value of all sales in 2014 was at its highest level since 2007.

The February Plan assumes that collections from the real estate transaction taxes will decline slightly to $2.5 billion in FY 2015 (see Figure 14), but collections are 9 percent higher than last year through the first half of the current fiscal year. In addition, collections do not yet reflect several large commercial transactions, such as the $2 billion sale of the Waldorf Astoria. Consequently, OSC believes that collections could exceed the City's revised forecast in FY 2015.

The City expects collections to remain flat in FY 2016 and then grow at an average annual rate of 3.7 percent during fiscal years 2017 through 2019. Much will depend on how quickly the Federal Reserve increases short-term interest rates and the impact that may have on long-term rates. The Federal Reserve has indicated that it will remain "patient" in decisions about the timing and scope of rate increases.

6. Miscellaneous Revenues

Miscellaneous revenues (excluding $1 billion transferred from the Health Stabilization Fund[5]) will increase by $363 million to $5.2 billion in FY 2016 (see Figure 15). The February Plan assumes that miscellaneous revenues will average $5.2 billion during the remainder of the financial plan period, including proceeds from the sales of new taxi medallions. Miscellaneous revenues will benefit from $100 million in asset sales in FY 2016. The City expects rising interest rates to result in additional interest income beginning in FY 2017.

5 In accordance with a May 2014 agreement with the municipal unions, the February Plan includes a nonrecurring transfer of $1 billion in FY 2015 from the Health Stabilization Fund.

Figure 15
Miscellaneous Revenues
(in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Water and Sewer Charges	$ 1,541	$ 1,563	$ 1,533	$ 1,534	$ 1,549
Charges for Services	933	926	926	926	926
Fines and Forfeitures	819	788	787	787	787
Licenses, Franchises, Etc.	612	603	577	574	574
Rental Income	271	271	271	271	271
Interest Income	17	45	134	163	163
Other	605	700	598	609	618
Subtotal	**4,798**	**4,896**	**4,826**	**4,864**	**4,888**
Sale of Taxi Medallions	47	312	239	256	459
Health Stabilization Fund	1,000	- - -	- - -	- - -	- - -
Total	**$ 5,845**	**$ 5,208**	**$ 5,065**	**$ 5,120**	**$ 5,347**

Note: Other includes tobacco settlement revenues used to pay TSASC debt service.
Sources: NYC Office of Management and Budget; OSC analysis

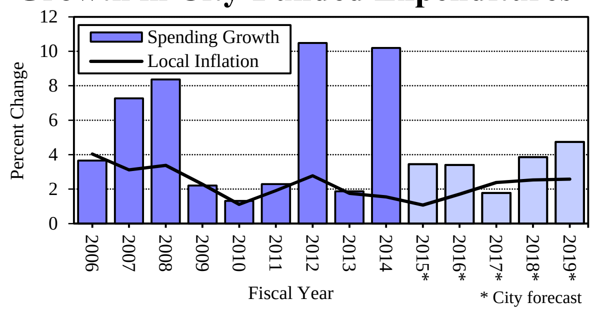
The City is counting on the receipt of $1.3 billion from the sale of the remaining 1,650 taxi medallions, which will be spread out during fiscal years 2015 and 2019 (a longer period of time than previously anticipated). In FY 2014, the City sold 350 of the 2,000 new taxi medallions that were authorized by State law in 2011, generating $359 million (more than $1 million per new medallion sold). The Taxi and Limousine Commission (TLC) plans to hold the next auction this spring, though an exact date has not been set. Recently, the growing presence of new for-hire vehicle services like Lyft and Uber, which offer electronic hailing and payment through smartphone applications, have changed the market value of current medallions and could affect the value of new medallions at auction.

V. Expenditure Trends

City-funded expenditures are projected to increase in FY 2016 by $1.9 billion (3.4 percent; see Figure 16) to reach $58.7 billion. The increase reflects the cost of collective bargaining agreements, and higher debt service and fringe benefit costs. Spending is projected to grow more slowly during FY 2017 (1.8 percent), but then resume growing at an average of more than 4 percent over the next two fiscal years, mostly due to the continuing impact of recent labor agreements. The February Plan includes a general reserve of $750 million in each of fiscal years 2016 through 2019, the largest amount ever.

Figure 16

Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers, TFA, TSASC and discretionary actions. City-funded expenditures grew by 10.2 percent in FY 2014 largely because of the cost of new labor agreements, which increased costs by $2 billion in that year.
Sources: NYC Office of Management and Budget; OSC analysis

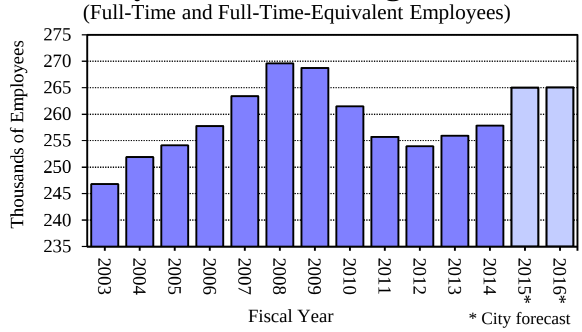
The City-funded workforce grew by 22,800 employees between fiscal years 2003 and 2008 (see Figure 17), but contracted by 15,666 employees over the next four years as agency cost-reduction initiatives were implemented to help weather the impact of the Great Recession. Staffing levels have been increasing since FY 2012, growing by about 2,000 employees in each of fiscal years 2013 and 2014. The February Plan assumes that City-funded staffing (both full-time and full-time-equivalents) will increase by nearly 7,200 employees in FY 2015 (excluding temporary hires), which would be the largest increase since the City began reporting full-time-equivalents in FY 2002. In the past, however, the City has not filled all of its budgeted positions.

Most of the planned hires will be concentrated in the uniformed and health and welfare agencies to staff new mayoral initiatives (for details, see Appendix B). The City also plans to hire another 3,522 employees in FY 2015 (mostly for education and social services programs), with most of these positions to be funded with federal and State grants.

Figure 17

City-Funded Staffing Levels

(Full-Time and Full-Time-Equivalent Employees)



Note: Staffing levels are as of June 30 of each fiscal year.
Sources: NYC Office of Management and Budget; OSC analysis

The February Plan is based on the trends shown in Figure 18 and discussed below.

Figure 18
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC Debt Service)
(in millions)

	FY 2015	FY 2016	Annual Growth	FY 2017	FY 2018	FY 2019	Average Three-Year Growth Rate
Salaries and Wages	$ 16,100	$ 16,888	4.9%	$ 17,045	$ 18,400	$ 19,832	5.5%
Pension Contributions	8,423	8,373	-0.6%	8,343	8,328	8,424	0.2%
Medicaid	6,353	6,322	-0.5%	6,322	6,322	6,322	0.0%
Debt Service	6,045	6,576	8.8%	6,996	7,335	7,863	6.1%
Health Insurance	4,234	4,580	8.2%	4,801	5,033	5,530	6.5%
Other Fringe Benefits	2,723	2,860	5.0%	2,945	3,025	3,258	4.4%
Energy	849	862	1.5%	901	945	978	4.3%
Judgments and Claims	555	570	2.7%	606	642	677	5.9%
Public Assistance	625	582	-6.9%	586	586	586	0.2%
General Reserve	300	750	NA	750	750	750	NA
Other	10,578	10,354	-2.1%	10,469	10,707	10,796	1.4%
Total	**$ 56,785**	**$ 58,717**	**3.4%**	**$ 59,764**	**$ 62,073**	**$ 65,016**	**3.5%**

Note: Debt service has been adjusted for surplus transfers and redemptions.
Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

In May 2014, the City and the United Federation of Teachers (UFT), which represents the City's teachers and paraprofessionals (33 percent of the workforce), reached a nine-year labor agreement. The UFT agreement compensates teachers and other UFT members for two annual wage increases of 4 percent that were provided to most other municipal unions in 2009 and 2010 but not to members of the UFT.[6,7] The agreement also increases wages by 10 percent over a seven-year period. In late 2014, the City reached agreement with a coalition of eight unions that represent uniformed superior officers, and it recently reached agreement with the union that represents police sergeants. The agreements will increase wages by 11 percent over seven years, which is one percentage point more than the UFT pattern for this period.

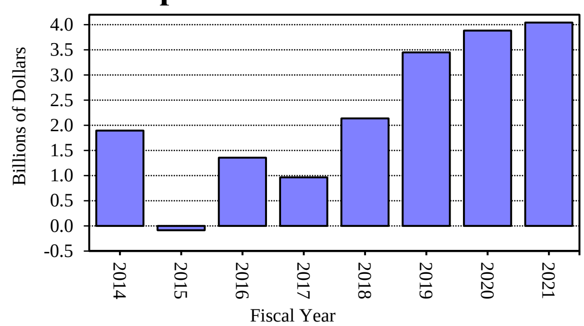
6 The City had set aside resources to increase the wages for members of the UFT by 4 percent in each of calendar years 2009 and 2010, but the City redirected those resources in 2010 to offset a sharp reduction in State education aid, which resulted from the State's efforts to balance its budget during the recession.

7 The cost of compensating UFT members who retired between November 1, 2009 and June 30, 2014, for the time they worked without pay raises is expected to exceed the $180 million set aside in the Structured Retiree Claims Settlement Fund. An independent arbitrator has modified the terms of the UFT wage agreement to generate offsetting savings, which will cover the difference at no additional cost to the City.

The February Plan assumes that the agreements with the UFT and the superior officers will set wage increase patterns (10 percent over seven years for civilian employees, 11 percent over seven years for uniformed employees) for all of the unions with expired labor agreements. As of February 2015, the City had reached new labor agreements with 76 percent of its unionized workforce, including District Council 37, which represents most civilian employees. The Patrolmen's Benevolent Association (which represents police officers) has not yet reached agreement with the City, and the parties have begun binding arbitration.

The City estimates that these agreements will cost $14.2 billion during fiscal years 2014 through 2018, but that the cost will be partially offset by resources that had been set aside by the City in its labor reserve prior to reaching the UFT agreement ($3.5 billion), and by new resources ($4.4 billion) that are expected to result from a separate agreement between the City and its unions (see "Health Insurance" later in this section). The net budgetary impact during fiscal years 2014 through 2018 is expected to total $6.3 billion.

Figure 19
Net Budgetary Impact of Anticipated Labor Settlements



Sources: NYC Office of Management and Budget; OSC analysis

The budgetary impact will be greatest during fiscal years 2018 through 2021, and will reach more than $4 billion in FY 2021 (see Figure 19). The cost continues to rise after the expiration of the contracts because of lump-sum payments scheduled for those years to compensate members of the UFT and other employees for the time they went without wage increases, as well as the full impact of wage increases granted in prior years.[8]

The February Plan includes resources to fund annual wage increases of 1 percent after the expiration of the current round of collective bargaining, which would begin in FY 2018 for most employees. The City estimates that each additional percentage point increase in wages would cost $365 million annually.

8 The City estimates that lump-sum payments will total $7.2 billion during fiscal years 2014 through 2021, of which $4.2 billion will be included in the budgets for fiscal years 2019 through 2021 after most contracts expire in 2018.

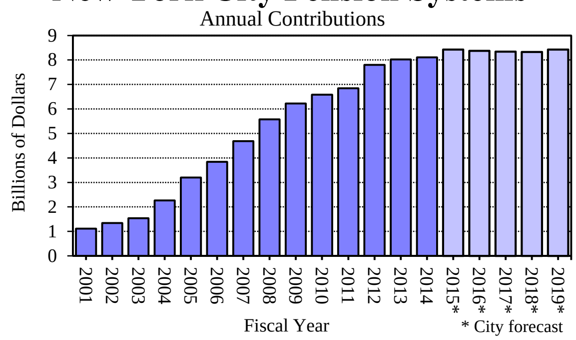
2. Pension Contributions

After rising rapidly over the past decade, the growth in City-funded pension contributions has slowed significantly in recent years. The slowdown reflects the impact of changes in assumptions and methodologies used to calculate City pension contributions,[9] better-than-expected investment returns over the past five years, and savings from lower-cost pension plans for City employees hired after March 31, 2012. For example, strong investment earnings during fiscal years 2013 and 2014 generated cumulative budgetary savings of nearly $3.4 billion during the financial plan period. The resources were used to help balance the budget and to fund new labor agreements.

Though pension contributions have not declined, they are projected to remain relatively constant during the financial plan period (averaging $8.4 billion), which is a sharp contrast to the rapid growth during the past decade (see Figure 20).

Figure 20

New York City Pension Systems



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

As a result of the Great Recession, the assets of the City's pension funds declined by 23 percent over two years to $85.9 billion in FY 2009. Since then the assets have nearly doubled, to $160.6 billion as of the end of FY 2014. Investment returns have exceeded expected gains in four of the past five years, and last year the pension systems earned, on average, nearly 17.5 percent on their investments (compared to an expected return of 7 percent).

The Governmental Accounting Standards Board has promulgated new reporting standards for state and local government pension plans, which the City has implemented one year earlier than required. According to the new standards, the City's five pension systems had sufficient assets to fund, on average, 72.5 percent of their accrued pension liabilities as of June 30, 2014. An independent actuarial consultant recently completed a biennial audit of the pension systems as required by the City Charter, but has deferred making any recommendations until a final review is completed in 2015.

9 These include a longer amortization period for unfunded liabilities, which held down contributions during the financial plan period but will result in higher costs over the longer term.

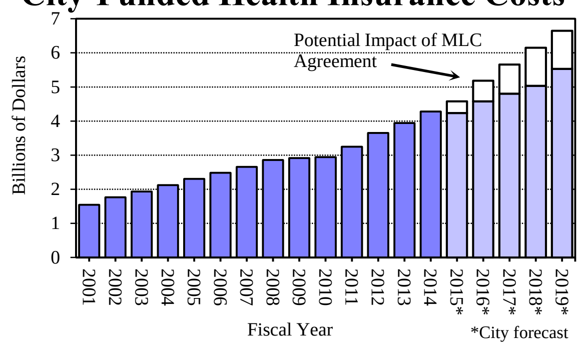
3. Health Insurance

An agreement between the City and the Municipal Labor Committee (MLC), which represents the City's unions, is expected to generate health insurance savings of $400 million in FY 2015, $700 million in FY 2016, $1 billion in FY 2017 and $1.3 billion in FY 2018, with recurring savings of $1.3 billion. The savings would be used to help fund recently negotiated labor agreements.

If the savings are realized as planned, the growth in health insurance costs between fiscal years 2014 and 2019 would slow from a projected average annual rate of 9.2 percent to 5.3 percent. Nevertheless, health insurance costs would still reach $5.5 billion by FY 2019 (see Figure 21), 40 percent more than the cost in FY 2013.

Figure 21

City-Funded Health Insurance Costs



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

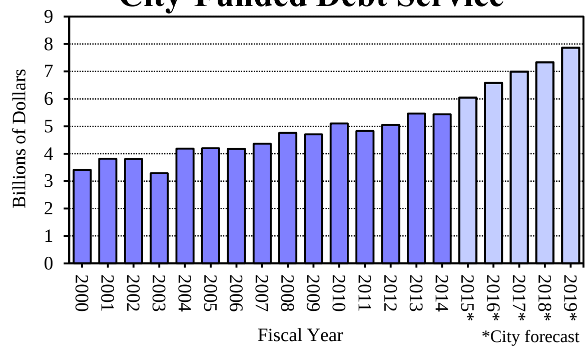
In December 2014, the City reported that it was on track to meet the savings targets for fiscal years 2015 ($400 million) and 2016 ($700 million), but there has not yet been mutual agreement on the specific proposals to achieve the expected savings. Pursuant to the MLC agreement, a joint labor-management committee was formed to identify actions to reduce the cost of health care while at the same time improving the quality of care. The City and the MLC have each hired independent health care actuaries to measure the savings anticipated from agreed-upon initiatives. Working with a health care cost-management professional, the City has developed a detailed plan of actions to achieve, or even exceed, the planned savings target of $3.4 billion during the financial plan period.

Under the MLC agreement, savings from lower-than-planned increases in health insurance premiums would be credited toward meeting the targets of the agreement. For example, the City had assumed that health insurance premiums for active employees would grow at an annual rate of 9 percent, which was consistent with historical trends. In the fall of 2014, the State approved an increase in health insurance premiums in FY 2016 of less than 2.9 percent for the Health Insurance Plan of Greater New York (the City's principal insurer). The lower-than-expected increase in the HIP premium will generate estimated savings of $335 million in FY 2016, $367 million in FY 2017, $403 million in FY 2018 and $431 million in 2019.

4. Debt Service

Since the beginning of the current fiscal year the City has realized debt service savings of $1.6 billion through FY 2018, largely because of low interest rates. For example, the City refinanced the debt of the Sales Tax Asset Receivable (STAR) Corporation for savings of $649 million.[10] In addition, the City realized savings from refinancing general obligation bonds ($133 million) and from favorable variable rates ($117 million). The Hudson Yards Infrastructure Corporation (HYIC) generated $188 million (mostly from the sale of development rights), which reduced by an equal amount the City's obligation to fund HYIC interest payments. The City also saved $174 million by issuing less debt than planned during the financial plan period.

Figure 22
City-Funded Debt Service



Note: Debt service amounts are adjusted for prepayments and defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Despite these savings, the February Plan assumes that City-funded debt service (adjusted for surplus transfers) will grow by more than $600 million between fiscal years 2014 and 2015 to reach $6 billion (see Figure 22), and will reach $7.9 billion by FY 2019. These estimates, however, assume that interest rates for both variable-rate and fixed-rate debt will rise quickly to levels much higher than current market conditions. Many observers believe that interest rates will not begin to rise until the third quarter of calendar year 2015 and perhaps even later, which could generate additional saving opportunities in FY 2016. While OSC expects tax revenues to be higher than forecast by the City and expects debt service costs to be lower, the City forecasts that debt service as a share of tax revenues would reach 14 percent by FY 2019 compared to 11 percent in FY 2014.

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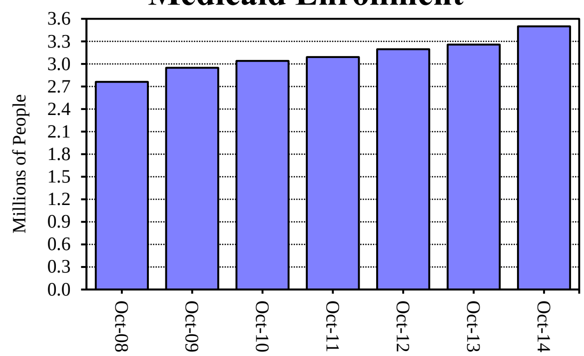
[10] In 2003, the City created the STAR Corporation to refinance outstanding debt of the Municipal Assistance Corporation by securitizing annual payments from the New York Local Government Assistance Corporation, which provided budgetary relief of $2.5 billion during fiscal years 2005 through 2008. In October 2014, the City refinanced outstanding STAR debt, and STAR transferred the savings to the Transitional Finance Authority, which defeased debt due in fiscal years 2016 through 2018.

5. Medicaid

Enrollment in the federal Medicaid program in New York City has grown steadily since the recession, and the most recent data indicate that enrollment reached 3.5 million people in October 2014 (see Figure 23), representing a little more than 40 percent of the population. Growth accelerated after January 1, 2014, when provisions of the federal Affordable Care Act (ACA) that require health insurance coverage for most individuals became effective. The February Plan assumes that the City's share of the cost of Medicaid will level off at $6.3 billion in FY 2016 as the State completes a three-year takeover in the growth of the local share of Medicaid.

Figure 23

Medicaid Enrollment



Sources: NYS Department of Health; OSC analysis

In October 2014, the United States filed a civil lawsuit against New York City and a computer services vendor, alleging that computer programs were altering billing data and resulting in millions of dollars in fraudulent Medicaid claims. The lawsuit seeks triple damages and penalties, but the potential financial impact on the City has not yet been determined.

The February Plan assumes the receipt of $67 million in Medicaid reimbursement in FY 2015 ($97 million annually thereafter) for services provided by the Department of Education (DOE) to students with special needs. However, the DOE has had problems documenting such claims and, until it can demonstrate that it has overcome these problems, OSC considers the receipt of $50 million in FY 2015 and $80 million in subsequent years to be uncertain.

6. Public Assistance

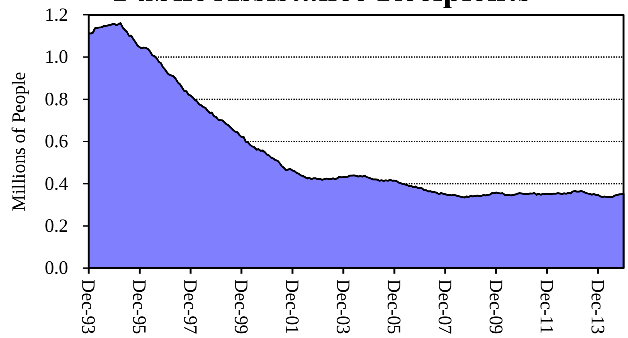
Through the recession and recovery, the public assistance caseload has remained relatively stable over the past ten years, averaging slightly more than 360,000.[11] This level is less than one-third of the peak reached in 1995, prior to national welfare reform (see Figure 24). At that time, President Clinton signed into law sweeping changes to the nation's welfare system, including placing a time limit on benefits and imposing a work requirement on many recipients, which led to dramatic reductions in the public assistance caseload.[12]

11 Public assistance consists of temporary cash grants for shelter, utilities and other expenses. Benefits are awarded to eligible clients based on income and resources, household composition and citizenship status. Most recipients are required to engage in work activities.

12 The 2006 reauthorization of Temporary Assistance to Needy Families imposed financial penalties on states for not meeting required work participation rates.

The February Plan assumes that the public assistance caseload will remain steady during the financial plan period, and that City-funded expenditures for public assistance will average slightly less than $600 million annually. However, the City has recently enacted a series of changes to the public assistance program, including allowing more education and training programs to count toward work requirements. The impact of these proposals on the size of the caseload and the ability of public assistance recipients to obtain better-paying jobs remains to be seen.

Figure 24
Public Assistance Recipients

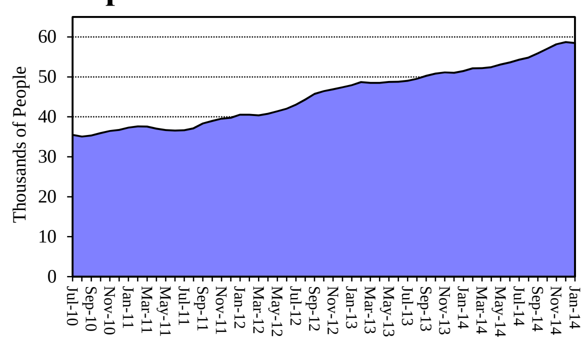


Sources: NYC Human Resources Administration; OSC analysis

7. Homeless Services

As shown in Figure 25, an average of almost 58,500 people were residing in shelters operated by the Department of Homeless Services (DHS) during January 2015, and nearly half of them were children. This represents an increase of 57 percent in the shelter population in just four years and an increase of 14 percent over the past year. Much of the growth resulted from the City's termination of a rent subsidy program for homeless families and individuals in April 2011, following the State's withdrawal of funding.

Figure 25
People in DHS Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

Since January 2014, the City has announced a number of initiatives to prevent homelessness and to reduce the number of people in shelters. For example, the DHS has expanded the Homebase prevention program, which provides assistance to families and individuals at risk of homelessness, and those who have recently left the shelter system. In addition, the New York City Housing Authority has given priority to families in shelters (reinstituting a policy that was terminated in 2005), and has placed more than 900 families, exceeding its annual goal of 750 families.

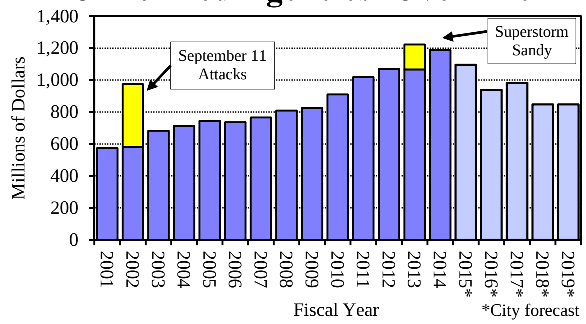
The City and the State have developed five programs that provide temporary rental assistance and support services for people in homeless shelters and other types of temporary housing, including programs that target working families, families affected by domestic violence, chronically homeless people and older adults. Since July 2014, more than 700 families with children and adult households have benefited from these programs. Also, the Governor's executive budget includes additional funding for homeless services.

Despite these initiatives, the number of people in homeless shelters continues to rise. The February Plan assumes that the City-funded cost of sheltering homeless people in DHS facilities will reach $445 million in FY 2015, including an additional $36 million to cover the increase in the shelter population. While the City expects the costs for homeless services to decline in subsequent years, this expectation may be premature given current trends.

8. Uniformed Agencies

Overtime costs in the uniformed agencies were nearly 19 percent higher than planned during the first seven months of the current fiscal year. As a result, the City raised its forecast for the year by $33 million to nearly $1.1 billion (see Figure 26). OSC estimates that overtime will exceed the City's revised forecast by $50 million in FY 2015 (even after considering the potential for additional federal grants), and by $100 million in each subsequent year.

Figure 26
Uniformed Agencies' Overtime

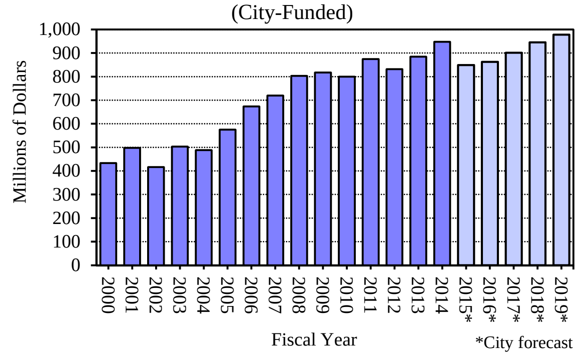


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

9. Energy

Energy costs (i.e., electricity, fuel and heat) rose sharply between fiscal years 2004 and 2008, mostly as a result of higher prices for oil and natural gas (see Figure 27). Costs remained relatively stable during the next two years, then rose by 9 percent in FY 2011, reflecting a harsh winter. Another cold winter during FY 2014 contributed to record-high costs of $935 million. The February Plan assumes that energy costs will decline in FY 2015 to $849 million despite the harsh winter, mostly as a result of lower electric and natural gas prices. Costs are then expected to increase by 15 percent to $978 million by FY 2019.

Figure 27
Energy Costs
(City-Funded)

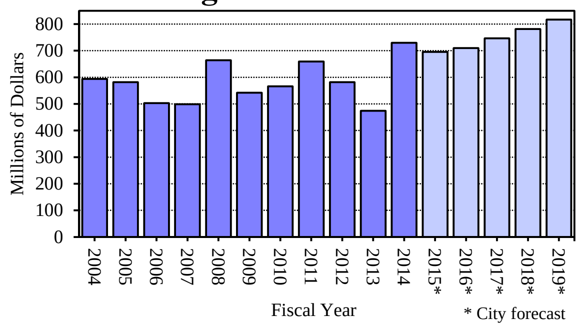


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

10. Judgments and Claims

The cost of judgments and claims reached a record $730 million in FY 2014 ($603 million excluding costs associated with the Health and Hospitals Corporation), which is nearly 29 percent more than the average annual cost over the ten prior years. Most of the increase comes from claims related to medical malpractice at the municipal hospitals, as well as claims related to civil rights violations and police actions. The February Plan assumes that these costs will decline in FY 2015 before growing to $817 million by FY 2019 (see Figure 28).

Figure 28
Judgments and Claims

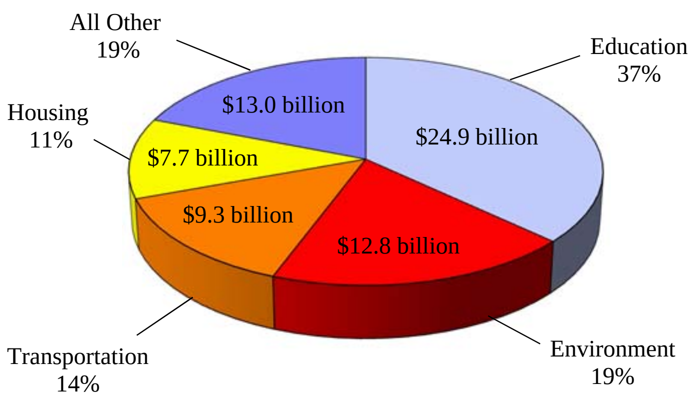


Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

VI. Preliminary Ten-Year Capital Plan

In conjunction with its February Plan, the City also released its biennial preliminary ten-year capital plan, which totals $67.7 billion and covers fiscal years 2016 through 2025. The proposed capital plan is $14 billion (26 percent) larger than the current ten-year plan to better reflect recent levels of capital investment, and the City's contribution ($60 billion) is 50 percent larger. More than two-thirds of the increase is focused in education ($5.3 billion) and housing ($4.5 billion).

Figure 29
Ten-Year Capital Plan Allocation



Sources: NYC Office of Managment and Budget; OSC analysis

As shown in Figure 29 and discussed below, more than three-fourths of the capital resources would be invested in projects involving education, environmental protection, transportation and housing.

- Education projects would be allocated $24.9 billion and mostly would support rehabilitation of school buildings ($10.6 billion), system expansion ($7.4 billion), and educational enhancements such as new computers and internet access ($2.7 billion).
- Environmental protection projects ($12.8 billion) would primarily include water pollution control upgrades ($5.4 billion); water mains, sources and treatment ($3.6 billion); and sewer repair ($2.6 billion).

- About half of the $9.3 billion in transportation allocations would go toward the reconstruction and rehabilitation of bridges. Of this amount, the capital plan allocates funding to reconstruct 44 bridge structures ($2.1 billion), rehabilitate 26 bridge structures ($2.1 billion), and perform rehabilitation work on the East River bridges ($297 million).
- Housing projects ($7.7 billion) primarily include projects that will help the City reach its goal of building and preserving 200,000 affordable apartments over the next ten years. Housing preservation will be allocated $2.5 billion, special needs housing (such as for senior citizens and disabled people) will receive $2.1 billion, and allocations for new construction will total $2 billion.

VII. Semi-Autonomous Entities

As discussed below, a number of semi-autonomous entities have a financial relationship with the City.

1. Department of Education

The February Plan allocates $27.2 billion to the Department of Education (DOE) for FY 2016, an increase of nearly $899 million. Of this amount, 56 percent ($15.2 billion) will come from the City; 37 percent ($10.2 billion) will come from the State; and the remainder will come from the federal government (6.2 percent) and other sources. Nearly half (45 percent) of the allocation will go to fringe benefits (including pensions), debt service and pass-throughs (e.g., charter schools). The remainder ($15 billion) will be allocated to educational and support programs (e.g., transportation).

The Governor has proposed increasing State education aid by as much as $1.1 billion (4.8 percent) statewide for the 2015-16 school year.[13] The proposed increase, however, is dependent upon the State Legislature approving the Governor's other education proposals, including modifications to teacher tenure and evaluation, and increasing the number of charter schools. Although the Governor has not yet indicated how much each school district would receive, in the past the City has received about 40 percent of the statewide increase in education aid. If this pattern holds, State school aid to the City would increase by $404 million in FY 2016, which is $127 million more than anticipated in the February Plan.

Last year, the City received the largest increase in State education aid since FY 2008, and if the Governor's proposals are approved, State aid to the City could increase faster than assumed in the February Plan. Nonetheless, the Mayor has called on the State to increase education aid more quickly to meet funding targets under the 2007 settlement agreement of the Campaign for Fiscal Equity litigation. The State initially met targets under the agreement, but the recent recession caused a large drop in State tax revenues, resulting in large cuts in education aid to localities.

The City intends to further expand full-day prekindergarten and after-school programs for middle-school students, which are funded in the current school year by State education aid. The City reports that more than 53,000 children were enrolled in full-day prekindergarten programs at the beginning of the current school year, which is 33,000 more than last year.

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13 Of this amount, $50 million would be allocated for competitive grants, including $25 million to support an expansion of half-day and full-day prekindergarten services for three-year-olds in high-need school districts.

2. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC), the largest municipal hospital system in the country and the largest provider of health care to uninsured City residents, faces serious financial challenges. The HHC relies heavily on Medicaid (which provides 64 percent of total patient revenue), and is significantly affected by State and federal government actions that impact Medicaid.

The HHC has faced a significant structural imbalance in its finances for years, and despite efforts to solve the underlying imbalance, the situation is expected to worsen in the absence of corrective measures. The HHC ended FY 2014 with a cash balance of $287 million, which is enough to meet its needs for only 18 days. Operating expenses are projected to grow by 24 percent between fiscal years 2014 and 2019, while revenues are expected to grow by only 2 percent.

In light of the challenging situation, the City has provided additional financial assistance. It funded $750 million of the HHC's financial obligations during fiscal years 2013 and 2014, including debt service on City bonds issued on the HHC's behalf and the cost of medical malpractice. The City has agreed to forgo repayment of $300 million for FY 2013. The HHC has repaid $140 million of the amount owed from FY 2014, and the remaining $310 million is expected to be repaid by the end of FY 2015. The City has also set aside $1.4 billion to fund new labor agreements at the HHC.

The HHC is also counting on the receipt of $1.3 billion in retroactive Medicaid reimbursement in FY 2015, but the claims have not yet been approved by the federal government. OSC's concern about this situation increases with each passing month.

As part of its plan to restore long-term structural budget balance, the HHC was counting on the receipt of $2 billion in federal funds over five years (including $384 million in FY 2015) to help reinvent the municipal hospital system. The HHC had planned to use those resources to reduce utilization of costly inpatient and emergency room services by increasing access to primary care, improving management of chronic health conditions, and integrating mental health and substance abuse treatments. The HHC has yet to update the status of its anticipated receipt of these federal funds.

3. Metropolitan Transportation Authority

In October 2014, OSC issued a report on the July 2014 financial plan of the Metropolitan Transportation Authority (MTA). The report found that the MTA's short-term financial outlook continues to improve with the economy, mostly as a result of higher-than-anticipated tax revenues and increasing subway ridership as well as from slower growth in costs related to fringe benefits, debt service and energy. As a result, the MTA has been able to reduce its operating budget gaps, reach new labor agreements without raising fares and tolls any faster than already planned, and fund new transit services. The MTA's February 2015 financial plan shows further improvement in the

MTA's finances as subway ridership continues to reach record levels and commercial real estate transaction tax collections continue to rebound. The February Plan projects a balanced budget for calendar years 2014 through 2017, and a budget gap of $305 million in 2018. The forecast includes the recently approved fare and toll increases of 4 percent for 2015 and assumes a similar increase in 2017.

The MTA still faces the challenge of adequately funding its next capital program without putting the financial burden on riders. The MTA's proposed $32.1 billion capital program for 2015-2019 has a $15.2 billion funding gap. The Governor's executive budget for State fiscal year (SFY) 2015-2016 would allocate more than $1.1 billion to the 2015-2019 capital program, including $250 million toward the cost of linking the Metro-North Railroad to Penn Station, and building four new rail stations in the Bronx. The City's preliminary ten-year capital strategy includes $200 million for the MTA's 2015-2019 capital program, compared with a contribution of $750 million to the MTA's current five-year capital program (including $250 million anticipated from the sale of City assets).

The Governor's executive budget would also increase funding to the MTA from the Metropolitan Mass Transportation Operating Assistance (MMTOA) account by $104 million, and would dedicate those resources to capital purposes. While the increase in MMTOA funding is $36 million more than had been anticipated, the MTA had assumed that the additional resources would be available for operating budget purposes in 2015. To maintain budget balance, the MTA has indicated that it will reduce the amount of operating funds dedicated to the capital program. The executive budget would provide the MTA with an additional $37 million from other State resources.

In addition, the Governor has proposed building an AirTrain link along the Grand Central Parkway from the No. 7 subway station at Willets Point, Queens, to La Guardia Airport, at a cost of approximately $450 million. While the State would contribute toward the cost of the project, most of the funding would be expected to come from the MTA and the Port Authority of New York and New Jersey.

Move NY has proposed charging tolls on the East River bridges and below 60th Street in Manhattan, with the proceeds dedicated to lowering tolls on the outer-borough crossings and to funding transportation capital projects. Move NY estimates that its proposal would raise an estimated $1.5 billion annually for transportation capital projects, including $1.1 billion for the MTA's capital program.

In the absence of new sources of capital funding, the MTA could be required to close the capital program funding gap through a combination of program reductions and increased borrowing, which is how it closed most of the funding gap in the current capital program. Each $1 billion borrowed would increase debt service by an amount comparable to a 1 percent increase in fares and tolls. In the months ahead, the MTA will be working closely with its funding partners to fully fund the capital program at an appropriate level.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is a critical component of the City's supply of affordable housing. As the City's largest landlord, NYCHA manages approximately 180,000 apartments with more than 400,000 residents. In total, these units account for more than 8 percent of the rental units citywide. NYCHA also manages the nation's largest Section 8 housing program, which provides rent subsidies for more than 91,000 private apartments that house 235,000 residents. On average, NYCHA residents pay 30 percent or less of their annual incomes to rent. Currently, more than 247,000 families are on the waiting list for a NYCHA apartment.

Over the years, NYCHA has faced significant fiscal and management challenges that have threatened its ability to provide safe and affordable housing. For example, NYCHA has experienced significant cuts in federal subsidies (which make up 50 percent of its operating budget and 70 percent of its capital budget) and difficulties making timely repairs. In November 2014, NYCHA approved a five-year financial plan, which projected a budget gap of $98 million for calendar year 2015 and even larger gaps for subsequent years.

As part of its efforts to close the gaps and to fund capital improvements, NYCHA recently sold a 50 percent stake in certain NYCHA-owned apartment buildings to a private firm, which is expected to benefit NYCHA by $360 million over 15 years. The City has relieved NYCHA of its obligation to reimburse the City for police services, which will benefit NYCHA by a total of $219 million through FY 2018, and it intends to dedicate more than $210 million to increase safety and improve maintenance. Additionally, the Manhattan District Attorney's office plans to invest $101 million from bank forfeitures into efforts to reduce violent crime at NYCHA. NYCHA has not yet released a revised financial plan showing the impact of these developments.

VIII. Other Issues

As discussed below, a number of other issues could affect the February Plan.

1. Impact of the State Budget

On January 21, 2015, the Governor released his executive budget for SFY 2015-2016. The Governor has proposed increasing State education aid by as much as $1.1 billion (4.8 percent) statewide, but the Governor has made the increase dependent upon the State Legislature approving his other education proposals, including changes to teacher evaluation and tenure, and increasing the number of charter schools. Local school districts would become eligible for their share of the increase upon implementing the changes by September 1, 2015.

The Governor has also proposed increasing State funding to programs that assist homeless people in New York City by $403 million over a four-year period. The State would place a cap on the City's contribution toward the cost of State-run juvenile justice facilities in New York City (saving the City $220 million, to be applied to programs for homeless people), and the remainder would come from State proceeds from a settlement with JPMorgan Chase ($183 million). The benefit would be partly offset by a reduction in State funding for emergency homeless prevention services (estimated at $15 million to $22 million annually).

The Governor's executive budget includes legislation to implement changes in the City's business taxes, as proposed by the Mayor, which would largely parallel changes in State law enacted in 2014. Under the proposal, the banking corporation tax would be merged into the general corporation tax, and tax rates would be cut for small businesses and manufacturers. Reductions in tax revenue from these and other changes would be offset by a broadening of the City's tax base and by making it more difficult for companies to shift income to jurisdictions with lower tax rates. The proposals are expected to be revenue-neutral and would be effective retroactively to January 1, 2015.

The executive budget also includes proposals that do not directly impact the City's financial plan but would benefit New York City residents. These include proposals to create a new real property tax credit for home owners and renters, as well as revisions to the STAR program. When fully implemented, the proposed real property tax credit could benefit more than 671,000 renters and nearly 210,000 home owners in New York City. (The average credit is estimated to be $445 for renters and $872 for home owners.) The executive budget would also eliminate the New York City STAR personal income tax rate reduction for taxpayers with incomes above $500,000 (this proposal would not impact the City's budget). The Governor would also allocate $700 million to help fiscally distressed health care providers in eastern and central Brooklyn to invest in capital improvements.

2. Impact of the Federal Budget

On February 2, 2015, the President released his proposed budget for federal fiscal year (FFY) 2016, which begins on October 1, 2015. Many of the President's proposals have been criticized by leaders of the House and Senate and are unlikely to be implemented in their current form, if at all. For example, the President's budget would rescind cuts that had been agreed upon under an arrangement with Congress that ended the 2013 budget impasse. If the budget is rejected by Congress, the City could experience a significant loss in federal funding.

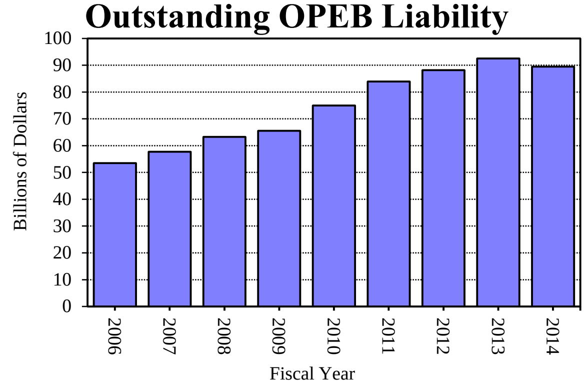
The President has also proposed increased funding for education, child care, Section 8 rental subsidies and other programs that would benefit New York City. Additionally, the President has proposed new investments in infrastructure and free tuition for two years of community college, and expanding tax credits for higher education, child care and working families.

The President proposes to fund these initiatives and reduce the deficit by increasing taxes on high-income earners, raising capital gains tax rates, implementing a tax on the income of U.S. corporations held in foreign subsidiaries, and imposing a fee on financial firms with assets exceeding $50 million. Additional savings would be realized by cutting Medicare payments to health care providers and increasing Medicare premiums and co-payments for enrollees.

3. Other Post-Employment Benefits

The City estimates that its unfunded liability for post-employment benefits other than pensions (OPEBs) declined by $3 billion to $89.5 billion in FY 2014, the first decline since the City began reporting its liability in 2006 (see Figure 30). The decline reflects lower-than-expected growth in health insurance premiums and an increase in the City's contribution to the OPEB trust during FY 2014.

Figure 30
Outstanding OPEB Liability



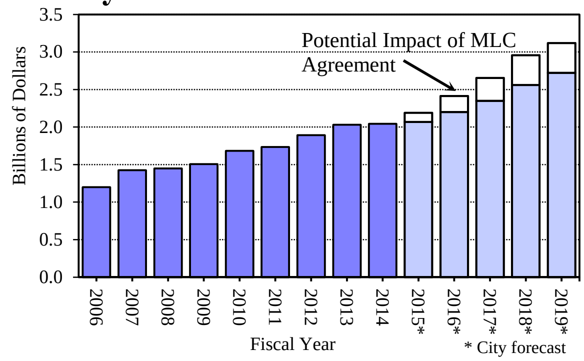
Sources: NYC Actuary; OSC analysis

However, the Governmental Accounting Standards Board (GASB) is considering two draft statements that, if implemented, could increase the City's OPEB liability. The proposed changes would conform the standards for measuring OPEB liabilities with those for pension liabilities. In addition, entities that do not fund their OPEB liabilities on an actuarial basis would be required to discount future costs using an interest rate that is lower than the entity's assumed rate of return on investments.

The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2 billion in FY 2014 to $2.7 billion in FY 2019 (see Figure 31), an increase of 33 percent in five years. These estimates reflect the City's expectation that an agreement between the City and the municipal unions to reduce the cost of municipal health insurance will also reduce the rate of growth in the cost of OPEBs.

Figure 31

Pay-As-You-Go Cost of OPEBs

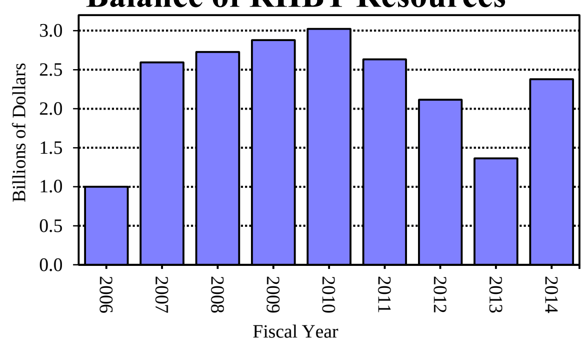


Sources: NYC Office of Management and Budget; OSC analysis

In FY 2006, to help fund the future cost of OPEBs, the City established the Retiree Health Benefits Trust (RHBT) and deposited $2.5 billion of surplus resources into the trust in fiscal years 2006 and 2007. These resources were invested and earned interest, with the balance peaking at more than $3 billion in FY 2010. The RHBT was intended to help fund a future liability, but the City has used it as a rainy-day fund to help balance the budget. The City drew down much of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the recent recession (see Figure 32). The City had planned to transfer $1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew much faster than anticipated, which permitted the City to rescind the planned transfer and to add $864 million (leaving a balance of $2.4 billion at the end of FY 2014).

Figure 32

Balance of RHBT Resources



Note: Adjusted for prepayments.

Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

In addition, legislation was recently proposed by a City Council Member that would amend the City Charter to require the City to contribute annually to the RHBT in an amount equal to 5 percent of the PAYGO cost of OPEBs. Under certain conditions, the funding requirement could be reduced or waived, and the City could draw down funds from the RHBT to balance the budget.

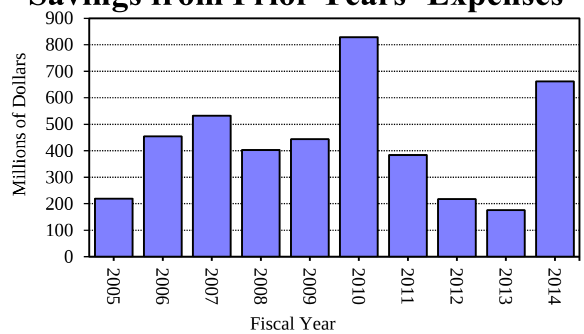
4. Prior Years' Expenses

At the end of each fiscal year, the City estimates the amount of expenses that have been incurred but not yet paid, and the amount of revenues earned but not yet received. The City generally makes conservative estimates because an unfunded liability has a budgetary impact in the current fiscal year. Over the past ten years, the City has realized net resources averaging $432 million annually from overestimating expenses from prior years and from underestimating receivables from prior years. The February Plan does not anticipate any resources from this source during the financial plan period.

In FY 2014, the City realized a net benefit of $662 million (see Figure 33). The benefit resulted largely from an overestimation of prior years' expenses in the Department of Education (nearly $1.4 billion), mostly for contractual special education services, which was partly offset by a reduction in associated federal and State categorical education aid ($612 million). The net benefit was further reduced when the City wrote off $300 million that the Health and Hospitals Corporation (HHC) owed the City for payments made on the HHC's behalf in FY 2013 (largely for debt service and medical malpractice reimbursement), which was done because the HHC continues to experience cash flow difficulties.

Figure 33

Savings from Prior Years' Expenses



Note: Adjusted for annual changes in prior-year receivables.

Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

5. Rent Stabilization

The City's rent stabilization laws are set to expire on June 15, 2015. While these laws have been extended many times, the State Legislature has made modifications in the past. In 1993, the Legislature passed a provision that allowed units to be removed from rent stabilization based on the income of the tenant or the rent level of the apartment. In 2011, the last time the laws were extended, the State Legislature raised the deregulation annual income threshold to $200,000 and the monthly rent threshold to $2,500. According to the New York City Rent Guidelines Board, deregulation has contributed to the loss of at least 139,000 rent-stabilized units from 1994 to 2013.

6. Hudson Yards Infrastructure Corporation

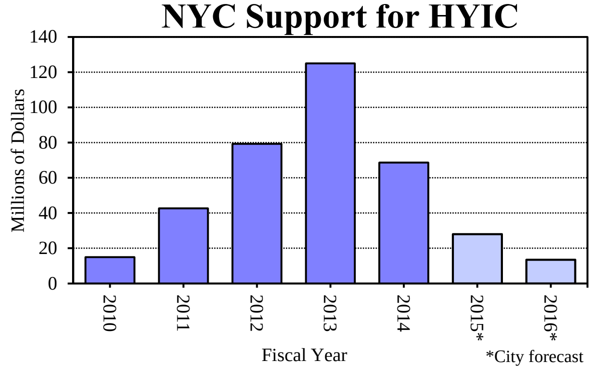
The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation created in 2005 to facilitate economic development on the west side of Midtown Manhattan. Bonds issued by the HYIC provide financing for infrastructure improvements, including the extension of the No. 7 subway line to Eleventh Avenue and West 34th Street.

When HYIC bonds were issued, the expectation was that the debt service would be funded from revenues generated by real estate development in the Hudson Yards District. However, to the extent that development revenues were insufficient, the City agreed to fund the interest payments on these bonds, but not the principal payments.

Since FY 2010, the City has paid $331 million in interest payments on behalf of the HYIC as development revenues were insufficient to cover these costs. The City had anticipated making interest payments of $425 million during fiscal years 2015 through 2018, but revenue from development activity has reduced the City's potential liability to $237 million for this period. FY 2015 is likely to be the second year that interest payments on behalf of HYIC have declined, a sign that development may be accelerating (see Figure 34).

Figure 34

NYC Support for HYIC



Note: Interest support payments are adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Appendix A: Nonrecurring Resources

As shown in Figure 35 and discussed below, OSC estimates that the February Plan includes nonrecurring resources of $2 billion in FY 2015 and $2.4 billion in FY 2016.

Figure 35
Nonrecurring Resources
(in millions)

	FY 2015	FY 2016
Surplus Transfers (Net)	$ 428	$ 1,578
Health Stabilization Fund	1,000	- - -
Debt Refinancings (Net)	369	112
TFA Redemption	99	103
Taxi Medallion Sales	47	312
STAR Refinancing	16	234
HPD Mortgage Sale	- - -	100
Total	**$ 1,959**	**$ 2,439**

Sources: NYC Office of Management and Budget; OSC analysis

- Surplus resources accumulated in prior years will be used to help balance the budget in fiscal years 2015 and 2016.
- The City transferred $1 billion from the Health Stabilization Fund to help fund the cost of labor settlements.
- Historically low interest rates in recent years have permitted the City to refinance outstanding debt, generating savings of $369 million in FY 2015 and $112 million in FY 2016.
- The City used $196 million in resources generated in FY 2013 to redeem Transitional Finance Authority (TFA) debt due in future years, which lowered debt service by $99 million in FY 2015 and $103 million in FY 2016.
- The sale of taxi medallions is expected to generate $47 million in FY 2015 and $312 million in FY 2016.
- Refinancing debt of the Sales Tax Asset Receivable (STAR) Corporation generated savings of $16 million in FY 2015 and $234 million in FY 2016.
- The Department of Housing Preservation and Development (HPD) plans to sell $100 million in mortgages to the Housing Development Corporation in FY 2016.

Appendix B: Staffing Levels

Between fiscal years 2008 and 2012, the City-funded workforce (full-time and full-time-equivalent employees) declined by 15,666 employees (5.8 percent), reflecting the impact of agency cost-reduction initiatives in response to the recession. Staffing levels rose by about 2,000 employees in each of fiscal years 2013 and 2014, concentrated mainly in education. The City plans to add 7,177 employees during FY 2015 (excluding temporary employees), which would increase staffing to 265,023, and then remain level for the next fiscal year (see Figure 36).

Most of the additions are planned for the following agencies.

- The health and welfare agencies plan to add 2,560 employees, including 1,143 employees at the Administration for Children's Services, 510 employees at the Department of Health and Mental Hygiene, and 390 employees at the Department of Homeless Services. These additions will staff a number of mayoral initiatives, mainly for child protective and homeless services.
- The Department of Correction plans to add 983 employees (604 uniformed and 379 civilians), mainly to improve security and inmate discharge planning.
- The Fire Department plans to add 464 employees to increase uniformed staffing to 10,781 positions (the highest level since February 2011), and to add 427 civilian employees, including 181 first-responders to staff 45 additional ambulance tours and 149 call-takers for the Emergency Medical Dispatch.
- The Police Department plans to add 714 civilians, including police cadets to recruit college students with law enforcement career goals, administrative aides to allow police officers to be redeployed to patrol functions, and traffic enforcement agents for the Mayor's Vision Zero initiative. The police force will average nearly 34,500 officers during the financial plan period, which is nearly 1,300 fewer officers than on June 30, 2006, before force levels began to decline.
- The Department of Education plans to add 552 pedagogues, mostly to staff special education programs. (The department also added more than 900 employees to staff an expansion of full-day prekindergarten and after-school programs, which is funded by State education aid.)
- The February Plan assumes that the City's district attorneys will reduce their staffing levels by 716 employees during FY 2015.

Figure 36
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalents)

Additions (Reductions)

		Actual		*Forecast*		*Variance*	
		June 2013	June 2014	June 2015	June 2016	June 2014 to June 2015	June 2014 to June 2016
Public Safety		**80,700**	**80,869**	**82,420**	**82,778**	**1,551**	**1,909**
Police	Uniformed	34,708	34,440	34,483	34,483	43	43
	Civilian	15,598	15,993	16,492	16,707	499	714
Fire	Uniformed	10,178	10,317	10,781	10,781	464	464
	Civilian	5,293	5,190	5,419	5,617	229	427
Correction	Uniformed	8,970	8,922	9,537	9,526	615	604
	Civilian	1,383	1,390	1,767	1,769	377	379
District Attorneys & Prosecutors		3,825	3,852	3,136	3,136	(716)	(716)
Probation		730	749	783	737	34	(12)
Board of Correction		15	16	22	22	6	6
Health and Welfare		**22,430**	**22,134**	**24,449**	**24,694**	**2,315**	**2,560**
Social Services		10,103	10,038	10,580	10,404	542	366
Children's Services		5,957	5,773	6,554	6,916	781	1,143
Health & Mental Hygiene		4,224	4,148	4,585	4,658	437	510
Homeless Services		1,760	1,759	2,166	2,149	407	390
Other		386	416	564	567	148	151
Environmental & Infrastructure		**17,614**	**17,940**	**18,849**	**18,596**	**909**	**656**
Sanitation	Uniformed	7,020	7,081	7,332	7,461	251	380
	Civilian	1,867	1,896	2,194	2,253	298	357
Transportation		1,938	2,001	2,488	2,328	487	327
Parks & Recreation		6,580	6,760	6,584	6,303	(176)	(457)
Other		209	202	251	251	49	49
General Government		**9,254**	**9,593**	**11,064**	**11,003**	**1,471**	**1,410**
Finance		1,802	1,870	2,098	2,093	228	223
Law		1,397	1,451	1,414	1,471	(37)	20
Citywide Administrative Services		1,338	1,352	1,642	1,617	290	265
Taxi & Limousine Commission		514	592	722	755	130	163
Investigations		197	212	310	307	98	95
Board of Elections		669	624	536	411	(88)	(213)
IT & Telecommunications		1,007	1,071	1,414	1,434	343	363
Other		2,330	2,421	2,928	2,915	507	494
Housing		**1,503**	**1,528**	**1,789**	**1,789**	**261**	**261**
Buildings		1,039	1,073	1,237	1,244	164	171
Housing Preservation		464	455	552	545	97	90
Department of Education		**113,717**	**114,896**	**114,674**	**114,571**	**(222)**	**(325)**
	Pedagogues	92,486	93,344	93,896	93,896	552	552
	Non-Pedagogues	21,231	21,552	20,778	20,675	(774)	(877)
City University of New York		**8,399**	**8,633**	**9,297**	**9,248**	**664**	**615**
	Pedagogues	5,387	5,544	6,239	6,242	695	698
	Non-Pedagogues	3,012	3,089	3,058	3,006	(31)	(83)
Elected Officials		**2,318**	**2,253**	**2,481**	**2,372**	**228**	**119**
Total		**255,935**	**257,846**	**265,023**	**265,051**	**7,177**	**7,205**

Note: Excludes temporary employees at the Board of Elections.
Sources: NYC Office of Management and Budget; OSC analysis