Review of the Financial Plan of the City of New York

December 2013

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New York State
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I. Executive Summary

On November 21, 2013, the City of New York revised its four-year financial plan (the "November Plan") to reflect a number of favorable developments since the FY 2014 budget was adopted in June 2013. The City now forecasts that revenues will be higher by $1.1 billion in FY 2014 (mostly from nonrecurring sources), debt service will be lower during the entire financial plan period, and recurring savings will come from a one-year freeze in employee health insurance premiums in FY 2015. In consideration of these developments, the City has reduced the general reserve in FY 2014 by $300 million.

These changes are the major factors that increased the FY 2014 surplus by $1.6 billion, and permitted the City to eliminate its FY 2015 budget gap. The out-year budget gaps (less than $1.5 billion in FY 2016 and $1 billion in FY 2017; see Figure 1) are relatively small as a percentage of City fund revenues. The City now projects a surplus of nearly $1.8 billion in FY 2014, but it has already used those funds to balance next year's budget. While the City has come to rely on the annual surplus and reserves built up during the last economic expansion to balance its budget, it has exhausted most of those reserves.

While this is the earliest the City has eliminated the budget gap for the subsequent fiscal year since it adopted a four-year financial planning process in the aftermath of the 1970s fiscal crisis, the City's forecasts do not reflect the outcome of collective bargaining. All of the contracts with the municipal unions have expired, some as long ago as November 2009. The cost and structure of these agreements could have a significant impact on the size of the budget gaps currently projected by the City.

Other budget risks include the planned sale of 1,600 new taxi medallions during fiscal years 2015 through 2017 (valued at $1.2 billion), which requires State approval by June 2014.[1] The Health and Hospitals Corporation also could require additional financial assistance from the City and federal aid (including for Superstorm Sandy) could fall short of expectations. Although the November Plan is consistent with the State's forecast for future increases in education aid, these increases are tied to growth in personal income, and the receipt of such aid is contingent on the continued use of a State-approved teacher evaluation plan. On a positive note, revenue collections are likely to be marginally higher during the financial plan period than forecast by the City (see Figure 2).

Over the longer term, the growing cost of debt service and health insurance (for both active and retired employees) will continue to put pressure on the budget. Together, these costs are projected by the City to grow by a total of 38 percent ($3.8 billion) between fiscal years 2013 and 2017. Although outstanding debt now totals more than $100 billion (56 percent more than ten years ago), the City still has large infrastructure needs and it funds less than 70 percent of the costs needed to maintain its assets in a state of good repair. It is also likely that the Metropolitan Transportation Authority will seek assistance from the State and City in funding its capital program for 2015-2019.

[1] The City is authorized to sell a total of 2,000 taxi medallions for an estimated $1.6 billion over four years.

Unlike pensions, other post-employment benefits (OPEBs), such as health insurance, are not funded on an actuarial basis. At the end of FY 2013, the City's unfunded OPEB obligation totaled $92.5 billion, nearly $39 billion more than in FY 2006. Although the City set aside $2.5 billion during the last economic expansion to help fund this future liability, it has since used virtually all of these resources to balance the budget instead.

After declining by 15,666 employees between fiscal years 2008 and 2012, the municipal workforce grew by 2,000 employees last year, and is scheduled to increase by another 4,000 workers in FY 2014. About half of the increase is concentrated in the Department of Education, with the remainder mostly in the City's health and welfare agencies.

The City faces a continuing decline in affordable housing as rents have grown and income has stagnated. Even with government subsidies, one out of five City households paid more than half of their income to rent in 2011. The number of homeless people in the City's shelters has increased by 30 percent over the past two years, and thousands more remain on the streets. The New York City Housing Authority provides housing to more than 400,000 tenants, but has not overcome its fiscal and management challenges.

One of the City's greatest strengths has been the local economy, which recovered quickly from the terrorist attacks on September 11, 2001, the Great Recession and Superstorm Sandy. Although the City has added more than twice as many jobs as were lost during the recent recession, many of the new jobs pay substantially less than the jobs that were lost, and the unemployment rate remains relatively high at 8.7 percent (unemployment is even higher for those with low levels of educational attainment). An external shock, such as failure to raise the federal debt ceiling, could harm the economy and Wall Street.

The securities industry is one of the City's major economic engines, and after two years of record losses in 2007 and 2008 it has been profitable for four consecutive years (including the three best years on record). The New York Stock Exchange reports that the broker/dealer operations of its member firms (the traditional measure of industry profitability) had profits of $13.5 billion through the first three quarters of 2013, which was a much slower pace than in 2012, when profits reached $23.9 billion (the third-highest level on record). The fourth quarter, which will reflect the impact of the temporary shutdown of the federal government and the growing cost of litigation, will determine the outcome for the year. While profits rebounded quickly after the Great Recession, the industry has regained only a fraction of the jobs lost since then and is now 12 percent smaller. Employment levels appear to be stabilizing, but pressure to cut costs is likely to mount as interest rates rise, cutting into profitability.

The incoming mayoral administration will inherit challenges on a number of different fronts, but also a strong and resilient economy, an excellent credit rating and conservative financial planning practices, which have helped insulate the City from economic downturns and have created windfalls during expansions. New York City's economy continues to improve, which bodes well for the future, but a number of risks could set back the recovery.

Figure 1
New York City Financial Plan

(in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
REVENUES				
Taxes				
General Property Tax	$ 19,610	$ 20,328	$ 21,259	$ 22,026
Other Taxes	25,521	26,810	27,834	29,003
Tax Audit Revenue	710	709	709	709
Subtotal: Taxes	$ 45,841	$ 47,847	$ 49,802	$ 51,738
Miscellaneous Revenues	7,276	6,784	6,635	6,746
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,710)	(1,573)	(1,577)	(1,578)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 51,392	$ 53,043	$ 54,845	$ 56,891
Other Categorical Grants	888	842	829	825
Inter-Fund Revenues	535	514	514	514
Federal Categorical Grants	8,113	6,336	6,292	6,280
State Categorical Grants	11,777	12,007	12,349	12,883
Total Revenues	**$ 72,705**	**$ 72,742**	**$ 74,829**	**$ 77,393**
EXPENDITURES				
Personal Service				
Salaries and Wages	$ 22,372	$ 22,312	$ 22,542	$ 22,856
Pensions	8,315	8,240	8,351	8,520
Fringe Benefits	8,862	9,151	9,790	10,505
Retiree Health Benefits Trust	(1,000)	- - -	- - -	- - -
Subtotal: Personal Service	$ 38,549	$ 39,703	$ 40,683	$ 41,881
Other Than Personal Service				
Medical Assistance	$ 6,365	$ 6,447	$ 6,415	$ 6,415
Public Assistance	1,387	1,385	1,385	1,391
All Other[2]	23,018	21,430	21,784	22,292
Subtotal: Other Than Personal Service	$ 30,770	$ 29,262	$ 29,584	$ 30,098
General Obligation, Lease and TFA Debt Service[2,3]	$ 6,014	$ 6,820	$ 7,311	$ 7,643
FY 2013 Budget Stabilization & Discretionary Transfers[2]	(2,838)	- - -	- - -	- - -
FY 2014 Budget Stabilization[3]	1,770	(1,770)	- - -	- - -
General Reserve	150	300	300	300
Subtotal	$74,415	$ 74,315	$ 77,878	$ 79,922
Less: Intra-City Expenses	(1,710)	(1,573)	(1,577)	(1,578)
Total Expenditures	**$72,705**	**$ 72,742**	**$ 76,301**	**$ 78,344**
Gap To Be Closed	**- - -**	**- - -**	**$ (1,472)**	**$ (951)**

Source: NYC Office of Management and Budget

2 Fiscal Year 2013 Budget Stabilization and Discretionary Transfers total $2.807 billion, including GO of $2.727 billion, net equity contribution in bond refunding of $16 million and subsidies of $64 million. In addition, the Fiscal Year 2012 Budget Stabilization included $31 million for the prepayment of Fiscal Year 2014's debt service.

3 Fiscal Year 2014 Budget Stabilization totals $1.770 billion.

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

	Better/(Worse)			
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Surplus/(Gaps) per November Plan	**$ - - -**	**$ - - -**	**$ (1,472)**	**$ (951)**
Tax Revenue	375	375	375	375
Debt Service	100	- - -	- - -	- - -
Medicaid Reimbursement	(100)	(150)	(150)	(150)
Fire Engine Company Closings	- - -	(44)	(44)	(44)
Police Overtime	(50)	(50)	(50)	(50)
OSC Risk Assessment	**325**	**131**	**131**	**131**
Surplus/(Gaps) per OSC[4]	**$ 325**	**$ 131**	**$ (1,341)**	**$ (820)**
Additional Risks and Offsets [5,6]				
Taxi Medallion Sale	- - -	(481)	(360)	(400)

4 The November Plan includes a general reserve of $150 million in FY 2014 and $300 million in each of fiscal years 2015 through 2017. The City also has a reserve of $1 billion for disallowances of federal and State aid, which, if not needed for that purpose, could be used to help balance the budget.

5 The November Plan assumes that the 14 percent personal income tax surcharge (valued at more than $1 billion annually), which is scheduled to expire on December 31, 2014, will be extended as it has been every two to three years since it was enacted in 1991.

6 The City imposed a three-year wage freeze on City employees during the recession, but the City has not yet reached new labor agreements covering that period or subsequent years. The City assumes that municipal employees will not be compensated for the wage freeze and will agree to annual wage increases of 1.25 percent for fiscal years 2013 through 2017, which is less than the projected inflation rate. In addition, the City still has not reached a labor settlement with the United Federation of Teachers and the Council of School Supervisors and Administrators for the round of collective bargaining covering calendar years 2009 and 2010. The City estimates that the cost of providing retroactive wage increases to all employees (without offsetting savings) and wage increases at the local inflation rate would amount to $7.8 billion in FY 2014 and more than $3 billion annually thereafter (see Section V, "Expenditure Trends," for further discussion of collective bargaining).

II. Economic Trends

The national economy continues to grow slowly, but a number of risks could derail the recovery, most importantly whether the Federal Reserve will be able to unwind its low-interest-rate policies in ways that will not drive long-term interest rates and inflation far above the Federal Reserve's target zones for sustainable economic growth. Other risks include the size of long-term federal deficits, failure to raise the federal debt ceiling, and the pace of economic growth in Europe and Asia.

The November Plan assumes that growth in the nation's Gross Domestic Product (GDP) will slow from 2.8 percent in 2012 to 1.6 percent in 2013 as a result of federal budget cuts, the government shutdown and a reduction in consumer spending from the expiration of the temporary federal payroll tax cut. The City expects GDP to grow by more than 3 percent annually during calendar years 2015 through 2017, based on the expectation of renewed strength in the manufacturing and housing sectors.

Since the end of the recession the nation has added 7.4 million jobs, recovering 85 percent of the jobs lost during the recession. The private sector has added 8.1 million jobs, while government employment has continued to decline (608,000 jobs). The November Plan assumes that national job growth will continue at the current pace of 1.7 percent annually and that the unemployment rate will decline to 6.5 percent in 2015, the level at which the Federal Reserve has signaled that it would consider raising short-term interest rates.

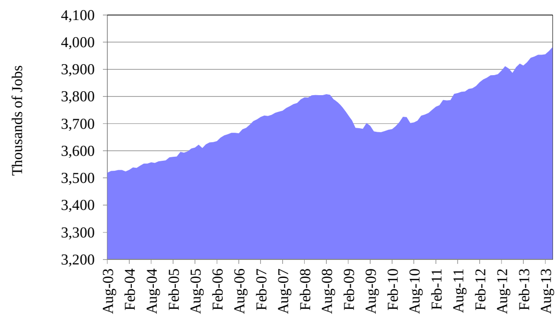
In New York City the pace of job gains remains strong, averaging 1.9 percent in the first ten months of 2013, but the unemployment rate remains high by historical standards. The rate peaked at 10 percent in September 2009 and then fell to 8.3 percent in May 2013 before it began rising again, as previously discouraged workers began to reenter the labor force. The unemployment rate reached 8.7 percent in October 2013 (the latest month for which data are available).

Several of the City's major employment sectors have experienced strong job gains since the end of the recession. Both the education and health services sector (primarily in home health care services) and the professional and business services sector (especially in office support services) have accounted for more than 20 percent of the City's private sector job gains. The leisure and hospitality sector (especially restaurants) and the trade, transportation and utilities sector (mostly retail trade) have each accounted for nearly 20 percent of jobs added. Nevertheless, growth in several other sectors remains weak. Manufacturing has continued to lose jobs, and while the financial activities and construction sectors have added some jobs, they have regained only a small share of those lost during the recession.

As shown in Figure 3, the City has added more than twice as many jobs (313,000) as were lost during the recent recession (140,000). Many of the new jobs, however, pay substantially less than the jobs that were lost, and many are part-time. In 2012, nearly 14 percent of workers in the City had part-time jobs, with nearly 40 percent of those workers unable to find full-time work for economic reasons. By comparison, in 2007 (before the recession), 12.3 percent of workers were employed part-time, with only one-quarter of them unable to work full-time.

Figure 3

Total Employment in New York City



Sources: NYS Department of Labor

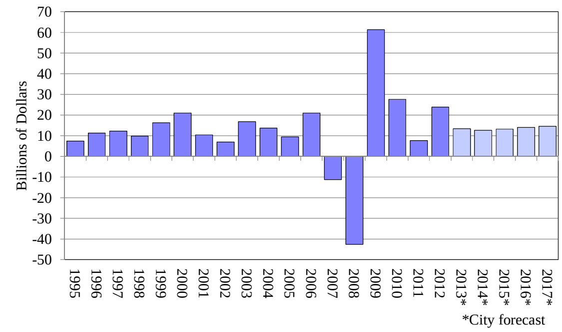
The November Plan assumes that the pace of job growth in New York City will slow from 1.9 percent in 2013 to an average of 1.2 percent annually through 2017, slower than the rate of growth projected for the nation.[7] The City expects that about half of the jobs gained during 2013 through 2017 will be in lower-paying sectors, such as health care, retail trade, and leisure and hospitality. While it is unlikely that the City will add jobs at the same fast pace as in recent years, job growth could outperform the City's forecast.

After posting two years of record losses in 2007 and 2008, Wall Street has been profitable for four consecutive years (including the three best years on record), fueled by the Federal Reserve's low-interest-rate policies. Profits for the broker/dealer operations of New York Stock Exchange member firms totaled $13.5 billion during the first three quarters of 2013, a much slower pace than in 2012 when profits reached $23.9 billion (three times higher than in 2011), reflecting the impact of higher interest rates and litigation costs. The fourth quarter, which will reflect the impact of the temporary shutdown of the federal government and the growing cost of litigation, will determine the level of Wall Street profitability for the year. The November Plan assumes that industry profits will total $13.4 billion in 2013 (see Figure 4) and then remain at about that level through 2017 as the industry's restructuring continues and interest rates gradually rise. A recent report by the Office of the State Comptroller (OSC) estimated that broker/dealer profits could total $15 billion in 2013.

[7] Job growth in New York City during the recovery has outperformed the nation.

Although Wall Street firms have made changes to their compensation practices (i.e., base salaries are higher, and a smaller share of bonuses is paid in cash while a larger share is deferred to future years) in response to regulatory reforms and economic pressure, bonuses are still an important part of compensation. OSC estimated that in 2012 the cash bonus pool grew by 8 percent to $20 billion. The November Plan forecasts that bonuses for 2013 will decline slightly, reflecting the expected drop in profits.

Figure 4
Wall Street Profits



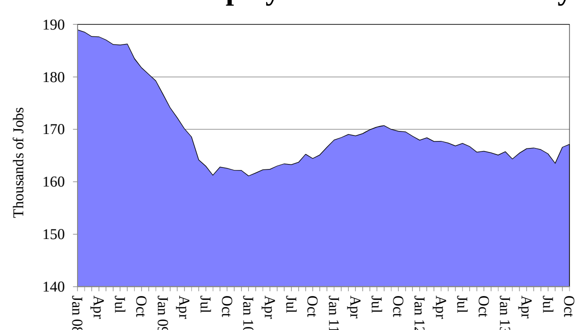
Sources: NYSE Euronext; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

A review by OSC of the financial statements for a sample of large, medium and small securities firms found that the prospect for a large increase in bonuses has dimmed as the year has progressed. The size of the bonus pool for New York City workers will depend, to a large degree, on the results of the fourth quarter. OSC will issue its estimates of the size of the New York City bonus pool and the average cash bonus in February 2014 after a review of trends in personal income tax withholding.

Job growth in the securities industry in New York City has been much weaker during the current economic recovery than it was during past recoveries. Wall Street has accounted for less than 2 percent of the jobs created in the City's private sector, compared to 14 percent and 12 percent at the same point in the recoveries of the early 1990s and the early 2000s, respectively.

OSC estimates that the securities industry employed 167,000 workers in New York City in October 2013 (see Figure 5), which is 11.6 percent fewer workers than before the financial crisis. After strong job growth during the first part of the economic recovery, the securities industry resumed downsizing. Although employment levels appear to be stabilizing, pressure to cut costs will likely mount as interest rates rise, cutting into profitability. The November Plan assumes that the industry will shed 1,600 jobs in 2013, and then show modest gains for the remainder of the financial plan period.

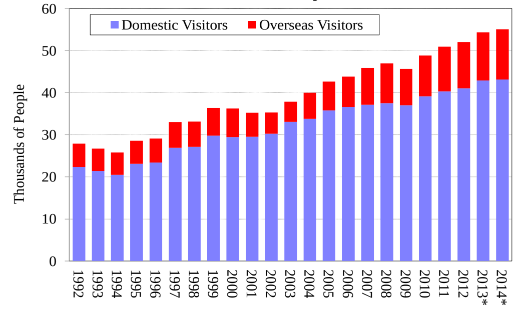
Figure 5
Securities Employment in New York City



Note: Data have been seasonally adjusted.
Sources: NYS Department of Labor; OSC analysis

NYC & Company (the City's tourism agency), estimates that the total number of visitors to the City increased to 54.3 million in 2013, for a fourth consecutive record year (see Figure 6). The number of international visitors grew to a record 11.4 million, despite continued weakness in many parts of the global economy. Tourism benefits the hotel and entertainment industries, and during the first ten months of 2013 hotel occupancy rose to the highest level on record (nearly 89 percent) and the average daily room rate rose to $285, still below the peak level of $300 reached in 2008.

Figure 6
New York City Tourism

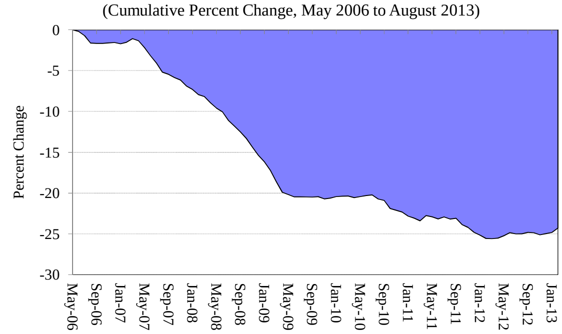


* City forecast

Source: NYC & Company

The City's real estate markets continue to strengthen. Based on data from the New York City Department of Finance, the aggregate sale value of high-end Manhattan apartments (i.e., those worth at least $1 million) rose by 16 percent during the first four months of FY 2013, and the aggregate sale value of office buildings that sold for $50 million or more rose by 26 percent. The S&P/Case-Shiller Home Price Index shows that home prices in the New York City metropolitan area rose by 5 percent through September 2013 after declining by 26 percent between May 2006 and March 2012 (see Figure 7). Although the recovery in home values in the metropolitan area has been lower than in the nation (18 percent), the New York City area's decline was also smaller than in the nation as a whole (33 percent).

Figure 7
New York City Metropolitan Area Home Price Index
(Cumulative Percent Change, May 2006 to August 2013)



Note: Reflects prices for single-family homes.
Source: S&P/Case-Shiller National Metro Home Price Index

According to Cassidy Turley, the average asking rent in Manhattan's primary office market held steady at $69.97 per square foot during the third quarter of 2013. Vacancy rates, however, have risen by almost a full point, to 11.2 percent, as large blocks of office space have become available. Completion of towers two and four at the World Trade Center will further increase the inventory of office space in the City. Consequently, the November Plan assumes that the vacancy rate in Manhattan's primary office market will rise from 11.5 percent by the end of 2013 to 12.7 percent by the end of 2014, before the real estate market absorbs the additional space. Asking rents are projected to rise throughout the financial plan period, increasing from an average of $68.07 per square foot in 2013 to $74.94 in 2017.

III. Changes Since the June 2013 Plan

In June 2013, the City projected budget gaps of nearly $2 billion in FY 2015, $1.8 billion in FY 2016 and $1.4 billion in FY 2017. Since then, the City has increased its revenue forecast by $1.1 billion in FY 2014 (mostly from nonrecurring sources), drawn down the general reserve in FY 2014 by $300 million and significantly lowered its expenditure forecasts throughout the financial plan period (see Figure 8). These changes have helped generate an additional $1.6 billion of resources not anticipated at the start of the fiscal year, bringing the surplus for FY 2014 to nearly $1.8 billion. These resources were used to close the budget gap in FY 2015 and lower the out-year gaps, and also enabled the City to rescind planned budget cuts and to fund FY 2014 program initiatives in subsequent years.

Figure 8

Financial Plan Reconciliation–City Funds

November 2013 Plan vs. June 2013 Plan

(in millions)

		Better/(Worse)		
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Surplus/Gaps Per June 2013 Plan[8]	**- - -**	**$ (1,965)**	**$ (1,769)**	**$ (1,382)**
Revenue Reestimates				
Real Estate Transaction Taxes	240	- - -	- - -	- - -
Personal Income Tax	155	- - -	- - -	- - -
Business Taxes	50	- - -	- - -	- - -
Sales Taxes	47	- - -	- - -	- - -
Real Property Tax	40	- - -	- - -	- - -
Other Taxes	(6)	- - -	- - -	- - -
Audits	1	- - -	- - -	- - -
All Other	575	155	- - -	- - -
Total	**1,102**	**155**	- - -	- - -
Drawdown of Reserves				
General Reserve	300	- - -	- - -	- - -
Total	**300**	- - -	- - -	- - -
Expenditure Reestimates				
Debt Service	225	147	87	76
Health Insurance Savings	66	404	439	477
Judgments and Claims	55	55	55	55
Pension Changes	2	86	172	258
Uniformed Agencies	(52)	(105)	(82)	(62)
Other Expenditures	(70)	(12)	19	20
Total	**226**	**575**	**690**	**824**
Budget Cuts and Program Initiatives	**- - -**	**(393)**	**(393)**	**(393)**
Net Change During FY 2014	**1,628**	**337**	**297**	**431**
Surplus/(Gap)	**- - -**	**(1,628)**	**$ (1,472)**	**$ (951)**
Surplus Transfers	(1,628)	1,628	- - -	- - -
Gaps Per November 2013 Plan	**$ - - -**	**$ - - -**	**$ (1,472)**	**$ (951)**

Sources: NYC Office of Management and Budget; OSC analysis

8 The June 2013 financial plan projected a surplus of $142 million for FY 2014, which the City used to reduce the FY 2015 budget gap from $2.1 billion to less than $2 billion.

The FY 2014 surplus is largely the result of unanticipated revenues ($1.1 billion). Tax collections are now expected to be $527 million higher than initially projected, largely as a result of higher collections from real estate transaction taxes ($240 million) and personal income taxes ($155 million). The City also recognized an additional $575 million in miscellaneous revenues, reflecting proceeds from the sale of City-owned buildings ($225 million), a refund of health insurance premiums from prior years as a result of lower-than-expected usage of medical services ($103 million), an increase in proceeds anticipated from the sale of additional taxi medallions ($64 million), and a legal settlement for problems with the new 911 system ($50 million). For more detail see Section IV, "Revenue Trends."

Last May, the City increased its general reserve for FY 2014 by $150 million (for a total of $450 million) to offset potential risks to the financial plan, such as disallowances of federal aid for Superstorm Sandy and delays in the sale of new taxi medallions. The City has since drawn down $300 million from the general reserve even though these risks are not fully resolved, leaving a balance of $150 million.

In the November Plan, the City lowered its expenditure forecasts for fringe benefits because the City's principal insurer, EmblemHealth, did not seek a premium rate increase in FY 2015 following the Mayor's announcement of a plan to seek new carriers for the City's health insurance plans for municipal employees. Also, the City's pension systems had higher-than-expected investment gains in FY 2013, which reduced planned pension contributions beginning in FY 2015.

The improved financial outlook permitted the City to rescind most of the budget cuts planned for fiscal years 2015 through 2017, and to fund beyond FY 2014 many of the initiatives included in the FY 2014 budget at the request of the City Council. For example, the City rescinded $166 million in cuts to libraries and cultural institutions and added $163 million annually to continue social services programs such as day care, after-school programs and services for seniors. In total, the City increased funding by $393 million annually (for more detail see Section VII, "Other Issues").

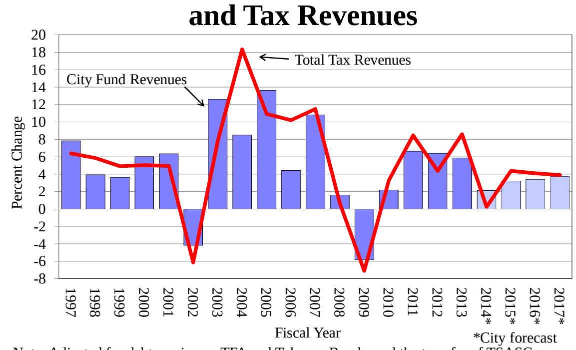
IV. Revenue Trends

The November Plan assumes that City fund revenues will grow by only 2.1 percent in FY 2014 (less than half the average over the last three years), because a significant amount of tax revenue that had been anticipated in FY 2014 was shifted into FY 2013 in response to changes in federal personal income tax rates (see Figure 9).[9] City fund revenues are projected to rise by 3.2 percent in FY 2015 as the impact of the tax shift fades.

The City also expects slow growth in tax revenues (by only 0.3 percent in FY 2014) as a result of the tax shift as well as other factors, including lower Wall Street profits (about half of last year's level) and lower tax revenue from audits.

Figure 9

Annual Changes in City Fund Revenues and Tax Revenues



Note: Adjusted for debt service on TFA and Tobacco Bonds, and the transfer of TSASC revenues.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

By contrast, the City projects that miscellaneous revenues (which include revenues from such sources as fines, licenses, interest income and fees for services) will rise by 19.3 percent in FY 2014. Most of the increase stems from the anticipated receipt of proceeds from the sale of taxi medallions ($364 million), asset sales ($243 million) and a refund of health insurance premiums ($104 million).

Details of the City's revenue forecast are shown in Figure 10 and discussed below. Our analysis of year-to-date collections suggests that tax revenues could be higher than the City's forecast by $375 million annually during fiscal years 2014 through 2017.

[9] Some taxpayers accelerated income into the end of 2012 to avoid higher federal income tax rates (including on capital gains) that took effect January 1, 2013. After adjusting for these shifts, tax revenue growth would have been 7 percent in FY 2013, 3.1 percent in FY 2014 and 2.9 percent in FY 2015.

Figure 10
City Fund Revenues
(in millions)

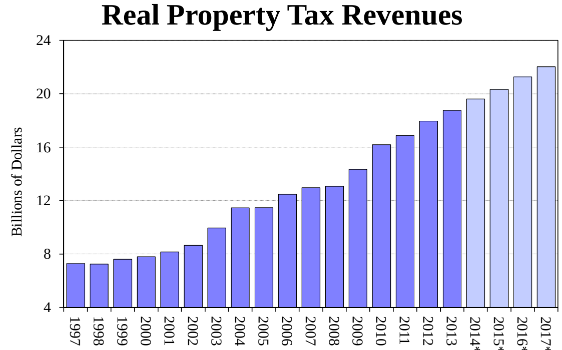
	FY 2013	FY 2014	Annual Growth	FY 2015	FY 2016	FY 2017	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 18,751	$ 19,610	4.6%	$ 20,328	$ 21,259	$ 22,026	3.9%
Personal Income Tax	9,168	8,324	-9.2%	9,045	9,397	9,723	5.3%
Sales Tax	6,132	6,370	3.9%	6,590	6,829	7,092	3.6%
Business Taxes	5,857	5,776	-1.4%	5,990	6,153	6,454	3.8%
Real Estate Transaction Taxes	1,828	2,073	13.4%	2,094	2,293	2,515	6.7%
Other Taxes	2,976	2,978	0.1%	3,091	3,162	3,219	2.6%
Audits	1,009	710	-29.6%	709	709	709	0.0%
Subtotal	**45,721**	**45,841**	**0.3%**	**47,847**	**49,802**	**51.738**	**4.1%**
Miscellaneous Revenues	4,728	5,640	19.3%	5,285	5,132	5,241	-2.4%
Grant Disallowances	(59)	(15)	NA	(15)	(15)	(15)	NA
Total	**$ 50,390**	**$ 51,466**	**2.1%**	**$ 53,117**	**$ 54,919**	**$ 56,964**	**3.4%**

Note: Miscellaneous revenues include debt service on tobacco bonds.
Sources: NYC Office of Management and Budget; OSC analysis

1. Real Property Tax

Real property tax revenues have increased steadily in recent years as the City's real estate markets have recovered, rising by an average of 5 percent annually during fiscal years 2011 through 2013. The November Plan forecasts that revenues will rise by another 4.6 percent in FY 2014, to reach $19.6 billion (see Figure 11). The increase reflects continued growth in property values, especially for commercial and large residential properties (i.e., apartment buildings), as well as the phase-in of gains from earlier years.[10] Commercial and large residential properties account for most of the growth in revenues in recent years.

Figure 11
Real Property Tax Revenues



*City forecast
Sources: NYC Comptroller; NYC Office of Management and Budget

In subsequent years the growth in real property tax revenues is projected to ease slightly, to an average of 3.9 percent annually through FY 2017, as a result of an expected slowing in the real estate market as interest rates rise. The impact of this slowdown will be mitigated, however, by the continued phase-in of market value growth from prior years. The City could realize additional revenues beginning in FY 2015, assuming current trends in the real estate markets continue and long-term interest rates do not rise as much as anticipated by the City.

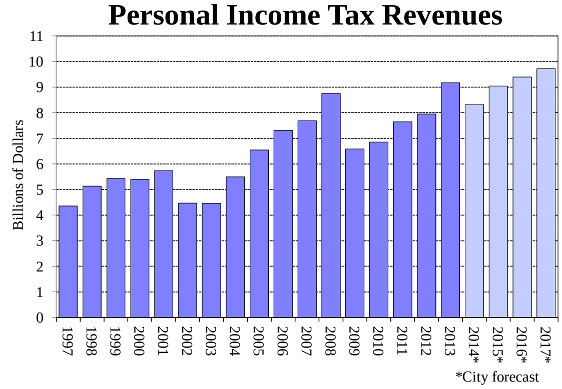
[10] Provisions of State law require that the City phase in market value changes for commercial properties and large residential properties over a five-year period.

2. Personal Income Tax

The November Plan assumes that personal income tax collections, which grew by 15.3 percent in FY 2013, will decline by 9.2 percent in FY 2014. The reduction reflects changes in taxpayer behavior as income was accelerated into the end of 2012 (FY 2013) to avoid higher federal income tax rates (including on capital gains) that took effect January 1, 2013. As a result, revenue that would have been received in FY 2014 (and later years) was shifted into FY 2013. The City estimates that after adjusting for this shift, personal income tax collections would have grown by 8.5 percent in FY 2013 and 2.7 percent in FY 2014.[11]

Figure 12

Personal Income Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

Personal income tax collections are forecast by the City to grow at an average annual rate of 3.1 percent during fiscal years 2015 through 2017 (after adjusting for the income shift), reaching $9.7 billion by FY 2017 (see Figure 12). The City's forecasts assume employment and wages will grow slowly during the financial plan period. For example, the November Plan expects job growth to slow from 73,000 jobs in calendar year 2013 to about 50,000 jobs annually during 2014 through 2017. Wage growth is expected to average only 3.9 percent annually because many of the jobs generated by the local economy have been in lower-paying sectors, a trend that the City assumes will continue for the foreseeable future.

OSC estimates that personal income tax collections are likely to be higher than the City's forecast by $250 million annually beginning in FY 2014 based on the strength of year-to-date collections. Although the City raised its forecast for job growth for calendar year 2013, it did not make a corresponding change to its forecast for personal income tax collections.

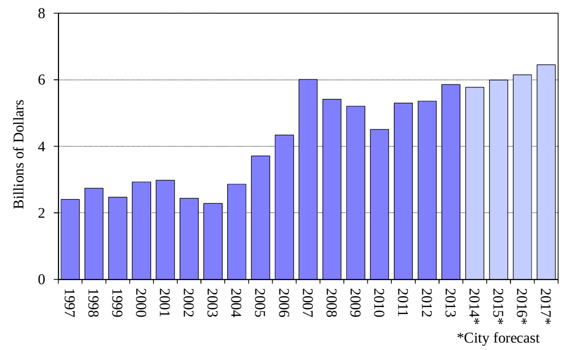
[11] The City increased its forecast for personal income tax collections in FY 2014 by $155 million as a result of higher-than-expected quarterly tax payments on nonwage income and a $100 million payment from the State (which processes personal income tax for the City) to correct for a shortfall in last year's distribution of tax revenue to the City.

3. Business Taxes

New York City levies three types of business taxes, which cover general corporations, banking corporations and unincorporated businesses (i.e., partnerships and sole proprietorships). Overall, financial firms account for about half of all business tax collections (with securities industry firms accounting for slightly less than half of the financial share), while one-fifth of business tax collections comes from firms providing business and professional services (e.g., accountants, lawyers, etc.) and nearly one-tenth comes from firms in the transportation and trade sector.

For the first time since FY 2010, business tax collections are forecast to decline, by 1.4 percent in FY 2014 to $5.8 billion (see Figure 13). The slowdown largely reflects an expected decline in Wall Street profitability, from $23.9 billion in 2012 to $13.4 billion in 2013. A significant reduction in tax collections from the securities industry seems likely given profitability trends during the first three quarters of 2013. The City projects that collections from nonfinancial firms (primarily in professional and business services) will continue to grow.

Figure 13
Business Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

The November Plan forecasts modest growth in business tax collections during fiscal years 2015 through 2017, averaging 3.8 percent annually. The City expects Wall Street profitability through 2017 to remain at about the same level as in calendar year 2013, constrained by the Federal Reserve's gradual unwinding of its easy-money policies (which significantly reduced Wall Street's interest costs and supported record levels of profitability in the wake of the financial crisis) as well as the implementation of additional regulatory changes. Business tax growth during these years will therefore continue to come primarily from nonfinancial firms. Revenues are expected to exceed the prerecession peak ($6 billion in FY 2007) in FY 2016.

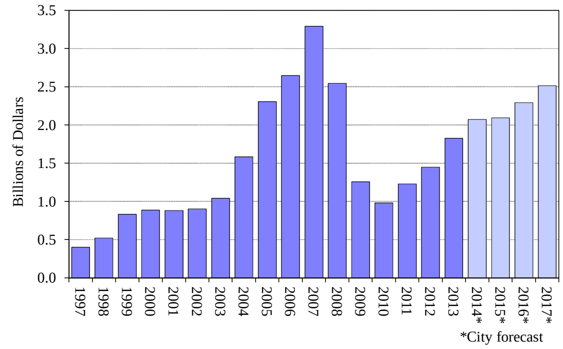
4. Real Estate Transaction Taxes

New York City's real estate market continues to gain strength, as reflected in higher market values as well as the number and aggregate sale value of transactions. This is especially true for commercial real estate (e.g., large office buildings) as well as high-end residential apartments. The City imposes two taxes on real estate transactions: the mortgage recording tax and the real property transfer tax.

The November Plan projects that collections from these taxes will grow by more than 13 percent in FY 2014, the fourth consecutive year of double-digit revenue growth. Nevertheless, expected revenues in FY 2014 ($2.1 billion) are projected to remain more than one-third below the level of collections prior to the recession (see Figure 14). During the first four months of FY 2014 there was a marked increase in both the number of transactions and the sale prices of Manhattan office buildings that sold for $50 million or more. Similarly, the number and aggregate value of Manhattan apartments that sold for $1 million or more has also increased significantly.

Figure 14

Real Estate Transaction Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

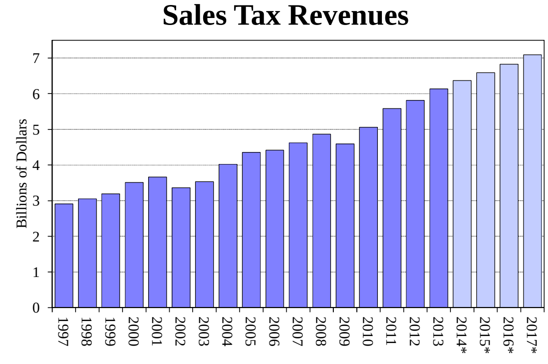
The November Plan assumes that tax collections from real estate transactions will increase by only 1 percent in FY 2015 because the City expects long-term interest rates to rise and thereby slow real estate activity. OSC estimates that collections from these taxes could be higher by $75 million beginning in FY 2014 based on the current level of transaction activity. While the Federal Reserve has signaled that it will increase short-term interest rates when certain economic objectives have been met, real estate transaction activity could also be stronger than forecast by the City in FY 2015 if long-term interest rates rise more slowly than the City is anticipating.

5. Sales Tax

Although sales tax collections grew at an average annual rate of 4.7 percent during fiscal years 2012 and 2013, the November Plan assumes they will grow more slowly during fiscal years 2014 through 2017, averaging 3.6 percent (see Figure 15). Although these collections have benefited from higher tourism, which has reached record levels, consumption by local area residents has remained subdued, reflecting only modest increases in local wages. OSC estimates that sales tax collections could be higher by $50 million annually based on year-to-date collection trends.

Figure 15

Sales Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

6. Miscellaneous Revenues

The City realizes a significant amount of revenue from miscellaneous sources. Last year, these collections totaled $4.7 billion, with more than half ($2.6 billion) coming from charges for services (such as for water and sewer use) while another quarter came from licenses, permits, fines and investment income. The November Plan assumes that miscellaneous revenues will grow by $912 million (19.3 percent) in FY 2014, to reach $5.6 billion. Virtually all of the growth stems from the receipt of more than $850 million from one-time resources. These items include $364 million from the sale of new taxi medallions (see Section VII, "Other Issues"),[12] $287 million from asset sales (including office buildings), $103 million from a refund of health insurance premiums due to lower-than-expected use of medical services, and $50 million from a legal settlement with Verizon for problems with the new 911 system.

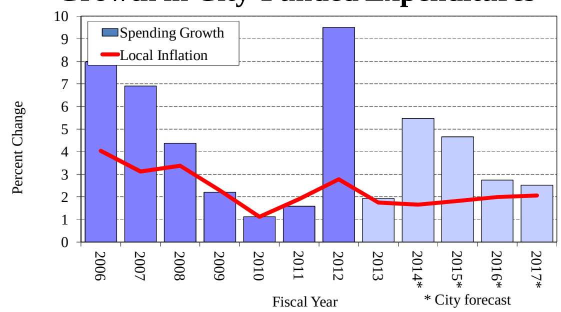
[12] The City expects that the sale of taxi medallions will yield a total of $1.6 billion during fiscal years 2014 through 2017.

V. Expenditure Trends

City-funded expenditures are projected to grow by nearly 5.5 percent ($2.7 billion) to reach $52.5 billion in FY 2014 (see Figure 16), driven primarily by continued increases in the cost of employee health insurance and debt service.[13] Together, these costs are projected to grow by $3.8 billion (38 percent) between fiscal years 2013 and 2017. In recent years, the City has diverted resources from the Retiree Health Benefits Trust to help balance the budget. This held down the growth in City-funded spending during those years, but the trust will be virtually depleted by the end of FY 2014.

Figure 16

Growth in City-Funded Expenditures



Note: City-funded expenditures grew by 9.6 percent in FY 2012 because the City replaced expiring federal stimulus aid ($1.8 billion) and a cut in State education aid ($812 million) with City funds.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

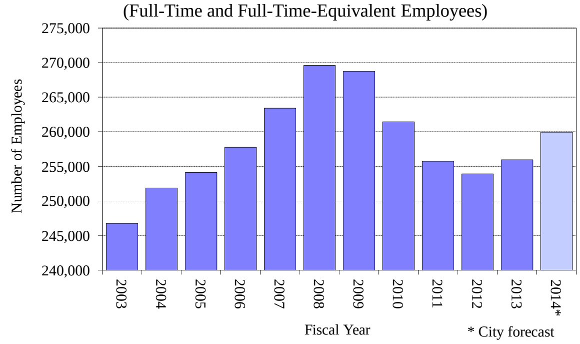
The City's financial plan assumes that no financial liability will arise from wage freezes imposed on municipal workers during the recession, even though the City has not reached new labor agreements that cover this period. While the City has set aside resources for collective bargaining for fiscal years 2013 through 2017, the amounts are sufficient to fund annual wage increases of 1.25 percent, which is less than the inflation rate.

Although City-funded spending is projected to exceed City fund revenues by nearly $1.1 billion in FY 2014, the budget will be balanced with surplus resources from prior years. By our estimate, the FY 2014 budget includes a total of $3.4 billion in nonrecurring resources, and the FY 2015 budget includes $2.6 billion in nonrecurring resources (for more information, see Appendix A).

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 City-funded workforce grew between fiscal years 2003 and 2008 (see Figure 17) as the economy expanded, but contracted by 15,666 employees over the next four years as budget cuts were imposed by the City to help weather the recent recession. Staffing levels, however, rose by 2,003 employees in FY 2013, and the City plans to add another 4,003 employees during FY 2014 (for more information, see Appendix B).

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[13] City-funded expenditure estimates are adjusted for surplus transfers and debt defeasances, and include debt service on bonds issued by TSASC.

The November 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)
(in millions)

	FY 2013	FY 2014	Annual Growth	FY 2015	FY 2016	FY 2017	Average Three-Year Growth Rate
Salaries and Wages	$ 12,925	$ 13,358	3.3%	$ 13,741	$ 13,925	$ 14,021	1.6%
Pension Contributions	8,022	8,158	1.7%	8,084	8,195	8,363	0.8%
Medicaid	6,233	6,272	0.6%	6,353	6,322	6,322	0.3%
Debt Service	5,465	5,870	7.4%	6,696	7,193	7,426	8.2%
Health Insurance	4,437	4,800	8.2%	5,116	5,657	6,273	9.3%
Other Fringe Benefits	2,685	3,029	12.8%	3,091	3,188	3,286	2.8%
Energy	882	935	6.0%	950	937	947	0.4%
Judgments and Claims	474	663	39.9%	674	710	746	4.0%
Public Assistance	576	586	1.7%	584	584	588	0.1%
General Reserve	- - -	150	NA	300	300	300	NA
Drawdown Retiree Health Benefits Trust	(1,000)	(1,000)	NA	- - -	- - -	- - -	NA
Other	9,114	9,720	6.6%	9,397	9,483	9,643	-0.3%
Total	**$49,813**	**$52,541**	**5.5%**	**$54,986**	**$56,494**	**$57,915**	**3.3%**

Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

All of the labor agreements between the City and the unions that represent the municipal workforce have expired. The labor agreement with the union that represents the City's teachers (37 percent of the City workforce) expired in November 2009, and the agreements with most other unions expired in 2010. The City had set aside resources to fund two annual wage increases of 4 percent in calendar years 2009 and 2010 for teachers (similar to increases negotiated with the City's other unions), but the City later redirected those resources to offset a sharp reduction in State education aid. As a result, the City has effectively imposed a unilateral five-year wage freeze on its teachers and a three-year wage freeze on most of its other employees.[14] The November Plan assumes that wages will increase by 1.25 percent annually after the expiration of the wage freeze, which is lower than the projected inflation rate.[15] The City estimates that the cost of providing retroactive wage increases to all employees (without offsetting savings) and wage increases at the local inflation rate would amount to $7.8 billion in FY 2014 and more than $3 billion annually thereafter.

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[14] The City has proposed that the unions fund the cost of any wage increases during this period with savings from actions that would reduce the City's costs.

[15] Each annual percentage-point increase in wages above the wage rates assumed in the November Plan would increase costs by $300 million annually. If wages were to rise at the projected inflation rate without any offsetting savings, costs would increase by $77 million in FY 2014, $175 million in FY 2015, $365 million in FY 2016 and $611 million in FY 2017.

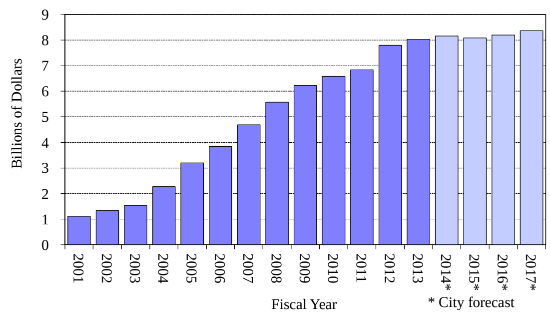
2. Pension Contributions

After rising rapidly over the past decade, City-funded pension contributions have begun to slow and are projected to level off during the financial plan period at about $8.4 billion in FY 2017 (see Figure 19). The City's projections reflect recent changes in the assumptions and methodologies used to calculate City pension contributions, which were recommended by the City Actuary and approved by the boards of trustees of the City's five pension systems as well as by the State. The changes were fully implemented in January 2013.

Figure 19

New York City Pension Systems

Annual Contributions



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

The changes include a reduction in the investment earnings assumption from 8 percent to 7 percent; a different methodology to determine the projected cost of future pension benefits; and a longer amortization period, which will help free up resources during the financial plan period but also will result in higher costs in the longer term. The City has engaged the services of an independent actuarial consultant, as required under the City Charter, to conduct a biennial audit of the pension systems. The audits, which are expected to be released during FY 2014, may recommend additional changes to the actuarial assumptions and methodologies that are used to calculate City pension contributions, which could increase (or decrease) planned City pension contributions.

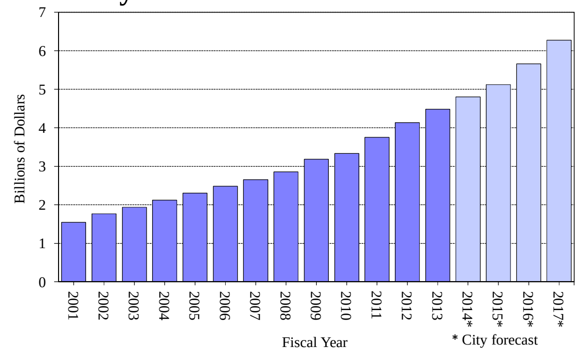
The City's projections also reflect the impact of better-than-expected investment gains during FY 2013. The City's pension systems earned 12.1 percent on their investments during FY 2013 (compared to an expected annual return of 7 percent). As a result, the City reduced its planned pension contributions by $86 million in FY 2015, $172 million in FY 2016 and $258 million in FY 2017. As of November 30, 2013, the City's pension systems have earned an estimated 9 percent on their investments.

As of June 30, 2011 (the most recent date of pension valuation data reported by the City Actuary), the City's five pension systems had sufficient assets to fund, on average, 61 percent of their accrued liabilities. The New York City Employees' Retirement System, for example, had assets to cover 65 percent of its liabilities, while the New York City Fire Pension Fund had assets to fund 50 percent of its liabilities.

3. Health Insurance

Figure 20

City-Funded Health Insurance Costs



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

City-funded health insurance costs are expected to grow by 8.2 percent in FY 2014, reflecting the smallest increase in health insurance premiums for active City employees in 15 years (see Figure 20).[16] The pace of spending is expected to slow in FY 2015, because the City's primary insurer, EmblemHealth, will not seek a rate increase for that fiscal year following the Mayor's announcement of a plan to seek new health carriers for the City's health plans.[17] Despite the rate freeze for active employees, health insurance costs will grow by 6.6 percent in FY 2015 because costs for retired employees are expected to rise, reflecting a growing population of retirees as well as higher health insurance premiums.[18]

The November Plan assumes that health insurance premiums for active employees will resume growing in FY 2016 (by 9 percent annually), and that City-funded health insurance costs will grow from $4.8 billion in FY 2014 to $6.3 billion in FY 2017, an average of 9.3 percent annually.

As part of its collective bargaining proposals, the City has suggested that employees share in the cost of their health insurance; such agreements have been successfully negotiated in the past. Some past agreements have increased employee copayments and limited benefits, but most of the resources came from freeing up unneeded monies held in the Health Stabilization Fund (HSF). The HSF was established in 1986 pursuant to collective bargaining. Under the agreement the City pays $35 million annually into the HSF, and contributes additional amounts for each fiscal year that the rate approved for the HIP exceeds the rate for Group Health Insurance and Blue Cross Blue Shield. As of November 2013, the HSF held assets totaling $1.1 billion.

16 Last fall, the State Department of Financial Services rejected an application from the Health Insurance Plan of Greater New York (HIP) to increase premiums for active City employees by 10.1 percent in FY 2014, and instead approved a rate increase of 5.2 percent.

17 EmblemHealth is composed of HIP plus Group Health Incorporated, and insures about 95 percent of City employees and their dependents.

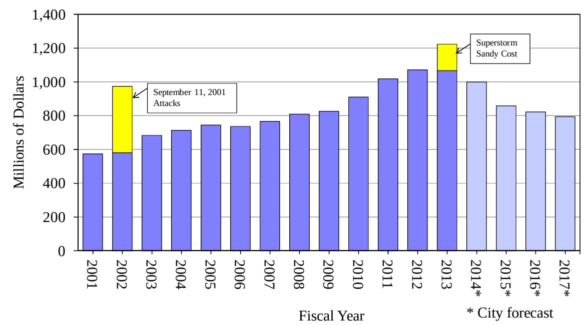
18 Premiums for Medicare-eligible retirees are expected to rise by 8 percent annually starting in FY 2015.

4. Uniformed Agencies

Overtime in the City's uniformed agencies (i.e., the Police, Fire, Correction and Sanitation departments) grew by 30 percent between fiscal years 2009 and 2012 (see Figure 21), largely as a result of staff shortages in the Fire and Correction departments. Excluding overtime costs associated with Superstorm Sandy, overtime declined slightly in FY 2013 because certain public events, such as the New York City Marathon, were cancelled as a result of Superstorm Sandy.

Figure 21

Overtime Spending in Uniformed Agencies



Sources: NYC Office of Management and Budget; OSC analysis

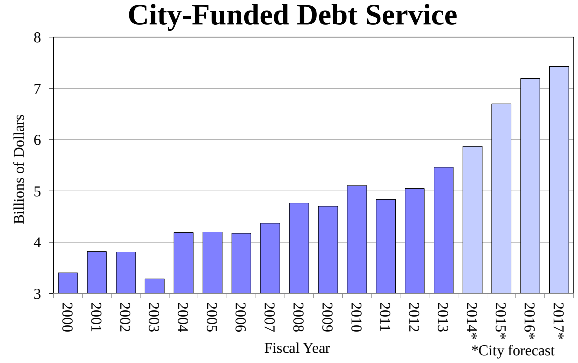
The November Plan assumes that overtime will decline by $67 million in FY 2014 and by another $142 million in FY 2015 as the Department of Correction and the Fire Department increase their staffing levels. The Fire Department had been prevented from hiring for three years until January 2013 because a federal court found that the department's hiring practices were biased against certain minorities. In January 2014, the Fire Department is expected to hire its third new class of firefighters since the ban was lifted. In addition, the City's estimates assume that the Police Department will reduce its overtime costs by $50 million, but the department has experienced difficulties in meeting cost-reduction targets in the past.

5. Debt Service

In recent years, the City has taken advantage of historically low interest rates to refinance outstanding debt. Since FY 2008, the City has refinanced more than $19 billion in debt (about one-quarter of all bonds outstanding) for cumulative savings of $1.5 billion through FY 2014, including more than $500 million in FY 2014. The November Plan assumes that City-funded debt service (adjusted for surplus transfers) will grow from $5.9 billion in FY 2014 to $7.4 billion by FY 2017 (see Figure 22), an increase of 27 percent in three years. OSC estimates that the City could realize additional savings of up to $100 million in FY 2014 on variable-rate debt if interest rates remain low as expected.

Figure 22

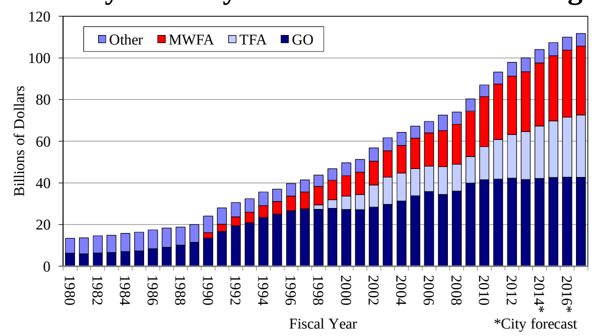
City-Funded Debt Service



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

The outstanding debt of the City and City-related entities has risen steadily over the past three decades to fund the City's capital program.[19] Debt outstanding reached $100 billion at the end of FY 2013, an increase of 56 percent over the past decade (see Figure 23). The amount of debt outstanding at the end of FY 2013 was about $12,000 per capita, or $4,000 more than ten years earlier.

Figure 23
City and City-Related Debt Outstanding

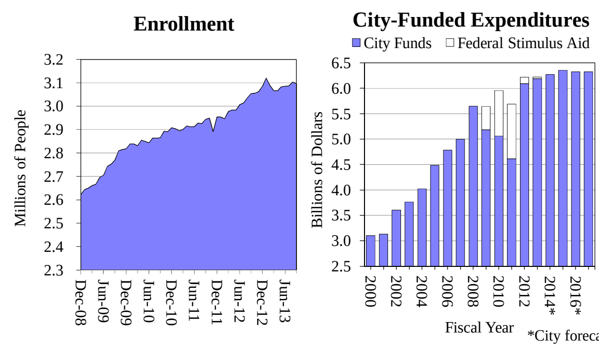


Note: TFA excludes Building Aid Revenue Bonds; "Other" includes lease and guaranteed debt, and HYIC, TSASC, FSC, JSDC and MAC debt.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

6. Medicaid

Over the past four years, enrollment in the Medicaid program rose by 12 percent to almost 3.1 million people as of September 2013 (see Figure 24), amounting to about one of every three New York City residents. Enrollment over the past year has increased (at a rate of 1 percent annually), but at a slower rate than four years ago as the economy has slowly improved and unemployment has gradually declined. Enrollment growth is largely attributed to the recent recession, and is expected to continue with the enactment of the Affordable Care Act, which will extend Medicaid eligibility.

Figure 24
Medicaid



Note: Federal legislation provided additional federal Medicaid funds to help states and local governments reduce costs during the recent recession. In total, this aid benefited the City by $2.6 billion in FY 2009 through FY 2013.
Sources: NYC Human Resources Administration; OSC analysis

Despite the expected growth in enrollment, the City-funded cost of Medicaid will remain relatively flat because of actions taken by the State to provide financial relief to localities. The November Plan assumes that the cost of this program will grow slowly and then level off at $6.3 billion in FY 2016 as the State completes a three-year takeover in the growth in the local share of Medicaid.

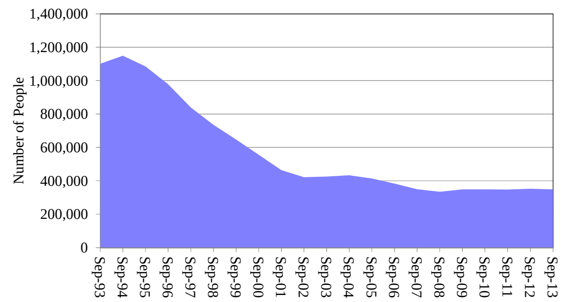
[19] City and City-related debt includes general obligation (GO) debt, Municipal Water Finance Authority (MWFA) debt, TFA-PIT debt, lease and guaranteed debt, and debt of the Hudson Yards Infrastructure Corporation (HYIC), TSASC, the Fiscal Year 2005 Securitization Corporation (FSC), the Jay Street Development Corporation (JSDC) and the Municipal Assistance Corporation (MAC).

7. **Public Assistance**

The public assistance caseload grew by only 5 percent between September 2008 and September 2012, despite the recent recession, and then declined by 1 percent over the past year to total 348,264 recipients in September 2013 (see Figure 25).[20] In 2012 (the most recent year for which data are available), 21 percent of the City's population lived below the federal poverty line, and about one in every five City residents received public assistance or food stamps. The November Plan assumes that City-funded expenditures for public assistance will total $586 million in FY 2014 (largely unchanged from the prior year) and remain relatively steady through FY 2017.

Figure 25

Public Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

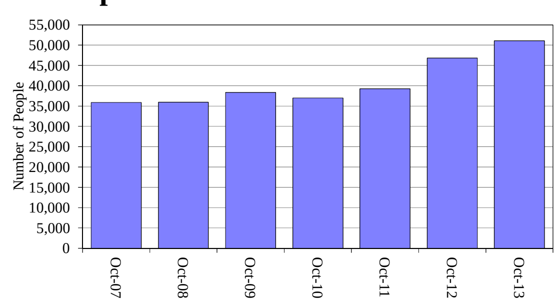
8. Homeless Services

The City faces a continuing decline in affordable housing as rents have grown and income has stagnated. Even with government subsidies, one out of five City households paid more than half of their income to rent in 2011. The population of homeless people in shelters managed by the New York City Department of Homeless Services (DHS) reached 51,061 in October 2013 (see Figure 26), which was 30 percent higher than two years earlier. This population consists of 12,454 families (including 22,024 children) and 9,995 single adults.

The DHS also provides funding for short-term housing and overnight shelters, which are operated by community-based and faith-based organizations, for about 1,500 single adults in special needs populations. The November Plan estimates that the City-funded cost of providing services to the City's homeless people will total $386 million in FY 2014, and remain relatively flat through FY 2017.[21]

Figure 26

People in DHS Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

[20] The September 2013 caseload is more than 800,000 lower than the peak in March 1995, largely as a result of federal welfare reform measures implemented in the late 1990s that enforced work requirements.

[21] The DHS, which shelters homeless families and single adults in more than 200 City facilities, accounts for 78 percent of these costs.

The New York City Human Resources Administration shelters more than 2,500 people in facilities for victims of domestic violence, and another 2,000 people in facilities for homeless people with HIV/AIDS. The City's Department of Housing Preservation and Development provides emergency housing to about 2,000 people who have become homeless as a result of extraordinary circumstances, such as fires. The City also provides funding for 250 shelter beds operated by community-based and faith-based organizations for runaway and homeless youth aged 16 to 21.

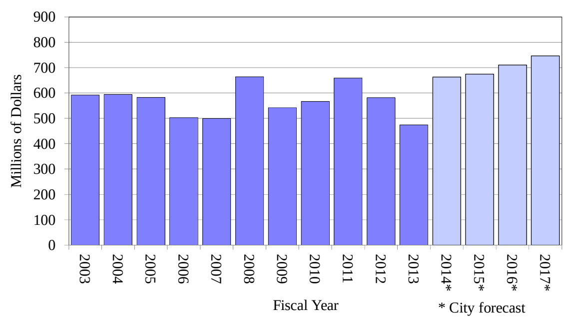
According to a 2013 federal assessment, among the 50 largest cities in the United States, New York City had the largest homeless population (both sheltered and unsheltered), which increased by 13 percent from 2012 through 2013. This was the second-highest rate increase in a major city behind Los Angeles, which showed a 27 percent increase in its homeless population.

9. Judgments and Claims

The cost of judgments and claims against the City totaled $474 million in FY 2013, $185 million less than the recent high of $659 million in FY 2011 (see Figure 27). The City attributes the decline to lower settlement costs for medical malpractice, injuries incurred in the City's schools and civil rights violations.

Figure 27

Judgments and Claims



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

The November Plan assumes that the cost of judgments and claims will increase by 20 percent in FY 2014, but then grow more slowly in subsequent years.[22] These costs grew by 11 percent during the first quarter of FY 2014, which leads us to believe that the cost of judgments and claims may not grow as rapidly as projected by the City. The City could realize savings of $70 million annually if costs grow half as fast in FY 2014 (13.5 percent) as the November Plan anticipates.

[22] The City's Comprehensive Annual Financial Report shows that the cost of judgments and claims attributable to FY 2013 totaled $524 million, but savings from an overestimation of the amounts paid in prior years reduced the net cost to $474 million in FY 2013. The November Plan anticipates that the cost of judgments and claims attributable to FY 2014 will total $663 million, 27 percent more than the amount attributable to FY 2013.

VI. Semi-Autonomous Entities

As discussed below, a number of public authorities have a financial relationship with the City.

1. Metropolitan Transportation Authority

In September 2013, OSC issued a report on the July 2013 financial plan of the Metropolitan Transportation Authority (MTA). The report found that the MTA's financial outlook was much improved compared to just seven months before, and estimated that the MTA had realized $1.9 billion in unanticipated resources over the course of the financial plan period compared with estimates in the MTA's February 2013 financial plan. The MTA proposed using the additional resources to balance the 2014 budget and narrow the out-year budget gaps; increase the amount of operating funds set aside to fund the capital program on a pay-as-you-go basis; pay down some long-term liabilities; and improve services. The proposed uses for the new resources did not include reducing the size of the two 7.5 percent fare and toll increases planned for 2015 and 2017.

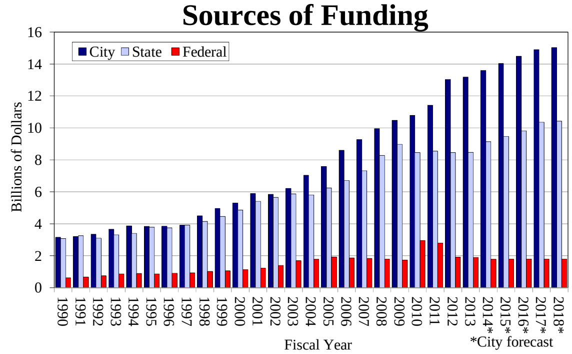
While OSC's report recognized that funding the next capital program and improving services were critically important, it also recommended that the MTA consider reducing the size of planned fare and toll hikes. Since 2010, new cost-reduction initiatives in areas other than paratransit have been modest, and the report recommended that the MTA should refocus its efforts on reducing waste. Subsequently, the MTA released its November 2013 financial plan, which shows a reduction of the planned fare and toll increases from 7.5 percent to 4 percent as the result of an additional $1.2 billion in new resources identified over the financial plan period. The MTA also plans to increase its cost-cutting program by $500 million over the last four years of the financial plan.

Despite these positive developments, the MTA still faces significant fiscal challenges, including the outcome of ongoing labor negotiations, the pace of the economic recovery and the need to fund the next capital program beginning in 2015. In October 2013 the MTA released its twenty-year needs assessment, which estimated that it would need to spend $26.6 billion during the 2015-2019 period just to maintain and modernize the existing transportation system. This need will be prioritized and modified into a program of projects that will serve as the basis for the MTA's 2015-2019 capital program. Additional resources would be needed to complete the East Side Access project and begin the next phase of the Second Avenue Subway. Given the budget constraints facing the federal government, which has been a large contributor to the MTA's capital program, along with the MTA's own financial limitations, the MTA can be expected to look to the State and the City for new sources of funding for the capital program.

2. Department of Education

The November Plan allocates a total of $24.7 billion in FY 2014 for costs associated with the Department of Education (see Figure 28), an increase of $852 million. The department intends to use 70 percent of the increase to hire additional teachers, fund costs associated with opening new schools, and provide additional full-day universal prekindergarten seats.[23] The balance of the increase would fund higher costs for fringe benefits and debt service.

Figure 28
Department of Education Sources of Funding



Sources: NYC Office of Management and Budget; OSC analysis

Over the past decade, the City's contribution to education has more than doubled, rising from $6.2 billion in FY 2003 to $13.2 billion in FY 2013. State education aid grew by less than half during the same period, rising from $5.9 billion to $8.5 billion. The City's share of the total spending for education in New York City over this period increased from 45 percent to 55 percent, while the State's share declined from 42 percent to 36 percent.

The State budget for SFY 2013-2014 increased education aid to the City by $364 million in FY 2014, contingent on the implementation of a teacher evaluation program by September 1, 2013. Since the City failed to negotiate a new evaluation program with the teachers' union last year, the State withheld $312 million in education aid. In response, the State designed its own evaluation program for the City, which the City implemented in June 2013. The State estimates that education aid to New York City will increase by $269 million in FY 2015 and $314 million in FY 2016, which is consistent with the amounts anticipated in the November Plan.[24]

The federal government's share of total education spending for New York City has averaged more than 10 percent over the past decade, but this share is likely to decline as a result of federal budget cuts and increases in City and State funding. The City estimates that budget cuts in federal fiscal year 2013 reduced federal education aid to the City by $63 million in FY 2014, but the City was able to offset the impact on educational programs with State education aid. The November Plan does not reflect the impact of cuts in federal education aid beyond the current fiscal year.

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[23] Currently, 55,000 students are enrolled in universal prekindergarten programs. About 71 percent of these students are enrolled in half-day programs, which are funded mostly by the State. Over the years, the City has allocated funding to convert some half-day seats to full-day seats.

[24] Projected increases in State education aid are tied to the growth in State personal income, and the receipt of that aid is dependent on the continued use of a State-approved teacher evaluation program.

In FY 2013, the department anticipated the receipt of $167 million in federal Medicaid reimbursement for services (e.g., speech and occupational therapy) provided to low-income students with special needs, but it received only $15 million because it was unable to properly document its expenses. Despite the department's poor track record in this area,[25] the November Plan assumes reimbursements will total $117 million in FY 2014 and then rise to $167 million annually in fiscal years 2015 through 2017. Until the department demonstrates that it can successfully document its expenses for Medicaid reimbursement, the amounts above last year's level are at risk ($100 million FY 2014 and $150 million annually thereafter).

3. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) is the largest municipal hospital system in the country and the single-largest provider of health care to uninsured New York City residents, serving almost 476,000 uninsured patients in FY 2013. Heavy reliance on Medicaid (74 percent of total patient revenue) makes the HHC vulnerable to actions taken by the State and federal governments to Medicaid. In recent years, the HHC has instituted cost-saving measures that include a hiring freeze, which reduced staff by about 4,000, and renegotiated affiliation contracts. In spite of these efforts, the HHC has yet to solve its underlying structural imbalance.

The HHC ended FY 2007 with a cash balance of more than $1 billion (its highest closing balance ever) as it benefited from large, prior-year, nonrecurring Medicaid reimbursements. Since then, the HHC has been drawing on these reserves to balance its budget. The HHC would have ended FY 2013 with a deficit of $115 million if it had not postponed until FY 2014 $438 million in payments to the City (largely for medical malpractice and debt service costs). The HHC ended FY 2013 with a cash balance of $323 million (its lowest since FY 2009).

The HHC expects to end FY 2014 with a cash balance of $533 million assuming it receives more than $800 million in prior-year supplemental Medicaid payments, but the likelihood of such additional federal funding remains uncertain given current budgetary constraints. The HHC also expects the receipt of $300 million in additional Medicaid revenue starting in FY 2015. Most of the expected revenue is waiting on federal approval of a Medicaid waiver that was submitted by the State to the U.S. Centers for Medicare and Medicaid Services in August 2012. If its financial position does not improve, the HHC will likely look to the City once again for assistance.

[25] In 2005, two federal audits found that the Department of Education had not adequately documented its Medicaid claims, and the City was penalized $100 million. Since FY 2006, the Department of Education has received an annual average of less than $16 million in Medicaid reimbursement.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) provides housing to more than 400,000 tenants and 176,000 families. NYCHA, which is dependent on federal assistance and rental payments from its low-income residents, has had difficulty balancing its budget and maintaining its housing assets in a state of good repair. In addition, it has not effectively managed its scarce resources. A consultant hired by NYCHA found that the housing authority has been slow to spend federal funds allocated for capital repairs and improvements. Moreover, NYCHA has used federal funds intended for capital repairs to help fund its operating budget. OSC estimates that since 2001, NYCHA has transferred a total of $526 million slated for capital needs to its operating budget.

In addition, NYCHA's budget and financial planning process is deficient and lacks transparency. Last year, the NYCHA board of directors did not approve the 2012 budget until May 9, 2012, five months after the start of the fiscal year. Moreover, the public was never given an opportunity to review a proposed budget or to offer comment before the budget was approved. The 2013 budget was approved earlier, on January 16, 2013, but NYCHA did not make the budget public until February 26, 2013. Furthermore, NYCHA budget officials have not provided briefings on budget performance during monthly board meetings or revised the budget to reflect new developments. For example, the 2013 budget still does not reflect the impact of federal budget cuts that were implemented in March 2013. NYCHA has not reported on the progress of its efforts to balance this year's budget, the size of the budget gap remaining in the current year, or any gaps projected for subsequent years.

VII. Other Issues

As discussed below, a number of other issues could impact New York City's financial plan.

1. Sale of Taxi Medallions

Following a year-long legal battle, on June 6, 2013, the New York State Court of Appeals upheld a State law authorizing the City to sell new taxi medallions and create a new class of street-hail livery licenses. The law, which is meant to increase mobility for City residents who are disabled or who live outside Manhattan's central business district, was first signed by the Governor in December 2011 on the condition that it would be amended (which occurred in February 2012) to include extra provisions to improve accessibility in the City's taxicab and livery system for people with disabilities.

The law authorizes the City to sell up to 2,000 new taxicab medallions, but requires that all of the new medallions be restricted to taxicabs that are accessible to people with disabilities. The law also permits the creation of up to 18,000 new hail licenses over a three-year period. These new hail licenses allow designated livery cars, known as green boro taxis, to pick up street hails in Upper Manhattan and the other four boroughs (excluding the airports), with 20 percent of the licenses designated for vehicles that are accessible to passengers with disabilities.[26] The City has already sold all 6,000 street-hail licenses available in the first year of the program.

Under the law, the City may sell 400 of the 2,000 taxi medallions before submitting a disabled accessibility plan (DAP) to the State Department of Transportation for approval no later than June 2014. The auction of the first 200 taxi medallions in November 2013 generated an estimated $227 million, more than the City expected. As a result of the strong demand, the City increased its forecast for sale proceeds by $64 million in FY 2014 and $81 million in FY 2015, raising the total amount expected to $1.6 billion over four years. The next auction of 200 medallions is expected in the spring of 2014.

Medallion sales scheduled for FY 2015 and subsequent years will be contingent on approval of the DAP. The DAP will outline how the Taxi and Limousine Commission (TLC) plans to achieve meaningful accessibility for disabled passengers throughout the City, with a gradual phase-in of accessible vehicles among the medallion taxi fleet as well as among radio-dispatch livery cars and the new green boro taxis.

26 The new green boro taxis can pick up passengers by prearrangement anywhere (including airports), except in Manhattan south of West 110th Street and East 96th Street.

On December 6, 2013, the City announced a settlement agreement which, if implemented by the TLC and approved by the U.S. District Court, would resolve outstanding legal issues regarding accessibility in the City's taxi medallion fleet. The agreement would improve accessibility in the taxi fleet by requiring that half of the taxi fleet be wheelchair-accessible by 2020.

The DAP will be developed with input from various stakeholders, including disability rights advocates, and will be reviewed by the City Council. Once the DAP is submitted, the law stipulates that the State may "recommend changes or amendments to the TLC as a condition of its approval and must approve or reject the disabled accessibility plan within sixty days of submission by the TLC." Until the DAP is approved, the remaining $1.2 billion in revenue remains at risk.

2. Impact of the Federal Budget

In an effort to reduce the federal deficit, the federal government implemented across-the-board spending cuts, which became effective on March 1, 2013. The City estimates that these cuts reduced federal fiscal year (FFY) 2013 funding to the City's budget by a total of $148 million (see Figure 29).[27] The November Plan reflects the impact of these cuts on mandatory and discretionary federal funding in City fiscal years 2013 and 2014, but it does not reflect the impact of cuts in discretionary federal funding beyond the current year.[28]

Figure 29
Federal Budget Cuts
(in millions)

Education	$ 62.9
Federal Subsidies for Municipal Bonds	18.7
Section 8 Housing Subsidy	18.1
Health Programs	12.9
Head Start	9.8
Additional Housing Subsidies	8.5
Senior Programs	6.2
Youth Services	3.1
Other	8.1
Total City Impact (FY 2013 & FY 2014)	**$148.3**

Sources: NYC Office of Management and Budget; OSC analysis

27 Discretionary spending is determined by the President and Congress annually through the budget process. Mandatory spending occurs in programs required by law to provide certain benefits, and does not have to be renewed annually.

28 The November Plan reflects the potential loss of $20 million annually in federal funding to mandated programs throughout the financial plan period.

The City mitigated the impact of federal budget cuts on some programs in fiscal years 2013 and 2014 by reallocating other sources of funding. For example, the City offset the impact of the loss of federal education aid with State funds, and used other federal funds to offset the cut to housing subsidies, including the City's Section 8 program. The City did not offset cuts in federal funding to Head Start, programs for senior citizens, and health services such as services for people living with HIV/AIDS, disease control and immunizations.

The estimates in Figure 29 exclude the impact of federal budget cuts to programs and agencies outside of the City's financial plan. The New York City Housing Authority (NYCHA), for example, estimates that federal operating assistance was reduced by $51 million and NYCHA's Section 8 program was reduced by $67 million. The New York City Health and Hospitals Corporation esitmates that it lost $18 million in Medicare reimbursements as a result of the federal budget cuts.

Congress was unable to reach agreement on a new budget for FFY 2014, which began on October 1, 2013, resulting in a government shutdown that lasted 16 days. Government operations resumed only after Congress approved an appropriations bill that funded operations at last year's level through January 15, 2014, giving the House and Senate time to negotiate a new budget. The agreement to end the government shutdown also suspended the federal debt limit until February 7, 2013.

Current law requires the federal budget to maintain nondefense discretionary federal spending at last year's reduced level ($469 billion), but Senate and House negotiators recently reached an agreement on a two-year budget that would restore two-thirds of the cuts ($22 billion) scheduled to take effect in FFY 2014. (The House has approved the agreement, and the Senate is expected to consider it before the end of the current calendar year.) Federal spending would be maintained at that level in FFY 2015, but budget cuts planned for subsequent years would remain in effect.

Although the November Plan only reflected the impact of the budget cuts enacted in FFY 2013, it now appears that the loss of federal aid to New York City in FFY 2014 and FFY 2015 could be substantially less than in FFY 2013. The congressional appropriations process will determine funding levels for individual programs, so it is not yet possible to quantify the impact the recent congressional agreement may have on New York City.

The agreement does not raise the federal debt ceiling, and the federal government risks defaulting on its obligations unless the debt ceiling is raised during the first quarter of 2014. Failure to do so would have serious implications for the economy. The agreement also does not extend unemployment benefits for some 1.3 million people who have been out of work for more than six months and whose benefits expire on December 31, 2013.

3. Impact of the State Budget

The November Plan reflects New York State's enacted budget for State Fiscal Year (SFY) 2013-2014 and the associated financial plan, which benefits New York City by an estimated $381 million in FY 2014, $646 million in FY 2015 and $944 million in FY 2016. State education aid, which accounts for most of the increase in State aid, is projected to increase, on average, by more than $300 million each year.[29] The Governor is not expected to release his executive budget for SFY 2014-2015 until January 21, 2014, but he has indicated that the State's financial outlook has improved as a result of controlled spending.

4. Federal Assistance for Superstorm Sandy Recovery

Superstorm Sandy, which struck more than one year ago on October 29, 2012, resulted in an estimated $4.6 billion in costs to the City, including $3 billion in capital needs and $1.6 billion in emergency operating expenses. Federal assistance provided through the Federal Emergency Management Agency (FEMA) is expected to cover up to 90 percent of eligible costs, with the remainder funded by non-City sources, such as federal Community Development Block Grant-Disaster Recovery (CDBG-DR) funds.[30]

The $1.6 billion in storm-related operating expenses resulted from emergency repairs, debris removal and overtime. Rather than funding these costs with City funds, the City set up a receivable for federal funds in its revenue budget. The City, however, could not tell us how much has been approved by FEMA and how much has been received by the City to date. Thus, we are unable to determine the potential liability to the City's operating budget.

The City estimates that it will incur capital costs of $3 billion to make permanent repairs to damaged infrastructure such as parks and beaches, roads and bridges, public hospitals, and schools. The City expects that reimbursements from FEMA and other non-City sources will cover and match the flow of capital expenditures (which will take place over multiple years), but the amount and timing of reimbursements will ultimately be determined by the federal government. The City, however, could not tell us how much of the $3 billion in claims has been submitted to FEMA for their consideration and how much has been approved.

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[29] Increases in State education aid are tied to the projected growth in the State's personal income, and the City's receipt of this aid is dependent on the continued use of a State-approved teacher evaluation program.

[30] The City has been awarded a total of $3.2 billion in CDBG-DR funds. While the federal government has approved the City's plan to spend an initial $1.8 billion (including $941 million to assist home owners and businesses, $360 million to help fund the local share of recovery costs not covered by FEMA, and $294 million to begin resiliency projects), it is still developing a plan for the remaining $1.4 billion.

In March 2013, the federal government reduced FEMA's nationwide disaster relief fund by more than $900 million, which could affect the level of reimbursement anticipated by the City. The November Plan includes a $300 million capital reserve to cover shortfalls in expected federal funding or other capital costs, such as mitigation projects, associated with Superstorm Sandy.

5. Maintaining the City's Infrastructure

The November Plan increases the City's capital plan for fiscal years 2014 through 2017 by $821 million to reach a total of $38.5 billion. The largest increase is allocated to the Department of Parks and Recreation ($468 million), mostly for increased investment in core infrastructure projects at neighborhood parks and playgrounds. Additional funds were added to address needs at two court buildings ($71 million), the Fire Department ($60 million), the Sanitation Department ($58 million), and for economic development projects ($32 million). As discussed below, OSC estimates that, despite these changes, the City funds less than 70 percent of the capital and operating costs needed to maintain its assets in a state of good repair.

In its most recent Asset Information Management Systems (AIMS) report issued in May 2013, the City estimated that it needed to invest $6.4 billion during fiscal years 2014 through 2017 to achieve and maintain a state of good repair for certain capital assets. At that time, the City's capital plan addressed less than 60 percent of these needs. OSC estimates that the funding added in the November Plan raises the percentage to closer to 70 percent.

Nevertheless, funding for state-of-good-repair work remains an area of concern. For example, while the Department of Transportation expects to fully fund needs for bridges and tunnels, it would fund only two-thirds of the needs for streets and highways (a shortfall of $765 million). Even though the largest amount of capital funds have been allocated to the Department of Education, it has the second-largest funding shortfall ($414 million).

The City also allocates operating funds to help maintain its capital assets. Although the November Plan allocates only two-thirds of the resources needed according to the City's own estimates, the amount appropriated by the City has been rising since FY 2006. The agency with the largest estimated need is the Department of Education ($127 million), but less than two-thirds of this need would be funded in FY 2014 (see Figure 30). Eight agencies will fund less than half of their maintenance needs, the largest of which is the Department of Parks and Recreation ($29 million), which would fund just 12 percent, or $3 million.

Figure 30
Operating Funding for Capital Maintenance: FY 2014
(in millions)

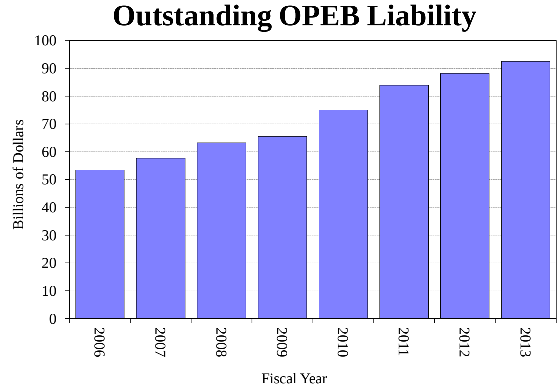
Agency	Need	Funding	Percent Funded	Shortfall
Education	$ 127.2	$ 82.2	64.6%	($ 45.0)
Transportation	94.8	83.0	87.5%	(11.8)
Parks & Recreation	29.0	3.4	11.9%	(25.6)
Health & Hospitals Corporation	17.9	17.3	96.7%	(0.6)
Cultural Affairs	17.7	- - -	0.0%	(17.7)
Citywide Admin. Services	16.2	13.7	84.7%	(2.5)
Police	12.3	9.9	80.3%	(2.4)
City University of New York	10.3	2.8	27.0%	(7.5)
Small Business Services	10.3	10.3	100.0%	- - -
Sanitation	6.4	0.7	11.4%	(5.7)
Correction	6.0	6.0	100.0%	- - -
Homeless Services	4.9	4.9	100.0%	- - -
Public Libraries	4.0	1.8	46.5%	(2.2)
All Other	9.2	5.5	59.4%	(3.7)
Total	**$ 366.2**	**$ 241.5**	**65.9%**	**($ 124.7)**

Sources: NYC Office of Management and Budget; OSC analysis

6. Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, which establishes standards for measuring and reporting the expense and related liabilities of other post-employment benefits (OPEBs), such as health insurance, on an actuarial basis. Although GASB 45 does not require entities to fund these costs on an actuarial basis, entities could realize significant long-term savings if they did so. As shown in Figure 31, the City's outstanding OPEB liability for past employee service reached $92.5 billion as of FY 2013, an increase of $39 billion since FY 2006 (the first OPEB valuation year reported by the City), and $5.5 billion more than in the prior year.

Figure 31
Outstanding OPEB Liability

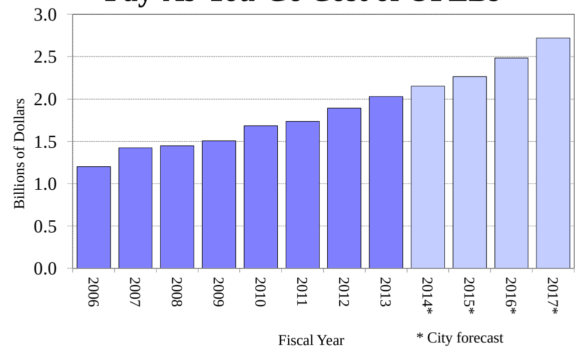


Sources: NYC Actuary; OSC analysis

Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of services, the City is not required to fund OPEBs on a similar basis. In FY 2013, the City paid less than a third of the present value of obligations ($3.8 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring nearly $2.6 billion to future taxpayers. 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 2013 to $2.7 billion in FY 2017 (see Figure 32), an increase of 34 percent in five years.

Figure 32

Pay-As-You-Go Cost of OPEBs

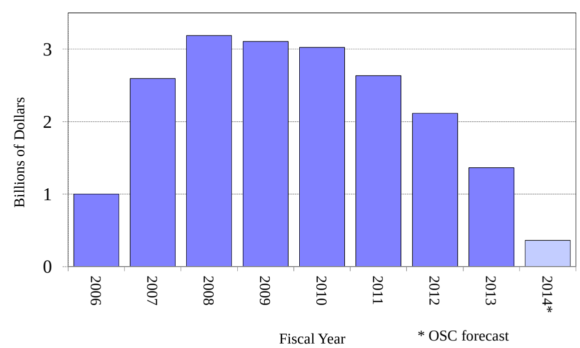


Sources: NYC Actuary; NYC Office of Management and Budget; OSC analysis

In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) and deposited $2.5 billion into the trust to help fund the future cost of OPEBs. These resources were invested, and over the years the value of the trust has grown. In recent years, however, the City has been drawing on these resources to help balance the budget, leaving future taxpayers to fund the full cost of services provided in past years. The City drew down $2.1 billion during fiscal years 2010 through 2013, and intends to draw down $1 billion in FY 2014 (a total of $3.1 billion including interest). At the end of FY 2014 the RHBT's remaining funds could total an estimated $363 million (see Figure 33).

Figure 33

Balance of RHBT Resources



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

7. Agency Program

At least once a year, the Mayor proposes a series of actions to help eliminate the budget gap projected for the following fiscal year. In the past, some of these actions, such as cuts in library hours, have been proposed by the Mayor with the expectation that the City Council will negotiate the restoration of some or all of the funding during budget negotiations. Even when such cuts have been rescinded for the upcoming year, the Mayor has typically included the same cuts in subsequent years of the City's four-year financial plan. During the budget negotiation process, the City Council also often obtains funding for new initiatives (e.g., an expansion of senior citizen programs), but such funding is usually limited to one year.

In a break from past practice, the November Plan includes funding ($292 million) in the out-years of the financial plan to rescind many of the cuts that have been proposed by the Mayor but later restored by the City Council. For example, the November Plan added $166 million for libraries and cultural institutions. In addition, the City added funding ($101 million) beyond the current fiscal year to support many of the initiatives (e.g., child care and youth programs) that were included in the FY 2014 budget at the City Council's request.

The November Plan, however, does not rescind all of the budget cuts that the City Council has opposed in the past. It still includes, for example, the planned closure of 20 fire companies across the City ($44 million). OSC estimates that these planned cuts have a total value of $58 million annually. Similarly, the November Plan does not include funding to continue all of the initiatives that were included in the FY 2014 budget at the City Council's request. OSC estimates that these initiatives, such as educational and cultural enrichment programs, business and workforce assistance, and criminal justice initiatives, have a value of $59 million annually.

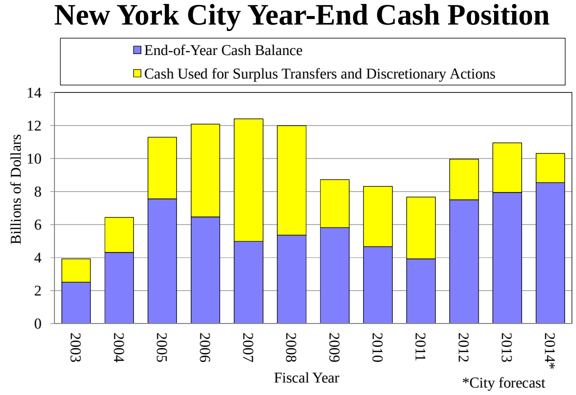
8. Cash Flow

The City ended FY 2013 with a cash balance of $10.9 billion, its highest closing balance since FY 2008 (before surplus transfers and discretionary actions), reflecting an improving economy (see Figure 34). The most recent cash flow projections prepared by the City Comptroller show that the City will pass its historic low-balance period in early to mid-December with a balance of between $3.4 billion and $4 billion. (In comparison, the City Comptroller notes that the FY 2010 low balance was $449 million.)

The latest cash flow projections prepared by the City's Office of Management and Budget show a cash balance of $10.3 billion at the end of the fiscal year (reflecting the receipt of prepaid real estate taxes). As a result of its strong cash balances, the City no longer assumes that it will need to borrow $2.4 billion during the current fiscal year to meet cash flow needs, which will save $75 million in interest costs.

Figure 34

New York City Year-End Cash Position



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

9. Credit Rating

The City-funded portion of New York City's capital program is expected to be financed through general obligation (GO) bonds secured by the City's full faith and credit, and Transitional Finance Authority (TFA) bonds secured by personal income tax and, if needed, sales tax revenues.

The City's GO ratings were last upgraded in the summer of 2007, and the City has been able to maintain its ratings through the recession.[31] According to the City Comptroller, GO bonds are at their highest rating in more than 70 years. The City's strong credit ratings contribute to its ability to access the capital markets to meet its financing needs, and help keep its borrowing costs at reasonable rates. The City's GO credit is rated "AA" by Standard & Poor's, "AA" by Fitch Ratings and "Aa2" by Moody's Investors Service, while the TFA credit is rated higher ("AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's).[32] Both credits have a stable outlook from the three rating agencies.

The TFA's credit rating benefits from the strong statutory revenue streams used to secure its bonds, while GO ratings reflect the City's broad economic base, sound financial planning practices and demonstrated ability to close anticipated budget gaps. However, the rating agencies have expressed concern over the City's continued reliance on the financial services sector (although it is not as pronounced as in the past), a high debt burden and pressure from rising nondiscretionary costs. Fitch's most recent comment on the City's GO rating (December 2013) also noted that the resolution of labor contracts could pose a risk to continued financial stability.

[31] Fitch and Moody's recalibrated their ratings in April 2010 so that municipal ratings are comparable with ratings in other sectors. As a result, GO and TFA ratings were adjusted upward by one notch, though the adjustment does not reflect a change in credit quality.

[32] Fitch and S&P do not make a rating distinction between TFA senior and subordinate bonds. Moody's rates TFA subordinate bonds one notch lower ("Aa1") than it rates senior bonds.

Appendix A: Nonrecurring Resources

In recent years, the City has relied heavily on nonrecurring resources to balance the budget. The FY 2014 budget includes an estimated $3.4 billion in such resources, and the FY 2015 budget includes $2.5 billion in nonrecurring resources, as shown in Figure 35 and discussed below.

Figure 35
Nonrecurring Resources
(in millions)

	FY 2014	FY 2015
Surplus Transfers[33]	$ 1,068	$ 1,770
Retiree Health Benefits Trust	1,000	- - -
Debt Refinancings–Net	538	148
Taxi Medallion Sales	364	481
Sale of City-Owned Buildings	243	- - -
Health Insurance Refunds	103	- - -
Verizon Settlement	50	- - -
Uncashed Paychecks	44	- - -
Educational Construction Fund	32	- - -
TFA Debt Redemption	7	99
Mortgage Sales	- - -	100
Total	**$ 3,449**	**$ 2,598**

Sources: NYC Office of Management and Budget; OSC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the FY 2014 and FY 2015 budgets.
- The City plans to nearly deplete the balance of the Retiree Health Benefits Trust by the end of FY 2014.
- Historically low interest rates in recent years have permitted to the City to refinance outstanding debt, generating savings of $538 million in FY 2014 and $148 million in FY 2015.
- The sale of additional taxi medallions is expected to generate $364 million in FY 2014, $481 million in FY 2015, $360 million in FY 2016 and $400 million in FY 2017, for a total of $1.6 billion.
- As part of a plan to consolidate City-owned real estate, the City expects to generate $243 million in FY 2014 from the sale of two buildings in Lower Manhattan.

33 The November Plan assumes the City will transfer prior years' surplus resources of $2.8 billion to FY 2014, and that a $1.8 million surplus in FY 2014 will be transferred to FY 2015.

- The City anticipates a refund of $103 million in health insurance premiums in FY 2014 as a result of lower-than-expected use of medical services.
- Verizon has agreed to pay the City $50 million in FY 2014 to settle cost overruns resulting from delays to the upgrade of the City's 911 system.
- The City expects $44 million in FY 2014 from paychecks that have not been cashed in more than six years.
- The Educational Construction Fund will transfer $32 million in surplus funds to the Department of Education in FY 2014.
- The City used $196 million in resources generated in FY 2013 to redeem TFA debt due in future years, which lowers debt service by $7 million in FY 2014, $99 million in FY 2015 and $103 million in FY 2016.
- The City plans to sell certain mortgages held by the Department of Housing Preservation and Development to the Housing Development Corporation, which is expected to generate $100 million for the City in FY 2015.

Appendix B:
Staffing Levels

Between June 2008 and June 2012, the City-funded workforce (full-time and full-time-equivalent employees) declined by 15,666 positions (5.8 percent) to 253,932, reflecting the impact of agency cost-cutting actions in response to the recession. Staffing levels rose, however, by 2,003 positions in FY 2013, reflecting the restoration of previously planned budget cuts. As discussed below, the City added another 1,655 employees during the first four months of FY 2014 and plans to add another 2,348 employees by June 30, 2014, for a total of 4,003 employees during FY 2014 (see Figure 36).

- The Department of Education plans to add a net of 1,618 employees during FY 2014, primarily reflecting the addition of teachers and paraprofessionals for the City's special education program.
- The size of the police force is projected to hold steady at about 34,500 officers, which is one of the lowest annual levels in the past 22 years. Despite the relatively small size of the police force, serious crime continues to decline.
- The November Plan assumes that uniformed staffing at the Fire Department will hold steady at 10,300 positions, assuming the City goes forward with previously delayed plans to close 20 fire companies in FY 2015.
- The Department of Correction is expected to maintain its uniformed staffing at about 8,800 positions during the financial plan period.
- The Parks and Recreation Department will maintain staffing at the current level because the November Plan rescinds previously planned cuts.

Figure 36

City-Funded Staffing Levels

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

Additions/(Reductions)

		Actual		City Forecast	Variance		
		June 2013	Oct. 2013	June 2014	June 2013 to Oct. 2013	Oct. 2013 to June 2014	June 2013 to June 2014
Public Safety		**80,700**	**81,374**	**80,365**	**674**	**(1,009)**	**(335)**
Police	Uniformed	34,708	35,115	34,483	407	(632)	(225)
	Civilian	15,598	15,492	15,725	(106)	233	127
Fire	Uniformed	10,178	10,332	10,779	154	447	601
	Civilian	5,293	5,179	5,004	(114)	(175)	(289)
Correction	Uniformed	8,970	9,200	8,873	230	(327)	(97)
	Civilian	1,383	1,384	1,627	1	243	244
District Attys. & Prosecutors		3,825	3,903	3,138	78	(765)	(687)
Probation		730	753	720	23	(33)	(10)
Board of Correction		15	16	16	1	0	1
Health & Welfare		**22,430**	**22,186**	**23,571**	**(244)**	**1,385**	**1,141**
Social Services		10,103	10,080	10,145	(23)	65	42
Children's Services		5,957	5,827	6,461	(130)	634	504
Health & Mental Hygiene		4,224	4,158	4,616	(66)	458	392
Homeless Services		1,760	1,756	1,919	(4)	163	159
Other		386	365	430	(21)	65	44
Environment & Infrastructure		**17,614**	**16,631**	**17,563**	**(983)**	**932**	**(51)**
Sanitation	Uniformed	7,020	7,176	7,119	156	(57)	99
	Civilian	1,867	1,853	2,088	(14)	235	221
Transportation		1,938	1,993	1,967	55	(26)	29
Parks & Recreation		6,580	5,406	6,167	(1,174)	761	(413)
Other		209	203	222	(6)	19	13
General Government		**9,254**	**9,487**	**11,325**	**233**	**1,838**	**2,071**
Finance		1,802	1,830	1,971	28	141	169
Law		1,397	1,375	1,379	(22)	4	(18)
Citywide Admin. Services		1,338	1,283	1,464	(55)	181	126
Taxi & Limousine Commission		514	516	622	2	106	108
Investigations		197	204	234	7	30	37
Board of Elections		669	887	1,752	218	865	1,083
Info. Tech. & Telecomm.		1,007	1,027	1,183	20	156	176
Other		2,330	2,365	2,720	35	355	390
Housing		**1,503**	**1,516**	**1,657**	**13**	**141**	**154**
Buildings		1,039	1,058	1,180	19	122	141
Housing Preservation		464	458	477	(6)	19	13
Department of Education		**113,717**	**114,498**	**115,335**	**781**	**837**	**1,618**
	Pedagogues	92,486	93,390	93,362	904	(28)	876
	Non-Pedagogues	21,231	21,108	21,973	(123)	865	742
City University of New York		**8,399**	**9,635**	**7,768**	**1,236**	**(1,867)**	**(631)**
	Pedagogues	5,387	6,531	5,028	1,144	(1,503)	(359)
	Non-Pedagogues	3,012	3,104	2,740	92	(364)	(272)
Elected Officials		**2,318**	**2,263**	**2,354**	**(55)**	**91**	**36**
Total		**255,935**	**257,590**	**259,938**	**1,655**	**2,348**	**4,003**

Sources: NYC Office of Management and Budget; OSC analysis