Review of the Financial Plan of the City of New York

July 2010

Report 4-2011

New York State
Office of the State Comptroller
Thomas P. DiNapoli

Office of the State Deputy Comptroller
for the City of New York
Kenneth B. Bleiwas

Additional copies of this report
may be obtained from:

Office of the State Comptroller
New York City Public Information Office
633 Third Avenue
New York, NY 10017

Telephone: (212) 681-4840

Or through the Comptroller's website at: www.osc.state.ny.us

To help reduce printing costs, please notify the Office of the State Deputy Comptroller at (212) 383-3916 if you wish to have your name removed from our mailing list or if your address has changed.

Contents

I. Executive Summary

The recession has been less severe in New York City than in the nation and in other parts of New York State, and less severe than first feared, but the impact has been painful nonetheless. New York City lost 185,500 jobs; the unemployment rate peaked at 10.5 percent in November 2009, the highest rate in 17 years; and tax revenues fell by 7.1 percent in FY 2009 ($2.8 billion), the steepest decline in at least 30 years.

To maintain budget balance during fiscal years 2009 and 2010, the City drew upon resources accumulated during the last economic expansion, raised property and sales taxes, cut planned spending, curtailed the capital program, and obtained significant federal assistance under the American Recovery and Reinvestment Act of 2009.

The City's July 2010 financial plan (the "July Plan"; see Figure 1) forecasts a net surplus of more than $3.6 billion for FY 2010 on a budget of $63.8 billion ($42.1 billion in City funds). The surplus resulted mostly from higher-than-anticipated revenues ($2.6 billion), reflecting the City's conservative budgeting assumptions and a faster-than-expected economic recovery, and a drawdown in reserves ($1.3 billion). The City transferred the surplus to FY 2011 and has used another $2.6 billion in nonrecurring resources to help balance that year's budget.

The FY 2011 budget is also balanced with $1.2 billion in resources from agency actions, which are expected to reduce services, improve efficiencies, and increase nontax revenues. Many of the most draconian budget cuts that had been proposed for FY 2011, such as closing firehouses, were rescinded during the budget adoption process. As of May 2010, the municipal workforce had declined by 6,500 jobs during FY 2010, and it is projected to decline by another 1,800 jobs by the end of FY 2011.

The State budget is more than three months late and still not complete, but it appears that State assistance to New York City could decline by about $1.1 billion. To mitigate the loss of $493 million in State education aid and to help the Department of Education meet its cost-reduction target, the City rescinded a proposed two-year wage increase for teachers and principals. Most other municipal workers received 4 percent annual wage increases during the same two-year period. The Mayor is also calling on the City's unions to self-fund the next round of bargaining with productivity and savings from restructuring fringe benefits. The outcome of these proposals will be determined through the collective bargaining process.

Many states are anticipating that the federal government will help them balance their budgets by providing additional Medicaid budget relief, but Congress has yet to approve this proposal because of concerns over the growing federal deficit. The July Plan assumes New York City will receive $609 million in additional federal Medicaid funds over a three-year period, and the State is counting on $1 billion in its budget. In the event that such assistance does not materialize, the State may reduce aid to localities, thereby compounding the budget risk for the City.

In FY 2012, the City faces the loss of $853 million in federal stimulus funds that have supported education. The State is competing with other states for federal education grants under the Race to the Top program, but even if New York is successful, the grants are unlikely to fully offset the loss of the federal stimulus funds.

Our review concludes that New York City will end FY 2010 with a surplus of more than $3.6 billion. While the FY 2011 budget is balanced, our review has identified budget risks that total $726 billion (see Figure 2). To its credit, the City has increased the general reserve to $437 million given the uncertainty surrounding the receipt of additional federal Medicaid funds, which is outside the City's control. The outcome of the collective bargaining process represents another substantial budget risk during the financial plan period. In addition, the State's budget challenges are not over, and the City could face further reductions in State assistance.

The City projects out-year budget gaps that range from $3.3 billion in FY 2012 to $4.8 billion in FY 2014. The gaps reflect the City's reliance on nonrecurring resources to balance the FY 2011 budget, the scheduled loss of temporary federal assistance, and rising costs for debt service and fringe benefits. These budget gaps, which are already large, could grow depending on the resolution of the risks that we have identified for FY 2011, and how the State and the City address the loss of federal stimulus funds for education.

In the past six months, there have been signs that an economic recovery is beginning to take root in New York City. Tax collections are strengthening and 49,800 private sector jobs were added in the past six months. Wall Street, the City's economic engine, earned a record $61.4 billion during 2009 and earned $10.3 billion during the first quarter of 2010—the fourth-best quarter on record. Wall Street has begun to add jobs and compensation is also growing again, which will have a beneficial impact across the economy.

Although the City's economy is improving, the recovery remains fragile as evidenced by the slight decline in private sector employment in May and June. The national economy has slowed, and concerns are growing that the recovery could stall, which could affect New York City. The federal government has been instrumental in helping states and school districts weather the economic downturn, but future assistance may be limited as the federal government turns its attention to reducing its own budget deficit. The Mayor and the City Council have managed the budget in a fiscally prudent manner during this very difficult period, but New York City still faces significant challenges ahead.

Figure 1
New York City Financial Plan
(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
REVENUES					
Taxes					
General Property Tax	$ 16,156	$ 16,780	$ 17,423	$ 17,692	$17,829
Other Taxes	20,277	21,504	22,766	24,012	25,204
Tax Audit Revenue	890	622	621	620	620
Subtotal: Taxes	$ 37,323	$ 38,906	$ 40,810	$ 42,324	$ 43,653
Miscellaneous Revenue	6,562	5,912	5,738	5,769	5,819
Unrestricted Intergovernmental Aid	21	14	314	314	314
Less: Intra-City Revenue	(1,834)	(1,616)	(1,498)	(1,502)	(1,502)
Disallowances Against Categorical Grants	- - -	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 42,072	$ 43,201	$ 45,349	$ 46,890	$ 48,269
Other Categorical Grants	1,128	1,235	1,142	1,139	1,137
Inter-Fund Revenues	583	558	493	493	493
Total City, Capital IFA & Oth. Cat. Funds	$ 43,783	$ 44,994	$ 46,984	$ 48,522	$ 49,899
Federal Categorical Grants	8,200	6,813	5,747	5,674	5,667
State Categorical Grants	11,819	11,352	12,274	12,487	12,903
Total Revenues	**$ 63,802**	**$ 63,159**	**$ 65,005**	**$ 66,683**	**$ 68,469**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 22,272	$ 21,576	$ 21,011	$ 21,329	$ 21,875
Pensions	6,760	7,612	7,876	7,983	8,086
Fringe Benefits [1]	7,328	7,669	8,088	8,409	8,917
Retiree Health Benefits Trust	(82)	(395)	(672)	- - -	- - -
Subtotal - Personal Service	$ 36,278	$ 36,462	$ 36,303	$ 37,721	$ 38,878
Other Than Personal Service					
Medical Assistance	$ 5,140	$ 5,166	$ 5,947	$ 6,171	$ 6,778
Public Assistance	1,580	1,586	1,626	1,614	1,614
All Other [1,2]	19,505	19,415	19,290	19,832	20,377
Subtotal - Other Than Personal Service	$ 26,225	$ 26,167	$ 26,863	$ 27,617	$ 28,769
General Obligation, Lease and TFA Debt Service [1,2,3]	$ 5,030	$ 5,351	$ 6,294	$ 6,602	$ 6,859
General Obligation and TFA Debt Defeasances (Net) [3]	(2,726)	- - -	- - -	- - -	- - -
FY 2009 Budget Stabilization & Discretionary Transfers [1]	(2,813)	- - -	- - -	- - -	- - -
FY 2010 Budget Stabilization & Discretionary Transfers [2]	3,642	(3,642)	- - -	- - -	- - -
General Reserve	- - -	437	300	300	300
Subtotal	$ 65,636	$ 64,775	$ 69,760	$ 72,240	$ 74,806
Less: Intra – City Expenses	(1,834)	(1,616)	(1,498)	(1,502)	(1,502)
Total Expenditures	**$ 63,802**	**$ 63,159**	**$ 68,262**	**$ 70,738**	**$ 73,304**
Gap To Be Closed	**$ - - -**	**$ - - -**	**$ (3,257)**	**$ (4,055)**	**$ (4,835)**

[1] Fiscal Year 2009 Budget Stabilization and Discretionary Transfers total $2.813 billion, including Budget Stabilization of $1.286 billion, lease debt service of $110 million, Retiree Health Benefits of $225 million, subsidies of $643 million, net equity contribution in bond refunding of $3 million and TFA grant of $546 million.

[2] Fiscal Year 2010 Budget Stabilization and Discretionary Transfers total $3.642 billion, including Budget Stabilization of $2.888 billion, TFA of $371 million, and subsidies of $383 million.

[3] FY 2007 GO debt defeasance of $536 million reduced debt service by $27 million, $279 million and $277 million in FY 2008 through FY 2010, respectively. FY 2008 GO debt defeasance of $1.986 billion reduced debt service by $2.036 billion in FY 2010. FY 2007 TFA debt defeasance of $718 million reduced debt service by $33 million, $362 million, and $382 million in FY 2008 through FY 2010, respectively. FY 2007 JSDC debt defeasance of $65 million reduced debt service by $34 million and $31 million in FY 2009 and FY 2010.

Figure 2
OSDC Risk Assessment of the NYC Financial Plan
(in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
		Better/(Worse)		
Surplus/(Gaps) per July Plan	**$ - - -**	**$ (3,257)**	**$ (4,055)**	**$ (4,835)**
UFT Collective Bargaining[4]	(626)	(800)	(898)	(900)
Federal Medicaid Assistance	(279)	(61)	(269)	- - -
Overtime	(50)	(100)	(100)	(100)
Agency Actions	(21)	(33)	(35)	(37)
Tax Revenues	250	250	250	250
State Revenue Sharing (AIM)	- - -	(302)	(302)	(302)
Pension Fund Investment Earnings	- - -	7	16	22
Loss of Federal Education Stimulus Aid	- - -	(853)	(853)	(853)
OSDC Risk Assessment	**(726)**	**(1,892)**	**(2,191)**	**(1,920)**
Remaining Gap to be Closed per OSDC [5]	**$ (726)**	**$ (5,149)**	**$ (6,246)**	**$ (6,755)**
Additional Risks and Offsets				
Wage Increases at Projected Inflation Rate	$ (304)	$ (803)	$ (1,300)	$ (1,800)
State Education Aid Accrual[6]	(202)	- - -	- - -	- - -

4 The Mayor has rescinded proposed wage increases for teachers and principals for fiscal years 2009 and 2010 to mitigate the loss of State education aid and to help the Department of Education meet its cost-reduction target for FY 2011. Most other municipal workers received 4 percent annual wage increases during the same two-year period. This action freed up $272 million in FY 2010, which could become a liability if a future labor settlement increases wages retroactively.

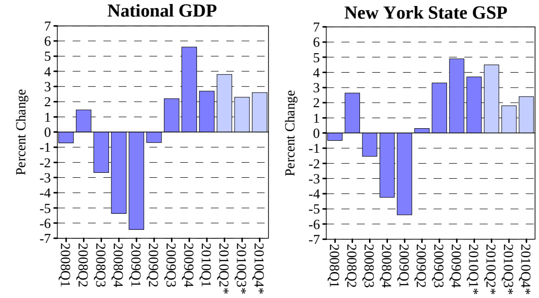
5 The July Plan includes a general reserve of $437 million in FY 2011 and $300 million in each of fiscal years 2012 through 2014. The Retiree Health Benefits Trust will have $2.7 billion on deposit even after the City has drawn down $477 million to help balance the budget in fiscal years 2010 and 2011. The City also has established reserves of $600 million annually beginning in FY 2011 to fund recommendations of an independent actuarial consultant; the actual cost could vary from the amount reserved. The City also has a $1.1 billion reserve for disallowances of federal and State aid.

6 The Governor and State legislative leaders have expressed their intention to restore the City's authority to accrue these funds in FY 2011.

II. Economic Trends

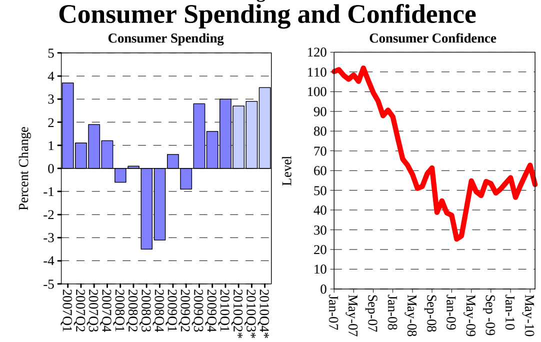
The national economy has begun to slow, heightening concerns that the recovery could stall. In recent months, private sector job growth and consumer confidence have weakened, and worries over deflation and access to credit for small businesses have resurfaced. The financial markets have become more volatile, reflecting concerns over the European debt crisis. Several countries have cut back on stimulus spending and have raised taxes in an effort to reduce debt, which will dampen world economic growth. In the United States, the prospects for additional stimulus spending have dimmed as Congress has become increasingly concerned over the size of the federal budget deficit.

Figure 3
Economic Growth



* IHS Global Insight forecast
Source: U.S. Bureau of Economic Analysis

Figure 4
Consumer Spending and Confidence



* IHS Global Insight forecast
Sources: U.S. Bureau of Economic Analysis; The Conference Board

While Real Gross Domestic Product (GDP) has grown during the past three quarters (see Figure 3), driven by business spending, inventory replenishment, and higher consumer spending (see Figure 4), the recovery is losing momentum.

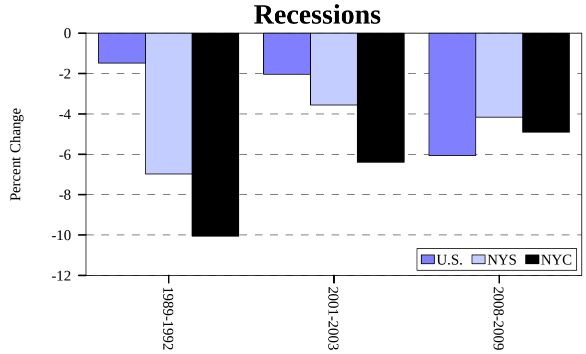
For example, consumer confidence is weakening, with consumers spending less and saving more. While the private sector (which excludes temporary Census jobs) has begun to add jobs, the rate of growth has been weak, rising by only 0.6 percent, or 593,000 jobs, between December 2009 and June 2010. The unemployment rate (9.5 percent in June 2010) is still close to the peak of 10.1 percent reached in October 2009. With the expiration of the federal home buyer tax credit, new home sales plunged to a 47-year record low in May, and existing home sales also declined.

According to the July 2010 forecast by IHS Global Insight, GDP growth is projected to grow by 3.1 percent in 2010 and then by an average of 2.9 percent annually over the rest of the financial plan period. Business spending on equipment and software—and, to a lesser degree, exports—is expected to be a major driver of growth, more so than consumption. While consumption is expected to rise, the rate of growth is not projected to reach the levels seen during the last recovery.

New York State's economy expanded in the last three quarters of 2009 and the first quarter of 2010. IHS Global Insight forecasts that the inflation-adjusted Gross State Product (GSP) will grow by 3.5 percent in 2010 and an average annual rate of 2.5 percent from 2011 to 2014.

For the nation as a whole, the recession was the most severe since the Great Depression—but for the New York State and City economies, the impact was much less severe in terms of job losses. Employment in New York State declined by 367,400 jobs (4.2 percent), including 185,500 jobs (4.9 percent) in New York City, whereas employment declined by 6.1 percent nationally (see Figure 5). The rate of job loss in the City was lower than during the prior two recessions, but the unemployment rate in the City peaked at 10.5 percent in November 2009—the highest level in 17 years.

Figure 5
Cumulative Job Decline During Recent Recessions



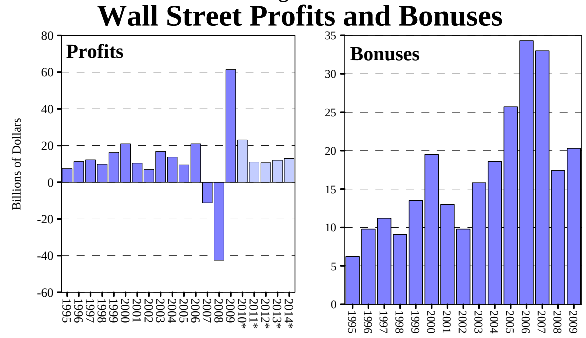
Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor; OSDC analysis

The July Plan assumes that employment losses in the City will end in the third quarter of 2010, with a total decline of 188,000 jobs. When job growth resumes, the City forecasts that job gains will be less robust than in prior expansions, averaging 31,000 jobs annually between 2010 and 2014. The recovery, however, has already started, with private sector employment rising by 49,800 jobs (seasonally adjusted) between December 2009 and June 2010. Private sector employment has risen more than two and half times faster in the City (1.6 percent) than in the nation (0.6 percent). Both national and local rates of employment growth have slowed in recent months.

Wall Street—the economic engine of the City—has rebounded strongly, helped by federal government bailouts, the Federal Reserve's low interest rate policy, changes in accounting rules, and other government programs. In 2009, the profits of the broker/dealer operations of New York Stock Exchange member firms reached a record \$61.4 billion (see Figure 6)—almost triple that of the previous record, set in 2000. The gain also exceeded the \$54 billion in cumulative losses incurred in 2007 and 2008.

The July Plan forecasts that Wall Street profits will return to a more normal and sustainable level—totaling \$21 billion in 2010 and then averaging \$11.9 billion

Figure 6
Wall Street Profits and Bonuses



* City forecast
Notes: Profits are for broker/dealer operations of NYSE member firms.
Sources: NYS Department of Labor; New York Stock Exchange; Securities Industry and Financial Markets Association; OSDC analysis

annually through 2014—as interest rates rise, federal support programs are ended, and financial regulatory reform takes effect. In the first quarter of 2010, however, Wall Street profits totaled $10.3 billion—the fourth-highest quarter on record—buoyed by strong trading gains and continued low interest costs. While industry-wide figures are not yet available, reports from individuals indicate that profits eased. Regulatory reforms are expected to enhance stability and long-term profitability, but may limit Wall Street's profits in the near term.

Wall Street's return to profitability in 2009 led to an increase in year-end bonuses. The State Comptroller estimated that bonuses (excluding deferred compensation) paid by Wall Street firms to their New York City–based employees grew by 17 percent in 2009, to $20.3 billion, following a 47 percent decline in 2008 (see Figure 6). The rebound in bonuses was less robust than the rebound in profits, as the industry modified its compensation practices—such as paying more in stock or other deferred compensation than in cash, and increasing base salaries—in response to public outrage over industry pay.

Employment in the securities industry has held up better than originally feared. Between January 2008 and February 2010, the industry lost 30,400 jobs on a seasonally adjusted basis. The employment decline of 16.1 percent during this downturn was lower than the losses Wall Street experienced in the early 1990s (21 percent) and in the early 2000s (20.5 percent). The City now forecasts that Wall Street will lose 35,000 jobs in this recession rather than the 47,000 jobs projected in June 2009, and that Wall Street job gains will resume in 2011. Revised employment data indicate that the securities industry added 500 jobs between February and June 2010, considerably less than earlier reports suggested.

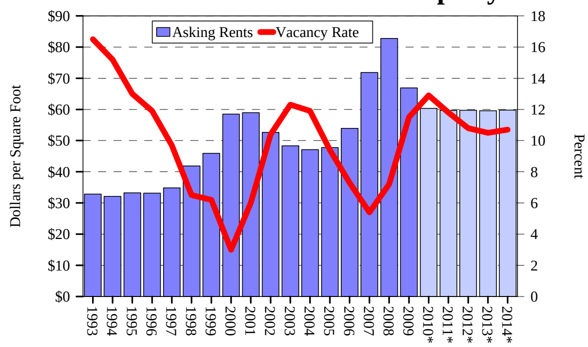
With the resumption of overall job growth and the rebound in Wall Street bonuses, the July Plan assumes that total wages paid in the City will rise by 2.5 percent in 2010 and by 4.4 percent in 2011, compared to the record decline of 11.2 percent in 2009.

Conditions in Manhattan's residential apartment market appear to have stabilized as the City's recovery has taken hold and Wall Street has returned to profitability. Prudential Douglas Elliman reported that during the second quarter of 2010 the median sales price for apartments ($899,000) was 3.6 percent greater than in the prior quarter (the second consecutive quarterly increase), and 7.6 percent higher than in the second quarter of 2009. The number of sales also increased, rising by 15.6 percent compared to the first quarter of 2010 and by 79.9 percent from one year ago. The City projects that the number of residential transactions citywide will increase throughout the rest of 2010 but that prices will continue to decline.

The commercial real estate market has begun to show signs of stabilizing. Data from several commercial brokers show that the vacancy rate in the overall office market in Manhattan stopped rising in the second quarter and has settled just below 12 percent.

Leasing activity has risen, helping to absorb space, while the decline in the average asking rent has slowed. The July Plan assumes office vacancy rates will rise slightly during 2010 and that rents will decline further (see Figure 7). Although the local economy is projected to improve after 2010, the City expects that increases in inventory (such as the 4.4 million square feet of space at the World Trade Center site) will limit the decline in the office vacancy rate and prevent rental rates from rising.

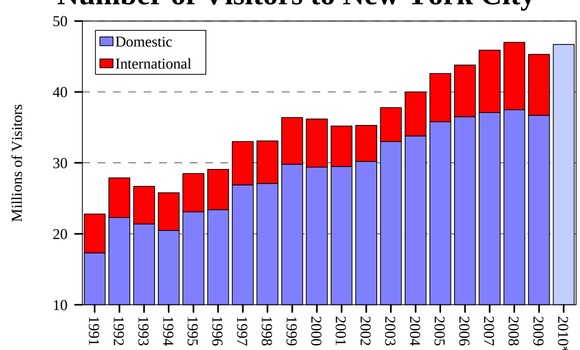
Figure 7
Manhattan Commercial Property



* City forecast
Source: Cushman & Wakefield

Consumer retrenchment during the recession affected the tourism industry in New York City much less than it affected tourism in other cities. In 2009, more than 45 million visitors traveled to the City, down only 3.6 percent from the record number of visitors in 2008 (see Figure 8)—the City also surpassed Orlando, Florida, to become the number one destination for both domestic and international visitors. The City estimates that the number of visitors will reach 46.7 million in 2010.

Figure 8
Number of Visitors to New York City



* NYC & Company forecast
Source: NYC & Company

City hotels lowered room rates, which has helped attract tourists. In 2009 the average nightly room rate declined by 22 percent to $241, while the hotel occupancy rate was 81.6 percent—only four percentage points lower than in 2008. By 2011, the City projects that the average room rate will increase to $246 and the occupancy rate will remain at about 80 percent. Broadway experienced another record year in revenues, surpassing $1 billion in 2009, although attendance declined by 3 percent to 12 million. For the first five months of 2010, Broadway's revenues increased by 16 percent compared to the same period in 2009, reflecting both increased attendance and higher ticket prices.

The national economy has begun to slow, and there are concerns that the recovery could stall, which would adversely affect New York City. Given the many risks to the national recovery—weak job growth, cautious consumers, continued tight credit conditions, volatility in the financial markets, an international debt crisis, growing concerns over the federal deficit, and slower economic growth overseas—the level of economic uncertainty has increased in recent weeks.

III. Fiscal Year 2010

Last June, the City projected a balanced budget for FY 2010. Over the past year, tax collections were much stronger than expected, and the City also drew down reserves, withdrew proposed wage increases, cut planned agency spending, and refunded debt to take advantage of low interest rates. Some of the resulting resources were used to fund unplanned agency expenses, offset the potential impact of the State budget, and provide financial assistance to the Health and Hospitals Corporation. Even after addressing these unplanned needs, the City will end FY 2010 with a surplus of $3.6 billion (see Figure 9), which will be used to help balance the FY 2011 budget. An improving economy, combined with agency cost-reduction actions, reduced the FY 2012 budget gap by $1.7 billion to $3.3 billion, and the FY 2013 budget gap by $1.6 billion to $4.1 billion.

Revenues were higher than forecast in June 2009 by $2.6 billion in FY 2010, $951 million in FY 2011, and about $660 million annually in subsequent years. These estimates reflect an improved economic outlook, Wall Street's recovery, and, in FY 2010, proceeds from Battery Park City, restitution monies paid to district attorneys, and a refund in health insurance premiums paid in prior years. Beginning in FY 2011, property tax collections are projected to be lower than forecast one year ago as a result of declines in property values; this will partially offset gains in nonproperty taxes.

The City obtained $1.3 billion in budget relief in FY 2010 from a reduction in reserves, mostly reserves for collective bargaining. In subsequent years, the City increased its reserves to $600 million annually to fund potential changes in actuarial assumptions used to calculate pension contributions. The City also set aside operating budget resources during the year to fund certain pollution remediation projects that could no longer be financed with bond proceeds under new accounting standards, but these resources will no longer be needed since the State has passed legislation that permits the continued use of bond proceeds for this purpose.

FY 2010 expenditures were $209 million higher than forecast one year ago (excluding various policy initiatives), reflecting a delay in the receipt of federal Medicaid aid[7] and unplanned spending (e.g., overtime), and are partially offset by debt service savings. Spending will be lower in FY 2011 ($494 million) with the expected receipt of additional federal Medicaid aid and lower debt service, but partly offset by City Council initiatives.

The July Plan also reflects new major policy initiatives. The City's financial plan no longer assumes that the municipal unions will negotiate fringe benefit savings of about $600 million annually. Instead, the City rescinded a proposed two-year wage increase planned for fiscal years 2010 and 2011, and now assumes that any wage increase will be funded from productivity and fringe benefit savings. In addition, the City has increased assistance to the Health and Hospitals Corporation, which is struggling to balance its budget and provide needed care.

[7] The July 2010 Plan anticipates the receipt of $1.2 billion in additional federal Medicaid aid compared with the June 2009 Plan, including $609 million that has yet to win congressional approval.

Figure 9
Financial Plan Reconciliation
July 2010 Plan vs. June 2009 Plan

(in millions)

		Better/(Worse)		
	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Surplus/(Gap) as of June 2009 Plan	**$ - - -**	**$ (4,925)**	**$ (4,994)**	**$ (5,633)**
Revenue Reestimates				
Personal Income Tax	890	671	615	587
Business Taxes	459	328	230	257
Sales Tax	223	195	98	69
Tax Audit Revenue	285	- - -	- - -	- - -
Property Tax	85	(342)	(288)	(407)
Other Taxes	61	(7)	29	3
Subtotal	**2,003**	**845**	**684**	**509**
Non-Tax Revenues	547	107	67	57
Total	**2,550**	**952**	**751**	**566**
Reserves				
Collective Bargaining Reserves	1,013	268	336	266
General Reserve	300	(137)	- - -	- - -
GASB 49 Reserve	- - -	(150)	(150)	(200)
Pension Reserve	- - -	(400)	(150)	(150)
Other Reserves	32	- - -	- - -	- - -
Total	**1,345**	**(419)**	**36**	**(84)**
Agency Program	**489**	**1,180**	**1,283**	**1,291**
Expenditure Reestimates				
Debt Service	170	523	61	32
Federal Medicaid Assistance	(187)	561	395	422
City Council Initiatives	- - -	(284)	- - -	- - -
Other Expense Changes	(192)	(306)	(438)	(508)
Total	**(209)**	**494**	**18**	**(54)**
Policy Initiatives				
Wage Freeze	159	66	469	730
Restructure Fringe Benefits	- - -	(557)	(586)	(618)
Health and Hospitals Corporation Support	(349)	(83)	(229)	(300)
Total	**(190)**	**(574)**	**(346)**	**(188)**
State Budget Impact[8]	**(342)**	**(350)**	**(4)**	**46**
Surplus/Gap	**3,642**	**(3,642)**	**(3,257)**	**(4,055)**
Surplus Transfer	(3,642)	3,642	- - -	- - -
Gap to be Closed Per the July 2010 Plan	**$ - - -**	**$ - - -**	**$ (3,257)**	**$ (4,055)**

Sources: NYC Office of Management and Budget; OSDC analysis

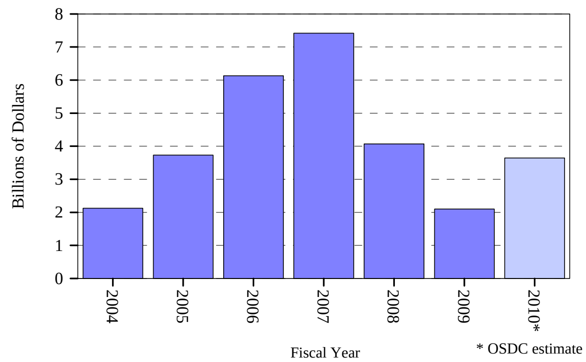
[8] The City's estimates exclude the loss of $493 million in State education aid in FY 2011. To mitigate the loss and a reduction in City funding for education, the City reallocated resources that had been set aside to fund a proposed two-year wage increase to teachers and principals. The July Plan assumes that the State will not restore revenue-sharing payments in FY 2011, but that it will in subsequent years. The State also exempted the City from the budgetary implications of GASB 49, which freed up the GASB 49 reserve.

IV. Current-Year Operating Results

After the recession of the early 2000s, surging Wall Street profits and rising real estate values and transactions, combined with conservative revenue forecasts, resulted in large amounts of resources that had not been anticipated at the beginning of the fiscal year. As shown in Figure 10, these resources peaked at $7.4 billion in FY 2007. Even though the City has been contending with the worst recession in decades, it has still realized substantial amounts of unanticipated resources in recent years because its adopted budgets were based on very conservative economic and revenue assumptions, and did not anticipate tax increases, larger budget cuts, and the receipt of federal stimulus funds. In FY 2010, the amount of unanticipated resources is expected to exceed $3.6 billion, primarily because of revenue collections that were higher than anticipated, and a drawdown of reserves.

Figure 10

Annual Unanticipated Resources



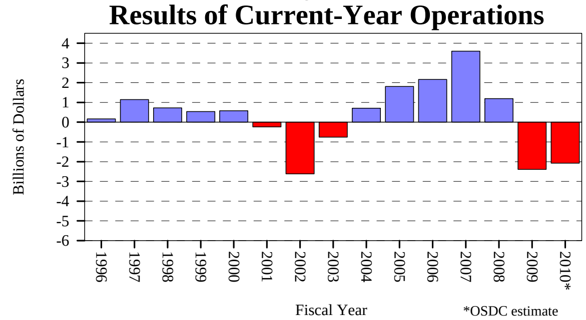
Sources: NYC Office of Management and Budget; OSDC analysis

As it has in past years, the City transferred the surplus to the following year, in this case to help close the FY 2011 budget gap. This transfer of resources between years masks the relationship between recurring revenues and expenditures. A clearer picture of the City's fiscal condition can be obtained by examining the results of current-year operations—the difference between revenues earned and expenditures incurred in the current year. This entails adjusting for surplus transfers and other factors that impede transparency, such as certain discretionary actions.

As shown in Figure 11, the size of the current-year surplus grew each year after the end of the last recession, and peaked in FY 2007 at $3.6 billion. The surplus then declined sharply in FY 2008 as revenues fell due to the economic slowdown. Despite tax increases and agency cost-cutting, spending exceeded current-year resources by $2.4 billion in FY 2009 and $2.1 billion in FY 2010, and those budgets were balanced using surplus resources accumulated in prior years, and other nonrecurring resources. For example, the FY 2010 budget benefited from $2.7 billion in debt defeasances executed in prior years, which are not expected to recur.

Figure 11

Results of Current-Year Operations



Notes: Adjusted for surplus transfers, TFA, TSASC, and discretionary actions. Includes benefit of proposed and enacted gap-closing actions.
Sources: NYC Office of Management and Budget; NYC Comptroller; OSDC analysis

In the aggregate, nonrecurring resources are expected to total about $6 billion in each of fiscal years 2010 and 2011 (see Figure 12); these are outlined below.

Figure 12
Nonrecurring Resources
(in millions)

	FY 2010	FY 2011
Debt Defeasances and Redemptions	$ 2,726	$ - - -
Federal Education Aid	1,194	853
Prior-Year Payables	940	- - -
Federal Medicaid Assistance	663	856
Battery Park City	134	66
Restitution Agreements	130	27
TFA Transfer	100	- - -
Retiree Health Benefits Trust	82	395
Debt Refundings	28	354
Health Stabilization Fund Reimbursement	18	- - -
FY 2010 Projected Surplus	- - -	3,642
Total	**$ 6,015**	**$ 6,193**

Source: OSDC analysis

- The City used surplus resources in fiscal years 2007 and 2008 to defease and redeem debt due in FY 2010, reducing debt service by $2.7 billion in FY 2010.
- The federal American Recovery and Reinvestment Act of 2009 (ARRA) provides education aid of $1.2 billion in FY 2010 and $853 million in FY 2011.
- The City reduced prior-year payables by $940 million in FY 2010, mainly from the reduction of wage reserves and reimbursement for health insurance overpayments.
- The City received $663 million in federal Medicaid assistance in FY 2010, and it expects $856 million in FY 2011 ($279 million has not been approved by Congress).
- As part of an agreement to help balance the State budget, the Battery Park City Authority released surplus funds to the City in the amount of $134 million in FY 2010 and $66 million in FY 2011.
- Restitution agreements are the City’s share from the prosecution of certain banks, and total $130 million in FY 2010 and $27 million in FY 2011.
- The TFA transferred $100 million in State building aid to the City that was not needed to pay debt service on bonds backed by State building aid in FY 2010.
- The City drew down $82 million in FY 2010 and plans to draw down $395 million in FY 2011 from the Retiree Health Benefits Trust.
- General Obligation (GO) and Transitional Finance Authority (TFA) debt refundings provide budgetary savings of $28 million in FY 2010 and $354 million in FY 2011.
- The FY 2010 projected surplus ($3.6 billion) will be used to help balance the FY 2011 budget.

V. Impact of the State and Federal Budgets

In January 2010, the Governor's executive budget projected a budget gap of $7.4 billion for State fiscal year (SFY) 2010-2011, and gaps of $14.5 billion, $18.5 billion, and $20.9 billion in the following three fiscal years. To balance the SFY 2010-2011 budget, the Governor proposed a series of actions, some of which would adversely affect New York City. The Governor subsequently estimated that the State budget gap had grown by an estimated $1.8 billion to reach $9.2 billion.

Since the State had not adopted a new budget by the time the Mayor released his executive budget for FY 2011 in early May, the City had to make assumptions regarding the eventual impact of the State budget. The May Plan had assumed that the State budget would reduce assistance to New York City by nearly $1.3 billion over the course of fiscal years 2010 and 2011, based largely on the proposals included in the Governor's executive budget. Although the State budget is still not complete, State assistance could decline by $1.1 billion over the two-year period due largely to reductions in education aid and revenue-sharing payments (see Figure 13). Although the State promises to restore revenue-sharing payments next year at a slightly lower level ($302 million), the City does not anticipate these payments in FY 2011 (a reasonable assumption given the State's financial condition), but does anticipate the resumption of payments beginning in FY 2012.

Figure 13
Potential Impact of the State Budget on New York City
(in millions)

	Better/(Worse)	
	FY 2010	**FY 2011**
Department of Education	$ - - -	$ (493)
State Education Aid Accrual	- - -	(202)
Revenue Sharing (AIM)	(327)	(26)
Mandated Autism Coverage	- - -	(40)
Cigarette Tax	- - -	(20)
GASB 49	- - -	150
Other Actions	(15)	(113)
Total	**$ (342)**	**$ (743)**

Sources: NYC Office of Management and Budget; OSDC analysis

Our assessment of the State budget is based on the following developments.

- The Governor's executive budget proposed reducing education aid by $1.4 billion statewide. Although the Governor subsequently proposed a smaller cut ($1 billion statewide), the Legislature approved an even smaller reduction, which the Governor then vetoed, resulting in the implementation of the Governor's original cut and a loss of $493 million to New York City.

The education bill vetoed by the Governor could result in the loss of $202 million in FY 2011 because the authority to accrue certain education payments in the current fiscal year was not reauthorized. The Governor and legislative leaders have expressed their intention to restore this authority.

- The May Plan had assumed that the State would reduce revenue-sharing payments to New York City under the Aid and Incentives to Municipalities (AIM) program, from $327 million to $150 million in FY 2010, but the State budget eliminates these payments entirely in that year.
- The State exempted the City from the requirements of Governmental Accounting Standards Board (GASB) Statement No. 49 for budgeting purposes, which would have restricted the City's use of capital funds for certain environmental remediation projects. The exemption allowed the City to reallocate $150 million it had set aside for this purpose in FY 2011.
- The May Plan assumed implementation of the Governor's proposed cut in the shelter allowance, which would have resulted in a loss of $146 million to the City over the two-year period. The proposed cut was rescinded by the State Legislature.

Both the Governor and the Mayor are hoping that the federal government extends the extraordinary assistance that has been provided to states and localities to help them maintain services and jobs during the recession. Federal stimulus funds provided New York City with a total of $4.8 billion in operating budget assistance over a three-year period (see Appendix A), with a large portion of the assistance coming in the form of education aid and additional Medicaid funds. Congressional concerns over the federal deficit, however, have reduced the chances for additional federal assistance.

The July Plan assumes that Congress will approve additional Medicaid funds ($609 million over three fiscal years), but this proposal has yet to win congressional approval. The State is counting on the receipt of $1 billion in additional Medicaid funds in its budget, and the Governor has indicated that he would reduce State spending if Congress does not approve an extension, which could further reduce State aid to New York City.

New York City is scheduled to lose $853 million in federal stimulus funds for education in FY 2012. New York State is applying for $700 million in federal education grants under the Race to the Top program, which could mitigate the scheduled loss of these stimulus funds. These competitive grants are allocated to states based on a rating system that takes into account certain education reforms. Although the federal government did not award funding to New York State in the first round, the State is applying for the second round of the program, which currently stands at $3.4 billion. To improve its chances of winning additional aid, New York has adopted certain reforms, including an increase in the number of charter schools.

VI. Agency Actions

To help balance the FY 2011 budget, the July Plan includes agency actions that will generate $1.2 billion annually beginning in FY 2011 (see Figure 14).[9] The Department of Education, the health and social services agencies, and the uniformed agencies account for two-thirds ($783 million) of these resources.

Figure 14
Agency Actions
(in millions)

	FY 2011	FY 2012	FY 2013	FY 2014
Department of Education	$ 317.1	$ 316.8	$ 316.8	$ 316.8
Health and Social Services	235.5	262.3	260.2	255.7
Uniformed Agencies	230.4	311.6	313.6	260.8
Transportation	60.7	50.4	36.6	36.7
Procurement Savings	55.5	55.5	55.5	55.5
Public Officials	42.9	18.4	18.5	18.5
Parks	35.7	38.1	38.1	38.2
Libraries and Cultural Institutions	0.2	46.0	46.0	46.0
All Other Agencies	202.3	184.1	205.9	217.2
Total	**$1,180.3**	**$1,283.1**	**$1,291.2**	**$1,245.5**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

Major agency initiatives are discussed below.

- The Mayor has rescinded proposed wage increases for teachers and principals, and has reallocated the resources to meet the Department of Education's cost-reduction target ($317 million) and to mitigate a reduction in State education aid ($493 million).
- The Sanitation Department will generate savings from delays in opening four marine transfer stations, and from lower-than-planned costs for exporting solid waste ($69 million).
- The Department of Correction will reduce the number of uniformed personnel and lease beds to other jurisdictions ($58 million). The department has not begun negotiations regarding the lease proposal ($13 million); similar efforts have failed in the past.
- The Administration for Children's Services plans to obtain additional State and federal aid for administrative costs, and to increase adoptions and family reunifications ($53 million).

[9] The adopted budget for FY 2011 rescinded $111 million of the budget cuts proposed by the Mayor in his executive budget, such as fire engine company closures and reduced library hours.

- The Department of Social Services will claim additional Medicaid reimbursement, and implement administrative efficiencies ($49 million).
- The Department of Health and Mental Hygiene will reduce funding for public health services and eliminate full-time nurses at elementary schools with fewer than 300 students ($37 million).
- The Police Department will obtain additional federal reimbursement ($18 million), delay the hiring of the January 2011 class ($11 million), and replace 400 officers who perform administrative functions with civilians by June 30, 2011 (savings of $1 million in FY 2011, rising to $13 million annually beginning in FY 2013).
- The Department of Transportation increased parking rates in January 2010 and plans to lower contract bids for traffic signal maintenance, and produce savings through higher-efficiency street light fixtures ($27 million).
- The Department of Homeless Services will reduce the use of hotel facilities and obtain federal funding for veterans ($10 million).
- The Fire Department intends to eliminate the fifth firefighter post at 60 engine companies, but this initiative requires union approval ($8 million in FY 2011). The department also plans to deactivate street alarm boxes, which requires court approval.[10]

[10] The City Council rescinded the Mayor's proposal to close 20 fire engine companies in FY 2011, but the July Plan still assumes that these fire companies will be closed in FY 2012.

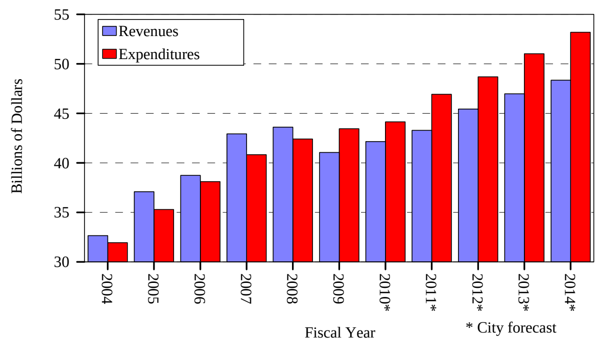
VII. Revenue and Expenditure Trends

During fiscal years 2004 through 2008, City fund revenues grew faster than City-funded expenditures, contributing to record budget surpluses during those years. In fiscal years 2009 and 2010, City-funded expenditures outpaced revenues as a result of revenue losses sustained from the recession—but the budgets were balanced in these years by drawing upon surplus resources accumulated during the economic boom earlier in the decade.

City fund revenues are projected to increase by 2.7 percent to nearly $43.3 billion in FY 2011, which is still lower than the peak reached in FY 2008 (see Figure 15). While revenues are projected to grow faster in FY 2012 (5 percent), the July Plan assumes the rate of growth will slow during the balance of the financial plan period. City-funded expenditures are projected to grow by 6.3 percent to $46.9 billion in FY 2011. While spending growth will slow to 3.8 percent in FY 2012, the rate of growth is expected to increase during fiscal years 2013 (4.8 percent) and 2014 (4.2 percent).

Figure 15

Revenue and Expenditure Trends



Notes: Adjusted for surplus transfers and debt defeasances.
Also adjusted for debt service costs for PIT-backed TFA and TSASC bonds.
Sources: NYC Office of Management and Budget; NYC Comptroller; OSDC analysis

Even though spending is projected to be higher than revenues by $3.6 billion in FY 2011, the budget will be balanced by transferring the FY 2010 surplus. Overall, City fund revenues during fiscal years 2011 through 2014 are projected to grow at an average annual rate of 3.8 percent, while spending is expected to grow at an average annual rate of 4.3 percent. The City projects budget gaps of $3.3 billion in FY 2012, $4.1 billion in FY 2013, and $4.8 billion in FY 2014.

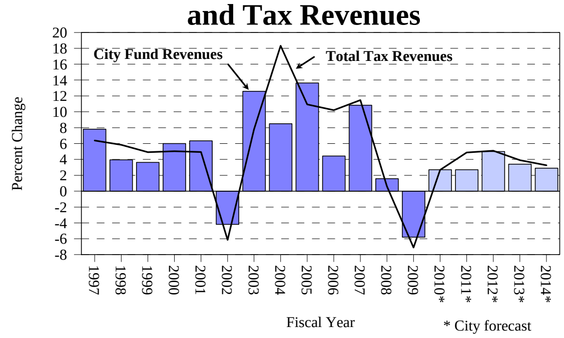
A. Revenue Trends

With the national economic recovery underway, the City's economy is also improving. In addition, the local downturn appears to have been less severe—and Wall Street's return to profitability much quicker—than the City had anticipated in June 2009. As a result, collections from the City's economically sensitive nonproperty taxes—the personal income, business, and sales taxes—are expected to strengthen. At the same time, the rate of growth in the real property tax is forecast to slow, as recent declines in market values are phased in. Overall, City fund revenues were expected to have risen by 2.7 percent in FY 2010—much better than the 5.8 percent decline in FY 2009, but still much less than the 10.8 percent growth in FY 2007 before the recession began (see Figure 16).

City fund revenues are then projected to increase by 2.7 percent in FY 2011, and by an average of 3.8 percent in subsequent years. These rates of growth are still significantly lower than the gains realized before the recession, reflecting the modest employment and wage growth expected by the City, as well as the expected weakness in real property tax collections in coming years.

Growth in City fund revenues and its components are shown in Figure 17 and discussed below.

Figure 16
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; OSDC analysis

Figure 17
City Fund Revenues
(in millions)

	FY 2010	FY 2011	Annual Growth	FY 2012	FY 2013	FY 2014	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 16,156	$ 16,780	3.9%	$ 17,423	$ 17,692	$ 17,829	2.0%
Personal Income Tax	6,877	7,557	9.9%	7,941	8,272	8,689	4.8%
Sales Tax	5,012	5,145	2.7%	5,357	5,667	5,980	5.1%
Business Taxes	4,573	4,905	7.3%	5,392	5,775	6,044	7.2%
Real Estate Transaction Taxes	982	1,083	10.3%	1,250	1,398	1,554	12.8%
Other Taxes	2,833	2,832	0.0%	2,845	2,918	2,955	1.4%
Audits	890	622	-30.1%	621	620	620	-0.1%
Subtotal	**37,323**	**38,924**	**4.3%**	**40,829**	**42,342**	**43,671**	**3.9%**
Miscellaneous Revenues	4,800	4,370	-9.0%	4,314	4,341	4,392	0.0%
Unrestricted Intergovernmental Aid	21	14	-33.3%	314	314	314	NA
Grant Disallowances	- - -	(15)	NA	(15)	(15)	(15)	0.0%
Total	**$ 42,144**	**$ 43,293**	**2.7%**	**$ 45,442**	**$ 46,982**	**$ 48,362**	**3.8%**
Proposed Tax Program	- - -	(18)	NA	(18)	(18)	(18)	NA
Total Including Tax Program	**$ 42,144**	**$ 43,275**	**2.7%**	**$ 45,424**	**$ 46,964**	**$ 48,344**	**3.8%**

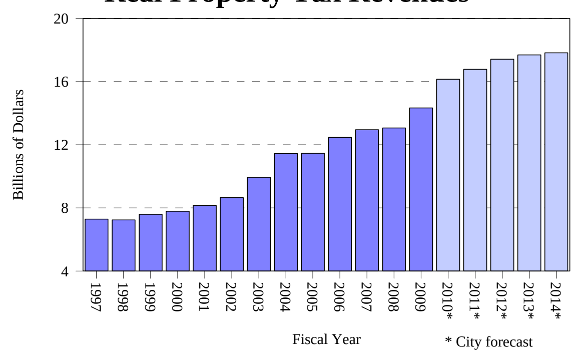
Note: Miscellaneous revenues include debt service on tobacco bonds. Totals may not add due to rounding.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

Throughout the recession, the City has used conservative economic assumptions, which have contributed to higher-than-planned tax revenues. As the economic recovery has begun, the City has remained cautious—for example, the July Plan assumes that job losses will continue through the third quarter of 2010, even though job gains began in the first quarter. Based on recent trends in job growth, we believe that personal income tax collections in FY 2011 will be higher than assumed in the July Plan, which will then raise the base for future years. There is also some upside potential for the sales tax.

1. Real Property Tax

Figure 18

Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

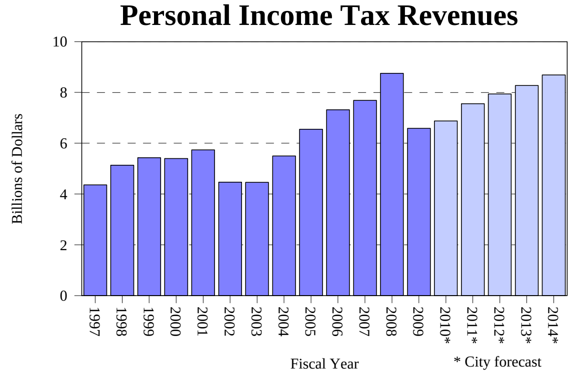
Even though the recession put downward pressure on property values, collections from the real property tax increased by 23.7 percent between fiscal years 2008 and 2010, to almost $16.2 billion (see Figure 18). This gain was fueled by a tax rate increase enacted in January 2009 and the continued phase-in of assessed value growth from the earlier boom in the real estate markets.

Annual assessments are subject to provisions of State law that limit large annual market value increases by phasing them in over several years. These phase-ins will continue to push up assessments in fiscal years 2011 and 2012, when revenues are expected to increase by an average of 3.8 percent annually. Nonetheless, the severe downturn in the real estate markets has caused the City to slightly reduce the expected growth in these years. With market conditions expected to remain constrained through the financial plan period and the benefits from the phase-ins to be depleted, growth in real property tax revenues is forecast to slow to 1.5 percent in FY 2013 and 0.8 percent in FY 2014.

2. Personal Income Tax

Figure 19

Personal Income Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

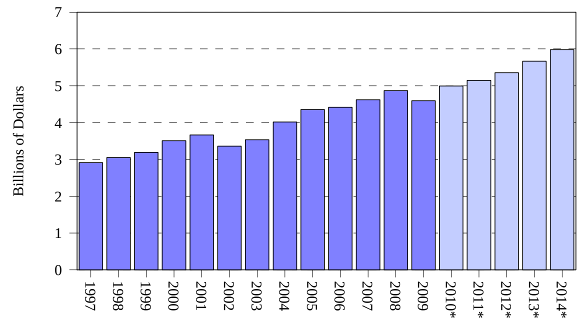
Personal income tax collections fell by nearly one-quarter in FY 2009 as a result of the recession and a sharp drop in Wall Street bonuses. In FY 2010, however, job losses were not as severe as originally projected, and Wall Street's recovery was stronger than expected. As a result, the City estimated that personal income tax revenues grew by 4.4 percent to reach $6.9 billion that year (see Figure 19). In FY 2011, collections are forecast to rise by 9.9 percent as a result of job growth, a rise in capital gains realizations due to the expiration of previous federal tax cuts, and higher Wall Street bonuses. In subsequent years, the rate of growth in collections is expected to ease to an average annual rate of 4.8 percent as capital gains realizations fall back to more normal levels and job gains remain subdued. Overall, the growth in the personal income tax is expected to be lower than it was before the recession, and annual collections are not forecast to surpass pre-recession levels during the financial plan period.

3. Sales Tax

In FY 2009, collections from the sales tax dropped for the first time since FY 2002, as the recession led to a cutback in consumer spending (see Figure 20). Collections would have fallen again in FY 2010, but the tax rate was increased by one-half of a percentage point to 8.875 percent, and the tax was extended to additional items, including clothing items that cost more than $110. As a result, collections instead grew by 9.1 percent to $5 billion. As local job and wage conditions improve, it is expected that rising consumption will combine with continued strength in tourism to boost sales tax revenues by 2.7 percent in FY 2011. Sales tax collections are then forecast to rise at an average annual rate of 5.1 percent over the balance of the financial plan period.

Figure 20

Sales Tax Revenues



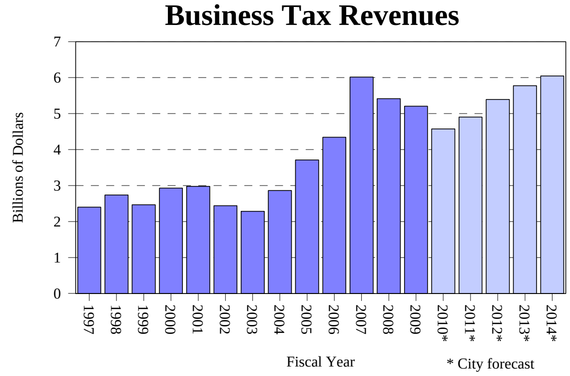
Sources: NYC Comptroller; NYC Office of Management and Budget

4. Business Taxes

As a result of the recession and the financial crisis, collections from the City's business taxes (i.e., general corporation, banking corporation, and unincorporated business taxes) fell by 23.9 percent, or $1.4 billion, between fiscal years 2007 and 2010, to $4.6 billion (see Figure 21). The decline would have been sharper without increases to the business taxes that took effect in FY 2010, which provided the City with $158 million. Growth is projected to resume in FY 2011, with collections rising by 7.2 percent. Corporate taxes are expected to perform better because of the rebound in Wall Street profits.

Figure 21

Business Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

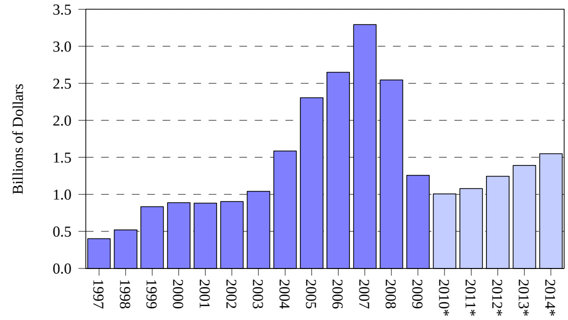
Growth is projected to remain strong through the remaining years of the financial plan period, increasing by 9.9 percent in FY 2012, 7.1 percent in FY 2013, and 4.7 percent in FY 2014. Revenue growth reflects continuing improvement in corporate profitability, in particular among Wall Street firms (depending upon a firm's structure, it may pay either the general corporation tax or the financial corporation tax). The future profitability of Wall Street might change, however, because of financial regulatory reforms under discussion by the federal government.

5. Real Estate Transaction Taxes

The sharp drop in the real estate market was at the epicenter of the recent financial crisis and recession. Collections from the City's real estate transaction taxes—the mortgage recording and real property transfer taxes—fell from $3.3 billion in FY 2007 to an estimated $1 billion in FY 2010 (see Figure 22) as both prices and the number of transactions declined. While the City expects collections to begin growing again in FY 2011, it also expects a very subdued recovery in the real estate markets. Overall, the July Plan projects that in the residential market, prices and the number of transactions will continue to fall through 2011, while transactions in the commercial market will improve somewhat.

Figure 22

Real Estate Transaction Tax Revenues

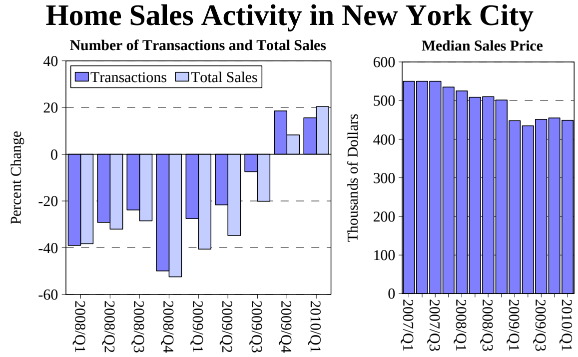


Sources: NYC Comptroller; NYC Office of Management and Budget

Conditions in the residential real estate market do appear to be stabilizing. Data from the New York City Department of Finance show that the number of sales of one-, two-, and three-family homes in the City began to rise in the fourth quarter of 2009 compared to one year earlier, and median sales prices have stabilized (see Figure 23). Nevertheless, the number of transactions in the first quarter of 2010 (just over 4,200) was about half the level of three years earlier. The number of transactions for cooperative and condominium apartments also has begun to rebound. Median sales prices for cooperative apartments have begun to rise, and the decline in condominium prices is slowing.

Figure 23

Home Sales Activity in New York City



Notes: Data covers one-, two-, and three-family homes.
Change is from the same period one year earlier.
Sources: NYC Department of Finance; OSDC analysis

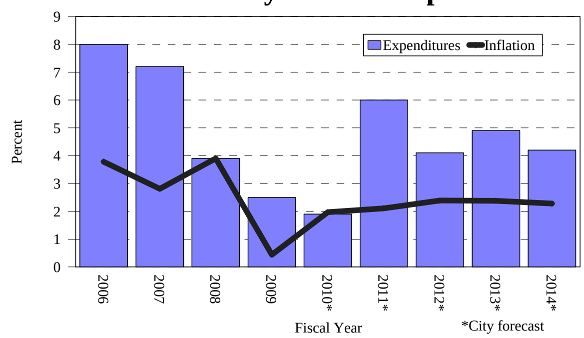
Both the number of transactions and the total value of commercial property sales started to decline earlier than they did for residential properties. The commercial market, however, is showing signs that the worst may be over. During the first three quarters of FY 2010, the rate of decline in the number of transactions and the total value of sales slowed—both for Manhattan office properties and for other commercial property in the City. Recent press reports indicate renewed interest in office deals.

B. Expenditure Trends

City-funded expenditures are projected to grow by nearly $2.8 billion in FY 2011, or 6.3 percent (after adjusting for surplus transfers and debt defeasances), which is nearly three times the projected local inflation rate (see Figure 24).[11] Rising pension contributions ($852 million) and health insurance costs ($569 million) account for about half of the growth. Other factors that contribute to the relatively high rate of growth include the $437 million general reserve in FY 2011 and the elimination of unneeded reserves in FY 2010, which boosted the FY 2011 growth rate. As of May 2010, the City-funded workforce has declined by 6,540 employees since the beginning of FY 2010, and the City intends to reduce staffing by another 1,821 employees by the end of FY 2011 (see Appendix B). City-funded salary and wage costs are projected to remain flat, reflecting a two-year wage freeze proposed by the Mayor, and planned staff reductions.

Figure 24

Growth in City-Funded Expenditures



Note: Adjusted for surplus transfers, defeasances, and TSASC.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

Figure 25

Estimated City-Funded Expenditures

(Adjusted for Surplus Transfers, TSASC, and Debt Defeasances)

(in millions)

	FY 2010	FY 2011	Annual Growth	FY 2012	FY 2013	FY 2014	Average Three-Year Growth Rate
Salaries and Wages	$ 11,909	$ 11,952	0.4 %	$ 11,514	$ 11,865	$ 12,139	0.5 %
Debt Service	5,129	5,189	1.2 %	6,129	6,439	6,699	8.9 %
Medicaid	4,984	5,031	0.9 %	5,812	6,036	6,644	9.7%
Pension Contributions	6,595	7,447	12.9 %	7,710	7,815	7,918	2.1 %
Health Insurance	3,339	3,908	17.1 %	4,214	4,574	4,970	8.3 %
Other Fringe Benefits	2,372	2,428	2.4 %	2,803	2,766	2,882	5.9 %
Judgments and Claims	591	686	16.1 %	744	804	867	8.1 %
Public Assistance	546	576	5.4 %	577	615	615	2.2 %
General Reserve	- - -	437	NA	300	300	300	NA
Energy	802	878	9.4 %	923	954	971	3.4 %
Drawdown Retiree Health Benefits Trust	(82)	(395)	NA	(672)	- - -	- - -	NA
Other	7,957	8,779	10.3 %	8,627	8,851	9,175	1.5 %
Total	**$44,142**	**$ 46,916**	**6.3 %**	**$ 48,680**	**$ 51,019**	**$ 53,179**	**4.3 %**

Notes: Debt service includes bonds issued by TSASC. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

[11] Debt defeasances executed during fiscal years 2007 and 2008, when the City had large surpluses, benefited FY 2010 by $2.7 billion.

The July Plan is based on the trends shown in Figure 25, as discussed below.

1. Collective Bargaining

The City reached new labor agreements with all of its major unions for fiscal years 2009 and 2010, with the exception of the United Federation of Teachers (UFT). The agreement with District Council 37, which represents most civilian workers, expired on March 2, 2010, and the agreement with the Patrolmen's Benevolent Association (PBA) will expire on July 31, 2010. Combined, these three unions represent more than 75 percent of the City's workforce.

In January 2010, the City reduced its offer of wage increases to the UFT and the Council of School Supervisors and Administrators (CSA) for the current round of bargaining, from 4 percent annually to 2 percent annually (limited to the first $70,000 of an employee's salary)—even though the City negotiated 4 percent annual wage increases with other civilian employees for fiscal years 2009 and 2010. The City plans to use the anticipated savings to replace a previously planned cut in funding for educational programs, and to fund unplanned special education costs. On June 2, 2010, the Mayor announced that he would eliminate the remaining 2 percent annual raises and would use those savings to mitigate a cut in State education aid and to avoid teacher layoffs. The changes in the City's collective bargaining offer freed up $272 million in FY 2010, $626 million in FY 2011, and $900 million by FY 2014. The New York State Public Employment Relations Board (PERB) has declared an impasse in negotiations between the UFT and the City, and has appointed a mediator to begin nonbinding arbitration, which is in progress.

The City has also changed its strategy for the next round of collective bargaining. The June 2009 financial plan had assumed that the municipal unions would agree to actions that would reduce health insurance and pension contributions by about $600 million annually beginning in FY 2011. The City no longer assumes these savings, and instead assumes that the next round of collective bargaining will be funded from productivity savings and restructuring municipal employee fringe benefits. If wages were to rise at the projected inflation rate without any offsetting savings, costs would increase by $304 million in FY 2011, $803 million in FY 2012, $1.3 billion in FY 2013, and $1.8 billion in FY 2014.

In 1998, the State transferred the responsibility for handling police officer contract disputes from the City's Office of Collective Bargaining to the PERB. According to State law, any arbitration award made by the PERB for the PBA is binding on both parties. Prior to the current agreement, the past three agreements between the City and the PBA were based on PERB awards. The current agreement, which was negotiated by the City and the PBA without PERB mediation, provides for four annual wage increases of 4 percent, following the pattern set by other uniformed unions.

2. Pension Contributions

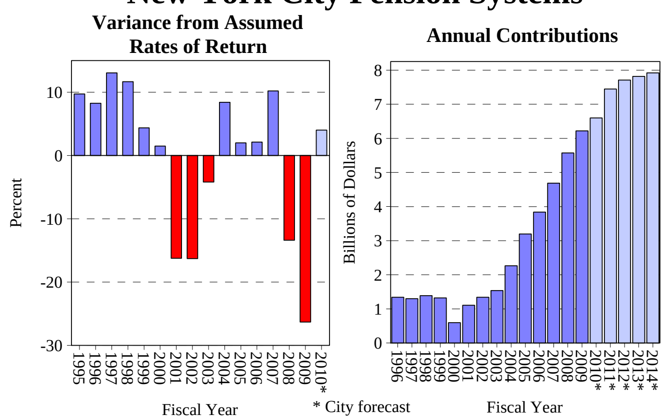
City contributions to the pension systems are projected to rise from about $1.5 billion in the late 1990s to $7.4 billion in FY 2011, and to reach $7.9 billion by FY 2014, reflecting the systems' past investment performance and benefit enhancements, as well as reserves for future changes in actuarial assumptions (see Figure 26).

The July Plan includes annual reserves of $600 million starting in FY 2011 to potentially fund changes in certain actuarial assumptions pursuant to recommendations contained in City Charter–mandated biennial audits of the City's pension systems. A preliminary audit found that higher City contributions to the pension funds may be warranted as a result of longer life expectancies and higher-than-expected overtime and salary increases. The City Actuary is still reviewing the preliminary audit, and a final report is expected in FY 2011.

The auditors have also questioned the pension funds' assumed return on investments, but have deferred any recommendations until their final report. While the State extended the current earnings assumption of 8 percent, it did so for just one year rather than for the usual term of five years. The City estimates that each one-percent reduction in the actuarial interest rate assumption could increase pension contributions by at least $1 billion annually.

Figure 26

New York City Pension Systems



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

The July Plan assumes that the pension funds will earn 12 percent on their investments during FY 2010, four percentage points higher than the assumed rate of return. We estimate that the pension funds earned slightly more (13 percent), which could lower the City's planned pension contribution by $7 million in FY 2012, $16 million in FY 2013, and $22 million in FY 2014.

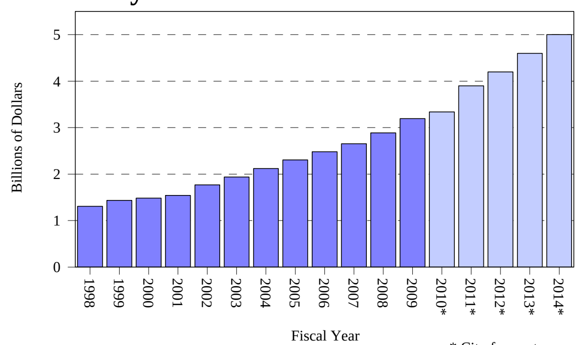
In December 2009, the State created lower-cost pension plans for new State and local government employees (excluding New York City) and New York City teachers. City teachers hired after January 1, 2010, will still be able to retire at age 55 with 27 years of service, but are now required to contribute a higher percentage of their salaries (4.85 percent) for a longer period of time (27 years instead of 10 years). The Mayor has indicated his support for lower-cost pension plans for the City's uniformed employees and civilian employees other than teachers. Such changes would require State approval.

3. Health Insurance

A June 2009 agreement between the City and its unions reduced City health insurance costs by $200 million in each of fiscal years 2010 and 2011, and by $150 million annually in future years. Savings are expected to come from changing to lower-cost network providers, and instituting co-payments and administrative efficiencies. Under the agreement, the City will receive a guaranteed annual payment of $112 million from the Health Stabilization Fund (HSF). In addition, $46.1 million was transferred from the HSF in FY 2010 (and an additional $44.2 million will be transferred in FY 2011) to the City's general fund for budget-balancing purposes. Despite the agreement, premiums continue to rise and are expected to increase by 11.5 percent in FY 2010 and 11.3 percent in FY 2011. City spending on health insurance will increase from $3.3 billion in FY 2010 to $5 billion in FY 2014 (see Figure 27).

Figure 27

City-Funded Health Insurance Costs



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

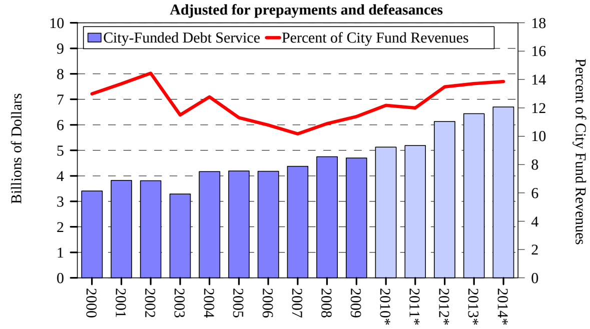
4. Debt Service

City-funded debt service (adjusted for defeasances and surplus transfers) is projected to reach $5.2 billion in FY 2011—up from $4.2 billion five years earlier—and is forecast to reach $6.7 billion by FY 2014 (see Figure 28).[12] Debt service is expected to consume 12 percent of City fund revenues in FY 2011, compared with 10.8 percent in FY 2006. This ratio, which measures the burden that debt places on the City's operating budget, could reach 13.9 percent by FY 2014—the highest since FY 2002 (see Figure 28).

Figure 28

City-Funded Debt Service

Adjusted for prepayments and defeasances



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

12 The City used surplus resources in fiscal years 2007 and 2008 to defease and redeem debt due in fiscal years 2009 and 2010. These nonrecurring actions reduced debt service by $675 million in FY 2009 and by $2.7 billion in FY 2010. The FY 2011 estimate reflects savings of $354 million from debt refundings in the current fiscal year as the City took advantage of low interest rates.

The ARRA has authorized several types of bonds, including Build America Bonds (BABs) and Qualified School Construction Bonds (QSCBs), so public issuers can obtain subsidized financing. The City and the TFA issued $4.5 billion in BABs during FY 2010, which are taxable bonds that carry a federal subsidy of 35 percent of the interest costs.[13] The City through the TFA sold its first issue of QSCBs in June 2010 in the amount of $250 million; the City is authorized to issue up to $1.4 billion. Although the QSCB program expires at the end of calendar year 2010, the City assumes an additional authorization of $300 million in 2011.

5. Overtime

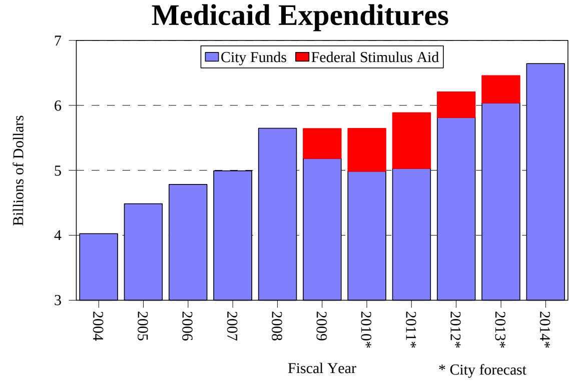
The July Plan estimates that overtime in the Police Department totaled $493 million (total funds) in FY 2010, which is $120 million more than the forecast at the beginning of FY 2010. The July Plan assumes that overtime will decline to $413 million in FY 2011 and then to $366 million in subsequent years. Even after accounting for the likely receipt of federal and State grants, overtime could be higher than planned by $50 million in FY 2011 and $100 million annually thereafter.

6. Medicaid

The City's Medicaid caseload reached 2,849,760 in May 2010—11 percent higher than two years earlier—and the City intends to increase its assistance to the Health and Hospitals Corporation. Even so, the City's Medicaid costs will fall from $5.6 billion in FY 2008 to $5 billion in each of fiscal years 2010 and 2011—assuming the receipt of ARRA Medicaid funds, which are intended to help localities manage their budgets during the recession (see Figure 29).

Figure 29

Medicaid Expenditures



Sources: NYC Human Resources Administration; OSDC analysis

A provision in the recently enacted federal health care reform legislation allows the City to receive a larger share of the Medicaid funds allocated to the State under the expiring ARRA ($95 million over the course of fiscal years 2010 and 2011, $334 million in FY 2012, and $153 million in FY 2013). The July Plan also assumes that Congress will extend the additional Medicaid assistance for another six months ($279 million in FY 2011, $61 million in FY 2012, and $269 million in FY 2013), but this proposal has yet to win congressional approval because of concerns over the size of the federal budget deficit. The July Plan assumes that Medicaid will cost $6.6 billion in 2014 after the expected loss of ARRA funding.

[13] The Municipal Water Finance Authority issued an additional $2.0 billion in BABs in FY 2010.

7. Public Assistance

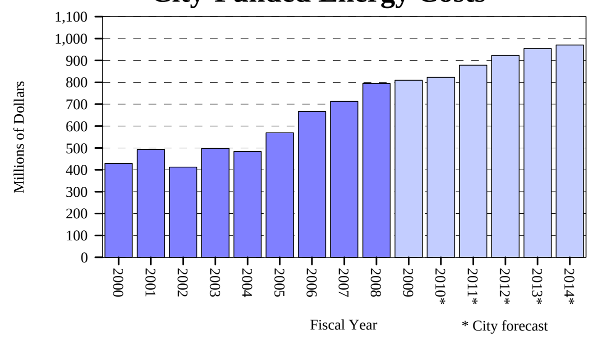
Despite the recession, the City's public assistance caseload has grown by only 2.2 percent since July 2008 to reach 346,321 recipients in June 2010. Even though most of the cost of the program is funded by the federal and State governments, the City-funded cost has grown from $462 million in FY 2008 to $546 million in FY 2010, an increase of 18 percent, largely due to an expansion in City-funded rent subsidy programs. The City-funded cost is projected to reach $615 million in FY 2014. Congress is expected to reauthorize the federal public assistance program, Temporary Assistance for Needy Families (TANF), by September 2010. Federal block grant funding has not increased since 1996, despite caseload increases and state budget deficits. States, given their budgetary stress and constraints, are seeking to index the TANF block grant to inflation and are requesting more flexibility and discretion with work requirements in order to better meet existing needs for assistance.

8. Energy Costs

The City's energy costs are projected to double from about $400 million in FY 2002 to $878 million in FY 2011, reflecting rising oil and natural gas prices along with higher rates and charges from utility companies (see Figure 30).

Figure 30

City-Funded Energy Costs



Sources: NYC Comptroller; NYC Office of Management and Budget; U.S. Energy Information Administration; OSDC analysis

9. Judgments and Claims

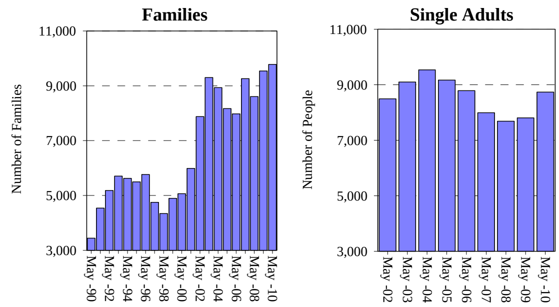
The cost of judgments and claims is projected to reach $867 million by FY 2014, 47 percent higher than the FY 2010 forecast. On June 10, 2010, a $712 million settlement was announced between the City and rescue and cleanup workers who were injured at the World Trade Center site in the aftermath of the terrorist attacks on September 11, 2001. The cost of the settlement would be funded by the WTC Captive Insurance Company, which was established for this purpose with $1 billion in federal funds. The terms of the settlement must be accepted by 95 percent of the claimants by September 30, 2010, for the agreement to become effective.

10. Homeless Services

In May 2010, the number of families residing in municipal shelters was 9,779—the highest monthly level in more than 20 years. In the same month, 8,732 single adults resided in municipal or faith-based shelters, special housing programs for veterans and the long-term homeless, and drop-in centers—this number increased for the second consecutive year, after several years of declines (see Figure 31).

Figure 31

Homeless Shelter Residents



Sources: NYC Department of Homeless Services; OSDC analysis

VIII. Other Issues

The following section discusses the financial condition of certain public entities that have a financial relationship with the City, and other issues that could affect the City during the financial plan period.

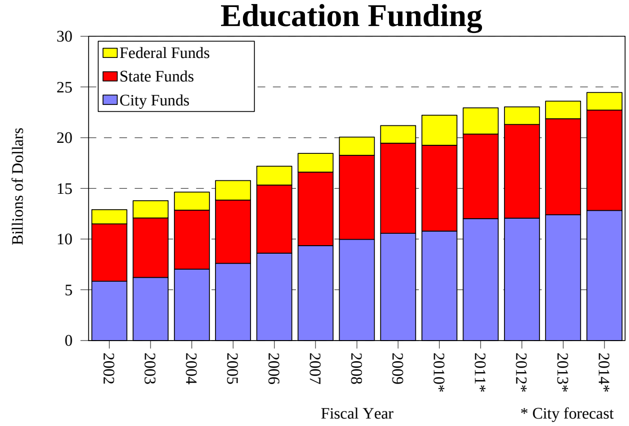
A. Department of Education

In 2007, the Governor and the Mayor agreed to increase funding to the Department of Education's (DOE's) operating budget in an effort to resolve the Campaign for Fiscal Equity lawsuit, which claimed New York State did not adequately fund large school districts. Specifically, the State agreed to increase education aid by $3.2 billion over a four-year period, and the City agreed to increase its funding by $2.2 billion during the same period. New York State also agreed to fund half of the DOE's capital program by allowing the Transitional Finance Authority to issue bonds backed by State building aid.

In FY 2009, the City appropriated $10.6 billion to the DOE, New York State appropriated $8.9 billion in education aid to New York City's public schools, and the federal government appropriated $1.7 billion (see Figure 32). While State funding has increased since FY 2007 by $1.6 billion—or 23 percent—the additional funding has fallen short of the amount promised in 2007.

Figure 32

Education Funding



Sources: NYC Office of Management and Budget; OSDC analysis

In FY 2010, for the first time since FY 2004, State education aid to New York City declined—by $575 million or 6.6 percent. The decline was offset, however, by an increase in federal education aid to help school districts weather the impact of the recession. For FY 2011, the Governor initially proposed a statewide cut in education aid of $1.4 billion, including $493 million, but he subsequently proposed a smaller reduction. The State Legislature, however, approved an even smaller statewide reduction in education aid, which was vetoed by the Governor. As a result, the Governor's initial $1.4 billion reduction has taken effect. To mitigate the impact of the loss of State education aid in FY 2011 and a reduction in City funding, the City has rescinded a proposed two-year wage increase of 4 percent for teachers and principals.

Federal stimulus aid mitigated the impact of reductions in State and City support in fiscal years 2010 and 2011, avoiding teacher layoffs. Beginning in FY 2012, the City will need to address the loss of $853 million in such federal aid. The July Plan assumes that the loss in federal aid will be offset by an $824 million increase in State education aid, but an increase of this magnitude appears unlikely given the State's fiscal condition.

B. Metropolitan Transportation Authority

In May 2009, New York State approved new taxes and fees that would help the Metropolitan Transportation Authority (MTA) balance its operating budget and also would help the MTA fund the next five-year capital program. In December 2009, the MTA's finances began to unravel as the State cut funding to help balance its budget; labor costs rose because of an arbitration award; and collections from the new payroll tax fell far short of target. With only two weeks remaining in 2009, the MTA faced a new budget gap of $344 million. In total, the MTA has needed to close a combined budget gap of $756 million for 2009 and 2010.

The MTA closed the 2009 budget gap through a combination of aggressive management actions, including some that shifted the problem to 2010. The MTA has made considerable progress closing the budget gap for 2010 through service reductions and management improvements, but the MTA still faces large out-year budget gaps. To balance the budget in those years, the MTA has proposed raising fares and tolls by 7.5 percent in January 2011 and January 2013. The MTA is scheduled to release a revised four-year financial plan on July 28, 2010.

C. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) has experienced financial challenges for years because the cost of providing medical services to the indigent exceeds the subsidies it receives from the federal and State governments, and New York City. New York City provided the HHC with $350 million in additional assistance during FY 2010 to mitigate the impact of a delay in the receipt of federal funds, and the HHC is seeking an additional $500 million in Medicaid funds in FY 2011. If these additional funds are not received, the City could again be called upon for financial assistance. Management actions, which generated resources of more than $200 million in FY 2010, are expected to generate $361 million in FY 2011 and $600 million annually by FY 2013. These include reducing staff through attrition and layoffs (3,700 full-time-equivalent employees by FY 2014); consolidating patient care and administrative services; closing six community clinics (five child health clinics and one dental clinic); and renegotiating affiliation contracts.

D. New York City Housing Authority

In past years, the New York City Housing Authority (NYCHA) has faced a structural deficit because government subsidies and rents have not kept pace with rising costs. In May 2009, NYCHA, which operates on a calendar-year basis, projected budget gaps of $137 million in 2010, $127 million in 2011, and $132 million in subsequent years. One year later, NYCHA released a five-year operating budget that balances the 2010 budget and reduces the out-year gaps to $42 million in 2011, $55 million in 2012, and about $60 million annually in 2013 and 2014.

Two important developments over the past year are responsible for improving NYCHA’s financial outlook. The federal government has agreed to renovate and to provide operating subsidies to 21 nonfederal developments ($69 million in 2011 and $55 million annually thereafter), and plans to increase operating budget subsidies to NYCHA ($70 million in 2010 and about $43 million annually thereafter). NYCHA also plans to use federal capital funds ($34 million) and federal stimulus aid ($25 million in 2010, $11 million in 2011, and $6 million in 2012) to help balance the FY 2010 operating budget.

E. Lower Manhattan Redevelopment

New York State, New York City, the Port Authority of New York and New Jersey (PANYNJ), the MTA, the Lower Manhattan Development Corporation (LMDC), and private developers are engaged in a coordinated effort to rebuild and revitalize Lower Manhattan in the aftermath of the terrorist attacks on September 11, 2001. Major projects include five office towers, a cultural center and museum, a memorial to the victims of the terrorist attacks, a new World Trade Center Transportation Hub that will house a new PATH terminal, and the Fulton Street Transit Center.

- The PANYNJ is building One World Trade Center, which will become New York City’s tallest skyscraper. The tower currently rises 28 floors and is expected to be completed in 2013. It will include 2.6 million square feet of office space and some retail with corridors that will connect to the World Trade Center Transportation Hub, the new Fulton Street Transit Center, the World Financial Center, and the Battery Park City ferry terminal.
- The PANYNJ is also responsible for the transportation hub, the memorial, and the memorial museum, which are all well underway. The transportation hub is scheduled for completion in 2014, and the memorial is scheduled to be open for the tenth anniversary of the terrorist attacks.
- The LMDC is responsible for deconstructing 130 Liberty Street (formerly the Deutsche Bank building), which will be the site of Tower 5 and the Vehicle Security Center and Tour Bus Parking Facility. Deconstruction is expected to be finished by the end of 2010.

- The MTA is building a new Fulton Street Transit Center at the corner of Fulton Street and Broadway, which will provide connections between subway lines and to the transportation hub, the World Financial Center, and ferry service. The transit center is expected to be completed in 2014.

On March 25, 2010, the PANYNJ and Silverstein Properties Inc. (SPI) announced a development plan for the east side of the World Trade Center site. The plan provides greater certainty in the development of this space by facilitating the immediate restoration of the east side of the site to at least street level; the completion of Tower 4 by 2013; and the phase-in of Towers 3 and 2 over time. The PANYNJ would make public support available for the construction of Tower 4, and the PANYNJ and the City would lease about 60 percent of the office space. The PANYNJ, the State, and the City have committed to contribute up to $600 million, divided equally, toward the construction of Tower 3; this is contingent on SPI meeting certain private-market triggers such as raising $300 million in private financing and securing tenants for 400,000 square feet of the tower's total space. The parties are currently completing the final agreements required to implement this development plan.

F. West Side Redevelopment

The City, the State, the MTA, and private developers are working toward redevelopment of the Hudson Yards area on the far West Side of Manhattan, from a largely industrial area into a large-scale, mixed-use, commercial and residential district.[14] Significant developments are outlined below.

- The Eastern and Western rail yards were rezoned to permit up to 26 million square feet of new office development, 20,000 housing units, 2 million square feet of retail space, and 3 million square feet of hotel space.
- The MTA entered into a contract in May 2010 with Related Companies and its equity partner, Oxford Properties Group, to build a platform and develop over each of the rail yards. The contract provides the developers with a 99-year ground lease, with options to purchase land parcels. The MTA expects to receive $1 billion, on a present value basis, over the life of the deal, with the proceeds to support MTA capital projects. Construction is expected to begin shortly after certain economic recovery triggers are met.
- The City is financing a $2 billion extension of the No. 7 subway line from its current terminus at 41st Street and Eighth Avenue to 34th Street and Eleventh Avenue. The MTA is building the extension, and estimates a June 2015 completion date. Currently, no agreement exists as to whether the MTA or the City would fund any cost overruns.

[14] The Hudson Yards area is bounded by the Hudson River Park to the west, 7th and 8th Avenues to the east, West 28th and West 30th Streets to the south, and West 42nd and West 43rd Streets to the north.

- Moynihan Station will expand capacity at Pennsylvania Station and improve passenger facilities by converting the James A. Farley Post Office into a train station. Phase 1, at a cost of $267 million, is expected to begin this year; it primarily involves below-grade transportation improvements.
- Access to the Region's Core involves the construction of two new rail tunnels for New Jersey Transit under the Hudson River, which will terminate at a new station under 34th Street. The project is scheduled to be completed by 2017 at a cost of $8.7 billion.
- A modest expansion (100,000 square feet) of the Jacob K. Javits Convention Center is scheduled to be completed in July 2010, and renovations to existing facilities are expected to be finished in 2013.
- The High Line, a former elevated freight railroad, is being transformed into a 1.6-mile park that reaches the southern part of the Hudson Yards district. In June 2009, the first section of the High Line was opened to the public.

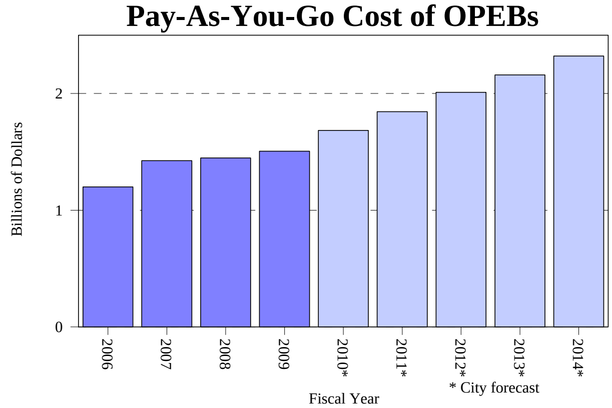
G. Other Post-Employment Benefits

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.

In September 2009, the City reported that its accrued liability for past OPEB services was $65.1 billion as of the valuation of June 30, 2008, and estimated that the present value of its future OPEB obligations was $35.9 billion. Overall, the present value of projected OPEB benefits totaled $101.1 billion, an increase of $9.1 billion from the FY 2006 level of $92 billion. The "normal" cost, or the portion of the present value of future obligations that is attributed (on an actuarial basis) to services received in the current year, was estimated at $2.7 billion. OPEB costs (on a pay-as-you-go cash basis) are projected to rise from $1.2 billion in FY 2006 to $2.3 billion by FY 2014, an average annual increase of 8.6 percent (see Figure 33).

Figure 33

Pay-As-You-Go Cost of OPEBs



Sources: Office of the Actuary; NYC Office of Management and Budget; OSDC analysis

To address the growing cost of OPEBs, the City created its own Retiree Health Benefits Trust (RHBT) in 2006, setting aside surplus resources to help fund future costs.[15] These resources are invested, and any earnings will reduce future costs to City taxpayers. The City contributed $2.5 billion to the RHBT during fiscal years 2006 and 2007, when the local economy was booming, and the balance totaled $3.1 billion as of June 30, 2009.

The Mayor has proposed using $1.1 billion of these resources over a three-year period ($82 million in FY 2010, $395 million in FY 2011, and $672 million in FY 2012) to help balance the City's operating budget, which will increase taxpayers' future OPEB liability. The State Comptroller believes the City should avoid using these resources to help balance the operating budget.

H. Governmental Accounting Standards Board Statement No. 49

GASB Statement No. 49, which became effective for New York City on July 1, 2008, requires that certain pollution remediation costs be accounted for as expense items in year-end financial statements. Pursuant to the Financial Emergency Act (FEA), such costs may not be included in the City's capital budget or financed through the issuance of bonds, absent action by the Financial Control Board (FCB). On April 30, 2008, the FCB approved a resolution that deferred implementation of GASB 49 for budgeting purposes until July 1, 2010, given the potential budgetary impact.

In accordance with this temporary waiver, the City continued to use bond proceeds to fund GASB 49 pollution remediation costs, as it had for decades. In May 2010, the City established reserves to pay the costs with operating budget resources after the waiver expired, but also proposed legislation to amend the FEA to permit the City's continued use of bond proceeds to fund GASB 49 pollution remediation costs, as other localities in the State are permitted to do. The State subsequently approved the legislation, and the City used these reserves ($150 million in each of fiscal years 2011 and 2012, and $200 million in each of fiscal years 2013 and 2014) to reduce the projected budget gaps.

I. Cash Flow

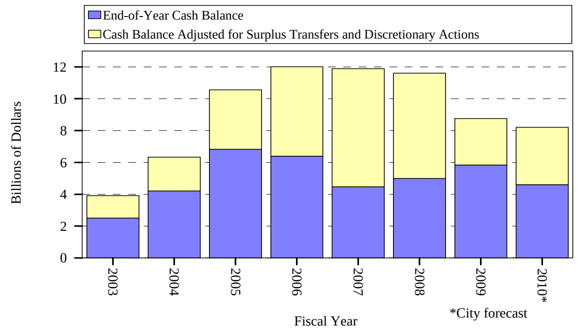
The City's year-end cash balance rose sharply between fiscal years 2003 and 2006, reflecting the strength of the economy, and remained at about $12 billion (after adjustments for surplus transfers and other discretionary actions) through the end of FY 2008 (see Figure 34). Given these large cash reserves, the City did not need to borrow to meet its cash needs during fiscal years 2005 through 2010. The recession, however, has eroded the City's cash reserves, and the City plans to borrow $2.4 billion during the second quarter of FY 2011 to meet its cash needs. Delays in the receipt of State aid, which occurred during FY 2010, could increase the need and

[15] The State Comptroller has proposed legislation that would permit other localities to create OPEB trusts.

planned cost for short-term borrowings. Consequently, the City's cash position requires close monitoring.

Figure 34

New York City Year-End Cash Position



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

J. Federal Health Care Reform

The federal government recently enacted legislation that is intended to reduce the nation's uninsured population, make health insurance more affordable and accessible, and lower health care costs. Our analysis shows that the legislation will provide some short-term financial benefits to New York State and New York City, and while the State's long-term costs will rise—from more than $200 million beginning in 2016-2017 to more than $1 billion when fully implemented in 2019-2020—the law will provide health insurance coverage to more than 1 million New Yorkers.

The legislation will have an immediate favorable budgetary impact on New York City by clarifying how states distribute federal Medicaid funds to localities under the existing ARRA. As a result, New York City expects to receive an additional $582 million in federal funds over the next three years. In addition, the federal government will cover nearly all of the costs of providing Medicaid benefits to childless adults under age 65 beginning in January 2014, including those already enrolled in the program. This initiative is expected to benefit the State by more than $150 million in 2013-2014 and by about $1 billion when fully implemented in 2017-2018.

The short-term financial benefits of health care reform, however, will be offset beginning in 2016-2017 by other provisions that will increase the cost of Medicaid to New York State. Beginning in January 2014, for example, most residents will be required to obtain health insurance or pay a tax. This mandate is expected to increase Medicaid enrollment among people who are already eligible but have not yet enrolled. While the federal government will cover 90 percent of the cost for about one-quarter of these individuals, the federal share of the costs remains at 50 percent for nearly three-quarters of the affected population. We estimate that this mandate could increase the State's Medicaid costs by more than $275 million in SFY 2014-2015, and by up to $2 billion by SFY 2020-2021.

Appendix A: Federal Stimulus Funding

The American Recovery and Reinvestment Act of 2009 (ARRA) includes provisions that are designed to help states and localities mitigate the impact of the recession on municipal services. The City's operating budget is expected to benefit by $5.3 billion over the course of fiscal years 2009 through 2013 (see Figure 35). Most of the resources were intended by the federal government to support educational services (by preventing teacher layoffs and funding grants for disadvantaged students and special education) and to provide budget relief by temporarily increasing the Federal Medicaid Assistance Percentages (FMAPs). Additional resources were allocated to support City services (e.g., child care and senior services, workforce development programs, and homelessness prevention), hire new police officers, and to provide interest rate subsidies for Build America Bonds (BABs) and Qualified School Construction Bonds (QSCBs).

In addition, from fiscal years 2009 to 2013, the ARRA will help New York City fund $2.2 billion in capital projects (see Figure 35). ARRA capital funding supports projects relating to the environment, parks and recreation, and transportation. The ARRA also authorizes the issuance of QSCBs, which are designed to permit the City to borrow funds for certain education-related capital projects and receive federal reimbursement for the interest costs.

Figure 35
American Recovery and Reinvestment Act of 2009
Federal Stimulus Funding
(in millions)

	2009	2010	2011	2012	2013
FUNDING APPROPRIATED IN THE EXPENSE BUDGET					
Community Development					
Emergency Repair Program	$ - - -	$ 21.4	$ - - -	$ - - -	$ - - -
Code Violation Removal in Schools	- - -	10.0	- - -	- - -	- - -
Other	- - -	16.9	- - -	- - -	- - -
Subtotal: Community Development	- - -	48.3	- - -	- - -	- - -
Education					
State Fiscal Stabilization Fund (SFSF)	- - -	667.9	333.6	- - -	- - -
Title I Grants	- - -	353.9	353.9	- - -	- - -
Special Education (IDEA)	- - -	165.6	165.6	- - -	- - -
Other	- - -	7.1	- - -	- - -	- - -
Subtotal: Education	- - -	1,194.5	853.0	- - -	- - -
Health and Social Support					
TANF ECF Back to School Assistance	- - -	81.4	- - -	- - -	- - -
Community Services Block Grant	- - -	34.7	15.7	- - -	- - -
Child Care and Development Block Grant	- - -	27.9	- - -	- - -	- - -
Child Support Incentive Fund	5.6	14.9	- - -	- - -	- - -
IVE Foster Care	10.5	14.3	14.5	- - -	- - -
Head Start	- - -	10.6	- - -	- - -	- - -
Other	11.4	27.4	12.2	- - -	- - -
Subtotal: Health and Social Support	27.5	211.2	42.4	- - -	- - -
Neighborhood Stabilization					
Tax Credit Assistance Program	46.8	38.2	- - -	- - -	- - -
Homelessness Prevention and Rapid Re-Housing Program	- - -	33.6	21.4	5.0	- - -
Other	- - -	0.2	- - -	- - -	- - -
Subtotal: Neighborhood Stabilization	46.8	72.1	21.4	5.0	- - -
Other					
Economic and Workforce Development	1.0	61.5	4.3	- - -	- - -
Public Safety	- - -	29.4	28.0	14.1	7.3
Build America Bonds / TFA Bonds	- - -	15.6	95.3	99.9	99.9
Infrastructure	- - -	14.8	10.1	10.1	- - -
City University Education Stabilization Fund	- - -	13.7	32.8	- - -	- - -
COBRA Employee Benefits	- - -	6.0	2.5	- - -	- - -
Energy Efficiency	- - -	4.6	49.9	1.2	- - -
Subtotal: Other	1.0	145.6	222.9	125.3	107.1
Total Expense Budget	**$ 75.3**	**$ 1,671.6**	**$ 1,139.6**	**$ 130.3**	**$ 107.1**
BUDGET RELIEF (Medicaid FMAP[16])	**$ 458.5**	**$ 662.8**	**$ 577.2**	**$ 334.0**	**$ 153.4**
CAPITAL FUNDING					
School Tax Credit Bonds[17]	$ - - -	$ 398.0	$ 624.0	$ 516.0	$ 162.0
Other Capital Programs					
Environmental Protection, Parks and Recreation	- - -	219.5	- - -	- - -	- - -
Transportation	176.7	46.1	8.1	- - -	- - -
Total Other Capital Programs	$ 176.7	$ 265.6	$ 8.1	$ - - -	$ - - -

Source: NYC Office of Management and Budget

16 Excludes a $609 million two-quarter extension of the increased federal participation in Medicaid, which is pending in Congress.
17 The City issued $250 million in QSCBs in FY 2010, and plans to issue the remaining $148 million in subsequent fiscal years.

Appendix B: City-Funded Staffing Levels

As of May 31, 2010, the City-funded workforce totaled 262,203 employees (both full-time and full-time-equivalent positions), which is 6,540 fewer than at the start of FY 2010 (see Figure 36). The July Plan assumes staffing will decline by a net of 1,821 employees between June 1, 2010, and June 30, 2011. Most of the future reductions, outlined below, are concentrated in education and the uniformed agencies.

- The Department of Education reduced staffing by 2,390 employees since the beginning of FY 2010 (mostly pedagogues), and plans to reduce staffing by another 624 employees by the end of June 2011.
- The City's health and welfare agencies reduced staffing by 1,493 employees since the beginning of FY 2010, and these agencies are currently below levels planned for FY 2011.
- The City University of New York is expected to reduce staffing by 1,077 employees by the end of June 2011.
- The police force has declined by 980 officers since June 30, 2009, and the City intends to reduce the force by another 352 officers by the end of June 2011. The Police Department also plans to eliminate 379 civilian positions.
- The Department of Correction plans to eliminate 263 uniformed positions by the end of FY 2011.
- The Fire Department reduced staffing by 350 firefighters since the beginning of FY 2010, and plans to eliminate another 225 firefighter positions by the end of June 2011.
- The Department of Sanitation reduced staffing by 337 employees since the beginning of FY 2010, and has essentially met its target for the end of FY 2011.
- The Department of Parks and Recreation reduced staffing by 30 percent (2,123 employees) since the beginning of FY 2010, and has met its target for FY 2011.

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

Additions/(Reductions)

		Actual		City Forecast		Variance	
		June 2009	May 2010	June 2010	June 2011	June 2009 to May 2010	May 2010 to June 2011
Public Safety		**83,089**	**82,064**	**80,440**	**80,935**	**(1,025)**	**(1,129)**
Police	Uniformed	35,641	34,661	34,407	34,309	(980)	(352)
	Civilian	16,567	16,265	15,882	15,886	(302)	(379)
Fire	Uniformed	11,454	11,104	11,174	10,879	(350)	(225)
	Civilian	4,735	4,861	4,775	4,863	126	2
Correction	Uniformed	8,344	8,839	7,942	8,576	495	(263)
	Civilian	1,410	1,451	1,542	1,689	41	238
District Attys. & Prosecutors		3,610	3,657	3,292	3,194	47	(463)
Probation		862	789	804	852	(73)	63
Other		466	437	622	687	(29)	250
Health & Welfare		**24,778**	**23,285**	**24,150**	**23,922**	**(1,493)**	**637**
Social Services		10,489	10,320	10,408	10,599	(169)	279
Children’s Services		6,652	5,950	6,135	6,009	(702)	59
Health & Mental Hygiene		5,170	4,825	5,229	4,902	(345)	77
Homeless Services		2,000	1,824	2,005	2,045	(176)	221
Other		467	366	373	367	(101)	1
Environment & Infrastructure		**19,269**	**16,755**	**17,737**	**16,729**	**(2,514)**	**(26)**
Sanitation	Uniformed	7,482	7,145	7,238	7,075	(337)	(70)
	Civilian	1,948	1,969	2,020	1,999	21	30
Transportation		2,436	2,368	2,131	2,205	(68)	(163)
Parks & Recreation		7,190	5,067	6,119	5,221	(2,123)	154
Other		213	206	229	229	(7)	23
General Government		**9,179**	**8,904**	**9,456**	**9,241**	**(275)**	**337**
Finance		2,058	1,962	2,153	2,100	(96)	138
Law		1,392	1,328	1,330	1,251	(64)	(77)
Citywide Admin. Services		1,654	1,645	1,759	1,455	(9)	(190)
Taxi & Limo. Commission		435	423	480	479	(12)	56
Investigations		234	222	250	222	(12)	- - -
Board of Elections		411	475	386	382	64	(93)
Info. Tech. & Telecomm.		1,130	1,073	1,150	1,097	(57)	24
Other		1,865	1,776	1,948	2,255	(89)	479
Housing		**1,870**	**1,732**	**1,985**	**1,853**	**(138)**	**121**
Buildings		1,227	1,173	1,321	1,236	(54)	63
Housing Preservation		643	559	664	617	(84)	58
Department of Education		**120,828**	**118,438**	**120,858**	**117,814**	**(2,390)**	**(624)**
	Pedagogues	97,901	96,158	97,578	95,545	(1,743)	(613)
	Non-Pedagogues	22,927	22,280	23,280	22,269	(647)	(11)
City University of New York		**7,281**	**8,685**	**8,020**	**7,608**	**1,404**	**(1,077)**
	Pedagogues	4,694	5,762	5,495	5,349	1,068	(413)
	Non-Pedagogues	2,587	2,923	2,525	2,259	336	(664)
Elected Officials		**2,449**	**2,340**	**2,352**	**2,280**	**(109)**	**(60)**
Total		**268,743**	**262,203**	**264,998**	**260,382**	**(6,540)**	**(1,821)**

Sources: NYC Office of Management and Budget; OSDC analysis