Review of the Financial Plan of the City of New York

July 2011

Report 7-2012

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

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I. Executive Summary

On June 29, 2011, New York City adopted a $65.9 billion budget ($46.5 billion in City funds) for FY 2012, which began on July 1, 2011. While the budget is balanced, it relies on $5.1 billion in nonrecurring resources, including the FY 2011 surplus and a drawdown from the Retiree Health Benefits Trust. These resources will have to be replaced in subsequent years, and even though the City's economy is slowly improving, the June 2011 financial plan (the "June Plan") projects budget gaps that average $4.8 billion during fiscal years 2013 through 2015 (see Figure 1).

The national economic recovery has recently hit a rough patch and is expected to be long and slow, but there are reasons to be cautiously optimistic about the City's recovery. So far, the City has regained more than half of the jobs (79,000) that were lost during the recession (144,500), and though the City unemployment rate remains high, it has declined from a peak of 10 percent to the current level of 8.7 percent.

Most private sector industries have begun to add jobs, although construction and manufacturing are still losing jobs. The public sector also continues to lose jobs as governments at every level rein in spending, but the threat of layoffs has been reduced. While the June Plan expects job growth to slow, it does assume that New York City will regain the remainder of the jobs lost in the recession in FY 2013.

Wall Street got off to a very strong start in 2011—earning nearly half ($9.3 billion) of the City's forecast for the entire year ($20 billion) during the first quarter—but weaker second quarter results have led to talk of renewed job losses. Wall Street's dramatic turnaround since 2008 has been the most significant factor contributing to the City's recovery, although the securities and banking sectors continue to deal with the fallout from the financial crisis.

The commercial real estate market is improving, as evidenced by declining vacancy rates, rising rental prices, and higher sale prices for Manhattan office buildings. The residential real estate market remains weak, however. While the residential housing crisis has not affected New York City as much as some other cities, home values have fallen, and the concentration of homes in certain neighborhoods with delinquent mortgages or in some stage of foreclosure will continue to depress values.

Other factors that could create obstacles for the economic recovery include the European sovereign debt crisis, failure to raise the federal debt ceiling, federal budget cuts, interest rate hikes, high energy costs, and high consumer debt levels. According to the Federal Reserve, even though consumers have been paying down debt, consumer debt is still 37 percent higher than a decade ago. The combination of stagnant wages, high personal debt, and depressed home values may shake consumer confidence and hold down consumer spending, which accounts for more than two-thirds of economic activity.

While the City's four-year financial plan includes few immediate risks (see Figure 2), a number of issues require close monitoring.

As the State and federal governments focus on balancing their budgets, the amount of financial assistance to New York City could be reduced. In FY 2012, for example, the City allocated $1.7 billion in City funds to replace the loss of expiring federal stimulus funds for education and anticipated State education aid.[1] Efforts to reduce the federal deficit will likely lead to cuts in aid to localities, including New York City.

The City's actuarial consultant will release a report shortly that will recommend changes to the assumptions and methodologies used to calculate City pension contributions, such as lowering the assumed rate of annual investment earnings. The City has established a $1 billion annual reserve to incorporate changes beginning in FY 2012, but the actual cost and implementation date are yet to be determined.

The Mayor and the City Council, with the cooperation of the United Federation of Teachers, prevented 4,100 teacher layoffs in FY 2012. Even with the layoffs rescinded, the City will employ 2,500 fewer teachers during the new school year compared with last year (7,000 fewer than in FY 2009), which will further increase class sizes. While the budget also restores funding to prevent the closure of 20 fire companies and other planned budget cuts, the funding is in place for only one year.

Despite the restorations, the FY 2012 budget still includes 1,000 non-teacher layoffs and significant budget cuts. Since June 2008, the City has cut planned agency spending by more than $5 billion and staffing by a total of 14,900 employees. Nevertheless, debt service and other nondiscretionary costs such as employee benefits are still projected to rise by more than 40 percent during the financial plan period.

Historically, the City has relied on budget surpluses to help balance future budgets. In FY 2011, three quarters of the $3.7 billion surplus came from unanticipated revenues and a drawdown in reserves. While the City still has substantial reserves, the City's revenue forecasts are appropriate given the risks to the economic recovery. Consequently, the likelihood of a large surplus in FY 2012 is diminished.

Coming out of the recession, New York City is in a much stronger position than are most states and other large municipalities. Nevertheless, the City projects a budget gap of $4.6 billion for FY 2013 and even larger gaps in subsequent years, and it has yet to reach new labor agreements with its workforce. Closing the structural budget gap, in the absence of a stronger recovery or relief from federal and State mandates, will be challenging.

[1] The City estimates that the State budget reduced aid to the City by a total of $1.2 billion annually. The amount is much more than estimated by the State because the City was counting on a large increase in education aid and the restoration of payments under the Aid and Incentives to Municipalities program.

Figure 1
New York City Financial Plan
(in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
REVENUES					
Taxes					
General Property Tax	$ 16,860	$ 17,625	$ 18,203	$ 18,630	$19,060
Other Taxes	22,364	23,752	24,585	25,321	26,666
Tax Audit Revenue	957	660	659	666	666
Subtotal: Taxes	$ 40,181	$ 42,037	$ 43,447	$ 44,617	$ 46,392
Miscellaneous Revenues	6,253	5,955	5,980	6,040	6,060
Unrestricted Intergovernmental Aid	51	37	12	12	12
Less: Intra-City Revenue	(1,913)	(1,549)	(1,526)	(1,523)	(1,523)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 44,557	$ 46,465	$ 47,898	$ 49,131	$ 50,926
Other Categorical Grants	1,302	1,193	1,158	1,156	1,153
Inter-Fund Revenues	562	549	501	501	501
Federal Categorical Grants	8,446	6,674	6,389	6,315	6,238
State Categorical Grants	11,553	11,030	11,090	11,163	11,180
Total Revenues	**$ 66,420**	**$ 65,911**	**$ 67,036**	**$ 68,266**	**$ 69,998**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 22,105	$ 21,502	$ 21,279	$ 21,384	$ 21,377
Pensions	7,002	8,424	8,570	8,448	8,694
Fringe Benefits	7,624	7,985	8,376	8,902	9,455
Retiree Health Benefits Trust	(395)	(672)	- - -	- - -	- - -
Subtotal: Personal Service	$ 36,336	$ 37,239	$ 38,225	$ 38,734	$ 39,526
Other Than Personal Service					
Medical Assistance	$ 4,819	$ 6,217	$ 6,327	$ 6,463	$ 6,643
Public Assistance	1,557	1,385	1,365	1,365	1,365
All Other [2,3]	20,541	20,244	20,324	20,863	21,344
Subtotal: Other Than Personal Service	$ 26,917	$ 27,846	$ 28,016	$ 28,691	$ 29,352
General Obligation, Lease and TFA Debt Service [2,3]	$ 4,948	$ 5,813	$ 6,653	$ 6,908	$ 7,265
FY 2010 Budget Stabilization & Discretionary Transfers [2]	(3,646)	- - -	- - -	- - -	- - -
FY 2011 Budget Stabilization & Discretionary Transfers [3]	3,738	(3,738)	- - -	- - -	- - -
General Reserve	40	300	300	300	300
Subtotal	$ 68,333	$ 67,460	$ 73,194	$ 74,633	$ 76,443
Less: Intra – City Expenses	(1,913)	(1,549)	(1,526)	(1,523)	(1,523)
Total Expenditures	**$ 66,420**	**$ 65,911**	**$ 71,668**	**$ 73,110**	**$ 74,920**
Gap To Be Closed	**$ - - -**	**$ - - -**	**$ (4,632)**	**$ (4,844)**	**$ (4,922)**

2 Fiscal Year 2010 Budget Stabilization and Discretionary Transfers total $3.646 billion, including GO of $2.888 billion, TFA of $371 million, net equity contribution in bond refunding of $4 million and subsidies of $383 million.

3 Fiscal Year 2011 Budget Stabilization and Discretionary Transfers total $3.738 billion, including GO of $2.784 billion, TFA of $790 million and subsidies of $164 million.

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

	Better/(Worse)			
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**
Surplus/(Gaps) per June Plan	**$ - - -**	**$ (4,632)**	**$ (4,844)**	**$ (4,922)**
Uniformed Agency Overtime	(125)	(125)	(125)	(125)
Pension Reform	- - -	- - -	(131)	(252)
Pension Investment Earnings	- - -	150	289	418
OSDC Risk Assessment	**(125)**	**25**	**33**	**41**
Remaining Gap to be Closed per OSDC [4]	**$ (125)**	**$ (4,607)**	**$ (4,811)**	**$ (4,881)**
Additional Risks and Offsets				
UFT Collective Bargaining[5]	$ (1,698)	$ (898)	$ (900)	$ (900)
Wage Increases at Projected Inflation Rate[6]	(1,510)	(1,610)	(2,178)	(2,691)
Taxi Medallion Sales[7]	- - -	300	300	300

4 The June Plan includes a general reserve of $300 million in each of fiscal years 2012 through 2015. The Retiree Health Benefits Trust will have $2 billion on deposit even after the City has drawn down $1.1 billion to help balance the budget in fiscal years 2010 through 2012. The City also has established reserves of $1 billion annually beginning in FY 2012 to fund recommendations of an independent actuarial consultant. Although the cost of such changes could exceed the $1 billion annual reserve, the actual cost and the date of implementation have not yet been determined.

5 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. Until the City reaches new agreements with these unions for that period, the City could potentially incur a retroactive liability as well as future costs.

6 The June Plan assumes a three-year wage freeze after the expiration of contracts negotiated in the last round of collective bargaining, most of which have already expired. If instead wages were to increase at the projected local inflation rate, the City could incur unplanned costs of $1.5 billion in FY 2012 (including more than $500 million in retroactive costs), $1.6 million in FY 2013, $2.1 billion in FY 2014, and $2.3 billion in FY 2015. If wages were to increase at the projected local inflation rate after the expiration of the wage freeze, the City could incur additional costs of $21 million in FY 2013, $124 million in FY 2014, and $351 million in FY 2015.

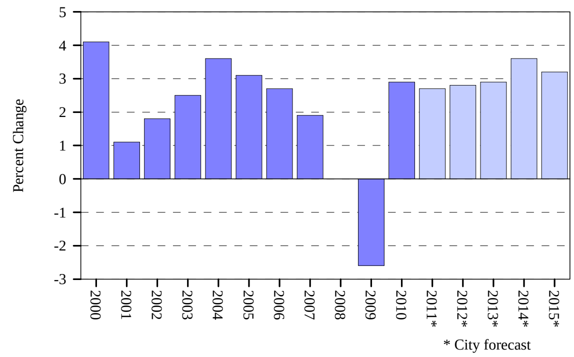
7 The Legislature has approved a bill that would expand taxi service in New York City, but the bill has not yet been forwarded to the Governor for his approval. If approved, the City could realize up to $900 million over three years from the sale of 1,500 taxi medallions. If the bill is vetoed, the City would not realize these resources, nor would it realize more than $6 million annually beginning in FY 2012—which is already included in the June Plan—from the sale of street-hail and dispatcher permits for livery cab pickups outside Manhattan's central business district.

II. Economic Trends

The Gross Domestic Product (GDP) grew by 2.9 percent in 2010, the largest increase in five years (see Figure 3), but growth slowed to 1.9 percent during the first quarter of 2011. The reduced rate of growth reflects a slowdown in consumer spending (to 2.2 percent from 4 percent in the prior quarter) as a result of higher costs for energy and food, as well as a sharp cutback in government spending. Business investment also slowed and inventories expanded.

Figure 3

National Economic Growth



Sources: U.S. Bureau of Economic Analysis; NYC Office of Management and Budget

The June Plan assumes that the first quarter slowdown will be temporary, but recent economic statistics suggest that economic growth will also be subdued in the second quarter. Weakness in housing, manufacturing, consumer confidence, and the labor markets has caused IHS Global Insight to lower its near-term economic forecasts slightly below the assumptions in the June Plan.[8] While IHS Global Insight still assumes that the recovery will accelerate in the second half of 2011, the expected strength of the rebound has been tempered.

Since March 2010, the nation has added 2.2 million private sector jobs, or one quarter of the 8.8 million jobs lost during the recession. While the pace of job creation accelerated during the period from February through April 2011, to a monthly average of 240,000, growth slowed dramatically in May and June 2011, to an average of 65,000 jobs. The unemployment rate has also begun to edge higher, reaching 9.2 percent in June 2011, less than one percentage point below its October 2009 peak.

A weak housing market remains a drag on the recovery. Following the expiration of the federal home buyer tax credit, housing prices resumed their declines and home sales have remained depressed. While the share of mortgages that are delinquent has eased slightly, the large number of foreclosures continues to swell the available inventory and put downward pressure on prices.

8 The June Plan assumes national GDP will grow by 2.7 percent in 2011, gradually rising to an average of 3.4 percent in 2014 and 2015, and that 2.4 million jobs will be created annually. In July 2011, IHS Global Insight forecast GDP growth of 2.5 percent in 2011, rising to an average of 3.3 percent in 2014 and 2015, with an average of 2.2 million jobs created annually during this period.

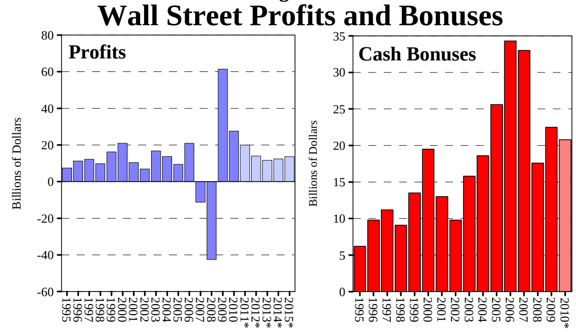
The June Plan forecasts increased inflation for 2011, but the City expects inflationary pressures to ease in 2012 as energy and commodity prices moderate. IHS Global Insight also forecasts that inflation will moderate in 2012, but expects that oil prices will decline only temporarily.

Local job growth resumed in December 2009, and over the next 18 months the City recovered more than half (79,000 jobs) of the 144,500 jobs lost during the recession. While the City gained 100,900 private sector jobs, it lost 21,900 government jobs. Although the June Plan assumes that job growth will slow, the City still expects to regain the remainder of the jobs lost in the recession during FY 2013.

Since November 2009, the pace of private sector job gains in the City (3.3 percent) has exceeded the pace in the nation (1.9 percent) and the State (2.4 percent). Local private sector job growth has been stronger at this point in the recovery than it was during the past two economic recoveries. Most of the job gains in the City's private sector since November 2009 are concentrated in the sectors of professional and business services, education and health services, retail trade, and leisure and hospitality, while construction and manufacturing are still experiencing job losses. The City's unemployment rate peaked at 10 percent in September 2009—exceeding the national and State rates—but was 8.7 percent in June 2011 (higher than the State's rate but lower than the nation's).

Wall Street earned $27.6 billion in 2010, second only to the record profits of $61.4 billion earned in 2009 after the historic losses incurred in 2007 and 2008 (see Figure 4). The industry got off to a very strong start in 2011, with earnings of $9.3 billion in the first quarter (nearly half of the City's forecast of $20 billion for the entire year), but the large financial firms are indicating that profits slipped in the second quarter as trading slumped and markets slid. The City expects profitability to ease back to the levels seen before the economic crisis as the Federal Reserve moves toward higher interest rates, firms increase their capital reserves, and other financial reforms take effect. The June Plan assumes profitability will average $12.9 billion annually during calendar years 2012 through 2015.

Figure 4
Wall Street Profits and Bonuses



* City forecasts profits for 2011-2015; OSDC estimates bonuses for 2010
Note: 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; NYC Office of Management and Budget; OSDC analysis

The State Comptroller estimated that overall compensation in the securities industry rose by 6 percent in 2010 even though cash bonuses paid to New York City employees declined by nearly 8 percent, to $20.8 billion. While cash bonuses declined, the industry increased base pay, and a larger share of bonuses is being awarded in the form of deferred compensation in order to reward long-term profitability and to discourage excessive risk-taking.

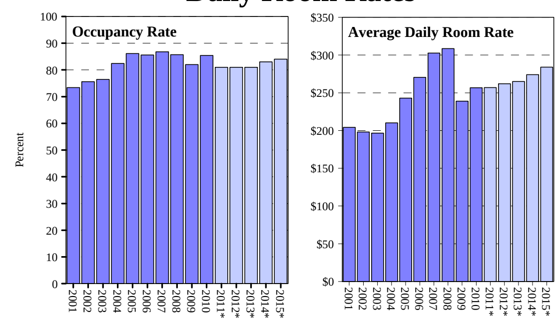
Wall Street lost 28,100 jobs during the downturn, and while the industry added nearly 10,000 jobs between January 2010 and April 2011, it lost 3,000 jobs in the following two months. The June Plan assumes that the industry will gain a total of 10,000 jobs in 2011 and 2012, but then show small job losses through 2015 as higher interest rates and financial regulations squeeze profits. Weaker profitability in the second quarter of 2011, however, has caused some Wall Street firms to announce new layoffs.

The resumption of job growth in the City, coupled with higher compensation on Wall Street, allowed wage growth to rebound to 6.3 percent in 2010 (after a record decline of 10.8 percent in 2009), but the City projects wage gains to slow to 4.1 percent in 2011 and 2.5 percent in 2012 as Wall Street profitability eases.

Tourism continues to be a bright spot for the local economy. Preliminary figures indicate that a record 48.7 million visitors traveled to New York City in 2010—almost 2 million more than the previous record set in 2008. The City estimates that tourists spent an estimated $31 billion in 2010, about $1 billion less than the record spending in 2008. In 2010, the hotel occupancy rate returned to prerecession levels, and the average room rate rebounded (see Figure 5). Meanwhile, Broadway experienced record revenues of more than $1 billion. The City projects that by 2015 the occupancy rate will increase to 84 percent despite the addition of 1,000 new hotel rooms annually; the average room rate is expected to rise to $284 per night.

Figure 5

New York City Hotel Occupancy and Daily Room Rates

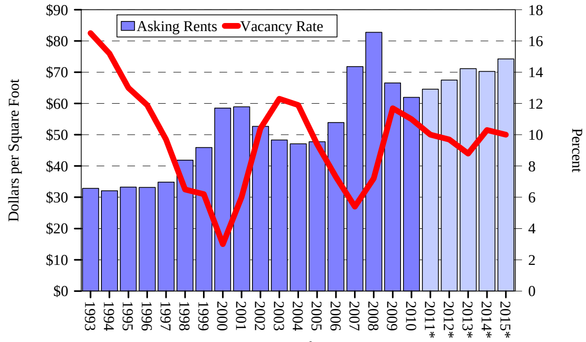


* City forecast
Sources: PKF Consulting; NYC Office of Management and Budget

The City's commercial real estate market has rebounded, especially in Midtown Manhattan. Leasing activity has improved as office-based employment has increased, which has allowed building values to rise. Low interest rates have also helped boost transaction activity. Cassidy Turley reported that in June 2011, the vacancy rate in Manhattan's primary office market fell to 10.4 percent, down 1.4 percentage points from one year earlier. Meanwhile, average asking rents reached $60.59 per square foot, slightly above the rate one year earlier. The June Plan assumes that by 2013 the vacancy rate will fall to 8.8 percent, and that the average asking rent will rise to

$71.16 per square foot (see Figure 6). The June Plan assumes that the completion of more than 4 million square feet of office space in the World Trade Center will raise the vacancy rate to about 10 percent in 2014 and 2015, even as the average asking rent continues to rise, to $74.29 by 2015.

Figure 6
Manhattan Commercial Property



* City forecast
Source: Cushman & Wakefield

Unlike the commercial market, the City's residential real property market remains weak. Prudential Douglas Elliman reported that in the second quarter of 2011, sales of Manhattan cooperative and condominium apartments fell by 3.8 percent (compared to one year earlier), while the median sales price fell by 5.5 percent. The S&P/Case-Shiller Home Price Index shows that single-family home prices in the New York City metropolitan area fell by 21.2 percent between May 2006 and April 2010, rose slightly for three months, and then declined by another 4.7 percent between July 2010 and April 2011. The City expects that single-family home sales will increase by 5.8 percent in 2011 and 10.8 percent in 2012, but expects prices to continue to decline (by 7.6 percent in 2011 and 1.1 percent in 2012). Foreclosures in the City will continue to put downward pressure on prices as those properties are slowly resold.

The recession was not as severe in New York City as it was in other parts of the nation, and the recovery in the City has been stronger than in the nation as a whole. Nevertheless, a number of factors have recently caused the national economy to slow, and these factors could also slow the pace of the City's economic recovery.

Factors that could create obstacles for the economic recovery include the European sovereign debt crisis, failure to raise the federal debt limit, interest rate hikes, high energy costs, and high personal debt levels. According to the Federal Reserve, even though consumers have been paying down debt, consumer debt is still 37 percent higher than a decade ago. The combination of stagnant wages, high personal debt, and depressed home values may shake consumer confidence and hold down consumer spending, which accounts for more than two-thirds of economic activity.

III. Changes Since the July Plan

The July 2010 financial plan (the “July Plan”) projected a balanced budget for FY 2011 and budget gaps of $3.3 billion for FY 2012, $4.1 billion for FY 2013, and $4.8 billion for FY 2014. One year later, the City reports that it was able to free up $1.5 billion in reserves in FY 2011; revenues exceeded the initial estimate by about $1.3 billion in FY 2011 and similar amounts in subsequent years; and new agency actions generated $633 million in FY 2011 and about $1.1 billion annually thereafter (see Figure 7). For FY 2011, these resources helped produce a surplus of $3.7 billion.

For FY 2012, these resources permitted the City to replace most of the State aid lost in the State’s FY 2011-12 enacted budget (estimated at $1.2 billion by the City); replace all of the expiring federal stimulus funds for education ($853 million); rescind some of the planned budget cuts; and close the remaining budget gap. Despite the higher revenue forecasts, the June 2011 Plan shows a budget gap of $4.6 billion for FY 2013—$577 million larger than forecast in the July Plan one year ago.

Over the course of FY 2011, the City raised its revenue forecasts for fiscal years 2011 and 2012 by $1.3 billion annually, and by about $1.1 billion annually thereafter, reflecting higher business profits, modest job growth, and a vibrant tourism sector. Real property tax collections are expected to be higher than previously forecast by $199 million in FY 2012, growing to $1.2 billion by FY 2015, based on the final property tax roll. The final roll showed higher-than-anticipated growth in property values, especially for commercial and large residential properties.

The City also drew down $1.5 billion in unneeded reserves in FY 2011, and it eliminated its reserve for collective bargaining for the third consecutive year. Beginning in FY 2012, however, the City increased its annual reserve by $400 million to $1 billion to fund higher pension contributions that could result from changes in actuarial assumptions that are currently under consideration.

The June Plan assumes that the agency program will generate about $1.1 billion annually beginning in FY 2012. This is about $155 million less than estimated in the May 2011 financial plan, reflecting budget cuts that were rescinded during the budget adoption process (such as teacher layoffs). The City Council and the Mayor also restored other planned budget cuts and funded some new initiatives ($383 million).

The City also realized a total of $1.1 billion in debt service savings during fiscal years 2011 and 2012 from lower-than-planned interest rates on variable rate debt obligations, funding shifts, and debt refundings. While Medicaid costs were lower by $408 million in FY 2011 because the City received federal assistance earlier than had been expected, spending in the uniformed agencies was higher by $385 million, mostly due to higher overtime costs.

Figure 7
Financial Plan Reconciliation – City Funds
June 2011 Plan vs. July 2010 Plan

(in millions)

	Better/(Worse) FY 2011	FY 2012	FY 2013	FY 2014
Surplus/(Gap) as of July 2010 Plan	**$ - - -**	**$ (3,257)**	**$ (4,055)**	**$ (4,835)**
Revenues				
Business Tax	406	359	81	(78)
Sales Tax	385	442	319	268
Real Property Tax	74	199	507	796
Personal Income Tax	51	230	329	51
Other Taxes	17	(45)	(156)	(125)
Audits	329	- - -	- - -	- - -
Subtotal	**1,262**	**1,185**	**1,080**	**912**
Non-Tax Revenues	32	116	101	119
Total	**1,294**	**1,301**	**1,181**	**1,031**
Drawdown of Reserves				
Pension Reserve	600	(400)	(400)	(400)
Prior Years' Expenses	500	- - -	- - -	- - -
General Reserve	397	- - -	- - -	- - -
Collective Bargaining Reserve	- - -	20	107	224
Total	**1,497**	**(380)**	**(293)**	**(176)**
Gap-Closing Actions				
Agency Program	633	1,080	1,155	1,147
Pension Reform	- - -	- - -	- - -	131
Total	**633**	**1,080**	**1,155**	**1,278**
State Budget Impact (City estimate)	**(40)**	**(1,194)**	**(1,225)**	**(1,225)**
Expenditures				
Federal Education Aid	- - -	(853)	(853)	(853)
Restorations and Other Initiatives[9]	- - -	(383)	(1)	(1)
Indigent Defense Services	(18)	(57)	(47)	(47)
Social Services Agencies	(51)	(165)	(80)	(79)
Uniformed Agencies	(385)	(124)	(74)	(75)
Medicaid	408	(270)	(156)	315
Debt Service	336	778	27	28
Judgments and Claims	50	90	120	150
Health Insurance	47	15	(95)	(165)
Other	(33)	(319)	(236)	(190)
Total	**354**	**(1,288)**	**(1,395)**	**(917)**
Surplus/(Gap)	**$ 3,738**	**$ (3,738)**	**$ (4,632)**	**$ (4,844)**
Surplus Transfer	**(3,738)**	**3,738**		
Gap as of June 2011	**$ - - -**	**$ - - -**	**$ (4,632)**	**$ (4,844)**

Sources: NYC Office of Management and Budget; OSDC analysis

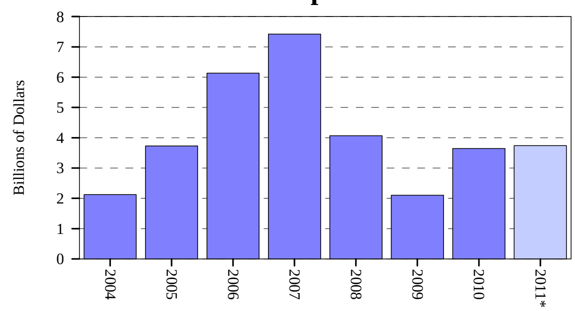
[9] In total, restorations of proposed budget cuts and new initiatives increased costs by $538 million in FY 2012 compared with the forecast in the May 2011 financial plan. As a result, the value of the FY 2012 agency program was reduced by $155 million to $1.1 billion in FY 2012.

IV. Current-Year Operating Results

After the recession of the early 2000s, large amounts of unanticipated resources were realized from surging Wall Street profits and rising real estate values and transactions, combined with conservative revenue forecasts. As shown in Figure 8, these resources peaked at $7.4 billion in FY 2007. In recent years the City—though it was deeply affected by the recession—has still realized substantial amounts of unanticipated resources, because its financial plan was based on very conservative economic and revenue assumptions, and because it raised taxes, cut planned spending, and received federal stimulus funds. In FY 2011, the amount of unanticipated resources exceeded $3.7 billion, primarily because of a drawdown of reserves and higher revenues.

Figure 8

Annual Unanticipated Resources



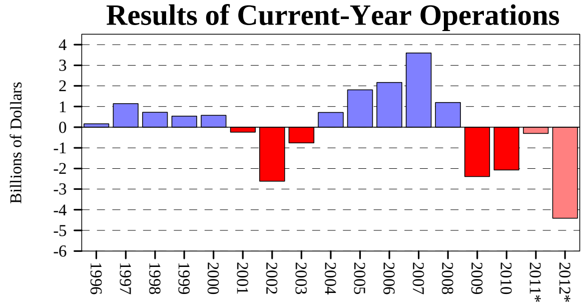
Sources: NYC Office of Management and Budget; OSDC analysis

As it has done in past years, the City intends to transfer these unanticipated resources to the next year to help close that year's 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 9, the size of the current-year surplus grew each year after the end of the recession of the early 2000s, and peaked in FY 2007 at $3.6 billion. The surplus then declined sharply in FY 2008 as revenues fell as a result of the economic slowdown. Despite tax increases and agency cost-cutting, spending exceeded current-year resources by about $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. By our estimates, spending exceeded current-year revenues by only $303 million in FY 2011, reflecting an improving economy. For FY 2012, however, we project a current-year deficit of $4.4 billion, reflecting the City's heavy reliance on nonrecurring resources accumulated in prior years to balance the budget.

Figure 9

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 $3.3 billion in FY 2011 and $5.1 billion in FY 2012 (see Figure 10).

Figure 10
Nonrecurring Resources
(in millions)

	FY 2011	FY 2012
FY 2010 Surplus	$ 3,646	$ - - -
Federal Medicaid Assistance	1,074	124
Federal Education Aid	1,058	- - -
Prior-Year Payables	500	- - -
Retiree Health Benefits Trust	395	672
Debt Refundings and Redemptions - Net	296	214
Restitution Agreements	71	- - -
Battery Park City	66	- - -
Early Retiree Reinsurance Program	50	50
Educational Construction Fund	- - -	32
Race to the Top	- - -	86
State Building Aid - Net	(96)	169
FY 2011 Projected Surplus	(3,738)	3,738
Total	**$ 3,322**	**$ 5,085**

Sources: NYC Office of Management and Budget; OSDC analysis

- The City transferred surplus resources accumulated in prior years to help balance the budget in fiscal years 2010 and 2011.
- Federal stimulus budget relief for Medicaid and education totaled $2.1 billion in FY 2011 but will decline to $124 million in FY 2012 and expire in FY 2013.
- The City recognized savings of $500 million in FY 2011 from overestimating prior years' expenses, but the June Plan does not anticipate any future savings.
- The City drew down $395 million in FY 2011 from the Retiree Health Benefits Trust and intends to draw down another $672 million in FY 2012.
- General Obligation and Transitional Finance Authority (TFA) debt refundings and redemptions produced budgetary savings of $296 million in FY 2011 and $214 million in FY 2012.
- Restitution agreements from the prosecution of certain banks generated $71 million in FY 2011.
- The Battery Park City Authority released $66 million in surplus funds to the City in FY 2011 pursuant to an agreement with the State.
- The City will receive $100 million over two years to help fund health care costs for certain retirees who are not yet eligible for Medicare.
- The City transferred $32 million in surplus funds from the Educational Construction Fund to the Department of Education to help fund operations in FY 2012.
- The City anticipates the receipt of $255 million over three years in funding under the federal Race to the Top program, but funding expires in FY 2014.
- In FY 2012, debt service was reduced by a net of $169 million, reflecting TFA actions to transfer $220 million in surplus funds to the City, offset by $51 million in additional state building aid withheld to fund higher TFA debt service in future years.

V. Impact of the State Budget

The June Plan estimates that the enacted State budget adversely affects the City's financial plan by $1.2 billion in City FY 2012 (see Figure 11) and by similar amounts in subsequent years. The impact on the City's economy will be much greater, largely as a result of the loss of federal Medicaid funding, and the impact on residents is not yet fully determined because the effect of many of the Medicaid cuts have not yet been quantified.

Figure 11
Impact of the Enacted State Budget
(in millions)

	FY 2012
Education Aid	$ (812)
Aid and Incentives to Municipalities	(302)
Other	(81)
Total	**$ (1,195)**

Sources: NYC Office of Management and Budget; OSDC analysis

The State's enacted budget largely fulfilled the City's request for additional education aid over the amount contained in the Governor's executive budget, and rescinded a proposed cap on State support for education capital projects, which would have significantly reduced the capital program for New York City's public schools.

Nevertheless, education aid to New York City in FY 2012 will be $480 million less than in the prior year and $812 million less than the City had been anticipating. The approved State budget did not restore payments to the City under the Aid and Incentives to Municipalities program ($302 million), which were to be restored in City FY 2012 according to the State FY 2010-11 enacted budget.

The State budget anticipates savings of $2.7 billion from changes in the State's Medicaid program, and caps the annual growth in Medicaid to a ten-year rolling average of the medical care component of the Consumer Price Index, currently at 4 percent. These actions are not expected to generate any savings for the City but could reduce funding to the Health and Hospitals Corporation by $175 million, which would exacerbate an already difficult financial situation.

The State budget also authorizes the New York State Department of Health to take action if Medicaid spending exceeds the cap, but limits that authority to two state fiscal years. To the extent the State needs to take additional actions to maintain budget balance in the current year or to close future budget gaps, State aid to New York City could be further reduced.

VI. Agency Program

The May 2011 financial plan assumed that the agency program would generate $1.2 billion in FY 2012 and reduce staffing by more than 9,000 positions. As part of the negotiations over the adopted budget for FY 2012, the Mayor and the City Council rescinded teacher layoffs and other planned budget cuts (an estimated total of 3,975 positions), including the closure of 20 fire companies and reductions in funding to libraries, cultural institutions, senior services, and child care. Consequently, the June Plan now assumes that the agency program will generate about $1.1 billion annually beginning in FY 2012. We estimate the agency program will reduce staffing by 5,475 positions, including 1,000 layoffs of non-pedagogical and non-uniformed employees (see Figure 12). Since FY 2008, the City's gap-closing programs have reduced planned spending by more than $5 billion annually.

Figure 12
Agency Program
(in millions)

	Positions	FY 2011	FY 2012
Department of Education	2,655	$ 220.6	$ 327.9
Health and Social Services	322	131.0	197.4
Uniformed Agencies			
Police	350	50.0	64.2
Sanitation	269	29.2	91.2
Fire	111	7.9	38.4
Correction	110	4.9	13.4
Transportation	256	24.7	56.1
Citywide Administrative Services	2	17.0	22.6
City University of New York	143	9.0	4.4
Finance	61	6.5	38.3
Parks	764	(4.9)	42.0
Procurement Savings	- - -	- - -	55.5
All Other Agencies	432	137.5	128.3
Total Agency Program	**5,475**	**$ 633.4**	**$ 1,079.7**

Sources: NYC Office of Management and Budget; OSDC analysis

The City's financial plan had assumed that the Department of Education would reduce planned spending by $394 million in FY 2012 and reduce pedagogical staffing by 6,166 positions, including 4,166 teacher layoffs. As part of the adopted budget for FY 2012, the Mayor, City Council, and the United Federation of Teachers (UFT) reached an agreement to avert the need for teacher layoffs. The cost of rescinding these ($218 million) was funded through a combination of actions, including additional City funding ($61 million); an agreement with the UFT that provides additional flexibility in the use of teachers assigned to the Absent Teacher Reserve, and a one-year suspension of study sabbaticals ($57 million); additional administrative cuts ($47 million); and a transfer of surplus resources from the Educational Construction Fund ($32 million). Although the layoffs were rescinded, the number of City-funded teachers is still expected to decline by 3,170 (2,500 on a total funds basis) during FY 2012, which will likely result in larger class sizes and cuts in other educational programs.

Agencies that provide health care and social services will reduce spending by $197 million in FY 2012. These agencies will eliminate an estimated 322 positions (230 layoffs) and reduce services to children, the homeless, and the poor. Actions include housing some homeless families with children in shared units, charging families more for child care, eliminating 2,000 summer youth jobs, and realizing additional state and federal revenue.

The City's uniformed agencies are expected to reduce costs by $207 million in FY 2012 and to cut staffing by 840 positions; the largest cuts are discussed below.

- The Sanitation Department lowered its estimate of landfill and waste export costs ($53 million) and will eliminate 200 supervisory positions (45 through demotion and 155 through attrition) for savings of $21 million.
- The Police Department plans to eliminate 350 civilian positions ($30 million) and to use federal funds rather than City funds to pay overtime ($12 million).
- The Fire Department plans to restrict medical and light duty leave, which would reduce overtime costs ($15 million), and to eliminate 100 uniformed positions that perform administrative duties.

The City also plans to lay off 465 employees in the Department of Parks and Recreation; furlough 641 workers for one week in the Department of Transportation; lay off 129 employees in the Department of Finance; increase passenger and commercial parking rates; and increase fees for safety and regulatory inspections.

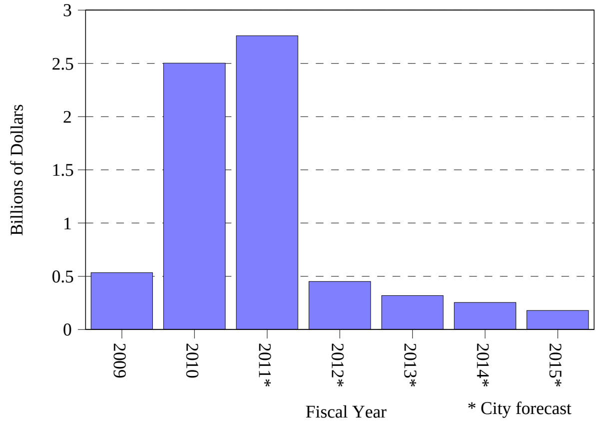
VII. Revenue and Expenditure Trends

The recent recession hit the City hard, with City fund revenues dropping abruptly by $2.5 billion in FY 2009 and then remaining depressed in FY 2010. The growth in City-funded expenditures slowed in these years, but spending still outpaced revenues. The budgets were balanced by raising taxes, drawing down reserves accumulated during the last economic expansion, cutting agency budgets, and receiving federal stimulus funds. As shown in Figure 13, federal stimulus aid is expected to drop precipitously in FY 2012; most of it will be replaced with City funds (see Appendix A for a schedule of federal stimulus funding).

After the last recession, unanticipated resources helped the City accumulate a large operating surplus, which the City used to pay down debt, increase reserves, and fund recurring expenses. The cumulative operating surplus peaked in FY 2008 at $11 billion, including contributions to the Retiree Health Benefits Trust (RHBT). During the recession, the City drew down the operating surplus (including resources set aside in the RHBT) to help balance the operating budget (see Figure 14).

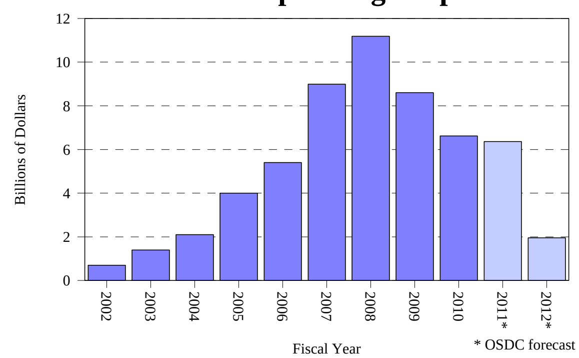
As the economy has improved, revenue growth has strengthened. City fund revenues grew by 6.3 percent in FY 2011 to $44.6 billion (see Figure 15), which brought collections above the prerecession level. Revenues are projected to grow by 4.3 percent in FY 2012, but City-funded expenditures are projected to grow three times as fast. The City balanced the FY 2012 budget through agency actions and

Figure 13
Federal Stimulus Funds



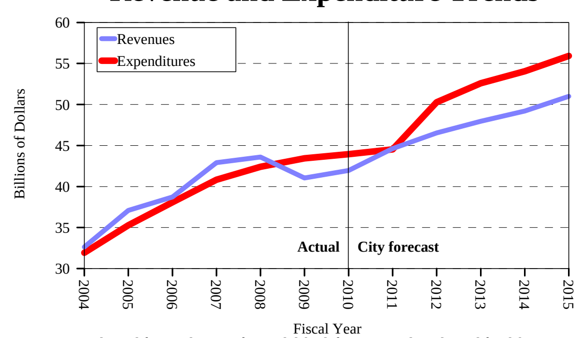
Sources: NYC Office of Management and Budget; OSDC analysis

Figure 14
Cumulative Operating Surplus



Sources: NYC Office of Management and Budget; OSDC analysis

Figure 15
Revenue and Expenditure Trends



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

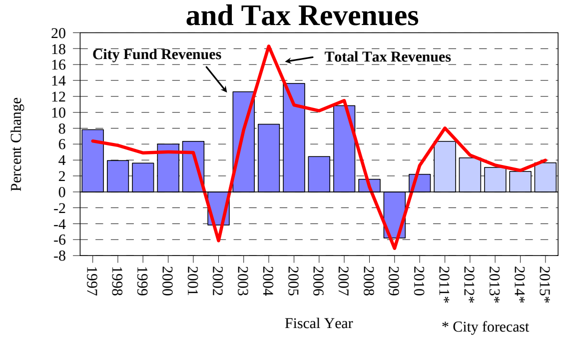
other initiatives, including $5 billion in nonrecurring resources. While the average rate of expenditure growth is expected to slow during fiscal years 2013 through 2015 (3.6 percent), spending is still projected to outpace the average rate of revenue growth during this period (3.1 percent). As a result, the City projects budget gaps averaging $4.8 billion annually during these years.

A. Revenue Trends

Improvement in New York City's economy at the end of 2010 allowed the City to significantly raise its revenue forecasts in the February 2011 financial plan, but since then economic growth has been modest, and the City made only small changes to its revenue forecasts in the May and June financial plans. Overall, the City forecasts that revenues in fiscal years 2011 through 2014 will be higher by about $1 billion annually compared with the projections made in July 2010. This additional revenue reflects a stronger-than-expected economic recovery (including better job and income growth, and the second-best year on record for Wall Street profits) and stronger-than-expected real property tax growth (based on the final property tax roll for FY 2012), particularly in the out-years of the financial plan.

The June Plan assumes that City fund revenues will grow by 4.3 percent in FY 2012, after a gain of 6.3 percent in FY 2011 (see Figure 16).[10] The growth in FY 2011 was the fastest rate of increase since FY 2007, and brought revenues above the level of collections before the economic downturn. The slightly slower rate of growth for City funds in FY 2012 reflects anticipated moderation in the rate of growth for tax collections—to 4.6 percent from 8 percent in FY 2011—due to an expected easing of Wall Street profitability, the relatively modest pace of the economic expansion, and reduced audit collections.

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

For fiscal years 2013 through 2015, the City projects modest economic growth, yielding average annual tax revenue gains of 3.3 percent. Coupled with only a minimal increase in miscellaneous revenues, total City fund revenues are projected to rise at an average annual rate of 3.1 percent during this period. Overall, the City's estimates for FY 2012 are less conservative than in recent years at this point in the financial planning process and in light of recent economic developments.

10 The growth in City funds during FY 2011 marked a rapid rebound from the 5.8 percent decline experienced in FY 2009, and was driven by the improvement in the economy.

The State Legislature has enacted a bill, which must be approved by the Governor before becoming law, which would authorize the City to sell 1,500 additional taxi medallions and a new class of permits that would allow livery cabs to accept street hails in parts of the City outside Manhattan's central business district. The June Plan includes revenue from the livery permits but not the new medallion sales. With each medallion at a current market value of about $600,000, the sale could provide the City with $900 million in revenues beginning in FY 2013. In prior medallion sales, the City has realized revenues over a three-year period, and if this procedure is followed again, the City could benefit by $300 million annually during fiscal years 2013 through 2015.

Details of the City's revenue trends are discussed below and shown in Figure 17.

Figure 17
City Fund Revenues
(in millions)

	FY 2011	FY 2012	Annual Growth	FY 2013	FY 2014	FY 2015	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 16,860	$ 17,625	4.5%	$ 18,203	$ 18,630	$ 19,060	2.6%
Personal Income Tax	7,607	8,171	7.4%	8,601	8,740	9,364	4.6%
Sales Tax	5,528	5,797	4.9%	5,984	6,246	6,526	4.0%
Business Taxes	5,311	5,751	8.3%	5,856	5,966	6,165	2.3%
Real Estate Transaction Taxes	1,202	1,274	6.0%	1,308	1,474	1,653	9.1%
Other Taxes	2,715	2,760	1.6%	2,836	2,895	2,958	2.3%
Audits	958	659	-31.2%	659	666	666	0.4%
Subtotal	**40,181**	**42,037**	**4.6%**	**43,447**	**44,617**	**46,392**	**3.3%**
Miscellaneous Revenues	4,409	4,480	1.6%	4,528	4,592	4,612	1.0%
Unrestricted Intergovernmental Aid	51	37	-27.5%	12	12	12	-31.3%
Anticipated State and Federal Aid	- - -	- - -	NA	- - -	- - -	- - -	0.0%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**$ 44,626**	**$ 46,539**	**4.3%**	**$ 47,972**	**$ 49,206**	**$ 51,001**	**3.1%**

Note: Miscellaneous revenues include amount required to support debt service on TSASC bonds.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

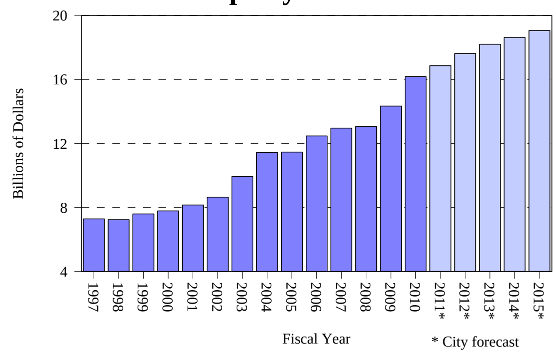
1. Real Property Tax

Real property tax collections grew by an estimated 4.2 percent in FY 2011. Although the City's residential and commercial property markets weakened during the recession, collections continued to grow as a result of the phase-in of earlier gains in property values. The phase-in, augmented by mid-year tax rate increases in fiscal years 2003 and 2009, has enabled property tax collections to increase every year since FY 1998 (see Figure 18).

Based on stronger property tax values from the final FY 2012 tax roll, real property tax revenues are forecast to grow at a faster rate than had been projected in July 2010. In FY 2012, revenues are expected to grow by 4.5 percent, and although growth is expected to ease during the final three years of the financial plan period (to an average of 2.6 percent annually), the improvement relative to last July's forecast generates significant additional revenues by the end of the plan period. The slowdown in the projected rate of growth beginning in FY 2013 reflects the City's expectation that rising interest rates will increase the capitalization rates used to assess income-producing commercial and large residential properties, thereby limiting growth in market value. If net income rises faster than interest rates, however, the City could realize revenues that are higher than anticipated.

Figure 18

Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

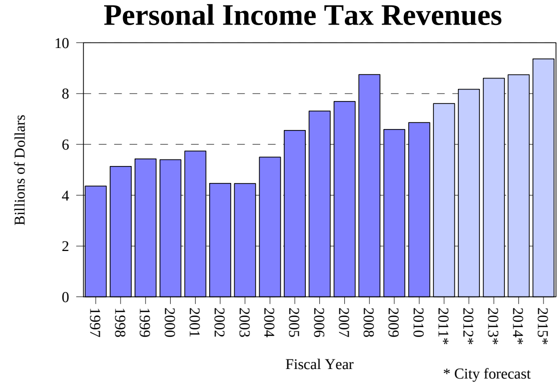
The Department of Finance changed the methodology for determining assessed values for cooperative and condominium apartments on the FY 2012 tax roll. This change, along with admitted errors made by the department in reassessing properties, resulted in assessed value increases as high as 147 percent for some properties. The Department of Finance has decided to cap increases at 50 percent, to be phased in over five years. The resulting loss of potential assessed value growth on the final tax roll was within the normal range of adjustments between the tentative and final property tax rolls, and had no significant impact on the City's real property tax revenues during the financial plan period (for FY 2012, all the adjustments between the tentative and final tax rolls reduced collections by only $60 million). Representatives in the State Legislature, along with the City, are examining possible changes to the State law to limit future assessment increases for these co-op and condo owners.

2. Personal Income Tax

Rising employment and wages are forecast to lift personal income tax collections by 10.9 percent in FY 2011, to $7.6 billion (see Figure 19). This continues the recovery that began in FY 2010, when collections rose by 4.1 percent. The recession and financial crisis had a severe impact on personal income tax collections, with job losses and a decline in Wall Street bonuses in 2008 causing collections to fall by nearly 25 percent in FY 2009.

For FY 2011, the resumption of job growth has helped lift withholding, although the relatively weak bonus season for 2010 held overall withholding growth to 6 percent. Collections also benefited from strong settlement payments in April (especially extension payments, which rose by nearly 83 percent), and from a decline in refund payments.

Figure 19



Sources: NYC Comptroller; NYC Office of Management and Budget

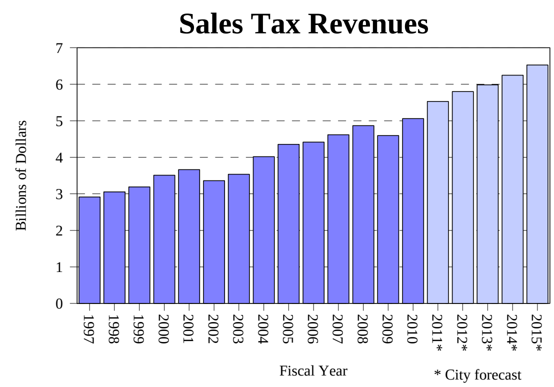
The rate of growth for personal income tax collections is expected to ease from 10.9 percent in FY 2011 to 7.4 percent in FY 2012 as a result of slower wage gains (due to the City's expectation that Wall Street bonuses will decline). The June Plan assumes that growth will slow further in subsequent years, to 4.6 percent annually during fiscal years 2013 through 2015, given the Plan's conservative assumptions for employment and wage gains (about 1.1 percent and 2.7 percent annually, respectively).

3. Sales Tax

Sales tax revenues grew by an estimated 9.3 percent in FY 2011 to $5.5 billion (see Figure 20). This is only slightly less than the 10.1 percent gain in FY 2010, which was boosted by a tax rate increase. The strong growth in FY 2011 reflects the record level of tourism and the recovery in consumer spending, which was especially evident during the past holiday season.

In FY 2012, the City forecasts that improved economic conditions, along with continued strength in tourism, will boost sales tax collections. The expiration of the temporary federal Social Security payroll tax reduction, however, is expected to reduce consumption spending, thereby holding growth in sales tax collections to 4.9 percent. During fiscal years 2013 through 2015, the average annual rate of revenue growth is projected to ease to 4 percent as job and income growth moderates.

Figure 20

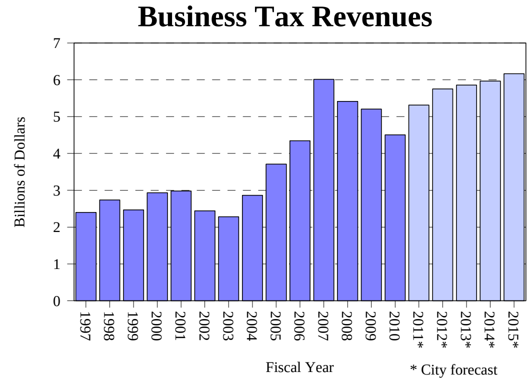


Sources: NYC Comptroller; NYC Office of Management and Budget

4. Business Taxes

After declining for three consecutive years, collections from business taxes, excluding audits, grew by an estimated 17.9 percent or $806 million in FY 2011 (see Figure 21).

Figure 21



Sources: NYC Comptroller; NYC Office of Management and Budget

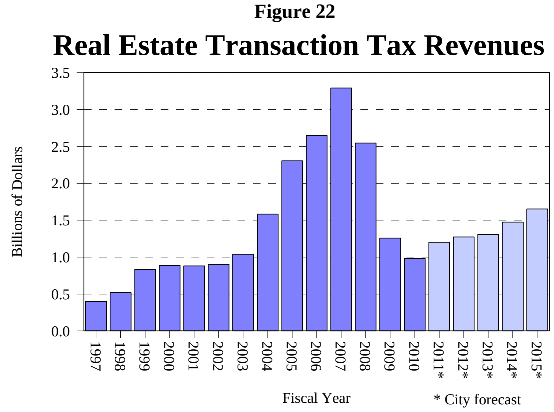
The rebound reflects improvements across both the financial and nonfinancial sectors of the City's economy. The rebound in Wall Street and commercial banking profitability has been especially strong. Bank tax collections are forecast to rise by 37.8 percent in FY 2011 to $1.3 billion, their highest level ever. While the general corporation tax is forecast to rise by 16.4 percent in FY 2011 to $2.3 billion, collections would remain more than one-fourth below their prerecession peak.

Business tax collections are forecast to grow another 8.3 percent in FY 2012 and then to average gains of just 2.3 percent annually during the rest of the financial plan period. The slowdown reflects the City's forecast of lower Wall Street profits (due to rising interest rates and the impact of financial reforms) and a decline in corporate profits for calendar year 2011. Total business tax collections are projected to remain below their prerecession levels until FY 2015.

5. Real Estate Transaction Taxes

Tax collections from real estate transactions grew by an estimated 22.5 percent in FY 2011—the first increase since FY 2007—to reach $1.2 billion. Collections are still about two-thirds lower than the peak reached in FY 2007, when they totaled nearly $3.3 billion (see Figure 22). The growth reflects a slowly improving commercial real estate market—particularly in Manhattan. In FY 2011, the value of those transactions increased by 160 percent—still far below the levels during the boom years. Collections were boosted in FY 2011 by a large increase in the sale of commercial buildings valued at more than $100 million, including the former Port Authority building at 111 Eighth Avenue (sold to Google for $1.8 billion).

Figure 22



Sources: NYC Comptroller; NYC Office of Management and Budget

The City's residential real estate market remains weak, and although transactions have risen slightly (helped by the federal home buyer tax credit), additional price declines are anticipated in the June Plan. The Plan assumes that residential transactions will remain weak in FY 2012, reflecting the expiration of the federal home buyer tax credit and higher mortgage rates, and will offset some of the continued growth in tax collections from commercial transactions. Overall growth in transaction taxes is expected to be 6 percent in FY 2012 and then average 9.1 percent annually over the balance of the financial plan period.

New York City already has the strongest commercial real estate market in the nation, and future prospects are encouraging given job gains and increased business activity; however, residential home values remain at risk. Data from the S&P/Case-Shiller Home Price Index for the New York City metropolitan area showed small increases in home values between April 2010 and July 2010, but then values resumed their decline beginning in August 2010. In April 2011, home values were 2.8 percent lower than one year earlier. Home values are likely to remain depressed by the large inventory of foreclosure properties, which will take an extended period of time for the market to absorb, given the length of the foreclosure process in New York State.

B. Expenditure Trends

City-funded expenditures are projected to grow by $5.7 billion in FY 2012, or 12.9 percent (after adjusting for surplus transfers), which is five times the projected local inflation rate (see Figure 23).

Pension contributions are projected to rise by more than $1.4 billion in FY 2012 (20.8 percent), assuming the implementation of revised actuarial assumptions, such as a reduction in the investment earnings assumption. The City's share of the cost of the Medicaid program is projected to rise by $1.5 billion (31.8 percent), reflecting the expiration of extraordinary federal stimulus aid provided to states during the recession. Debt service ($509 million) and health insurance ($393 million) also contribute to the high rate of growth in FY 2012.

Despite the Mayor's proposed three-year wage freeze and planned staff reductions, salary and wage costs are projected to rise by $647 million (5.5 percent) in FY 2012, reflecting the City's use of City funds to replace cuts in State education aid ($812 million) and expiring federal stimulus grants for education ($853 million).

As of May 2011, City-funded staffing levels have declined by 12,836 employees since June 2008 (14,900 on an all funds basis), and the June Plan assumes that staffing will decline by another 2,912 employees (2,273 employees on an all funds basis) by the end of FY 2012 (see Appendix B for more information on staffing levels).

The June Plan is based on the trends shown in Figure 23, as discussed below.

Figure 23
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC)
(in millions)

	FY 2011	FY 2012	Annual Growth	FY 2013	FY 2014	FY 2015	Average Three-Year Growth Rate
Salaries and Wages	$ 11,793	$ 12,440	5.5 %	$ 12,412	$ 12,572	$ 12,962	1.4 %
Pension Contributions	6,837	8,259	20.8 %	8,405	8,284	8,529	1.1 %
Medicaid	4,622	6,091	31.8 %	6,201	6,337	6,517	2.3 %
Debt Service	4,843	5,352	10.5 %	6,412	6,670	7,031	9.5 %
Health Insurance	3,813	4,206	10.3 %	4,617	5,022	5,519	9.5 %
Other Fringe Benefits	2,564	2,796	9.0 %	2,863	2,977	3,041	2.8 %
Energy	900	952	5.8 %	1,003	1,039	1,058	3.6 %
Judgments and Claims	637	655	2.8 %	685	718	754	4.8 %
Public Assistance	600	531	-11.5 %	541	541	541	0.6 %
General Reserve	40	300	NA	300	300	300	NA
Drawdown Retiree Health Benefits Trust	(395)	(672)	NA	- - -	- - -	- - -	NA
Prior Year's Expenses	(500)	- - -	NA	- - -	- - -	- - -	NA
Other	8,779	9,367	6.7 %	9,165	9,590	9,671	1.1 %
Total	**$44,533**	**$ 50,277**	**12.9 %**	**$ 52,604**	**$ 54,050**	**$ 55,923**	**3.6 %**

Note: Debt service includes bonds issued by TSASC.
Sources: NYC Office of Management and Budget; OSDC analysis

1. Collective Bargaining

More than 90 percent of the City workforce is currently working without a collective bargaining contract. The Mayor has proposed a three-year wage freeze and has eliminated the corresponding reserve for collective bargaining, reallocating those resources to help balance the budget.[11] The June Plan includes funding beginning in FY 2013 for a 1.25 percent annual wage increase for the three years following the expiration of the wage freeze. If instead wages were to rise at the projected inflation rate during the six-year period without any offsetting savings, costs would increase by $1.5 billion in FY 2012, $1.6 billion in FY 2013, and reach $2.7 billion in FY 2015.

In addition, the City has yet to conclude an agreement with the United Federation of Teachers (UFT) for the previous round of bargaining. In January 2010, the City reduced its offer of wage increases to the UFT and the Council of School Supervisors and Administrators (CSA) for fiscal years 2009 and 2010, from 4 percent annually to 2 percent annually (limited to the first $70,000 of an employee's salary)—even

[11] The State recently reached a tentative five-year labor agreement with its two largest civilian unions that includes a three-year general wage freeze and annual wage increases of 2 percent in the final two years of the agreement. Employees would also be required to take five unpaid furlough days in the first year and four furlough days in the second year (which would be repaid at a subsequent date), and to increase their share of health insurance costs. Employees would receive a total of $1,000 in two payments during the third and fourth years of the agreement.

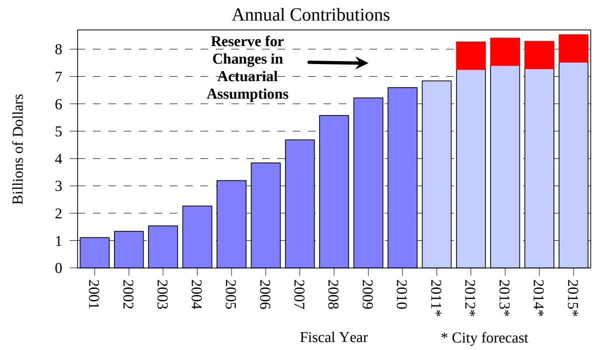
though the City had negotiated 4 percent annual wage increases with other civilian employees. The City used the resources to replace a planned cut in funding for educational programs, and to fund unplanned special education costs. In June 2010, the City eliminated the remaining 2 percent in annual raises and used those savings to mitigate a cut in State education aid and to avoid teacher layoffs. The State Public Employment Relations Board (PERB) appointed a mediator and is establishing a fact-finding panel to facilitate negotiations between the City and the UFT, but a resolution does not appear to be imminent. Although the recommendations of the panel are nonbinding, they could serve as a framework for a new labor agreement. A retroactive agreement similar to those negotiated by the City's other unions for those years would increase costs by $1.7 billion in FY 2012 and by $900 million annually thereafter.

2. Pension Contributions

Pension contributions averaged $1.4 billion during the 1990s, but grew rapidly beginning in FY 2003 after the State enhanced benefits and pension fund investments fell short of expectations (see Figure 24). The June Plan assumes that contributions will reach $8.5 billion by FY 2015, reflecting an annual reserve of $1 billion beginning in FY 2012 for potential changes in actuarial assumptions and investment performance.

Figure 24

New York City Pension Systems



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

As required by the City Charter, an actuarial consultant has been conducting a review of the assumptions and methods used to calculate contributions to the pension funds. The report will be released in 2011 and will likely recommend changes to reflect recent trends such as higher salaries and longer life expectancies. The consultant is also expected to recommend a reduction in the investment earnings assumption.

Many public pension systems have reduced or are considering a reduction to their investment earnings rate assumption because inflation and earnings from the equities market are expected to be lower in the future. The New York State and Local Employees' Retirement System (NYSLERS) recently lowered its investment earnings assumption from 8 percent to 7.5 percent. The City's five actuarial pension systems currently assume an 8 percent return on investment; any changes require State approval. The City estimates that reducing the investment earnings assumption by about one-half of a percent could require an additional pension contribution of approximately $750 million to $1 billion annually.

While the cost of revised actuarial assumptions could exceed the $1 billion annual reserve created by the City for this purpose, the actual cost and the date of implementation have not been determined. The overall cost of implementing such changes will not be known until the consultant's report is made public and the City Actuary makes his own recommendations to the boards of trustees of the pension funds, who must approve the changes.

If the City Actuary's recommendations are not implemented during FY 2012, the $1 billion reserve could be reallocated for other purposes.[12] Although the State extended the 8 percent investment earnings assumption through FY 2012, a lower assumed rate of return could be enacted retroactive to July 1, 2011, as part of the recommendations proposed by the City Actuary.

Despite the long-term concern regarding pension fund investment earnings, the pension funds earned nearly 22 percent on their investments during FY 2011. We estimate that these unanticipated gains could lower the City's planned pension contributions by $143 million in FY 2013, $275 million in FY 2014, and $398 million in FY 2015.

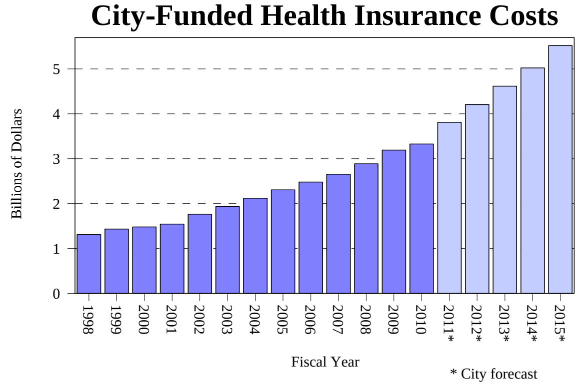
In December 2009, the State established a new lower-cost pension plan (Tier V) for state and local employees hired on or after January 1, 2010, who are members of NYSLERS and the New York State Teachers' Retirement System. The legislation also created a lower-cost pension plan for City teachers. Other City employees are not covered by the law, but the June Plan assumes that the State will approve a lower-cost pension plan for new City employees, which will reduce pension contributions by $131 million in FY 2014, $252 million in FY 2015, and increasingly larger amounts in subsequent years.

3. Health Insurance

In spite of a June 2009 agreement between the City and the municipal unions to reduce the growth in health insurance costs, the June Plan assumes that City-funded health insurance costs will rise from $3.3 billion in FY 2010 to $5.5 billion by FY 2015, an increase of $2.2 billion, or 66 percent. The City anticipates that health insurance premiums for active employees will rise by 9.8 percent in FY 2012 and by an average of more than 9.0 percent annually

Figure 25

City-Funded Health Insurance Costs



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

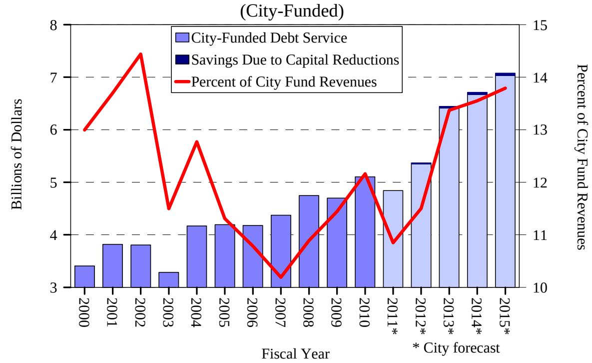
[12] Over the past three fiscal years, a total of $1.5 billion in pension reserves has been reallocated for other purposes.

thereafter, in line with historical rates of growth. Premiums for Medicare-eligible retirees will remain unchanged in FY 2012, but are forecast to rise by 8 percent annually thereafter.

4. Debt Service

City-funded debt service (adjusted for defeasances and surplus transfers) is projected to reach $6.4 billion by FY 2013 (see Figure 26).[13] This is 32.4 percent more than projected for FY 2011, despite a 10 percent reduction in planned City-funded capital spending.[14] Debt service is expected to continue to grow during the financial plan period, and will reach more than $7 billion by FY 2015. At that time, debt service will consume 13.8 percent of City fund revenues, compared with 10.9 percent in FY 2011. The City realized significant debt service savings in recent years because interest rates were lower than had been expected by the City. The June Plan assumes that interest rates will begin rising during FY 2012, but rates could rise more slowly than forecast by the City.

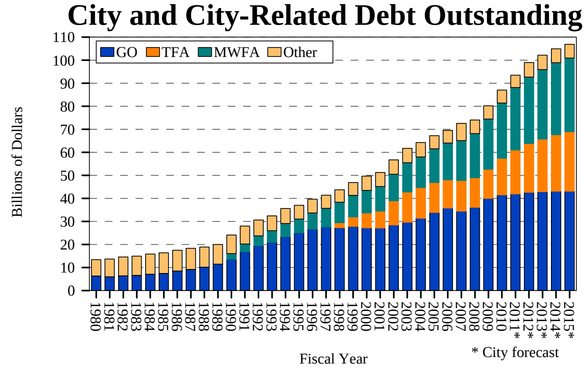
Figure 26
Debt Service
(City-Funded)



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

The outstanding debt of the City and City-related entities has risen steadily over the past 30 years.[15] Debt outstanding grew from $13.4 billion in FY 1980 to $87.1 billion in FY 2010 (see Figure 27), and could reach nearly $107 billion by FY 2015. The FY 2010 amount equates to about $10,000 per capita, or $4,000 higher than ten years earlier.

Figure 27
City and City-Related Debt Outstanding



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

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[13] The City used surplus resources in fiscal years 2007 and 2008 to defease 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 net savings of $296 million from debt refundings and redemptions.

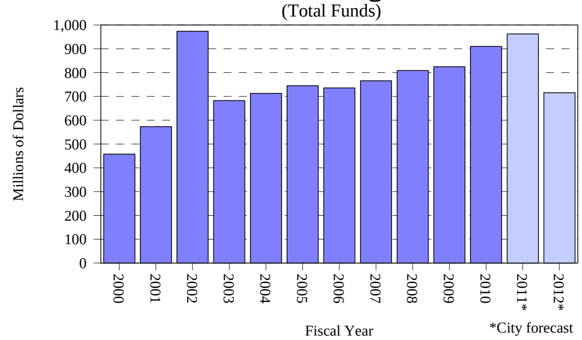
[14] We estimate that the City's cuts to future capital commitments will reduce debt service by $136 million through FY 2015, but cumulative savings could exceed $700 million by FY 2021.

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

5. Uniformed Agencies

Overtime costs in FY 2011 rivaled the record amount set in FY 2002 during the aftermath of the terrorist attacks of September 11, 2001 (see Figure 28). The Police Department spent an estimated $510 million on overtime in FY 2011, but, even though the department will likely spend a similar amount in FY 2012, the June Plan allocates $125 million less for overtime in FY 2012 and in subsequent years.

Figure 28
Overtime Spending by the Uniformed Agencies
(Total Funds)



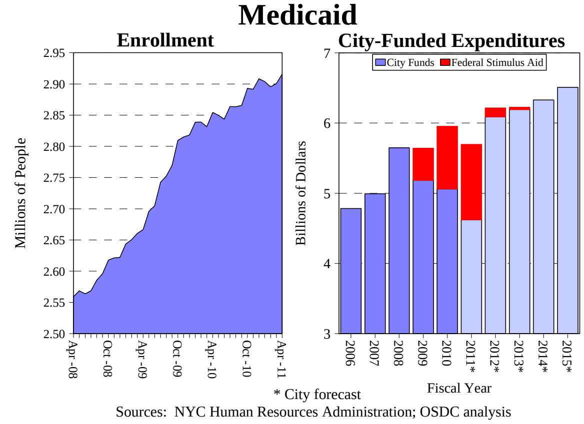
Sources: NYC Office of Management and Budget; OSDC analysis

6. Medicaid

Enrollment in the Medicaid program reached 2.9 million people in New York City in April 2011, an increase of 14 percent over three years (see Figure 29). Enrollment growth has slowed, but is likely to continue because unemployment remains high and federal health care reform expands Medicaid eligibility and mandates that most individuals obtain health insurance. Even though State law limits the annual growth in the local share of Medicaid to about 3 percent, the City-funded cost of this program could grow from $5 billion in FY 2010 to $6.5 billion in FY 2015, reflecting the expiration of temporary federal stimulus aid that had reduced projections of the City's costs during those years.

In June 2010, the State enacted legislation that requires the Health Commissioner to plan for a phased-in, five-year State takeover of Medicaid administration from the counties and New York City. The current State budget begins the takeover by requiring the State to assume responsibility for enrolling recipients in the Managed Long-Term Care program and to transition existing City contracts with long-term care providers to the State. The impact on New York City and its employees remains unclear. How the takeover will affect county and City budgets also has yet to be resolved, and any change in State reimbursement for administration is subject to approval by the State budget director. The State is currently analyzing local government functions and the costs of Medicaid administration before determining how to transition to State administration.

Figure 29
Medicaid



Sources: NYC Human Resources Administration; OSDC analysis

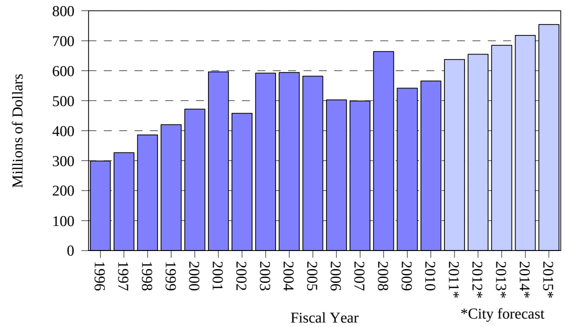
7. Judgments and Claims

Judgments and claims costs totaled an estimated $637 million in FY 2011, and are projected to rise to $754 million by FY 2015 (see Figure 30), an average annual increase of 4.3 percent. The City has had success in reducing judgments and claims in certain areas (such as schools and medical malpractice at public hospitals), which has enabled it to lower its forecast relative to those made earlier in the fiscal year.

Figure 30

Judgments and Claims

(City-Funded)



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

8. Public Assistance

Despite the recession, the City's public assistance caseload has increased by only 2 percent over three years to reach 353,111 recipients in May 2011—still 800,000 fewer recipients than the peak in March 1995. Nearly all of the growth occurred in the Safety Net program, which provides cash assistance to single adults without children and to families that have reached the 60-month lifetime limit for benefits under the Temporary Assistance for Needy Families program. Spending for public assistance has increased by $160 million (27 percent) over three years to reach $600 million in FY 2011, but is expected to decline to $540 million annually in the out-years of the financial plan as a result of the elimination of the Work Advantage program that provides rent subsidies to those at risk of becoming homeless.

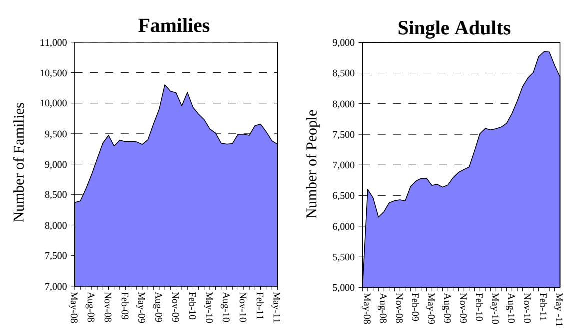
9. Homeless Services

In May 2011, 36,669 individuals were housed in City shelters, including 9,358 families consisting of 14,934 children and 13,297 adults (see Figure 31). The remaining 8,438 individuals were single adults, a population that has grown by over 20 percent in three years. Another 1,500 single adults reside in faith-based shelters; special housing for veterans and the long-term homeless; and drop-in centers.

The Work Advantage program provides rental subsidies and other preventive services to an estimated 15,000 families and individuals who are at risk of becoming homeless. The City had planned to terminate Work Advantage in March 2011 after the State eliminated its

Figure 31

Homeless Shelter Residents

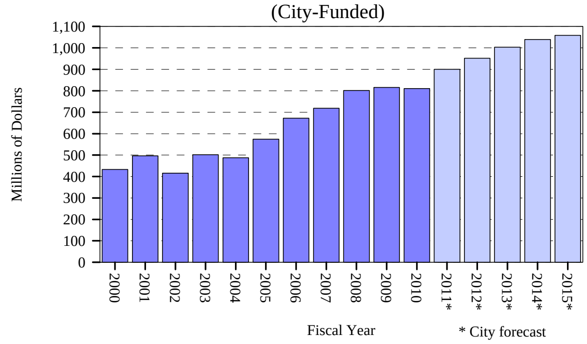


Sources: NYC Department of Homeless Services; OSDC analysis funding for the program, but a temporary injunction requires the City to continue paying rent subsidies for current participants through September 2011. The City has budgeted $37 million in FY 2012 to fund the program through September, but could face additional costs of $20 million in FY 2012 if the courts require the City to continue rental subsidies for current participants until their leases expire.

10. Energy Costs

The City's energy costs nearly doubled from about $400 million in FY 2000 to $800 million by FY 2008, which reflected rising oil and natural gas prices (see Figure 32). Annual energy expenditures stayed constant between fiscal years 2008 and 2010, at about $800 million, but reached an estimated $900 million in FY 2011. The June Plan assumes that energy costs will reach $1 billion by FY 2013, and these could increase further with rising oil prices resulting from political unrest in the Middle East and North Africa, and from increased demand in developing nations.

Figure 32
Energy Costs
(City-Funded)



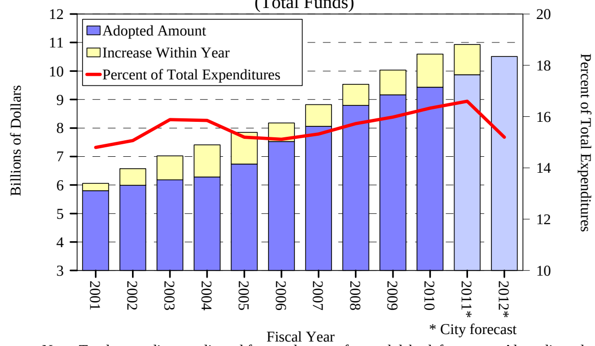
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

VIII. The Contract Budget

In recent years, payments for contractual services[16] have received heightened scrutiny because of the increasing amounts spent on such services, and instances of waste and fraud. Spending on contractual services totaled $6.1 billion in FY 2001; by FY 2010, the cost had risen by nearly 75 percent to $10.6 billion, or 16.3 percent of total adjusted expenditures (see Figure 33).

Growth has been driven primarily by increased expenditures for education-related contracts, particularly payments to private special education schools and charter schools, direct professional education services, and student transportation. The size of the contract budget usually grows as approved federal and State grants are incorporated during the fiscal year.

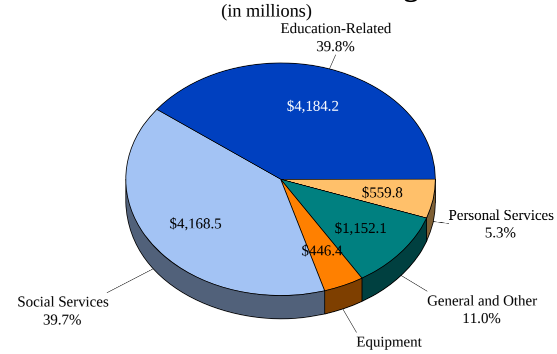
Figure 33
Contractual Services Expenditures
(Total Funds)



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

The FY 2012 budget includes $10.5 billion for contractual services. Nearly 80 percent ($8.4 billion) would be devoted to education-related and social services contracts (see Figure 34). The three largest single expenditures by contract type are education-related: payments to private special education schools and charter schools ($2.2 billion), student transportation ($1.1 billion), and direct professional education services ($845 million). The largest social services expenditures by contract type are for day care centers ($669 million), mental hygiene services ($637 million), and children's charitable institutions ($490 million).

Figure 34
FY 2012 Contract Budget
(in millions)



Sources: NYC Office of Management and Budget: OSDC analysis

16 Contractual services are defined by the City Charter as any technical, consultant, or personal service provided to the City through a contract.

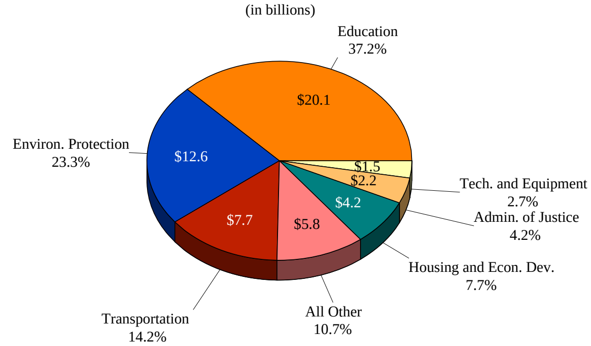
IX. The City's Ten-Year Capital Plan

New York City's capital infrastructure needs are vast and extensive. They include the construction, restoration, and maintenance of bridges, roadways, schools, the water and sewer systems, and other vital assets. In addition, capital investments are needed to spur economic growth.

In May 2011, the City released its biennial ten-year capital plan covering fiscal years 2012 through 2021, and totaling $54.1 billion. The plan is $7.6 billion smaller than the plan released two years ago, and reflects a 10 percent reduction to City-funded capital commitments.

The City projects that 42 percent of the capital funding would go to state-of-good-repair projects, 33 percent would go to program expansion, and 25 percent would go to programmatic replacement. Funding for the capital plan would come from City funds ($27.8 billion, or 51 percent), the Municipal Water Finance Authority ($12.3 billion, or 23 percent), and federal, State, and other sources ($14 billion, or 26 percent).

Figure 35
Ten-Year Capital Plan
Fiscal Years 2012-2021 = $54.1 billion
(in billions)



Sources: NYC Office of Management and Budget; OSDC analysis

As shown in Figure 35, about three-quarters of the capital resources would be invested in education, environmental protection, and transportation projects. Additional highlights are as follows.

- Education projects would account for the largest share (37.2 percent) and amount ($20.1 billion). The plan reflects significant investments for the construction of new schools ($7.4 billion) and school rehabilitation projects ($5.2 billion). The allocation is $1.8 billion less than in the previous capital plan.

- Environmental protection projects would be allocated $12.6 billion, and would primarily fund projects for water pollution control ($4.2 billion); water mains, sources, and treatment ($3.3 billion); water supply ($2.5 billion); sewers ($1.8 billion); and equipment and miscellaneous projects ($763 million).[17] Environmental protection projects are allocated $351 million less than in the previous plan; a $1.1 billion decrease for City water tunnel projects is offset by increases, primarily for plant upgrades

17 Environmental protection projects are primarily funded through the Municipal Water Finance Authority and are exempt from the planned 10 percent reduction.

and conservation efforts. Operating and capital costs for water and sewer facilities are funded through water and sewer fees, which rose at an average annual rate of 9.1 percent between fiscal years 2002 and 2011.

- Transportation projects would total $7.7 billion, with the majority ($5.9 billion) allocated for highway and bridge projects. The total amount includes $656 million for subway and bus projects. The total allocation is $1.8 billion less than in the previous capital plan, mostly due to smaller commitment levels for East River bridge projects and lower investment in street reconstruction projects.

X. Other Issues

The following section discusses the financial condition of certain public entities that have a financial relationship with the City.

A. Department of Education

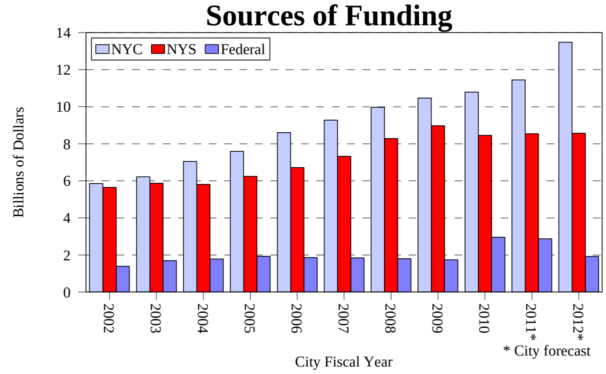
In 2007, the Governor and the Mayor agreed to increase funding to the City Department of Education as a result of the Campaign for Fiscal Equity (CFE) lawsuit, which claimed that the State did not adequately fund large school districts. The State agreed to increase funding by $3.2 billion over a four-year period and the City agreed to increase funding by $2.2 billion over the same period. The State also agreed to fund half of the department's capital program by allowing the Transitional Finance Authority to issue bonds backed by State building aid (up to $9.4 billion in debt outstanding).

City funding for education is projected to reach $13.5 billion by FY 2012, which is more than twice the FY 2002 level (see Figure 36). Since FY 2007, City funding will have grown by $4.2 billion, nearly double the amount promised. The increase reflects the City's commitment under the CFE litigation, and an allocation of nearly $1.7 billion to replace cuts in State education aid ($812 million) and expiring federal stimulus funds ($853 million).

State funding, in contrast, will have increased by only $1.2 billion—less than half of the amount promised in 2007—because the State has curtailed planned increases in education aid as a result of the recession. To help balance future State budgets, the State intends to limit future increases in education aid to the rate of the growth in the State's personal income, which is projected to average about 5 percent per year. As a result, statewide education aid could increase by $805 million for the 2012-2013 school year and $940 million for the 2013-2014 school year, but these amounts would have to cover increased costs for support and mandated services, as well as higher costs for general education programs. Of these amounts, the City could receive about $325 million in FY 2013 and $375 million in FY 2014, because historically the City receives about 40 percent of the statewide amount.

Figure 36

Department of Education Sources of Funding



Sources: NYC Office of Management and Budget; OSDC analysis

In November 2010, the Mayor proposed an agency gap-closing program to help balance the FY 2012 budget, which would have reduced planned spending at the department by $350 million. This initiative, in combination with other changes, was expected to reduce staffing by 6,166 pedagogues between June 2011 and June 2012, including 4,166 teacher layoffs. As part of the adopted budget for FY 2012, the Mayor, City Council, and the United Federation of Teachers (UFT) reached an agreement to avert the need for teacher layoffs. The City allocated an additional $61 million in City funds and redirected $32 million in surplus resources from the Educational Construction Fund to the Department of Education. The Department of Education will cut central administrative costs ($30 million); reduce non-pedagogical classroom expenses ($17 million); and realize savings from a lower-than-expected increase in pupil transportation costs ($21 million). The UFT agreed to give the Department of Education greater flexibility to deploy teachers in the reserve pool to substitute teaching assignments, which will reduce per diem costs ($40 million); and also agreed to postpone teacher sabbaticals for one year ($17 million).

Although teacher layoffs were prevented in FY 2012, the pedagogical staffing levels are projected to decline by 2,500 in FY 2012 (leaving 7,000 fewer teachers than in FY 2009) and by another 1,200 in FY 2013. In addition, the Department of Education intends to reduce school budgets by a total of $178 million, an average cut of 2.4 percent per school. According to the department, over the past three years school budgets have been cut by a total of 11.5 percent. Class sizes are expected to continue to rise, and other services, such as after-school programs, may be reduced.

B. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) projects budget gaps, on an accrual basis of accounting, of $318 million in FY 2011, $556 million in FY 2012, $820 million in FY 2013, $932 million in FY 2014, and $1 billion in FY 2015 because spending is projected to grow much faster than revenues. These estimates reflect the impact of the State budget, which will reduce HHC revenues by $175 million annually by reducing reimbursement rates, restricting services, and enrolling additional patients into managed care. According to the HHC, the impact could be even higher depending on how certain Medicaid cost-reduction initiatives are implemented. The HHC has identified an aggressive gap-closing program to close the projected budget gaps, but if these actions are unsuccessful the HHC could run out of cash during FY 2013.

The gap-closing program assumes the receipt of $350 million from additional State and federal aid in FY 2013, but the receipt of these resources could be difficult given the fiscal condition of the State and federal governments. Moreover, the HHC's financial plan assumes that this assistance—which is to come from sources that have not yet been specified—will reach $500 million by FY 2015.

The HHC, for its part, intends to restructure operations and implement certain cost-containment actions to generate $100 million beginning in FY 2012, with resources expected to grow to $261 million by FY 2015. Most of the resources would come from consolidating administrative functions, patient care, and affiliation contracts. The HHC also intends to reduce staffing levels by 1,300 employees over the next three years. In the past two years, the HHC has reduced staffing levels by 2,400 full-time-equivalents.

C. Metropolitan Transportation Authority

In July 2010, the Metropolitan Transportation Authority (MTA) projected budget gaps that reached $2.1 billion by 2014 (before gap-closing actions), mostly as the result of lower-than-expected collections from new revenues approved by the State (such as the payroll tax), as well as revenue losses due to the recession.

Subsequently, the MTA outlined a gap-closing program that included $525 million in recurring savings that began the process of changing how the MTA conducts business—but that also cut services vital to thousands of commuters. The MTA also raised fares and tolls by 7.5 percent in December 2010, which was the fifth increase in fares and tolls since 2002.

As a result, the MTA's February 2011 financial plan shows a balanced budget for 2011, but deficits of $247 million in 2012, $37 million in 2013, and $482 million in 2014. These estimates assume that the MTA will be successful in implementing additional management improvements and that it will raise fares and tolls another 7.5 percent in 2013.

The recently enacted State budget will divert an additional $200 million in dedicated transit tax revenue collected for the MTA for use in the State's operating budget, expanding a practice that began in 1995. The impact on the MTA's operating budget was reduced to $100 million in 2011 because the State provided an additional $30 million in dedicated funds and also relieved the MTA from funding $70 million in capital projects that the State Legislature had requested in the past. (This permits the MTA to free up $70 million in operating funds that it had set aside to finance capital projects on a pay-as-you-go basis.) The MTA is scheduled to release its July financial plan on July 27, 2011.

The MTA's $26.3 billion five-year capital program for 2010 through 2014 has full funding for only the first two years of the program, and shows a $9.9 billion funding gap for the remaining three years. The funding gap could grow larger, as the capital program assumes that the MTA will receive an increase in federal funding, which may not be forthcoming as the federal government focuses on deficit reduction.

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 2011, NYCHA, which operates on a calendar-year basis, released its operating budget for 2011 through 2015. NYCHA closed a $54.9 million budget gap for 2011 by rolling over surplus funds from the prior year ($44 million) and by transferring capital funds to the operating budget ($11 million). Although NYCHA reports that its 2011 budget is balanced, it still projects deficits of $57 million in 2012, $66 million in 2013, and $61 million in 2014. NYCHA's out-year budget gaps could increase because the President has proposed cutting operating funds to public housing authorities by $1 billion nationwide. If implemented, NYCHA projects that its federal operating subsidies would decline by $200 million in 2012.

E. New York City Off-Track Betting Corporation

The New York City Off-Track Betting Corporation (OTB) faced years of fiscal distress as its net revenue (after statutory distributions to the racing industry, local governments, and the State) was insufficient to fund operations. The OTB requested State assistance, and in November 2010 the Governor proposed a restructuring of the OTB. The Assembly passed the Governor's bill, but the Senate proposed instead that all off-track betting corporations statewide be included in any legislative proposal.

Lacking alternative means to cover its operating costs, the OTB ceased operations in December 2010. As a result, approximately 1,300 employees immediately lost their jobs and 900 OTB retirees lost their health benefits. To prevent the loss of benefits, the union representing the retirees, District Council 37, sought a preliminary injunction requiring the State and/or the City to fund the retiree health benefits while litigation continues. The preliminary injunction was denied by the trial court, but the Appellate Division of the Supreme Court imposed a restraining order requiring the City to continue funding the cost of these benefits until the court reaches a decision on the union's appeal. On May 26, 2011, the Appellate Court denied the plaintiff's motion for a permanent injunction requiring the State and/or the City to fund retiree health benefits. On June 22, 2011, the State Legislature passed a bill calling for the State to reimburse the City for the costs of providing health benefits to OTB retirees, but the bill has not yet been forwarded to the Governor.

Additionally, the OTB's closure has negatively affected the racing industry because the industry no longer receives payments from the OTB. The impact has been partly mitigated because attendance at the Aqueduct Racetrack between January and April 2011 increased by 48 percent, and the on-track handle increased by 75 percent. Legislative proposals have been made that would bring back off-track betting operations in some form, which would restore subsidies to the racing industry and provide relief to former OTB employees.

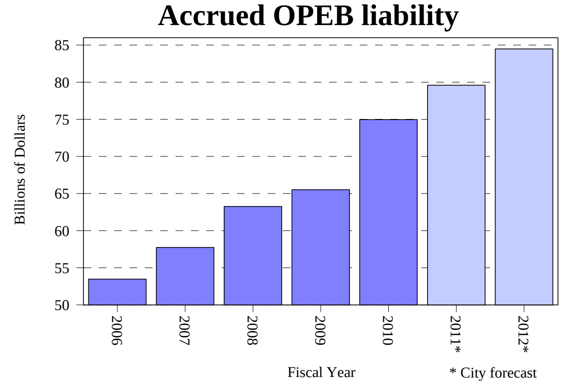
F. Other Post-Employment Benefits

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.

The City's accrued OPEB liability for past employee service reached $75 billion as of FY 2010—an increase of $21.5 billion since FY 2006 (the first OPEB valuation year reported by the City). The FY 2010 accrued OPEB liability rose sharply, by $9.4 billion, from the previous fiscal year (see Figure 37). The increase primarily reflected the City's expectation that future health care costs will be higher as a result of national health care reform as well as the cost of OPEBs accrued for past employee services. National reform provides extended health care coverage for dependents until age 26, and will impose an excise tax on high-cost health insurance plans starting in January 2018. The present value of the City's future OPEB obligations was $41.4 billion as of June 30, 2009 (the most recent date for which data are available).

Figure 37

Accrued OPEB liability

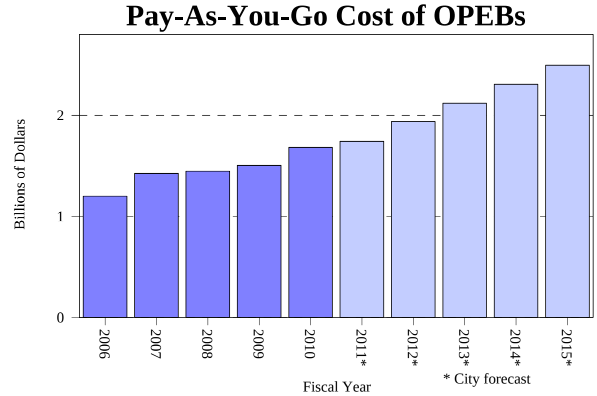


Sources: NYC Actuary; OSDC analysis

The City, to its credit, deposited $2.5 billion in the Retiree Health Benefits Trust during the last economic expansion to help fund these costs, but it has begun to draw down these resources to help pay current operating expenses. The City drew down $82 million in FY 2010 and $395 million in FY 2011, and intends to draw down an additional $672 million in FY 2012. The State Comptroller believes the City should avoid using these resources to help balance the operating budget.

Figure 38

Pay-As-You-Go Cost of OPEBs



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

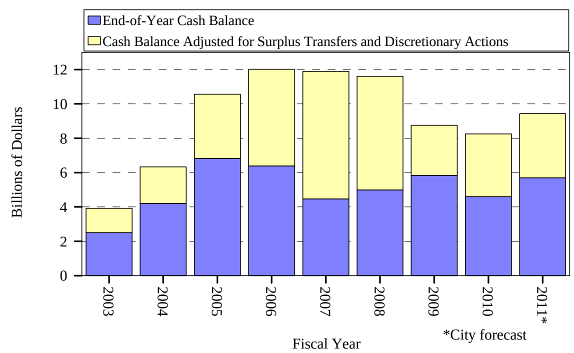
Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of the cost of services, the City is not required to fund OPEBs on a similar basis. The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. In FY 2010, the City paid half of the present value of obligations ($3 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring $1.5 billion to future taxpayers. OPEB costs, on a PAYGO basis, are projected to rise from $1.2 billion in FY 2006 to $2.5 billion by FY 2015, an average annual increase of 8.5 percent (see Figure 38).

G. 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 39). The City ended FY 2011 with a cash balance of $9.4 billion ($5.7 billion excluding the surplus transfer), reversing a four-year trend of declining year-end cash balances. Even though the year-end cash balance declined during the recession, the City has not needed to borrow to meet its short-term cash needs since FY 2004, and does not plan to do so during FY 2012.

Figure 39

New York City Year-End Cash Position



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

H. Lower Manhattan Redevelopment

To rebuild the World Trade Center (WTC) site, New York State, New York City, the Port Authority of New York and New Jersey (PANYNJ), the Metropolitan Transportation Authority (MTA), the Lower Manhattan Development Corporation (LMDC), the National September 11 Memorial & Memorial Museum, and Silverstein Properties (SPI) are engaged in a coordinated effort. Major projects include five office towers, a memorial and museum, a cultural center, the WTC Transportation Hub (WTC T-Hub), the Fulton Street Transit Center, and retail space.

- The PANYNJ is building the $3.2 billion tower at One World Trade Center, which will rise 1,766 feet. Condé Nast recently signed a lease with the PANYNJ for 1 million square feet of the tower's 3 million square feet of office space, and will become the building's key private-sector anchor tenant. The expected completion date for the tower is 2013.
- The PANYNJ is also responsible for the memorial and memorial museum and the WTC T-Hub. The memorial plaza will open by September 11, 2011, and the museum will open a year later.

- The \$3.4 billion WTC T-Hub, which has a completion date of 2014, will connect a new PATH station with the Fulton Street Transit Center, the towers, the ferry, and other sites in the area.
- The MTA is building the new Fulton Street Transit Center, which will cost \$1.4 billion and will provide connections between subway lines, the WTC T-Hub, and the World Financial Center. It will be completed in 2014.
- Last year, the PANYNJ and SPI reached agreement on a development plan for the east side of the WTC site, including three commercial towers (Towers 2, 3, and 4) that SPI is responsible for building. The agreement envisions the completion of Tower 4 by 2013, and the phase-in of the construction of Towers 2 and 3 over time.
- Under the agreement, the PANYNJ will provide up to \$1.2 billion of credit support for Tower 4, and the PANYNJ and the City will lease 60 percent of the tower's total space. The PANYNJ, New York State, and the City have agreed to contribute up to \$600 million in financial support, divided equally, toward the construction of Tower 3, contingent upon SPI raising \$300 million in private financing and securing tenants for 400,000 square feet of the tower's total 2.1 million square feet of office space.
- The LMDC oversaw the deconstruction of 130 Liberty Street, which was completed in February 2011. Under the direction of the PANYNJ, the site will house the Vehicle Security Center, the Tour Bus Parking facility, and Tower 5, though no definitive plans are yet in place for this tower.

I. 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.[18] Significant developments are outlined below.

- The Hudson Yards area, which includes the eastern and western rail yards, was 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 acquire development rights associated with the rail yards when three economic recovery triggers have

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

been met. At closing, the developers will acquire 99-year ground leases, 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. The developers plan to deck over the rail yards and develop more than 12 million square feet of commercial and residential space, 12 acres of open space, a public school, and cultural facilities.
- The City (via the Hudson Yards Infrastructure Corporation) 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 while the project is not expected to be completed until June 2015, it is expected to enter service in December 2013. Currently, no agreement exists as to whether the MTA or the City would fund any cost overruns.
- The City Council has agreed to support (subject to annual appropriation) the interest cost on up to $3 billion of Hudson Yards Infrastructure Corporation (HYIC) bonds. While no interest payments were needed during fiscal years 2007 through 2010, the City paid $43 million in FY 2011, and the June Plan assumes interest payments of $100 million in FY 2012 and $138 million in each of fiscal years 2013 through 2015. The amounts assume that the HYIC will issue an additional $1 billion in late calendar year 2011 to fund additional infrastructure improvements in the area.
- Moynihan Station will expand capacity at Pennsylvania Station and improve passenger facilities by converting the James A. Farley Post Office into a train station. Construction on Phase 1 began in October 2010. Phase 1 is expected to cost $267 million and will primarily involve below-grade transportation improvements, and is expected to be completed in 2016. Key elements of Phase 2 include a new train hall and other above-grade improvements. Currently, there is no start date for Phase 2.
- A modest expansion (100,000 square feet) of the Jacob K. Javits Convention Center was completed in 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 1.5-mile park that reaches the southern part of the Hudson Yards district. Section 1, from Gansevoort Street to 20th Street, opened in June 2009; Section 2, reaching 30th Street, opened in June 2011; and Section 3, if secured for park use, will wrap around the rail yards.

Appendix A:
Federal Stimulus Funding

The American Recovery and Reinvestment Act of 2009 (ARRA) includes provisions that were 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 $7 billion over the course of fiscal years 2009 through 2015 (see Figure 40). The federal government intended for most of the resources to fund educational services (by preventing teacher layoffs and grants for disadvantaged and special education students) as well as to provide budget relief by temporarily increasing the Federal Medicaid Assistance Percentages (FMAPs). The balance was allocated to support City services (e.g., child care and senior services, workforce development programs, and homelessness prevention), hire new police officers, and provide interest rate subsidies for Build America Bonds and Qualified School Construction Bonds.

In addition, from fiscal years 2009 to 2015, the ARRA will help New York City fund $2.2 billion in capital projects relating to environmental protection, parks and recreation, and transportation. The ARRA also authorizes the issuance of QSCBs, which enable the City to borrow funds for certain education-related capital projects and receive federal reimbursement for interest costs.

Figure 40
American Recovery and Reinvestment Act of 2009
Federal Stimulus Funding

(in millions)

	2009*	2010*	2011	2012	2013	2014	2015
FUNDING APPROPRIATED IN THE EXPENSE BUDGET							
Community Development							
Emergency Repair Program	$ - - -	$ 9.1	$ 12.3	$ - - -	$ - - -	$ - - -	$ - - -
Code Violation Removal in Schools	- - -	8.0	2.0	- - -	- - -	- - -	- - -
Other	- - -	14.7	2.2	- - -	- - -	- - -	- - -
Subtotal: Community Development	- - -	31.8	16.5	- - -	- - -	- - -	- - -
Education							
State Fiscal Stabilization Fund (SFSF)	- - -	709.6	227.2	- - -	- - -	- - -	- - -
Title I Grants	- - -	330.3	397.5	- - -	- - -	- - -	- - -
Special Education (IDEA)	- - -	149.0	182.4	- - -	- - -	- - -	- - -
Education Jobs Fund	- - -	- - -	190.1	- - -	- - -	- - -	- - -
Other	- - -	4.9	60.5	98.3	96.5	76.2	1.2
Subtotal: Education	- - -	1,193.8	1,057.7	98.3	96.5	76.2	1.2
Health and Social Support							
TANF ECF Back to School Assistance	- - -	81.4	- - -	- - -	- - -	- - -	- - -
Community Services Block Grant	- - -	32.1	19.3	- - -	- - -	- - -	- - -
Child Care and Development Block Grant Supplement	- - -	27.9	29.4	- - -	- - -	- - -	- - -
IV-E Foster Care	10.5	14.3	14.5	- - -	- - -	- - -	- - -
Child Support Incentive Fund	5.6	13.6	7.2	- - -	- - -	- - -	- - -
Supplemental Nutrition Assistance Program	7.7	7.7	- - -	- - -	- - -	- - -	- - -
Head Start	- - -	7.6	3.0	- - -	- - -	- - -	- - -
TANF ECF Supplement	- - -	- - -	149.5	- - -	- - -	- - -	- - -
Other	3.7	16.4	17.9	- - -	- - -	- - -	- - -
Subtotal: Health and Social Support	27.5	201.0	240.8	- - -	- - -	- - -	- - -
Neighborhood Stabilization							
Tax Credit Assistance Program	46.8	38.2	- - -	- - -	- - -	- - -	- - -
Homelessness Prevention and Rapid Re-Housing Program	- - -	22.0	39.2	7.7	- - -	- - -	- - -
Other	- - -	0.2	19.6	0.2	0.2	- - -	- - -
Subtotal: Neighborhood Stabilization	46.8	60.4	58.8	7.9	0.2	- - -	- - -
Other							
Economic and Workforce Development	1.0	55.1	10.2	- - -	- - -	- - -	- - -
Public Safety	- - -	20.3	30.5	14.8	7.3	- - -	- - -
Build America Bonds / TFA Bonds	- - -	15.6	125.9	177.1	178.3	178.3	178.1
City University Education Stabilization Fund	- - -	13.7	32.8	- - -	- - -	- - -	- - -
Infrastructure	- - -	13.5	32.6	24.5	5.1	- - -	- - -
Energy Efficiency	- - -	2.3	73.6	4.6	- - -	- - -	- - -
COBRA Employee Benefits	- - -	1.2	6.4	- - -	- - -	- - -	- - -
Subtotal: Other	1.0	121.7	312.0	221.0	190.7	178.3	178.1
Total Expense Budget	**$ 75.3**	**$1,608.7**	**$ 1,685.8**	**$ 327.2**	**$ 287.4**	**$ 254.5**	**$179.3**
BUDGET RELIEF (Medicaid FMAP)	**$ 458.5**	**$893.6**	**$ 1,074.1**	**$124.2**	**$ 32.4**	**$ - - -**	**$ - - -**
CAPITAL FUNDING							
School Tax Credit Bonds	$ - - -	$ 250.0	$ 247.0	$ 378.0	$ 320.0	$ 280.0	$ 225.0
Other Capital Programs							
Environmental Protection, Parks and Recreation	- - -	253.4	- - -	- - -	- - -	- - -	- - -
Transportation	176.7	46.1	8.1	- - -	- - -	- - -	- - -
Total Other Capital Programs	$ 176.7	$ 299.5	$ 8.1	$ - - -	$ - - -	$ - - -	$ - - -

* Actual expenditures

Source: NYC Office of Management and Budget

Appendix B:
City-Funded Staffing Levels

As of May 31, 2011, the City-funded workforce totaled 256,762 full-time and full-time-equivalent employees, or 4,698 employees fewer than at the beginning of FY 2011 (see Figure 41). Most of the reductions were concentrated in education and public safety. The June Plan assumes staffing levels will decline by an additional 2,912 employees by the end of FY 2012, as discussed below.

- Pedagogical staffing in the Department of Education had declined by 2,572 positions through May 2011. Negotiations between the Mayor, City Council, and the United Federation of Teachers averted plans to lay off 4,100 employees, but the department still plans to eliminate 3,170 pedagogical and 529 other positions through attrition.
- The City University of New York exceeded planned staffing levels by 1,286 employees in FY 2011 due to higher-than-planned enrollment. The June Plan assumes that the university will reduce staffing by 1,499 employees during FY 2012, although enrollment is not projected to decline.
- The Department of Parks and Recreation plans to reduce staffing by 903 employees by the end of FY 2012. The department plans to lay off 465 employees after negotiations with unions to implement an attrition incentive program failed. The department will reduce staffing by another 438 employees through attrition, largely by continuing a hiring freeze.
- Staffing in health and welfare agencies has declined by 815 employees through May 2011, and current levels are below the levels planned for the end of FY 2012.
- The Department of Transportation plans to reduce City-funded staffing by 246 positions during FY 2012 by shifting to State and federal funding, as well as eliminating vacancies. The department also plans to lay off 35 managerial, administrative, clerical, and planning employees.
- As of May 2011, staffing in general government agencies were below levels planned for the end of FY 2012 by 1,953 employees. The Board of Elections will increase staffing by 806 employees due to the reclassification (by the Internal Revenue Service) of poll workers from contracted employees to City employees.

Figure 41
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalents)

Additions/(Reductions)

		Actual		City Forecast		Variance	
		June 2010	May 2011	June 2011	June 2012	June 2010 to May 2011	May 2011 to June 2012
Public Safety		**81,457**	**80,341**	**80,401**	**79,511**	**(1,116)**	**(830)**
Police	Uniformed	34,532	33,867	33,814	34,309	(665)	442
	Civilian	15,981	15,959	15,893	15,525	(22)	(434)
Fire	Uniformed	11,057	10,665	10,879	10,779	(392)	114
	Civilian	4,847	5,075	4,865	4,846	228	(229)
Correction	Uniformed	8,772	8,333	8,638	8,404	(439)	71
	Civilian	1,444	1,415	1,735	1,752	(29)	337
District Attys. & Prosecutors		3,637	3,614	3,086	3,113	(23)	(501)
Probation		785	795	808	770	10	(25)
Other		402	618	683	13	216	(605)
Health & Welfare		**23,002**	**22,187**	**23,430**	**24,165**	**(815)**	**1,978**
Social Services		10,219	9,940	10,478	10,618	(279)	678
Children's Services		5,845	5,585	5,891	6,529	(260)	944
Health & Mental Hygiene		4,723	4,501	4,809	4,789	(222)	288
Homeless Services		1,832	1,791	1,883	1,867	(41)	76
Other		383	370	369	362	(13)	(8)
Environment & Infrastructure		**17,864**	**16,892**	**17,116**	**15,824**	**(972)**	**(1,068)**
Sanitation	Uniformed	7,105	6,865	6,875	6,822	(240)	(43)
	Civilian	1,964	1,887	2,005	2,001	(77)	114
Transportation		2,368	2,235	2,144	1,989	(133)	(246)
Parks & Recreation		6,218	5,694	5,868	4,791	(524)	(903)
Other		209	211	224	221	2	10
General Government		**8,925**	**8,491**	**10,075**	**10,444**	**(434)**	**1,953**
Finance		1,930	1,768	2,096	2,026	(162)	258
Law		1,344	1,229	1,255	1,287	(115)	58
Citywide Admin. Services		1,706	1,316	1,461	1,455	(390)	139
Taxi & Limo. Commission		432	431	475	569	(1)	138
Investigations		217	202	232	223	(15)	21
Board of Elections		472	493	1,228	1,299	21	806
Info. Tech. & Telecomm.		1,062	1,028	1,073	1,061	(34)	33
Other		1,762	2,024	2,252	2,524	262	500
Housing		**1,725**	**1,586**	**1,788**	**1,699**	**(139)**	**113**
Buildings		1,174	1,098	1,183	1,163	(76)	65
Housing Preservation		551	488	605	536	(63)	48
Department of Education		**118,392**	**116,239**	**116,150**	**112,540**	**(2,153)**	**(3,699)**
	Pedagogues	96,109	93,537	93,445	90,367	(2,572)	(3,170)
	Non-Pedagogues	22,283	22,702	22,705	22,173	419	(529)
City University of New York		**7,775**	**8,757**	**7,471**	**7,258**	**982**	**(1,499)**
	Pedagogues	5,037	5,918	5,244	5,075	881	(843)
	Non-Pedagogues	2,738	2,839	2,227	2,183	101	(656)
Elected Officials		**2,320**	**2,269**	**2,308**	**2,409**	**(51)**	**140**
Total		**261,460**	**256,762**	**258,736**	**253,850**	**(4,698)**	**(2,912)**

Note: Includes the merging of Juvenile Justice (shown in Other Public Safety) into Children's Services in FY 2012.
Sources: NYC Office of Management and Budget; OSDC analysis