Review of the Financial Plan of the City of New York

June 2011

Report 4-2012

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

Additional copies of this report
may be obtained from:

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

Telephone: (212) 681-4840

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

Please notify the Office of the State Deputy Comptroller at (212) 383-3916 if you wish to have your name removed from our mailing list or if your address has changed.

Contents

I. Executive Summary

New York City's May 2011 financial plan (the "May Plan") projects a surplus of $3.2 billion for FY 2011, resulting largely from a drawdown in reserves, higher revenues due to an improving economy, and agency cost-reduction actions. The City intends to transfer the surplus to FY 2012 to help balance that year's budget.

Historically, the City has relied on budget surpluses to help balance future budgets, but the likelihood of a large surplus in FY 2012 to help balance the FY 2013 budget is diminished because the City's revenue forecasts for that year are less conservative (although still reasonable) compared to previous years, and because the City has already drawn down most of its reserves. The May Plan projects budget gaps of about $5 billion annually for fiscal years 2013 through 2015 (see Figure 1).

While there are few immediate risks to the City's financial plan (see Figure 2), a number of issues require close monitoring.

New York State has taken ambitious steps to bring its budget into balance without raising taxes. The City estimates that the State budget reduced aid to New York City by $1.2 billion beginning in FY 2012. (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.) 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.

The national economic recovery has begun to slow, but the City's economy is still improving. Nevertheless, higher energy costs, future hikes in interest rates, and a further weakening in the residential real estate market could slow the pace of the local recovery. The City has regained more than half of the jobs (76,400) that were lost during the recession (147,000), but the May Plan assumes that the pace of employment growth will slow during the financial plan period.

Most private sector industries have begun to add jobs, but construction and manufacturing are still losing jobs. In addition, the public sector has lost 15,800 jobs, and further job losses are expected as state and local governments respond to budgetary pressures. The City's unemployment rate has declined from a peak of 10 percent in September 2009, but remained high at 8.6 percent in April 2011.

While tourism continues to be a bright spot for the local economy, with a record 48.7 million visitors traveling to New York City in 2010, Wall Street's dramatic turnaround has been the most significant factor behind the City's recovery. Wall Street earned $27.6 billion in 2010, second only to the record profits of $61.4 billion earned in 2009, after losing $53.9 billion during 2007 and 2008.

Wall Street got off to a very strong start in 2011, but the City expects profitability to ease back to the historical levels seen before the economic crisis as interest rates rise and financial reforms are fully implemented. Wall Street earned $9.3 billion in the first quarter, nearly half of the City's forecast of $20 billion for the entire year.

The residential real estate market has begun to weaken again after a period of stability, which could reduce consumer confidence and slow the recovery. The S&P/Case-Shiller Home Price Index shows that single-family home prices in the New York City metropolitan area fell by 21.1 percent between May 2006 and March 2010, stabilized for four months, and then declined by another 4.9 percent between July 2010 and March 2011. The median sales price of Manhattan cooperative and condominium apartments declined by 9.9 percent in the first quarter of 2011 compared with one year earlier. Foreclosures are expected to put downward pressure on prices for a number of years as foreclosed properties slowly return to the market.

The May Plan still includes the Mayor's proposal to reduce the number of teachers by 6,166, including 4,166 layoffs, even though the City has allocated nearly $1.7 billion to replace expiring federal stimulus funds for education ($853 million) and cuts in State education aid ($812 million). If implemented, these layoffs would be the first teacher layoffs since the fiscal crisis of the 1970s.

The City Council has expressed its opposition to teacher layoffs and other budget cuts proposed by the Mayor, such as closing 20 fire companies and sharply reducing the budgets for libraries and cultural institutions. The Speaker of the City Council and others have suggested that the City carefully scrutinize the budget for contractual services for potential savings so some of these cuts could be rescinded.

The City's actuarial consultant will release a report shortly that is expected to recommend changes in the actuarial assumptions and methodologies used to calculate City pension contributions, such as lowering the investment earnings assumption. While the City has established a $1 billion annual reserve beginning in FY 2012 for this purpose, the actual cost and implementation date are yet to be determined. The May Plan also counts on significant savings beginning in FY 2014 from a less costly pension plan for new City employees, but a bill has not yet been introduced into the State Legislature for consideration.

Coming out of the recession, New York City is in a much stronger position than are most states and other large municipalities. The City, however, has exhausted much of the reserves accumulated during the last economic expansion—and it still projects budget gaps that average $5 billion annually. In addition, the City has yet to negotiate new collective bargaining agreements with its workforce. Thus, in the absence of revenue windfalls from a stronger economic recovery or relief from federal and State mandates, balancing the out-year budgets will be difficult.

Figure 1
New York City Financial Plan
(in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
REVENUES					
Taxes					
General Property Tax	$ 16,830	$ 17,685	$ 18,203	$ 18,630	$19,060
Other Taxes	22,253	23,752	24,585	25,321	26,666
Tax Audit Revenue	868	660	659	666	666
Subtotal: Taxes	$ 39,951	$ 42,097	$ 43,447	$ 44,617	$ 46,392
Miscellaneous Revenue	6,192	5,915	5,971	6,030	6,049
Unrestricted Intergovernmental Aid	14	12	12	12	12
Less: Intra-City Revenue	(1,890)	(1,532)	(1,526)	(1,523)	(1,523)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 44,252	$ 46,477	$ 47,889	$ 49,121	$ 50,915
Other Categorical Grants	1,336	1,160	1,158	1,156	1,153
Inter-Fund Revenues	569	543	503	503	503
Federal Categorical Grants	8,325	6,525	6,290	6,235	6,233
State Categorical Grants	11,495	11,010	11,093	11,159	11,250
Total Revenues	**$ 65,977**	**$ 65,715**	**$ 66,933**	**$ 68,174**	**$ 70,054**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 22,130	$ 21,277	$ 21,342	$ 21,558	$ 21,647
Pensions	7,002	8,424	8,568	8,451	8,727
Fringe Benefits	7,651	7,992	8,420	8,935	9,500
Retiree Health Benefits Trust	(395)	(672)	- - -	- - -	- - -
Subtotal: Personal Service	$ 36,388	$ 37,021	$ 38,330	$ 38,944	$ 39,874
Other Than Personal Service					
Medical Assistance	$ 4,894	$ 6,141	$ 6,327	$ 6,463	$ 6,643
Public Assistance	1,558	1,348	1,365	1,365	1,365
All Other [1,2]	20,379	19,740	20,236	20,790	21,377
Subtotal: Other Than Personal Service	$ 26,831	$ 27,229	$ 27,928	$ 28,618	$ 29,385
General Obligation, Lease and TFA Debt Service [1,2]	$ 5,037	$ 5,914	$ 6,668	$ 6,921	$ 7,278
FY 2010 Budget Stabilization & Discretionary Transfers [1]	(3,646)	- - -	- - -	- - -	- - -
FY 2011 Budget Stabilization & Discretionary Transfers [2]	3,217	(3,217)	- - -	- - -	- - -
General Reserve	40	300	300	300	300
Subtotal	$ 67,867	$ 67,247	$ 73,226	$ 74,783	$ 76,837
Less: Intra – City Expenses	(1,890)	(1,532)	(1,526)	(1,523)	(1,523)
Total Expenditures	**$ 65,977**	**$ 65,715**	**$ 71,700**	**$ 73,260**	**$ 75,314**
Gap To Be Closed	**$ - - -**	**$ - - -**	**$ (4,767)**	**$ (5,086)**	**$ (5,260)**

[1] 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.

[2] Fiscal Year 2011 Budget Stabilization and Discretionary Transfers total $3.217 billion, including GO of $2.263 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 2011	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Surplus/(Gaps) per May Plan	**$ - - -**	**$ - - -**	**$ (4,767)**	**$ (5,086)**	**$ (5,260)**
Uniformed Agency Overtime	- - -	(150)	(150)	(150)	(150)
Work Advantage Program	- - -	(30)	- - -	- - -	- - -
Pension Reform	- - -	- - -	- - -	(131)	(252)
Interest Savings	- - -	35	- - -	- - -	- - -
OSDC Risk Assessment	**- - -**	**(145)**	**(150)**	**(281)**	**(402)**
Remaining Gap to be Closed per OSDC [3]	**$ - - -**	**$ (145)**	**$ (4,917)**	**$ (5,367)**	**$ (5,662)**
Additional Risks and Offsets					
UFT Collective Bargaining[4]	$ (898)	$ (800)	$ (898)	$ (900)	$ (900)
Wage Increases at Projected Inflation Rate	- - -	(850)	(1,360)	(1,811)	(2,234)
Pension Investment Earnings	- - -	- - -	140	270	390

[3] The May Plan includes a general reserve of $40 million in FY 2011 and $300 million in each of fiscal years 2012 through 2015. The Retiree Health Benefits Trust will have $2.0 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.

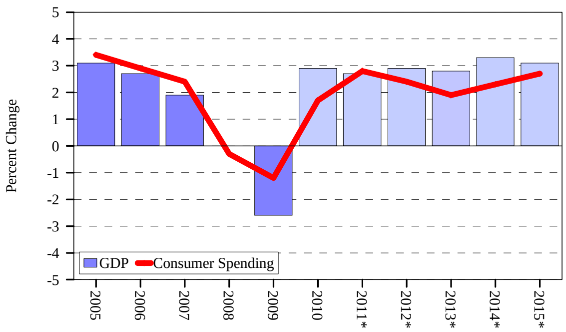
[4] The Mayor has rescinded proposed wage increases for teachers and principals for fiscal years 2009 and 2010 to mitigate the loss of State education aid and to help the Department of Education meet its cost-reduction target for FY 2011. Most other municipal workers received 4 percent annual wage increases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

II. Economic Trends

The Gross Domestic Product (GDP) grew by 2.9 percent in 2010, the largest increase in five years (see Figure 3). In the first quarter of 2011, however, GDP growth slowed to 1.8 percent, reflecting a slowdown in consumer spending (to 2.7 percent from 4 percent in the prior quarter) as a result of higher costs for energy and food, and a sharp cutback in government spending. Business investment and exports continued to benefit from the declining value of the dollar and the recovery in the global economy. Corporate profits rose sharply in 2010, and business spending on equipment and software grew at double-digit rates in five of the past six quarters.

Figure 3

National Economic Growth



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

Since March 2010, the nation has added 2.1 million private sector jobs, or nearly one quarter of the 8.8 million jobs lost during the recession. While the pace of job creation had accelerated during the February through April 2011 period to an average of 244,000 jobs each month, growth slowed to 83,000 jobs in May 2011. The unemployment rate has also begun to edge higher, reaching 9.1 percent in May 2011, only 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.

The May Plan assumes that the national slowdown in the first quarter of 2011 will be temporary, but recent economic statistics suggest that the weakness in the first quarter is persisting. Weakness in housing, manufacturing, and labor markets has caused IHS Global Insight to lower its economic forecasts in June 2011 to slightly below what is assumed in the May Plan. The May Plan assumes that steady job creation, averaging 2.4 million jobs annually during the plan period, will bring GDP growth to 2.7 percent for 2011, gradually rising to more than 3 percent in 2014 and 2015. While inflation forecasts for the near future were substantially increased in the May Plan, the City expects inflationary pressures to ease as energy and commodity prices moderate.

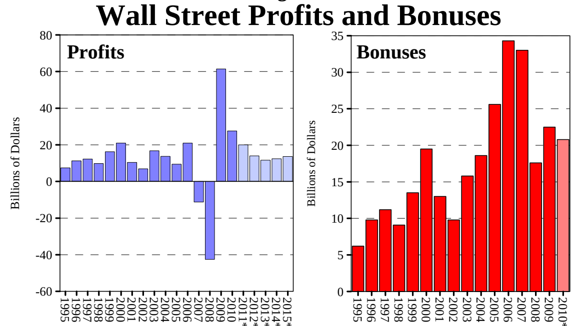
Local job growth resumed in December 2009, and, as of April 2011, the City has recovered just over half (76,400 jobs) of the 147,000 jobs lost during the recession. While the City gained 92,200 private sector jobs, it lost 15,800 government jobs. Since December 2009, the pace of private sector job gains in the City (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 during the past two economic recoveries. For the entire financial plan period, however, the May Plan assumes that total employment will increase at an average annual rate of 1 percent, much less than the average annual gain that is projected for the nation during this period (1.8 percent).[5]

Most of the job gains in the City's private sector since December 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 8.6 percent in April 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 (see Figure 4). Wall Street got off to a very strong start in 2011, with earnings of $9.3 billion in the first quarter, which is nearly half of the City's forecast of $20 billion for the entire calendar year. The City expects profitability to ease back to the historical levels seen before the economic crisis as the Federal Reserve moves toward higher interest rates and new financial regulatory reforms are fully implemented. The May 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 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.

[5] The May Plan assumes that the City will add an average of 30,000 jobs annually from 2011 through 2013, rising to an average of 49,000 jobs annually in 2014 and in 2015.

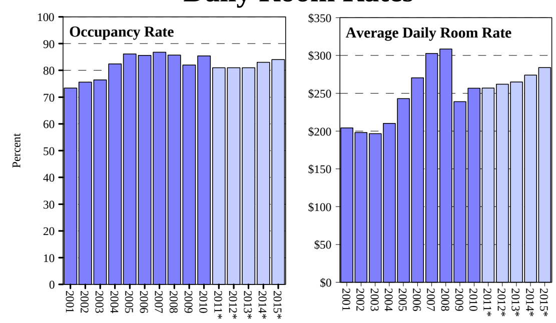
Wall Street has added 10,100 jobs between January 2010 and April 2011, after losing 28,100 jobs during the downturn. The May Plan assumes that the industry will gain a total of 10,000 jobs in 2011 and 2012, but then show small job losses through 2015 as higher interest rates and financial regulations squeeze profits.

The resumption of job growth in the City, coupled with higher compensation on Wall Street, has fueled wage growth. The May Plan assumes that total wages rose by 6.3 percent in 2010 (after a record decline of 10.8 percent in 2009), but that wage gains will slow to 4.1 percent in 2011 and 2.5 percent in 2012 as Wall Street profitability eases. The May Plan assumes that Wall Street bonuses for 2011 (to be paid in early 2012) will decline as profits fall.

Tourism continues to be a bright spot for the local economy, with a record 48.7 million visitors traveling to New York City in 2010—almost 2 million more than the previous record set in 2008. The City estimates that tourists spent approximately $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



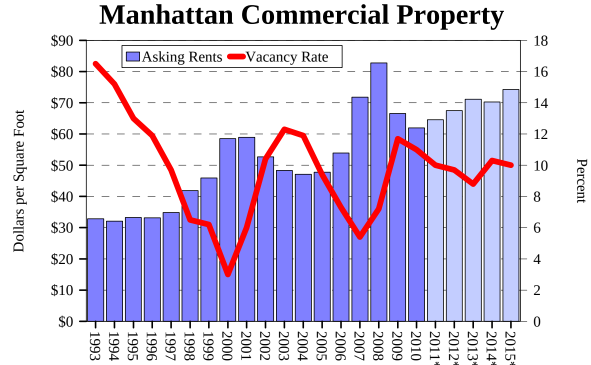
* City forecast

Sources: PKF Consulting; NYC Office of Management and Budget

Because of rising office-based employment, leasing activity in the City's commercial real estate market has rebounded. Cassidy Turley reported that in the first quarter of 2011, the vacancy rate in Manhattan's primary office market fell to 11.3 percent, down 1.5 percentage points from one year earlier. While average asking rents have continued to fall, reaching $59.60 per square foot in the first quarter of 2011, the pace of decline has slowed. The May 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 completion of more than 4 million square feet of office

Figure 6

Manhattan Commercial Property



* City forecast

Source: Cushman & Wakefield

space in the World Trade Center, however, is expected to raise the vacancy rate to about 10 percent in 2014 and 2015, even as the average asking rent rises to $74.29 by 2015.

The City's residential real property market has again begun to weaken. The City reports that single-family home sales declined by 16 percent in the third quarter of 2010 (compared to one year earlier) and by 23 percent in the fourth quarter of 2010. 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). The large number of foreclosures in the City will continue to put downward pressure on prices as these properties are slowly resold.

The S&P/Case-Shiller Home Price Index also shows that single-family home prices in the New York City metropolitan area fell by 21.1 percent between May 2006 and March 2010, stabilized for four months, and then declined by another 4.9 percent between July 2010 and March 2011. Prudential Douglas Elliman reported that in the first quarter of 2011, sales of Manhattan cooperative and condominium apartments rose by only 0.4 percent (compared to one year earlier), while the median sales price fell by 9.9 percent.

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. 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.

Oil prices remain volatile, and while prices have eased from recent highs, oil is still about 40 percent more expensive than it was one year ago. Long-term trends point to higher consumption in developing nations, placing renewed upward pressure on oil prices. Further price increases will exacerbate the adverse impact on consumer spending and economic growth that has already occurred.

Higher prices for oil and other commodities are already pushing up inflation, which will cause central bankers to boost interest rates, although the recent economic slowdown could delay rate increases. A rise in interest rates, coupled with the large inventory of foreclosed properties, could put additional downward pressure on regional real estate prices.

Ongoing debt problems in the eurozone and resistance to raising the United States government's debt level could destabilize the financial markets and push up interest rates. Finally, continued declines in federal, state, and local government spending in response to fiscal pressures will raise unemployment, reduce household income, and further slow economic growth.

III. Changes Since the July Plan

The City's July 2010 financial 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. Since then, the City has raised its tax revenue forecast by about $1 billion annually; drawn down reserves by $1.5 billion in FY 2011; and proposed a gap-closing program that would, if successful, generate $633 million in FY 2011 and about $1.2 billion annually thereafter (see Figure 7). For FY 2011, these resources helped produce a surplus of $3.2 billion. While substantial, this was less than the $3.6 billion surplus that was rolled into FY 2011 from the prior year.

For FY 2012, the aforementioned 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) and all of the expiring federal stimulus funds for education ($853 million), and to close the remaining budget gap. Despite the City's higher revenue forecasts, the May Plan shows a budget gap of $4.8 billion for FY 2013—larger than forecast in July 2010.

In November 2010, the Mayor proposed an agency program that would generate about $1 billion annually beginning in FY 2012 and would reduce staffing by 8,264 positions, including 5,312 layoffs. (Most of the staff reductions were concentrated in the Department of Education.) In the May Plan, the Mayor has proposed expanding the agency program by $240 million annually beginning in fiscal year 2012, and reducing personnel levels by another 1,186 positions, including an additional 347 layoffs. More than half of the new staff reductions (665) would occur in the Department of Parks and Recreation.

In February 2011, the City raised its revenue forecasts by about $1 billion annually, 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 $200 million in FY 2012, growing to $1.2 billion by FY 2015, based on the tentative property tax roll. The tentative roll showed higher growth in property values than anticipated in the July Plan, especially for commercial and large residential properties.

Also, the City expects to realize nearly $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. Although the City drew down reserves in FY 2011, it increased its reserves in subsequent years to $1 billion to fund higher pension contributions that could result from changes in actuarial assumptions that are currently under consideration. Medicaid costs were reduced in fiscal years 2011 and 2014, reflecting additional federal aid and other changes, but were increased in fiscal years 2012 and 2013.

The May Plan reflects the budgetary impact of the State's FY 2011-2012 enacted budget on the City's four-year financial plan. The Mayor has allocated $1.2 billion in City funds in each year of the financial plan to offset the loss of anticipated education aid ($812 million), payments under the Aid and Incentives to Municipalities program ($302 million), and certain social services programs.

Figure 7
Financial Plan Reconciliation – City Funds
May 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				
Sales Tax	396	442	319	268
Business Tax	328	359	81	(78)
Personal Income Tax	61	229	329	51
Real Property Taxes	44	259	507	796
Other Taxes	(37)	(44)	(156)	(125)
Audits	240	- - -	- - -	- - -
Subtotal	**1,032**	**1,245**	**1,080**	**912**
Non-Tax Revenues	(43)	68	92	109
Total	**989**	**1,313**	**1,172**	**1,021**
Drawdown of Reserves				
Pension Reserve	600	(400)	(400)	(400)
Prior Years' Expenses	500	- - -	- - -	- - -
General Reserve	397	- - -	- - -	- - -
Total	**1,497**	**(400)**	**(400)**	**(400)**
Gap-Closing Actions				
Agency Program	633	1,235	1,172	1,147
Pension Reform	- - -	- - -	- - -	131
Total	**633**	**1,235**	**1,172**	**1,278**
State Budget Impact (City estimate)	**(40)**	**(1,194)**	**(1,225)**	**(1,225)**
Expenditures				
Federal Education Aid	- - -	(853)	(853)	(853)
Health Insurance	(3)	(62)	(125)	(199)
Indigent Defense Services	(18)	(57)	(47)	(47)
Social Services Agencies	(51)	(121)	(80)	(79)
Uniformed Agencies	(368)	(109)	(74)	(75)
Medicaid	333	(194)	(156)	315
Debt Service	292	674	7	10
Judgments and Claims	50	90	120	150
Other	(97)	(282)	(223)	(147)
Total	**138**	**(914)**	**(1,431)**	**(925)**
Surplus/(Gap)	**$ 3,217**	**$ (3,217)**	**$ (4,767)**	**$ (5,086)**
Surplus Transfer	**(3,217)**	**3,217**		
Gap as of May 2011	**$ - - -**	**$ - - -**	**$ (4,767)**	**$ (5,086)**

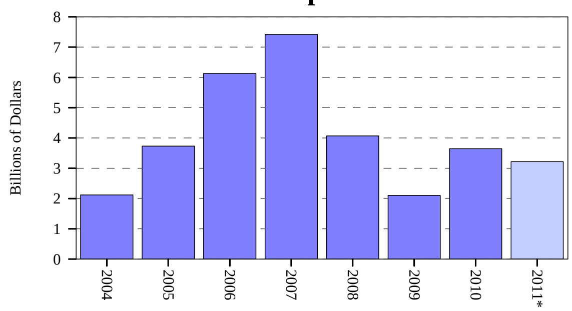
Sources: NYC Office of Management and Budget; OSDC analysis

IV. Current-Year Operating Results

After the recession of the early 2000s, large amounts of unanticipated resources were realized as a result of 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 is expected to exceed $3.2 billion, primarily because of a drawdown of reserves and higher-than-anticipated revenue collections.

Figure 8

Annual Unanticipated Resources



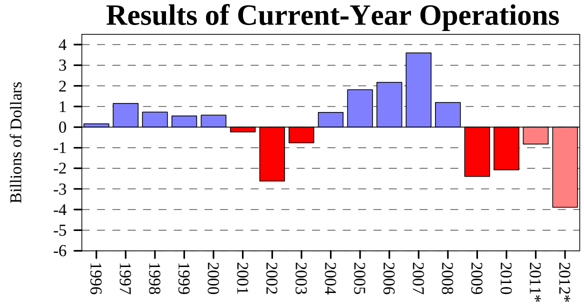
Sources: NYC Office of Management and Budget; OSDC analysis

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. For example, the FY 2010 budget benefited from $2.7 billion in debt defeasances executed in prior years, which are not expected to recur. Spending is projected to exceed current-year revenues by $824 million in FY 2011 and $3.9 billion in FY 2012.

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 $3.8 billion in FY 2011 and $4.5 billion in FY 2012 (see Figure 10).

Figure 10
Nonrecurring Resources
(in millions)

	FY 2011	FY 2012
FY 2010 Surplus	$ 3,646	$ - - -
Federal Education Aid	1,060	- - -
Federal Medicaid Assistance	999	199
Prior-Year Payables	500	- - -
Retiree Health Benefits Trust	395	672
Debt Refundings and Redemptions - Net	296	214
Restitution Agreements	71	5
Battery Park City	66	- - -
State Building Aid - Net	(49)	193
FY 2011 Projected Surplus	(3,217)	3,217
Total	**$ 3,767**	**$ 4,500**

Sources: NYC Office of Management and Budget; OSDC analysis

- The FY 2010 surplus of $3.6 billion was used to help balance the FY 2011 budget.
- Federal education aid under the American Recovery and Reinvestment Act of 2009 (ARRA) totaled $1.1 billion in FY 2011, but expires in FY 2012.
- Medicaid relief under the ARRA totaled $999 million in FY 2011 and is estimated at $199 million in FY 2012, but then expires in FY 2013.
- The City recognized savings of $500 million in FY 2011 from overestimating prior years' expenses, but the May 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 will generate $71 million in FY 2011 and $5 million in FY 2012.
- 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 TFA will transfer $193 million to the City in FY 2012 because the amount of State building aid retained by the TFA exceeded the amount needed to fund debt service on Building Aid Revenue Bonds.
- The City will use its FY 2011 projected surplus of $3.2 billion to balance its FY 2012 budget.

V. Impact of the State Budget

The May Plan estimates that the enacted State budget will adversely affect the City's financial plan by $1.2 billion in City FY 2012 (see Figure 11)—which is $192 million less than the estimated impact of the Governor's executive budget in the February 2011 Plan—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 yet to be fully determined because the impact 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 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 current year and $812 million less than previously anticipated by the City. The State 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 also has yet to act on the City's proposals to change certain post-employment benefits for police officers and firefighters, or to create lower-cost pension plans for new City employees.

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 exacerbates an already difficult financial situation. The State budget also authorized the New York State Department of Health to take action if 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

In November 2010, the Mayor proposed a $1 billion agency program to help balance the FY 2012 budget and to narrow the out-year gaps. The May Plan still includes the November agency program, but reflects some revisions that were made by the City Council in February 2011 as well as the Mayor's proposal to expand the program by $240 million annually beginning in FY 2012. In total, the agency program is expected to generate $633 million in FY 2011 and more than $1.2 billion annually beginning in FY 2012. Since FY 2008, the City's gap-closing programs have reduced planned spending, beginning in FY 2012, by more than $5 billion.

Nearly 91 percent of the resources would come from expense reductions, and more than one-third of the program's value is concentrated in the Department of Education. According to the City, agency funding for FY 2012 would be reduced by 5 percent and staffing would be reduced by 9,450 positions between fiscal years 2010 and 2012, including 5,159 layoffs (see Figure 12). Virtually the entire agency program is within the City's control to implement, although the City Council has indicated its opposition to a number of the Mayor's proposals.

Figure 12
Agency Program
(in millions)

	Positions	FY 2011	FY 2012	FY 2012 Target as a Percent of Agency City Funding
Department of Education	5,553	$ 220.6	$ 393.8	4.5 %
Health and Social Services	387	131.0	210.3	9.1
Uniformed Agencies				
Police	350	50.0	64.2	1.2
Sanitation	269	29.2	91.2	2.2
Fire	111	7.9	38.4	1.1
Correction	110	4.9	13.4	6.0
Libraries and Cultural Institutions	875	24.8	41.7	11.7
Transportation	256	24.7	56.1	11.0
Citywide Administrative Services	2	17.0	22.6	9.9
City University of New York	143	9.0	24.6	12.2
Finance	61	6.5	38.3	15.3
Parks	964	(4.9)	47.4	15.4
Procurement Savings	- - -	- - -	55.5	NA
All Other Agencies	369	112.7	137.3	6.8
Total Agency Program	**9,450**	**$ 633.4**	**$ 1,234.8**	**5.0 %**

Note: The City adjusted agency budgets to exclude certain 'nondiscretionary' costs, such as Medicaid and public assistance.

Sources: NYC Office of Management and Budget; OSDC analysis

In November 2010, the Mayor proposed that the Department of Education meet its FY 2012 cost-reduction target ($350 million) largely by eliminating 5,398 pedagogical positions. The May Plan expands the department's cost reduction to

$394 million through the elimination of 155 nonpedagogical positions. These initiatives and other changes will require the department to reduce pedagogical staffing levels by a total of 6,166 positions, including 4,166 layoffs. The City has not yet fully assessed the impact that such cuts could have on educational services, but the Chancellor has indicated that class sizes could increase, on average, by two students. The Department of Education met its cost-reduction target in FY 2011 without reducing classroom services by drawing on federal stimulus aid ($159 million) and benefiting from a State restoration of aid for special education ($51 million).

Agencies that provide health care and social services would reduce spending by $341 million over the course of fiscal years 2011 and 2012. These agencies would eliminate 387 positions (295 layoffs) and reduce services to children, the homeless, and the poor. Proposed actions include housing small homeless families with children in shared units, charging families more for child care, eliminating 2,000 summer youth jobs, reducing 2,500 opportunities in after-school programs, and realizing additional state and federal revenue.

The City's uniformed agencies are expected to reduce costs by $240 million in FY 2012 and to cut staffing by 840 positions; the largest cuts are discussed below.

- The Fire Department intends to close 20 fire companies, effective July 1, 2011 ($33 million). This initiative is not technically part of the FY 2012 agency program because it was proposed in prior years and the Mayor and the City Council had agreed to rescind the closings, but the Mayor is now proposing that the closings go forward. The Fire Department also plans to restrict medical and light duty leave, which would reduce overtime costs ($15 million), and to eliminate 100 uniformed positions that currently perform administrative duties.
- The Sanitation Department has reestimated 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 will use federal funds rather than City funds to pay overtime for savings of $36 million ($24 million in FY 2011 and $12 million in FY 2012), and plans to eliminate 350 civilian positions ($30 million).

The May Plan also cuts City funding to libraries and cultural institutions from $439 million in the current fiscal year to $319 million in FY 2012, a decline of 27 percent. The City would also furlough 641 workers for one week in the Department of Transportation; increase passenger and commercial parking rates; increase fees for safety and regulatory inspections; and lay off 129 employees in the Department of Finance. The Department of Parks and Recreation will reduce staffing by 964 positions largely by offering employees, including those who are retirement-eligible, six months of seasonal employment for three years (665 positions).

VII. Revenue and Expenditure Trends

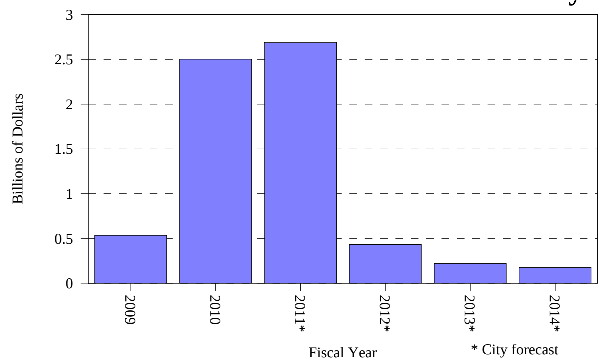
The recent recession hit the City hard, with City fund revenues dropping abruptly by $2.5 billion in FY 2009 and then remaining depressed in FY 2010. The growth in City-funded expenditures slowed in these years, but spending still outpaced revenues. The budgets were balanced by raising taxes, drawing 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.

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 5.6 percent in FY 2011 to $44.3 billion (see Figure 15), which brought collections above the prerecession level. Revenues are projected to grow by 5 percent in FY 2012, but City-funded expenditures are projected to grow twice as fast. The City balanced the FY 2012 budget through agency actions and other initiatives, including $4.5 billion in nonrecurring resources. While the average rate of

Figure 13

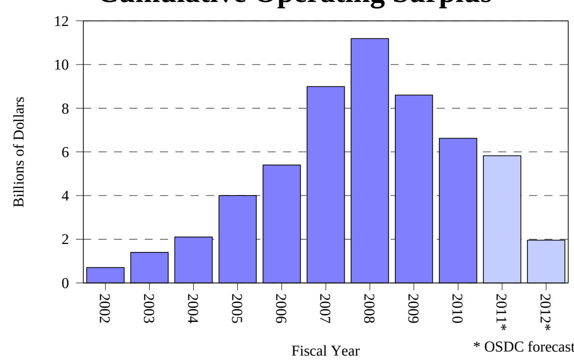
Federal Stimulus Funds for New York City



Sources: NYC Office of Management and Budget; OSDC analysis

Figure 14

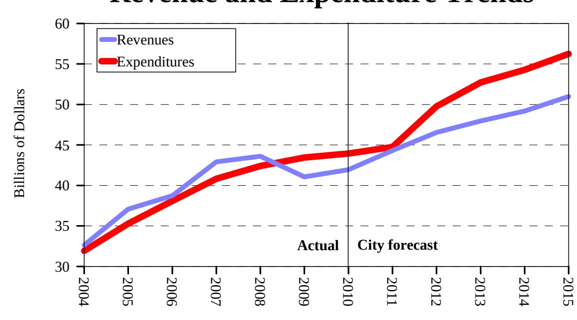
Cumulative Operating Surplus



Sources: NYC Office of Management and Budget; OSDC analysis

Figure 15

Revenue and Expenditure Trends



Notes: 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

expenditure growth is expected to slow during fiscal years 2013 through 2015 (4.2 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 of $5 billion annually during these years.

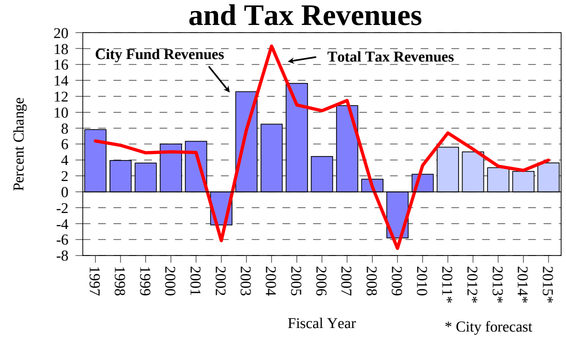
A. Revenue Trends

Improvement in the City's economy at the end of 2010 allowed the City to significantly raise its revenue forecasts in the February 2011 Plan, but since then economic growth has been modest, and the City made only small changes to its revenue forecasts in the May Plan. Overall, the City still 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 recent tentative property tax roll for FY 2012), particularly in the out-years of the financial plan.

The May Plan assumes that City fund revenues will grow by 5 percent in FY 2012, after a gain of 5.6 percent in FY 2011 (see Figure 16).[6] 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 a moderation in the rate of growth for tax collections—to 5.4 percent from 7.4 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 2012 are less conservative given recent economic developments.

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

6 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.

Figure 17
City Fund Revenues
(in millions)

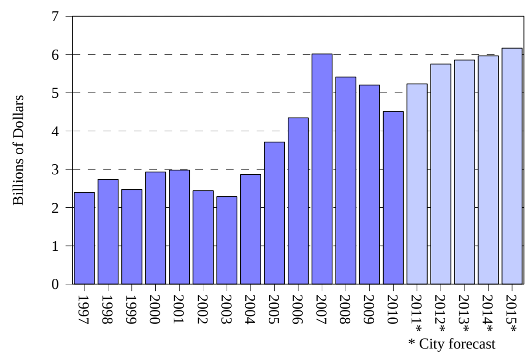
	FY 2011	FY 2012	Annual Growth	FY 2013	FY 2014	FY 2015	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 16,830	$ 17,685	5.1%	$ 18,203	$ 18,630	$ 19,060	2.5%
Personal Income Tax	7,618	8,171	7.3%	8,601	8,740	9,364	4.6%
Sales Tax	5,539	5,797	4.7%	5,984	6,246	6,526	4.0%
Business Taxes	5,233	5,751	9.9%	5,856	5,966	6,165	2.3%
Real Estate Transaction Taxes	1,152	1,274	10.6%	1,308	1,474	1,653	9.1%
Other Taxes	2,711	2,759	1.8%	2,836	2,895	2,958	2.3%
Audits	868	660	-24.0%	659	666	666	0.3%
Subtotal	**39,951**	**42,097**	**5.4%**	**43,447**	**44,617**	**46,392**	**3.3%**
Miscellaneous Revenues	4,371	4,457	2.0%	4,519	4,582	4,601	1.1%
Unrestricted Intergovernmental Aid	14	12	-14.3%	12	12	12	0.0%
Anticipated State and Federal Aid	- - -	- - -	NA	- - -	- - -	- - -	0.0%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**$ 44,321**	**$ 46,551**	**5.0%**	**$ 47,963**	**$ 49,196**	**$ 50,990**	**3.1%**

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

1. Business Taxes

After declining for three consecutive years, collections from business taxes, excluding audits, are projected to increase by 16.1 percent or $727 million in FY 2011 (see Figure 18).

Figure 18
Business Tax Revenues



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 30.1 percent in FY 2011 to $1.3 billion, their highest level ever. While the general corporation tax is forecast to rise by 17 percent in FY 2011 to $2.4 billion, collections would remain more than one-fourth below their prerecession peak.

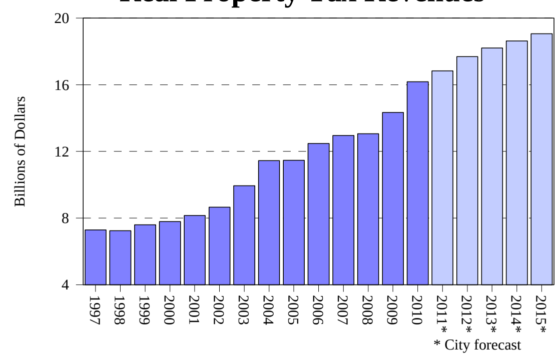
Business tax collections are forecast to grow another 9.9 percent in FY 2012 and then average gains of just 2.3 percent annually during the rest of the financial plan period. The slowdown reflects the City's forecast of lower Wall Street profits (due to rising interest rates and the impact of financial 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.

2. Real Property Taxes

Real property tax collections are forecast to grow by 4 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 19).

Figure 19

Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

Based on stronger property tax values from the FY 2012 tentative 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 5.1 percent, and although growth is expected to ease during the final three years of the financial plan period (to an average of 2.5 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.

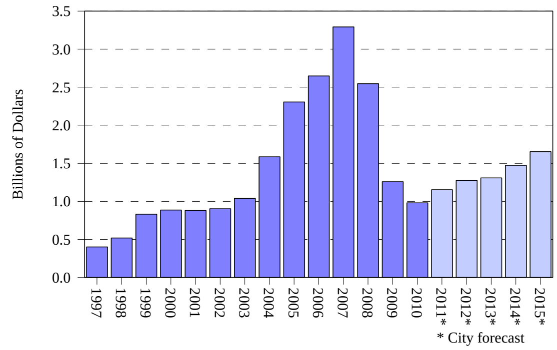
The Department of Finance changed the methodology for determining assessed values for cooperative and condominium apartments on the FY 2012 tentative tax roll. This change, along with admitted errors made by the department in reassessing properties, resulted in assessed value increases as high as 147 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, thus having no impact on the City's real property tax revenues during the financial plan period. 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.

3. Real Estate Transaction Taxes

Tax collections from real estate transactions are projected to rise by 17.4 percent in FY 2011—the first increase since FY 2007—to reach $1.2 billion. Collections, however, are still about two-thirds lower than the peak reached in FY 2007, when collections totaled nearly $3.3 billion (see Figure 20). The growth reflects a slowly improving commercial real estate market, where the number of commercial transactions—particularly in Manhattan—increased by 51.7 percent in calendar year 2010 and the value of transactions rose by 90.9 percent. Collections were boosted by the sale of the former Port Authority building at 111 Eighth Avenue to Google for $1.8 billion, which generated more than $40 million in real property transfer taxes.

Figure 20

Real Estate Transaction Tax Revenues



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 May 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 10.6 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 in the first part of 2010, but that values resumed their decline beginning in August 2010. In February 2011, home values were 3.1 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.

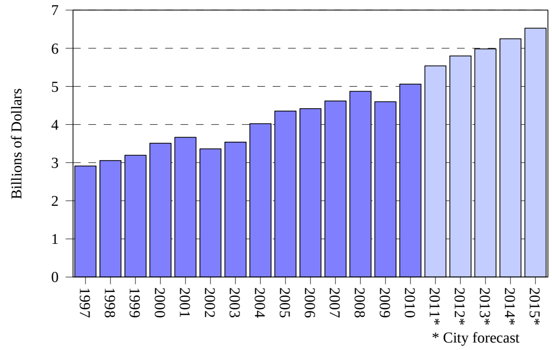
4. Sales Tax

Sales tax revenues are forecast to rise by 9.5 percent in FY 2011 to $5.5 billion (see Figure 21). 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 this year reflects the record level of tourism and the recovery in consumer spending, especially evident during the recent 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 4.7 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 21

Sales Tax Revenues



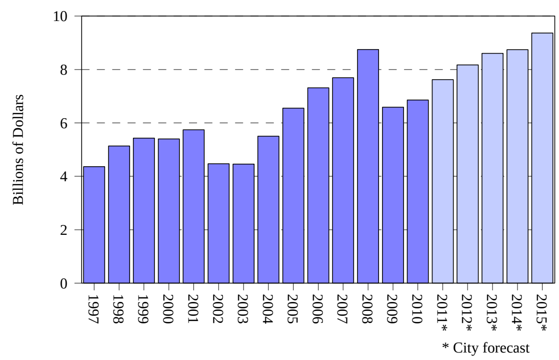
Sources: NYC Comptroller; NYC Office of Management and Budget

5. Personal Income Tax

Rising employment and wages are forecast to lift personal income tax collections by 11.1 percent in FY 2011, to $7.6 billion (see Figure 22). 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.

Figure 22

Personal Income Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

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 an expected 5.4 percent. Collections also benefited from strong settlement payments in April (especially extension payments, which rose by nearly 83 percent), and refund payments have declined this year.

The rate of growth for personal income tax collections is expected to ease from 11.1 percent in FY 2011 to 7.3 percent in FY 2012 as a result of slower wage gains (due to the City's expectation of a decline in bonuses as Wall Street profits are reduced). The May 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).

B. Expenditure Trends

City-funded expenditures are projected to grow by $5 billion in FY 2012, or 11.2 percent (after adjusting for surplus transfers and debt defeasances), which is more than four 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. Medicaid is projected to rise by $1.3 billion (28 percent), reflecting the expiration of extraordinary federal stimulus aid provided to states during the recession. Debt service ($568 million) and health insurance ($357 million) also contribute to the high rate of growth in FY 2012.

Despite the Mayor's proposed two-year wage freeze and planned staff reductions, salary and wage costs are projected to rise by more than $500 million (4.3 percent) in FY 2012, reflecting the Mayor's proposal to use City funds to replace cuts in State education aid ($812 million) and expiring federal stimulus grants for education ($853 million).

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

	FY 2011	FY 2012	Annual Growth	FY 2013	FY 2014	FY 2015	Average Three-Year Growth Rate
Salaries and Wages	$ 11,806	$ 12,317	4.3 %	$ 12,540	$ 12,788	$ 13,239	2.4 %
Pension Contributions	6,837	8,259	20.8 %	8,403	8,286	8,563	1.2 %
Medicaid	4,698	6,015	28.0 %	6,201	6,337	6,517	2.7 %
Debt Service	4,887	5,455	11.6 %	6,432	6,688	7,050	8.9 %
Health Insurance	3,868	4,225	9.2 %	4,622	5,030	5,534	9.4 %
Other Fringe Benefits	2,587	2,831	9.4 %	2,885	3,000	3,061	2.6 %
Energy	903	952	5.5 %	1,003	1,039	1,058	3.6 %
Judgments and Claims	637	655	2.8 %	685	718	754	4.8 %
Public Assistance	600	494	-17.7 %	541	541	541	3.1 %
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	8,781	8,937	1.8 %	9,118	9,555	9,633	2.5 %
Total	**$44,749**	**$ 49,768**	**11.2 %**	**$ 52,730**	**$ 54,282**	**$ 56,250**	**4.2 %**

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

City-funded staffing levels (full-time and full-time-equivalents) have declined by 7,283 during fiscal years 2009 and 2010, and by another 4,073 employees during the first three quarters of the current fiscal year. The May Plan assumes that staffing levels will decline by 8,495 employees by the end of FY 2012 (see Appendix).

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

1. Collective Bargaining

The City concluded labor agreements with all of its major unions for the previous round of collective bargaining (fiscal years 2009 and 2010), with the exception of the United Federation of Teachers (UFT). Currently, however, more than 90 percent of the City workforce is working without a contract.

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 though the City 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. In total, the City reallocated $272 million in FY 2010, $626 million in FY 2011, and $900 million in FY 2014 that had been allocated for wage increases. 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.

The last contract between the City and the Patrolmen's Benevolent Association (PBA) expired on July 31, 2010. In 1998, the State transferred the responsibility for handling police officer contract disputes from the City's Office of Collective Bargaining to the PERB. According to State law, any arbitration award made by the PERB for the PBA is binding on both parties. Since then, wage agreements between the City and the PBA have been pursuant to PERB awards, with the exception of the most recent contract agreement. That agreement was negotiated by the City and the PBA without PERB mediation, and provided for four annual wage increases of 4 percent, following the pattern set by other uniformed unions.

More recently, the Mayor has called on the municipal unions to self-fund wage increases in the current round with savings from productivity enhancements and from restructuring fringe benefits. If wages for all City employees were to rise at the projected inflation rate without any offsetting savings, costs would increase by $850 million in FY 2012, $1.4 billion in FY 2013, and reach $2.2 billion in FY 2015.

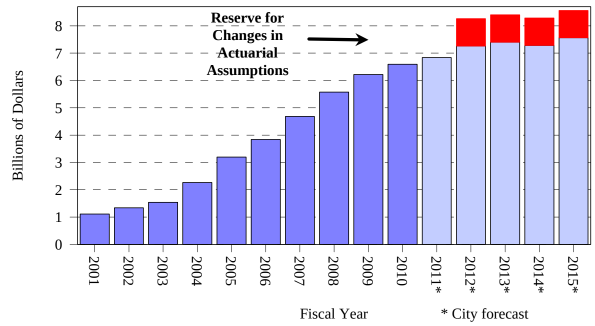
2. Pension Contributions

City pension contributions averaged $1.4 billion during the 1990s, but grew rapidly beginning in FY 2003 after the State raised benefits and pension fund investments fell short of expectations (see Figure 24). The May Plan assumes that contributions will reach $8.6 billion by FY 2015, reflecting an annual reserve of $1 billion beginning in FY 2012 for potential changes in actuarial assumptions and recent investment performance (the pension funds fell short of their investment earnings target of 8 percent in five of the past ten years).

Figure 24

New York City Pension Systems

Annual Contributions



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

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 the New York State and Local Employees' Retirement System (NYSLERS) and the New York State Teachers' Retirement System. The legislation also created a lower-cost pension plan for City teachers, but other City employees are not covered by the law. The May Plan assumes that the State will approve a lower-cost pension plan for new City employees (for savings of $131 million in FY 2014, $252 million in FY 2015, and $619 million in FY 2018), but legislation has not yet been introduced into the State Legislature.

As required by the City Charter, an independent actuarial consultant has been conducting a biennial review of the assumptions and methods used to calculate contributions to the City's pension funds. The report will be completed shortly and will likely recommend changes to reflect recent trends, such as higher salaries, longer life expectancies, and lower-than-anticipated investment earnings. The overall cost to the City 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. The cost of such changes could exceed the $1 billion annual reserve created by the City for this purpose, but the actual cost and the date of implementation have not been determined.

Many public pension systems have reduced or are considering a reduction to their investment earnings assumptions because inflation and earnings from the equities market are expected to be lower in the future. 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.

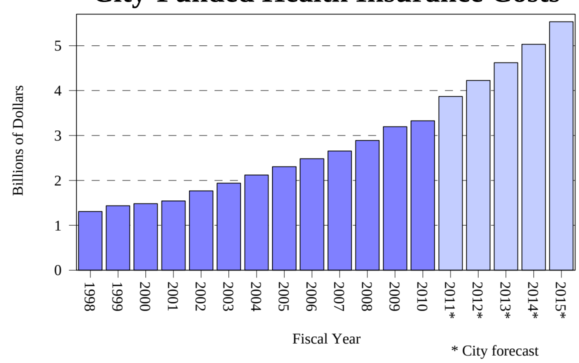
Despite the long-term concern regarding pension fund investment earnings, the pension funds have earned more than 21 percent on their investments as of June 3, 2011. If these earnings are maintained through the end of the fiscal year, pension contributions could be lower by $140 million in FY 2013, $270 million in FY 2014, and $390 million in FY 2015.

3. Health Insurance

Despite a June 2009 agreement between the City and the municipal unions to reduce the growth in health insurance costs, the May Plan assumes that City-funded health insurance costs will rise from $3.3 billion in FY 2010 to $5.5 billion by FY 2015 (see Figure 25), 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 more than 9.0 percent, on average, annually thereafter, in line with historical rates of growth, and that premiums will rise by 8 percent annually for retirees.

Figure 25

City-Funded Health Insurance Costs



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

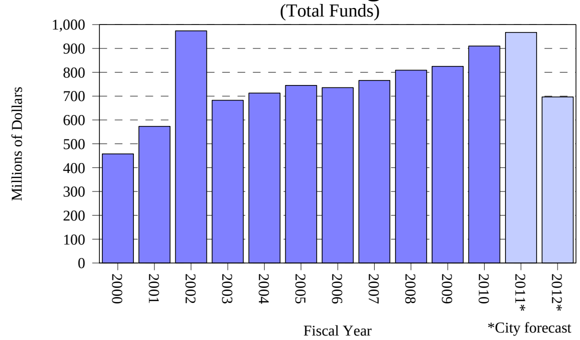
4. Uniformed Agencies

The City is forecasting that overtime costs in FY 2011 will rival the record amount set in FY 2002, after the terrorist attacks of September 11, 2001 (see Figure 26). The Police Department spent $540 million on overtime in FY 2010, and is on track to spend a similar amount in the current year. Although the department is likely to continue this trend, the May Plan allocates $150 million less for overtime in FY 2012 and each succeeding year. The May Plan also assumes that the Fire Department will close 20 fire companies, which are currently staffed on overtime, for savings of $33 million.

Figure 26

Overtime Spending by the Uniformed Agencies

(Total Funds)



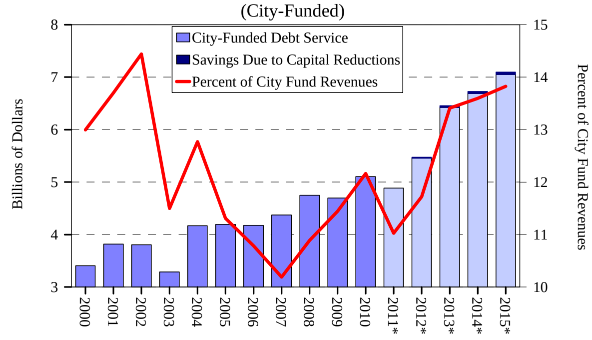
Sources: NYC Office of Management and Budget; OSDC analysis

5. Debt Service

City-funded debt service (adjusted for defeasances and surplus transfers[7]) is projected to reach $6.4 billion by FY 2013 (see Figure 27). This is 31.6 percent more than projected for FY 2011, despite the Mayor's proposal to curtail planned City-funded capital spending by 10 percent.[8] 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 11 percent in FY 2011.

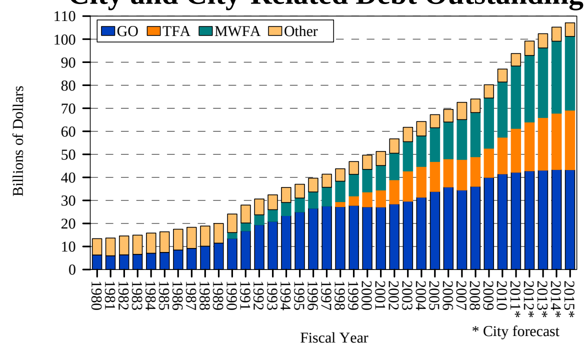
The outstanding debt of the City and City-related entities has risen steadily over the past 30 years.[9] Debt outstanding grew from $13.4 billion in FY 1980 to $87.1 billion in FY 2010 (see Figure 28), and could exceed $107 billion by FY 2015. The FY 2010 amount equates to about $10,000 per capita, or $4,000 higher than ten years earlier.

Figure 27
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

Figure 28
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

---

7 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.

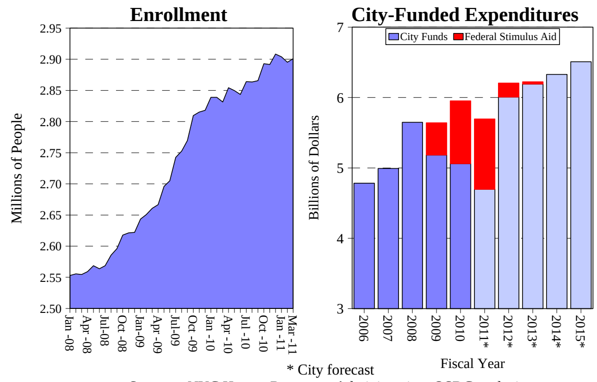
8 We estimate that the Mayor's proposal would reduce debt service by $136 million through FY 2015, but cumulative savings could exceed $700 million by FY 2021.

9 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.

6. Medicaid

Enrollment in the Medicaid program reached 2.9 million people in New York City in March 2011, an increase of 14 percent since March 2008 (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.

Figure 29
Medicaid



Sources: NYC Human Resources Administration; OSDC analysis

In June 2010, the State enacted legislation that required the Health Commissioner to plan for a phased-in, five-year State takeover of Medicaid administration from the counties and New York City. The State budget for SFY 2011-2012 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.

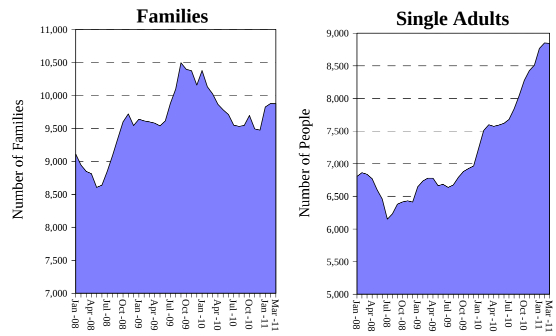
7. Public Assistance

Despite the recession, the City's public assistance caseload has increased by only 2 percent over three years to reach 352,288 recipients in March 2011, but it is still 800,000 fewer people 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 60-month converted families that have expired out of the five-year 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 rent subsidy Work Advantage program.

8. Homeless Services

In March 2011, 37,298 individuals were housed in City shelters, including 9,875 families consisting of 14,971 children and 13,483 adults (see Figure 30). The remaining 8,844 individuals were single adults, a population that has grown by nearly 30 percent in three years. Another 2,000 single adults reside in faith-based shelters; special housing for veterans and the long-term homeless; and drop-in centers.

Figure 30
Homeless Shelter Residents



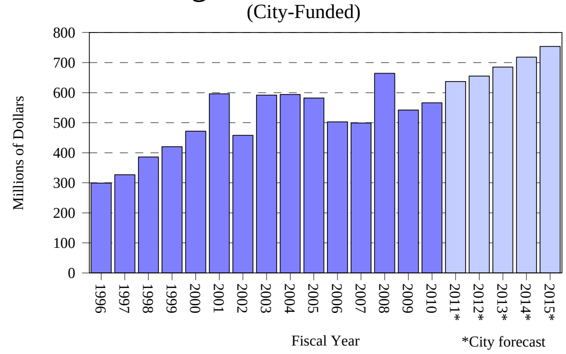
Sources: NYC Department of Homeless Services; OSDC analysis

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 after the State eliminated its funding for the program, but a recent court decision requires the City to continue paying rent subsidies for current participants through September 2011. The City has budgeted $33 million to fund the program through June 2011, but will incur additional costs of $30 million to continue funding through September 2011. The City could face additional costs of $26 million in FY 2012 if the courts require the City to continue rental subsidies for current participants until their leases expire (up to March 2012).

9. Judgments and Claims

The May Plan projects that costs for judgments and claims will grow from $637 million in FY 2011 to $754 million in FY 2015 (see Figure 31), 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 at the start of the fiscal year.

Figure 31
Judgments and Claims
(City-Funded)



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

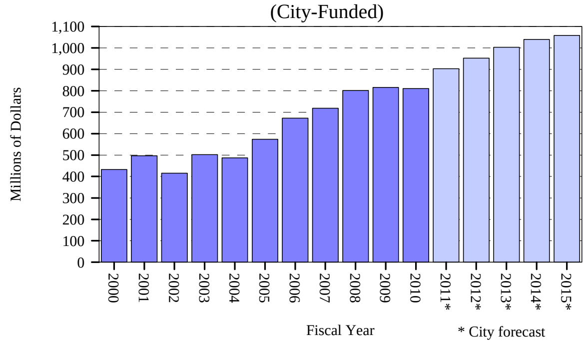
10. Energy Costs

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, however, held constant between fiscal years 2008 and 2010 at about $800 million. Higher charges from utility companies and higher prices driven by rising demand from developing nations are projected to raise energy expenditures to $903 million in FY 2011. The City's energy expenditures are projected to reach $1 billion by FY 2013, and could increase further with rising oil prices resulting from political unrest in the Middle East and North Africa, and increased demand from developing nations.

Figure 32

Energy Costs

(City-Funded)

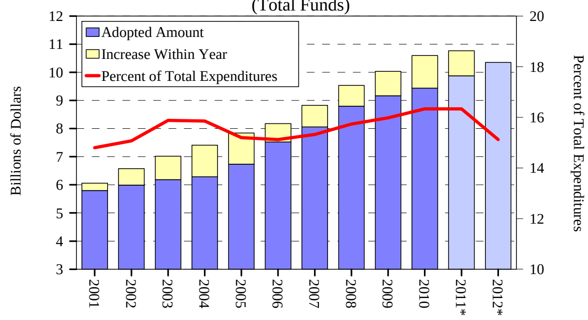


Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

VIII. The Contract Budget

In recent years, payments for contractual services[10] 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). The Speaker of the City Council recently identified potential savings in the contract budget to reduce the need for teacher layoffs.

Figure 33
Contractual Services Expenditures
(Total Funds)

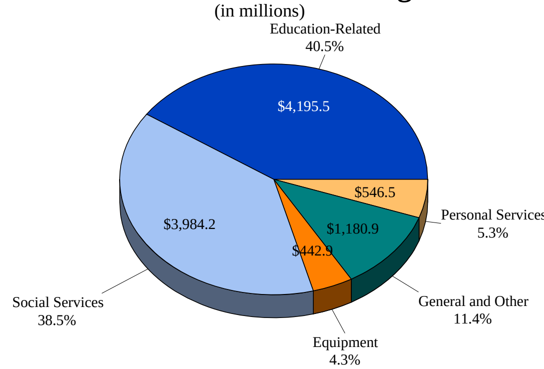


Note: Total expenditures adjusted for surplus transfers and debt defeasances. Also adjusted for debt service costs for PIT-backed TFA and TSASC bonds.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

Growth has been driven primarily by increased expenditures on education-related contracts, particularly on 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.

The Mayor has proposed spending $10.4 billion on contractual services in FY 2012, which is nearly 5 percent higher than estimated at the beginning of the prior fiscal year. More than three-quarters ($8.2 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 ($840 million). The largest social services expenditures by contract type are for mental hygiene services ($629 million), day care centers ($627 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

---

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

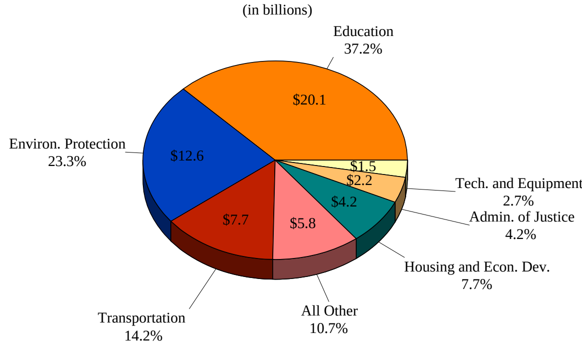
IX. The City's Ten-Year Capital Plan

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, totaling $54.1 billion. The plan is $7.6 billion smaller than the plan released two years ago, and reflects the Mayor's planned 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 the previous 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).[11] 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 and conservation efforts. Operating and capital costs for water and sewer

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

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 the previous 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.

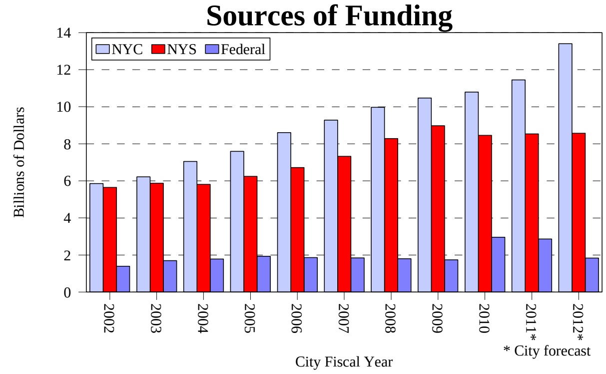
A. Department of Education

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 $13.4 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 $4.1 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).

Figure 36

Department of Education
Sources of Funding



Sources: NYC Office of Management and Budget; OSDC analysis

State funding, in contrast, will have increased by only $1.2 billion—approximately 40 percent of the amount promised in 2007—because the State has curtailed planned increases in education aid due to 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.

In November 2010, the Mayor proposed an agency gap-closing program to help balance the FY 2012 budget, which would reduce planned spending at the department by $350 million. This initiative would reduce staffing by 5,398 pedagogues between June 2011 and June 2012, but other changes would increase the planned reduction to 6,166 pedagogues by June 2012. The City expects to achieve the staff reduction through a combination of layoffs (4,166 pedagogues) and attrition (2,000 pedagogues). Based on historical trends, the number of pedagogues who leave the payroll voluntarily may be higher than anticipated by the City, which could reduce the need for layoffs.

While the Governor has proposed legislation that would allow the City to consider performance as a determining factor if teachers need to be laid off, the new evaluation process would not be fully implemented in time to affect the current round of layoffs. Under the Governor's proposal, only school districts that adopt the proposed evaluation process would be eligible for funding under the State's competitive grant program, which would allocate $500 million statewide.

B. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) projects budget gaps, on an accrual basis of accounting, of $301 million in FY 2011, $464 million in FY 2012, $672 million in FY 2013, $822 million in FY 2014, and $911 million 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. The impact could be higher depending on how certain Medicaid cost-reduction initiatives are implemented.

To reduce the projected budget gaps, the HHC has identified actions that would generate $100 million in FY 2012, $221 million in FY 2013, and $261 million in each of fiscal years 2014 and 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 1,600 employees over the next three years. In the past two years, the HHC has reduced staffing levels by 2,100 full-time-equivalents. Even if these actions are successful, the HHC would still face large budget gaps.

On a cash basis, the HHC projects a closing year-end cash balance of $557 million for FY 2011, but this estimate assumes the receipt of nearly $600 million in supplemental Medicaid funds. These funds are subject to annual federal approval, which the State was expected to obtain for the HHC and which has been delayed. If these funds are not received by the end of the fiscal year, the HHC will have to take additional management actions or the City could be called upon to provide financial assistance.

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 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 is presently focused on deficit reduction.

D. 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. Although the preliminary injunction was denied by the trial court, 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.[12] 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.

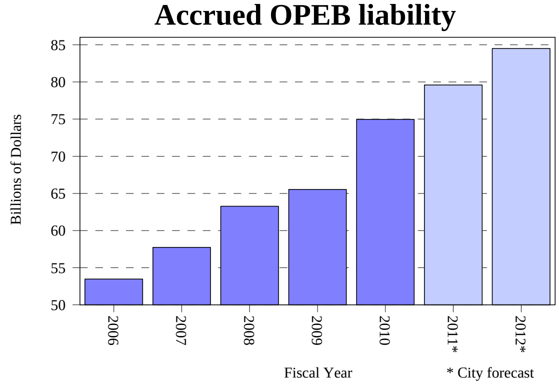
Additionally, the OTB's closure has negatively affected the racing industry because the industry no longer receives payments from the OTB. The impact has been partly mitigated because attendance at the Aqueduct Racetrack between January and April 2011 increased by 48 percent, and the on-track handle 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.

E. 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.

Figure 37

Accrued OPEB liability



Sources: NYC Actuary; OSDC analysis

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). In FY 2010, the accrued OPEB liability rose sharply, by $9.4 billion from the previous fiscal year (see Figure 37). The increase primarily reflects the City's expectation that future health care costs will be higher as a result of

[12] Currently, the City spends between $400,000 and $450,000 a month to cover the health benefits costs for OTB retirees.

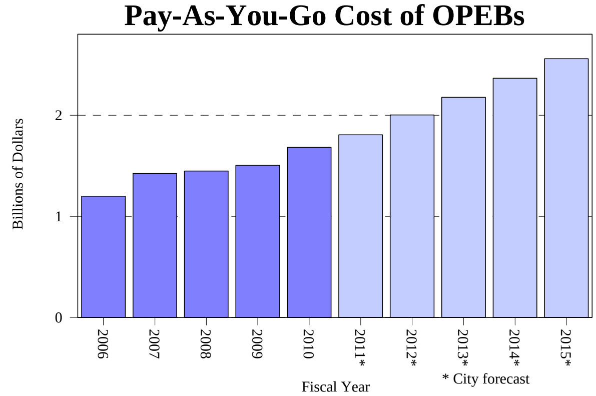
national health care reform passed in March 2010, as well as the cost of OPEB benefits accrued for services provided last year. National reform provides extended health care coverage for dependents until age 26, and will impose an excise tax on high-cost health insurance plans starting in January 2018. The present value of the City's future OPEB obligations was $41.4 billion as of June 30, 2009.

The 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 the next fiscal year. The State Comptroller believes the City should avoid using these resources to help balance the operating budget.

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 nearly half of the present value of obligations ($3 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring $1.4 billion to future taxpayers. OPEB costs, on a PAYGO basis, are projected to rise from $1.2 billion in FY 2006 to $2.6 billion by FY 2015, an average annual increase of 8.8 percent (see Figure 38).

Figure 38

Pay-As-You-Go Cost of OPEBs



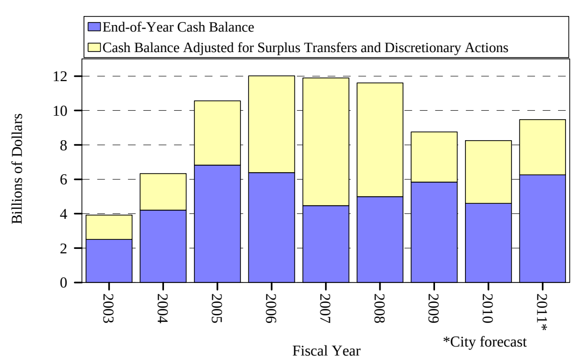
Sources: NYC Actuary; NYC Office of Management and Budget; OSDC analysis

F. 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). Given these large cash reserves, the City met its cash needs without short-term borrowing during fiscal years 2005 through 2011.

Figure 39

New York City Year-End Cash Position



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

The City's Office of Management and Budget projects a year-end cash balance of $6.3 billion for FY 2011. After adjusting for the $3.2 billion surplus transfer, the year-end cash balance is forecast to be $9.5 billion, reversing a four-year trend of declining year-end cash balances. The May Plan assumes the City will borrow $2.4 billion to meet its cash flow needs during FY 2012, but this borrowing is unlikely to occur given the City's large cash balances. If the City does not conduct any short-term borrowing in FY 2012, it could realize interest savings of $35 million.

G. 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.[13] 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 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 estimates a June 2015 completion date. Currently, no agreement exists as to whether the MTA or the City would fund any cost overruns.

[13] 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.

- 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 May Plan assumes interest payments of $106 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, is expected to open shortly; and Section 3, if secured for park use, would wrap around the rail yards.

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 1,776 feet. Condé Nast recently reached agreement with the PANYNJ to become the key private-sector anchor tenant by leasing one-third of the tower's 3 million square feet of office space. 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, both of which are well under way. The memorial plaza will open by September 11, 2011, and the museum 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 Fulton Street Transit Center, which will cost $1.4 billion and 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 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 office space. The PANYNJ, New York State, and the City have agreed to contribute up to $600 million in additional financial support, divided equally, toward the construction of Tower 3, contingent upon SPI hitting certain private-market triggers.[14]
- 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.

[14] SPI must raise $300 million in private financing and secure tenants for 16 percent of the tower's total space (400,000 square feet).

Appendix:
City-Funded Staffing Levels

As of March 31, 2011, the City-funded workforce totaled 257,387 full-time and full-time-equivalent employees, which is below the year-end target for FY 2011 (see Figure 40). Staffing levels have declined by 4,073 employees since the beginning of the current fiscal year (including 215 layoffs). The May Plan assumes a further decline of 8,495 employees, including 4,347 layoffs, by the end of FY 2012, with most of the layoffs within the Department of Education, as discussed below. [15]

- Pedagogical staffing in the Department of Education has declined by 1,567 positions since the beginning of FY 2011. The department plans to reduce staffing by another 7,741 employees, including 3,778 layoffs, by June 30, 2012.
- The City University of New York plans to reduce staffing by 1,389 employees by the end of FY 2012.
- The Fire Department plans to eliminate 498 uniformed positions by closing 20 fire companies.
- The Police Department will reduce staffing by 111 officers and 375 civilian employees by the end of FY 2012.
- Uniformed staffing in the Department of Sanitation will decline by 139 employees, mostly in supervisory posts through attrition.
- The Department of Parks and Recreation plans to reduce full-time staffing by 907 employees by continuing a hiring freeze and negotiating an attrition incentive program with unions. The department will increase staffing by 464 seasonal positions.
- Staffing in health and welfare agencies has declined by 748 employees, 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 214 positions 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.

[15] This does not include the 812 layoffs planned for libraries and cultural institutions.

Figure 40
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalents)

Additions/(Reductions)

		Actual		City Forecast		Variance	
		June 2010	March 2011	June 2011	June 2012	June 2010 to March 2011	March 2011 to June 2012
Public Safety		**81,457**	**81,045**	**80,401**	**79,005**	**(412)**	**(2,040)**
Police	Uniformed	34,532	34,420	33,814	34,309	(112)	(111)
	Civilian	15,981	15,900	15,893	15,525	(81)	(375)
Fire	Uniformed	11,057	10,771	10,879	10,273	(286)	(498)
	Civilian	4,847	5,015	4,865	4,846	168	(169)
Correction	Uniformed	8,772	8,465	8,638	8,404	(307)	(61)
	Civilian	1,444	1,419	1,735	1,752	(25)	333
District Attys. & Prosecutors		3,637	3,644	3,086	3,113	7	(531)
Probation		785	784	808	770	(1)	(14)
Other		402	627	683	13	225	(614)
Health & Welfare		**23,002**	**22,254**	**23,445**	**24,011**	**(748)**	**1,757**
Social Services		10,219	9,964	10,478	10,608	(255)	644
Children's Services		5,845	5,617	5,891	6,398	(228)	781
Health & Mental Hygiene		4,723	4,543	4,813	4,776	(180)	233
Homeless Services		1,832	1,771	1,883	1,867	(61)	96
Other		383	359	380	362	(24)	3
Environment & Infrastructure		**17,864**	**16,032**	**17,018**	**15,360**	**(1,832)**	**(672)**
Sanitation	Uniformed	7,105	6,961	6,875	6,822	(144)	(139)
	Civilian	1,964	1,885	2,005	2,001	(79)	116
Transportation		2,368	2,203	2,144	1,989	(165)	(214)
Parks & Recreation		6,218	4,774	5,770	4,331	(1,444)	(443)
Other		209	209	224	217	- - -	8
General Government		**8,925**	**8,614**	**9,963**	**10,274**	**(311)**	**1,660**
Finance		1,930	1,811	2,096	2,026	(119)	215
Law		1,344	1,238	1,255	1,287	(106)	49
Citywide Admin. Services		1,706	1,377	1,462	1,455	(329)	78
Taxi & Limo. Commission		432	434	478	439	2	5
Investigations		217	205	232	223	(12)	18
Board of Elections		472	498	1,105	1,299	26	801
Info. Tech. & Telecomm.		1,062	1,032	1,062	1,047	(30)	15
Other		1,762	2,019	2,273	2,498	257	479
Housing		**1,725**	**1,594**	**1,788**	**1,699**	**(131)**	**105**
Buildings		1,174	1,101	1,183	1,163	(73)	62
Housing Preservation		551	493	605	536	(58)	43
Department of Education		**118,392**	**116,931**	**115,713**	**108,974**	**(1,461)**	**(7,957)**
	Pedagogues	96,109	94,542	93,445	86,801	(1,567)	(7,741)
	Non-Pedagogues	22,283	22,389	22,268	22,173	106	(216)
City University of New York		**7,775**	**8,647**	**7,471**	**7,258**	**872**	**(1,389)**
	Pedagogues	5,037	5,926	5,244	5,075	889	(851)
	Non-Pedagogues	2,738	2,721	2,227	2,183	(17)	(538)
Elected Officials		**2,320**	**2,270**	**2,305**	**2,311**	**(50)**	**41**
Total		**261,460**	**257,387**	**258,104**	**248,892**	**(4,073)**	**(8,495)**

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