



Review of the Financial Plan of the City of New York

June 2012

Report 3-2013

New York State
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I. Executive Summary

Nearly one year ago, New York City adopted a balanced budget for FY 2012, but projected a budget gap of \$4.6 billion for FY 2013, and even larger gaps for subsequent years. On May 3, 2012, the Mayor issued his executive budget for FY 2013 and an associated four-year financial plan (the “May Plan”). The City now projects a modest surplus for FY 2012, a balanced budget for FY 2013, and out-year budget gaps that average \$3.3 billion (see Figure 1).

Most of the improvement in New York City’s financial situation over the past year has come not from higher tax collections, but from freeing up reserves (\$5 billion) and other nonrecurring resources, such as proceeds from the anticipated sale of taxi medallions (\$1 billion) and the CityTime fraud settlement (\$466 million). While the City’s economy is improving, the growth in tax collections has been tepid because of weakness on Wall Street and because job growth has been concentrated in lower-paying industries.

Although the City’s financial outlook has improved, the May Plan is not free of risks (see Figure 2). The largest quantifiable budget risk is the anticipated receipt of \$1 billion in FY 2013 from the sale of 2,000 taxi medallions. Ongoing litigation could prevent the planned sale or the realization of the full amount in FY 2013.

The pace of the economic recovery also presents a budget risk. The national economic recovery has begun to slow, and there are heightened concerns that the deteriorating European sovereign debt crisis will further slow the nation’s recovery. Although employment data suggests that New York City has regained 129 percent of the jobs lost during the recession, the City’s economy is heavily dependent on the financial services sector, which could be adversely affected if the European turmoil spreads to U.S. financial markets.

The New York Stock Exchange recently reported that its member firms earned \$7.3 billion during the first quarter of 2012 from their broker/dealer operations (the traditional measure of Wall Street profitability), which bodes well for the City’s economy. This represents a significant rebound from the fourth quarter of 2011, when the industry lost \$2 billion, and greatly exceeded the City’s expectations. In recognition of the risks associated with the securities industry, the City had wisely lowered its expectations for Wall Street profits in 2012 to \$10 billion. While the results of the first quarter are encouraging, profitability in the industry has been volatile in recent years, and one quarter’s results may not be indicative of the outcome for the entire year. The recently announced trading losses at JPMorgan Chase, for example, could be a harbinger of reduced profitability in subsequent quarters.

In recent years, the City has relied heavily on surplus resources generated in prior years and on other nonrecurring resources to balance the budget. The City currently projects a surplus of \$1.7 billion for FY 2012, which it intends to use to help balance the budget in FY 2013 (\$1.6 billion) and narrow the FY 2014 budget gap (\$124 million). The FY 2012 surplus, however, is substantially smaller than last year's surplus (\$3.7 billion), which is an indication that the economy is not outperforming the City's relatively conservative assumptions.

In total, the FY 2013 budget is balanced with \$4 billion in nonrecurring resources, including surplus funds from FY 2012, proceeds anticipated from the sale of taxi medallions and \$1 billion from the Retiree Health Benefits Trust (RHBT). The RHBT was created by the City to help fund the future cost of retiree health benefits, but the City has been redirecting these resources (\$3.1 billion) to help balance the budget, leaving future taxpayers to fund the full cost of services being provided today.

The May Plan also reflects the impact of the recently enacted State budget and new pension plans for public employees hired on or after April 1, 2012. The City estimates that State actions will benefit the City's budget by \$300 million in FY 2013 and by larger amounts in subsequent years. Most of the benefit during the financial plan period comes from planned increases in education aid and a three-year takeover of the growth in the local share of Medicaid.

Overall, the Mayor's executive budget for FY 2013 is balanced based on reasonable assumptions, but the City should develop a contingency plan in case it does not realize the full \$1 billion anticipated from the sale of taxi medallions in that year.

In the days ahead, the Mayor and the City Council will negotiate changes to the Mayor's budget proposal. The City Council, for example, has raised objections to some of the Mayor's cost-reduction proposals. In the past, the City Council and the Mayor have worked together during the budget adoption process to rescind proposed cuts to libraries, cultural institutions, firehouses, and child care and after-school programs.

Even though the City projects a balanced budget for FY 2013, it still projects sizeable budget gaps for fiscal years 2014 through 2016, and these gaps could grow. The City's financial plan assumes a three-year wage freeze, but the City has not yet reached new labor agreements with the unions that represent the municipal work force. The May Plan also does not reflect the potential impact of actions the federal government may take to address its budget deficit, and the pace of the economic recovery remains vulnerable to shocks, such as the European sovereign debt crisis.

Figure 1
New York City Financial Plan
(in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
REVENUES					
Taxes					
General Property Tax	\$ 17,902	\$ 18,354	\$ 18,956	\$ 19,617	\$ 20,259
Other Taxes	23,486	24,503	25,445	26,799	28,022
Tax Audit Revenue	700	724	706	706	706
Subtotal: Taxes	\$ 42,088	\$ 43,581	\$ 45,107	\$ 47,122	\$ 48,987
Miscellaneous Revenues	6,747	7,278	6,221	6,206	6,309
Unrestricted Intergovernmental Aid	25	---	---	---	---
Less: Intra-City Revenue	(1,790)	(1,596)	(1,595)	(1,598)	(1,603)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$ 47,055	\$ 49,248	\$ 49,718	\$ 51,715	\$ 53,678
Other Categorical Grants	1,036	923	919	916	902
Inter-Fund Revenues	555	538	510	509	509
Federal Categorical Grants	7,666	6,595	6,473	6,373	6,372
State Categorical Grants	11,312	11,413	11,713	12,119	12,628
Total Revenues	\$ 67,624	\$ 68,717	\$ 69,333	\$ 71,632	\$ 74,089
EXPENDITURES					
Personal Service					
Salaries and Wages	\$ 21,940	\$ 21,735	\$ 21,959	\$ 22,192	\$ 22,554
Pensions	7,999	8,145	8,181	8,084	8,166
Fringe Benefits	8,014	8,452	9,043	9,647	10,323
Retiree Health Benefits Trust	(672)	(1,000)	(1,000)	---	---
Subtotal: Personal Service	\$ 37,281	\$ 37,332	\$ 38,183	\$ 39,923	\$ 41,043
Other Than Personal Service					
Medical Assistance	\$ 6,248	\$ 6,283	\$ 6,366	\$ 6,447	\$ 6,416
Public Assistance	1,327	1,274	1,279	1,279	1,279
All Other ^{1,2}	20,909	20,599	21,169	21,789	22,355
Subtotal: Other Than Personal Service	\$ 28,484	\$ 28,156	\$ 28,814	\$ 29,515	\$ 30,050
General Obligation, Lease and TFA Debt Service ^{1,2,3}	\$ 5,623	\$ 6,129	\$ 6,799	\$ 7,172	\$ 7,450
FY 2011 Budget Stabilization & Discretionary Transfers ¹	(3,742)	---	---	---	---
FY 2012 Budget Stabilization & Discretionary Transfers ²	1,728	(1,728)	---	---	---
FY 2013 Budget Stabilization ³	---	124	(124)	---	---
General Reserve	40	300	300	300	300
Subtotal	\$ 69,414	\$ 70,313	\$ 73,972	\$ 76,910	\$ 78,843
Less: Intra – City Expenses	(1,790)	(1,596)	(1,595)	(1,598)	(1,603)
Total Expenditures	\$ 67,624	\$ 68,717	\$ 72,377	\$ 75,312	\$ 77,240
Gap To Be Closed	\$ ---	\$ ---	\$ (3,044)	\$ (3,680)	\$ (3,151)

¹ Fiscal Year 2011 Budget Stabilization and Discretionary Transfers total \$3.742 billion, including GO of \$2.784 billion, TFA of \$790 million, net equity contribution in bond refunding of \$4 million and subsidies of \$164 million.

² Fiscal Year 2012 Budget Stabilization and Discretionary Transfers total \$1.728 billion, including GO of \$1.664 billion and subsidies of \$64 million.

³ Fiscal Year 2013 Budget Stabilization totals \$124 million.

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

	<i>Better/(Worse)</i>				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Surplus/(Gaps) per May Plan	\$ - - -	\$ - - -	\$ (3,044)	\$ (3,680)	\$ (3,151)
Tax Revenues	(75)	- - -	150	300	500
Taxi Medallion Sale ⁴	- - -	(1,000)	- - -	- - -	- - -
Police Overtime	- - -	(50)	(50)	(50)	(50)
Special Education Medicaid Payments	- - -	(50)	(50)	(50)	(50)
Debt Refunding	- - -	68	69	- - -	- - -
OSDC Risk Assessment	(75)	(1,032)	119	200	400
Remaining Gap to be Closed per OSDC^{5,6}	\$ (75)	\$ (1,032)	\$ (2,925)	\$ (3,480)	\$ (2,751)

⁴ In response to lawsuits challenging the constitutionality of the State law that authorized the sale of taxi medallions among other provisions, a temporary restraining order was issued on June 1, 2012 that prevents the implementation of any aspect of the law, including the sale of new medallions. If the litigants prevail, the entire law could be invalidated. If the City is allowed to proceed with the sale, it could realize more than \$1 billion based on the potential value of the medallions, although the proceeds would likely be realized over more than one fiscal year.

⁵ The May Plan includes a general reserve of \$40 million in FY 2012 and \$300 million annually in each of fiscal years 2013 through 2016.

⁶ The May Plan assumes a three-year wage freeze after the expiration of contracts negotiated in the last round of collective bargaining (most of which have already expired), but includes reserves sufficient to fund wage increases of 1.25 percent annually beginning in FY 2013. If wages were instead to rise at the projected local inflation rate, the City could incur additional costs of \$1.4 billion in FY 2012 (including retroactive pay), \$1.6 billion in FY 2013, \$2.1 billion in FY 2014, \$2.6 billion in FY 2015 and \$3 billion in FY 2016. The City also has not reached an agreement with the United Federation of Teachers and the Council of School Supervisors and Administrators for the prior round of collective bargaining. Wage increases at the pattern rate during that round of collective bargaining could increase costs by \$900 million annually during the financial plan period, excluding any retroactive costs.

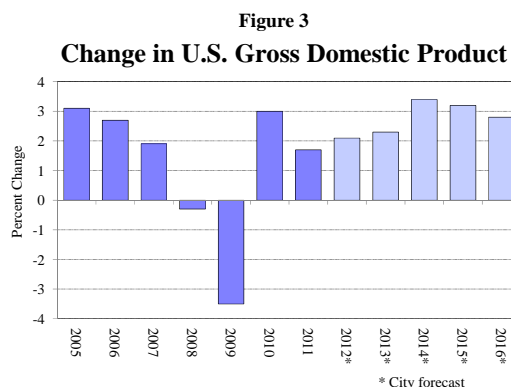
II. Economic Trends

The pace of the national economic recovery has slowed in recent months after strong gains in the second half of 2011. Employment growth has slowed, housing markets remain weak and the financial markets have come under pressure again. Looking forward, economic growth is expected to remain subdued and the recovery faces risks from the ongoing European sovereign debt crisis and upcoming changes in federal spending and taxation.

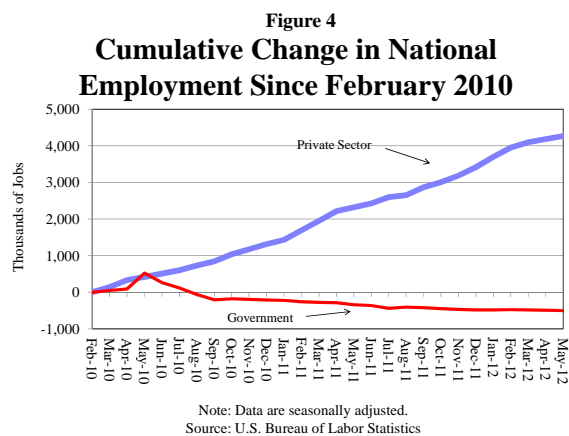
The growth in the nation's Gross Domestic Product (GDP) slowed from 3 percent in the fourth quarter of 2011 to 1.9 percent in the first quarter of 2012 as business investment fell because of weaker global demand and higher energy prices. The May Plan assumes that GDP will grow by 2.1 percent for all of 2012 and 2.3 percent for 2013 (see Figure 3), which is faster than in 2011 but not fast enough to bring down the unemployment rate quickly. The City does not expect the rate of growth to pick up until 2014.

The pace of national job gains has slowed significantly in the past three months, with the private sector expanding at an average of 105,000 jobs per month from March through May 2012, compared to an average of 255,000 jobs per month during the three prior months. Some economists believe the warm winter caused seasonal employment practices to shift, keeping job levels elevated and reducing the usual spring pickup in hiring.

Thus far, the nation has recovered 3.8 million or 46 percent of the jobs lost during the recession, but unemployment has remained high (at 8.2 percent in May 2012). The private sector has recovered 4.3 million jobs (more than half of those lost), while the government sector has lost 500,000 jobs (see Figure 4). The May Plan projects that the rate of national job growth will slowly rise from 1.2 percent in 2011 to 1.5 percent in 2012, ultimately reaching 1.8 percent by 2014. This rate of growth is lower than the average annual rate during the 1990s expansion (2 percent), but higher than in the mid-2000s (1.4 percent).

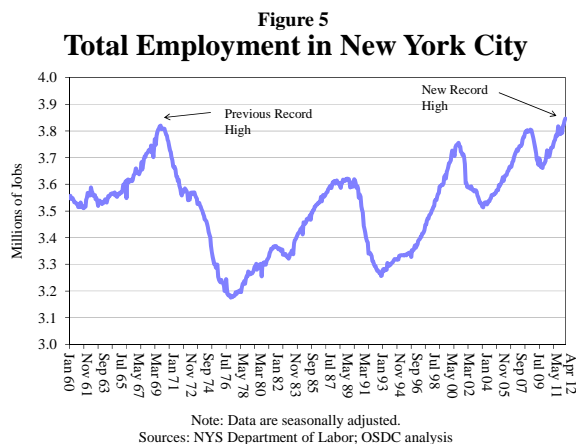


Sources: U.S. Bureau of Economic Analysis; NYC Office of Management and Budget



The housing market remains weak. While both new home sales and existing home sales are at the highest level since the expiration of the federal home buyer tax credit in May 2010, sales remain significantly lower than their prerecessionary levels. Tight credit conditions and the large number of foreclosures continue to weigh on the housing market, despite historic low mortgage rates. Meanwhile, home prices continue to drift lower, with the most recent S&P/Case-Shiller Home Price Index showing that as of March 2012, national home prices have declined by 34 percent from the peak reached in 2006.

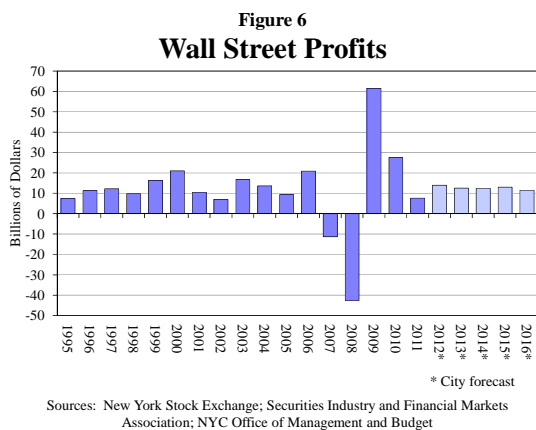
The recovery in New York City has been stronger than in the rest of the nation, with the City regaining 129 percent of the jobs it lost during the recession.⁷ The nation, by comparison, has recovered about half the jobs it lost in the recession. Through April 2012, the City's private sector has added 199,700 jobs, while the government sector has shed 18,900 jobs.



As shown in Figure 5, the strong job growth has lifted total employment in New York City to a new high of 3.8 million jobs in April 2012, surpassing both the previous record high in 1969 and the recent prerecession high in 2008. The May Plan assumes that the pace of job gains will slow to 1.3 percent in 2012 (from 2.0 percent in 2011), and then to an average of 1.1 percent through 2016, when employment will top 4 million jobs.

Nevertheless, the strong job gains have not yet significantly reduced the City's unemployment rate. Unemployment in the City had fallen to 8.8 percent in May 2011 from its recessionary peak of 10 percent in February 2010, but since then it has risen to 9.5 percent in April 2012. The rise in the City's unemployment rate reflects an increase in the size of the labor force, as previously discouraged workers reenter the labor market but cannot always find jobs right away.

Wall Street got off to a strong start in 2011, with New York Stock Exchange member firms earning \$12.6 billion in the first half of the year from their broker/dealer operations (the traditional measure of Wall

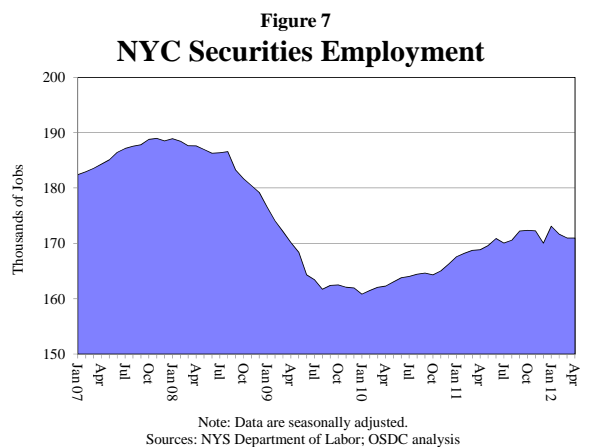


⁷ The City added 180,800 jobs during the recovery, compared with a loss of 140,100 during the recession.

Street profitability). In the second half of the year, however, the firms lost \$4.9 billion (the first quarterly losses since 2008) as the European sovereign debt crisis intensified, market volatility increased, and investment banking activity sagged. The full-year profits of \$7.7 billion were 72 percent lower than the \$27.6 billion earned in 2010, and were the lowest level in a decade except for the years of the financial crisis (see Figure 6). The May Plan assumes that Wall Street profits will total \$10 billion in 2012, which is less than assumed in the February Plan, and will then slowly grow to \$13.4 billion by 2016.

The New York Stock Exchange recently reported that its member firms earned \$7.3 billion during the first quarter of 2012. This represents a significant rebound from the fourth quarter of 2011, when the industry lost \$2 billion, and greatly exceeds the City’s expectations. While the results of the first quarter are encouraging, profitability in the securities industry has been volatile in recent years, and one quarter’s results may not be indicative of the outcome for the entire year.

The securities industry had recovered only 41 percent of the 28,100 jobs lost during the financial crisis before the industry began losing jobs again, shedding 1,400 since October 2011 (see Figure 7). Job losses are expected to continue as the industry restructures, and the May Plan assumes the industry will lose 2,600 jobs in 2012 and another 1,600 jobs by 2016.

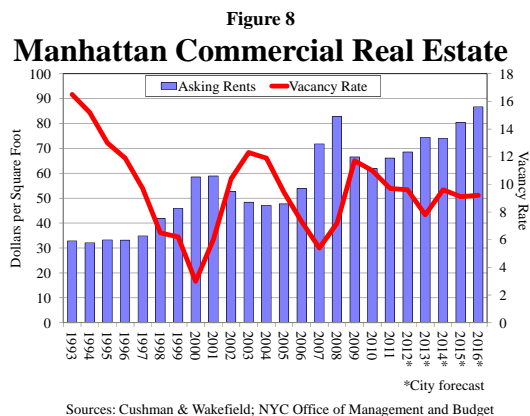


The May Plan estimates that lower profits, along with an increase in the portion of bonuses that are deferred to future years, caused a 12 percent decline in cash bonuses paid by securities firms to their New York City employees for work done in 2011 (compared to the State Comptroller’s February 2012 estimate of a 14 percent decline). The May Plan also assumes that a small increase in industry profits in 2012 will cause a slight increase in cash bonuses for the year. Along with projecting slower Citywide job growth, the May Plan assumes that total Citywide wage growth will slow from 5.6 percent in 2011 to 0.2 percent in 2012, and then rise to 3.8 percent in 2013.

The City’s tourism industry continues to boom, hosting a record 50.6 million visitors in 2011 (nearly 2 million more than the previous record set in 2010), who are estimated to have spent a record \$32.5 billion. NYC & Company, the City’s tourism bureau, projects that the number of visitors will reach 56 million by 2015 and that their spending will reach \$45 billion. Hotel occupancy remains strong, at nearly 80 percent in the first quarter of 2012, compared to 75 percent one year earlier. The

City anticipates that occupancy will remain above 80 percent during the plan period, and that room rates, which rose 5.6 percent in 2011, will continue to rise moderately.

The City's commercial real estate market continues to improve. Leasing activity reached 30 million square feet in 2011, the most in a decade. Cassidy Turley reported that in April 2012, the vacancy rate in Manhattan's primary office market fell to 9.6 percent, the lowest level in three years, and average asking rents grew to \$65.80 per square foot, or 10.3 percent higher than one year earlier. The May Plan assumes that rising office employment will cause the vacancy rate to fall to 7.8 percent by 2013, and the average asking rent to rise to \$74.41 per square foot (see Figure 8). The completion of more than 4 million square feet of office space in the World Trade Center, however, is expected to raise the vacancy rate to 9.6 percent in 2014 and keep it elevated through 2016, even as the average asking rent rises to \$86.66.



The City's residential real estate market remains sluggish. In 2011, single-family home sales and average prices declined by 8.5 percent and 0.7 percent, respectively. The May Plan assumes that although home sales will increase in 2013, prices will not rise until 2014. Prudential Douglas Elliman reported that in the first quarter of 2012, sales of Manhattan cooperative and condominium apartments fell by 3.5 percent (compared to one year earlier), and the median sales price fell by 0.9 percent. The historic low mortgage rates helped boost sales of entry-level studio and one-bedroom apartments, which accounted for 56.2 percent of all apartment sales—the second-highest share for this type of property since the fourth quarter of 2009 (58 percent). The City's rental market remains tight, with Cassidy Turley reporting that the vacancy rate in the City's multifamily apartment market fell to 2.4 percent in 2011—the lowest among the major U.S. metropolitan areas.

The City's economy still faces several risks. An escalation of the ongoing European sovereign debt crisis (e.g., through the rejection of austerity agreements in some countries) could adversely affect the world financial system. In addition, the crisis has already triggered a recession in Europe that may dampen global economic growth. The recently announced trading losses at JPMorgan Chase could be a harbinger of reduced profitability in the financial sector this year. Finally, tighter fiscal policy through scheduled federal budget cuts and revenue increases (from the expiration of payroll and income tax cuts) will have an adverse impact on short-term economic growth that the Federal Reserve may be unable to offset.

III. Changes Since the June 2011 Plan

In June 2011, the City projected a balanced budget for FY 2012 and budget gaps of \$4.6 billion in FY 2013 and about \$4.9 billion in each of fiscal years 2014 and 2015. Since June 2011, the City has drawn down reserves, proposed additional agency cost-reduction actions, benefited from a large court settlement, and revised its revenue and expenditure forecasts. These actions permitted the City to generate a surplus of \$1.7 billion in FY 2012, balance the FY 2013 budget, and to narrow the out-year gaps to \$3 billion in FY 2014 and \$3.7 billion in FY 2015 (see Figure 9).

The FY 2012 surplus comes almost entirely from a drawdown in reserves, rather than from unanticipated revenues as in past years. Over the course of FY 2012, the City raised its revenue forecast by only \$55 million in FY 2012 (the smallest change in 18 years), although there were substantial revisions in individual taxes. In subsequent years, the City is forecasting modestly higher revenues driven by higher forecasts for property and real estate transaction taxes, reflecting the improving commercial real estate market. The benefit of these unanticipated revenues during fiscal years 2012 through 2015 (\$1.4 billion), however, is expected to be more than offset by unexpected costs (\$2.8 billion) during the period.

In June 2011, the City projected a budget gap of \$4.6 billion for FY 2013. To close the gap, the City transferred most of the FY 2012 surplus to FY 2013 (\$1.6 billion); drew down reserves (\$1.4 billion), including from the Retiree Health Benefits Trust;⁸ anticipated proceeds from the sale of additional taxi medallions (\$1 billion); and implemented additional cost-reduction actions (\$784 million). The budget gaps were reduced in subsequent years, mostly from drawing down reserves and from the recurring impact of agency actions to be implemented in FY 2013.

In February 2012, the City drew down pension reserves (\$425 million in each of FY 2012 and FY 2013, \$501 million in FY 2014, and \$902 million in FY 2015) by assuming the implementation of the City Actuary's recommended changes in the actuarial assumptions and methodologies used to calculate City pension contributions.

The May Plan also reflects the planned State takeover of the growth in the local share of Medicaid over a three-year period and the impact of new pension plans for future employees, effective April 1, 2012. While the City anticipates savings of \$147 million during fiscal years 2015 and 2016 from the new pension plans, these savings were mostly offset by enrollment in existing pension plans before the new plans took effect.

⁸ The Retiree Health Benefits Trust was established by the City with surplus funds during the last economic expansion to help fund the future cost of retiree health benefits. Instead, the City plans to use these resources, which will total more than \$3.1 billion including interest income, to help balance the budget during fiscal years 2010 through 2014.

Figure 9
Financial Plan Reconciliation—City Funds
May 2012 Plan vs. June 2011 Plan
(in millions)

	FY 2012	<i>Better/(Worse)</i>		FY 2015
		FY 2013	FY 2014	
Gap Per June 2011 Plan	\$ - - -	\$ (4,632)	\$ (4,844)	\$ (4,922)
Revenue Reestimates				
Real Property Tax	277	136	314	545
Sales Tax	38	80	80	73
Business Taxes	(351)	(370)	(140)	(138)
Personal Income Tax	(205)	(125)	(219)	(235)
Real Estate Transaction Taxes	152	239	267	288
All Other	144	253	180	151
Total	55	213	482	684
Expenditure Reestimates				
Uniformed Agencies	(377)	(482)	(435)	(371)
Social Services Agencies	(128)	(78)	(67)	(53)
Campaign Finance Board	---	(42)	---	---
Increased Pension Membership	---	---	(48)	(48)
Education	---	---	---	(100)
Debt Service	114	480	96	81
All Other	5	(283)	(505)	(592)
Total	(386)	(405)	(959)	(1,083)
Reserves				
Prior Years' Expenses	500	---	---	---
Pension Reserve	425	425	501	902
General Reserve	260	---	---	---
Retiree Health Benefits Trust ⁹	---	1,000	1,000	---
Total	1,185	1,425	1,501	902
Other Actions				
CityTime Settlement	466	---	---	---
Agency Program	408	784	587	575
Taxi Medallion Sales	---	1,000	---	---
State Takeover Of Medicaid Growth ¹⁰	---	11	65	164
Total	874	1,795	652	739
Surplus/(Gap)	1,728	(1,604)	(3,168)	(3,680)
Surplus Transfer	(1,728)	1,604	124	---
Gap Per May Plan	\$ - - -	\$ - - -	\$ (3,044)	\$ (3,680)

Sources: NYC Office of Management and Budget; OSDC analysis

⁹ During the most recent recession the City drew down resources set aside in a Retiree Health Benefits Trust, and the City expects to exhaust the remainder of these resources (\$2 billion) by FY 2014.

¹⁰ The May Plan reflects the budgetary impact of the State's enacted budget for SFY 2012-2013. In addition to the savings from the State takeover of the growth in the local share of Medicaid, the City will also benefit from increased State education aid and new pension plans approved by the State for City employees. See the "Impact of State Actions" section for a more detailed discussion.

IV. Impact of State Actions

The enacted budget for State Fiscal Year (SFY) 2012-2013 closes a \$3.5 billion budget gap by limiting spending (\$2 billion) and restructuring the State income tax (\$1.5 billion). The enacted budget, in combination with a new pension plan for future employees, will benefit the City's budget by \$317 million in FY 2013, \$641 million in FY 2014, \$1.1 billion in 2015 and \$1.7 billion in FY 2016 (see Figure 10). Most of the benefit is due to planned increases in State education aid and a three-year phased takeover of the growth in the local share of Medicaid.

Figure 10
Impact of State Actions
on New York City's Financial Plan
(in millions)

	FY 2013	FY 2014	FY 2015	FY 2016
Education Aid	\$ 293.0	\$ 558.0	\$ 875.0	\$ 1,257.8
Medicaid Savings	10.8	65.2	163.9	292.6
New Pension Plan ¹¹	---	---	49.0	98.0
All Other Actions	13.6	17.8	23.6	23.6
Total Impact	\$ 317.4	\$ 641.0	\$ 1,110.5	\$ 1,672.0

Sources: NYC Office of Management and Budget; OSDC analysis

The State budget increases education aid to the City by \$293 million in FY 2013, \$558 million in FY 2014, \$875 million in FY 2015 and \$1.3 billion in FY 2016. The State also plans to distribute \$50 million in competitive grants to school districts across the State, for which the City will be able to compete. The increases in State education aid, however, are contingent upon the implementation of a teacher evaluation program by January 2013. The City risks not only the loss of State education aid, but \$142 million in federal funds. School districts across the State, including New York City, will still have to negotiate the details of an evaluation program with the unions that represent their teachers.

The May Plan reflects the three-year phased takeover of the growth in the local share of Medicaid. In January 2006, the State capped the growth in the local share of Medicaid at 3 percent annually. The State plans to assume the cost of the growth in the local share over three years, beginning on January 1, 2013. The City estimates that this initiative will produce savings of more than \$500 million during the financial plan period.

¹¹ These savings were mostly offset when employees joined existing pension plans before the new pension plans took effect.

The May Plan also reflects the enactment of new pension plans for State and local government employees hired on or after April 1, 2012. The new pension plans will generate government savings mostly by reducing employee benefits and increasing employee contributions. The May Plan anticipates savings of \$49 million in FY 2015 and \$98 million in FY 2016 from the new pension plans. The City estimates that the new pension plans will save a total of \$21 billion over 30 years. In addition, the State authorized the sale of 2,000 additional taxi medallions in New York City, which the City estimates will generate \$1 billion in FY 2013 (see Section VIII, “Other Issues”).

The State’s enacted budget also provides \$4 billion in operating aid to the Metropolitan Transportation Authority (MTA) in SFY 2012-2013; this is \$190 million more than in the prior State fiscal year, and is already reflected in the MTA’s current financial plan. Operating aid includes \$250 million in general fund support to the MTA in calendar year 2012 to fully offset the revenue impact from changes to the MTA payroll mobility tax. The enacted budget also includes, as the MTA requested, \$770 million in State capital funding and a \$7 billion increase in the MTA’s outstanding bond cap to \$41.9 billion to help fund the final three years of the MTA’s 2010-2014 capital program. With the approved capital funding, the MTA’s proposed capital funding strategy for the 2010-2014 capital program has been approved by the MTA Capital Program Review Board.

V. The Agency Program

The May Plan assumes that the agency program will generate \$784 million in FY 2013, although the recurring value declines to \$514 million by FY 2016 (see Figure 11). The agency program would reduce staffing by 1,152 positions by the end of June 2013, but more than one-third of those positions would be filled by the end of FY 2016.¹² The impact on basic municipal services from a program of this size was mitigated by maximizing reimbursement from the federal and State governments, raising revenues from fees and tax audits, and reestimating costs. Since FY 2008, the City has implemented gap-closing initiatives that will generate about \$6 billion annually.

Figure 11
Agency Program
(in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Department of Education	\$ 147.0	\$ 301.2	\$ 180.5	\$ 189.2	\$ 122.3
Uniformed Agencies					
Police	8.3	74.6	57.0	58.4	59.2
Sanitation	14.4	54.0	6.4	6.4	6.4
Fire	16.7	38.0	39.5	39.6	39.6
Correction	13.4	16.6	17.1	17.5	17.8
Health and Social Services	112.2	58.1	83.6	58.6	58.7
Procurement Savings	- - -	55.5	55.5	55.5	55.5
Finance	8.0	43.5	19.8	20.5	22.3
Transportation	12.3	28.5	26.3	27.3	28.5
Parks	2.7	21.7	13.0	13.0	13.0
Libraries	6.1	13.2	13.2	13.2	13.2
Dept. of Information Tech.	12.8	9.0	9.0	10.1	11.3
Cultural Institutions	3.1	6.1	6.1	6.1	6.1
All Other Agencies	51.3	63.6	59.9	59.4	60.1
Total Agency Program	\$ 408.3	\$ 783.6	\$ 586.9	\$ 574.8	\$ 514.0

Sources: NYC Office of Management and Budget; OSDC analysis

Virtually the entire agency program is within the City's control to implement, although the City Council has raised objections to some of the Mayor's cost-reduction proposals. In the past, the Mayor and the City Council have worked together during the budget adoption process to rescind proposed cuts to libraries, cultural institutions, firehouses, and child care and after-school programs.¹³ Even though many of these cuts were rescinded last year, the programs were funded for only one year.

¹² The City also intends to eliminate 334 unfunded vacant positions in FY 2013.

¹³ The Fire Department is scheduled to close 20 fire companies, effective July 1, 2012.

The City reduced funding to the Department of Education (DOE) by \$147 million in FY 2012, \$301 million in FY 2013, and about \$160 million in subsequent years as part of the agency program. The reduction in funding, however, is not expected to affect educational services. The Transitional Finance Authority will transfer to the DOE \$100 million in excess State building aid in FY 2013. The DOE also plans to enhance processes for claiming federal and State aid, reestimate special education costs, and reduce funding for school repairs. The DOE, however, has been unable to comply with federal requirements for claiming Medicaid reimbursement for special education services, putting at risk \$50 million in payments starting in FY 2013.

The uniformed agencies are expected to generate savings of \$183 million in FY 2013, mostly from the following initiatives.

- The Police Department plans to reduce overtime costs by \$50 million annually, but such efforts have failed in the past. The department also anticipates the receipt of \$15 million in additional federal funds that would take the place of City funds.
- The Department of Sanitation has identified a \$29 million surplus in its waste export budget, and anticipates \$16 million in savings from delays in opening four solid waste marine transfer stations.
- The Fire Department will meet its FY 2013 target (\$38 million), mostly through increased fee collections.
- The Department of Correction is seeking State approval to reduce manning requirements in certain low-risk security facilities (\$9 million).

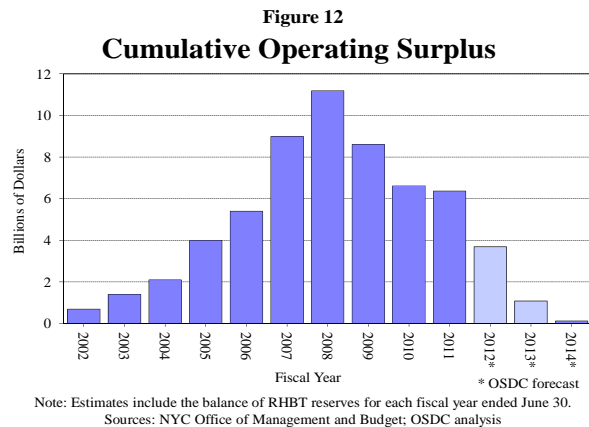
Agencies that provide health care and social services will generate \$170 million over the course of fiscal years 2012 and 2013, mostly by increasing the federal fringe reimbursement rate for certain employees whose positions are federally funded (\$72 million). The City also plans to reduce funding for certain public health programs, eliminate 2,300 after-school program slots and close seven school-based community centers.

The Department of Transportation (DOT) plans to reduce staffing by 112 positions (62 through layoffs and 50 through attrition) as a result of the transition to multispace parking meters (\$9 million). The DOT also expects to generate additional revenue from variable parking rate programs and to increase commercial parking rates in Manhattan, as well as fees for permits and fines.

The agency program reduces funding to libraries by 2 percent in FY 2012 and by 6 percent in subsequent years, resulting in the elimination of 195 positions and fewer branch hours. A similar funding reduction is planned for cultural institutions. The Department of Parks and Recreation will reduce staffing (137 positions) and identify new sources of revenue (\$13 million).

VI. Revenue and Expenditure Trends

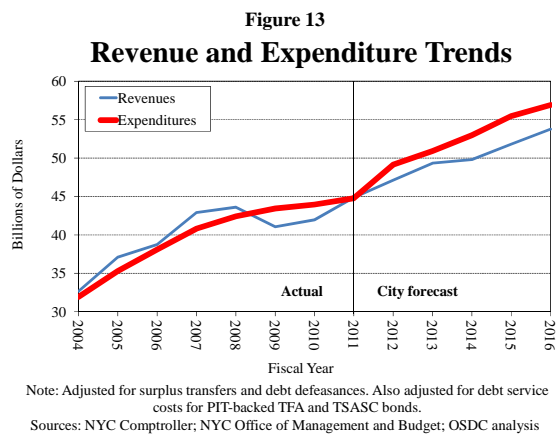
As the economy improved after the 2000-2002 recession, the City accumulated surplus resources that it used to pay down debt, increase reserves, and fund recurring expenses. The cumulative operating surplus peaked in FY 2008 at \$11 billion, including contributions to the Retiree Health Benefits Trust (RHBT). During the most recent recession, the City has drawn down the operating surplus (including resources set aside in the RHBT) to maintain spending. The City expects to exhaust these resources by FY 2014 (see Figure 12).



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 in those years by raising taxes, drawing down reserves accumulated during the last economic expansion, cutting agency budgets, and receiving federal stimulus funds. Federal stimulus aid dropped precipitously in FY 2012, but most of the loss was replaced with City funds.

As the economy has improved, revenue growth has strengthened, but not fast enough to support planned spending. To balance the budget during fiscal years 2012 and 2013, the City is relying heavily on nonrecurring resources, including resources generated during the last economic expansion. By our estimate, the FY 2012 budget includes nonrecurring resources of \$4.2 billion and the FY 2013 budget includes \$4 billion in nonrecurring resources (see Appendix A).

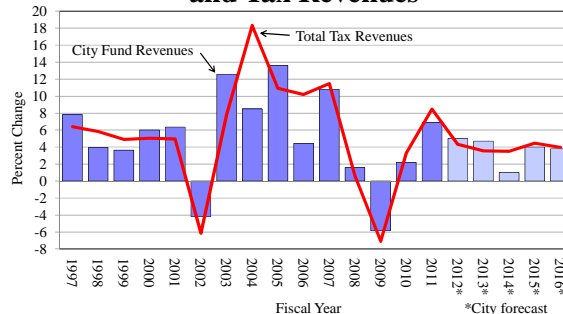
Expenditure growth is expected to grow more slowly than in recent years (averaging 3.8 percent during fiscal years 2014 through 2016), but spending is still projected to outpace the average rate of revenue growth during this period (2.9 percent). As a result, the City projects budget gaps that average \$3.3 billion during these years (see Figure 13).



A. Revenue Trends

Based upon the City’s assumption of a moderation in economic growth that will slow the pace of tax revenue gains, City fund revenues are forecast to grow by 4.7 percent in FY 2013 to reach \$49.3 billion, slightly less than the 5 percent gain expected in FY 2012 (see Figure 14). Revenue growth in these years has been boosted by nonrecurring resources: \$466 million received from the CityTime fraud settlement in FY 2012, and \$1 billion from the expected sale of new taxi medallions in FY 2013.

Figure 14
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

As these resources will not be replaced in FY 2014, City fund revenue growth that year is forecast to slow to 1 percent even though underlying tax revenue growth would be stronger.¹⁴ In fiscal years 2015 and 2016, annual City fund revenue growth averages 3.9 percent, reflecting a slight increase in expected tax revenue growth as the economy begins to show more improvement.

The May Plan did not make substantial changes to the forecast for tax revenues, primarily incorporating the impact of lower-than-expected Wall Street profits in 2011 on business tax collections. As indicated above, tax revenues are forecast to grow moderately during the financial plan period. Real property taxes are forecast to increase at an average annual rate of 3.1 percent during fiscal years 2013 to 2016 as the City’s expectation of continued weak conditions in the real estate market, especially for residential property, limits revenue growth. Nonproperty tax revenues are forecast to increase at an average annual rate of 4.4 percent during these years as job and wage growth are expected to be slower than in 2011, and as Wall Street profits show very little growth while the industry continues to work through the effects of the financial crisis.

Based on our review, personal and business tax collections could be lower by \$75 million in FY 2012 as the result of higher-than-anticipated business tax refunds and weakness in personal income tax collections. We are also concerned that business tax collections could be somewhat lower than forecast by the City in subsequent year.

Details of the City’s revenue trends are discussed below and shown in Figure 15.

¹⁴ Excluding these one-time resources, City fund revenues would have grown by 4 percent in FY 2012, 3.6 percent in FY 2013 and 3 percent in FY 2014.

Figure 15
City Fund Revenues
(in millions)

	FY 2012	FY 2013	Annual Growth	FY 2014	FY 2015	FY 2016	Average Three-Year Growth Rate
Taxes							
Real Property Tax	\$ 17,902	\$ 18,354	2.5%	\$ 18,956	\$ 19,617	\$ 20,259	3.3%
Personal Income Tax	7,966	8,476	6.4%	8,521	9,129	9,497	3.9%
Sales Tax	5,835	6,064	3.9%	6,326	6,599	6,839	4.1%
Business Taxes	5,400	5,486	1.6%	5,826	6,027	6,363	5.1%
Real Estate Transaction Taxes	1,426	1,547	8.5%	1,741	1,941	2,148	11.6%
Other Taxes	2,859	2,930	2.5%	3,031	3,103	3,175	2.7%
Audits	700	724	3.4%	706	706	706	-0.8%
Subtotal	42,088	43,581	3.5%	45,107	47,122	48,987	4.0%
Miscellaneous Revenues	5,027	5,756	14.5%	4,700	4,682	4,780	-6.0%
Unrestricted Intergovernmental Aid	25	---	-100%	---	---	---	NA
Grant Disallowances	(15)	(15)	NA	(15)	(15)	(15)	0.0%
Total	\$ 47,125	\$ 49,322	4.7%	\$ 49,792	\$ 51,789	\$ 53,752	2.9%

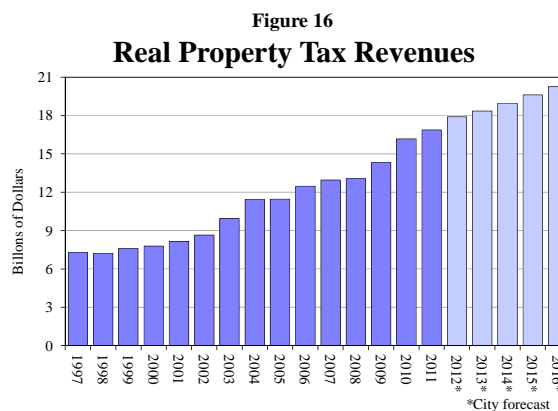
Note: Miscellaneous revenues include debt service on tobacco bonds.

Sources: NYC Office of Management and Budget; OSDC analysis

1. Real Property Taxes

The May Plan projects that real property tax collections will rise by 2.5 percent in FY 2013, to \$18.4 billion (see Figure 16), with growth driven by rising values for large residential properties (such as cooperatives, condominiums, and apartment buildings) and commercial properties. Although the recession had a serious impact on property values, revenues from the City's real property tax continued to grow because State law provides that changes in assessed values are phased in over several years, so the City was able to draw on previous growth in property values.

The May Plan forecasts that collections will grow at an average annual rate of 3.3 percent during fiscal years 2014 through 2016. While growth is still centered in large residential and commercial properties, the City assumes that increases in property values will be hampered by an expected increase in interest rates beginning in 2014, which will reduce building capitalization rates and cash flows.



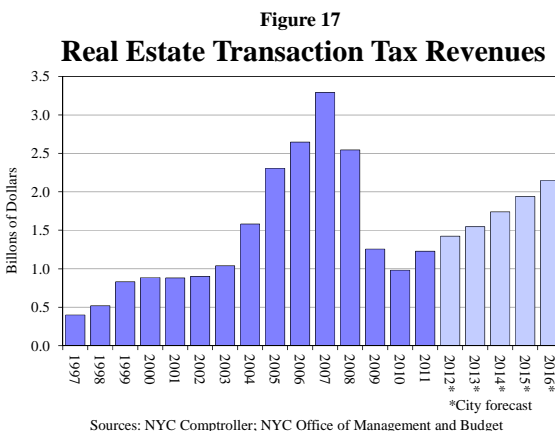
Sources: NYC Comptroller; NYC Office of Management and Budget

Our analysis finds that revenues from the real property tax could be higher than the City expects by \$150 million in FY 2014, \$300 million in FY 2015 and \$500 million in FY 2016. The Federal Reserve has announced that it plans to keep interest rates close to zero until late 2014 in order to support the economic recovery. Because of the lags in property valuation on the tax roll (the tax roll for FY 2013 is based on property

value changes during calendar year 2011), any initial increases in interest rates in early 2015 will not begin to affect revenues until the FY 2017 tax roll. We also believe the City's rising population and shortage of housing will maintain values for large residential properties, and that the large pipeline of assessment increases waiting to be phased in will further support growth.

2. Real Estate Transaction Taxes

Collections from the City's real estate transaction taxes have begun to rise again, helped by improvement in the commercial markets, although receipts remain significantly below prerecession levels (see Figure 17). The May Plan forecasts that collections will rise by 8.5 percent in FY 2013, to \$1.5 billion, and that as the residential real estate market improves, growth will average 11.6 percent annually during fiscal years 2014 through 2016.



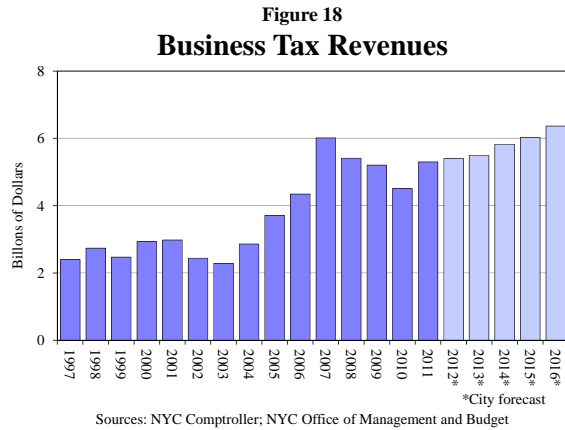
Within the City, the commercial real estate market has rebounded faster than the residential market, especially for high-value Manhattan office properties. During the first nine months of FY 2012, there were 23 sales of Manhattan office properties with values that exceeded \$25 million. While this number of transactions was less than for the same period in FY 2011, the value of these transactions was almost \$400 million greater. In the residential market, both the number of home sales and the value of these transactions declined during the first nine months of FY 2012. The value of home sales was also 20 percent below the same period in FY 2010, when transactions were lifted by the temporary federal tax credit for first-time home buyers. The May Plan assumes that home prices will begin to rise in 2014.

Although the City's real estate market is improving, the May Plan assumes that the recovery will be slow, as several factors, such as rising interest rates and an increase in the inventory of office space due to the completion of the World Trade Center, weigh on commercial property values. While we do not expect interest rates to rise as soon as the City does, we are concerned about the pace of recovery in the residential market, where the large number of foreclosures will continue to weigh on prices, and whether the European recession may affect foreign buyers, who have been important players in the local real estate market.

3. Business Taxes

The losses reported by Wall Street in the second half of 2011, as well as weakness at other financial firms such as hedge funds, are having an impact on City business tax collections. Over the past year, the City has reduced its forecast for the business taxes during fiscal years 2012 through 2015 by \$1 billion, with much of the reduction in fiscal years 2012 and 2013.

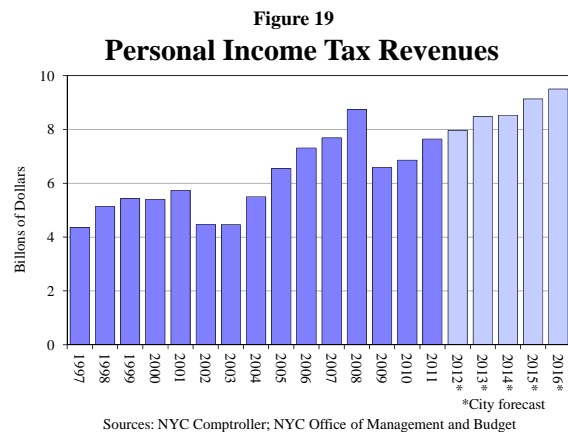
As a result, the May Plan now forecasts that business tax collections will rise by only 1.6 percent in FY 2013 to \$5.5 billion (see Figure 18). Because of this weakness, the recovery in business tax collections from the recession has slowed, and revenues in FY 2013 are still expected to be below collections in the peak year of FY 2007.



The May Plan forecasts that beginning in 2014 as the national and local economies improve, Wall Street profits begin to rise, and financial firms gradually finish drawing down tax credits generated when profits fell in the second half of 2011, business tax revenues will increase at an average annual rate of 5.1 percent through 2016. Nonetheless, the recent losses reported by JPMorgan Chase, coupled with other pressures facing the financial markets (including the European sovereign debt crisis), could adversely impact profitability and further dampen collections.

4. Personal Income Tax

The May Plan forecasts growth of 6.4 percent in the personal income tax in FY 2013, bringing collections to nearly \$8.5 billion (see Figure 19). Although the City expects employment and wage growth to slow, collections are forecast to grow faster than the 4.2 percent gain in FY 2012 because the City expects that taxpayers will try to accelerate income gains into the second half of calendar year 2012 in anticipation of the scheduled expiration of federal income tax rate reductions after December 31, 2012. Much of this additional income will be in the form of capital gains, which are forecast to rise by 28 percent in 2012.

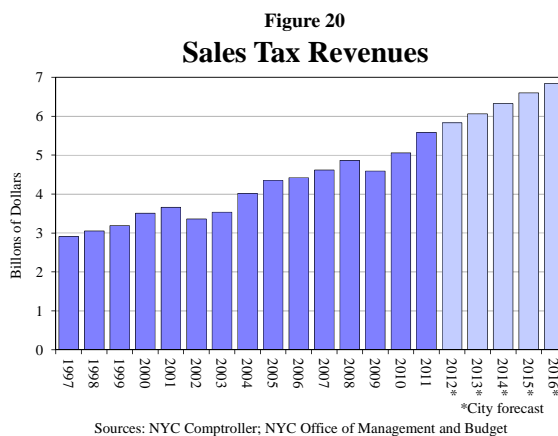


In FY 2014, revenues are forecast to increase by only 0.6 percent as the capital gains income that was accelerated into 2012 is not replaced. As the base employment and wage trends subsequently reassert themselves, collections are expected to rise at an average annual pace of 5.6 percent in fiscal years 2015 and 2016, and to finally exceed their prerecession levels.

5. Sales Tax

Growth in sales tax collections is forecast to slow slightly in FY 2013, rising by 3.9 percent compared to a 4.5 percent pace in FY 2012, as receipts total nearly \$6.1 billion (see Figure 20). The slowdown reflects the May Plan's assumption of a moderation in the rate of employment and wage growth.

As conditions are expected to improve somewhat beginning in 2014, sales tax collections are forecast to grow at an average annual rate of 4.1 percent during fiscal years 2014 through 2016. The City expects that strength in tourism will continue to support collections, although such activity, especially the number of international visitors, could be affected by the currently developing European recession. Additionally, the scheduled expiration of temporary federal payroll and income tax rate reductions, coupled with high energy prices, could reduce residents' disposable income and their level of spending.



B. Expenditure Trends

As shown in Figure 21, City-funded expenditures grew by 9.8 percent (\$4.4 billion) in FY 2012. The jump in spending reflects an increase in City funding to replace expiring federal stimulus aid (\$1.8 billion), offset a cut in State education aid (\$812 million), and fund higher pension contributions resulting from changes in actuarial assumptions (\$575 million). City-funded expenditures are projected to rise by only 3.6 percent in FY 2013 (\$1.8 billion), but this is still higher than the projected local inflation rate. Although City-funded spending is projected to exceed revenues by \$1.6 billion in FY 2013, the budget will be balanced with surplus resources generated in FY 2012.

The pace of City-funded spending is expected to pick up in FY 2014 and FY 2015 (growing by 4 percent and then 4.7 percent) before slowing in FY 2016 (2.6 percent). Expenditure growth is driven by continued growth in debt service and health insurance premiums. The growth in City-funded spending could be understated because the May Plan assumes a three-year wage freeze and then wage increases of 1.25 percent after the wage freeze expires.

City-funded spending has been held down during fiscal years 2010 through 2014 by drawing down resources deposited in the Retiree Health Benefits Trust. The City deposited surplus resources accumulated during the last economic expansion into the trust to help fund the future cost of retiree health benefits. Now, however, the City is using these resources to help balance the budget.

City-funded staffing levels (full-time and full-time-equivalent positions) have declined by 13,878 during fiscal years 2008 through 2011; a further staff reduction of only 360 employees is planned for FY 2012. The May Plan assumes that City-funded staffing will decline by another 1,309 positions during FY 2013 (see Appendix B).

The May Plan is based on the trends shown in Figure 22, as discussed below.

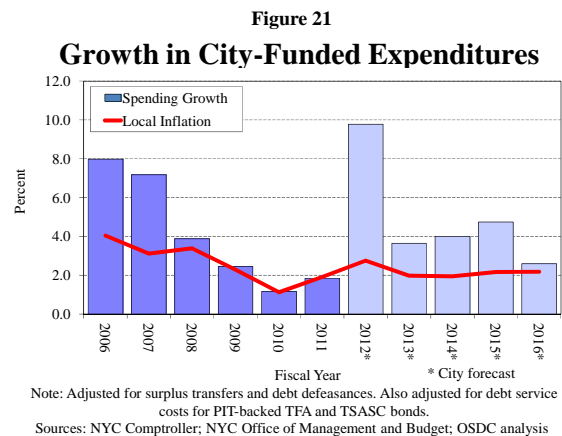


Figure 22
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC)
 (in millions)

	FY 2012	FY 2013	Annual Growth	FY 2014	FY 2015	FY 2016	Average Three-Year Growth Rate
Salaries and Wages	\$12,771	\$12,715	-0.4%	\$12,880	\$13,331	\$13,552	2.1%
Pension Contributions	7,843	7,988	1.8%	8,024	7,928	8,009	0.1%
Medicaid	6,091	6,190	1.6%	6,272	6,353	6,322	0.7%
Debt Service	5,237	5,832	11.4%	6,573	6,949	7,231	7.4%
Health Insurance	4,162	4,658	11.9%	5,129	5,682	6,274	10.4%
Other Fringe Benefits	2,796	2,863	2.4%	2,994	3,069	3,128	3.0%
Energy	874	1,010	15.6%	1,073	1,101	1,130	3.8%
Judgments and Claims	665	735	10.5%	768	779	815	3.5%
Public Assistance	561	532	-5.2%	534	534	534	0.1%
General Reserve	40	300	NA	300	300	300	NA
Drawdown Retiree Health Benefits Trust	(672)	(1,000)	NA	(1,000)	---	---	NA
Prior Year's Expenses	(500)	---	NA	---	---	---	NA
Other	9,271	9,103	-1.8%	9,413	9,443	9,608	1.8%
Total	\$49,139	\$50,926	3.6%	\$52,960	\$55,469	\$56,903	3.8%

Note: Debt service includes bonds issued by TSASC.

Sources: NYC Office of Management and Budget; OSDC analysis

1. Collective Bargaining

More than 97 percent of the City's workforce is currently working without a collective bargaining contract. The Mayor has proposed a three-year wage freeze and has eliminated the corresponding reserve for collective bargaining, reallocating those resources to help balance the budget.¹⁵ The May Plan includes funding beginning in FY 2013 for a 1.25 percent annual wage increase for the three years following the expiration of the wage freeze. If instead wages were to rise at the projected inflation rate during the seven-year period without any offsetting savings, costs would increase by \$1.4 billion in FY 2012 (including retroactive pay) and \$1.6 billion in FY 2013, and would reach \$3 billion in FY 2016.

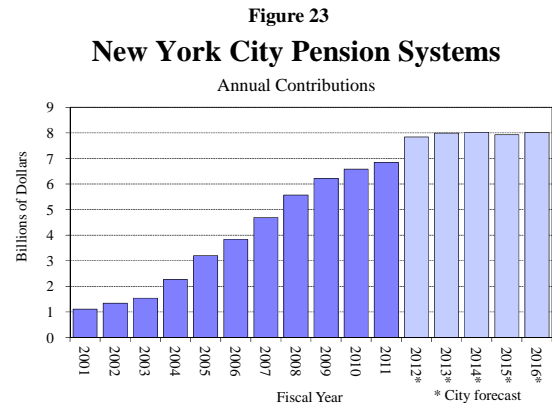
In addition, the City still has not reached a labor settlement with the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators for the prior round of collective bargaining covering calendar years 2009 and 2010. In early 2010, the State Public Employment Relations Board (PERB) found that contract negotiations between the City and the UFT had reached an impasse, and appointed a mediator to facilitate negotiations between the two parties, but a resolution does not appear to be imminent. In the event that mediation is

¹⁵ The State reached a five-year labor agreement with its two largest civilian unions that includes a three-year general wage freeze and annual wage increases of 2 percent in the final two years of the agreement. Employees are required to take five furlough days in the first year and four furlough days in the second year, and to increase their share of health insurance costs.

unsuccessful, the PERB could establish a fact-finding panel to determine the underlying causes of the impasse. The panel could issue recommendations in an attempt to resolve the impasse and, although the recommendations of the panel are nonbinding, they could serve as a framework for a new labor agreement. A retroactive agreement similar to those negotiated by the City’s other unions for those years would increase costs by \$1.7 billion in FY 2012 and by \$900 million annually thereafter.

2. Pension Contributions

The May Plan assumes that pension contributions will average \$8 billion during the financial plan period after growing rapidly in recent years (see Figure 23). These estimates assume the implementation of the New York City Actuary’s recommended changes in the actuarial assumptions and methodologies used to calculate the City’s pension contributions, and they reflect the impact of new pension plans for future employees.¹⁶



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

The City Actuary’s changes include: a reduction in the annual investment earnings assumption from 8 percent to 7 percent, because earnings from the financial markets are expected to be lower in the future; a different cost methodology (i.e., entry age) to determine the projected cost of future pension benefits; and a longer amortization period for existing unfunded pension liabilities.¹⁷ These changes require State approval. Other changes, such as a market value restart, do not require State approval.¹⁸ The trustees of the New York City Employees’ Retirement System, the New York City Teachers’ Retirement System and the Board of Education Retirement System have approved the Actuary’s recommendations, but the trustees of the Police and Fire systems have not yet voted on the proposed changes. The City plans to

¹⁶ The City estimates that the new pension plans will reduce planned contributions by \$49 million in FY 2015 and \$98 million in FY 2016.

¹⁷ The City Actuary would increase the amortization period for unfunded liabilities from about 15 years to 22 years, which would help free up \$3.1 billion in reserves during the financial plan period but also would result in higher costs in the long term.

¹⁸ Under a market value restart, the actuarial value of assets is reset to the market value rather than phasing in gains and losses over a six-year period. Another proposed change that does not require State approval is to alter the way investment expenses (i.e., management fees) are funded. Under the City Actuary’s proposal, the cost of investment expenses would be recovered implicitly (i.e., the proposed investment earnings assumption of 7 percent would be the net after expenses), rather than the current practice of recovering investment expenses directly from employers. This change would free up \$180 million during the financial plan period.

propose legislation to the State Legislature in the near future that would implement the recommendations.

If implemented, the changes would increase annual pension contributions by a net of \$575 million in FY 2012, \$605 million in FY 2013, \$539 million in FY 2014, \$148 million in FY 2015 and \$37 million in FY 2016. Since the City had established an annual reserve of \$1 billion to cover the cost of such changes, the City's financial plan would realize savings of \$425 million in FY 2012, \$395 million in FY 2013, \$461 million in FY 2014, \$852 million in FY 2015 and \$963 million by FY 2016.

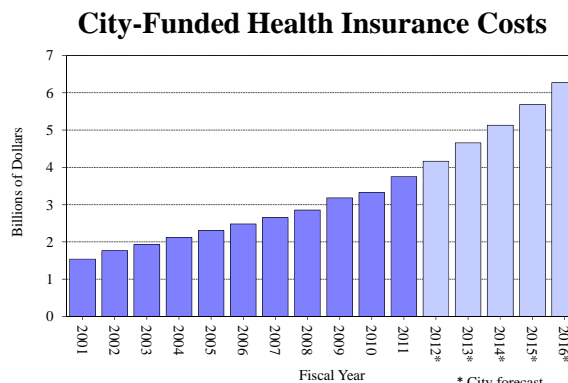
We estimate that, as of May 31, 2012, the pension systems have not realized any gain on their investments. The City could be required to make additional contributions beginning in FY 2014 if investment earnings fall short of the expected gain.¹⁹

The Governmental Accounting Standards Board (GASB) is expected to release new accounting standards in June 2012, with significant changes to how public employers measure and report their pension liabilities. The changes include requiring public employers to measure pension liability using the entry age cost methodology (which the City Actuary is already proposing), and to report an unfunded liability on their annual financial statements when the fair market value of the pension systems' assets falls short of the employers' liabilities. (In current practice, an unfunded liability is reported only when there is a shortfall in employer contributions to the pension systems.) According to the City, the impact of these and other changes, if implemented by the GASB, is uncertain at this time.

3. Health Insurance

The May Plan assumes that City-funded health insurance costs will rise from \$3.8 billion in FY 2011 to \$6.3 billion by FY 2016, an increase of 67 percent or \$2.5 billion (see Figure 24), as a result of rising health insurance premiums. Health insurance premiums for active employees are expected to rise by 8.5 percent in FY 2013 and by an average of more than 9 percent annually thereafter, in line with historical rates of growth. Premiums for Medicare-eligible retirees are expected to rise by 8 percent annually during the financial plan period.

Figure 24



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

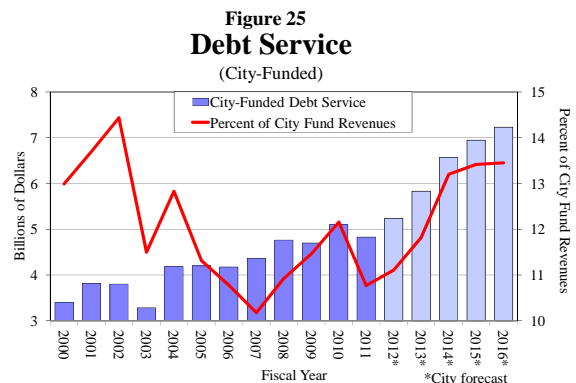
¹⁹ Each percentage point shortfall from the expected return on investments could require the City to increase its pension contribution by \$16 million in FY 2014, \$31 million in FY 2015 and \$47 million in FY 2016.

The cost of municipal health insurance also could be affected by a proposed conversion of the not-for-profit health insurers Health Insurance Plan of New York (HIP) and Group Health Incorporated (GHI) to a single, for-profit entity. Together, HIP and GHI cover 95 percent of the municipal workforce. The State and the insurers recently resumed discussions over the conversion process, which stalled in 2009 because of concerns about the economy. The State’s financial plan assumes that a conversion, which would require approval by the Superintendent of the State Department of Financial Services, would generate more than \$1 billion for the State over a four-year period starting in State FY 2013 (beginning April 1, 2012).

While the Mayor opposed the conversion on the premise that a for-profit entity would drive up the cost of health insurance premiums and lower the quality and extent of coverage for municipal employees, he had previously stated that the City should receive some of the proceeds from any conversion or benefit from a pledge from the insurer to cap future increases to the City’s health insurance premiums. New York City active and retired employees and their dependents represented nearly 40 percent of the people served by HIP and GHI statewide as of the end of 2010, the most recent fiscal year reported by both carriers.

4. Debt Service

The City has realized significant debt service savings in recent years because interest rates were lower than expected and because the City refunded debt to take advantage of the low-interest rate environment. The May Plan assumes rising interest rates beginning in FY 2013, but rates may rise more slowly than expected because the Federal Reserve intends to keep interest rates close to zero until 2014 to support the economic recovery.

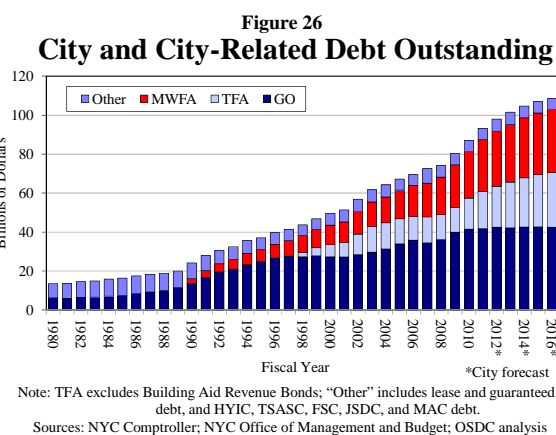


Note: Debt service amounts are adjusted for prepayments and debt defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSD analysis

City-funded debt service (adjusted for defeasances and surplus transfers) is estimated at \$5.8 billion in FY 2013, which is \$1 billion more than in FY 2011 (see Figure 25). These estimates, however, do not reflect the impact of a recent debt refunding that will reduce debt service by an estimated \$68 million in FY 2013 and \$69 million in FY 2014. Debt service is projected to reach \$7.2 billion by FY 2016. Figure 25 also shows that debt service is projected to consume 13.5 percent of City fund revenues in FY 2016, compared with 10.8 percent in FY 2011. (Debt service as a percent of total revenues would rise from 7.7 percent in FY 2011 to 10.2 percent in FY 2016.)

Debt service is driven by the size of the City’s capital plan, which is funded primarily through borrowing. City-funded capital commitments are expected to total \$31.5 billion during fiscal years 2012 through 2016, or about \$1 billion more than anticipated when the FY 2012 budget was adopted.²⁰ The increase primarily reflects higher allocations for technology equipment, highway and bridge construction, renovations to public buildings, and economic development projects.

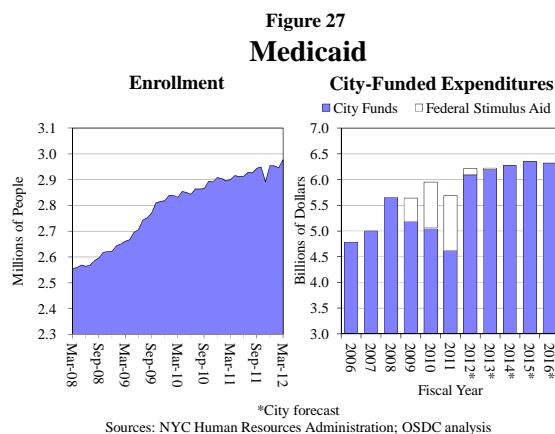
The outstanding debt of the City and City-related entities has risen steadily over the past 30 years.²¹ Debt outstanding grew from \$13.4 billion in FY 1980 to \$93.2 billion in FY 2011 (see Figure 26), and could reach more than \$108 billion by FY 2016. The FY 2011 amount is equivalent to about \$11,000 per capita, or \$5,000 more than ten years earlier, placing a heavier burden on City residents.



5. Medicaid

Over the past four years, enrollment in the Medicaid program grew by 17 percent to reach 2,977,419 people in March 2012 (see Figure 27), or about one out of every three New York City residents. Enrollment growth has slowed over the past year as the economy has improved and unemployment has declined.

The City-funded cost of this program fell from \$5.6 billion in FY 2008 to \$4.6 billion in FY 2011 as a result of temporary federal stimulus aid. In total, this aid benefited the City by \$2.6 billion through FY 2013. The May Plan assumes that the City’s share of Medicaid will reach \$6.3 billion in FY 2014 and then remain at that level because of the State takeover of the growth in the local share of Medicaid.

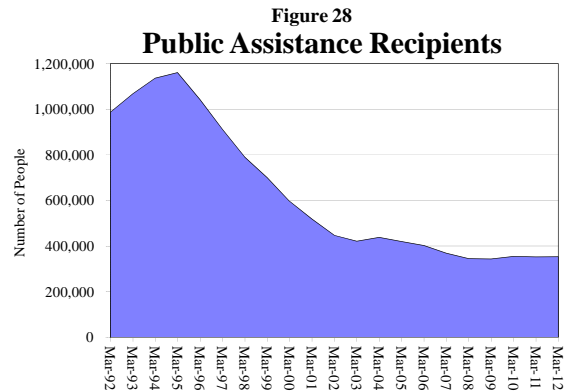


²⁰ Includes environmental protection projects funded primarily through debt issued by the Municipal Water Finance Authority (MWFA) and secured by water and sewer fees.

²¹ City and City-related debt includes GO debt, MWFA debt, TFA-PIT debt, lease and guaranteed debt, and debt of the Hudson Yards Infrastructure Corporation (HYIC), TSASC, the Fiscal Year 2005 Securitization Corporation (FSC), the Jay Street Development Corporation (JSDC), and the Municipal Assistance Corporation (MAC).

6. Public Assistance

The public assistance caseload rose by only 2 percent over the past four years, to total 353,062 recipients in March 2012 (see Figure 28), even though the recent recession was the deepest of the postwar era to date.²² In 2010, 20 percent of the City’s population lived below the federal poverty line, and about one in every five New York City residents received public assistance or food stamps.



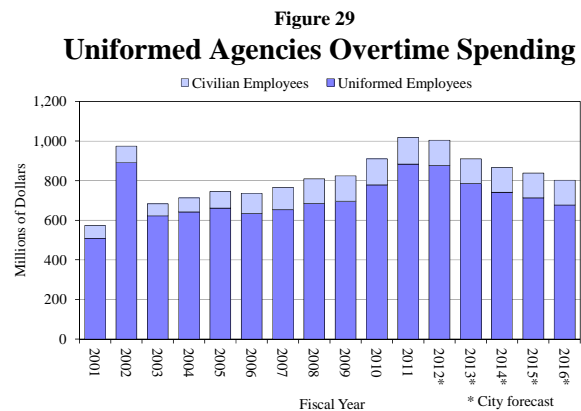
Sources: NYC Human Resources Administration; OSDC analysis

City-funded expenditures for public assistance (excluding the discontinued Work Advantage program, which benefited homeless families) are projected to total \$500 million in FY 2012 and then grow slowly through FY 2016, largely as a result of planned increases in benefits. The May Plan increases staffing at Food Stamp program offices by 260 employees citywide in response to the overwhelming demand for the benefit.

7. Uniformed Agencies

Overtime costs in the uniformed agencies (Police, Fire, Correction and Sanitation) exceeded \$1 billion in FY 2011, which surpasses the historic record amount set in FY 2002 during the aftermath of the terrorist attacks of September 11, 2001 (see Figure 29). The growth in overtime reflects collective bargaining agreements that increased wages; minimum manning requirements that must be met through overtime in response to staff shortages; and the cost of record-breaking snowfalls last winter.

These costs are projected to decline slightly in the current fiscal year from last year’s record as a result of record-low snowfalls this winter. Even though the City significantly increased funding for overtime in the out-years of the financial plan, the City still expects overtime to decline from \$1 billion in FY 2012 to \$800 million by FY 2016.



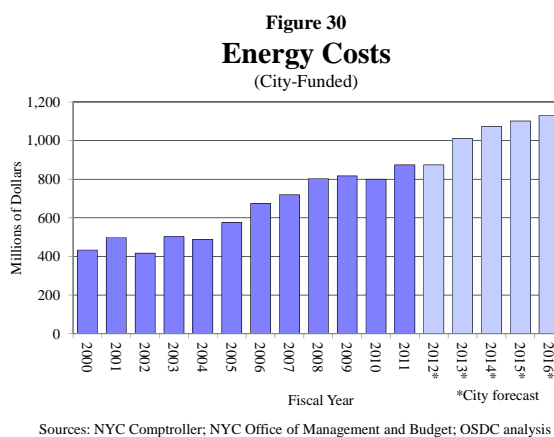
Sources: NYC Office of Management and Budget; OSDC analysis

²² The March 2012 public assistance caseload was 800,000 lower than the peak in March 1995, largely as a result of federal welfare reform measures implemented in the late 1990s that enforce work requirements.

The projected decline in overtime is dependent on the outcomes of several issues, some of which may not materialize. While the Police Department is expected to implement management strategies to reduce overtime costs by \$50 million annually, it has not achieved the savings in the past. The City expects a hiring ban on firefighters that was imposed by a federal court, which deemed the department’s hiring practices biased, to be lifted by March 2013 because of the creation of a new civil service list that was based on an exam developed under the supervision of a court-appointed special master. The Department of Correction plans to hire 332 employees during FY 2013 to staff posts previously filled through overtime.

8. Energy Costs

Energy costs (i.e., electricity, fuel, and heat) reached \$800 million in FY 2008, which is nearly double the cost seven years earlier, as a result of higher prices for oil and natural gas (see Figure 30). Energy costs remained stable during the next two fiscal years, rose sharply in FY 2011, and stabilized in FY 2012 as a result of the mild winter and low natural gas prices. The May Plan assumes that energy costs will increase by 16 percent in FY 2013, to \$1 billion, as usage returns to historical levels.



9. Homeless Services

The Department of Homeless Services (DHS) provides shelter for homeless families and single adults in more than 200 City facilities. The May Plan allocates a total of \$801 million for this purpose in FY 2013, including \$410 million in City funds.

In April 2012, the shelter population managed by the DHS reached record-high levels at 41,057, which is 11 percent higher than last year. In addition, the Human Resources Administration sheltered 2,640 people in facilities for victims of domestic violence, and another 1,918 people in facilities for homeless HIV/AIDS clients. The Department of Housing Preservation and Development also provides emergency housing to about 2,000 people who have become homeless as a result of extraordinary circumstances, such as a fire.

The DHS also provides funding for short-term housing and overnight shelters, operated by community- and faith-based organizations, for about 1,500 single adults in special needs populations. Of these adults, approximately half are chronically homeless (usually with mental health and/or substance abuse needs) and refuse traditional shelters, and about one-fourth are veterans in short-term housing.

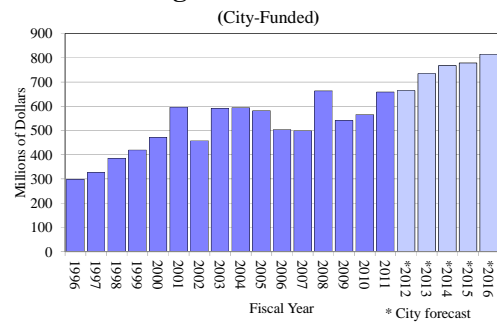
The Department of Youth and Community Development (DYCD) provides funding for 250 shelter beds operated by community- and faith-based organizations for runaway and homeless youth aged 16 to 21. In March 2012, the DYCD sheltered 131 homeless youth. The May Plan assumes that City funding for runaway and homeless youth programs would total \$5 million in FY 2013, which is \$7 million less than forecast for the current fiscal year.

The DHS has proposed guidelines that would require caseworkers to determine whether single adults seeking shelter have alternative housing before providing services. A lawsuit (charging the City with violating a court decree that requires it to shelter homeless single adults) has delayed implementation of the new guidelines. Another proposal to shelter small homeless families with children in shared living units is unlikely to be implemented given opposition from the City Council, whose approval is required.

10. Judgments and Claims

The May Plan assumes that the cost of judgments and claims will grow from \$665 million in FY 2012 to \$815 million in FY 2016 (see Figure 31), an increase of \$150 million. The City’s estimates reflect an increase in claims related to police actions, the growing cost of cases valued at \$1 million or more, and claims that the Fire Department discriminated against minority job applicants.

Figure 31
Judgments and Claims

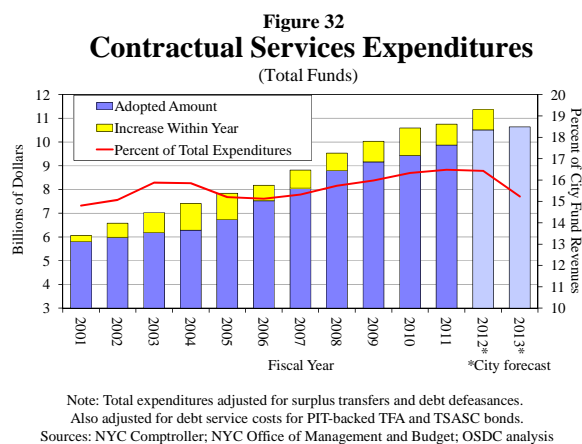


Sources: NYC Comptroller; NYC Office of Management and Budget; OSD analysis

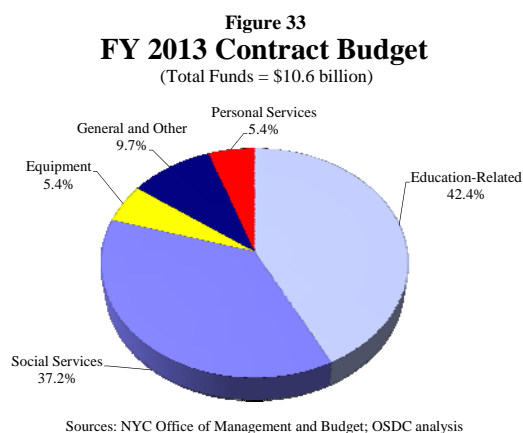
VII. The Contract Budget

In recent years, payments for contractual services²³ have received heightened scrutiny because of the increasing amounts spent on such services, and some instances of waste and fraud (e.g., CityTime). Last year, the City Council adopted legislation that requires the City to perform more rigorous cost-benefit analyses when considering contracting for services, among other measures designed to increase transparency.²⁴

Spending on contractual services totaled \$6.1 billion in FY 2001; by FY 2012, the cost nearly doubled to \$11.4 billion, or 16 percent of total expenditures (see Figure 32). 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 May Plan anticipates spending of \$10.6 billion on contractual services in FY 2013, but the size of the contract budget usually grows as approved federal and State grants are incorporated into the budget during the fiscal year. Nearly 80 percent (\$8.5 billion) of the contract budget in FY 2013 is devoted to education and social services (see Figure 33). The largest education-related expenditures are payments to private special education schools and charter schools (\$2.4 billion), student transportation (\$1.2 billion), and direct professional education services (\$940 million). The largest social service expenditures are for day care centers (\$616 million), mental hygiene services (\$610 million), and children’s charitable institutions (\$460 million).



²³ Contractual services are defined by the City Charter as any technical, consultant, or personal service provided to the City through a contract.

²⁴ The City Council also recently enacted measures that require the City to report cost overruns on large construction and service contracts and to create an online database of City contracts.

VIII. Other Issues

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

A. Department of Education

The May Plan allocates \$24.4 billion (including pensions and debt service) in FY 2013 to the Department of Education (DOE); this represents 35 percent of the City's total budget (26 percent of City funds). Of this amount, City funds account for \$13.4 billion or 55 percent, the State's contribution accounts for \$8.9 billion or 37 percent, and federal funds make up \$2 billion or 8 percent. Spending is projected to increase by \$1.1 billion in FY 2014, \$766 million in FY 2015, and \$945 million in FY 2016, reflecting growing costs for debt service, fringe benefits and special education.

Between fiscal years 2007 and 2012, City funding for education grew by \$3.9 billion. This increase reflects the City's commitment to increase funding for education in response to the Campaign for Fiscal Equity (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). Over the same period, State aid increased by \$1.2 billion, which is less than the \$3.2 billion promised in 2007.

After a large cut in State aid last year, the enacted State budget intends to increase education aid to New York City over the current allocation by \$293 million in FY 2013, \$558 million in FY 2014, \$875 million in FY 2015 and \$1.3 billion in FY 2016. The City intends to use the resources to fund 2,570 teachers that were expected to be lost to attrition in FY 2013, and to increase funding for general education programs.

In 2010, New York was awarded \$700 million in competitive federal grants under the Race to the Top program, with the understanding that the State would implement a teacher evaluation program. Although the State enacted such a program in May 2010, many school districts were unable to reach agreement with the unions that represent their teachers on some important additional details, such as the weight of student test scores, other local measures, and the appeal process for teachers.

To prevent the possible loss of federal funds, the Governor brokered an agreement that establishes a framework for a statewide teacher evaluation system. Although the agreement addresses the major issues, the City and the teachers' union must still reach agreement and must implement an evaluation system by January 2013 to receive any increase in State aid and prevent the loss of \$142 million in federal funds during the financial plan period.

B. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) projects budget gaps, on an accrual basis of accounting, of \$1.1 billion in FY 2012 and \$1.2 billion in FY 2013, rising to \$1.7 billion in FY 2016, because of a structural imbalance between recurring revenues and expenditures. To address these gaps, the HHC established a restructuring program in FY 2009 that has produced recurring savings of \$400 million annually. Additionally, the HHC has proposed an aggressive gap-closing program starting in FY 2013; however, this program assumes the receipt of substantial amounts of additional State and federal aid, which could be difficult to obtain given the fiscal condition of the State and federal governments. If the gap-closing actions are unsuccessful, the HHC could run out of cash during FY 2014. The HHC also plans to reduce staffing by another 1,069 positions through FY 2014.

C. Metropolitan Transportation Authority

The February 2012 financial plan for the Metropolitan Transportation Authority (MTA) projects surpluses of \$1 million in 2012 and \$80 million in 2013, and relatively small budget gaps of \$137 million in 2014 and \$204 million in 2015. These estimates, however, assume implementation of fare and toll increases of 7.5 percent on both January 1, 2013, and January 1, 2015, along with savings from additional cost-reduction initiatives. The MTA is scheduled to release an update to its financial plan in July of 2012.

The MTA also assumes that its unionized employees will agree to no-cost labor agreements for three years. The MTA is currently in negotiations with the Transport Workers Union, as the most recent contract expired on January 15, 2012.

The MTA's 2010-2014 capital program assumes that borrowing will make up \$14.8 billion, or 61 percent, of the \$24.3 billion program, which is the highest level of borrowing in the history of the MTA. This level of borrowing will increase MTA debt service by 64 percent, to \$3.2 billion, between 2011 and 2018. The MTA is currently planning to refund \$5.4 billion in debt at lower interest rates to help reduce its annual debt service costs.²⁵

²⁵ The Dormitory Authority of the State of New York plans to refund \$1.4 billion in State service contracts that benefited MTA projects. The debt service on these bonds is funded entirely by the State.

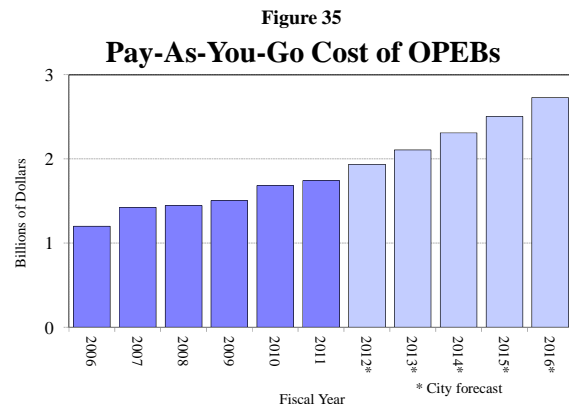
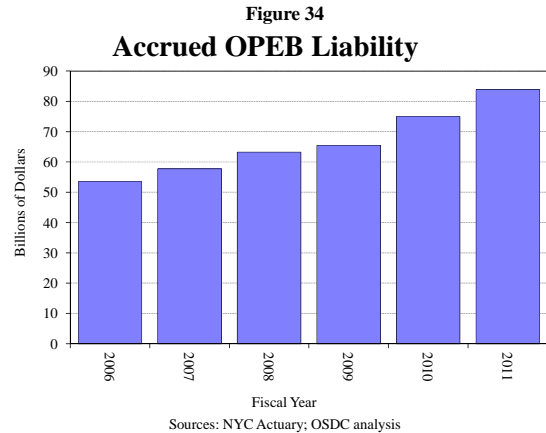
D. Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, which establishes standards for measuring and reporting the expense and related liabilities of other post-employment benefits (OPEBs), such as health insurance, on an actuarial basis. Although GASB 45 does not require entities to fund these costs on an actuarial basis, entities could realize significant long-term savings if they did so.

The City's accrued OPEB liability for past employee service reached \$83.9 billion as of FY 2011—an increase of \$30.4 billion since FY 2006 (the first OPEB valuation year reported by the City). The liability for FY 2011 rose sharply, by \$8.9 billion, from the previous fiscal year (see Figure 34). The increase primarily reflects the City's expectation that future health care costs will be higher as a result of longer life expectancies of retirees and rising health insurance premiums. The present value of the City's future OPEB obligations was \$41 billion as of June 30, 2010 (the most recent date for which data are available).

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. Recently, however, the City has been using these resources to help balance the budget. The City drew down \$477 million during fiscal years 2010 and 2011, and intends to draw down \$672 million in FY 2012 and \$1 billion in each of fiscal years 2013 and 2014 (a total of \$3.1 billion including interest).

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 2011, the City paid nearly half of the present value of obligations (\$3.2 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring nearly \$1.6 billion to future taxpayers. OPEB costs, on a PAYGO basis, are projected to rise by \$1 billion from FY 2011 to \$2.7 billion in FY 2016 (see Figure 35).



E. Sale of Taxi Medallions

The May Plan assumes the receipt of \$1 billion in FY 2013 from the sale of new taxi medallions, but pending procedural and legal issues could prevent the sale or the realization of the full amount in FY 2013. If the sale is permitted to go forward, the City could realize more than \$1 billion, although the proceeds from the sale would likely be spread out over more than one fiscal year.

A new State law authorizes the City to sell up to 2,000 new taxicab medallions, but requires all of the new medallions to be restricted to taxicabs that are accessible to people with disabilities. The law also permits the creation of 18,000 new hail licenses that will allow livery cars to pick up street-hails in Upper Manhattan and the other four boroughs (except the airports), with 20 percent of these new licenses for vehicles that are accessible to people with disabilities.

The law permits the City to sell up to 400 medallions before it submits a disabled accessibility plan (DAP) to the State Department of Transportation for approval (assuming all legal challenges have been overcome). Such a sale would generate an estimated \$200 million in FY 2013. Once the State approves the DAP, the remaining 1,600 medallions may be sold.

The DAP will outline how the City plans to achieve meaningful accessibility for individuals with disabilities to all taxicabs, for-hire vehicles and hail vehicles. Currently, fewer than 2 percent of medallion taxicabs in New York City are wheelchair-accessible. The DAP will be developed with input from various stakeholders, including disability rights advocates, and submitted to the City Council for comments.

In January 2011, disabled individuals and disability advocacy groups filed a class action lawsuit alleging that the City discriminates “against residents of and visitors to New York City with mobility disabilities who need and want to use New York City medallion taxis.” In December 2011, the U.S. District Court ruled that the City was in violation of the Americans with Disabilities Act. In the ruling, the judge noted that the recent State law may bring the City closer to compliance, but that the Taxi and Limousine Commission (TLC) must submit to the court a comprehensive plan to provide meaningful access. Until the court approves such a plan, all new medallions sold and all new street-hail livery licenses must be for wheelchair-accessible vehicles.

The City has appealed the ruling, and the federal Court of Appeals, though it has yet to issue a decision, has issued a stay pending appeal that will allow the TLC to sell street-hail livery licenses for non-accessible vehicles (if the sale is not postponed by other court actions). In the meantime, the TLC plans to implement an accessible dispatch system in July 2012 with the goal of providing better service for passengers who need wheelchair-accessible vehicles.

In April and May 2012, three taxi industry groups filed separate lawsuits in State Supreme Court against the TLC and others, challenging the constitutionality of the State law as well as raising other objections to the law. On June 1, 2012, the court issued a temporary restraining order that prevents the implementation of any aspect of the State law, including the sale of taxi medallions. If the lawsuits are successful, the entire law could be invalidated.

If the taxi medallion sale is ultimately permitted to go forward, the amount realized from the sale will depend on the number of medallions sold and their value at auction. The City believes its estimate of the worth of each medallion is conservative. To further enhance the value of the medallions, the TLC is considering a taxi fare increase. Thus, the City could realize more than the \$1 billion anticipated in the May Plan.

F. The Federal Budget

Unless Congress acts, a series of automatic spending cuts of \$1.2 trillion are scheduled to take effect on January 1, 2013, to help reduce the federal deficit. According to the Congressional Budget Office, defense spending could be cut by about 9 percent and nondefense programs by about 4 percent. Some programs would be exempt (e.g., Social Security and Medicaid), which means the cuts in domestic spending would fall more heavily on other programs, such as education and public housing.²⁶ In addition, a number of federal tax cuts are set to expire on December 31, 2012. If these are permitted to expire, taxes would rise for both individuals and corporations. The Federal Reserve and others have expressed concerns that the combination of deep spending cuts and higher taxes could have a serious impact on the economy at this point in its recovery.

To mitigate the impact of automatic spending cuts and higher taxes, the President and Congress have each put forth a number of different budget proposals. Some of these could have a significant effect on New York State and its localities. The proposals include eliminating the tax exemption on municipal bonds; eliminating or reducing federal itemized deductions; and cutting Medicare and Medicaid. However, Congress is unlikely to act on any proposal until after the November 2012 presidential election.

²⁶ The New York State Division of the Budget estimates that these actions could reduce federal funding to the State by \$5 billion over ten years.

Appendix A: Nonrecurring Resources

In the aggregate, nonrecurring resources of \$4.2 billion and \$4.0 billion will be used to balance the budget in FY 2012 and FY 2013, respectively (see Figure 36).

Figure 36
Nonrecurring Resources
(in millions)

	FY 2012	FY 2013
FY 2011 Surplus	\$ 3,742	\$ - - -
Retiree Health Benefits Trust	672	1,000
Prior-Year Payables	500	- - -
CityTime Settlement	466	- - -
State Building Aid	220	100
Debt Refundings and Redemptions - Net	210	214
Federal Medicaid Assistance	124	32
Educational Construction Fund	32	- - -
Taxi Medallion Sales	- - -	1,000
FY 2012 Projected Surplus	(1,728)	1,728
FY 2013 Projected Surplus	- - -	(124)
Returned HPD Capital Funds	- - -	10
Total	\$ 4,238	\$ 3,960

Sources: NYC Office of Management and Budget; OSDC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the budget in fiscal years 2012 and 2013.
- The City plans to draw down \$672 million in FY 2012 from the Retiree Health Benefits Trust, and intends to draw down \$1 billion in FY 2013. An additional planned \$1 billion drawdown in FY 2014 would deplete the trust's balance.
- The City expects to save \$500 million in FY 2012 from overestimating prior years' expenses, but the May Plan does not anticipate any future savings.
- The May Plan reflects the receipt of \$466 million from the settlement of the CityTime fraud case in FY 2012.
- The Department of Education would benefit by \$220 million in FY 2012 and \$100 million in FY 2013 from the release of State building aid retained in prior years that is not needed to fund debt service on education bonds issued by the Transitional Finance Authority (TFA).
- General Obligation and TFA debt refundings and redemptions will reduce debt service by \$210 million in FY 2012 and \$214 million in FY 2013, but will produce minimal savings in future years.
- Federal stimulus budget relief for Medicaid totals \$124 million in FY 2012 and \$32 million in FY 2013.

-
- The Educational Construction Fund agreed to transfer \$32 million in unused funds to the Department of Education in FY 2012.
 - The May Plan includes \$1 billion in revenue from the sale of additional tax medallions in FY 2013.
 - The City will use \$10 million in bond proceeds no longer needed by the Department of Housing Preservation and Development to offset FY 2013 debt service.

Appendix B: City-Funded Staffing Levels

The City-funded workforce is expected to total 255,360 full-time and full-time-equivalent employees by the end of FY 2012, or 360 employees fewer than one year earlier (see Figure 37). The May Plan assumes that staffing will decline by another 1,309 positions during FY 2013. Most of the reductions are concentrated in seasonal employment in the Parks Department and public safety positions, partly offset by an increase in the number of teachers at the Department of Education. These and other changes are discussed below.

- Pedagogical staffing at the Department of Education is expected to decline sharply in FY 2012 (2,752 positions) as a result of budget constraints, but would rise in FY 2013 (by 875 positions) because of increased State and City funding.
- The size of the police force is currently among the smallest in the past 20 years and it is expected to remain at that level (34,309 officers) during FY 2013.
- The number of uniformed personnel in the Fire Department is unlikely to rise in FY 2012 as assumed in the May Plan due to a court-imposed hiring ban in effect since August 2010.²⁷ Uniformed staffing is projected to decline in FY 2013 (by 505 positions), assuming the closure of 20 fire companies.
- The Department of Correction is not on pace to add 288 correction officers during FY 2012 as planned. The May Plan assumes the addition of another 110 officers in FY 2013.
- The Department of Parks and Recreation is expected to reduce its summer staffing level to 4,031 employees by the end of FY 2013, or 3,458 fewer employees (primarily seasonal hires) than in FY 2007.

²⁷ The Fire Department is banned from hiring new uniformed employees because of concerns over the fairness of a previous firefighter exam. A revised exam was recently administered under court supervision. The Fire Department plans to resume hiring in March 2013 in the event that the court approves the results of this exam and lifts the ban.

Figure 37
City-funded Staffing Levels
(Full-Time and Full-Time-Equivalents)

	Actual		City Forecast		Additions/(Reductions)		
	June 2011	Mar. 2012	June 2012	June 2013	June 2011 to Mar. 2012	June 2011 to June 2012	June 2012 to June 2013
Public Safety	79,954	80,277	79,991	79,392	323	37	(599)
Police							
Uniformed	33,667	34,872	34,309	34,309	1,205	642	0
Civilian	15,723	15,658	15,656	15,452	(65)	(67)	(204)
Fire							
Uniformed	10,621	10,387	10,779	10,274	(234)	158	(505)
Civilian	5,059	5,082	4,834	4,873	23	(225)	39
Correction							
Uniformed	8,456	8,383	8,744	8,854	(73)	288	110
Civilian	1,422	1,435	1,718	1,748	13	296	30
District Attys. & Prosecutors	3,611	3,678	3,172	3,131	67	(439)	(41)
Probation	795	771	768	739	(24)	(27)	(29)
Other	600	11	11	12	(589)	(589)	1
Health & Welfare	22,004	22,640	24,057	23,850	636	2,053	(207)
Social Services	9,973	10,038	10,615	10,469	65	642	(146)
Children's Services	5,514	6,102	6,483	6,395	588	969	(88)
Health & Mental Hygiene	4,352	4,371	4,793	4,661	19	441	(132)
Homeless Services	1,786	1,775	1,802	1,935	(11)	16	133
Other	379	354	364	390	(25)	(15)	26
Environment & Infrastructure	17,447	14,825	16,196	15,313	(2,622)	(1,251)	(883)
Sanitation							
Uniformed	6,833	6,955	7,056	7,061	122	223	5
Civilian	1,909	1,811	1,949	1,978	(98)	40	29
Transportation	2,198	1,968	2,023	2,022	(230)	(175)	(1)
Parks & Recreation	6,297	3,873	4,944	4,031	(2,424)	(1,353)	(913)
Other	210	218	224	221	8	14	(3)
General Government	8,484	8,902	10,454	10,278	418	1,970	(176)
Finance	1,756	1,817	1,932	1,933	61	176	1
Law	1,252	1,306	1,333	1,331	54	81	(2)
Citywide Admin. Services	1,334	1,329	1,445	1,497	(5)	111	52
Taxi & Limo. Commission	436	439	597	640	3	161	43
Investigations	197	194	218	211	(3)	21	(7)
Board of Elections	488	726	1,397	1,010	238	909	(387)
Info. Tech. & Telecomm.	1,012	956	1,012	1,015	(56)	0	3
Other	2,009	2,135	2,520	2,641	126	511	121
Housing	1,579	1,511	1,626	1,613	(68)	47	(13)
Buildings	1,094	1,051	1,126	1,126	(43)	32	0
Housing Preservation	485	460	500	487	(25)	15	(13)
Department of Education	116,304	113,068	113,008	113,655	(3,236)	(3,296)	647
Pedagogues	93,547	91,318	90,795	91,670	(2,229)	(2,752)	875
Non-Pedagogues	22,757	21,750	22,213	21,985	(1,007)	(544)	(228)
City University of New York	7,648	9,035	7,595	7,635	1,387	(53)	40
Pedagogues	5,029	6,197	5,013	5,013	1,168	(16)	0
Non-Pedagogues	2,619	2,838	2,582	2,622	219	(37)	40
Elected Officials	2,300	2,264	2,433	2,315	(36)	133	(118)
Total	255,720	252,522	255,360	254,051	(3,198)	(360)	(1,309)

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