



Review of the Financial Plan of the City of New York

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I. Executive Summary

One year ago, New York City projected a budget gap of \$4.6 billion for FY 2013 and out-year gaps that reached \$4.9 billion. Since then, the City has successfully closed the FY 2013 budget gap and narrowed the FY 2014 budget gap to \$2.5 billion without raising taxes or cutting basic services (see Figure 1). Most of the improvement, however, has not come from higher revenue forecasts, but from drawing down reserves and other nonrecurring resources.

The City's economy is continuing its recovery from the worst recession in decades, but it remains vulnerable. The national economy has been slowing, and the latest figures show that economic growth in New York State was much weaker in 2011 than in 2010. The State's ability to provide financial assistance at the levels anticipated in the City's financial plan could be impacted by the pace of the economic recovery. The European sovereign debt crisis, which has spawned austerity programs in Europe and has slowed economic growth in China, also remains a concern.

Many economists believe that the combination of higher federal taxes and spending cuts, which are scheduled to take effect in January 2013, could bring about a severe fiscal shock that could send the national economy into a new recession. In coming months as the deadline approaches, it will become clearer how such changes, if they come to pass, could affect the economies and budgets of New York State and New York City.

Even though the City has regained more than 150 percent of the private sector jobs lost during the recession, personal income tax collections are not expected to reach their prerecession levels until FY 2015 because job growth has been concentrated in lower-paying industries, the public sector continues to contract and compensation on Wall Street has been constrained. The City's unemployment rate has returned to its recessionary peak of 10 percent and is even higher among some segments of the labor market, which reveals that the recovery has not benefited everyone equally.

While New York City's economy is more diversified than during the 1990s, and the growth in its high-technology industry is promising, the City is still heavily dependent on the securities industry. The New York Stock Exchange reported that its member firms earned \$7.3 billion during the first quarter of 2012, a significant rebound from the fourth quarter of 2011, but profitability in the securities industry has been volatile in recent years, and a single quarter's results may not be indicative of the outcome for the entire year. The recent rating downgrade by Moody's of 15 of the world's largest banks and securities firms, many with large staffs in New York City, reflects the challenges the financial services industry continues to face as it works through the fallout from the financial crisis and the diminished outlook for profitability.

The City's June 2011 financial plan (the "June Plan") reflects the enacted State budget, which increases education aid and begins a three-year takeover of the growth in the local share of Medicaid. The June Plan assumes that the State will approve legislation that extends recently expired property tax rebates on cooperatives and condominiums in New York City, as well as legislation that implements the City Actuary's recommended changes in the assumptions and methodologies used to calculate City pension contributions.

The City has spread out over three years the anticipated proceeds from the sale of taxi medallions, but it has also increased the amount it expects to receive from \$1 billion to \$1.5 billion, even though the sale remains the subject of litigation. As a result, the sale remains the largest budget risk in FY 2013 at \$635 million (see Figure 2).

By our estimation, the FY 2013 budget is balanced with more than \$4 billion in nonrecurring resources, which will not advance structural budget balance. The FY 2012 surplus (\$2.4 billion), most of which was used to help balance the FY 2013 budget, is substantially smaller than last year's surplus (\$3.7 billion), an indication that spending exceeded current-year revenues.

The City also plans to draw down \$1 billion from the Retiree Health Benefits Trust in FY 2013. The trust 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 City plans to use the remaining \$1 billion in the trust to help balance the FY 2014 budget.

In addition, the City has yet to reach new labor agreements with the unions that represent the municipal work force. The June Plan assumes that municipal employees will not be compensated for the wage freeze imposed during the recession and will agree to annual wage increases of 1.25 percent during the plan period, which is less than the projected inflation rate.

Another area of concern remains the growth in so-called nondiscretionary costs. While pension contributions are projected to level off, health insurance and debt service costs are expected to continue to grow at relatively rapid rates. Debt service is projected to grow from \$5.1 billion in FY 2012 to \$7.3 billion by FY 2016, an increase of more than 40 percent.

In conclusion, the FY 2013 budget is balanced based on reasonable assumptions, and the City has made substantial progress over the past year in narrowing the out-year budget gaps. The City, however, still faces challenges on a number of different fronts. The City's ability to cushion the impact of adverse developments could be diminished by FY 2014 because the City plans to exhaust most of the reserves accumulated during the last economic expansion.

Figure 1
New York City Financial Plan
(in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
REVENUES					
Taxes					
General Property Tax	\$ 17,917	\$ 18,417	\$ 18,956	\$ 19,617	\$ 20,259
Other Taxes	23,436	24,503	25,445	26,799	28,022
Tax Audit Revenue	700	724	706	706	706
Subtotal: Taxes	\$ 42,053	\$ 43,644	\$ 45,107	\$ 47,122	\$ 48,987
Miscellaneous Revenues	6,994	6,949	6,588	6,668	6,311
Unrestricted Intergovernmental Aid	25	---	---	---	---
Less: Intra-City Revenue	(1,789)	(1,631)	(1,597)	(1,600)	(1,605)
Disallowances Against Categorical Grants	165	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$ 47,448	\$ 48,947	\$ 50,083	\$ 52,175	\$ 53,678
Other Categorical Grants	1,056	924	919	916	902
Inter-Fund Revenues	551	539	510	509	509
Federal Categorical Grants	7,644	6,661	6,471	6,371	6,370
State Categorical Grants	11,340	11,430	11,720	12,140	12,622
Total Revenues	\$ 68,039	\$ 68,501	\$ 69,703	\$ 72,111	\$ 74,081
EXPENDITURES					
Personal Service					
Salaries and Wages	\$ 21,906	\$ 21,801	\$ 21,920	\$ 22,139	\$ 22,515
Pensions	7,962	8,062	8,114	8,006	8,104
Fringe Benefits	8,011	8,429	8,997	9,597	10,267
Retiree Health Benefits Trust	(672)	(1,000)	(1,000)	---	---
Subtotal: Personal Service	\$ 37,207	\$ 37,292	\$ 38,031	\$ 39,742	\$ 40,886
Other Than Personal Service					
Medical Assistance	\$ 6,289	\$ 6,283	\$ 6,366	\$ 6,447	\$ 6,416
Public Assistance	1,367	1,274	1,279	1,279	1,279
All Other ^{1,2}	20,766	21,149	21,232	21,864	22,401
Subtotal: Other Than Personal Service	\$ 28,422	\$ 28,706	\$ 28,877	\$ 29,590	\$ 30,096
General Obligation, Lease and TFA Debt Service ^{1,2,3}	\$ 5,462	\$ 6,118	\$ 6,755	\$ 7,196	\$ 7,474
FY 2011 Budget Stabilization & Discretionary Transfers ¹	(3,742)	---	---	---	---
FY 2012 Budget Stabilization & Discretionary Transfers ²	2,439	(2,408)	(31)	---	---
FY 2013 Budget Stabilization ³	---	124	(124)	---	---
General Reserve	40	300	300	300	300
Subtotal	\$ 69,828	\$ 70,132	\$ 73,808	\$ 76,828	\$ 78,756
Less: Intra – City Expenses	(1,789)	(1,631)	(1,597)	(1,600)	(1,605)
Total Expenditures	\$ 68,039	\$ 68,501	\$ 72,211	\$ 75,228	\$ 77,151
Gap To Be Closed	\$ ---	\$ ---	\$ (2,508)	\$ (3,117)	\$ (3,070)

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 \$2.439 billion, including GO of \$1.340 billion, TFA of \$879 million, lease debt service of \$156 million, 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 2013	FY 2014	FY 2015	FY 2016
Surplus/(Gaps) per June Plan	\$ - - -	\$ (2,508)	\$ (3,117)	\$ (3,070)
Property Tax Revenues	- - -	150	300	500
Taxi Medallion Sale ⁴	(635)	(365)	(460)	- - -
Agency Actions	(109)	(109)	(109)	(109)
OSDC Risk Assessment⁵	(744)	(324)	(269)	391
Remaining Gap to be Closed per OSDC⁶	\$ (744)	\$ (2,832)	\$ (3,386)	\$ (2,679)
Additional Risks and Offsets⁷				
Wage Increases at the Projected Local Inflation Rate ⁸	\$ (17)	\$ (91)	\$ (259)	\$ (511)

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 taxi medallions and livery hail licenses. If the litigants prevail, the entire law could be invalidated.

⁵ The City could be required to increase its planned pension contributions (by about \$90 million in FY 2014, \$180 million in FY 2015, and \$270 million in FY 2016) because the pension systems earned an estimated 1.7 percent on their investments in FY 2012, compared with the expected gain of 7 percent.

⁶ The June Plan includes a general reserve of \$300 million annually in each of fiscal years 2013 through 2016. The City also has a reserve of \$1 billion for disallowances of federal and State aid, which could be used to help balance the budget if not needed for this purpose.

⁷ The receipt of additional State education aid in FY 2013 (\$293 million) is contingent upon the City and the United Federation of Teachers reaching an agreement on a teacher evaluation program.

⁸ The City imposed a three-year wage freeze on City employees during the recession, but the City has not yet reached new labor agreements covering that period or subsequent years. The June Plan assumes that municipal employees will not be compensated for the wage freeze and will agree to annual wage increases of 1.25 percent during the plan period, which is less than the projected inflation rate. In addition, the City still has not reached a labor settlement with the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators for the round of collective bargaining covering calendar years 2009 and 2010. An agreement similar to those negotiated by the City's other unions for those years would increase costs by \$900 million annually beginning in FY 2013, excluding the retroactive cost of any wage increases.

II. Economic Trends

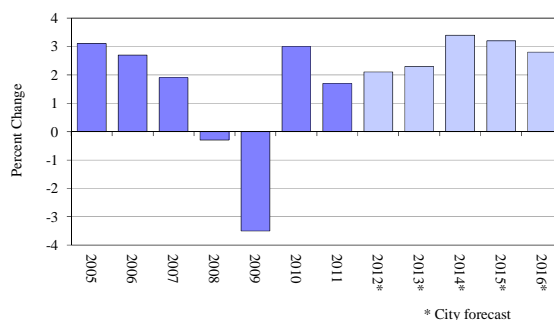
The pace of the national economic recovery slowed in the first half of 2012, following strong gains in the second half of 2011. Looking forward, economic growth is expected to remain subdued, and the recovery faces risks from the ongoing European sovereign debt crisis. More importantly, upcoming changes in federal spending and taxation, if implemented as planned, could bring about a severe fiscal shock that a Congressional Budget Office (CBO) analysis shows could send the economy into a new recession.

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 as a result of weaker global demand. The Institute for Supply Management reports that manufacturing and service sector activity slowed further in the second quarter. The June Plan assumes that GDP will grow by 2.1 percent for all of 2012 and 2.3 percent for 2013 (see Figure 3), both faster than in 2011 but not fast enough to significantly reduce the unemployment rate.

The pace of national job gains has slowed significantly in recent months, with the private sector expanding at an average of 105,000 jobs per month from March through June 2012, compared to an average expansion of 255,000 jobs during the three prior months. Some economists believe the warm winter caused a shift in hiring practices that disrupted the seasonal adjustments.

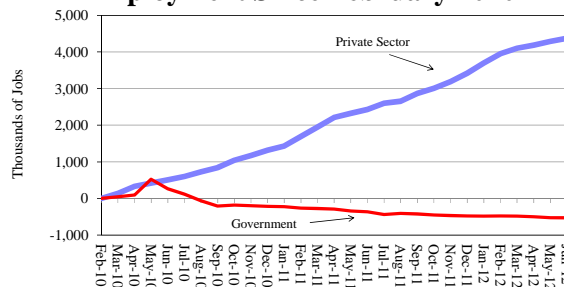
Thus far, the nation has recovered 3.8 million, or 47 percent, of the jobs lost during the recession, but the unemployment rate has remained high (at 8.2 percent in June 2012). The private sector has recovered 4.4 million jobs (more than half of those lost), while the government sector has lost 528,000 jobs (see Figure 4). The June 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).

Figure 3
Change in U.S. Gross Domestic Product



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

Figure 4
Cumulative Change in National Employment Since February 2010

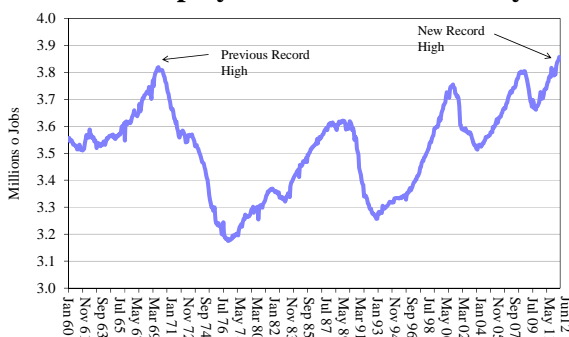


Note: Data are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

Despite modest improvement in sales and prices in recent months, the housing market remains weak. Tight credit conditions and the large number of foreclosures continue to weigh on the housing market, despite historic low mortgage rates. While the S&P/Case-Shiller Home Price Index shows that national home prices rose 1.4 percent in the first four months of 2012, prices are still 33 percent below their peak in 2006.

Job growth in New York City has been stronger than in the nation as a whole. Since job growth resumed in the City, the private sector has added an estimated 218,400 jobs as of June 2012, or 153 percent of the jobs lost between August 2008 and November 2009.⁹ The nation, in contrast, has only recovered about half the private sector jobs it lost. The City's government sector, however, has shed 21,700 jobs; on a net basis, the City has regained 138 percent of the jobs it lost during the recession.

Figure 5
Total Employment in New York City



Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; OSDC analysis

As shown in Figure 5, the strong job growth lifted total employment in the City to a record high of nearly 3.9 million jobs in June 2012, surpassing the previous record in 1969 and the prerecession high in 2008. The June Plan assumes that the pace of job growth will slow to 1.3 percent in 2012 (from 2 percent in 2011), and then average 1.1 percent annually through 2016, when employment will top 4 million jobs.

Many of the jobs added in the recovery (as well as those expected to be added during the financial plan period) are in sectors that are relatively low-paying, such as the retail trade, health care, and tourism-related sectors. A recent report by the Federal Reserve Bank of New York detailed a multi-decade trend toward job polarization, where job growth has been concentrated either in “high wage/high skill” occupations (such as finance or technology) or “low wage/low skill” occupations. As a result, the report found that income inequality in the region has increased.

Despite strong job growth, the City's unemployment rate is high. The rate had fallen to 8.8 percent in May 2011, but by June 2012 it had returned to its recessionary peak of 10 percent. Half of all unemployed City residents in May 2012 (the latest available data) could be considered long-term unemployed (i.e., without a job for at least 27 weeks), which was twice the prerecession level.

⁹ The City has regained about 200 percent of the jobs lost during the recession based on the national business cycle as defined by the National Bureau of Economic Research.

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

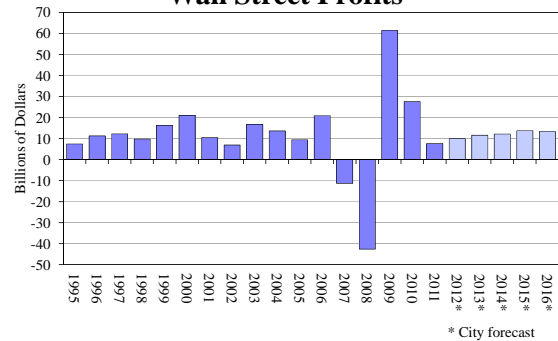
The full-year profits of \$7.7 billion were the lowest level since 2002 except for the years of the financial crisis (see Figure 6). The June Plan assumes that Wall Street profits will total \$10 billion in 2012 and \$13.4 billion by 2016.

During the first quarter of 2012, the broker/dealer operations of the New York Stock Exchange member firms earned \$7.3 billion, which was a significant rebound from the industry's \$2 billion loss in the fourth quarter of 2011. While industry data for the second quarter are not yet available, the trading loss at JPMorgan Chase and poor market performance suggest lower profits compared to the first quarter. Given that profitability in the securities industry has been volatile in recent years, it is too early to see if the strong start will be indicative of the outcome for the entire year.

The securities industry has recovered only 40 percent of the 28,200 jobs lost during the financial crisis. In recent months, job levels have been unsteady, with the industry showing a small net loss since last fall (see Figure 7). The June Plan assumes the industry will lose 2,600 jobs in 2012 and another 1,600 jobs by 2016.

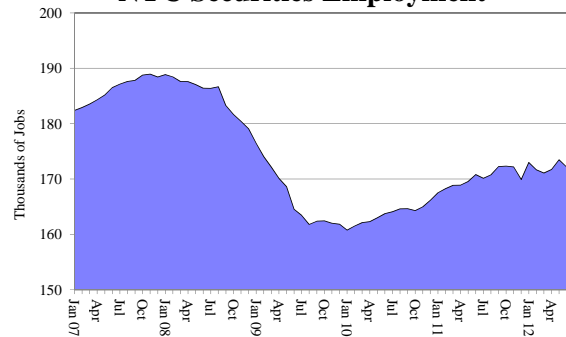
The June Plan also assumes that lower profits, along with an increase in the portion of bonuses that are deferred to future years, caused a 12 percent decline in cash bonuses paid by securities firms to their New York City employees for work done in 2011 (comparable to the State Comptroller's February 2012 estimate of a 14 percent decline). The June Plan expects 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 June Plan assumes that total 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.

Figure 6
Wall Street Profits



Sources: New York Stock Exchange; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

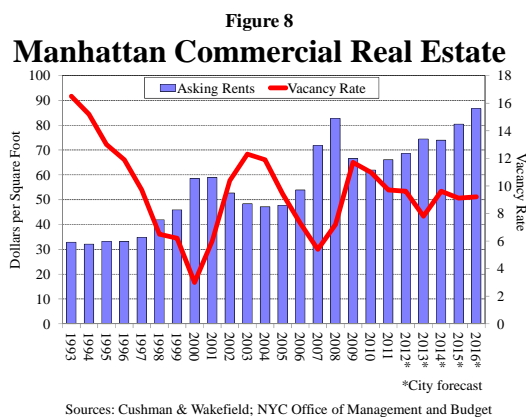
Figure 7
NYC Securities Employment



Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; OSDC analysis

Tourism continues to boost the City’s economy. In 2011, both the number of visitors (50.6 million) and their spending (\$32.5 billion) set new records. NYC & Company, the City’s tourism bureau, projects that the number of visitors will reach 56 million by 2015 and that related spending will reach \$45 billion. While the City anticipates that hotel occupancy will remain strong and room rates will rise moderately during the financial plan period, the European sovereign debt crisis has led to recessions or slower economic growth in several countries, causing reductions in travel bookings.

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 June Plan assumes that rising office employment will cause the vacancy rate to fall to 7.8 percent by 2013, but that the completion of more than 4 million square feet of office space in the World Trade Center will raise the vacancy rate to 9.6 percent in 2014 and keep it elevated through 2016 (see Figure 8). The average asking rent, however, is expected to continue to rise through 2016.



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 June Plan assumes that although home sales will increase in 2013, prices will not rise until 2014. Prudential Douglas Elliman reported that in the second quarter of 2012, sales of Manhattan cooperative and condominium apartments were unchanged compared to one year earlier, and the median sales price fell by 2.5 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 continues to face several major risks. The ongoing European sovereign debt crisis remains unresolved, and has begun to reduce economic growth (or trigger recessions) in several countries, which is affecting world trade and tourism. The crisis continues to shake financial markets and has led to downgrades of the credit ratings of major financial firms, putting further stress on their profitability. Finally, the CBO estimates that the impending “fiscal cliff” (i.e., scheduled federal budget cuts and revenue increases), if not addressed, could cause GDP to contract by 1.3 percent in the first half of 2013, possibly triggering another recession.

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 then, the City has drawn down reserves, adopted additional agency cost-reduction actions, benefited from two large settlements, and revised its revenue and expenditure forecasts. These actions permitted the City to generate a surplus of \$2.4 billion in FY 2012, balance the FY 2013 budget, and narrow the out-year gaps to \$2.5 billion in FY 2014 and \$3.1 billion in FY 2015 (see Figure 9).

The City had established a \$1 billion annual reserve to cover the potential cost of changes in the actuarial assumptions and methodologies used to calculate City pension contributions. Since the actual cost was substantially less than expected, the City was able to use most of these resources to help balance the budget instead. In addition, the City is continuing to divert resources (\$3.1 billion) it had set aside to help fund the health insurance costs of City retirees to balance the budget instead. In FY 2012, the City also benefited from an overestimation of prior years' expenses (\$500 million), and from a reestimate in the reserve for disallowances (\$180 million).

The FY 2012 surplus comes mostly from a drawdown in reserves (\$1.4 billion) and from settlements with SAIC for the CityTime project and with ING (\$619 million), rather than from unanticipated revenues as in past years. Over the course of FY 2012, the City raised its revenue forecast by only \$116 million in FY 2012 (the smallest change in 15 years), although there were substantial revisions in individual taxes. In subsequent years the City is anticipating modestly higher revenues, driven by higher forecasts for property and real estate transaction taxes that reflect the improving commercial real estate market. The benefit of these unanticipated revenues during fiscal years 2012 through 2015 (\$1.6 billion), however, is expected to be more than offset by unexpected costs (\$2.8 billion) in these years.

The FY 2013 budget gap of \$4.6 billion was closed by transferring most of the FY 2012 surplus to FY 2013 (\$2.3 billion); drawing down reserves (\$1.5 billion), including from the Retiree Health Benefits Trust; anticipated proceeds from the sale of additional taxi medallions (\$635 million); and by adopting additional cost-reduction actions (\$759 million). The budget gaps were reduced by \$2.3 billion in FY 2014 and by \$1.8 billion in FY 2015, mostly by drawing down reserves and by the recurring impact of agency actions to be implemented in FY 2013.

The June 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, which became effective on 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.

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

	FY 2012	<i>Better/(Worse)</i>		FY 2015
	FY 2013	FY 2014		FY 2015
Gap Per June 2011 Plan	\$ - - -	\$ (4,632)	\$ (4,844)	\$ (4,922)
Revenue Reestimates				
Real Property Tax	292	199	314	545
Sales Tax	38	80	80	73
Business Taxes	(418)	(370)	(140)	(138)
Personal Income Tax	(195)	(125)	(219)	(235)
Real Estate Transaction Taxes	167	239	267	288
All Other	232	254	180	150
Total	116	277	482	683
Expenditure Reestimates				
City Council Initiatives	- - -	(374)	- - -	- - -
Uniformed Agencies	(387)	(506)	(444)	(380)
Social Services Agencies	(127)	(128)	(130)	(110)
Campaign Finance Board	- - -	(42)	- - -	- - -
Increased Pension Membership	- - -	- - -	(48)	(48)
Education	- - -	- - -	- - -	(100)
Debt Service	275	532	145	61
All Other	128	(295)	(396)	(472)
Total	(111)	(813)	(873)	(1,049)
Reserves				
Prior Years' Expenses	500	- - -	- - -	- - -
Pension Reserve	425	425	501	902
General Reserve	260	- - -	- - -	- - -
Retiree Health Benefits Trust ¹⁰	- - -	1,000	1,000	- - -
Reserve for Disallowances	180	- - -	- - -	- - -
Labor Reserve	42	54	54	70
Total	1,407	1,479	1,555	972
Other Actions				
CityTime Settlement	469	- - -	- - -	- - -
Agency Program	408	759	587	575
ING Settlement	150	- - -	- - -	- - -
Taxi Medallion Sales	- - -	635	365	460
State Takeover of Medicaid Growth ¹¹	- - -	11	65	164
Total	1,027	1,405	1,017	1,199
Surplus/(Gap)	2,439	(2,284)	(2,663)	(3,117)
Surplus Transfer	(2,439)	2,284	155	- - -
Gap Per June Plan	\$ - - -	\$ - - -	\$ (2,508)	\$ (3,117)

Sources: NYC Office of Management and Budget; OSDC analysis

¹⁰ 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.

¹¹ The June Plan reflects the budgetary impact of the State's enacted budget for State FY 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 Section IV, "Impact of State Actions," for a more detailed discussion.

IV. Impact of State Actions

The enacted budget for State Fiscal Year (SFY) 2012-2013 closes a gap, which in November 2011 had been estimated at \$3.5 billion, by limiting spending (\$2 billion) and realizing new revenue from a restructuring of the State income tax (\$1.5 billion). The enacted budget, in combination with new pension plans for City 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 Plans ¹²	---	---	49.0	98.0
All Other Actions	13.6	17.8	23.6	23.6
Total Impact	\$ 317.4	\$ 641.0	\$ 1,111.5	\$ 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 and by \$558 million in FY 2014, with projected increases of \$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 increase in State education aid in FY 2013, however, is contingent upon the implementation of a teacher evaluation program by January 2013. The City risks not only the loss of State education aid, but \$104 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 June 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 save more than \$500 million during the financial plan period.

¹² These savings were mostly offset when employees joined existing pension plans before the new pension plans took effect.

The June Plan also reflects the enactment of new pension plans for State and local government employees hired after March 31, 2012. The new pension plans will generate government savings mostly by reducing employee benefits and increasing employee contributions. The June 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 forecasts will generate \$1.5 billion during fiscal years 2013 through 2015 (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 Mayor and the City Council rescinded planned cuts to libraries, cultural organizations, and certain health initiatives as part of the FY 2013 budget adoption process. Planned fire company closures and cuts to child care and after-school programs, which had been proposed in prior years, were also rescinded for FY 2013. The FY 2013 agency program is now expected to generate \$759 million in FY 2013, but the recurring value will decline to \$514 million by FY 2016 (see Figure 11).¹³

The impact on basic municipal services from a program of this size was further 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
Procurement Savings	- - -	55.5	55.5	55.5	55.5
Health and Social Services	112.2	53.1	83.6	58.6	58.7
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
Dept. of Information Tech.	12.8	9.0	9.1	10.1	11.3
Cultural Institutions	3.1	1.1	6.1	6.1	6.1
All Other Agencies	57.4	62.1	73.0	72.6	73.3
Total Agency Program	\$ 408.3	\$ 758.9	\$ 586.9	\$ 574.8	\$ 514.0

Sources: NYC Office of Management and Budget; OSDC analysis

¹³ The agency program is expected to reduce staffing by 837 positions by the end of June 2013, and eliminate 330 unfunded vacant positions.

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 City plans to credit the DOE's cost-reduction target in FY 2013 with \$100 million in excess State building aid that is no longer needed to fund debt service on bonds issued by the Transitional Finance Authority for education capital projects. To meet the balance of the target, the DOE has reestimated special education costs and plans to enhance processes for claiming federal and State aid. 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 annual payments beginning in FY 2013.

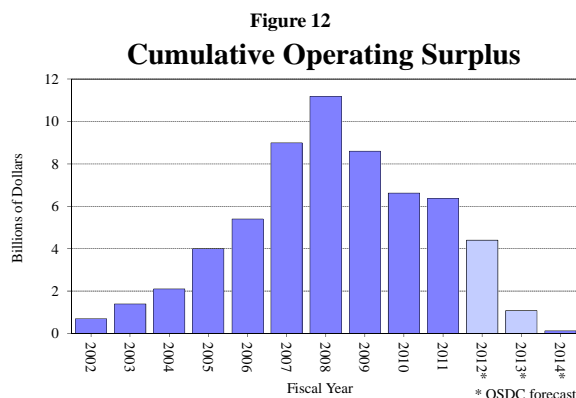
The uniformed agencies are expected to generate savings of \$183 million in FY 2013, mostly from the following initiatives.

- The Police Department plans to reduce overtime costs by \$46 million annually (\$50 million annually when associated fringe benefit savings are included), but such efforts have failed in the past and there is no reason to believe these actions will be any more successful. 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 no longer seeking State approval to reduce manning requirements in certain low-risk security facilities (\$9 million), as the result of increased violence in jails; thus these savings are at risk.

Agencies that provide health care and social services will generate \$165 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 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 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 funds that were deposited in the Retiree Health Benefits Trust (RHBT). During the most recent recession and sluggish recovery, 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).

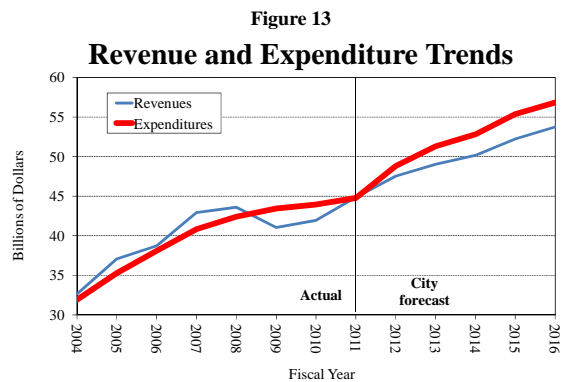


Note: Estimates include the balance of RHBT reserves for each fiscal year ended June 30.
Sources: NYC Office of Management and Budget; OSDC analysis

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, 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. In FY 2012, federal stimulus aid dropped precipitously, 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 \$3.9 billion, and the FY 2013 budget includes \$4.4 billion in nonrecurring resources (see Appendix A).

Expenditure growth is expected to grow more slowly than in recent years (averaging 3.5 percent during fiscal years 2014 through 2016), but spending is still projected to outpace the average rate of revenue growth during this period (3.1 percent). As a result, the City projects budget gaps that grow from \$2.5 billion in FY 2014 to \$3.1 billion in subsequent years (see Figure 13).



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

A. Revenue Trends

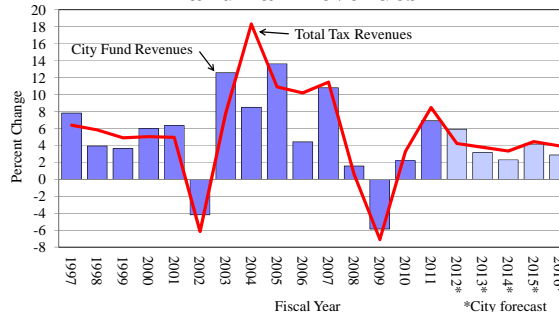
The June Plan assumes that the growth in City fund revenues will slow to 3.2 percent in FY 2013 from the 5.9 percent pace expected in FY 2012 (see Figure 14). City fund revenues are projected to total \$49 billion in FY 2013, including proceeds from the sale of taxi medallions (\$635 million).¹⁴

City fund revenue growth is forecast to slow to 2.3 percent in FY 2014 as projected tax revenue growth eases and the level of expected resources from the taxi medallion sales falls to \$365 million. In fiscal years 2015 and 2016, annual City fund revenue growth is expected to average 3.5 percent, reflecting a slight increase in expected tax revenue growth as the economy begins to show more improvement.

Since the June 2011 financial plan, the City has made only small changes to the forecast for tax revenues, which are expected 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 4.5 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.

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

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

¹⁴ The June Plan projects that the sale of 2,000 new taxi medallions will generate \$1.5 billion spread over fiscal years 2013 through 2015, although the receipt of these resources depends on the resolution of outstanding legal challenges.

Figure 15
City Fund Revenues
(in millions)

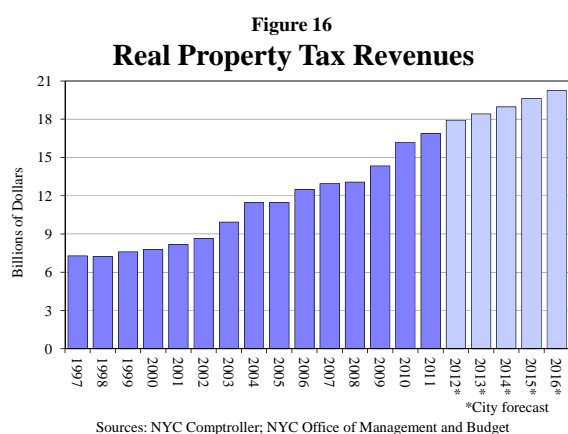
	FY 2012	FY 2013	Annual Growth	FY 2014	FY 2015	FY 2016	Average Three-Year Growth Rate
Taxes							
Real Property Tax	\$ 17,917	\$ 18,417	2.8%	\$ 18,956	\$ 19,617	\$ 20,259	3.2%
Personal Income Tax	7,976	8,476	6.3%	8,521	9,129	9,497	3.9%
Sales Tax	5,835	6,064	3.9%	6,326	6,599	6,839	4.1%
Business Taxes	5,333	5,486	2.9%	5,826	6,027	6,363	5.1%
Real Estate Transaction Taxes	1,441	1,547	7.4%	1,741	1,941	2,148	11.6%
Other Taxes	2,851	2,930	2.8%	3,031	3,103	3,175	2.7%
Audits	700	724	3.4%	706	706	706	-0.8%
Subtotal	42,053	43,644	3.8%	45,107	47,122	48,987	3.9%
Miscellaneous Revenues	5,275	5,392	2.2%	5,065	5,142	4,780	-3.9%
Unrestricted Intergovernmental Aid	25	---	-100%	---	---	---	NA
Grant Disallowances	165	(15)	NA	(15)	(15)	(15)	0.0%
Total	\$ 47,518	\$ 49,021	3.2%	\$ 50,157	\$ 52,249	\$ 53,752	3.1%

Sources: NYC Office of Management and Budget; OSDC analysis

1. Real Property Taxes

The June Plan projects that real property tax collections will rise by 2.8 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.¹⁵

The June Plan forecasts that collections will grow at an average annual rate of 3.2 percent during fiscal years 2014 through 2016. While growth is still centered in large residential and commercial properties, the June Plan 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.



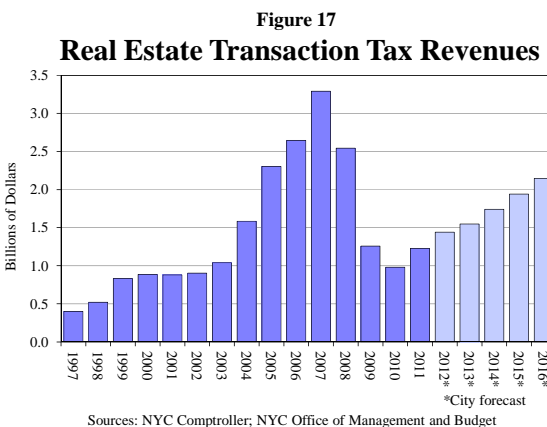
¹⁵ The June Plan assumed that several tax breaks for owners of condominiums and cooperative apartments in New York City that expired on June 30, 2012, would be extended by the State. Although the City had proposed reducing the number of owners who would be eligible for the reduction in taxes, legislation pending in the State Legislature would extend the benefits at their previous levels. While there appears to be support for the legislation, if the State Legislature does not pass a retroactive extension later this year the City will realize an additional \$430 million in real property tax revenues in FY 2013.

Our analysis finds that real property tax revenues 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 indicates 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 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 June Plan assumes that collections will rise by 7.4 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. 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 26 sales of Manhattan office properties with values that exceeded \$25 million. While the number of transactions was lower than for the same period in FY 2011, the total value of transactions was more than \$600 million higher. 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 June Plan assumes that home prices will begin to rise in 2014.

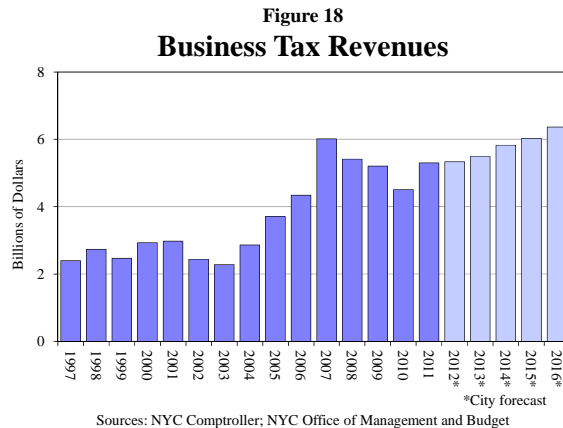
Although the City's real estate market is improving, the June Plan assumes that the recovery will be slow, as several factors, such as rising interest rates and an increase in the inventory of office space due to the completion of the World Trade Center, weigh on commercial property values. While we 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 hold down 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.

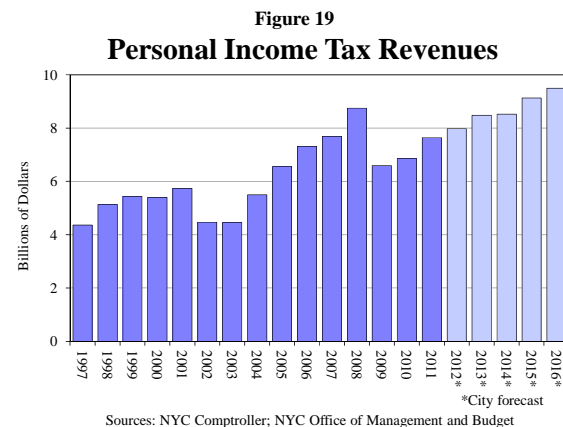
As a result, the June Plan now forecasts that business tax collections will rise by only 2.9 percent in FY 2013 to \$5.5 billion (see Figure 18). Because of weakness in the financial sector, the recovery in business tax collections from the recession has slowed, and revenues in FY 2013 are still expected to be lower than collections in the peak year of FY 2007.



The June Plan forecasts that beginning in 2014, as the national and local economies improve, Wall Street profits will begin to rise and, as 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. Although Wall Street enjoyed strong profits in the first quarter of 2012, the large trading losses reported by JPMorgan Chase, the poor financial market performance in the second quarter, the Moody's downgrade of large financial firms, and the ongoing risk from the European sovereign debt crisis all suggest that the industry continues to face a difficult profit environment.

4. Personal Income Tax

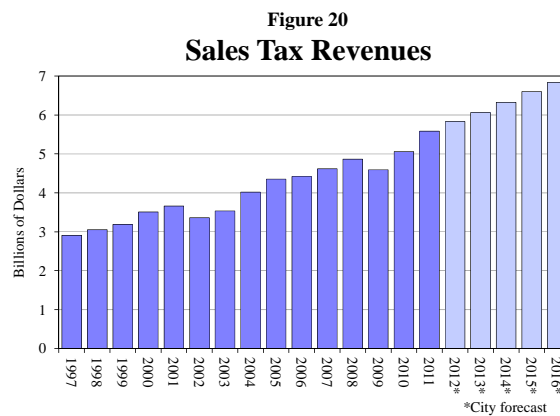
The June Plan forecasts growth of 6.3 percent in the personal income tax in FY 2013, bringing collections to nearly \$8.5 billion (see Figure 19). Although the City expects employment and wage growth to slow, collections are forecast to grow faster than the 4.2 percent gain in FY 2012 because the City 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, personal income tax revenues are forecast to increase by only 0.5 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 June 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

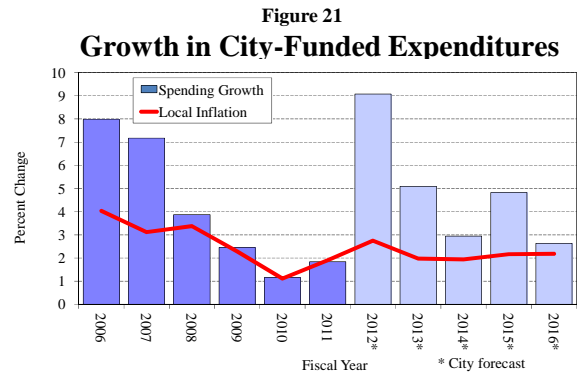


Sources: NYC Comptroller; NYC Office of Management and Budget

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 weakening European economies. Additionally, the scheduled expiration of temporary federal payroll and income tax rate reductions, coupled with high energy prices, could reduce residents' disposable incomes and their level of spending.

B. Expenditure Trends

As shown in Figure 21, City-funded expenditures grew by 9.1 percent (\$4.1 billion) in FY 2012. The jump in spending reflects an increase in City funding to replace expiring federal stimulus aid (\$1.8 billion), to offset a cut in State education aid (\$812 million), and to fund higher pension contributions resulting from changes in actuarial assumptions (\$538 million). City-funded expenditures are projected to rise by 5.1 percent in FY 2013 (\$2.5 billion), driven by higher spending for debt service and employee health insurance. Although City-funded spending is projected to exceed revenues by \$2.3 billion in FY 2013, the budget will be balanced with surplus resources generated in FY 2012.



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

Expenditure growth in subsequent years is driven by continued growth in debt service and health insurance premiums. The growth in City-funded spending could be understated, however, because the June Plan assumes no financial liability from a three-year wage freeze that was imposed on City workers during the recession. The June Plan also assumes that annual wage increases will be limited to 1.25 percent after the wage freeze expires, which is lower than the projected inflation rate.

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 drawing down 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. Staffing levels declined by another 1,994 employees through May 2012 (see Appendix B).

The June 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	\$12,710	\$12,765	0.4%	\$12,845	\$13,302	\$13,517	1.9%
Pension Contributions	7,806	7,905	1.3%	7,957	7,850	7,947	0.2%
Medicaid	6,091	6,190	1.6%	6,272	6,353	6,322	0.7%
Debt Service	5,076	5,780	13.9%	6,525	6,969	7,250	7.8%
Health Insurance	4,160	4,627	11.2%	5,084	5,631	6,218	10.4%
Other Fringe Benefits	2,798	2,869	2.5%	2,993	3,049	3,127	2.9%
Energy	848	1,008	18.9%	1,070	1,099	1,127	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	9,238	9,594	3.9%	9,472	9,500	9,665	0.2%
Total	\$48,821	\$51,305	5.1%	\$52,820	\$55,366	\$56,822	3.5%

Note: Debt service includes bonds issued by TSASC.

Sources: NYC Office of Management and Budget; OSDC analysis

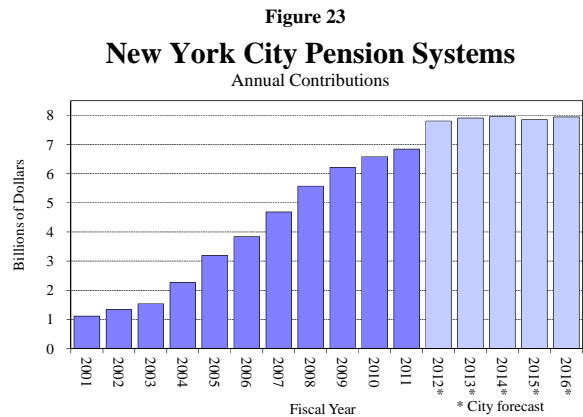
1. Collective Bargaining

The June Plan assumes no financial liability arising from the wage freeze imposed on City workers during the recession, even though the City has not reached new labor agreements covering this period. Instead, the June Plan assumes that the municipal unions will agree to annual wage increases of 1.25 percent during the plan period, which is lower than the projected inflation rate. If wages were to rise at just the projected inflation rate without any offsetting savings, costs would increase by \$17 million in FY 2013, \$91 million in FY 2014, \$259 million in FY 2015 and \$511 million 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. An agreement similar to those negotiated by the City's other unions for those years would increase costs by \$900 million annually beginning in FY 2013, excluding any retroactive costs.

2. Pension Contributions

The June Plan assumes that pension contributions will level off at \$7.9 billion during the financial plan period after growing rapidly in recent years (see Figure 23).¹⁶ These estimates reflect the impact of new pension plans recently approved by the State for City employees hired after March 31, 2012. The estimates also assume implementation of the City Actuary's recommended changes in the assumptions and methodologies used to calculate the City's pension contributions, which have been approved by the boards of trustees of the five pension systems.



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

The changes recommended by the City Actuary include: a reduction in the annual investment earnings assumption, from 8 percent to 7 percent; 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 The amortization period for unfunded liabilities will be increased from about 15 years to 22 years, which would help free up \$3.4 billion in reserves during the financial plan period but also would result in higher costs in the long term. The State Legislature is expected to approve these changes, which would be retroactive to FY 2012. Other changes, such as revising demographic assumptions to reflect current trends (e.g., lower mortality rates) and a market value restart,¹⁸ do not require State approval.

The changes proposed by the City Actuary would increase pension contributions by a net of \$538 million in FY 2012, \$522 million in FY 2013, \$472 million in FY 2014 and \$70 million in FY 2015, but would reduce contributions by a net of \$25 million in FY 2016. Since the City had established an annual reserve of \$1 billion to cover the potential cost of such changes, the City's financial plan realized savings of \$462 million in FY 2012, \$478 million in FY 2013, \$528 million in FY 2014, \$930 million in FY 2015 and more than \$1 billion by FY 2016.

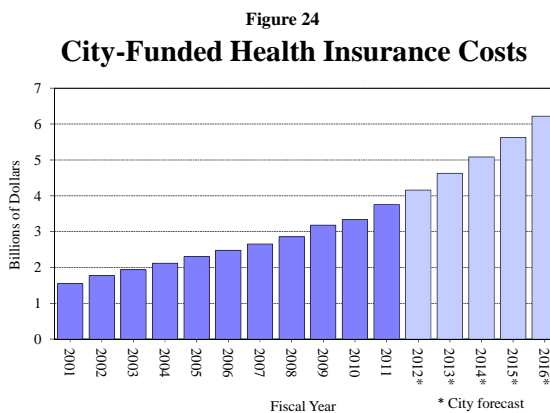
¹⁶ The City could be required to increase its planned pension contributions (by about \$90 million in FY 2014, \$180 million in FY 2015, and \$270 million in FY 2016) because the pension systems earned an estimated 1.7 percent on their investments in FY 2012, compared with the expected gain of 7 percent.

¹⁷ Under the City Actuary's revised methodology, 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.

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.

3. Health Insurance

The June Plan assumes that City-funded health insurance costs will rise from nearly \$4.2 billion in FY 2012 to \$6.3 billion by FY 2016, an increase of nearly 50 percent or \$2.1 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 decline by 3.5 percent in FY 2013, but are expected to resume growing at 8 percent annually during the balance of the financial plan period.



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

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 Fiscal Year 2012-13 (beginning April 1, 2012).

While the Mayor opposes 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 has also 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

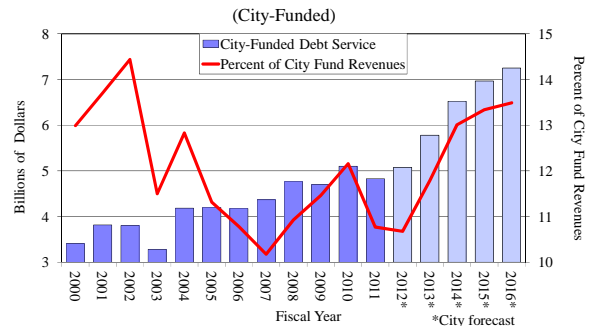
The City has realized significant savings in recent years because interest rates were lower than expected and because the City refunded debt to take advantage of the low interest rates. Although the June Plan assumes rising interest rates beginning in FY 2013, rates are likely to stay low because the Federal Reserve intends to keep rates close to zero until at least late 2014. If interest rates remain low, the City could realize significant savings during the financial plan period.

City-funded debt service (adjusted for defeasances and surplus transfers) is projected to rise by 43 percent from \$5.1 billion in FY 2012 to \$7.3 billion by FY 2016 (see Figure 25). Figure 25 also shows that this level of debt service would consume 13.5 percent of City fund revenues in FY 2016, compared with less than 11 percent in FY 2012. (Debt service would consume 10 percent of total revenues in FY 2016, compared with 8 percent in FY 2012.)

Debt service is driven by the size of the City's capital plan, which is funded primarily through borrowing. By our estimation, City-funded capital commitments (including additions made when adopting the FY 2013 budget) will total \$30.4 billion during fiscal years 2012 through 2016, or \$1.8 billion more than anticipated when the FY 2012 budget was adopted.¹⁹

The outstanding debt of the City and City-related entities has risen steadily over the past 30 years.²⁰ Debt outstanding grew from \$13.4 billion in FY 1980 to \$93.2 billion in FY 2011 (see Figure 26), and could exceed \$100 billion by FY 2013. 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.

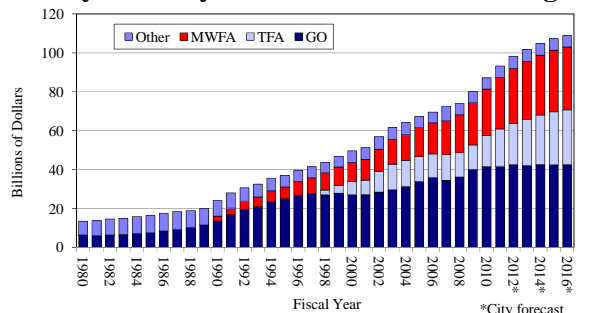
Figure 25
Debt Service



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

Figure 26

City and City-Related Debt Outstanding



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

¹⁹ Includes environmental protection projects funded primarily through debt issued by the Municipal Water Finance Authority (MWFA) and secured by water and sewer fees.

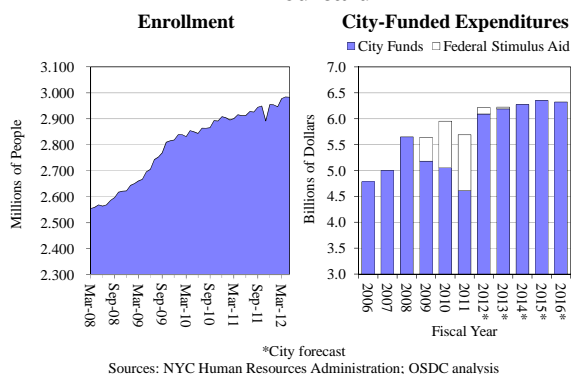
²⁰ City and City-related debt includes GO debt, MWFA debt, TFA-PIT debt, lease and guaranteed debt, and debt of the Hudson Yards Infrastructure Corporation (HYIC), TSASC, the Fiscal Year 2005 Securitization Corporation (FSC), the Jay Street Development Corporation (JSDC), and the Municipal Assistance Corporation (MAC).

5. Medicaid

Over the past four years, enrollment in the Medicaid program grew by 16 percent to reach 2,983,102 people in May 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 employment has increased.

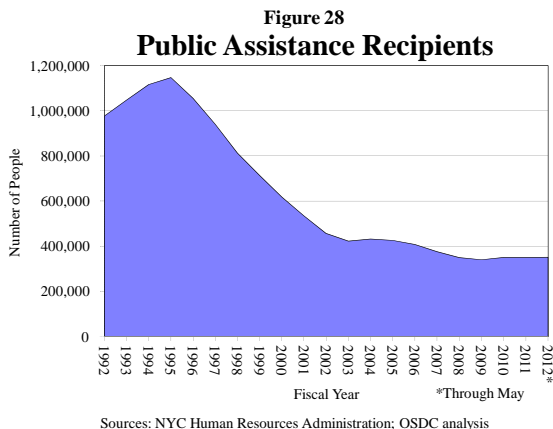
The City-funded cost of this program fell from \$5.6 billion in FY 2008 to \$4.6 billion in FY 2011 as a result of temporary federal stimulus aid. In total, this aid benefited the City by \$2.6 billion through FY 2013. The June Plan assumes that the City's share of Medicaid will reach \$6.3 billion in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

Figure 27
Medicaid



6. Public Assistance

The number of public assistance recipients in New York City declined sharply between fiscal years 1995 and 2003, largely as a result of the implementation of federal welfare reform measures. Even though the recent recession was the deepest of the postwar era, the public assistance caseload rose by only 3 percent over the past four years, to total 355,053 recipients in May 2012 (see Figure 28).²¹ City-funded expenditures for public assistance are projected to total \$532 million in FY 2013 and then grow slowly through FY 2016, largely as a result of planned increases in benefits.



²¹ According to the U.S. Census Bureau, 20 percent of the City's population lived below the federal poverty line in 2010, and about one in every five City residents received public assistance or food stamps.

7. Uniformed Agencies

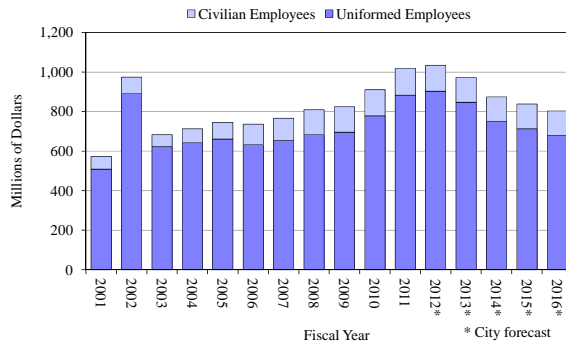
Overtime costs in the uniformed agencies (Police, Fire, Correction and Sanitation) are expected to exceed \$1 billion in FY 2012 for the second year in a row, which surpasses the historic record amount set in FY 2002 during the aftermath of the terrorist attacks of September 11, 2001 (see Figure 29). The growth in overtime reflects minimum manning requirements that must be met through overtime in response to staff shortages and the cost of record-breaking snowfalls during the winter of 2010-2011. The June Plan assumes that these costs will decline to \$972 million in FY 2013 and then to \$803 million by FY 2016.

The projected decline in overtime is largely dependent on the Police Department’s implementation of management strategies to reduce overtime costs by \$46 million annually (\$50 million annually when associated fringe benefit savings are included). The department has not achieved such savings in the past, however, and we believe these savings are at risk. The City also expects that a hiring ban on firefighters that was imposed by a federal court (which deemed the department’s hiring practices to be biased) will be lifted by March 2013 because the City is making progress on the steps stipulated by the court.

8. Energy Costs

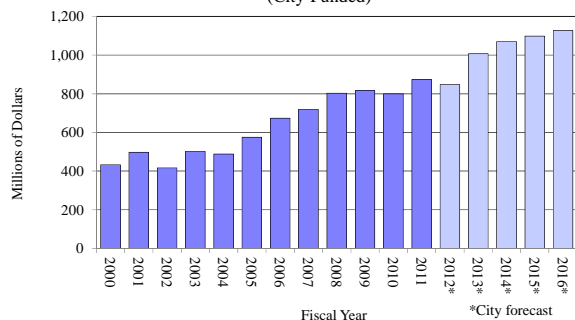
Energy costs (i.e., electricity, fuel, and heat) reached \$800 million in FY 2008, which is nearly double the cost from eight years earlier, as a result of higher prices for oil and natural gas (see Figure 30). Energy costs remained stable during the next two fiscal years, rose sharply in FY 2011, and stabilized in FY 2012 as a result of the mild winter and low natural gas prices. The June Plan assumes that energy costs will increase by 18.9 percent in FY 2013, to \$1 billion, as usage returns to historical levels; however, an increase of this magnitude appears unlikely at this time given current energy prices.

Figure 29
Uniformed Agencies Overtime Spending



Sources: NYC Office of Management and Budget; OSD analysis

Figure 30
Energy Costs
(City-Funded)



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

9. Homeless Services

The Department of Homeless Services (DHS) provides shelter for homeless families and single adults in more than 200 City facilities. The June Plan allocates a total of \$802 million for this purpose in FY 2013, including \$411 million in City funds.

In June 2012, the shelter population managed by the DHS reached record-high levels at 42,128 (including 17,368 children), which is 16 percent higher than last year. 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.

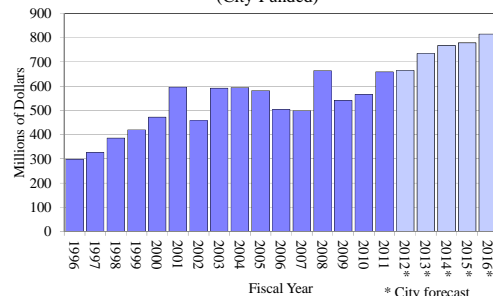
In addition, the Human Resources Administration sheltered about 4,500 people in facilities for victims of domestic violence and HIV/AIDS clients. Costs for these shelters grew by 21 percent in four years to reach \$112 million in FY 2012. The June Plan assumes that these costs will total \$99 million in FY 2013. The Department of Housing Preservation and Development also provides emergency housing to about 2,000 people who become homeless as a result of extraordinary circumstances, such as fire damage. Costs for these services increased by 60 percent in four years to reach \$21 million in FY 2012.

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. The May Plan had assumed that City funding for runaway and homeless youth programs would decline from \$12 million in FY 2012 to \$5 million in FY 2013, but those resources were restored during the FY 2013 budget adoption process.

10. Judgments and Claims

The June 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
(City-Funded)

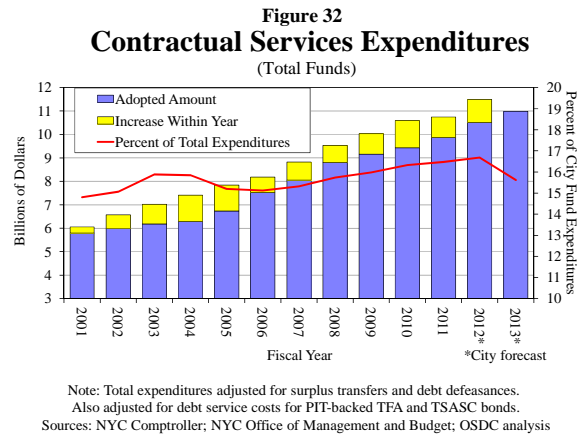


Sources: NYC Comptroller; NYC Office of Management and Budget; OSD analysis

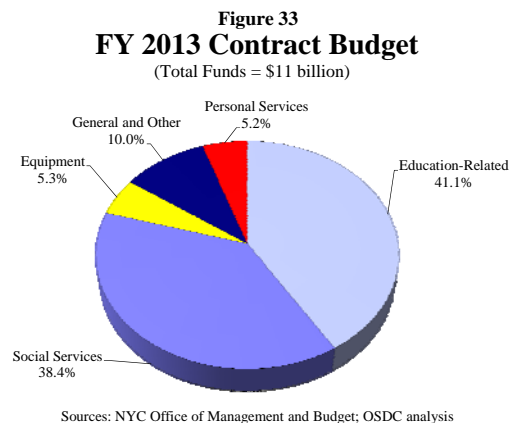
VII. The Contract Budget

In recent years, payments for contractual services²² have received heightened scrutiny because of the increasing amounts spent on such services, and some instances of waste and fraud (e.g., CityTime). In December 2011, 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.²³

Spending on contractual services totaled \$6.1 billion in FY 2001; by FY 2012, the cost is estimated to have nearly doubled to \$11.5 billion, or 16.7 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 June Plan anticipates spending \$11 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 (\$8.7 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 (\$941 million). The largest social services expenditures are for day care centers (\$713 million), mental hygiene services (\$619 million), and children’s charitable institutions (\$460 million).



²² Contractual services are defined by the City Charter as any technical, consultant, or personal service provided to the City through a contract.

²³ The City Council subsequently enacted measures that require the City to create an online database of all City contracts and to report cost overruns on large construction and service contracts.

VIII. Other Issues

This section discusses the financial condition of certain public entities that have a financial relationship with the City and other issues that could affect the City's four-year financial plan.

A. Department of Education

The June Plan allocates \$24.2 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 \$13.3 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 \$1.2 billion in FY 2014, \$805 million in FY 2015, and \$907 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 \$3.7 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 increases education aid to New York City by \$293 million in FY 2013 and by \$558 million in FY 2014, with projected increases of \$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 an increase in State aid in FY 2013. The City risks not only the loss of State education aid, but \$104 million in federal funds.

B. 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 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 is scheduled to release an update to its financial plan on July 25, 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. In the second half of 2012, the MTA plans to refund \$5.4 billion in debt at lower interest rates to help reduce its annual debt service costs.²⁴

C. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) projects budget gaps, on an accrual basis of accounting, of \$941 million in FY 2013, rising to \$1.4 billion in FY 2016, because of a structural imbalance between recurring revenues and expenditures. The HHC has proposed a 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. The gap-closing program also contemplates staff reductions of 944 employees during fiscal years 2013 and 2014. If the gap-closing actions are unsuccessful, the HHC could run out of cash during FY 2014 unless alternative actions are taken.

D. New York City Housing Authority

The current federal budget provides public housing authorities nationwide with \$655 million less in operating subsidies in 2012 than last year, or \$1 billion less than called for under the federal formula for public housing. The federal government expects housing authorities to offset the impact of the cuts by drawing on their reserves. After taking into account the cut in federal operating assistance, the New

²⁴ In June 2012, the Dormitory Authority of the State of New York refunded \$1.6 billion in State service contracts that benefited MTA projects. The debt service on these bonds is funded entirely by the State.

York City Housing Authority (NYCHA) forecasts budget deficits in excess of \$60 million annually in calendar years 2012 and 2013, which it plans to close by drawing down its operating reserves. To eliminate its structural deficit by 2015, NYCHA plans to raise rents for the 47,000 households that pay less than 30 percent of their incomes on rent; convert 3,000 unfunded housing units to Section 8 funding; and take other actions. As a result of the federal government's efforts to reduce the federal deficit, NYCHA could experience further reductions in federal assistance.

E. Sale of Taxi Medallions

The June Plan has increased and spread out over three years the amount the City expects to generate from the sale of new taxi medallions, from \$1 billion in FY 2013 to \$1.5 billion through FY 2015 (\$635 million in FY 2013, \$365 million in FY 2014, and \$460 million in FY 2015). The City's ability to sell these new taxi medallions, however, remains dependent on the resolution of outstanding legal challenges.

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 designated for vehicles that are accessible to people with disabilities. The law permits the City to sell up to 400 medallions (assuming all legal challenges have been overcome²⁵) before submitting a disabled accessibility plan (DAP) to the State Department of Transportation for approval. Once the State approves the DAP, the remaining 1,600 medallions may be sold.

In April and May 2012, three taxi industry groups filed separate lawsuits in State Supreme Court against the Taxi and Limousine Commission (TLC) and others, challenging the constitutionality of the State law and raising other objections to the law. Plaintiffs allege that the creation of a new class of hail licenses for livery cars requires a home rule message from the City Council and an environmental review, and that the law violates the takings clause of the U.S. Constitution by taking away private property (i.e., the exclusive right to pick up street-hails) and giving it away without just compensation. Furthermore, since hail licenses would only be issued to licensed for-hire drivers who have been licensed for at least one year, plaintiffs argue that the law violates the exclusive privileges provision of the New York State Constitution, which prevents any legislature from passing a law that would give any entity an exclusive privilege.

²⁵ In June 2012, the City overcame one legal challenge when the federal Court of Appeals overturned a lower court's decision by finding that the Taxi and Limousine Commission was not in violation of the Americans with Disabilities Act.

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 effectively invalidated. A ruling is expected in August 2012.

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 that its estimate of the worth of each medallion is conservative. To further enhance the value of the medallions, the TLC has approved a taxi fare increase of approximately 17 percent.

F. The Federal Budget

Unless Congress acts, a series of automatic spending cuts of \$1.2 trillion (over nine years) are scheduled to take effect on January 1, 2013, to help reduce the federal deficit. According to the Congressional Budget Office (CBO), 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. Unless these cuts are extended, personal income, capital gains, corporate, dividend, and estate taxes will rise. In addition, the payroll tax cut, which reduces employees' share of the Social Security payroll tax from 6.2 percent of wages to 4.2 percent of wages, is also set to expire at the end of 2012.

If Congress permits these provisions to take effect, then the federal budget deficit will fall dramatically to \$612 billion in 2013 from \$1.2 trillion in 2012, and drop further to \$303 billion by 2022, according to the CBO.²⁷ The Federal Reserve and others have expressed concerns that the combination of deep spending cuts and higher taxes, on top of continuing cutbacks at the State and local level, could have a serious impact on the economy at this point in its recovery.

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.

²⁷ According to the CBO, if all expiring tax provisions (other than the payroll tax reductions) are extended and the automatic cuts do not take effect, the federal deficit will be reduced to only \$1 trillion in 2013 and will rise to \$1.5 trillion by 2022.

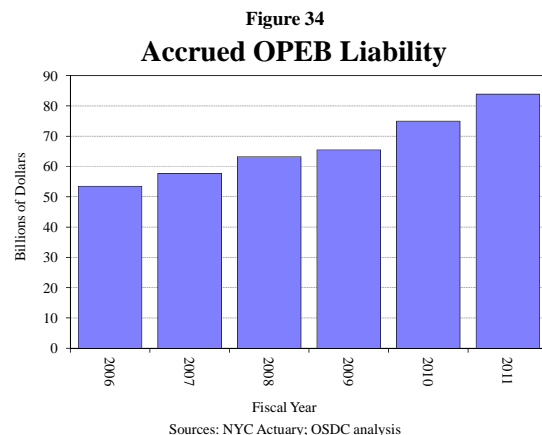
The CBO estimates that the combination of tax increases and spending cuts, if implemented as currently planned, would cause the Gross Domestic Product (GDP) to contract by 1.3 percent in the first half of calendar year 2013, and could push the nation into another recession. This weakening of the economy would reduce employment, lower personal income and lead households to reduce spending.

The President and members of Congress have each put forth a number of different budget proposals that would modify the scheduled tax increases and spending cuts. The proposals include alternative revenue enhancers and spending cuts as well as methods to spread out the changes over an extended period of time. Additional proposals include eliminating the tax exemption on municipal bonds; eliminating or reducing federal itemized deductions, including state and local taxes; and cutting Medicare and Medicaid. Some of the proposals could have a significant effect on New York State and its localities. Congress is unlikely to act on any proposal until after the November 2012 election.

G. Other Post-Employment Benefits

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

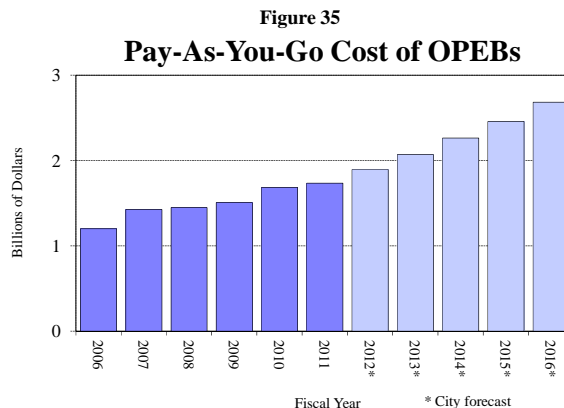
The City's accrued OPEB liability for past employee service reached \$83.9 billion as of FY 2011—an increase of \$30.4 billion since FY 2006 (the first OPEB valuation year reported by the City). The liability for FY 2011 rose sharply, by \$8.9 billion, from the previous fiscal year (see Figure 34). The 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 future costs. Recently, the City has been using these resources to balance the budget. The City drew down \$1.1 billion during fiscal years 2010 through 2012, and intends to draw down \$1 billion in each of fiscal years 2013 and 2014 (a total of \$3.1 billion including interest).

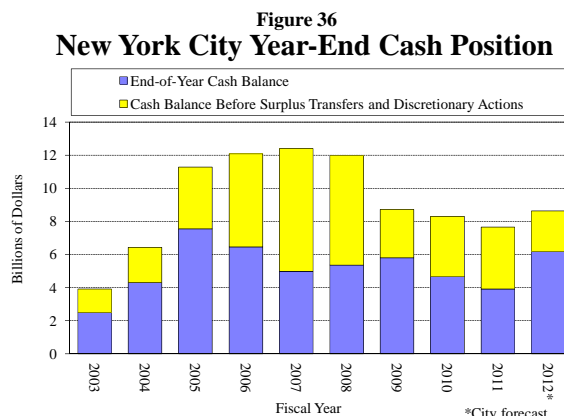
Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of the cost of services, the City is not required to fund OPEBs on a similar basis. The City, like many employers, pays the annual cost of benefits provided to current retirees 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 from \$1.7 billion in FY 2011 to \$2.7 billion in FY 2016 (see Figure 35).



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

H. Cash Flow

The City’s year-end cash balance rose sharply between fiscal years 2003 and 2007, reflecting the strength of the economy, and remained at about \$12 billion (before surplus transfers and other discretionary actions) through the end of FY 2008 (see Figure 36). Even though the year-end cash balance declined during the recession, the City has not needed to borrow to meet its short-term cash needs since FY 2004. The City had an estimated cash balance of \$8.6 billion at the end of FY 2012, which is larger than in recent years. While the June Plan assumes \$2.4 billion in annual short-term borrowing to help meet cash flow needs in each of fiscal years 2013 through 2016, the City may not need to borrow to meet its cash flow needs in FY 2013.



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

I. New York City’s Credit Rating

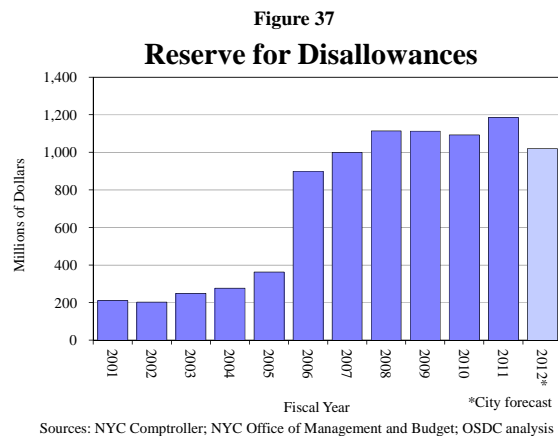
The City-funded portion of New York City’s capital program is expected to be financed through general obligation (GO) and Transitional Finance Authority (TFA) bonds secured by personal income tax and, if needed, sales tax revenues. The City’s GO credit is rated “AA” by Standard & Poor’s, “AA” by Fitch Ratings, and “Aa2” by Moody’s Investors Service, while the TFA credit is rated higher (“AAA” by S&P,

“AAA” by Fitch, and “Aaa” by Moody’s).²⁸ Both credits have a stable outlook from the three rating agencies. The City has been able to maintain its credit ratings through the recession, and GO bonds are at their highest rating in more than 70 years.

The June Plan assumes a spread of 20 basis points between the budgeted interest rates for GO debt and the higher-rated TFA debt. The TFA’s credit rating benefits from the strong statutory revenue streams used to secure its bonds, while GO ratings reflect the City’s broad economic base, sound financial planning practices, and demonstrated ability to close anticipated budget gaps. However, the rating agencies have expressed concern over the City’s reliance on the financial services sector (although it is not as pronounced as in the past); a high debt burden; and pressure from rising nondiscretionary costs, including pensions and employee and retiree health care.

J. Reserve for Disallowances

The City maintains a reserve for disallowances of federal and State aid, which totaled nearly \$1.2 billion at the end of FY 2011. From fiscal years 1980 through 2005, the reserve averaged \$230 million annually, but in FY 2006, the City began to increase the reserve after federal audits found that certain claims for \$800 million in Medicaid reimbursement could not be fully documented (see Figure 37).



Now that most of the Medicaid liability has been settled, the City believes the reserve can be reduced by \$165 million, to \$1 billion, based on a change in the methodology used to calculate the risk of future disallowances. The actual size of the reserve will be based on the status of federal and State audits, and other information at the time the City’s year-end financial statements are finalized. In addition, the City no longer plans to make a \$15 million contribution to the reserve in FY 2012, which will raise the financial plan benefit to \$180 million for that fiscal year. To the extent that the reserve is not needed to offset future disallowances of federal or State aid, some of the funds could be used to help balance the budget.

²⁸ Fitch and S&P do not make a rating distinction between TFA senior and subordinate bonds. Moody’s rates TFA subordinate bonds one notch lower (“Aa1”) than it rates senior bonds.

Appendix A: Nonrecurring Resources

In the aggregate, the City used an estimated \$3.9 billion in nonrecurring resources to balance the FY 2012 budget, and plans to use \$4.4 billion to balance the budget in FY 2013 budget (see Figure 38).

Figure 38
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	469	---
State Building Aid	220	143
Debt Refundings and Redemptions - Net	206	283
Reserve for Disallowances	180	---
ING Bank Settlement	150	---
Federal Medicaid Assistance	124	32
Educational Construction Fund	32	---
Taxi Medallion Sales	---	635
FY 2012 Surplus Transfer	(2,439)	2,284
Total	\$ 3,856	\$ 4,377

Sources: NYC Office of Management and Budget; OSDC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the City's budget.
- The City drew 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 saved \$500 million in FY 2012 from overestimating prior years' expenses, but the June Plan does not anticipate any future savings.
- The City received \$469 million in FY 2012 from the settlement of the CityTime fraud case.
- The City will benefit (by \$220 million in FY 2012 and \$143 million in FY 2013) from the release of State building aid not needed to fund debt service on education bonds issued by the Transitional Finance Authority (TFA).
- General Obligation and TFA debt refundings and redemptions reduced debt service by an estimated \$206 million in FY 2012 and \$283 million in FY 2013, but will produce much smaller savings in future years.

-
- The City reestimated its reserve for disallowances against federal, State, and other aid by \$180 million in FY 2012, leaving a balance of about \$1 billion.
 - The City received \$150 million from its share of a federal settlement with ING Bank in FY 2012.
 - The City was allocated \$2.6 billion in temporary Medicaid budget relief from the federal stimulus program. In FY 2012 the City received \$124 million, and the June Plan anticipates the remaining \$32 million in FY 2013.
 - The Educational Construction Fund transferred \$32 million in unused funds to the Department of Education in FY 2012.
 - The June Plan anticipates \$635 million from the sale of additional taxi medallions in FY 2013, as well as \$365 million in FY 2014 and \$460 million in FY 2015.

Appendix B: City-Funded Staffing Levels

As of May 31, 2012, the City-funded workforce totaled 253,726 full-time and full-time-equivalent employees, or 1,994 employees fewer than in the beginning of FY 2012 (see Figure 39). Most of the reductions are concentrated in seasonal employment in the Parks Department and the number of teachers in the Department of Education. While the June Plan assumes that staffing will increase by 1,673 employees by the end of FY 2013, many of these positions are likely to remain vacant due to a hiring freeze. These and other changes are discussed below.

- Pedagogical staffing in the Department of Education declined by 1,849 positions during the first 11 months of FY 2012 as a result of budget constraints, but staffing is expected to hold steady in FY 2013.
- The police force is larger by nearly 1,000 officers than it was in June 2011, but is still among the smallest of the past 20 years, and is expected to hold steady during FY 2013.
- The number of uniformed personnel in the Fire Department declined by 301 employees through May 2012 due to a court-imposed hiring ban in effect since August 2010. The Fire Department plans to resume hiring in FY 2013 to maintain staffing at 10,274 uniformed positions.²⁹
- The Department of Correction plans to add 307 correction officers by the end of FY 2013.
- The Department of Parks and Recreation plans to increase its summer staffing level to 5,179 employees by the end of FY 2013, which would be 2,310 fewer employees (primarily seasonal hires) than in FY 2007.

²⁹ 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 39
City-funded Staffing Levels
(Full-Time and Full-Time-Equivalent Employees)

	Actual		City Forecast		Variance	
	June 2011	May 2012	June 2012	June 2013	June 2011 to May 2012	May 2012 to June 2013
Public Safety	79,954	80,133	79,993	79,392	179	(741)
Police						
Uniformed	33,667	34,647	34,309	34,309	980	(338)
Civilian	15,723	15,549	15,656	15,452	(174)	(97)
Fire						
Uniformed	10,621	10,320	10,779	10,274	(301)	(46)
Civilian	5,059	5,122	4,834	4,873	63	(249)
Correction						
Uniformed	8,456	8,547	8,744	8,854	91	307
Civilian	1,422	1,501	1,718	1,748	79	247
District Attys. & Prosecutors	3,611	3,665	3,172	3,131	54	(534)
Probation	795	771	770	739	(24)	(32)
Other	600	11	11	12	(589)	1
Health & Welfare	22,004	22,621	24,052	23,933	617	1,312
Social Services	9,973	10,038	10,615	10,469	65	431
Children's Services	5,514	6,142	6,483	6,468	628	326
Health & Mental Hygiene	4,352	4,313	4,785	4,671	(39)	358
Homeless Services	1,786	1,762	1,802	1,935	(24)	173
Other	379	366	367	390	(13)	24
Environment & Infrastructure	17,447	15,683	16,003	16,476	(1,764)	793
Sanitation						
Uniformed	6,833	6,909	7,056	7,064	76	155
Civilian	1,909	1,841	1,944	1,990	(68)	149
Transportation	2,198	2,002	2,023	2,022	(196)	20
Parks & Recreation	6,297	4,714	4,756	5,179	(1,583)	465
Other	210	217	224	221	7	4
General Government	8,484	8,911	10,443	10,330	427	1,419
Finance	1,756	1,829	1,932	1,933	73	104
Law	1,252	1,305	1,333	1,331	53	26
Citywide Administrative Services	1,334	1,271	1,448	1,497	(63)	226
Taxi & Limousine Commission	436	456	597	640	20	184
Investigations	197	192	218	219	(5)	27
Board of Elections	488	737	1,397	1,010	249	273
Information Tech. & Telecomm.	1,012	954	1,005	1,046	(58)	92
Other	2,009	2,167	2,513	2,654	158	487
Housing	1,579	1,522	1,626	1,613	(57)	91
Buildings	1,094	1,068	1,126	1,126	(26)	58
Housing Preservation	485	454	500	487	(31)	33
Department of Education	116,304	113,464	113,008	113,649	(2,840)	185
Pedagogues	93,547	91,698	90,795	91,670	(1,849)	(28)
Non-Pedagogues	22,757	21,766	22,213	21,979	(991)	213
City University of New York	7,648	9,142	7,595	7,635	1,494	(1,507)
Pedagogues	5,029	6,220	5,013	5,013	1,191	(1,207)
Non-Pedagogues	2,619	2,922	2,582	2,622	303	(300)
Elected Officials	2,300	2,250	2,433	2,371	(50)	121
Total	255,720	253,726	255,153	255,399	(1,994)	1,673

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